

PRACTICAL BANKING

By

EDWARD PRESTON MOXEY, Jr., Ph. D., C. P. A.

ASSISTANT PROFESSOR OF ACCOUNTING

WHARTON SCHOOL OF FINANCE AND COMMERCE

UNIVERSITY OF PENNSYLVANIA

Member Firm

E. P. MOXEY & CO.

CERTIFIED PUBLIC ACCOUNTANTS

AND BANK EXAMINERS



Copyright 1910

by

UNIVERSAL BUSINESS INSTITUTE, Inc.

NEW YORK

order upon funds which he has at the bank. This deposit even may have been created in the course of a credit transaction. The result of the system, however, is that instead of keeping money employed from day to day in the mere work of making payments back and forth, its use is economized. It can be devoted to productive employment, while current exchanges are affected by the transfer of promises to pay. The economies of the credit system are particularly evident in the case of two persons or concerns having continuous business dealings with each other, both buying and selling.

A SIMPLE CASE.

A simple case is that of a farmer and the grocer from whom he buys his supplies in town. The farmer buys flour and coffee and sugar and countless other things on his daily or weekly visits to town, but he also brings with him and sells to the grocer butter and eggs, fruit and vegetables, in the course of the month. It would be foolish and entirely unnecessary for him to pay the grocer each time he made a purchase, or for the grocer to pay him each time he made a sale. Instead, each will run an account with the other until the end of the month or some other convenient settlement day, if they are wise. All the items which the grocer sells to his customer he will enter upon his books, and also keep a record of the produce received from him. The farmer should do likewise. At the end of the month, these two book accounts will be compared and offset against each other. We will suppose that the farmer has purchased \$40.00 worth of groceries and

has delivered to the grocer in the course of the month \$35.00 worth of the products of his farm. Here we have \$75.00 involved, and yet there is only a balance of \$5.00 which need be settled in cash.

It might even be possible to extend the system for a longer time, merely making comparison of the accounts at convenient times and making actual settlements only once a quarter or even once a year. For instance, the farmer might feel reasonably sure that in the following month he would bring to the store an amount of produce worth at least \$5.00 more than the value of the supplies which he would purchase from his grocer. In that case the grocer might simply enter this balance of \$5.00 as owing him at the end of the first month, and at the end of the second month offset it against the \$5.00 which he owed the farmer.

BOOK ACCOUNT AND BANK ACCOUNT.

This is the simplest form of credit, the book account, and is used very extensively. As a matter of fact, in a large number of cases, no actual promise of payment even has been made, but it is understood that a customer ordering goods upon a book account expects to be held for payment, and such a current record kept upon the books of the seller is admitted to court as a sufficient evidence of indebtedness. This system may be slightly modified in case the relations between buyer and seller are not such as to justify the running of an open account. It may be that the purchaser is unknown to the seller or that the transactions are so infrequent as to hardly justify the opening of a book account. In that case bank credit will form a convenient means of settlement. The

if it is possible to persuade him to take payment in that form. It might be that the bank would decline to buy the note on any other terms or, if it did, would probably charge a much heavier discount.

COMMERCIAL PAPER.

The largest class of promissory notes which are presented to the bank in exchange for deposit accounts are those arising from commercial transactions, that is, where goods are sold upon credit and the purchaser's promissory note for the amount is taken by the seller. Such notes commonly run for thirty, sixty, or ninety days, but the person who has sold the goods probably desires to use the proceeds of these "bills receivable" at once for the payment of wages or other expenses constantly arising in the conduct of his business. Instead of waiting for them to mature, therefore, he will probably endorse them over to his bank, to whom he will take them for discount. The amount of discount will depend on the length of time before the notes become due and will be figured as interest on the amount advanced, for that time. The merchant with such notes to discount will naturally take them to his own bank because it is there that he would be most likely to get the accounts discounted on favorable terms. Naturally, therefore, he does not wish to withdraw the money, but has it placed to his deposit account. He wishes to turn these obligations of his purchasers into a ready means of paying his debts, and the deposit account furnishes for this purpose a means of payment more convenient even than cash.

check, even to a person with whom he was not personally acquainted is not liable for the loss, inasmuch as he was a "bona fide holder for value." The drawer of such a check must lose the money precisely as though he had lost a note or a greenback.

PAYMENT BY CHECK.

For this reason many persons will not receipt a bill paid by check. The check itself, after being cancelled and returned to the drawer, becomes a receipt. Sometimes, in order that there may be no questions as to the exact purpose of issuing the check, the drawer will specify upon the face of the check the nature of the transaction in settlement of which it was given.

INSUFFICIENT FUNDS.

It sometimes happens that a check is presented for payment at the drawer's bank when there are not sufficient funds on deposit to pay it in full. There are two courses then open to the bank. If the drawer is an old customer and they have reason to believe that it is only through an oversight that sufficient money is not on hand to meet the check, the bank will probably pay the check, thereby creating an overdraft to the customer's account. Of this they will notify him and look to him for payment, but in case he fails to settle, the bank itself must bear the loss. To be absolutely safe, the bank might decline to pay the check to the person presenting it or return it to the bank through which it is presented, marked "insufficient funds."