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ADVANCED ACCOUNTING

BY

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WITH

AN APPENDIX

ON

THE LAW RELATING TO ACCOUNTS

BY

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PREFACE TO FIRST EDITION.

THE present work was commenced upwards of two years ago, and was at that time primarily undertaken with a view to assisting candidates for the Final Examination of the Institute of Chartered Accountants to attain the high standard of knowledge which has been set at those Examinations during the past few years. The pressure of other business, however, materially interfered with its rapid progress at that time, and, in the meanwhile, there has been a general awakening on the part of both business men and educationalists to the importance of Accounting, which has, it is thought, still further emphasised the desirability of such a work being issued as soon as possible.

The subject of Accounting has been included in the curriculum of the University of Birmingham for the Faculty of Commerce, and a very complete knowledge of the science is required on the part of all candidates for its Commercial degrees. The University of London has introduced "Accountancy and Business Methods" as an optional subject in connection with its Science degrees in the Economics section.* Instruction in the subject has also been arranged for by the newly founded Victoria University of Manchester, and a knowledge of Accounting will doubtless be required on the part of candidates for its degrees in Commerce. Other provincial Universities have also been established during the past year, and these doubtless in due course will create Faculties of Commerce, which, in their turn, will serve further to diffuse a thorough knowledge of Accounts. The subject of Advanced Accounting has also been included in the scheme of instruction undertaken by the Commercial Education Committee of the London Chamber of Commerce; while the standard in Accounts required by examiners for the Institute of Chartered Accountants, and other organised bodies of professional Accountants throughout the United Kingdom, is steadily becoming more and more exacting.

It has been my privilege to be in no small degree associated with this movement, by being called upon to impart instruction in Accounts in connection with certain of these bodies, and as a result I have been led to the belief that a work dealing adequately with the whole range of subjects embraced would meet a want that has doubtless been experienced by other teachers besides myself. It might perhaps be thought that a work designed upon these comprehensive lines could not be equally suitable—and equally useful—to both Accountant Students and others, who, while desiring a knowledge of Accounts, had yet no intention of entering the profession of accountancy. But, inasmuch as the object is in all cases presumably to acquire a thorough knowledge of the science of Accounts, it is thought

*The B.Com. degree of the University of London was instituted some 16 years later—*i.e.* in 1919.

that the requirements of these various classes of Students, if not absolutely identical, have at least very much in common, and are therefore quite capable of being served from the same source. In the case of Accountant Students, their reading will naturally to a large extent be supplemented by practical experience, which (if properly guided) is perhaps the best teacher of all. In the case of others, it must be the aim of the teacher, so far as lies in his power, to supply the place of such practical instruction—for this is a task which, it is thought, cannot be accomplished successfully by any book.

It has throughout been my aim to handle the matter in such a manner that the reader may be inspired with a real interest in a subject which is in many quarters thought to be absolutely uninteresting. If this object has been achieved, the Student will have already made a great step towards a mastery of the science of Accounting; and it is perhaps safe to say that until such an interest has been aroused his progress is not likely to be rapid. If, in this endeavour to popularise an admittedly unpopular subject, I have occasionally fallen into inaccuracies of expression, I can only hope that these will be kindly pointed out to me by my readers, and I promise that their suggestions shall receive my best attention in any subsequent edition.

I should like to take this opportunity of expressing my thanks to those who have very kindly supplied me with much of the material upon which Chapters XXII and XXIII* are founded.

The Appendix on the Law relating to Accounts, by Mr. J. E. G. de Montmorency, M.A., LL.B., will, I trust, be found as interesting and as instructive to my readers as it has already proved to myself; it will, I venture to hope, materially help to make the present work acceptable to Lawyers as well as Students of Accounts. The second Appendix has been added for the convenience of those who may wish to use the work as a text-book. The questions have, for the most part, been extracted from the papers set from time to time at the Examinations of the Institute of Chartered Accountants, but also comprise some that have been set by the Joint Examining Board of Chartered Accountants in Scotland, and some set by the Author at Examinations held by the Chartered Institute of Secretaries, the University of Birmingham, the London School of Economics, and other bodies. It is hoped, therefore, that they will be found of a thoroughly representative character.

LAWRENCE R. DICKSEE.

Copthall House, London, E.C.
September 24th 1903.

*Now Chapters XXI and XXII.

CHAPTER I

INTRODUCTORY.

To many persons the study of Accounting seems altogether uninteresting, because, to their minds, it is inseparably connected with the handling of huge masses of figures. While it would no doubt be overstating the case to assert that useful accounts can be designed, or even kept, by those who have "no head for figures," it is important that it should be quite clearly understood at the outset that Accounting is not primarily a question of handling figures at all; that it is indeed essentially a question of recording events, and that the use of figures in connection with this record is merely a means to enable the events so recorded to be readily marshalled in such a form as will enable one, not merely to grasp the significance of each separate event, but also the combined effect of any desired series of events. Accordingly, it is quite wrong to suppose that the study of Accounting must necessarily be dry and uninteresting, merely because one finds oneself unable to take any great interest in mathematical problems.

ACCOUNTS.

The word "Account" by no means necessarily means a statement, or a bill, showing the monetary [illegible] of one party [illegible] equal propriety speak of the "account" of a battle, a railway accident, or any other event; and that, indeed, more nearly represents the real significance of the word. Quite possibly any very clear description of a battle would involve some mention of figures, some comparison of figures, and some general deductions drawn from marshalling those figures together; but it would be impossible to convey any intelligent description of a battle or a railway accident by the use of figures only, and it would be equally impossible by the use of figures only to convey any very complete impression of the practical effect of business transactions. But, because business transactions tend as a rule to run on certain fairly well-defined lines—tend, in fact, to run "in grooves"—it is practicable, in connection with business accounting, to adopt methods that enable the purely verbal description of the facts to be reduced to a minimum; and that, of course, is an arrangement that makes for convenience, in that by reducing the mass of words that have to be read before the account can be interpreted, one is able to save a corresponding amount of time without introducing any corresp[illegible] uncertainty.

Clearly, however, [illegible] may be possible to uncertainty resulting that the device is one to be encouraged, and it is, of course, important to bear in mind that those who seek to understand accounts must be familiar with the conventional methods employed. In just the same way, anyone wishing to de-code a telegram sent in cipher must first make himself familiar with the cipher employed. Following this analogy a little further, the man who only has occasion to de-code cipher telegrams very occasionally need not, of course, memorise the code (or cipher) employed; but one who is continually employed on such work must necessarily have the code at his fingers' ends. For instance, it would be hopeless to expect anyone unfamiliar with the Morse code to be a successful wireless operator, although perhaps at first glance one might be inclined to think that anyone could note down "dots and dashes," and afterwards translate them from the book. It is a safe generalisation, that a certain amount of knowledge—sufficiently deeply rooted to be worthy of the name "knowledge"—is necessary for the successful pursuit of any study; and in connection with Accounting no one is likely to get very far until he is thoroughly familiar with the ordinary conventions that constitute the technique of Accounting.

THEIR IMPORTANCE.

We have all heard of remarkable men in the past who achieved large fortunes—or at least became well-to-do—from very small beginnings, and yet have kept no accounts, and were perhaps not even able to read or write. There are doubtless well authenticated cases of such successes in ...aps conceivable that ... yet be achieved in ...e trend of modern ...ltered, in the ...

tion of making that less and less likely. But, however that may be, nobody would be likely so far to confuse cause and effect as to suggest that anyone in the past achieved success in business *because* he was unable to read or write; nor would anyone be likely to contend that neglect to keep proper accounts would increase a business man's chances of success. This, after all, is a matter which (within limits) everyone can readily test for himself. In one sense we all have business affairs, for we all have our own personal expenses, and we have to obtain from some source or other the means of meeting those expenses. Quite commonly it is the last-named that presents the greater difficulty. Some persons keep a systematic account of their personal receipts and payments; others may never have attempted anything of the kind. Others, again, may have attempted it in the past, and given it up, because they were never able to make their accounts come right: because, in some extraordinary way, they never had in hand the money which their record showed that they ought to have in hand. Were it possible to make any systematic comparison, there can be little doubt that it would be found that those who have succeeded in keeping a correct and systematic record of their receipts and payments have also succeeded in getting very much better value for those payments than those who keep no such accounts. A contemplation of expenditure incurred sometimes gives rise to feeling of depression, that one should have wasted so much money; but (at all events on the majority of characters) it will in the long run tend to avoid similar waste in the future. If it did not, the value of the record would, of course, be very slight indeed, but ... vast majority of pe... ...thin...

by experience. But no one can learn anything from events the significance of which they do not appreciate. The importance of the record is not that it enables one to consider in a hazy sort of way (which may be quite misleading) events which one believes to have occurred, but rather that it provides definite and reliable information as to what actually has happened, so that, having the facts clearly before us, we may benefit by the experience, if we are not wholly unteachable.

In the nature of things there can be no miraculous property in accounts which enables them, of themselves, to achieve any useful purpose whatever. One might just as well have no accounts at all, as have accounts that are never looked at. This perhaps sounds very obvious when stated in this form, but it is surprising what a large proportion of so-called business men do in fact never look at their accounts from one year's end to another.

But if the average business man is not so wideawake as he should be to the importance of profiting by his experience through an intelligent survey of his accounts, there is at least one function of accounts that he does usually understand quite well—indeed sometimes he understands it so well that he thinks it is the only use to which accounts can be put—and that is as a record of transactions between himself on the one side, and his customers or supplying houses (as the case may be) on the other side. Accounts, properly kept, will disclose everything that has happened in whatever form may be most convenient for subsequent reference. Among other things, they will collect together the transactions of a business house with each one of its customers under one heading, so that an inspection of this account, or heading, will show at a glance the indebtedness incurred by that customer from time to time, how and when he discharged that indebtedness, and what (if any) balance remains undischarged. A separate account on these lines dealing with the transactions of each separate customer enables him to see, not merely that he is getting in all the debts that are due to him as and when they should be received; it also enables him, if he has eyes to see, to find out which accounts are growing, and which accounts are dwindling, or even dead; and incidentally it will also show him which (if any) accounts are growing bigger than he likes to see them. If necessary, these accounts can with a very little ingenuity be developed so as to enable the man of business to see which kind of goods that he trades in is mostly in demand with each separate customer; indeed there is no limit to the way in which his transactions with customers may be split up, or classified, from different points of view, or aggregated to enable him to arrive at general impressions along particular lines. All this applies equally to the accounts of supplying houses—those from whom supplies of manufactured goods or raw materials are purchased.

"SINGLE-ENTRY."

Even the most unbusinesslike man appreciates the value of accurate accounts with his debtors and with his creditors, but that does not mean at all that he necessarily appreciates all the various ways in which such accounts may be regarded. What it does mean is that he recognises the importance of knowing what is owing to him, and knowing what he owes; and so often is it the case that he is unable to appreciate the value of anything more than this, that accounts giving this very incomplete information have for very many years past been dignified with the name of a " system." " Single-Entry," as this so-called system is called, is a thoroughly incomplete method of accounting, in that it only shows one of the very many things that the intelligent trader, or manufacturer, would require to know ; but in spite of its incompleteness it is quite inaccurate to describe it as " single-entry," in that the term so used is naturally used in contrast with the term " double-entry." The employment of the word " single " in opposition to the word " double " clearly suggests (if it means anything at all) that the former system involves only half the labour required to complete the record upon the latter, or " double-entry," system. This is a most misleading view of the position, for so far from double-entry involving twice the work of single-entry, it need not at the very outside involve more than 20 per cent. additional labour ; indeed an up-to-date double-entry system often involves considerably less time in the keeping than an old-fashioned single-entry system.

" DOUBLE-ENTRY."

But even if the double-entry system did involve twice as much work as the single-entry it would be well worth the extra time, trouble, and expense involved, as it provides very much more than twice the amount of useful information, and furthermore provides an automatic check upon its accuracy, which, if not absolutely unfailing, is a very good check for practical purposes so far as it goes. Probably the origin of the idea that single-entry involves much less clerical work than double-entry is that the automatic check provided by the latter draws attention to clerical errors, and accordingly demands that these errors shall be searched for and discovered—a process that naturally takes time, particularly if no modern labour-saving devices be employed, and the bookkeeping staff be inexpert. It is obvious, however, that if the staff make mistakes under the double-entry system, they are at least equally likely to make mistakes with single-entry. The fact that single-entry provides no means of ascertaining whether mistakes have been made or not naturally prevents time being occupied in the searching out for those mistakes and correcting them ; but this saving clearly cannot in fairness be regarded as an advantage of single-entry. If one were content with incorrect records, one could save the time that has to be occupied in looking for mistakes, even under double-entry. But manifestly the proper course is not to pretend that no mistakes exist, and abstain from adopting checking devices, for fear mistakes should be discovered ; but rather to devise methods which in the first instance will make mistakes unlikely, and in the second instance enable them to be detected rapidly when they do occur, by means of one of the somewhat numerous modern devices for sectional balancing now in general use.

" TRANSACTIONS."

Whatever may be the nature of the business concern whose accounts are being recorded, the events that are incorporated in its accounting records are usually described as " transactions." The word " transaction " is so generally employed in this connection that its true meaning is in danger of being lost sight of. If (discarding all technicalities) the accounting system of a business were regarded as a diary, or daily record of events, it would doubtless be realised that no diary kept by human hands could possibly be absolutely exhaustive; also that in so far as it fell short of being exhaustive it would be incomplete, with the result that, no matter how ingeniously one might marshal and recapitulate the recorded matter, it would still remain not a complete record of everything that had happened, but merely a record of such events as were thought to be of sufficient importance to merit a record in the diary. The moral of this is, of course, that in this imperfect world one must never expect a statement of accounts to be otherwise than incomplete in some of its aspects; also that one must ever be on the alert to realise that omissions that are unimportant from some points of view may be important from other points of view; and in particular that, if for any reason it be desired to review past records from an entirely novel standpoint, it may be found that all the necessary material for this new review of past records is not available.

It has been said that the word "transactions" has been adopted as a sort of technical term in connection wth accounting records. The term itself, of course, means precisely the same thing as "cross-dealings" or "transfers," and in one sense it aptly states the somewhat obvious fact that practically every conceivable form of business activity involves the passing of some form of wealth from one party to another. Someone receives the benefit of every such transaction at the hands of somebody else, who has imparted that benefit. One might express this by saying that there can be no receipt without a corresponding payment, were it not for the fact that the term "payment" (as ordinarily used) is limited to monetary payments, whereas here, of course, we are concerned with the disbursement not merely of moneys, but also of commodities of different kinds, or services of different kinds, all of which either have an agreed—or at all events an ascertainable—money value, and are therefore capable of being expressed in terms of money, subject to the proviso (and this, of course, is important) that the money value attached to them may require to be reconsidered later on, because it may be subject to alteration.

The idea of every transaction representing a flow of wealth from one party to another is exceedingly convenient because it lends itself very well to the double-entry idea, the essence of which is that there must be two parties affected by every transaction, and that if each transaction be recorded from the point of view of both of those parties, it will have been recorded completely. It is not desired to belittle the double-entry system of accounting. The mere fact that it has survived for more than 400 years as being *par excellence* THE system of recording business transactions shows it to be a system possessing very considerable practical merits, or it would not for so long have stood the test of time. The time test is not, of course, conclusive in itself; but when one considers the enormous differences between the handling of business affairs to-day and during the latter half of the fifteenth century, it must be conceded that a system that was able to adapt itself, however imperfectly, to such a very remarkable development of business affairs must be one that has stood the test of time, and firmly established its right to be considered as embodying at all events some permanent principles. At the same time it may be pointed out that nothing ever tends to delay real progress more than the fixed idea that perfection has already been achieved. In a general way, of course, everyone admits that absolute perfection is unattainable by human beings; but a very superficial study of history is sufficient to show that the impression that perfection had been achieved (if only by a single individual) has often been responsible for the stagnation of some art or science for a generation or more.

The fallacy of the supposed perfection of the double-entry system, as handed down to us by the Lombardy merchants of the fifteenth century, is that, so to speak, it views everything in one plane. It is about as true to nature as a system of geometry which regards plane geometry as the only kind in existence, and ignores the fact that there is such a thing as solid geometry. One might even go further, and suggest that in recording the mutual transactions of human beings one ought really to take some account of the fourth dimension.

To come back to business transactions—that is to say, the actions and reactions of human beings upon each other, which it is desirable to record systematically in order to obtain a correct presentment of their combined effect to date, and in order to gather therefrom experience that will guide men in the conduct of further transactions in the future, to their better advantage: Regarded from this point of view, what more simple human action can one think of than that of throwing a stone into a pond? Yet, directly we begin to think how such a transaction might—and indeed should—be recorded, how infinite are its effects! The obvious result is, of course, that the stone sinks. Scientists are able to tell us to a nicety the rate at which it sinks, and demonstrate that that rate depends hardly at all upon the weight of the stone, but solely upon the distance from which it falls, the curve at which it strikes the water, and the density of the water itself. If the pond has a rocky bottom, the stone, having once rested there, will probably remain immovable (or practically immovable) unless disturbed by some external force; but if the bottom of the pond be soft, the stone will continue to exercise a penetrative power which, disregarding external circumstances (and they may easily be important), could no doubt be calculated, if the nature of the bed were known and it were uniformly consistent. All this represents only one aspect of what has happened, although, of course, even that aspect is capable of being expressed from two points of view, inasmuch as every movement of the stone naturally represents a corresponding movement of the substances through which it passes, and this, following the analogy of ordinary commercial accounting, may be regarded as embodying the principles of double-entry; but to say that it represents a complete statement of the phenomena produced by throwing the stone into the water is to show oneself very deficient in observation. Apart altogether from the vertical movement of the stone sinking through the water, there will be a reaction caused by its passage, which is evident even to the most casual observer in the circles, or ripples, on the surface. Very little observation will show that the number of such ripples is determined broadly by the velocity of the stone; but, if the pond were sufficiently large, those ripples would seem to lose themselves in the level surface after a time. Yet a little thought certainly seems to suggest the idea that while the disturbance is greatest in the centre, and somewhat rapidly diminishes with each successive circle of ripples of gradually increasing size, there must be some law determining the diffusion of energy; that, however rapid the decrease of energy to create ripples may be, so that even at a comparatively short distance from the point of contact the energy may be only a minute fraction of the original energy, yet under no circumstances can a reflex action thus produced ever arrive at absolute zero. Whether the ripples be perceptible to the naked eye or not, some reflex of the original force must in all cases reach the boundaries of the pond, no matter how large the pond may be; and even there it cannot be altogether lost, but must be taken up (although no doubt only to a modified extent) by the surrounding land. This also we can all test for ourselves, on a sufficiently small pond with sandy banks, by noticing the cumulative effect of successive ripples on the form that these banks assume. But there is yet another effect of dropping the stone into the pond, and that is its effect upon the air over and surrounding the pond. This in the nature of things is far less obvious; but it must be just as real, even if less easily observable. Every disturbance in the level of the water must create a corresponding disturbance in the atmosphere above it, and—although in a less degree of course—every subsequent movement of the surrounding land must have some effect (however slight) upon the atmosphere above it. Thus, in this very simple illustration, it will be seen that, apart from the obvious effect of the vertical disturbance caused by the stone falling, there is a resultant horizontal disturbance caused by the ripple, which in its turn causes an atmospheric disturbance, moving partly vertically and partly horizontally.

The object of drawing attention to this very simple example of natural phenomena is to suggest that double-entry (as understood in the middle ages, and as to a large extent still practised under modern conditions) is but an imperfect observation of all the consequences of those events which are conveniently called "business transactions." For some purposes it may be a sufficient record. It may be that the reflex actions caused by business transactions are sometimes so slight as to have little or no perceptible effect upon human happenings; but it is at least very certain that Accounting records based upon these lines are as incomplete as would be (say) scientific observations of the ripples on a pond that left out of account the depth or diameter of the pond on the one hand, and the atmosphere above it on the other hand. It may well be that, for the great majority of business operations, observations in a single plane are sufficient for practical purposes; but it is even more certain that, being incomplete, as they necessarily are, observations that seem adequate to one generation may—and indeed will—sooner or later be found seriously inadequate to another generation of business men working under very different conditions.

THE FUNCTIONS OF ACCOUNTS.

It is good to know the prices at which we can sell our goods, and what is owing to us for the goods we have sold. It is better to know what it ought to cost us to produce and deliver our goods. It is better still to know exactly what actually are the costs of manufacture and of transport from time to time, so that we may take advantage of everything that is in our favour, and seek to improve even the unfavourable conditions. But it is best of all to realise that customers can only continue to be customers that it pays us to have, so long as they also are working under advantageous conditions. If, by superior skill, we could secure all the profits that there are to ourselves, for how long should we have any solvent customers to trade with?

