



MODERN BANKING AND BANK ACCOUNTING:
CONTAINING A COMPLETE EXPOSITION OF
THE MOST APPROVED METHODS OF BANK
ACCOUNTING; DESIGNED AS A TEXT BOOK ...

E VIRGIL NEAL

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MODERN BANKING AND BANK ACCOUNTING

CONTAINING A COMPLETE EXPOSITION OF THE

MOST APPROVED METHODS OF BANK ACCOUNTING

DESIGNED AS A TEXT BOOK FOR

SCHOOLS AND PRIVATE STUDENTS

AND A

HANDBOOK OF REFERENCE FOR BANKERS

BY

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INTRODUCTORY.

All progressive banks now prove their accounts by some method similar to the following: "The items of all kinds, before being removed from the teller's desk, are entered in proper columns upon books or sheets, and the totals of these columns (which show separately the total checks received for the clearing house, the checks on out of town banks, the checks of depositors, etc., etc.), must agree with the totals as shown by the various departments to which the items have been distributed."—*Banker's Magazine, June, 1899.*

It seems to be the consensus of opinion of the leading bank cashiers and accountants that the above embodies the true principle upon which all bank accounts should be kept. It not only affords the most satisfactory proof of the various accounts that has ever been devised, but, all things considered, it amounts to a great saving in time. Numerous banks have informed us that under the old system their clerks were never able to leave before six o'clock, and often not before eight or nine, while now the work is practically all completed by four o'clock, and the clerks are gone by half past four or five, it never being necessary for them to spend long weary hours searching for errors as by the old process.

We believe this book contains the most exhaustive, and at the same time, the most concise presentation of what may properly be termed the new bank accounting that has yet been given. The detailed account of the organization, practical management, and methods of banks is such as we have ascertained to be the most approved practice, and while much of the matter given is not usually found in works of this character, we have presented it feeling that there is a demand for more accurate and concise information in regard to the detail work of banking institutions.



MODERN BANKING AND BANK ACCOUNTING.

THE BUSINESS, ORGANIZATION AND PRACTICAL MANAGEMENT OF BANKS.

What is a Bank? A bank* is an institution organized for the purpose of receiving deposits of money, making loans, discounting paper, making collections, and effecting the transmission of money from one place to another. A bank is primarily a place for the safe keeping of money. A banker is a dealer in money.

Sources of Receipts. The disposable means of a bank consist of capital paid in by the shareholders; notes it can circulate, if it be a national bank; money deposited with it by its customers; money collected for customers and banks (which is frequently held a short time before being paid); money received in the course of transmission (sale of exchange) which, of course, must be repaid in another place; and bills rediscounted.

Sources of Disbursements. A bank's disbursements consist of checks, drafts, etc., cashed by the paying teller; bills discounted; time and demand loans made; money paid out for current expenses; shipments of money to other banks in settlements of balances; and interest paid on time deposits.

Profits. The profits of a bank arise mainly from discount, interest, dividends on stocks and bonds held, and collection and exchange.

Services Rendered Depositors. The principal services which a bank renders to its depositors are: Affording a safe and convenient place in which to keep money; paying checks as directed by the depositors; collecting checks, notes, drafts, etc.; discounting notes for and making loans to the depositors; and providing means for the transmission of money.

Kinds of Banks. Banks are divided into the following classes: national, state, and private. Banks which issue notes which circulate as money (as national banks) are often termed banks of issue, while those which do a discount business, but do not issue bank notes, are known as banks of discount.

NATIONAL BANKS.

What is a National Bank? A national bank is a bank organized under an act passed by Congress, entitled "The National Bank Act"; and in addition to doing a general banking business, it has authority to issue circulating notes against bonds deposited with the U. S. Treasurer. The government does not own nor conduct the bank, but only authorizes its creation and prescribes the mode of doing business. Every banking association doing business under this act is governed by the same principles, is subject to the same inspection, uses the same forms in making reports to the comptroller at Washington, and is liable to the same penalties for the violation of any requirement of the national banking law.

Comptroller. National banks are under the direct supervision of the Comptroller of the Currency, Washington, D. C. The comptroller is appointed by the President on the recommendation of the Secretary of the Treasury, by and with the advice and consent of the Senate. He holds his office for a term of five years, and receives a salary of \$5,000 per year.

*Any institution that receives deposits subject to check, and loans money on security, is doing a banking business.

He is required to give bond for \$100,000. He cannot be interested in any national bank, and must make a report to Congress once a year. He appoints all bank examiners and receivers for insolvent national banks.

