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VALUE OF THE ACCOUNTANT IN THE BUSINESS WORLD

(By Harold Dudley Greeley, LL. C. P. A., Walton School of Commerce.)

In a recent address before the Ohio Bankers Association, Edward Hurley, Chairman of the Federal Trade Commission, made certain significant statements which deserve the thoughtful attention of every forward looking man and woman in the country. Referring to industrial changes in Europe, effected almost within earshot of battle, he aptly characterized the new dominion in each of the three great belligerent nations. France, formerly the land of highly individualized production, now lacks men and is rapidly developing co-operative, highly systematized production. England has shaken off her conservatism and become awake. She has made "thirty years of industrial progress in thirty months." Germany has further developed her former industrial effectiveness and after the war, victorious or defeated, she will emerge still more commercially powerful.

All this concerns us very deeply. We must check our waste and develop our resources, material and human. We must extend our banks abroad in South America, in Africa, in the Orient, in the Levant. We must perfect our domestic business. And the first definite act in that direction is the acquisition of exact knowledge of every fundamental step and process in those businesses.

The Federal Trade Commission is offering substantial assistance in this quest for exact information. It has prepared for general distribution two pamphlets covering the essential features of cost accounting, one for manufacturers and one for the merchants. It is co-operative with trade associations in the endeavor to establish sound accounting methods leading to a basic system for each industry. It is trying to evolve a scientific scheme of calculating depreciation in various lines of business. It is encouraging public accountants to work with it.

Among business men in the United States there is still much misinformation concerning the public accountant and his work. This is due in part to the fact that in this country the public accountant was almost unknown thirty years ago. With few exceptions, public accountants were expert bookkeepers who were able to prepare the usual formal statements and to search intelligently for clerical errors.

The modern public accountant is a product of the demand for effective service in and by business. His work differs radically from that of the bookkeeper and the proper performance of his function is so important in the adjustment and administration of business relations that the public should be more accurately informed concerning the new profession of which he is a member.

Accountancy has been defined as the profession which has to do with the recording, presenting and verifying of facts concerning the acquisition, conservation and transfer of values. This definition, like all other exact definitions, needs considerable elaboration to convey much of interest to the general inquirer who seeks to throw the profession and its aims and methods. It furnishes, however, a logical and convenient classification of the work of accountancy by dividing into three main divisions: that of recording, that of presenting and that of verifying transactions concerning money values.

The work of the accountant, so far as it concerns the recording of financial facts may be roughly divided into two divisions: first, that relating to the current entries; and second, that concerning the designing and installation of system or procedures for recording financial facts in the future.

Considering first the accountant's contact with the recording currently of financial facts it may be stated that ordinary and usual facts can be properly recorded by a bookkeeper without the aid of an accountant if the system of accounts which the bookkeeper is using is adequate.

Unusual and peculiar financial transactions are sometimes very difficult to record so that their exact nature will be apparent. It is necessary so to record them that the rights of all parties involved therein may be accurately determined from the evidence of the entries. This need is of particular importance in partnership accounting, where each partner is bound by the entries made in the partnership books. But it is also of great importance in the records of the sole proprietorship and the corporation.

The second part of the accountant's work in connection with recording financial transactions, that of the designing and installing systems and procedures for future transactions, covers three principal lines of activity. The

first one provides a system of accounting which will show the real financial condition of the business at any desired date and a true and complete explanation of its income and expenses during any specified financial or fiscal period. The second gives records which show the exact cost of each article or class of articles manufactured. The third shows plans for organizing the human factors in the business and for arranging the current work so that it may be done expeditiously and with the greatest economy in time and effort.

The work of the accountant in designing and installing accounting systems has been likened to that of the architect. There can no more be a stock system of accounting guaranteed to work smoothly in every business than there can be a stock plan of building guaranteed to give satisfaction to every occupant. There are, however, certain principles of what is known as constructive accounting, which are roughly analogous to the principles applied by the architect. The constructive accountant must be thoroughly familiar with these principles and must have a wide acquaintance with practical expedients in the way of books, ruling of forms, office short-cuts and the like, which will make possible the application of the principles of any case on which he may be engaged. For example, he must know the use and limitation of the voucher system, which works well under certain conditions and which never fails to be unsatisfactory under other conditions.

The work of designing and installing cost system is usually done for manufacturing concerns which are obliged to sell their products at a low figure as will insure a living profit. The principles of cost accounting, however, are applicable to any kind of business enterprise, and the successful business man, whatever his line of activity, is one who knows the facts concerning the costs of his products so that he may know whether he is making a profit or incurring a loss on each piece of work undertaken.

The work of the accountant in designing schemes of organization and management is somewhat outside the narrow work of accounting, but it is undertaken by accountants because of their wide acquaintance with business organizations and their ability to secure facts. The problem often consists principally in defining the duties of the various executive and hedging each one about in such a way that he cannot cross wires with other executives. In this work there is required the highest degree of tact and also an analytical ability to determine what functions should be properly exercised by each executive. In this connection the accountant is usually called upon to advise in the selection of subordinates and a knowledge of the elements of character analysis is important.