Half a century or so ago, mankind—and particularly business mankind—seem to have been obsessed with the idea that in future everything would be done by machinery. Machinery was then (so to speak) a new toy, and it is hardly surprising that its general employment should have given rise to an age of materialism. Machinery has not merely come to stay, but with every year we find that it is being still further utilised as a factor, not merely in the creation of commodities but also in the creation of services. Even in connection with Accounting much that was formerly done by hand (or by head) is now being done by machinery. But we have now lived sufficiently long in a world of mechanism to realise that mechanism is not the whole work, but merely a means adopted by human beings to enable them to achieve desired results with greater speed, or greater certainty, than was formerly possible. The factor that the business man is too apt to overlook, even at the present time, is that this is not so much an age of machinery as it is an age of human beings operating machines. To far too small extent does the ordinary Accounting of to-day attempt to take cognisance of this fact, to provide us with really reliable records, not so much of what machinery can do, as of what human beings can do; and in particular what they could be persuaded to do (or not to do), given certain surroundings. Still less does the ordinary Accounting system of to-day attempt to provide a reliable record of how the material used might be altered with advantage, to enable the best possible output to be obtained from the human machine, taken individually or collectively—but particularly collectively. In so far as any attempt has been made up to the present to organise and systematise human knowledge upon these lines, it is at present not called "Accounting," but "Statistics" or "Social Reform." Whatever it may be called, if it is not to work in the dark, it has to depend for its facts upon Accounting and Accountancy methods. While in the nature of things when working under human conditions we cannot hope to attain to absolute perfection, or absolute completeness, we ought at least to recognise that in Accounting we have the science of observing human effort, and recording it in such a form that it may be made available to enrich our experiences, as being not merely correct so far as it goes, but also complete in all details essential to cover the field then under investigation. It should be not merely a record of human indebtedness inwards and outwards, not merely a record of outstanding transactions awaiting completion, but a record of all pertinent factors, both great and small. Nothing is too big, practically nothing is too trifling, to come under its cognisance; and inasmuch as all human progress is based upon a proper utilisation of past experience which would have been lost if not recorded, it is very clearly the purpose of Accounting—and particularly of Modern Accounting—to see that all material facts are fully and faithfully recorded from every possible point of view.

CHAPTER II.

CAPITAL AND REVENUE.

THE proper distinction between Capital and Revenue items is one of the most important matters in connection with accurate accounting, and as time goes on—and the tendency is for business operations to become more and more complex—the importance of this distinction becomes increased, rather than reduced. The reader who has been in the habit of preparing Balance Sheets and Profit and Loss Accounts from a Trial Balance will probably hardly need to be reminded that this operation consists in the sorting out of the various Ledger Balances under the two headings of "Capital" and "Revenue," the Capital items being collected together in the form of a Balance Sheet, while the Revenue items are collected into another account, or other accounts, variously named "Trading Account," "Profit and Loss Account," "Revenue Account," &c., all of which may (for purposes of convenience) be described by the generic term "Revenue Account." Simple as this operation may seem from the point of view of the practical bookkeeper, it is hardly overstating the case to say that most of the errors of principle that are perpetrated in practice arise from the lack of ability—or a lack of desire—to discriminate strictly between Capital and Revenue items; hence the vast importance of a clear understanding upon this point. This understanding may, it is thought, be best acquired by dealing with the subject upon systematic lines.

EXAMPLE OF A SINGLE SHIP.

One of the most ancient (and therefore one of the simplest) modes of transacting business is through the agency of a ship. Our first example may therefore be appropriately sought in this direction. Shortly stated, the position of affairs here is that the proprietors agree to find among them a certain sum of money, which is thought sufficient for the purposes of their undertaking. The amount of money so found by them is described as the Capital of the venture, and from the point of view of the undertaking (that is to say, in the books of the ship) it is regarded as a receipt upon Capital Account. The bulk of the money so raised would be spent in acquiring the desired vessel, and the amount so expended comes under the heading of "Capital Expenditure." There will, however, be further Capital Expenditure necessary before the ship can start upon its first voyage, in thoroughly fitting it out after it leaves the builders' hands, and in placing on board the necessary stores, &c., to enable it to take the sea. At the moment that the ship has been fully equipped it may be said that Capital Expenditure ceases, and any surplus of Capital Receipts over Capital Expenditure up to that date may be regarded as the " Working Capital " —that is to say, the excess of the moneys adventured by the proprietors over and above those necessary for the equipping of their undertaking—which is deemed necessary to enable them to engage in business without being unduly handicapped by want of capital. At this stage the actual trading operations commence, which will involve the receipt (" on Revenue Account") of various sums earned for freight, passage money, &c., and the expenditure incurred in the process of earning these moneys, *e.g.* Wages, Consumption of Stores, Coal, Port Dues, and the like. When the voyage has been completed, and all outstanding accounts collected (or paid, as the case may be), the result (after replacing stores consumed, and the like, and bringing them up to the same level as before) will be that the available cash balance is either more or less than the original working capital. Any excess of the cash balance over the original working capital will represent net profit earned, and any deficiency there may be will represent loss incurred during the voyage. The problem is, from most points of view, quite simple, in that at the completion of each voyage it is possible to strike a balance of accounts, leaving practically no balances outstanding as representing uncompleted transactions. There is, however, a point that must be carefully borne in mind—namely, that this method of arriving at the profit depends for its accuracy upon the assumption that such payments have been made and charged up against Revenue as will make good any wastage that may have taken place in the original equipment of the undertaking. This wastage may be divided roughly under two headings—the consumption of specific stores which may readily be replaced by the purchase of others, and the indirect operations of wear and tear and lapse of time, which detract from the value of the assets represented by Capital Expenditure, but which cannot conveniently be made good by the immediate expenditure of a corresponding sum. This latter class of indirect wastage is known as " Depreciation." The true profits of an undertaking cannot be ascertained without first of all charging against Revenue the amount of loss sustained under the heading Depreciation ; but in this particular instance it is usual to ignore Depreciation, because it is thought undesirable to allow large sums of money (such as would be necessary to rehabilitate the Capital assets) to remain indefinitely in the hands of the ship's manager. But when this course is pursued, it is important to bear in mind that the Revenue Account—omitting as it does to provide for Depreciation—*does not show the true* NET *profit earned* ; while, on the other hand, the Capital assets, being retained in the books at a figure now exceeding their actual value, are *over*-stated to a corresponding extent.

ADDITIONAL CAPITAL EXPENDITURE.

The same broad principles apply to all other classes of undertakings ; but it is rarely that they arise in quite so simple a form, because with most concerns the expenditure on Capital Account, instead of ceasing before the Revenue Account is opened, is continually being added to for the sake of extending or improving the original undertaking. Examples coming under this heading are afforded by gas works, water works, railways, and the like. In these cases Capital Expenditure and expenditure upon Revenue Account have, of necessity, to some extent to be incurred simultaneously; but there is as a rule no difficulty in keeping the Capital Expenditure distinct, and in any case the principles already enunciated will apply. Only that expenditure which is incurred with a view to completing or improving the equipment of the undertaking, and thus increasing its capacity to earn revenue, may be charged as Capital Expenditure: all other expenditure must be debited to Revenue.

And as with these undertakings Capital Expenditure will be taking place continuously, so, on the other hand, will capital assets continually be wearing out, and having to be replaced in order to keep the undertaking as a whole in a proper state of working efficiency. The cost of these replacements must in all cases be charged against Revenue, and (so far as it goes) it will take the place of provision for Depreciation. If the various assets wear out, and have to be replaced very quickly, the expenditure upon renewals may very closely approximate to the actual wastage caused by Depreciation; in practice, however, there will always be some margin, because a certain amount of wastage must necessarily take place before expenditure can usefully be incurred upon renewals and repairs. Even in these cases, therefore, some allowance for Depreciation is necessary in addition to the actual expenditure, if the Revenue Account is to show the true profit of the undertaking.

CAPITAL ASSETS.

From what has been stated it will be seen that all expenditure that may properly be regarded as Capital Expenditure must be represented by more or less tangible assets, whereas nothing remains to represent expenditure that has been incurred upon Revenue Account. The expenditure under both headings is, in bookkeeping, represented by a debit balance in the Ledger, and the ultimate test of the reality of Capital Expenditure is as to whether there exists an asset (property or rights) which may be said still to represent the expenditure incurred.

When, however, a shrinkage in the value of assets has occurred, owing to causes outside the ordinary operations of carrying on the business, it would not be proper to debit such wastage to Revenue Account, for if such a wastage or loss as this were to be debited to Revenue Account the actual result of the trading operations would be obscured. If thought desirable, such losses of Capital may be made good by specifically allocating profits on Revenue Account to that purpose, but under no circumstances does the law *require* this to be done before profits are divided among the proprietors of the undertaking, and in any event it is desirable that the accounts should clearly distinguish between proper expenditure on Revenue Account, and such incidental losses on Capital Account as may have occurred. It thus follows that Capital assets may decrease in value without Revenue being affected in consequence. So long, however, as these assets are not realised, such shrinkage can at best only be an estimated item, and it is therefore usual to ignore it in the accounts. Hence, in accounts, there is not necessarily any very intimate connection between the actual intrinsic value of Capital assets at any given moment and the value at which they appear in the books of account. The proper basis for our present purpose may be taken to be the cost price, subject only to deduction for such Depreciation as may properly be charged against Revenue. *Per contra*, estimated increases in the value of Capital assets must likewise be disregarded.

FIXED AND FLOATING ASSETS.

The justification for thus ignoring fluctuations in the value of Capital assets is that these assets have been acquired, and are being retained, not with a view to their eventually being realised at a profit in the ordinary course of business, but with a view to their being *used* for the purpose of enabling trading profits to be made in other ways. For example, there is no fixed connection between the realisable value of a ship and its earning capacity; and in the case of a factory, its value to the undertaking depends merely upon the accommodation that it offers, and is entirely irrespective of any speculative rise or fall that may have taken place in the value of land or building materials. Similarly the value of machinery to a business depends upon the amount of work that can be turned out, and not upon the market price of iron or steel at that particular time. For practical purposes, therefore, these fluctuations may fairly be said to be of no account, and in any event it is quite an open question whether, pending a realisation (which is not contemplated), any more reliable basis of value could be adopted than the actual cost in the first instance—subject, of course, to due provision for Depreciation.

In the case, however, of assets which it is *not* intended to retain and utilise in the business (as, for example, Stock, Book Debts, or temporary Investments), a wholly different question arises. Here, if the accounts are to be upon a sound basis, it is important not to lose sight of the fact that the whole object of the business is to convert these items into cash at the earliest possible moment, or at any moment that may be thought convenient. In every case, therefore, the intrinsic value at the moment is clearly a potent factor, and any shrinkage that may have taken place must consequently be regarded as a loss, if the accounts are to be kept upon a sound basis, and as such it must be deducted from the value of the asset and debited to Revenue. *Per contra* appreciations in the value of these floating assets might with equal propriety be credited to Revenue; but as, pending realisation, there must always be a doubt as to whether any such appreciation has actually occurred, it is only prudent to postpone taking credit for the assumed profit until such time as it has actually been earned. A further argument in support of this method of treatment is afforded by the consideration that the proper time to take credit for a profit on the realisation of floating assets would certainly appear to be the time when such realisation is effected.

APPRECIATION OF ASSETS.

It has already been stated that under no circumstances should appreciation in the value of fixed assets be credited to Revenue, while appreciation in the value of floating assets should under normal circumstances not be taken credit for until actual realisation. There are, however, some important exceptions. Certain assets by their nature regularly and consistently increase in value in exactly the same way (and for the same reasons) that most assets regularly decrease in value. Two examples under this heading will, it is thought, be sufficient. (1) *Reversions* : that is to say, assets which represent the holder's title to receive a sum ot money at some fixed or determinable future date. As the future date approaches, the present value of the reversion naturally increases ; and, in the case of an undertaking whose regular business it is to purchase such assets, Revenue may properly be credited with the actual appreciation from time to time, provided a reasonable margin is reserved for contingencies. Life insurance policies may for this purpose be treated as reversions. (2) *Leased property* : When the asset represents freehold or leasehold property, to the vacant possession of which the owner will be entitled at the expiration of an existing tenancy under which he receives a rent less than the true annual value of the property. Here the annual appreciation in value is income as much as the rent that is actually received ; but unless a large number of such properties be held, it is generally thought convenient to postpone taking credit for the amount of such increase until the expiration of the existing tenancy, when the capital value of the property might fairly be written up, and Revenue be credited with the excess.

PROBLEM.—A capitalist purchases the freehold of a house of the annual value of £150, subject to a lease at £50 per annum, having unexpired term of five years. How much should he pay for the freehold in order to give him a return of 5 per cent. on his money, and what is the value of the property at the end of each successive year during the term of the lease ?

What is actually purchased in this case is an immediate annuity of £50 per annum (which at 5 per cent. is worth £1,000) and a reversion to a further annuity in perpetuity of £100 per annum, commencing 5 years hence. The value of this reversion at 5 per cent. is £1,567.052 ; the total amount to be paid for the freehold would therefore be £2,567.052, say £2,567 1s.

The present value of the reversion of a perpetuity of £1, under the 5 per cent. Tables, is as follows :—

5 Years Deferred	£15.67052
4 ,, ,, ...	16.45405
3 ,, ,, ...	17.27675
2 ,, ,, ...	18.14059
1 ,, ,, ...	19.04762

At the end of the first year, therefore, the property may be written up to the value of a reversion deferred four years, at the end of the second year to the value of a reversion deferred three years, and so on. This gives the value of the freehold property as follows :—

At Date of Purchase	£2,567.052
At End of First Year	2,645.405
,, Second Year..	2,727.675
,, Third Year	2,814.059
,, Fourth Year..	2,904.762
,, Fifth Year	3,000.000

NOTE.—The above calculation does not, of course, take into account whatever provision may be necessary for depreciation owing to deterioration of the fabric of the buildings. This, however, is a separate question, and can only be determined after careful inquiry into the condition of the structure, and the class of materials and workmanship employed in its erection.

SUMMARY.

To sum up the contents of this chapter it may be stated that "Capital Receipts" are sums contributed to an undertaking, and intended to be left in that undertaking permanently for the sake of enabling it to carry on its business. "Capital Expenditure" is that expenditure *bona fide* incurred for the sake of acquiring, extending, or completing the equipment of the undertaking, with a view to placing it upon a revenue-earning basis, or to improving its revenue-earning capacity. "Working Capital" is the excess of "Capital Receipts" over "Capital Expenditure." "Capital Expenditure" is represented by assets. "Fixed Assets" are those which form a part of the permanent equipment of the undertaking, which, as such, are not intended for realisation. "Floating Assets" are those assets which in the ordinary course of business are continually changing, and which are intended either for consumption in the ordinary process of manufacture or trading operations, or for sale, and such intermediate forms (Book Debts, Bills Receivable, &c.) as they may take in the process of conversion into cash; Cash and all forms of temporary investment are also included under this heading. "Revenue Receipts" are those which properly arise out of the business operations of the undertaking—*i.e.* earnings. Unless the business is upon a cash basis there will, however, always be some discrepancy between the actual earnings and the receipts in respect thereof, and the proper item to credit to Revenue Account will be the true earnings for the period, rather than the actual receipts in cash. Revenue Expenditure consists of all those expenses incurred in connection with the earning of Revenue, including Depreciation of Fixed and Floating Assets. There will, however, always be a difference between Revenue Expenditure and payments on Revenue Account, for (disregarding the fact that such payments may be made in advance, or may be in arrear) there will often be no cash payments to represent provision for Depreciation, unless the whole of the provision that is necessary under this heading has been made by actual renewals or repairs during the period in question. If, however, a "Sinking Fund" is created to provide for the renewal of wasting assets, provision for Depreciation will involve a corresponding cash payment.

CHAPTER III.

THE ORGANISATION OF ACCOUNTS.

UNDER this heading may be included those arrangements which are designed to ensure, as far as possible, the accuracy and regularity of accounts in all respects. A system of accounts may be well designed to meet the requirements of any particular undertaking, and may yet fail to achieve its purpose through slackness on the part of those on whom the duty of supervision devolves. This failure may arise from the work being allowed to get into arrear, or through errors (whether inadvertent or fraudulent) being allowed to occur. Whatever the exact cause may be, the result will as a rule be the same—a loss will be experienced, and in addition the reputation of the business may suffer. The subject is therefore one of very considerable importance to all who are interested in accounts or in business.

The designing of a proper system of accounts is, from one point of view, a purely theoretical matter; but the adaptation of that system to the record of the transactions of an undertaking upon regular and systematic lines, with a view to avoiding irregularities and losses of all kinds, comes under the heading of "Organisation"—an essentially practical matter, which has now to be dealt with.

It goes without saying that, however much trouble may be taken by those responsible for the record of business transactions, errors will occasionally occur. The object of a proper system of organisation is to detect these errors at the earliest possible moment, thus reducing to a minimum the inconvenience or loss that they might occasion. Shortly stated, the only means of detecting errors of any kind is by careful checking, and a proper system of organisation will always provide for the checking of every item of work in connection with accounting, and particularly in connection with Invoices, Statements of Account, Returns, and the like, which are issued to third parties.

AUDITS, PROFESSIONAL AND "STAFF."

All such checking as that just described may, from one point of view, be regarded as auditing. Save in the case of the smallest undertakings, a distinction may very properly be made between that portion of the work upon which it is desirable to employ skilled accountants who are entirely independent of the administrative staff and that part which (under suitable supervision) may equally well be performed by the staff itself. Many items may, in point of fact, be checked better by the staff than by independent Auditors, on account of their greater familiarity with the actual facts involved. At the same time, if the system of check is to be complete, it is important that there should be a clear understanding as to what work is to be performed by each person ; and this is best accomplished by allowing the outside Auditor to organise the whole system of internal check. This is the more desirable, in that the experience of the Auditor will enable him to organise such a system more effectively than could reasonably be expected on the part of one who has received no special training in that direction ; but, the system once organised, the duty of seeing that it is actually carried out in precisely the manner originally designed may to a large extent be left to the chief of the counting-house, provided he is not also the chief cashier.

From some points of view the matters dealt with in this chapter are intimately connected with those discussed in Chapter XVI, which deals with various classes of fraud, and the methods to be adopted for their prevention and detection. In the majority of cases where fraud has occurred, the attempt will have been made to conceal it by means of false entries, and it should be the aim of every system of internal check, or audit, to detect these falsifications at the earliest possible moment. So long, however, as this point is clearly understood, the two matters may, it is thought, most conveniently be dealt with separately.

The general aim of every system of internal check is to provide for the detection of all errors in accounts ; and the best means of doing so is to make at least two persons responsible for every entry that occurs, and also for the proper record of every transaction that has taken place. In order not to make undue demands upon the time of more important persons, the system should be so arranged that relatively unimportant matters are checked in detail by those occupying a comparatively subordinate position ; and, in order that the work when so arranged may be done properly, it is important not merely that some responsible person should supervise it, and see that every detail of the system is duly carried out by the prescribed persons, but also that the duties of the various persons concerned be changed about from time to time. This latter is especially important as a safeguard against collusion. In the case of comparatively small undertakings it is sometimes difficult to arrange matters upon this footing, on account of the smallness of the staff, or of that portion of the staff that can be relied upon for purposes of internal check. In such cases, however, it is usually practicable for the principal himself to do something in the direction indicated ; if a proper system has been formulated, this can readily be done without making undue claims upon the principal's time, and the professional audit may be arranged so as to cover the whole scheme of internal check in general terms, and to supply in detail those parts which are lacking in the staff audit. The exact point where the staff audit should leave off and the professional audit commence can only be indicated in general terms, as the matter is to a large extent one of expediency. The professional audit must in all cases be sufficiently full to enable the Auditor to satisfy himself not merely of the general correctness of the accounts, but also of their correctness in detail ; but so long as it is sufficiently full to ensure this object, the balance of advantage lies in throwing as much responsibility as possible upon the staff audit, because (for the reasons already stated) those who are actually in touch with the transactions engaged upon are better able to verify the detailed records than those whose only knowledge of the transactions is such as may be gained from the records themselves.

PRO FORMA RULES.

The following is a short, and necessarily incomplete, summary of the various matters that should ordinarily be provided for when organising a set of accounts and designing a system of internal check with regard thereto. Naturally, however, it will in many cases require elaboration at one point or another.

(1) All cash received to be paid into the bank daily, a full record being kept of who is responsible for the handling of the same.

(2) No one having the handling of money should have the control of any books of account other than the corresponding Cash Book. (If practicable, the cashier should not even write up the Cash Book.)

(3) All payments, other than Petty Cash payments, to be made by cheque.

(4) The Petty Cash Book should be kept on the "Imprest" system, under the supervision of the chief cashier.

(5) No person entrusted with the receipt of moneys should be authorised to make any payments out of the moneys so received by him.

(6) Counterfoil (or "Manifold") Receipt Books should be used to acknowledge *all* moneys received.

(7) Proper vouchers should be obtained for all payments made. It is *not* desirable that these should be upon a form supplied to the payers.

(8) All cash balances should be regularly and systematically verified daily, and a permanent record kept of the daily balances. The balance of every Bank Account should be verified at least once a week.

(9) All Ledgers should be rendered "Self-balancing," and their balance frequently tested by someone in authority. The detailed postings should be checked by someone independent of the Ledger-keeper. Trade Ledgers should be balanced at least once a month, and other Ledgers at least once a quarter.

(10) Adequate systems of Stock Accounts and Cost Accounts should be provided.

(11) A proper system should be instituted of checking all invoices for goods received by several independent persons, and it should be rigorously carried out.