National Bank Examiners. These officials are appointed by the comptroller to examine the affairs and report upon the condition of national banks. They are paid a certain amount for each bank examined. Under the law there is no limit to the number of examiners who may be appointed or the number of times a bank may be examined, both being left to the judgment and discretion of the comptroller. All national banks, however, are usually examined at least as frequently as once a year.

Powers. National banks have power to adopt and use a corporate seal; to have succession for a period of twenty years; to make contracts, to sue and be sued; to elect directors, and by its board of directors to elect officers, to make all needful by-laws not inconsistent with the national bank act, to discount and negotiate notes, drafts, bills of exchange, etc.; to receive deposits, buy and sell exchange, coin and bullion, to loan money on personal security, and to issue and circulate its own notes.

An act of July 12, 1863, provides that a national bank may, any time within two years previous to the date of the termination of its existence, extend its period of succession for not more than twenty years, by the approval of the comptroller.

The words "personal security" are used in contradistinction to real estate security, and do not mean that national banks are limited to loaning money on the security afforded by indorsers or personal sureties. On the contrary, national banks have a perfect right to loan money on stocks and bonds, bills of lading, warehouse receipts, choses in action, or other personal chattels. In the absence of collateral, banks usually endeavor to get at least two names to all paper which they discount or upon which they make loans, but such is not obligatory under the statute.

Stockholders' Liability. The stockholders of every national banking association are held individually responsible for all debts and engagements of said banking association to the extent of the par value of their stock in addition to the amount invested in such stock. In other words, if a stockholder owns \$2000 in capital stock of a national bank, and such bank should fail, he may be called upon by the comptroller to pay in to the bank \$2000 in cash in addition to the loss of his stock, if such be necessary for the adjustment of the bank's liabilities.

Real Estate. National banks are prohibited from holding real estate except under the following conditions:

The building in which it does business, and land mortgaged to secure a loan which was made in good faith upon personal security, but such land cannot be held for a longer period than five years. Banks cannot make loans on their own stock except to prevent losses on loans previously made.

Reserve. National banks are required to keep on hand at all times a lawful money reserve. This reserve shall equal 25% of the deposits if the bank is located in a large city, and 15% of the deposits if located in a small city.

Overcertifying Checks. National banks are prohibited under severe penalty from certifying a check in excess of the depositor's account.

Surplus. Each national bank shall accumulate a surplus by setting apart one-tenth of its net profits before declaring any dividend, until the surplus equals 20% of the capital stock. It is further provided that no dividend shall be declared in excess of the net profits, after deducting the surplus. It is unlawful to pay out the capital or surplus in dividends, without the surplus is in excess of the required 20%, in which case it may be disposed of as the bank sees fit.

Reports to Comptroller. Banks must make at least five reports to the comptroller during the year. These reports are made at such times as the comptroller may call for them.

ORGANIZATION OF A NATIONAL BANK.

SUCCESSIVE STEPS NECESSARY.

Number of Persons Necessary. An association for carrying on the business of national banking may be organized by any number of persons, not less than five.

Capital Required. The national banking law provides that national banks in cities of 50,000 persons, or under, must have a capital of not less than \$100,000. If the population of the city exceeds 50,000 persons no national bank can be organized with a capital of less than \$200,000. In towns of 6,000 inhabitants and under, national banks may be organized with a capital of \$50,000, and in towns of 3000 inhabitants and under national banks may be organized with a capital of \$25,000, with the approval of the Secretary of the Treasury.

Selecting a Name. Any name may be selected which does not conflict with some name already in use in that particular city. If there are other national banks in the city, but no First National bank, the name First National cannot be used. No bank or banking association except a national bank has a right to the use of the word "national."

Securing Subscriptions to the Capital Stock. This is usually done by a committee appointed to attend to the matter. It is generally considered wise to distribute the stock, so far as can conveniently be done, among the varied interests of the city and surrounding country. For the purpose of securing subscriptions a blank similar in form to the following is employed.

STOCK SUBSCRIPTION LIST.

We, the undersigned, do hereby subscribe for the number of shares of stock set opposite our respective names, for the organization of a national banking association, to be organized under the laws of the United States with a capital of One Hundred Thousand Dollars, divided into One Thousand Shares, the par value of each share being One Hundred Dollars; said national banking association to be located in the city of Chester, State of Pennsylvania, and to be called the "Traders National Bank."

DATE.	NAME.	ADDRESS.	SHARES.
June 1	Chas. M. Harriman	16 Main St.	One Hundred
	J. Smith	246 Fourth St.	Twenty
	Quinton W. McMain	257 Third St.	Seventy