The second general division of the accountant's work is the presenting of facts concerning financial transactions. An accountant who has ascertained facts and knows them to be true has no more finished his work than has a lawyer similarly situated. The accountant is just as liable to fail through not presenting his facts in a way to make them intelligible to his client as is the lawyer who fails to convince the judge or persuade the jury. Furthermore, the accountant's report is sometimes used for publicity purposes and in this case he must make his report so clear that the ordinary man who runs may read, and if he is a wise accountant he will make it so clear that the man who reads may run if that seems advisable.

Consequently, the accountant, when presenting facts, usually resorts to exhibit for schedules of figures supplemented by comments in narrative form. The arrangement of the figures in the exhibits and schedules so that they will not be misleading is an art that is difficult to acquire. Figures may be true, but at the same time misleading. For example, the average net profits of a business for a given period of years may be truly stated, but if the net profits had been decreasing steadily during the period covered, one who relied upon the given average to estimate probable future profits would be misled. A careful accountant would not report the average in such a case without a qualifying statement or explanation calling attention to the decreasing tendency so that no one could reasonably be misled into considering the average as characteristic of the present earning power of the business.

The final division of the accountant's work is the verification of facts concerning financial transactions. This work includes auditing, which may be defined as the examination of the books and records of a business that its condition may be exactly ascertained, and special investigations, which are searches for facts under some peculiar set of circumstances. The point of view of the auditor or investigator is that of an impartial searcher for facts. In order to ascertain facts it is necessary to do much more than to test the arithmetical accuracy of books and records. The books are intended to state the financial condition of the business and the auditor must ascertain whether or not they do state it. He must learn the history of the business under examination of any means available to him. The books of account do not always record the history, because they usually are written by bookkeepers who do not have the historical point of view or the technical accounting ability to express facts so that they are completely and unequivocally stated. Just as a person untrained in writing history would fail to write a good history, so a bookkeeper untrained in recording completely all financial facts would fail to prepare a record of financial transactions which would be complete and historically accurate.

In order to perform satisfactorily the three kinds of service required the accountant must have a training in subjects other than technical bookkeeping and accounting. He must have a complete and exact knowledge of the work, but he should also have a knowledge of such parts of our law as concerning financial transactions and a fair understanding of the general principles of economics. His work is not that of daily routine recording of daily transactions. Such a work falls to the bookkeeper. The accountant, whether he be engaged in public practice or in private employ, as comptroller or the like, must be able not only to record facts, but also to present and verify them. He must be able to do all three things in such a way that persons untrained in the art of accountancy may have an understanding of and confidence in the conclusions which he draws. The demands which will be made upon accountancy during the next few years are likely to be heavy ones. Mr. Hurley voices the opinion of all students of current industrial affairs when he says that more exact knowledge of our finances and our industries is needed. Such knowledge is needed to enable us to make better use of our commercial opportunities. It is needed to enable us to discover new opportunities. It is needed to put us on a fair competitive basis with foreign merchants, manufacturers, bankers and financiers. There is no reliable way to secure this knowledge except through careful analytical scrutiny of complete accounts scientifically kept.

The largest mercantile corporations in the world recognize the fitness of men trained in accountancy to secure this needed information. It is engaging such men when it can find them available and sending them throughout this country and abroad to get out the facts of today's business in order to prepare for tomorrow's business. It is not engaging bookkeepers. It requires much more of these seekers for facts than mere technical skill in account keeping. It demands that they have knowledge. It insists that these men upon whose reports the policy of future business will be based shall have "the power to apprehend and distinguish, to weigh evidence and interpret facts, to think clearly, to confer carefully and imagine vividly."

BREAD SITUATION HAS BEEN RELIEVED

Vienna, Oct. 6 (Via London).—The bread and potato situation in Vienna which was acute three weeks ago has been relieved. The government is now taking measures to improve the distribution of food so that waiting in line will be unnecessary. The demands of the women and the campaign carried on by the newspapers brought about the change.

"Why on earth do you keep borrowing Tootler's trombone?" asked Mr. Miggs' neighbor. "You can't play it."

"No," responded Mr. Miggs, "fortunately for you I cannot. And while I've got it he can't play it either. Get me?"—Exchange.

MOROS TAKE ANOTHER STEP FORWARD.

Manila, Oct. 7.—The latest step in the advancement of the Moro is a plan to introduce among these Mohammedans, the art of tile manufacture. A number of Japanese tile makers are to be imported into the Moro country, to settle near schools and settlements for at least six months. They will open tile making schools and it is expected that the Moros will soon be able to manufacture roofing tiles as cheaply as the work is done in Java.

The Moros, like other Philippine tribes, use straw and thatch as a roofing material. It is not costly but it is highly inflammable and is an invitation to destructive fires. This will eliminate the fire danger and not increase the cost of construction.

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