(12) In the same way adequate safeguards should be taken to ensure that no goods leave the premises without being first charged up as Sales.

(13) Similar precautions should be taken with regard to the Returns and Allowances, both inwards and outwards.

(14) All trade payments should—before being made—be systematically checked, and passed by several independent persons.

(15) There should be a constant supervision of the Book Debts, and especially of those overdue, in order to ensure that no losses are incurred through carelessness or dishonesty.

(16) In order to guard against this as far as possible, every time the Sold Ledgers are balanced a verified list of all accounts more than a certain number of days overdue should be submitted to the chief of the counting-house, and by him to one of the principals for further instructions.

(17) Special precautions should be taken with regard to all payments made by cash (*e.g.* Wages), with a view to ensuring the accuracy with which the lists of amounts due have been compiled. Several different persons should be made individually responsible for *each* part of the work.

(18) So far as may be practicable, the duties of every member of the staff should be varied from time to time, and each should be required to take a holiday at least once a year.

CONCLUSION.

It is, perhaps, desirable to repeat that no system of organisation can be really effective which does not, in addition to making two persons responsible for everything, so systematise matters as to make it impossible for any member of the staff to make any entries whatever in the books which are not, for the time being, in his keeping. If mistakes and frauds are to be avoided, it is important that there should be no doubt as to who is responsible for the entries appearing from time to time in each book, and also as to who is responsible for the checking of those entries and seeing that they completely record the transactions. If these very useful precautions be neglected there is practically nothing to prevent either inadvertent or fraudulent mistakes from remaining undetected. Further information upon this interesting subject will be found in "Office Organisation and Management," by the present author and Mr. H. E. Blain (Pitman, price 7s. 6d.).

CHAPTER IV.

METHODS OF BALANCING.

It is assumed that the reader is fully acquainted with the general principles of double-entry bookkeeping, and the manner in which the accuracy of the Ledger postings may be tested by the agreement of the Trial Balance. It is, however, desirable to explain the various methods by which the balancing of a large set of books may be simplified, and also the means by which a set of books that have not been completely kept by double-entry may yet be "balanced."

"SELF-BALANCING" LEDGERS.

Where the business is sufficiently large to render the employment of more than one Ledger desirable, it is very convenient to be possessed of some means of balancing each Ledger independently of the rest. This is desirable for two reasons: (1) Trade Ledgers should be balanced at frequent intervals so that any mistakes that have occurred may speedily be rectified, while it is not usually convenient that the whole set of Ledgers should be balanced so often. (2) In the event of the Trial Balance of the books as a whole not agreeing, it is a great saving of time to be able to *localise* the error into one particular Ledger, and so confine further investigation to that Ledger.

The general principle of "Self-Balancing" Ledgers cannot be said to form part of "advanced" accounting, and as, moreover, it has been fully described in the author's "Bookkeeping for Accountant Students," it is not now proposed to go over the same ground again. Suffice it to say that, in order to make each Ledger self-balancing, it must be made to contain within itself a twofold record of every transaction that it covers. This, of course, involves posting to each separate Ledger numerous items which, although necessary to complete the double-entry there, would not be included in that Ledger unless it *were* desired to render it self-balancing. All these additional items are (so far as possible) condensed into totals to save labour, and—having been so condensed—are posted to one general account, called the "Adjustment (or Control) Account."

Where, however, there are more than two Ledgers, it is desirable that one of the series should contain the "key" to all the rest. It is usual to select for this purpose a Ledger kept by one of the most responsible employees—*i.e.* either the Private Ledger or the Nominal Ledger. In this Ledger, instead of having only *one* Adjustment Account to complete the double-

Trade

entry of that Ledger, a separate Adjustment Account is opened in respect of *every* other Ledger, the particular Adjustment Account selected for the posting of what may be termed the redundant entries being in each case the one relating to the Ledger which contains in detail the *other half* of the transactions. For example, assuming the Nominal Ledger is the one containing all the "keys," Purchases are posted to the debit of this Ledger, which—unless it be self-balancing—contains no corresponding credit: to render it self-balancing the monthly totals of the Purchases are posted to the credit of an Adjustment Account, and the "Bought Ledger Adjustment Account" is selected for that purpose because the contra entry to the Purchases is posted in detail to the credit of the Bought Ledger. If there were two or more Bought Ledgers, a separate Adjustment Account would be opened in the Nominal Ledger for each. There would, however, be no difficulty in ascertaining how much of the total purchases had been posted in detail to each separate Bought Ledger Adjustment Account, as each would have its own Bought Book, or, at all events, separate columns in the Bought Book would be appropriated to each; alternatively, if a "slip" system of accounting were employed (*vide* Chapter XVIII) no difficulty would occur in arriving at the various totals required for the Adjustment Accounts.

The following example will suffice to clear up any doubts as to the precise application of the principles already described.

PROBLEM.—The following Balance Sheet and Profit and Loss Account have been prepared from the Books of the British Motor Car Company, Limited. These books included Bought, Sold, and Private Ledgers, each of which was "self-balancing." Show the Trial Balance of each separate Ledger as it would have appeared in the books before any provision had been made for Bad and Doubtful Debts or Depreciation:—

BALANCE SHEET, 31st December 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Capital Account, 100,000 Shares of £1 each	100,000 0 0		Building, Plant, Machinery, &c.	60,000 0 0	
Less Calls in Arrear	462 0 0		*Less* Depreciation	1,200 0 0	
		99,538 0 0			58,800 0 0
			Stock-in-Trade		45,645 0 0
Trade Creditors, viz.:—A.	540 0 0		Debtors, viz.:—G.	47 10 0	
B.	50 0 0		H.	12 0 0	
C.	75 0 0		I.	160 10 0	
D.	920 0 0		J.	21 0 0	
E.	55 0 0		K.	110 0 0	
F.	62 0 0				
		1,702 0 0		351 0 0	
Profit and Loss Account:—			*Less* Provision for Bad and Doubtful Debts	36 0 0	
Balance for 1919	796 0 0				315 0 0
Net Profit for 1920	17,264 0 0		Cash		14,540 0 0
		18,060 0 0			
		£119,300 0 0			£119,300 0 0

Dr. PROFIT AND LOSS ACCOUNT for the Year ending 31st December 1920. *Cr.*

To Rent, Salaries, and General Expenses	£2,500	By Gross Profit as per Trading Account	£22,000
" Directors' Fees	1,000		
" Depreciation	1,200		
" Bad Debts	36		
" Balance, being Net Profit	17,264		
	£22,000		£22,000

THE BRITISH MOTOR CAR COMPANY, LIM.

Bought Ledger Trial Balance, 31st December 1920.

	Dr. £ s d	Cr. £ s d
A.		540 0 0
B.		50 0 0
C.		75 0 0
D.		920 0 0
E.		55 0 0
F		62 0 0
Private Ledger Adjustment Account	1,702 0 0	
	£1,702 0 0	£1,702 0 0

THE BRITISH MOTOR CAR COMPANY, LIM.

Sold Ledger Trial Balance, 31st December 1920.

	Dr. £ s d	Cr. £ s d
G.	47 10 0	
H.	12 0 0	
I.	160 10 0	
J.	21 0 0	
K.	110 0 0	
Private Ledger Adjustment Account		351 0 0
	£351 0 0	£351 0 0

THE BRITISH MOTOR CAR COMPANY, LIM.

Private Ledger Trial Balance, 31st December 1920.

	Dr. £ s d	Cr. £ s d
Share Capital Account		100,000 0 0
Sundry Shareholders	462 0 0	
Bought Ledger Adjustment Account		1,702 0 0
Sold Ledger Adjustment Account	351 0 0	
Buildings, Plant, Machinery, &c.	60,000 0 0	
Stock-in-Trade	45,645 0 0	
Cash	14,540 0 0	
Rent, Salaries, and General Expenses	2,500 0 0	
Directors' Fees	1,000 0 0	
Trading Account		22,000 0 0
Profit and Loss Account		796 0 0
	£124,498 0 0	£124,498 0 0

THE "CONSTRUCTION" OF ADJUSTMENT ACCOUNTS.

In practice it frequently happens that it is desired to balance the various Ledgers separately, although the system of accounts has not anticipated this contingency, and no Adjustment Accounts have been provided. What has to be done in such a case is to *construct* Adjustment Accounts from the materials available. Supposing, for instance, it is desired to balance the Sold Ledger separately, and no Sold Ledger Adjustment Account exists, the procedure will be upon the following lines :—

The entries in the Sold Ledger will come under the following headings :—(1) Opening Balances, (2) Sales, (3) Sales Returns, (4) Cash, (5) Closing Balances, and probably some (or all) of the following :—(6) Interest, (7) Discount, (8) Bad Debts, (9) Bills Receivable, (10) Bills Dishonoured, (11) Transfers to other Ledgers. The Opening Balances are probably known from schedules already in existence ; if not, they must be carefully extracted, and a schedule prepared showing the total balances standing in the Ledger at the commencement of the current period. The total Sales can readily be arrived at from the Day Book, and the Sales Returns from the Returns Book. The Cash will be found upon the debit side of the Cash Book ; if a separate Sold Ledger Cash Book exists (or there is a separate column for Sold Ledger items in the General Cash Book) this total can readily be arrived at ; but, if not, the Cash received must be analysed The Discount will probably be the total of the " Discount " column on the debit side of the Cash Book, but care must be taken to see that no extraneous item has been included. The Bills Receivable will be the total of the Bills Receivable Book for the current period. The only items that remain to be considered are Bad Debts and Interest. These can best be arrived at by referring to the corresponding accounts in the Nominal Ledger, which will readily show the amount of Bad Debts written off and the amount of Interest charged to customers during the current period. These various figures can then be put together in the form of an Adjustment Account, and the balance shown by such an account should, of course, agree with the total of the Sold Ledger balances at the close of the period.

EXAMPLE:

Dr. SOLD LEDGER ADJUSTMENT ACCOUNT. *Cr.*

	£ s d		£ s d
To Balances standing at commencement of current period, as per Schedule		By Cash received, as per analysis of Cash Book ..	
„ Sales, as per Day Book Totals		„ Discounts allowed, as per Cash Book	
„ Bills returned, as per analysis of Bills Receivable Account		„ Returns, as per Returns Book	
„ Interest, as per Interest Account		„ Bills Receivable, as per Bills Receivable Book ..	
„ Transfers from other Ledgers		„ Transfers to other Ledgers	
Difference in Books (if any)		„ Bad Debts, as per Bad Debts Account	
		„ Difference in Books (if any)	
		„ Balances standing at close of current period, as per Schedule	
	£		£

THE "CRAGGS" SYSTEM.

Sir John G. Craggs, M.V.O., F.C.A., has perfected a system of balancing which will be found exceedingly useful in cases where the books of first entry have not been arranged so as to show the totals of the items posted to each separate Ledger. Like most other useful inventions, it is exceedingly simple. The process merely consists of analysing the entries as the detailed postings of the Ledgers are checked, but doing so in such a manner that the process occupies no more time than would be necessary for checking the postings in the ordinary way. Thus, assuming that there are (say) four Sold Ledgers, and four Day Books from which postings are made indiscriminately to all the Sold Ledgers; as the postings are checked, the clerk in charge of the Day Book has before him an analysis sheet of convenient size in which he enters up the amounts in distinctive columns as he goes along. Obviously, postings will only be checked into one Ledger at a time; as the clerk in charge of the Day Book calls out a folio reference to the Ledger clerk (and while he is waiting for the Ledger clerk to find his place) he enters the amount that he is about to call to the Ledger clerk on the analysis sheet in the column allocated to the Ledger then in use; by the time this has been done the Ledger clerk will have found his place; then, without loss of time, he calls out the amount that he has already entered on the analysis sheet, and if it be found to agree with the Ledger entry, the item is ticked off in both books. The process is repeated until all the entries into that particular Ledger for the period under review have been exhausted; then another Ledger is taken, and the entries to such Ledger similarly abstracted on to other columns of the analysis sheet. Thus, when all the postings from that particular Day Book have been checked, each entry will appear under its proper Ledger column on the analysis sheet, while the analysis itself will have been prepared in odd moments, which otherwise would have represented wasted time. If the analysis entries be totalled up, their summary should agree with the total entries shown by the Day Book; and if it does, there is, ordinarily, no necessity to check the Day Book additions further. There ought to be no trouble about this agreement of totals, because the items on the analysis sheet have been checked with the Ledger entries, and consequently the risk of an error in posting corresponding with an error in entering up the analysis sheet is remote; but, in order that such discrepancies may be traced rapidly, when they do occur, it is convenient to make " breaks " at stated intervals in the columns of figures on the analysis sheets. This can readily be done by inserting a slip of blotting paper in the Day Book after each ten or twenty pages, according to circumstances. The sheet of blotting paper is a reminder that a break must be made at this point, and the Day Book folios where the breaks are made are duly noted on the analysis sheet. Sub-totals of the items entered on the analysis sheet are made at each " break " ; so that, if the total of the whole summary does not agree with the Day Book total for the period under review, it is a simple matter to summarise the sub-totals up to a " break " corresponding approximately with the middle of that period. If these totals agree, the discrepancy must be in the latter half of the period, and may be further localised within a very narrow compass; conversely, if they do not agree, the error is to be sought in the first half. With reasonable care, it is probably not often that these " breaks " have to be utilised; but as they involve very little—if any—additional trouble, it is as well to employ them.

If a like course be pursued with every Day Book, and with every other book of first entry which does not provide its own analysis for sectional balancing purposes, it is obvious that the analysis sheets will supply the missing data necessary to construct Adjustment Accounts for each separate Ledger on the lines previously described.

As a question of design, it is no doubt better, wherever possible, that the accounting records should be self-analysing; but where a large number of books have to be employed, and where for any reason the " slip system " (*vide* Chapter XVIII) is impracticable, or is not desired, the " Craggs' System " will be found most useful. It is particularly valuable when an investigation has to be made over past years in connection with books that have not been framed on proper lines.

CHECK NUMBERS.

Another modern device for facilitating balancing is the employment of Check Numbers. Every amount has a " check number," such number being the remainder after dividing such amount by a selected divisor, which may be called the " base " of the system.

The practical working of the system involves an additional column, of the size of a folio column, in the Ledger and also in each book of first entry. Only the Ledger clerk need be acquainted with the system; it is even desirable that his junior should not be. The process is that when the junior is calling out the postings for the senior to enter in the Ledger, the senior calculates the " check number," inserts it in the appropriate column opposite the item just posted in the Ledger, and calls it out to the junior, who accordingly inserts it against such item in the book of first entry. When all the entries have been posted, it follows that each item in the book of first entry has its appropriate " check number " against it. The " check numbers," as well as the items, are totalled, and the " check number " of the total of the " check numbers " will necessarily agree with the " check number " of the total of the items, if the additions be correct and provided each individual " check number " is correct. Such agreement is therefore a very valuable check on both postings and additions; but, for obvious reasons, it is no check against an item being posted to a wrong account. It is doubtful, therefore, whether the agreement of the "check numbers" can be taken as obviating the necessity for calling back postings in the usual way.

Various "bases" have been employed for this purpose, with varying success. Obviously the smaller the "base," the less is the variety of "check numbers," and accordingly the greater is the risk of errors remaining undetected because an incorrect figure happens to have the same "check number" as the correct figure. On the other hand, the larger the "base," the more complicated is the process of division, and the longer is the time that the operation involves. For practical purposes 13 and 17 seem to be the only bases that have much value. The advantage lies in favour of 17 in point of certainty, while 13 is no doubt simpler to apply. With a little practice the bookkeeper will soon get into the habit of performing the process of division by the prescribed base mentally—more especially when it is borne in mind that there is no occasion to remember the dividend, only the remainder has to be taken into account.

The "check numbers" in the Ledger may similarly be used as a means of checking additions of Ledger entries and the carrying forward of balances. If desired, an automatic check against posting to the wrong side of the Ledger may be provided by calculating the "check numbers" of debits and credits differently. It would not be convenient to adopt different "bases" for debits and credits, for that would, in all probability, lead to confusion; but it is quite practicable to arrange that the "check numbers" of credit entries shall be complementary to the "check numbers" of debits, *i.e.* in each case the difference between the "check number" and the "base" number. Thus, if the base be 13, the complement of 7 would be 6; the complement of 3 would be 10; and so on.

"Check numbers" have been tried with considerable success in business houses where very large numbers of postings have to be handled; but, in the nature of things, the system is of interest more to the bookkeeper than to the auditor. Even from the point of view of the former, the following system is probably destined ere long to supersede it entirely.

MECHANICAL BALANCING.

The method now to be described is one by which the services of an Adding Machine are utilised to secure an agreement of totals. Naturally an enormous saving of time is thus effected, and much laborious work avoided; but, like the last-named system, it provides no check whatever against the accidental posting of an entry to the wrong account. The system is usually found in conjunction with Card or Loose-Leaf Ledgers (*vide* Chapter XVIII); but it can be applied to bound books with equal advantage. All that is necessary is that, after the transactions for the day have duly been posted up, the newly entered items in all the Ledger accounts are called back to the operator of the Adding Machine, first debits, and then credits. The operator is then able, in a surprisingly short space of time, to give aggregate figures of debit postings and credit postings for the day, as appearing in the Ledgers. If these totals agree with the totals of the day's transactions when similarly aggregated, the books will balance; but should there be a discrepancy, it, of course, has to be found, and, unless some form of sectional balancing be employed in conjunction with this daily test, the process of localising such error might prove exceedingly troublesome. The Mechanical Adder is, however, just as adaptable to sectional balancing as to balancing *en bloc*, so long as the totals of the day's transactions have been analysed suitably, or are capable of being so analysed. Naturally, this system is most advantageous in connection with Card Ledgers, or Slip Ledgers, as it is then an exceedingly easy matter to call back the day's transactions to the operator of the Adding Machine before the Cards (or Slips, as the case may be) are filed away again after use.

BALANCING SINGLE-ENTRY BOOKS.

In many cases the same course can with advantage be pursued, even in connection with Ledgers that have only been kept by single entry ; but in some cases it will be found to be impracticable, as, for instance, when the Bought Ledger has been posted up direct from invoices, which are either filed away or pasted into a Guard Book in such a manner that it is practically impossible to add them. In such cases the best course to pursue is to call back the postings *from* the Ledger into the various subsidiary books so far as they go. If the cash be called back into the Cash Book before the Private and Nominal Ledgers have been checked, it becomes a comparatively simple matter to extract from the Cash Book the total of the Bought Ledger Cash, for all that has to be done is to extract from the Cash Book the items upon the credit side that have been ticked off against the Bought Ledger. The Bills Payable and Discounts can be ticked off in the same manner, and there will still remain unticked in the Bought Ledger the Purchases and Purchase Returns. It is then necessary to go through the Bought Ledger, page by page, and extract therefrom all the items that have not been ticked. Probably the only unticked items on the debit side will be Returns, and the only unticked items upon the credit side Purchases ; but care must be taken to separate any special items, so that they may be taken out in a separate total. This last remark applies especially to transfers from (or to) other Ledgers, seeing that these figures will also be required to assist in the balancing of those other Ledgers.

TABULATING THE LEDGERS.

When the number of accounts in any Ledger is not very great, but the postings to the Ledgers include a number of different classes of items, it is sometimes more convenient to go straight through the Ledger and "tabulate" all the entries appearing upon each account. The following example clearly illustrates what is meant in this connection. Care must, however, be taken to see that the totals of the various analytical columns agree with the corresponding totals of "Goods," "Cash," "Discount," &c., as otherwise, although the Ledger may itself balance, it cannot be grafted upon the other Ledgers so as to enable them to balance as a whole.

PROFIT AND LOSS ACCOUNTS BY SINGLE-ENTRY.

Occasionally it happens that it is desired to compile an account in the form of a Trading and Profit and Loss Account, while (on account of the great expense and trouble involved) it is deemed inexpedient to balance the books by double-entry in the manner explained in the preceding paragraphs. Such a state of affairs often arises in connection with appeals against assessments for Income Tax, when the authorities require a Profit and Loss Account to be produced. But the system now about to be explained cannot be recommended for any other purpose, inasmuch as although it shows results in the *form* of a Profit and Loss Account, the account, when prepared—unlike Profit and Loss Accounts compiled by double-entry—is no check whatever upon the accuracy of the bookkeeping.

Shortly stated, the system consists of analysing the cash into Cash Received from Customers, Cash Paid for Goods, Business Expenditure under various convenient headings, and other special items, so that the analysis as a whole may be absolutely agreed with the Cash Book. Stock must, of course, be taken at the commencement and end of the period, or if the Opening Stock is unknown it must be estimated upon the best available basis, and the accuracy of the resulting account will be entirely dependent upon the accuracy of this estimate. Assuming, however, that the opening and closing Stocks are known, the Sales are arrived at by adding to the Cash received from customers the closing Sold Ledger Balances and deducting the opening Sold Ledger Balances; the figure of Purchases is obtained by adding the closing Bought Ledger Balances to the Cash paid for goods, and deducting therefrom the opening Bought Ledger Balances; while in the same manner the various items of Business Expenditure are adjusted by outstandings at the opening and close of the period, so as to obtain the Expenditure incurred during the current period, whether actually paid or not. These figures being arrived at, they are put together in the form of a Profit and Loss Account in the usual way.

