

and to state with all confidence that such comprises the total of the customer's indirect liability, it counts in the customer's favor—providing, of course, that the indirect liability in view of the bank is moderate and reasonable.

It is essential that certain particulars be brought out in connection with the profit and loss account. For example, a statement may show a certain increase in a customer's liquid surplus as compared with the preceding year. An inexperienced branch manager may mention the circumstance as a favorable point without giving any lucid explanation of how the increase came about. A little consideration should make it plain to the manager that a weak or badly pressed borrower might increase his liquid surplus by means of putting a new mortgage on his fixed property, or in some other manner detrimental to his general position. Head Office wishes to know whether the increase of liquid surplus represents real profits. So the manager should give the necessary assurances that proper allowances have been made for depreciation, bad debts, withdrawals, by proprietor or partners, etc. Also, it is pertinent to remark or explain whether the profits as claimed were achieved as a result of specially favorable circumstances of a transient or temporary nature, or whether they were obtained under ordinary or normal conditions. Some managers in sending down their applications omit the profit and loss account altogether. This, of course, makes it so much more difficult for Head Office to judge whether or not the customer is really prospering.

When it can be obtained, it is advisable to get and send down a copy of the merchandise account. This shows the movement of the stock; and on taking the profit and loss account in conjunction with the merchandise account, light is shed on the matter of the average profit secured on the turnover, and on other important matters.

ARTICLE IV.

A FEW general remarks on judging customers' requests for credit and on the manner of forwarding the applications to Head Office may now be in order. When considering a new or enlarged advance it should be constantly remembered that a lot of profit is required to provide for even a small loss. To illustrate this point let us consider the volume of transactions required to make good a loss of \$100. A loss of this amount at first sight may appear to the unthinking as a trifling affair, but it involves quite extensive discounting before it is covered.