The following example gives such a "constructed" Trading and Profit and Loss Account in tabular form. It need hardly be stated, however, that only the right-hand column upon each side would be submitted to the Income Tax Authorities.

EXAMPLE:

Dr. / *Cr.*

Balance 1/11/20	Goods	Carriage	Bills	Cash	Returns & Allowances	Charges	Balance (*Cr.*) 30/11/20	Total	Name	Balance 1/11/20	Cash	Returns & Allowances	Goods	Bills	Balance (*Dr.*) 30/11/20	Total
£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
7 10 0	10 0 0	1 10 0	20 0 0	.	..	..	5 0 0	44 0 0	J. Smith		17 0 0	2 0 0	25 0 0	..		44 0 0
..	..	..	.	5 0 0	6 0 0	..		14 0 0	P. Brown	13 0 0		..	.	..	1 0 0	14 0 0
..	5 0 0	..	..	5 0 0		1 1 0	..	11 1 0	T. Jones ..	..	5 0 0		..	.	6 1 0	11 1 0
60 0 0	30 10 0	1 10 0	..	60 0 0	.	..	..	152 0 0	M. Smith ..	..	..		..	150 0 0	2 0 0	152 0 0
.	100 0 0	..		75 0 0	..	4 10 0		179 10 0	G. Robinson	90 0 0		.	..	.	89 10 0	179 10 0
..	70 0 0	7 0 0	.	..		2 0 0	..	79 0 0	A. Shaw ..	..	47 0 0	32 0 0	..	..	..	79 0 0
£67 10 0	£215 10 0	£10 0 0	£20 0 0	£148 0 0	£6 0 0	£7 11 0	£5 0 0	£479 11 0		£103 0 0	£69 0 0	£34 0 0	£25 0 0	£150 0 0	£98 11 0	£479 11 0

EXAMPLE:

Dr. TRADING AND PROFIT AND LOSS ACCOUNT, for the Year ended 31st December 1920. *Cr.*

	Cash paid during 1920	Out-standing 31 Dec. 1920	Total	Out-standing 1 Jan. 1920	Net Total
	£ s d	£ s d	£ s d	£ s d	£ s d
To Stock 1/1/20 ..	..	..	..	..	8,000 0 0
„ Purchases ..	9,300 0 0	7,000 0 0	16,300 0 0	6,800 0 9	9,500 0 0
„ Wages	6,070 0 0	150 0 0	6,220 0 0	120 0 0	6,100 0 0
„ Carriage and Freight ..	1,170 0 0	180 0 0	1,350 0 0	150 0 0	1,200 0 0
„ Gross Profit ..	..	..	..	..	3,750 0 0
				£	28,550 0 0
To Rent, &c. ..	300 0 0	75 0 0	375 0 0	75 0 0	300 0 0
„ Travelling Expenses ..	450 0 0	..	450 0 0	..	450 0 0
„ Trade Expenses	480 0 0	50 0 0	530 0 0	30 0 0	500 0 0
„ Discounts ..	255 0 0	122 0 0	377 0 0	97 0 0	280 0 0
„ Bad Debts ..	200 0 0	..	..	..	200 0 0
„ Net Profit ..	..	..	..	..	2,020 0 0
£	8,225 0 0			£	3,750 0 0

	Cash Received during 1920	Out-standing 31 Dec. 1920	Total	Out-standing 1 Jan. 1920	Net Total
	£ s d	£ s d	£ s d	£ s d	£ s d
By Sales . *	21,000 0 0	3,885 0 0	24,885 0 0	4,885 0 0	20,000 0 0
„ Stock, 31/12/20	.	..	..	..	8,550 0 0
				£	28,550 0 0
By Gross Profit ..		..	.	.	3,750 0 0
£	21,000 0 0			£	3,750 0 0

Dr. CASH ANALYSIS. *Cr.*

	£ s d		£ s d
To Balance, 1 January 1920 ..	1,225 0 0	By Payments for Goods ..	9,300 0 0
„ Receipts from Customers ..	20,545 0 0	„ „ Wages ..	6,070 0 0
		„ „ Carriage ..	1,170 0 0
		„ „ Rent ..	300 0 0
		„ „ Travelling Expenses ..	450 0 0
		„ „ Trade Expenses	480 0 0
		„ Drawings	2,400 0 0
		„ Balance, 31 December 1920	1,600 0 0
	£21,770 0 0		£21,770 0 0

* ***NOTE:**—The Discounts allowed and Bad Debts written off must be added to the cash actually received during the year (£20,545), so as to arrive at the total amount by which the debits to the Sold Ledger have been reduced.*

CHAPTER V.

BRANCH AND DEPARTMENTAL ACCOUNTS.

THE system of rendering each separate Ledger of a set of books "self-balancing" by means of Adjustment Accounts, is, it will be remembered, that each Self-balancing Ledger completes the double entry of every transaction therein recorded, and so contains within itself all the materials for an independent Trial Balance of its own. The sub-division of the Ledger is in all cases dictated by convenience; but, as has already been said under the head of "balancing," the division ordinarily follows some classification of the nature of the transactions. Where, however, a business is carried on in two or more departments it is sometimes found convenient to make a sub-division according to these departments, so that the Ledgers might be divided into "Head Office," "Department A," "Department B," &c., instead of into the more general divisions of "Private Ledger," "Sold Ledger," "Bought Ledger," &c. It will be readily perceived, however, that whatever the system of dividing up the transactions may be, it is still quite easy to make each Ledger self-balancing by means of Adjustment Accounts.

BRANCH ACCOUNTS.

It therefore follows that if an undertaking has a Branch away from the Head Office, and yet the whole of the bookkeeping is done *at* the Head Office, there is no difficulty in keeping all the transactions of the Branch in a separate Ledger at the Head Office; in making that separate Ledger self-balancing; and in incorporating the results of the Branch into the accounts periodically prepared in connection with the undertaking as a whole. This point being grasped, it will be seen that it is really quite immaterial *where* the Branch Ledger, and its various subsidiary books, are kept. These Branch books might just as well be kept at the Branch itself, if such a course were more convenient, and it makes no difference whatever to the system of bookkeeping where the books of the Branch (or, for that matter, of any Branch) are kept. They all form part of *one system* of bookkeeping, and by means of the Adjustment Accounts work into the Head Office books, just as though all the Ledgers were kept at the Head Office.

When the Ledgers are kept at the Branches, it is, however, usual for the Adjustment Account in the Branch Ledger to be called "Head Office Account," and for the various Adjustment Accounts in the Head Office books to be identified with the various Branches. But this is only a variation of name, and involves no new principle. Another variation that frequently occurs, which also is dictated solely by convenience, is that remittances passing from the Head Office to the Branch, and from the Branch to the Head Office, are generally first posted in both Ledgers to a separate Remittance Account, instead of being posted direct to the Adjustment Account, so that no entries whatever take place in the Adjustment Account except when the books are periodically balanced and closed. This last-named modification is by no means always observed, but it will be found particularly convenient when dealing with foreign branches where questions of Exchange arise.

The following example, which deals (in totals) with the transactions for six months of an undertaking carrying on business at three Branches, while the main accounts are kept at the Head Office, further illustrates the principle already described.

PROBLEM.—The Wholesale Provision Company has a number of Retail Branches which are supplied from the Depot, but they keep their own Sales Ledgers, receive Cash against Ledger Accounts, and pay in the whole of their Cash every day to Head Office. They send out their own Statements of Accounts monthly. All Wages and Branch Expenses are drawn by cheque from Head Office on the imprest system.

From the following particulars, supplied by each Branch, show the Branch Accounts in the Head Office Books, and then incorporate the whole into one General Trial Balance and Profit and Loss Account.

	A.	B.	C.
	£	£	£
Six Months' Sales to 30th June 1920 ...	2,700	2,600	2,300
Return Inwards ..	20	24	16
Allowance to Customers ..	5	4	6
Cash Received on Ledger Accounts ..	2,380	2,400	2,000
R. M. Sales ..	1,420	1,250	1,300
Stock at commencement ..	540	480	500
Stock at end ..	620	580	480
Debtors, January 1st 1920 ..	1,250	1,200	1,100
Debtors, June 30th 1920 ..	1,530	1,362	1,378
Bad Debts ..	15	10	—
Goods received from Depôt, less Returns ...	2,120	2,060	2,000
Rent and Taxes paid ...	80	70	75
Wages and Sundry Expenses ..	380	356	350

ACCOUNTS IN HEAD OFFICE BOOKS.

Dr. "A" BRANCH ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1920 Jan. 1	To Balance, viz.—			1920 June 30	By Cash—Ledger Accounts	..	2,380 0 0
	Debtors..	1,250 0 0		"	" " R.M.S.	..	1,420 0 0
	Stock	540 0 0		"	" Balance down, viz.:—		
			1,790 0 0		Debtors..	1,530 0 0	
June 30	" Goods	..	2,120 0 0		Stock	620 0 0	
"	" Cash—Rates	..	80 0 0				2,150 0 0
"	" Do. Wages	..	380 0 0				
"	" Profit transferred to Profit and Loss Account..	..	1,580 0 0				
			£5,950 0 0				£5,950 0 0
July 1	To Balance down, viz.:—						
	Debtors..	1,530 0 0					
	Stock	620 0 0					
			2,150 0 0				

Dr. "B" BRANCH ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1920 Jan. 1	To Balance, viz.:—			1920 June 30	By Cash—Ledger Accounts ..	..	2,400 0 0
	Debtors..	1,200 0 0		,,	,, ,, R.M.S.	..	1,250 0 0
	Stock	480 0 0		,,	,, Balance down, viz.:—		
			1,680 0 0		Debtors..	1,362 0 0	
June 30	,, Goods	..	2,060 0 0		Stock	580 0 0	
,,	,, Cash—Rates	..	70 0 0				1,942 0 0
,,	,, Do. Wages	..	356 0 0				
,,	,, Profit transferred to Profit and Loss Account..	..	1,426 0 0				
			£5,592 0 0				£5,592 0 0
July 1	To Balance down, viz.:—						
	Debtors..	1,362 0 0					
	Stock	580 0 0					
			1,942 0 0				

Dr. "C" BRANCH ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1920 Jan 1	To Balance, viz.:—			1920 June 30	By Cash—Ledger Accounts .		2,000 0 0
	Debtors	1,100 0 0		,,	,, ,, R. M. S... ..	..	1,300 0 0
	Stock	500 0 0		,,	,, Balance down, viz.:—		
			1,600 0 0		Debtors..	1,378 0 0	
June 30	,, Goods	..	2,000 0 0		Stock	480 0 0	
,,	,, Cash—Rates	..	70 0 0				1,858 0 0
,,	,, Do. Wages	..	350 0 0				
,,	,, Profit transferred to Profit and Loss Account	..	1,133 0 0				
			£5,158 0 0				£5,158 0 0
July 1	To Balance down, viz.:						
	Debtors	1,378 0 0					
	Stock	480 0 0					
			1,158 0 0				

Dr. CAPITAL ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
				1920 Jan. 1	By Balance, made up as follows:—		
					A. Branch	1,790 0 0	
					B. ,, ...	1,680 0 0	
					C. ,, ...	1,600 0 0	
					Stock at Head Office . ..	6,180 0 0	
							11,250 0 0

Dr. CASH ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1920 June 30	To A. Branch—Ledger Accounts..	2,380 0 0		1920 June 30	By A. Branch—Rates	80 0 0	
,,	,, ,, ,, R. M. Sales ..	1,420 0 0		,,	,, B. ,, ,, ...	70 0 0	
			3,800 0 0	,,	,, C. ,, ,, ...	75 0 0	
,,	,, B. ,, Ledger Accounts..	2,400 0 0					225 0 0
,,	,, ,, ,, R. M. Sales ..	1,250 0 0		,,	,, A. ,, Wages	380 0 0	
			3,650 0 0	,,	,, B. ,, ,, ...	356 0 0	
,,	,, C ,, Ledger Accounts..	2,000 0 0		,,	,, C. ,, ,, ...	350 0 0	
,,	,, ,, ,, R. M. Sales ..	1,300 0 0					1,086 0 0
			3,300 0 0	,,	,, Balance down	..	9,439 0 0
			£10,750 0 0				£10,750 0 0
July 1	To Balance down	..	9,439 0 0				

Dr. GOODS ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1920 Jan. 1	To Stock, Balance on hand	..	6,180 0 0	1920 June 30	By A. Branch		2,120 0 0
				"	" B. "		2,060 0 0
				"	" C. "		2,000 0 0
			£6,180 0 0				£6,180 0 0

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

		£ s d	£ s d			£ s d	£ s d
				1920 June 30	By Transfer from Branch A. ..	1,580 0 0	
				"	" " " " " B. ..	1,426 0 0	
				"	" " " " " C. ..	1,133 0 0	
							4,139 0 0

TRIAL BALANCE, 30th June, 1920.

	Dr £ s d	*Cr.* £ s d
Branch A	2,150 0 0	
" B	1,942 0 0	
" C.	1,858 0 0	
Cash	9,439 3 0	
Capital	..	11,250 0 0
Profit and Loss Account	..	4,139 0 0
	£15,389 0 0	£15,389 0 0

NOTES.—(1) For the sake of simplicity Head Office Transactions have been excluded, so far as is possible consistently with completing the double-entry record.

(2) An alternative—and in many respects better—method is shown later in this chapter.

A more elaborate example, showing how the accounts of the Head Office, a Factory, and two Trading Branches may be combined, is instanced by the following example, at the foot of which appears the amalgamated Balance Sheet and the Profit and Loss Account in the form in which they would probably be presented to shareholders.

PROBLEM.—The X. Y. Z. Manufacturing Company, Limited, has a share capital of £75,000 in 7,500 shares of £10 each, all issued and fully paid. It manufactures goods for sale at its two Branches (here referred to as A. and B. respectively), which sell goods of the Company's manufacture only. From the annexed Trial Balance of the books at the Head Office (where the private or general books are kept) and at the Factory and Branches, construct an account to show respectively the result of the manufacturing and the gross profit at each Branch, also a Balance Sheet.

The Stocks on the 31st December 1920 were :—

	£ s d
Factory ..	9,177 5 7
Branch A. ..	4,590 3 8
" B. ..	1,922 5 5

Allow Depreciation for one year to 31st December 1920 on the following items of the 1st January 1920 at the rates indicated :—

Factory Machinery, &c. ..	10 per cent.
Branch Fixtures, &c. ..	5 "

(No depreciation to be written off Head Office Furniture, &c.)

THE X. Y. Z. MANUFACTURING COMPANY, LIMITED.—TRIAL BALANCE, 31st December 1920.

Dr.	Head Office.	Factory.	Branch A.	Branch B.
	£ s d	£ s d	£ s d	£ s d
Freehold Premises—				
Factory	50,000 0 0			
Branch A.	10,000 0 0			
„ B.	10,000 0 0			
Goodwill	30,000 0 0			
Machinery, Fixtures, Furniture, &c., as at 1st January 1920—				
Head Office	500 0 0			
Factory	7,500 0 0			
Branch A.	2,000 0 0			
„ B.	1,500 0 0			
Bankers	6,790 1 6			
Cash Balance	16 2 6	135 9 2	89 3 2	58 1 8
Stocks (1st January 1920) ..		10,216 5 9	3,218 1 6	2,190 6 7
Purchases (Net)		76,516 2 9		
Wages		41,316 2 8		
Factory Manager's Salary ..		1,000 0 0		
Salaries and Wages ..			3,516 9 6	3,022 3 4
Carriage to Branches ..		4,517 6 9		
Rates and Taxes		316 2 9	569 7 6	452 9 2
Salaries and Office Expenses	3,519 6 8			
Sundry Expenses		517 6 8	3,017 9 2	1,869 4 6
Goods from Factory ..			75,267 3 2	45,350 0 2
Bad Debts			679 8 1	1,029 2 2
Debtors			9,620 2 9	5,730 2 3
Factory (Current Account) ..	2,333 1 11			
Branch B. do. ..	3,672 3 10			
Head Office do. ..			4,914 3 3	
Income Tax	650 0 0			
Directors' Fees	1,500 0 0			
Auditors' Fees	105 0 0			
Debenture Interest ..	2,000 0 0			
	£132,085 16 5	£132,534 16 6	£100,891 8 1	£59,701 9 10
Cr.	Head Office.	Factory.	Branch A.	Branch B.
	£ s d	£ s d	£ s d	£ s d
Share Capital	75,000 0 0			
Debentures, 4 per cent. ..	50,000 0 0			
Creditors	550 10 0	9,584 11 3	176 7 6	359 2 6
Goods to Branch A. ..		75,267 3 2		
Do. do. B. ..		45,350 0 2		
Sales			100,715 0 7	55,670 3 6
Profit and Loss (Balance of previous year's Profit) ..	1,621 3 2			
Head Office (Current Account)		2,333 1 11		3,672 3 10
Branch A. (Current Account)	4,914 3 3			
	£132,085 16 5	£132,534 16 6	£100,891 8 1	£59,701 9 10

Dr. MANUFACTURING AND TRADING AND PROFIT AND LOSS ACCOUNTS, for the Year ended 31st December 1920. *Cr.*

Dr.

	Factory	Branch A.	Branch B.	Total
	£ s d	£ s d	£ s d	£ s d
To Stock 1st Jan. 1920 ..	10,216 5 9	3,218 1 6	2,190 6 7	15,624 13 10
" Purchases..	76,516 2 9	75,267 3 2	45,350 0 2	76,516 2 9
" Wages and Salaries ..	42,316 2 8	3,516 9 6	3,022 3 4	48,854 15 6
" Gross Profit carried down	745 17 9	23,303 10 1	7,029 18 10	31,079 6 8
	£129,794 8 11	£105,305 4 3	£57,592 8 11	£172,074 18 9
To Carriage	2,517 6 9	..	..	2,517 6 9
" Rates and Taxes.. ..	316 2 9	569 7 6	452 9 2	1,337 19 5
" Sundry Expenses ..	517 6 8	3,017 9 2	1,869 4 6	5,404 0 4
" Bad Debts	..	679 8 1	1,029 2 2	1,708 10 3
" Depreciation	750 0 0	100 0 0	75 0 0	925 0 0
" Balance, being Profit for the year	..	18,937 5 4	3,604 3 0	19,186 9 11
	£4,100 16 2	£23,303 10 1	£7,029 18 10	£31,079 6 8

Cr.

	Factory	Branch A.	Branch B.	Total
	£ s d	£ s d	£ s d	£ s d
By Sales	120,617 3 4	100,715 0 7	55,670 3 6	156,385 4 1
" Stock, 31st Dec. 1920 ..	9,177 5 7	4,590 3 8	1,922 5 5	15,689 14 8
	£129,794 8 11	£105,305 4 3	£57,592 8 11	£172,074 18 9
By Gross Profit brought down	745 17 9	23,303 10 1	7,029 18 10	31,079 6 8
" Balance, being Loss for the year	3,354 18 5			
	£4,100 16 2	£23,303 10 1	£7,029 18 10	£31,079 6 8

BALANCE SHEET, 31st December 1920.

Liabilities.

	Head Office	Factory	Branch A.	Branch B.	Total
	£ s d	£ s d	£ s d	£ s d	£ s d
Share Capital ..	75,000 0 0	..	..	..	75,000 0 0
Debentures	50,000 0 0	..	..	..	50,000 0 0
Creditors	550 10 0	9,584 11 3	176 7 6	359 2 6	10,670 11 3
Current Accounts ..	4,814 3 3	3,083 1 11	..	3,747 3 10	..
Profit and Loss Account	..	..	18,937 5 4	3,604 3 0	13,033 6 5
	£130,364 13 3	£12,667 13 2	£19,113 12 10	£7,710 9 4	£148,703 17 8

Assets.

	Head Office	Factory	Branch A.	Branch B.	Total
	£ s d	£ s d	£ s d	£ s d	£ s d
Premises	70,000 0 0	..	..	..	70,000 0 0
Goodwill	30,000 0 0	..	..	..	30,000 0 0
Machinery, &c. ..	10,575 0 0	..	..	..	10,575 0 0
Stock	..	9,177 5 7	4,590 3 8	1,922 5 5	15,689 14 8
Debtors	..	.	9,620 2 9	5,730 2 3	15,350 5 0
Cash at Bank ..	6,790 1 6	..	..	..	6,790 1 6
" in hand.. ..	16 2 6	135 9 2	89 3 2	58 1 8	298 16 6
Current Accounts ..	6,830 5 9	..	4,814 3 3		
Profit and Loss Account	6,153 3 6	3,354 18 5			
	£130,364 13 3	£12,667 13 2	£19,113 12 10	£7,710 9 4	£148,703 17 8

NOTE.—In practice it would be more convenient for the Machinery Accounts to be kept in the books of the respective branches, thus avoiding the necessity for making the required adjustments for Depreciation through the Current (or Adjustment) Accounts.

SUMMARISED BALANCE SHEET, 31st December 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Capital Account (17,500 shares of £10 each, fully paid up)	..	75,000 0 0	Goodwill	..	30,000 0 0
Debentures	..	50,000 0 0	Premises	..	70,000 0 0
Creditors	..	10,670 11 3	Machinery, Fixtures, Furniture, &c.	..	10,575 0 0
Profit and Loss Account—			Stock-in-Trade	.	15,689 14 8
Balance from last account	1,621 3 2		Debtors	..	15,330 5 0
Net Profit for the Year (as per Profit and Loss Account)	11,412 3 3		Cash at Bank	6,790 1 6	
		13,033 6 5	„ in hand	298 16 6	7,088 18 0
		£148,703 17 8			£148,703 17 8

Dr. SUMMARISED PROFIT AND LOSS ACCOUNT, for the Year ended 31st December 1920. *Cr.*

	£ s d		£ s d
To Head Office Salaries and Office Expenses	3,519 6 8	By Gross Profit	19,186 9 11
„ Income Tax	650 0 0		
„ Directors' Fees	1,500 0 0		
„ Auditors' Fees	105 0 0		
„ Debenture Interest	2,000 0 0		
„ Balance, being Net Profit for the Year	11,412 3 3		
	£19,186 9 11		£19,186 9 11

FOREIGN BRANCHES.

The method of recording the transactions occurring at various Branches of the same business having now been described, there remain to be considered those points which must be borne in mind in connection with the application of this principle to the accounts of a Branch situated abroad, where the transactions (or the majority of them) naturally take place in the currency of that country, and not in English money.

If the exchange value of the foreign currency never varied, the problem would, of course, be a simple one, as in that case a certain number of dollars, francs, &c., would always represent the same amount when expressed in sterling; but, as a matter of fact, there is no such fixed exchange value, and indeed differences of exchange arise in practice even in connection with remittances between Great Britain and its dependencies abroad where the English coinage is employed. These latter differences, however, relate solely to remittances, and may therefore be treated as being merely the commission charged (or allowed) by bankers for forwarding money to a distant place, and may conveniently be treated in the books as ordinary cash discounts, without otherwise disturbing the system already described.

In the case of foreign countries, however, the position is different. The essence of the problem is that while profits are, for the most part, earned in one currency, they have to be distributed among shareholders (or partners) in another; while the working capital of the undertaking (or the bulk of it) is, for the time being, invested in assets which are only realisable in the foreign currency. Add to these the facts that the rate of exchange is frequently altering, and sometimes varies within very considerable limits, and the further fact that the intrinsic value of the foreign currency is often far less than even its exchange value, and it will be seen that the problem is one that requires the most careful consideration, if it is to be treated so that the accounts may accurately show the real position of affairs.

In the majority of cases it will be found that while the proprietors reside in Great Britain, and profits have to be divided there, the bulk of the fixed and floating assets are held in a foreign country ; while —with the exception of such liabilities as debentures, mortgages, &c.—most of the debts of the undertaking would be due in the foreign country and payable in foreign currency. The undertaking itself, however, is a British one ; and the accounts which are required to show its position from time to time have to be submitted in sterling. Very little consideration will suffice to show that the method so often adopted of converting the Foreign Trial Balance, and incorporating it in the Head Office books, at a uniform rate of exchange cannot in the nature of things produce correct results.

For instance, with Anglo-Indian undertakings it is common practice to regard the rupee as being worth 1s. 6d., and to convert the Indian Trial Balance at this assumed rate of exchange. The result is that while fixed assets (which might properly be brought into the accounts at cost, less depreciation) are perhaps upheld at a considerably lower figure, debts due to the undertaking and payable in rupees, together with any cash balances in India, are stated in the accounts at a figure considerably in excess of the amount that could possibly be realised in sterling, if they could be all collected and the total cash (in rupees) remitted home*; while, *per contra*, the local liabilities are stated at a sterling figure in excess of the amount that would have to be sent out from home in order to extinguish them. This system is also equally misleading in connection with the Trading and Profit and Loss Accounts, seeing that all the Revenue items—*i.e.* the aggregate of the transactions representing income and expenditure during the current period—are stated at amounts in excess of the actual value in English money of these transactions. It will thus be seen that by this method fixed assets are probably under-stated, floating liabilities over-stated, floating assets over-stated, and the amount of all Revenue items is exaggerated. Under some circumstances it may so happen that the various items of assets and liabilities so balance each other that the aggregate result is approximately, if not actually, correct ; but it can only be quite by chance that such a result is produced. The general custom is to provide for the admitted inaccuracy of the result as a whole by a General Reserve to cover the loss on Exchange. This may, of course, answer the purpose of preventing the final figure of net profit being overstated, and thus preventing dividends being paid out of Capital ; but it must be clear that, whatever the advantages of the system on the score of simplicity, it is quite inaccurate, and unworthy of adoption, except perhaps in connection with isolated transactions undertaken by concerns that do not habitually trade abroad.

*This is assuming the rupee to have its normal exchange value of about 1s. 4d.; but whatever the exchange value may be at the moment, conversion of all items at a uniform rate must give inaccurate results. It depends upon the extent of the fluctuations how inaccurate the results will be.

The only system that can give really reliable and accurate results is one that recognises that in the case of such undertakings the foreign currency, instead of being a definite expression of value, is only the "medium" temporarily employed at the Branch for the record of the transactions in such a form that they may be afterwards considered upon their respective merits by the Head Office when the Foreign Trial Balance is periodically remitted home.

PROBLEM.—**Explain how the following Trial Balance of the books of a Branch in New York should be incorporated in the Head Office Accounts :—**

TRIAL BALANCE, 31st December 1914.

Head Office Account		$20,000
Remittance Account	$5,000	
Cash	4,260	
Debtors	7,500	
Creditors		1,000
Fixtures and Fittings	1,740	
Stock (on 1st January 1914)	4,650	
Purchases	16,210	
Sales		28,430
Trade Expenses	4,600	
Discounts		250
Bills Receivable	5,720	
	$49,680	$49,680

Stock on 31st December 1914, $4,800.

Assume that rate of exchange on 31st December 1920 is 5 (*i.e.* $5 = £1), that the average for the year is 4.98, and that the rate on 1st January 1914 (and before) was 5.05.

In the Head Office Books the following balances appear :—

New York Branch	£3,960	7	10	*debit*
Remittance Account	1,004	0	0	*credit*

First convert the dollars into sterling ; fixed assets at same rate as before ; floating assets and liabilities at current rate ; Revenue items at average rate* ; the remittances at actual rates ; the Adjustment Account at same rate as before (= figure in Head Office Books) :—

NEW YORK TRIAL BALANCE

31st December 1914	*Dr.* £	s	d	*Cr.* £	s	d
Head Office Account	..			3,960	7	10
Remittance Account (amount realised)	1,004	0	0			
Cash	852	0	0			
Debtors	1,500	0	0			
Creditors	..			200	0	0
Fixtures and Fittings	344	11	1			
Stock (1st January 1920)	920	15	10			
Purchases	3,255	0	5			
Sales	..			5,708	16	8
Trade Expenses	923	13	11			
Discounts	..			50	4	0
Bills Receivable	1,144	0	0			
Difference in Exchange	..			24	12	9
	£9,944	1	3	£9,944	1	3

Stock (31st December 1914), £960.

*** In all cases when fluctuations are serious the "average rate" should approximate as closely as possible to the rate actually experienced during the period under review.**

Then pass the following Journal entries in the Head Office Books :—

JOURNAL, 1914.

		Dr. £ s d	*Cr.* £ s d
31st December			
Remittance Account		1,004 0 0	
To New York Branch Account		..	1,004 0 0
New York Trading Account		5,099 10 2	
To New York Branch Account		..	5,099 10 2
Viz.—Stock (1st January 1914)	£920 15 10		
Purchases	3,255 0 5		
Trade Expenses . ..	923 13 11		
	£5,099 10 2		
New York Branch Account		6,743 13 5	
To New York Trading Account		..	6,743 13 5
Viz.—Sales	£5,708 16 8		
Stock (31st December 1914) .	960 0 0		
Discounts	50 4 0		
Profit on Exchange	24 12 9		
	£6,743 13 5		
New York Trading Account		1,644 3 3	
To General Profit and Loss Account		.	1,644 3 3
(Being Profit on New York Branch transferred.)			

The Ledger Accounts in the Head Office Books will then appear as follows :—

NEW YORK BRANCH ACCOUNT.

Dr. / *Cr.*

1914		£ s d	£ s d	1914		£ s d	£ s d
Jan. 1	To Balance	..	3,960 7 10	Dec. 31	By Remittance Account ..	..	1,004 0 0
Dec. 31	„ New York Trading Account		6,743 13 5	„	„ New York Trading Account	.	5,099 10 0
				„	„ Balance down, viz. :—		
					Cash	852 0 0	
					Debtors	1,500 0 0	
					Bills Received . .	1,144 0 0	
					Fixtures	344 11 1	
					Stock	960 0 0	
						4,800 11 1	
					Less Creditors	200 0 0	
							4,600 11 1
			£10,704 1 3				£10,704 1 3
1915							
Jan. 1	To Balance	.	4,600 11 1				

REMITTANCE ACCOUNT.

Dr. / *Cr.*

1914		$	£ s d	1914		$	£ s d
Dec. 31	To New York Branch Account	5,000	1,004 0 0	(various Dates)	By Cash	5,000	1,004 0 0

Dr. NEW YORK TRADING AND PROFIT AND LOSS ACCOUNT. *Cr.*

1914		£ s d	1914		£ s d
Dec. 31	To New York Branch Account, Stock (1st January 1914)	920 15 10	Dec. 31	By New York Branch Account Sales ..	5,708 16 8
..	" New York Branch Account, Purchases	3 255 0 5	"	" Do. Stock	960 0 0
"	" Do. Trade Expenses ..	923 13 11	..	" Do. Discounts	50 4 0
..	" Profit and Loss Account Net Profit..	1,644 3 3	..	" Do. Profit on Exchange ..	24 12 9
		£6,743 13 5			£6,743 13 5

Dr. GENERAL PROFIT AND LOSS ACCOUNT. *Cr.*

		£ s d	1914		£ s d
			Dec. 31	By New York Trading and Profit and Loss Account	1,644 3 3

NOTE.—Had the erroneous system of adhering to one fixed rate of exchange been adopted, the profit of the New York Branch would have appeared to be £1,604 (*at* 5, *the rate of the day*), *or* £1,611 0s. 11*d.* (*at* 4.98, *the average rate*)—*a difference of* 2½ *and* 2 *per cent. respectively.**

FOREIGN TRADING.

In the case of an undertaking which is from time to time in the habit of purchasing goods from abroad, or selling goods to foreign customers, it is important that an adequate system of accounting should be provided, if confusion and subsequent inaccuracy of results are to be avoided. Dealing first of all with Purchases, the invoices will almost invariably be made out in the currency of the foreign country, and the debt will be legally dischargeable in accordance with the terms of the invoice. The best plan is to provide a separate Bought Journal and Bought Ledger, kept in the foreign currency, and if the Bought Ledger Accounts are settled by a remittance of foreign Bills a Foreign Bills Payable Book should be added. It is quite unnecessary that these transactions should be converted into sterling in detail; it will suffice for all practical purposes if the detailed record be in the foreign currency. The Foreign Bought Ledger should be "self-balancing," and the Adjustment Account (and that account alone) should be kept in both currencies, the monthly totals of the Bought Journal being converted at the average rate,† Bills Payable at the average rate, and Cash payments at the rate ruling when paid. It is convenient that the Foreign Bills Payable Account should be kept in the Foreign Bought Ledger, so that all the accounts which must of necessity be kept in that currency may be together. A separate Bought Ledger Payments Book, or an extra column in the General Cash Book, will be necessary to enable the total of the cash posted to the Foreign Bought Ledger to be arrived at readily: of the two, the former will probably be found most convenient, ruled as follows:—

*Exchange rates such as those at present ruling (1920) would, of course, give absolutely fantastic results with all items converted into sterling at a uniform rate.
†See foot-note on page 36.

EXAMPLE:

FOREIGN BOUGHT LEDGER PAYMENTS BOOK

Date	Name	Fo	Discount	Amount	Equivalent at Average Rate	Rate	Equivalent at Actual Rate	Profit on Exchange	Loss on Exchange
			F c	F c	£ s d		£ s d	£ s d	£ s d

This book provides the necessary connecting-link, enabling the aggregate amount of the Difference in Exchange to be arrived at readily. This must be posted to the Adjustment Account in the Foreign Bought Ledger in the "Sterling" columns, and also, of course, to the Exchange Account in the Nominal (or General) Ledger. The Foreign Ledger Adjustment Account in the Nominal (or General) Ledger need only be kept in sterling, and should, of course, agree exactly with the "Sterling" columns of the equivalent account in the Foreign Ledger.

AN ALTERNATIVE METHOD that is sometimes employed is to provide the Foreign Bought Ledger with double currency columns, but only to convert the totals of the credit postings periodically as the accounts are paid. This involves but little additional work, and enables the Differences in Exchange to be posted up against the appropriate Personal Accounts, thus minimising any risk of irregularity arising from this cause. The following *pro formâ* account will show clearly what is intended:—

Dr. LEMAITRE FRÈRES. *Cr.*

1921		£ s d	F. c.	1921		£ s d	F. c.
Feb. 15	To Cash	36 17 3	940 00	Jan. 2	By Goods		92.50
"	" Exchange	0 7 0		12	" "		135.00
				17	" "		712.50
		£37 4 3	940.00			£37 4 3	940.00

SALES to customers abroad, if invoiced in the currency of the foreign country, may be recorded upon the lines already described in connection with Purchases, *mutatis mutandis*. As a rule, however, the goods will be invoiced in sterling, and the liability of the customer will accordingly accrue therein. If the liability be satisfied by the purchase of Bills payable on London (as is sometimes the case) there is, of course, no occasion to distinguish these transactions from inland Sales; but in cases where payment is made in the equivalent of the foreign currency, it is best to employ a separate Foreign Sales Ledger, with its accompanying books of first entry, all of which will be in the ordinary form, save the Foreign Sold Ledger Cash Book, which might be ruled as follows :—

EXAMPLE:

FOREIGN SOLD LEDGER CASH BOOK.

Amount of Remittance	Date	Name	Fo.	Discount	Amount Remittance Realised	Rate	Profit on Exchange	Loss on Exchange
F. c.				£ s d	£ s d		£ s d	£ s d

DEPARTMENTAL ACCOUNTS.

Another branch of the class of accounts already considered in this chapter relates to the division of the business into separate Departments, usually (but not necessarily) situated under the same roof. The various departments of a large undertaking are generally under separate management, and for this reason (if for no other) it is desirable that the accounts should be framed so that the results achieved by each may be shown separately. Even in smaller undertakings there are numerous, and obvious, advantages to be derived from the employment of Departmental Accounts.

These accounts differ from those connected with Branches, in that the customers of one Department may be—and very likely are—customers of all Departments; it would therefore be very undesirable to keep separate Sold Ledgers in respect of each Department. For the like reason there is usually no advantage to be obtained from a Departmental division of the Bought Ledger Accounts: it is far better that each Personal Account should record the whole of the transactions entered into with each particular person. With regard to the Nominal Accounts, however, this is not the case, the balance of advantage lying in so analysing all the sources of income and expenditure as to enable, at all events, a separate Trading Account to be prepared for each Department, if not a separate Profit and Loss Account as well.

So far as the Purchases are concerned, this can readily be done by adopting a tabular form of Bought Book, and separate

Pay Sheets for the wages paid in respect of each Department. A convenient form of Bought Book is shown below, the various items in the Total column being posted to the credit of the various Personal Accounts in the Bought Ledger, while the totals of the various Analytical columns are posted monthly to the debit of separate Purchases Accounts opened in respect of each Department. Where sectional balancing is employed, the double-entry is completed by posting the total of the Total column to the debit of General Ledger Adjustment Account in the Bought Ledger and to the credit of Bought Ledger Adjustment Account in the General Ledger.

BOUGHT BOOK.................................19....

Date	Invoice No.	Name	B.L. Fo.	Total of Invoices	Department A.	Department B.	Department C.	Department D.	Department E	Department F.
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

A similar form of ruling may (if desired) be employed for the analysis of Sales, but it frequently happens that these are far too numerous for this to be the most expeditious mode of procedure. The invoices for goods sold—whether on credit or for cash—should be prepared in the Sales Departments, in duplicate (or any convenient larger number of copies), by means of carbon manifolders. In the case of Cash Sales, the duplicate will pass in the first instance to the Cashier, and the number and amount be entered upon the Cash Sheet, so that the Cashier's money may be checked. The duplicate is then* passed on to the Counting House, which also receives direct from the Selling Department the duplicates of the bills representing Credit Sales. As each bill is numbered consecutively, and a summary of the numbers and amounts is kept in the Selling Departments, there is no difficulty in tracing the loss or destruction of a bill, should it occur. The Credit Sales duplicates are passed on to the Sales Ledger clerks, who write them up in their respective Day Books, and then hand them to the Dissecting Clerk; while the Cash Sales duplicates are written up in the Cash Sales Book by the Chief Cashier's assistant, and then also handed to the Dissecting Clerk. It is the duty of the latter to analyse both the Credit and Cash Sales of each day, giving each Department credit for its sales; the Dissecting Clerk's total for the day's Credit Sales must agree with the Day Book totals, while his total for the Cash Sales must agree with the total Cash received by the Chief Cashier from the Departmental Cashiers. The entries in this Analysis Book thus form the medium for posting to the credit of Sales Accounts opened for each Department the day's Sales of that Department, both on credit and for cash. (*cf.* Chap. XVIII.)

It not infrequently happens that one of the Departments may have occasion to purchase from another, as, for instance, the Dressmaking from the Drapery Department. In such a case the Drapery Department treats the Dressmaking Department as an ordinary customer (save that, as a rule, the goods would be charged at trade or cost price), while the Dressmaking Department hands over the invoice to the Counting House as an invoice respecting

*Instead of one copy thus going the round, independent copies may be (and often are) forwarded direct to each person who has occasion to deal with them. All work may then proceed simultaneously, and all risk of entries being altered *en route* is avoided.

goods purchased by it in the ordinary way. At the end of each month the total goods sold by each Department to other Departments is ascertained, and a transfer made debiting the Sales Account and crediting the Purchases Account of the Selling Department with that amount. The reason for treating these transfers as *deductions from Purchases*, instead of as Sales, is because they do not bear the ordinary Gross Profit, and it is desired to remove any element that might tend to disturb the percentage of Gross Profit realised upon actual sales. Establishment Expenses of all kinds would be debited to Nominal Accounts in the usual way As a rule, these expenses would be transferred to a combined Profit and Loss Account, which would stand credited with the Gross Profit earned by each Department. Sometimes, however, it is thought more convenient to charge the whole — or some — of these Expenses to the Departmental Trading Accounts, in which case the charge might be either by way of apportioning the total expenditure, when ascertained: or the Departments (or some of them) may be charged a fixed sum per annum, which sum would, of course, be credited to the various general Nominal Accounts concerned.

The following example shows the form in which the accounts would be prepared of a business divided into three departments, two of which are Trading Departments and the third (B) a Manufacturing Department.

PROBLEM.—The following is the Trial Balance of the Books of A. B. at 30th June 1920 :—

TRIAL BALANCE, 30th June 1920.

		Dr.	Cr.
		£ s d	£ s d
Sundry Debtors ..		1,520 0 0	
,, Creditors ..			1,346 0 0
Plant and Machinery ..		1,050 0 0	
Bills Payable ..			329 0 0
,, Receivable ..		108 0 0	
Shares in Imperial Land Company, Lim. ..		250 0 0	
Capital Account ..			1,025 0 0
Cash in hand ..		22 0 0	
Bank overdraft ..			532 0 0
Bad Debts ..		40 0 0	
Stock at 30th June 1919—			
Department A ..	790 0 0		
,, B ..	320 0 0		
,, C ..	400 0 0		
		1,510 0 0	
Purchases—			
Department A ..	2,851 0 0		
,, B ..	821 0 0		
,, C ..	2,021 0 0		
		5,693 0 0	
Sales—			
Department A ..	3,075 0 0		
,, B ..	1,563 0 0		
,, C ..	3,540 0 0		
			8,178 0 0
Wages, Productive, Department B ..		419 0 0	
Salaries and Wages, Unproductive ..		322 0 0	
Drawings ..		210 0 0	
Advertising ..		251 0 0	
Dividends on Shares ..			25 0 0
Interest to Bank ..		76 0 0	
Commission ..		142 0 0	
Rent, Rates, and Insurance ..		111 0 0	
Discounts and Allowances ..		129 0 0	
Depreciation ..		132 0 0	
Carriage ..		103 0 0	
General Expenses ..		70 0 0	
Stationery ..		25 0 0	
Discounts on Purchases ..			154 0 0
		£12,189 0 0	£12,189 0 0

The Stock at 30th June 1920 amounted to—Department A, £1,005; Department B, £365; Department C, £305. Provide 2½ per cent. for discount on Book Debts, £75 for Reserves for loss through Bad Debts, and adjust in the year the proportions of the following :—

(1) Fire Insurance Premiums paid to 25th March 1921, £44. (2) Rent of Works owing for quarter ended 24th June 1920, £45. (3) Telephone Rent, due and paid 30th November 1920, £20.

Prepare (*a*) Trading Accounts for the Departments A, B, and C. (*b*) Profit and Loss Account. (*c*) Balance Sheet.

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The following adjusting entries are necessary before finally closing the books :—

30th June	*Dr.* £	s	d	*Cr.* £	s	d
Suspense Account ..	41	6	8			
To Rent, Rates, and Insurance ..				33	0	0
„ General Expenses ..				8	6	8
(Being proportions paid in advance—viz., say, three-fourths of £44 equals £33, five-twelfths of £20 equals £8 6s. 8d.)						
Rent, &c., Account ..	45	0	0			
To Suspense Account ..				45	0	0
(Being one quarter's rent of Works due Midsummer last.)						
Discounts and Allowances ..	38	0	0			
To Reserve for Discounts ..				38	0	0
(Being 2½ per cent. on Sundry Debtors, £1,520, reserved to cover Cash Discounts.)						
Bad Debts ..	75	0	0			
To Reserve for Bad and Doubtful Debts ..				75	0	0
(Being provision for possible loss by reason of Doubtful Debts.)						

Dr. (*a*) TRADING ACCOUNT for the year ended 30th June 1920. *Cr.*

	Dept. A	Dept. B	Dept. C.	Total		Dept. A	Dept. B	Dept. C.	Total
	£ s d	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d	£ s d
To Stock, 30th June 1919	790 0 0	320 0 0	400 0 0	1,510 0 0	By Sales ..	3,075 0 0	1,563 0 0	3,540 0 0	8,178 0 0
„ Purchases ..	2,851 0 0	821 0 0	2,021 0 0	5,693 0 0	„ Stock 30th June 1920	1,005 0 0	365 0 0	305 0 0	1,675 0 0
„ Wages ..		419 0 0		419 0 0					
„ Gross Profit, transferred from Profit and Loss Account	439 0 0	368 0 0	1,424 0 0	2,231 0 0					
	£4,080 0 0	£1,928 0 0	£3,845 0 0	£9,853 0 0		£4,080 0 0	£1,928 0 0	£3,845 0 0	£9,853 0 0

Dr. (*b*) PROFIT AND LOSS ACCOUNT for the year ended 30th June 1920 *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Rent, Rates, and Insurance ..	123 0 0		By Gross Profit from Trading Account :—		
„ Wages and Salaries ..	322 0 0		A Department ..	439 0 0	
„ Advertising ..	251 0 0		B „ ..	368 0 0	
„ Carriage ..	103 0 0		C „ ..	1,424 0 0	
„ Commission ..	142 0 0				2,231 0 0
„ Stationery ..	25 0 0		„ Dividend on Shares ..		25 0 0
„ General Expenses ..	61 13 4		„ Discounts on Purchases ..		154 0 0
		1,027 13 4			
„ Bank Interest ..	76 0 0				
„ Bad Debts ..	121 0 0				
„ Discounts and Allowances ..	167 0 0				
		364 0 0			
„ Depreciation ..		132 0 0			
„ Balance (being net profit for the year) transferred to Capital Account ..		886 6 8			
		£2,410 0 0			£2,410 0 0

(c) BALANCE SHEET, 30th June 1920.

Liabilities	£ s d	£ s d
CAPITAL ACCOUNT:—		
Balance, 1st July 1919	1,625 0 0	
Net Profit, per Profit and Loss Account	886 6 8	
	2,511 6 8	
Less Drawings	210 0 0	
		2,301 6 8
Sundry Creditors		1,346 0 0
Bills Payable		329 0 0
Bank overdraft		532 0 0
Suspense Account		3 13 4
		£4,512 0 0

Assets		£ s d	£ s d
Plant and Machinery (*less* Depreciation) ..			1,050 0 0
Stock-in-Trade			1,675 0 0
Bills Receivable			108 0 0
Sundry Debts		1,520 0 0	
Less Reserve for Discounts	£38 0 0		
„ Reserve for Bad Debts	75 0 0		
		113 0 0	
			1,407 0 0
Shares in Imperial Land Co., Lim.			250 0 0
Cash in hand			22 0 0
			£4,512 0 0

NOTE.—If the amounts on the Suspense Account are at all considerable, it is better to show the debits among the assets and the credits among the liabilities, rather than (as above) to strike a balance and bring in the difference only. Net profit and Drawings may be transferred to a separate Current Account if so desired, but there is no particular object to be gained when the business is owned by a sole proprietor.

CHAPTER VI.

TABULAR BOOKKEEPING.

THE term "Tabular Bookkeeping" is generally applied to a special form of Ledger, but it is equally applicable to books of first entry, and the advantages of the system may be as often introduced at that point as in connection with Ledgers. Any form of account book which is provided with several columns, in order to facilitate the classification of the transactions recorded, may be said to come under this heading.

TABULAR CASH BOOK.

Probably the commonest example of the employment of tabular bookkeeping is the ordinary three-column Cash Book, which provides separate columns for the record of transactions with the Bank, in the Office Cash, and in Discounts. The advantages of this form of book are too well known to call for any detailed comment. It may, however, be pointed out that, while the ordinary three-column Cash Book is a very rudimentary form of tabular bookkeeping, so far as it goes it well illustrates the advantages which the system offers, as applied to books of first entry. More elaborate examples of tabular Cash Books are found when it is thought desirable to provide for the separate balancing of several Ledgers without introducing subsidiary Cash Books for each. Another—and perhaps more generally used—form is that which enables a large number of detailed postings to be dispensed with, periodical totals being substituted therefor. In extreme cases (as, for example, in the accounts of non-trading charitable institutions, the accounts of trustees in bankruptcy, and the like) the necessity for the employment of a Ledger may be obviated entirely by the employment of a suitably designed tabular Cash Book. An example of such a book will be found in Chapter XIII. Another form of Cash Book, which may usefully be described here in detail, is one from which Ledger postings are made as usual, while a large number of analytical columns are added with a view to enabling the various Ledgers to be balanced separately, and also with a view to reducing to a minimum the number of detailed postings that have to be made to certain accounts in which numerous transactions occur. The example overpage, which gives the *pro formâ* ruling of a Cash Book suitable to a large Building Society, shows how this may be accomplished. The only entries posted in detail into the General Ledger will be those entered in the column marked "General Ledger." The others will be

EXAMPLE: FORM OF TABULATED CASH BOOK (Suitable for a Building Society).

Dr.				CASH.								Cr.					CONTRA.							
Date	Roll No.	Name	Folio	General Ledger	Repayments of Advances	Paid-up Shares	Subscription Shares	Deposits	Fines	Total	Daily Total (banked)	Date	Roll No.	Name	No. of Cheque	Folio	General Ledger	Advances on Mortgage	Paid up Shares Withdrawn	Subscription Shares Withdrawn	Deposits Withdrawn	Deposit Interest Withdrawn	Total	Daily Total
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d						£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

NOTE.—On account of the large number of columns, and for other reasons, it will usually be found preferable to record the debit and credit entries in separate books, called respectively "Cash Received" and "Cash Paid," the daily totals of each being posted to a Bank Account in the General Ledger.

posted to the appropriate accounts in the General Ledger (many of which, it will be observed, are "Adjustment Accounts") in daily totals only, the detailed postings being made to the various subsidiary Ledgers—viz. "Advances Ledger," "Paid-up Share Ledger," "Investment Share Ledger," and "Depositors' Ledger." The receipts in respect of "Fines" afford an example of a class of transaction which frequently occurs, and which is posted in totals only in order to save clerical labour; the fines received would, of course, also have to be entered in the various departmental Ledgers, but they would there be recorded in memo. only, as in no way affecting the balances outstanding on the various members' accounts.

Before leaving this branch of the subject, it may be added that in many trading concerns it will be found convenient to add an extra column upon each side of the Cash Book for the record of Cash Sales and Cash Purchases respectively, as by this means postings, in weekly or monthly totals, may be substituted for a large number of detailed postings upon each side. Similarly, if transactions in Bills are very numerous, it will sometimes be found convenient to add an additional pair of columns for "Bills Payable" and "Bills Receivable" respectively, more especially if the Bill Book be extended into a "Bill Ledger," as in that case the Bill Ledger can more readily be balanced separately.

TABULAR JOURNAL.

Passing on to other books of first entry, the ordinary form of Purchases Book (*cf.* p. 41), with Analysis columns for each department, is, of course, an example of Tabular Bookkeeping, and the ordinary form of Bill Book is another example. It is, however, thought worth while to illustrate one other form of ruling under this heading, as showing the development of which the Tabular System is capable. The form given below will be found particularly useful to Agents, and others who have occasion to buy or sell goods, or to incur expenses, on behalf of numerous other persons, as it automatically ensures the debiting of some person or persons with the full amount of each liability incurred. It is, of course, purely a question of convenience whether the accounts to be debited be placed in columns and the accounts to be credited in lines, or whether the accounts to be credited be placed vertically and the accounts to be debited horizontally. In practice, however, it will generally be found desirable to place the largest number upon horizontal lines, with a view to reducing to a minimum the number of columns required.

EXAMPLE:

FORM OF EXPENSES JOURNAL (suitable for Agents, &c.).

Date	No. of Invoice	Account to be Credited	Fo	Amount of Invoice	Accounts to be debited					
					A	B	C	D	E	F
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
					Fo.	Fo	Fo	Fo	Fo	Fo.

TABULAR LEDGER.

The most important developments of the Tabular System are, however, to be found in connection with Ledgers. Leaving upon one side the rudimentary forms of Tabular Ledger that have already been mentioned, the varieties in general use may be divided into two classes. The first class is suitable for the record of transactions when the number of Personal Accounts is very considerable, and when only one such transaction occurs with each person during a specified limit of time. These conditions apply to Rent Accounts, the Rate Accounts of Local Authorities, Subscription Accounts of various Societies, Accounts for Gas, Water, Electric Light, Telephone Rent, and the like. In all these cases the number of separate Personal Accounts required is so considerable that a Ledger kept upon the ordinary lines could not be very readily balanced, and the tabular form, each page of which is capable of being balanced separately, is therefore more convenient. The essential principle is that of dividing the Ledger into pages (or groups of pages), not according to the transactions with each of the various persons concerned, but according to the date, or period, covered by these transactions. That is to say, a folio (or, if necessary, a series of folios) is set aside to record *all* the transactions of a certain nature during a certain prescribed *period*; the period will naturally vary according to the nature of the undertaking, but whatever period may be covered, *all* the transactions that occur within that time (and which are of such a nature as to be recorded in this Ledger at all) are entered upon the folio (or series of folios) dealing with that particular period. These folios are ruled in columnar form, so that a separate line may be devoted to each person, and a separate column to each class of transaction that may have to be recorded; or sometimes it may be convenient to reverse the process, and to assign a column to each Personal Account and a line to the record of each separate item in that account. Usually, however, the first-named is the more convenient course. It is not thought necessary to give numerous examples of Tabular Ledgers coming under this heading. The following will clearly explain the working of the system, whatever may be the exact nature of the transactions to be recorded:

EXAMPLE:

FORM OF TABULAR LEDGER (Suitable for a Water Company).

Arrears 31/12/20	C.B. Fo.	Arrears Collected	Ref. No.	No. in Street and Name	Rateable Value	Annual Rent (for Water)	Extras	C.B. Fo.	Amount Received	Allowances, Vacancies, and Bad Debts			Arrears 30/6/21	(The like particulars for 1921)	Arrears 31/12/21
										Fo.	A/c	Amount			
£ s d		£ s d			£ s d	£ s d	£ s d		£ s d			£ s d	£ s d		£ s d

NOTES:—A separate line to be devoted to each Account.

The name of each Street to be written across the column marked "No. in Street and Name," and the various accounts in that Street to be written thereunder.

If the rate is payable half-yearly, two lines may be devoted to each Account, and the form may be modified so as to record the transactions for two years, instead of one.

It will be seen that, under this system, the total of each of the various columns is capable of being agreed with known facts, and these totals having been so agreed, the exact balancing of the Ledger as a whole follows as a matter of course, if the various additions and cross-additions have been correctly made. If any difference occurs it must be due to a mistake in addition, and that mistake can be readily located on to a single page. Tabular Ledgers can therefore very easily be balanced exactly, even if the number of separate accounts should run into several thousands.

From what has been stated, it will be seen that Tabular Ledgers have their limitations, and that the form so far described is only suitable when there is but one debit (or possibly two) to be made to each person during the period covered by the Ledger opening. Up to a certain point, the application of the Tabular

System may be extended to deal with exceptional cases by leaving three or four lines to an account; but, speaking generally, if there be more than one debit to an account in each period, the system is not very suitable. There is, of course, nothing (save the question of convenience) to prevent the period selected for a Ledger opening being made as short as may be thought desirable, but the considerable labour of re-writing all the names each time a new set of folios has to be brought into operation naturally imposes a limit upon desirable developments in this direction.

A special advantage of Tabular Ledgers is that, inasmuch as a great number of Personal Accounts lie upon the same folio, and as the state of each account can be perceived very readily, this system affords great facilities for supervising the collection of outstanding debts. Under some circumstances, therefore, it may be thought desirable to extend the system in directions which *primâ facie* do not appear to be very suitable—*e.g.* to the accounts (or some portion of the accounts) of ordinary traders whose dealings with their customers are at frequent, but irregular, intervals. The Tabular System may be applied to the requirements of such cases by the employment in the first instance of a Subsidiary Ledger to *collect* the various entries to the debit of each customer, the totals being then transferred into the Tabular Ledger when a periodical statement of accounts is rendered. This form of Tabular Ledger is very suitable to such undertakings as Collieries, which as a rule render daily invoices in quantities only, the monthly statement of account being the only priced invoice which is forwarded to the customer. In such a case the Subsidiary Ledger might record the various deliveries to the debit of the customer in quantities only, and the Tabular Ledger might be brought into play to record the actual debit in money when the monthly statement is sent out. As such monthly statements would under normal circumstances be supplied at stated intervals, a Tabular Ledger devoting a separate set of pages to each period may be found useful in this connection.

Another form of Tabular Ledger that is sometimes handy to the professional man is one which deals with all bills delivered to clients. A considerable proportion of these bills will doubtless be settled by remittances within a comparatively short space of time, and these may be definitely disposed of in the Tabular Ledger at once. Others, however, will remain outstanding for longer, or will have to be settled "in account" with other transactions, and these, inasmuch as they cannot conveniently be dealt with under the Tabular System, might be transferred from the Tabular Ledger to another upon the old-fashioned lines, and there dealt with in due course. If the number of transfers that had to be made for these reasons were inconsiderable, the employment of a Tabular Ledger would undoubtedly be found advantageous, in that, while involving somewhat less labour than the writing up of a Bills Delivered Book and the posting of the various items to Ledger Accounts, it would enable the collection of outstanding accounts to be supervised in a way that would be impossible with the old-fashioned Ledger. A form of ruling designed to meet these requirements is given on page 50.

Another development of the Tabular System with regard to Ledgers is often applied (although perhaps unconsciously)

EXAMPLE: COSTS LEDGER for the Quarter / Half-year—ended..........................19....

Date of Account Rendered	Name of Client and Matter	Press Copy L.B. Fo.	Balance brought forward	Amount of A/c rendered during curr't period	Total Amount Due	Date Received	C.B. Fo.	Amount Received	Ledger Fo.	Amount Transferred	Balance carried forward	Disburse-ment Led. Fo.	Disburse-ments included in Charges	Net Charges
			£ s d	£ s d	£ s d			£ s d		£ s d	£ s d		£ s d	£ s d

to the Nominal Ledger, or to Nominal Accounts in a Private (or General) Ledger. With a view to keeping the number of different Nominal Accounts within reasonable limits, it is often customary to post somewhat different classes of expenditure to the same account; *e.g.* under the heading of General Expenses, or Trade Expenses, the most diverse items will often be included. Further classification of these various items is probably unnecessary for the purpose of compiling the usual Profit and Loss Account; but for statistical purposes totals of detailed expenditure under different classes may be required, which, with the normal form of Ledger, can only be obtained by "dissecting" the various Nominal Accounts. If, however, each of these Ledger Accounts be provided with several money columns, this dissection may be made continuously as the Ledger is posted, and is not merely readily available at the close of the financial year, but also at any intermediate date. Tabular Nominal Ledgers upon these lines are especially convenient where a great number of separate Trading Accounts are desirable for the different departments. They will also be found useful to merchants in connection with Consignment Accounts of more than ordinary complexity; to publishers who may wish to show separately the results of each class of work produced; and to others.

The second main type of Tabular Ledger differs essentially from the preceding. Hitherto a form has been dealt with which greatly facilitates the handling of a large number of individual accounts, but which is not suitable where there are numerous transactions at irregular intervals with the same person, or where the necessity arises to dissect in considerable detail the total debit to the Personal Account. If, however, the position of affairs be reversed, and a very detailed analysis of the total debits required without any very great number of Personal Accounts being affected, the Tabular System may still be applied with advantage. The most notable instance of such application is in connection with the accounts of hotels, where the debits to the various visitors have to be dissected over a great number of Nominal Accounts. Here, however, the inevitable limitation of the Tabular System retains its hold to this extent, that only one entry of exactly the same kind can be recorded conveniently upon the same Ledger opening. Consequently, in order to meet the requirements of the altered position, it becomes necessary to reduce the period that can be covered by a single opening of the Ledger, the ordinary period covered in the case of an Hotel Ledger kept upon the Tabular System being a single day. The shortness of this period does not, however, cause any very serious inconvenience, because in any event the majority of visitors do not make a protracted stay, and their accounts will therefore under any circumstances only cover a comparatively short space of time; and because, further, the exigencies of this particular industry necessitate the personal account of each visitor being invariably kept up to date hour by hour, which would be impossible unless the Ledger were also used as a book of first entry. The form ordinarily adopted under these circumstances is upon the lines of the example shown overpage. In comparatively small hotels it is desirable, if possible, to make the Ledger openings of sufficient size to cover all the transactions of one day; but if there are more than about 30 visitors at a time this is impracticable, and two or more openings must be employed and the cross-totals carried forward. The totals of the Nominal Accounts may be either carried forward from day to day and posted direct into the Nominal Ledger monthly, or they may be abstracted daily into a Summary Book, and thence posted monthly into the Nominal Ledger. As a rule, the latter will be found the most convenient course to pursue, both because it reduces the number of cross-casts and on account of the utility of the Summary Book for statistical purposes.

EXAMPLE:

VISITORS' LEDGER.

THURSDAY, JANUARY 1, 1921.

Room No.	1	2	3	4	5	6	7	8		10	11	12	13	14	15	16	17		Daily Total	Brought Forward	Carried Forward
Name	T. Smith	P. Jameson		P. Ransom	O. Jones																
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d
DEBITS.—																		**DEBITS.—**			
Balance bt. forward																		Balance bt. forward			
Apartments	0 5 0	0 5 0		0 5 0	0 3 0													Apartments	0 18 0		0 18 0
Boarders																		Boarders			
Breakfast	0 2 0	0 2 6		0 2 6	0 2 6													Breakfasts	0 9 6		0 9 6
Luncheons	0 2 6	0 1 9		0 2 0	0 2 6													Luncheons	0 8 9		0 8 9
Dinners	0 4 0	0 4 0		0 4 6														Dinners	0 12 6		0 12 6
Desserts and Ices																		Desserts and Ices			
Sandwiches																		Sandwiches			
Tea and Coffee																		Tea and Coffee			
Soups																		Soups			
Suppers																		Suppers			
Servants' Board																		Servants' Board			
Wines		0 2 6		0 3 6	0 1 6													Wines	0 7 6		0 7 6
Spirits and Liquors																		Spirits and Liquors			
Ales, Stouts, etc.																		Ales, Stouts, etc.			
Minerals																		Minerals			
Cigars																		Cigars			
Newspapers																		Newspapers			
Postage																		Postage			
Paid Out																		Paid Out			
Washing																		Washing			
Carriage																		Carriage			
Billiards																		Billiards			
Stationery																		Stationery			
Attendance	0 1 0	0 1 0		0 1 0	0 1 0													Attendance	0 4 0		0 4 0
Baths	0 1 0			0 1 6														Baths	0 2 6		0 2 6
Fire and Lights																		Fire and Lights			
Total	0 15	0 16 9		1 0 0	0 10 6													Total	3 2 9		3 2 9
CREDITS.—																		**CREDITS.—**			
Overcharges																		Overcharges			
Cash Received					0 10 6													Cash Received	0 10 6		0 10 6
Ledger Accounts																		Ledger Account			
Balance car. forward	0 15 6	0 16 9		1 0 0														Balance car. forward	2 12 3		2 12 3
Total	0 15 6	0 16 9		1 0 0	0 10 6													Total	3 2 9		3 2 9

Tabular Ledgers upon somewhat the same lines as the preceding may be used by many domestic tradesmen with advantage, and are in point of fact in very general use in the Dairy and Bakery trades. Occasionally it may be found advantageous to employ some modification of the Tabular System in connection with the accounts of Butchers, Grocers, and others, and in this connection it should be remembered that the abolition of the Day Book effects a very material saving of clerical labour, which will go far towards compensating for any additional trouble that the keeping of the Ledger may entail. The accurate keeping of a Tabular Ledger requires, however, a certain amount of technical training on the part of the bookkeeper, which may often militate against its employment by traders of this description.

SUMMARY.

To sum up, it will be observed that under favourable circumstances the Tabular Ledger greatly facilitates the keeping of accounts upon such lines that they are always up to date and can easily be balanced exactly; while at the same time it especially lends itself to a detailed analysis of Nominal Accounts, which is generally very desirable and often absolutely essential. A very important application of the system arises in connection with the issue of Capital by Joint-Stock Companies, and the issue of Loans by Local Authorities. This, however, will be found to be dealt with separately in Chapter IX.

The careful student will doubtless be able to imagine circumstances, other than those enumerated, in which the adoption of the Tabular System—either to books of first entry, or to Ledgers—is very desirable. It is, however, well to add a word by way of caution as to the circumstances under which this system is ***not*** suitable. Shortly, it may be stated that when the transactions occur at irregular intervals, and are of such a nature that they require to be recorded in the Ledger in considerable detail, and in particular when (owing to the nature of the business) it is essential to be able to follow the transactions with each separate person in the order of their occurrence, the Tabular System is inapplicable. It may be added that, save for the purpose already mentioned in connection with a Nominal Ledger, the Tabular System cannot with advantage be applied to either Real or Nominal Accounts, as it is essential that these should be recorded in the Ledger with a certain amount of detail attached to each item. It is also desirable to avoid any form of Tabular Bookkeeping which involves the mixing up of cash entries with entries that have nothing to do with cash. Consequently a book of first entry upon Tabular lines which deals, under appropriate columns, with *all* transactions, whether cash or otherwise, is an undesirable one, in spite of the fact that it is very frequently adopted by both solicitors and auctioneers. The danger of employing this form of book in such cases is that, if entries not relating to cash should be placed in the Cash columns, or if cash entries should not be placed in the Cash columns, serious mistakes may easily arise, and also, unless the entries are very carefully verified, frauds may remain undetected. If the Tabular System be applied to books of first-entry it is important that each of such books should in the first instance be so arranged as to deal only with transactions of more or less the same class. For example, Goods Bought, Goods Sold, Bills Receivable, Bills Payable, and Cash, may each form a suitable subject for a book of first entry upon Tabular lines; but no two, or more, of these should be combined in the same book. It is all the more important to emphasise this point, because the combination already referred to undoubtedly effects a material saving of clerical labour, which would be extremely advantageous did it not involve even more serious risks.

CHAPTER VII.

STOCK ACCOUNTS AND STORE ACCOUNTS.

IN some old-fashioned works upon book-keeping *pro formâ* examples of a merchant's accounts will be found, in which each separate parcel of goods is provided with a separate Ledger Account, which is debited with the cost and credited with the proceeds realised upon the sale of that parcel. With accounts so kept, the gross profit is arrived at by bringing together the credit balances of these various accounts, and the exact manner in which the total gross profit has been earned can readily be perceived. It is safe to say, however, that it is only in very theoretical text-books that anything of the kind can be attempted. Even if the amount of detailed work involved did not render the cost of carrying out such a system prohibitive, there are very few businesses in which it would be practicable so to earmark the goods bought and sold as to keep tally of them in this way from the moment that they came into the place to the moment when they went out again. Some traders who deal in articles of considerable value—*e.g.* jewellers—are, however, compelled to keep a very strict account of their stock; but although the principle previously described is followed to some extent, no attempt is made to open a separate Ledger Account in respect of each article, the Tabular System being employed instead, which effects an enormous saving of time, and, moreover, enables the actual position of affairs at any given moment to be more readily appreciated.

But although it is the exception rather than the rule for a strict account to be kept of the various commodities bought, sold, and consumed, in all cases *some* sort of an account is necessary to avoid waste and to detect leakage. The various plans adopted, suited to the requirements of different undertakings, will be considered in the present chapter.

JEWELLERS' STOCK ACCOUNTS.

It has already been stated that jewellers and others dealing in articles of considerable intrinsic value keep an accurate account of such articles upon the Tabular System. These Stock Accounts form no part of the system of double-entry, but are supplemental thereto, confirming both the Gross Profit and the Stock-in-Hand, and enabling any discrepancies in either to be traced. The stock is usually, in the first instance, grouped under convenient general headings, and a separate Stock Book, or a separate section in the same Stock Book, employed for each. A convenient form of ruling is that given overpage, although the special requirements of each business may involve slight modifications.

EXAMPLE :

JEWELLERY STOCK BOOK.

Department.................................. From ....19... to........................19...

Reference No.	Date Purchased	Description of Article	From whom Bought	Invoice Reference	Stock on hand ......19..	Purchases during period	Cost Price of Goods Sold	Day Book Reference	Selling Price of Goods Sold	Stock on hand ......19..
					£ s d	£ s d	£ s d		£ s d	£ s d

The working of this book will, it is thought, be perceived without difficulty. At the commencement of each financial period the amount of Stock-in-Hand (as per inventory) is entered up in detail, the values being extended into the money column provided for that purpose. The purchases during the current period are next analysed, and particulars inserted in the " Purchases " column of all additions to stock, reference being made in the column provided for that purpose to the invoice, or to the folio in the Invoice Book. The total of this column for any period should agree with the total Purchases, as shown by the Invoice Book, and in order to check the accuracy of the Stock Book these totals should be agreed at least monthly. Each article as put into stock is provided with a Reference Number (which agrees with the Stock Book number), so that the salesmen can at all times ascertain the cost thereof and where it was purchased. Whenever goods are sold—whether for cash or on credit—the Reference Number is noted in the Cash Sales Book (or the Day Book, as the case may be) and from these books the third and fourth money columns of the Stock Book are compiled. The fourth money column contains the price realised for the goods, and the total of this column should be agreed monthly with the Sales effected. In the third column is inserted the cost price of the goods as sold—that is to say, whenever the selling price of an article is inserted in the fourth column the cost price is simultaneously inserted in the third column. It may be added that this column is not always employed in practice ; but it is especially convenient because the difference between the third and fourth money columns at any time represents the gross profit on goods sold, and should be capable of exact agreement with the gross profit arrived at from the financial books ; while the difference between the first and second money columns added together and the third column should at all times equal the cost price of the goods remaining on hand. At the close of the period these differences are extended into the last column, which should agree exactly with the inventory prepared at stocktaking.

The more valuable commodities will, of course, require checking much more frequently than the annual stocktaking, and it will be seen that this system lends itself to the stock of the more expensive classes of goods being verified at any time—if necessary, daily.

In every case there will probably be some articles stocked of a comparatively small value, which it is not thought desirable to check in such detail as that described. These will be grouped under convenient descriptions, and all articles of the same description might be marked with the same reference number, provided, of course, their cost and selling prices were the same. In other cases it may be thought sufficient to keep tally in quantities only ; but this is not recommended, as the amount of trouble saved is no compensation for the loss of a direct and absolute check, which is inevitable if there be any material departure from the system of marking each item of the stock with a reference number. If the cheaper items of the same value be grouped, a sufficient abbreviation of the system will be effected to answer all practical purposes.

CELLAR STOCK BOOKS.

Another class of stock which it is generally desirable to check in full detail is that contained in the cellars of wine merchants, hotel keepers, &c. Here, however, it is not generally either practicable or desirable that the Stock Accounts should deal with money. In the case of wine merchants, the blending and bottling operations would make such calculations a matter of considerable intricacy ; while *per contra* the selling price would by no means necessarily be the same to every customer, and would probably vary considerably according to the size of the order. With hotel keepers the need for a careful check upon the money does not exist in connection with the check upon the stock, in that the same person would never under any circumstances be responsible for both stock and money ; while the Gross Profits are not cut so fine as to make it worth while to compile detailed information as to the amount of profit earned upon each bottle sold. Cellar Stock Accounts are accordingly simplified in some respects ; but, on the other hand, the transactions are probably very much more numerous, so that greater difficulty arises in checking them with the financial books from time to time. It is best, therefore, to provide a separate column for each day of the month, so that the amount taken out of the cellar upon each day may be agreed separately. The purchases will be much more rare in comparison, and one column per month will therefore suffice, particularly if a Date column be added to facilitate reference. A convenient form of Cellar Stock Book is given on the following page.

EXAMPLE:

Dr. CELLAR STOCK BOOK. For the Month of......................19...

Stock on 1st of Month	Purchases: Date	Purchases: Quantity	Total	Bin No.	Quantity taken out of Cellar: 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total for month	Difference	Stock on last of Month
				*																																		
				1 ½																																		
				2 ½																																		
				&c.																																		

*Bottles and half-bottles of the same brand are recorded on succeeding lines: for the sake of clearness it is desirable to arrange the "feint" ruling of the book so that the space between the second and third lines is considerably greater than between the first and second, and so on.

Thus

BULK STOCK BOOK.

The form of Stock Book on the preceding column relates exclusively to bottles and half-bottles. With regard to liquor kept in bulk, a somewhat different form of book will be found preferable. Here the number of different items of which tally has to be kept is probably not very numerous, while the number of transactions in respect of each item may be considerable. For example, the contents of a butt will not by any means necessarily be exhausted before fresh liquor is put into it; and, indeed, it is probable that as a rule such butts would be replenished continuously, partly with a view to improving the quality and partly with a view to keeping it uniform over an extended period. The Tabular System does not lend itself to the record of transactions of this description, and it is best, therefore, to fall back upon the ordinary old-fashioned Ledger Account, opening a separate account in respect of each butt, debiting it with all quantities put in, and crediting it with all quantities taken out. Additions that are direct purchases may be conveniently entered in blank ink (with the necessary reference to the invoice), while additions extracted from other sources already in stock should be inserted in red ink. *Per contra* quantities taken out *not* for immediate sale should be also entered in red ink, the corresponding debit being either to the Ledger Account of another butt, or (if the quantities have been bottled) to the debit side of the Cellar Stock Book; while if the quantities have been sold without being bottled, the entry should be made in black ink and the reference passed to the Day Book. As all the transactions in the present work are dealt with from a bookkeeping point of view, it is unnecessary to more than mention in passing that, wherever blending operations are undertaken, they should be performed by someone entirely trustworthy, so that accurate accounts may be kept of any *increase* in the bulk arising from the addition of water. The stock in bulk can only be ascertained by periodical gauging, and as a rule it is not convenient that this should take place at very frequent intervals. The result is that the check upon liquids in bulk is at all times necessarily somewhat incomplete, more especially bearing in mind the fact that a certain amount of wastage must be allowed for on account of evaporation.

BAR STOCKS.

On the other hand, when stock has to be kept of the contents of bars, or other places where bulk is " broken " through the goods being sold by the glass or other measure, no waste ought to occur, as in measuring out liquids full measure is never given, so that at least the whole of the nominal contents of the receptacle ought to be accounted for. These remarks apply even where what is called " full measure " is the custom, because a liquid measure is never absolutely drained, so that the amount that pours out of a liquid measure is never quite so much as its theoretical contents. Liquid stocks thus possess a tangible advantage over solid stocks, which, when sold by weight, must in all cases be slightly over measure, in order to afford the " turn of the scale " ; and the smaller the quantities sold at a time, the greater the wastage arising from this cause will be.

With regard to the checking of bar stocks generally, it is not practicable to employ any tabular form of Stock Book, because it is practically impossible to keep a strict account of the various items sold. A far simpler and equally effective method is to take an inventory of the contents of the Bar at frequent intervals, say once a week at least, and to charge up the contents at selling prices. Any additions to stock during the week should be added to the original inventory at selling prices, and the difference between the figure so arrived at and the selling price valuation of the stock on hand at the end of the week should represent the cash takings of the Bar during the period. It is not usual to discuss any small discrepancies, either one way or the other ; bar-keepers who continually show a deficiency of stock are superseded.

GENERAL TRADE STOCKS.

In the preceding paragraph a method of keeping a close check upon stock without going into details has been described. This system is, however, only applicable (*a*) Where the selling price never varies. (*b*) Where it is practicable to take stock at comparatively frequent intervals. (*c*) Where wastage is trifling. To the majority of undertakings none of these conditions apply. In most cases the selling price varies to some extent, according to the quantity sold at a time (*e.g.* dozens are sold at a lower price than single articles), while, again, the amount of stock necessary to carry on a satisfactory trade is frequently so considerable that it is practically impossible to take stock, save at such rare intervals that—for this particular purpose—the stocktaking does not afford a sufficiently immediate safeguard against peculation. Moreover, in many cases the amount of waste necessarily incidental to the trade renders it practically impossible to keep a very strict account of the stock in items. All these considerations, however, so far from removing the necessity for a reliable check, tend to make it of even greater importance, more especially when the business is of such magnitude that the proprietors do not attend personally to every detail. A system that is very general among large traders is that of keeping a check upon the operations of a department by means of statistical accounts, compiled upon the basis of an assumed percentage of Gross Profit. The operations of the business as a whole are split up into "departments," each of which is probably in the hands of a departmental manager, who is entrusted with the purchase of goods for his department, and generally responsible for the results it shows. It is known in advance what Gross Profit *ought* to be earned upon the sales of each department, and very frequently the manager's remuneration depends to some extent upon this percentage being earned. The analysis of purchases and sales into departments has already been explained, and the reader will thus perceive that it is a very simple matter to compile statistical Stock Accounts in connection with each department, either weekly or monthly, as may be preferred. At the commencement of the financial year, the Stock Account starts with the actual ascertained stock, as per the stocktaking of that date. The additions to stock can be ascertained from the purchases analysis. What, however, is not exactly known is the cost price of the goods sold—that is, of the figure that has to be credited to the Stock Account in order that the balance from time to time may show the cost of the goods remaining in stock. The cost price of goods sold may, however, be estimated by deducting from the actual Sales the estimated percentage of Gross Profit, and so long as the Gross Profit actually earned equals this percentage, the statistical accounts will be compiled upon a correct basis, and the stock at the end of the financial period will agree with the actual Stock-in-Hand at that date. Any discrepancy between these two figures will indicate a corresponding inaccuracy in the estimated Gross Profit. That is to say, if the actual stock is less than the estimated stock, the actual Gross Profit must be correspondingly less than the estimate, and *vice versâ*; or else there is some "leakage."

It may at first sight appear that there is but little gained by preparing such Stock Accounts at frequent intervals, seeing that they can only be verified when an actual stocktaking takes place. It must be remembered, however, that any inaccuracy in the balance of Stock represents an equal inaccuracy in the balance of Gross Profit, and a careful scrutiny of either will thus enable a check to be kept upon the other. It is not merely in connection with the Gross Profit that a strict check can be kept upon the departmental managers, past experience will have shown the proper ratio of the Stock at any period of the year to the Sales, and any increase in the estimated stock over what is regarded as a fair normal stock at that time of year would be carefully scrutinised. Should the stock at any time seem too heavy, the manager will be questioned closely as to how the increase arose, and it must be borne in mind that it is not open to him to question the accuracy of the estimated figure of stock without throwing an equal doubt upon the question as to whether he is selling the goods of his department at the proper rate of profit. For example, if three months after stocktaking the stock of a particular department appears to be £500 more than is thought to be necessary, it is not open for the manager to protest that in point of fact his stock is *not* larger than usual, unless at the same time he is prepared to admit that his Gross Profit for the past three months is £500 less than it would have been had he realised the proper percentage of Gross Profit. It will thus be seen that figures compiled upon this basis are of the utmost value to those who have sufficient knowledge of the trade and the circumstances to utilise them to advantage.

It need hardly be stated that these figures, being purely estimates, are kept entirely separate from the financial books. For convenience sake they are usually compiled in tabular form, one set of accounts showing the results of all the departments upon an opening, and another set dealing separately with the accounts of each department, the figures of succeeding years being placed in successive columns, so that the statistics covering an extensive period may be compared. At the foot of each year are inserted in red ink the differences between the estimated results and those shown by the actual stocktaking, so that the information afforded by these statistics may be complete. The following examples show suitable rulings for these purposes. They are, however, of course, subject to considerable modification, according to the exact nature of the business carried on.

EXAMPLES: MONTHLY STOCK ACCOUNTS for the Year ended 28th February 1920.

Date		Dept. "A." (10 %)	Dept. "B." (15 %)	Dept. "C." (15 %)	Dept. "D." (10 %)	Dept. "E." (15 %)	Dept. "F." (25 %)	Dept. "G." (8 %)	Dept. "H." (12½ %)
		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
1919 Mar. 1	Actual Stock ..	2,000 0 0	6,000 0 0						
31	Purchases	720 0 0	100 0 0						
		2,720 0 0	6,100 0 0						
"	Net Sales ..	500 0 0	300 0 0						
"	Estimated Stock ..	2,220 0 0	5,800 0 0						
	&c. &c.								
1920 Feb. 22	Estimated Stock ..	2,460 0 0	6,270 0 0						
28	Purchases	390 0 0	90 0 0						
		2,850 0 0	6,360 0 0						
"	Net Sales ..	600 0 0	300 0 0						
"	Estimated Stock ..	2,250 0 0	6,060 0 0						
	Actual Stock ..	2,170 0 0	6,075 0 0						
	Difference Over ..	..	15 0 0						
	" Under ..	80 0 0							

MONTHLY DEPARTMENTAL STOCK ACCOUNTS, from 1918-19 to 1921-2, DEPARTMENT "A."
Estimated Gross Profit, 10%.

Date		1918-1919		1919-1920		1920-1921		1921-1922	
		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
Mar. 1	Actual Stock	..	1,840 0 0	..	2,000 0 0				
31	Purchases	..	600 0 0	..	720 0 0				
			2,440 0 0		2,720 0 0				
"	Sales	492 0 0	..	555 11 1					
	Less 10 %	49 4 0	442 16 0	55 11 1	500 0 0				
April 1	Estimated Stock	..	1,997 4 0		2,220 0 0				
	&c. to end of year.								

STORES ACCOUNTS.

It is convenient to observe a distinction between the accounts kept as a check upon goods that are bought for the purposes of re-sale (*i.e.* the stock of traders), and goods that are bought for the purpose of being used in manufacture (*i.e.* the raw materials, or stores, of manufacturers). The former have been described as "Stock Accounts" and the latter may conveniently be known as "Stores Accounts." To some extent the same general principles apply to both, but with Stores Accounts certain special considerations are involved, in that these accounts are usually required to provide part of the data necessary to compile accurate accounts of the *cost* of manufactured articles. It is necessary, therefore, not merely to be able to keep a check upon the amount of each separate stores in hand, but also to be able to show in a convenient form the amount consumed in respect of each separate contract, or each separate lot of goods or articles manufactured. This latter use of Stores Accounts is fully described in Chapter XIX, which deals with "Cost Accounts," but the particular requirements in connection with the matter will to some extent modify the keeping of the Stores Accounts themselves. Hence the necessity of referring to the subject here.

As a preventive of waste, the chief requirement in connection with Stores Accounts is that they should be kept under as many headings as are necessary to enable each of the various classes of Stores to be treated separately, so that in case of need the value of Stores in hand—as shown by the Stores Account—may readily be verified, without its being necessary to take an inventory of the *whole* of the Stores For example, in a gas works, a separate account would be kept in respect of "Mains," and in a large concern this would be sub-divided so that each size of main would be kept separately. By this means, if any doubt arises as to the accuracy of the accounts, they can be readily tested by taking an inventory of the amount of that particular commodity in hand; so that any discrepancy disclosed may be traced at the time, instead of it being necessary to wait until it is practicable for stock to be taken of the whole of the Stores. This sub-division of the Stores under headings has also the very important advantage that the balances of the various Stores Accounts afford an invaluable index of the quantity of materials in stock, so that others may be ordered when those in hand are approaching exhaustion. It may safely be said that the more detailed the sub-division upon these lines the more useful the Stores Accounts will be found to be; but regard must, of course, be had to what is practicable, in view of the expense that an ideally perfect set of accounts would involve.

Enough has been stated to show that the general principle involved is that of recording transfers to the debit of a large number of different jobs, runnings, or contracts, for Stores consumed, from the credit of a large number of different classes of Stores; and the most convenient method of recording these transfers will to a great extent depend upon the number of different accounts involved. In all cases the original record of the transfer will be a Requisition, requesting the storekeeper to hand over certain stores, to be charged up to such-and-such accounts. The Requisitions will naturally deal with quantities only, and not with the value of the goods required. As a rule, however, the Stores Accounts will be most conveniently kept in money, although in most cases they may be kept in both money and quantity with advantage. Under these circumstances much depends upon a suitable form of Requisition. The following is a typical specimen, subject, of course, to modifications to meet the precise requirements of each case :—

EXAMPLE:

0000. THE EUREKA MANUFACTURING CO., LIM.

STORES REQUISITION No............

To the Storekeeper. Please supply the following, viz. :—

Stores Ledger Folio	Quantity	Description	Account	Price	Value	Cost Ledger Folio
					£ s d	

To be charged up to contract No.. ....

.. ..

....19......

Superintendent

All Requisitions should in the first instance be bound up in carbon manifold books, so that a permanent record may be kept in case the sheet itself should get mislaid or destroyed, and they should be consecutively numbered so that attention may be at once drawn to the absence of one, and inquiries instituted accordingly. These sheets should be priced out and extended, so that a proper value may be placed upon every commodity issued, and when this portion of the work has been properly checked the work of recording the transfer may be pursued. In some cases it will be sufficient to treat the Requisitions in the same manner as a bank treats its cheques—that is, they may be made to serve as the posting medium to the debit of the work and to the credit of the Stores, without being first recorded in any book of original entry (*c.f.* Chapter XVIII). The Ledger postings will then in each case contain a reference to the number of the Requisition, and the Ledger folios would be put on the latter so as to show that it had been posted to both debit and credit. Where, however, issues of Stores are numerous, this practice may be inconvenient, since it would involve a large number of postings to the Ledger Accounts, whereas it is convenient that the Ledger Accounts should be kept as condensed as practicable in order that their general effect may be followed more closely. Under these circumstances it becomes necessary either to file away the actual slips in the form of a Card Ledger (*q.v.*) in which case there must be a separate slip (or requisition) for each separate kind of stores, or else to employ intermediate Tabular Journals. The following ruling will sufficiently explain what is here intended :—

EXAMPLES:

STORES JOURNAL (Credit to Stores Accounts).

No. of Requisition	"A" Account		"B" Account		"C" Account	"D" Account	"E" Account	"F" Account	"G" Account	"H" Account
	Quantity	Value	Quantity	Value						
		£ s d		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

STORES JOURNAL (Debit to Contract Accounts).

No. of Requisition	No. 1	No. 2	No. 3	No. 4	No. 5	No. 6	No. 7	No. 8	No. 9	No. 10
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

By tabulating the results as before indicated, the number of postings to each account can be limited to one per day, or one per week, as may be found most convenient, while the accuracy of the tabulation can be tested, because the total of the tabulations to the credit of Stores for any period should, of course, exactly equal the total of the tabulations to the debit of the various contracts.

It should be explained here that the credit postings are in practice sometimes made in the Storekeeper's Office, and not in the Cost Office. That, however, in no way affects the principle already described, although naturally in such a case it becomes necessary either to multiply copies of the Requisitions so that they are available for both departments, or else for them (or the Journal) to be passed on from one department to the other, so that each may record that part of the transactions which concerns it.

In order that no mistakes may arise through issues of Stores being credited to the wrong Stores Account—such a mistake may easily occur, if the clerks entering up the Requisitions do not themselves have the handling of the Stores—it is desirable that the storekeeper actually issuing the goods should mark the sheets with a letter or number indicating the exact account affected. A set of rubber stamps will be found very convenient for this purpose.

The debits to the various Stores Accounts are, of course, prepared from the purchases invoices. Care must, however, be taken to see that the totals are agreed at frequent intervals.

In a large works it is sometimes found that the Stores Ledger is duplicated, one being kept by the storekeeper and the other in the office.* This is an excellent plan, tending as it does to eliminate all risk of error or fraud. Of course, it is quite unnecessary for both records to be in full detail; the storekeeper's record is commonly kept in quantities only.

*The former commonly consists of a series of "tally boards," which for all practical purposes constitute a Card Ledger distributed throughout the stores warehouse for reasons of convenience.

CHAPTER VIII.

PARTNERSHIP ACCOUNTS.

A PARTNERSHIP is defined by the Partnership Act, 1890, as "the "relation which subsists between persons "carrying on a business in common with a "view of profit." The exact relationship between the partners is covered by the general law; subject, however, to such modifications thereof as may have been mutually agreed upon. These modifications usually take the form of Articles of Partnership, which are commonly (but not necessarily) under seal. The articles of partnership need not, however, be in writing, and so long as the agreement can be established it is binding on all parties thereto. So far as the accounts are concerned, the principal points in connection with the general law are that each partner is entitled to share equally in the profits of the firm; but before arriving at such profits, interest at the rate of 5 per cent. must be credited to each partner for *loans* made by him to the business with the consent of the other partners, although no interest is payable upon partners' capital. In the absence of an agreement to the contrary, any partner can *at any time* terminate the partnership. As to the relationship or the legality of a business, and the right of a partner to bring an action for an account of the partnership dealings, see *Thwaites v. Coulthwaite* (1896), 1 Ch. 496, and *Keen v. Price* (1914), 2 Ch. 98. It should be noted that a defendant in an action for dissolution of partnership who does not admit the existence of the partnership but claims to own the whole business cannot move in the action for the appointment of a receiver. (*Hardy v. Hardy* (1917) 62 S.J. 142.)

LIMITED PARTNERSHIPS.

By the Limited Partnership Act, 1907 (7 Edw. VII, c. 24), "a limited partner- "ship must consist of one or more persons "called general partners, who shall be "liable for all debts and obligations of "the firm, and one or more persons to be "called limited partners, who shall at the "time of entering into such partnership "contribute thereto a sum or sums as "capital or property valued at a stated "amount, and who shall not be liable for "the debts or obligations of the firm beyond "the amount so contributed." A body corporate may be a limited partner. Every limited partnership must be registered, or it will be regarded as a general partnership. A limited partnership subject to general rules under the Act is within the provisions of the Bankruptcy Act, 1914 (Sections 114-119), as are ordinary partnerships, "and on all the general partners of "a limited partnership being adjudged "bankrupt the assets of the limited partner-

"ship shall vest in the trustee" (Bankruptcy Act, 1914, Section 127). Apart from express provisions in the 1907 Act (Section 6, &c.), the Partnership Act, 1890, and the rules of equity and common law apply to these partnerships. A general partner can become a limited partner, but notice must be given in the *Gazette*.

CONDITIONS OF PARTNERSHIP AGREEMENTS.

The general conditions provided by the Partnership Act, 1890, are usually supplemented and varied as follows :—

(1) The amount of Capital to be contributed by each partner is stated, and it is generally provided that such Capital bears interest at the rate of 5 per cent. per annum.

(2) The manner in which profits and losses are to be divided, and the amount that each partner is entitled to draw periodically on account of profits, is stated.

(3) It is provided that proper books of account shall be kept, such as are usual among persons carrying on a similar class of business.

(4) That the books shall be kept on the partnership premises, and that all partners shall have access thereto.

(5) It is further provided that once at least in every year, upon a date named, a "general account" shall be made of all the partnership property, showing the exact position of the firm; and that such account when prepared shall be signed by all the partners, and thereupon shall be binding upon them all—save that, if any manifest error is discovered within three months from the date of such signing, it shall be corrected.

(6) The partnership is stated to be for a prescribed term, in which event it can only be determined at an earlier date (*a*) by mutual consent; (*b*) on the happening of some event prescribed by the articles of partnership; (*c*) by the Court for some good cause shown; (*d*) by the death or bankruptcy of one of the partners.

(7) It is usual also to provide for the assessment of the amount to be paid to a retiring partner, or to the representatives of a deceased partner, in respect of Goodwill.

In practice, it frequently happens that disputes arise between partners, or between surviving partners and the representatives of a deceased partner, on account of the insufficiency, or ambiguity, of the terms of the partnership agreement. It is recommended, therefore, that, in addition to the foregoing, clauses should be inserted to the following effect :—

(8) That the firm's accounts shall be periodically audited by a Chartered Accountant. It is desirable where practicable that the name of the Accountant selected should be inserted in the articles of partnership, as then a majority of the partners cannot change the Auditor, although, of course, he can still be changed by the unanimous decision of *all* the partners.

(9) The accounts to be kept upon a proper system of Double Entry, to be approved by the Auditor.

(10) All differences or disputes upon matters of account to be referred to the Auditor, whose decision shall be binding upon all parties.

(11) Provision should be made for the charging of interest upon all drawings in excess of the prescribed amount, and for allowing of interest upon undrawn profits.

(12) On the death or retirement of a partner it is necessary, under the general law, to take stock and to balance the books in order to ascertain the respective positions of the partners. To avoid the trouble and inconvenience that this would cause, it is generally desirable to insert a clause providing that the share of the outgoing partner in the profits of the current (broken) period shall be computed upon the average of the three preceding years. A clause to this effect should, however, only be inserted when the profits do not fluctuate considerably, as otherwise serious injustice might be done by excluding the results of the broken period.

(13) The exact *mode* of paying out the outgoing partner should be provided; and, where practicable, this amount should be payable by instalments extending over such a period as not seriously to cripple the business. Or, in the alternative, a policy of "survivorship insurance" should be effected and the cost thereof equitably apportioned between the partners, according to their respective ages and interests.

BALANCING PARTNERSHIP BOOKS.

It is not anticipated that the reader will find any difficulty in preparing the usual accounts from a Trial Balance of the books of a partnership, but for the sake of completeness the following example is appended:

PROBLEM.— Prepare a Profit and Loss Account and Balance Sheet from the following Trial Balance of X. Y. & Co.'s books, extracted at 31st December 1920, covering six months' operations.

TRIAL BALANCE, 31st December 1920	*Dr.*	*Cr.*
	£	£
Cash at Bankers ..	2,640	
Petty Cash in hand	3	
Sales ..	—	16,123
Stock in hand 1st July 1920	2,741	
Returns (Customers' Returns for the half-year)	330	
Discount allowed Customers	938	
Bills Receivable in hand ..	182	
Sundry Debtors ..	5,272	
Purchases	8,403	
Discount allowed on Purchases		390
Wages ..	1,404	
Reserve for Bad and Doubtful Debts		540
" Discounts on Book Debts		197
Sundry Creditors		1,970
Buildings	4,384	
Patent Rights ..	50	
Loan on Mortgage		4,500
Rent, Rates and Taxes	106	
Advertising	463	
Traveller's Salary	431	
Carriage	394	
Bad Debts written off	101	
Plant and Machinery	2,672	
Repairs	84	
C. G.—Capital Account (Balance 1st July 1920)		6,110
C. G.—Drawing Account ..	1,200	
S. G.—Capital Account (Balance 1st July 1920)		2,952
S. G.—Drawing Account ..	720	
Interest on Loans	124	
Reserve Account—Patent Royalties received in advance		500
Royalties on Patents attributable to the half-year to 31st December 1920		40
Trade and General Expenses	502	
Depreciation written off Buildings ..	23	
Depreciation written off Plant &c ..	155	
	£33,322	£33,322

The Stock-in-Trade on hand at 31st December 1920 is valued at £3,275 No interest on Capital or withdrawals is to be provided for.

The profits are to be apportioned as follows :—

C. G., five-eighths : S. G., three-eighths.

Dr TRADING ACCOUNT for the 6 months ended 31st December 1920. *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Stock, 1st July 1920 ..		2,741 0 0	By Sales ..	16,123 0 0	
" Purchases ..		8,403 0 0	*Less* Returns .	330 0 0	
" Carriage ..		394 0 0			15,793 0 0
" Wages ..		1,404 0 0	" Stock, 31st December 1920		3,275 0 0
" Gross Profit transferred to Profit and Loss Account ..		6,126 0 0			
		£19,068 0 0			£19,068 0 0

Dr. PROFIT AND LOSS ACCOUNT for the 6 months ended 31st December 1920. *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Rent, Rates and Taxes ..	106 0 0		By Gross Profit as per Trading Account		6,126 0 0
" Trade and General Expenses ..	502 0 0		" Royalties on Patents		40 0 0
" Advertising	463 0 0		" Discounts on Purchases ..		390 0 0
" Traveller's Salary	431 0 0	1,502 0 0			
" Repairs	84 0 0				
" Depreciation of Buildings ..	23 0 0				
" Do. Plant, &c. ..	155 0 0	262 0 0			
" Bad Debts	101 0 0				
" Interest on Loans	124 0 0				
" Discounts allowed	938 0 0	1,163 0 0			
" Balance (being Net Profit for the half-year) transferred to Capital Accounts, viz.:—					
C. G., ⅝ths share	2,268 2 6				
S. G., ⅜ths share	1,360 17 6	3,629 0 0			
		£6,556 0 0			£6,556 0 0

BALANCE SHEET, 31st December 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Capital Account, viz.:—			Buildings, *less* Depreciation.. ..	..	4,384 0 0
C. G., Balance 1st July 1920 .. .. £6,110 0 0			Plant and Machinery, *less* Depreciation	..	2,672 0 0
Less Drawings .. 1,200 0 0			Patent Rights	..	50 0 0
4,910 0 0			Stock-in-Trade	..	3,275 0 0
Add Share of Net Profit 2,268 2 6	7,178 2 6		Bills Receivable	182 0 0	
S. G., Balance 1st July 1920 .. .. 2,952 0 0			Sundry Debtors	5,272 0 0	
Less Drawings .. 720 0 0				5,454 0 0	
2,232 0 0			*Less* Reserve for Discount and Bad and Doubtful Debts	737 0 0	4,717 0 0
Add Share of Net Profit 1,360 17 6	3,592 17 6	10,771 0 0	Cash at Bankers	2,640 0 0	
Loan on Mortgage	..	4,500 0 0	Petty Cash in hand .. .	3 0 0	2,643 0 0
Sundry Creditors	..	1,970 0 0			
Reserve for Royalties paid in advance	..	500 0 0			
		£17,741 0 0			£17,741 0 0

NOTES.—(1) *Returns should be deducted, so as to show a net figure of Sales or Purchases.* (2) *Cash Discounts should appear in the Profit and Loss Account, not in the Trading Account.* (3) *The item " Royalties " may be a liability; but is more likely to be a source of income, especially as £500 appears to have been received in advance.* (4) *A special reserve—e.g. for Discount or Bad Debts—should be deducted from the items in respect of which it is made, and not shown as a liability.* (5) *Strictly speaking, neither profits nor drawings should be transferred to Capital Account, but to a separate Current Account in the name of each partner; in practice, however, the above is the usual arrangement* (*c.f.* *p.* 78).

ADJUSTING ACCOUNTS KEPT BY SINGLE-ENTRY.

Rather more trouble may be experienced in cases where the books have only been kept by single entry. Under these circumstances the only method of arriving at the profit for the current period is to prepare a "Statement of Affairs," which (in normal cases) will show a surplus of assets. This Surplus is the amount of Capital in the business on the date up to which the statement is prepared, and is consequently the combined capital of the partners as at that date. The balance of each separate partner's Capital Account is arrived at by adding to the above balance the amount drawn out by all the partners during the current period, and deducting the total amount paid in by them, and the total sum arrived at is the surplus that *would have been* in hand had no moneys been withdrawn or paid in: if from this total be deducted the amount standing to the credit of all the partners on Capital Account at the commencement of the period, the difference must be the accretions of capital during the period—*i.e.* the Net Profit. If each partner's share of net profits be transferred to his credit, the several Capital Accounts of all the partners should show a credit balance amounting in the aggregate to the capital of the firm, as shown by the aforesaid statement. The following is a simple example, showing clearly how such a problem should be dealt with :—

PROBLEM.— A., B., & C. are partners in the firm of X., Y. & Co., whose books are kept by **single-entry.** At 30th November 1919 the balance in favour of the firm was £14,080, thus :—

	£
A.	6,080
B.	5,000
C.	3,000
	£14,080

At 30th November 1920 their assets amounted to £47,250, and their liabilities to £33,297, the balance in favour of the firm being thus £13,953.

Profits and losses are divisible as follows Five-tenths to A., three-tenths to B., and two-tenths to C. Their drawings during the year have been as follows :—

	£
A.	1,207
B.	820
C.	600

What are the amounts at the credit of their accounts respectively at 30th November 1920 after providing interest on capital at 5 per cent. ? And show how the amounts are arrived at.

STATEMENT OF AFFAIRS, 30th November 1920.

	£ s d	£ s d		£ s d	£ s d
Sundry Liabilities (specified)		33,297 0 0	Sundry Assets (specified)		47,250 0 0
Balance down (being Capital of the firm on 30th Nov. 1920)	..	13,953 0 0			
		£47,250 0 0			£47,250 0 0
Capital on 30th Nov. 1919, A. .. .	6,080 0 0		Balance down ..	..	13,953 0 0
B. .. .	5,000 0 0		Drawings · A. ..	1,207 0 0	
C. .. .	3,000 0 0		B. ..	820 0 0	
		14,080 0 0	C. ..	600 0 0	
					2,627 0 0
Interest on Capital for the year, A. ..	304 0 0				
B. ..	250 0 0				
C. ..	150 0 0				
		704 0 0			
Balance (being net profit for the year ended 30th Nov. 1920) A., $\frac{5}{10}$ths share ..	898 0 0				
B., $\frac{3}{10}$ths " ..	538 16 0				
C., $\frac{2}{10}$ths " ..	359 4 0				
		1,796 0 0			
		£16,580 0 0			£16,580 0 0

Dr PARTNERS' CAPITAL ACCOUNTS (CONDENSED). *Cr.*

		A	B	C			A	B	C
		£ s d	£ s d	£ s d			£ s d	£ s d	£ s d
1920 Nov. 30	To Drawings	1,207 0 0	820 0 0	600 0 0	1919 Dec 1	By Balance .. .	6,080 0 0	5,000 0 0	3,000 0 0
"	" Balance down ..	6,075 0 0	4,968 16 0	2,909 4 0	1920 Nov 30	" Interest on Capital	304 0 0	250 0 0	150 0 0
					"	" Share of Profit ..	898 0 0	538 16 0	359 4 0
		£7,282 0 0	£5,788 16 0	£3,509 4 0			£7,282 0 0	£5,788 16 0	£3,509 4 0
					1920 Dec. 1	By Balance	6,075 0 0	4,968 16 0	2,909 4 0

NOTE.—Results arrived at by single-entry should always be proved as far as possible, as there is not—as in double-entry—any automatic check upon their clerical accuracy. The proof is as follows :—The adjusted Capital Accounts show as balances £6,075 + £4,968 16s. + £2,909 4s. = £13,953. This is the same as the Capital of the firm as a whole, as shown by the Statement of Affairs. The Capital of all the Partners taken together must always equal the Capital of the firm.

As already stated, the practice of keeping books by single entry is never to be recommended, particularly in the case of a partnership; but as the problem sometimes arises in practice, it is well to consider an adjustment of Partnership Accounts, in which the circumstances are somewhat more involved than the preceding.

Such a problem is given below, and will well repay careful attention and perusal :—

PROBLEM.—On the 31st December 1911 A.'s liabilities amounted to £2,000, and his assets to £3,500. On the 1st January 1912 he admitted B. into partnership on the terms that A.'s Capital was to be agreed at £1,500; that B. should not be called upon to find any capital; that profits should be divided between the partners in the proportions of two-thirds to A. and one-third to B.; that B.'s drawings should be limited to £400 a year until such time as A. had been paid the premium which it was agreed that he should receive in consideration of the partnership. This premium is fixed at £575, to be paid from year to year out of the excess of B.'s share of profits over his drawings, interest at the rate of 5 per cent. per annum being charged by A. on the balance outstanding from time to time. The firm only kept their books by single-entry, but statements of their assets and liabilities were prepared at the end of each year as follows :—

	Liabilities.	*Assets.*
1912	£3,600	£5,300
1913	2,400	4,000
1914	3,500	5,200
1915	3,200	6,700
1916	3,000	6,000

A.'s drawings during the five years were as follows :—

1912	£725
1913	850
1914	1,000
1915	1,000
1916	1,600

B. only drew out his agreed maximum of £400.

You are required to show (*a*) the Capital Accounts of the partners for the five years, allowing interest at 5 per cent. per annum, and (*b*) a Statement showing the Account between A. and B. in respect of Goodwill.

Dr. STATEMENT OF AFFAIRS (CONDENSED) 1912-6 *Cr.*

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
Liabilities ..	3,600 0 0	2,400 0 0	3,500 0 0	3,200 0 0	3,000 0 0
Balance down (being Capital of the firm at close of the year) ..	1,700 0 0	1,600 0 0	1,700 0 0	3,500 0 0	3,000 0 0
£	5,300 0 0	4,000 0 0	5,200 0 0	6,700 0 0	6,000 0 0
Capital of firm at commencement of the year ..	1,500 0 0	1,700 0 0	1,600 0 0	1,700 0 0	3,500 0 0
Interest on Capital	75 0 0	85 0 0	80 0 0	85 0 0	175 0 0
Balance (being net profit for the year)	1,250 0 0	1,065 0 0	1,420 0 0	3,115 0 0	1,325 0 0
£	2,825 0 0	2,850 0 0	3,100 0 0	4,900 0 0	5,000 0 0
Division of above Profits: A. ..	*833 6 8*	*710 0 0*	*946 13 4*	*2,076 13 4*	*883 6 8*
B. ..	*416 13 4*	*355 0 0*	*473 6 8*	*1,038 6 8*	*441 13 4*
£	*1,250 0 0*	*1,065 0 0*	*1,420 0 0*	*3,116 0 0*	*1,325 0 0*

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
Assets ..	5,300 0 0	4,000 0 0	5,200 0 0	6,700 0 0	6,000 0 0
£	5,300 0 0	4,000 0 0	5,200 0 0	6,700 0 0	6,000 0 0
Balance down .	1,700 0 0	1,600 0 0	1,700 0 0	3,500 0 0	3,000 0 0
Drawings: A. .	725 0 0	850 0 0	1,000 0 0	1,000 0 0	1,600 0 0
Do. B. ..	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0
£	2,825 0 0	2,850 0 0	3,100 0 0	4,900 0 0	5,000 0 0

Dr. "A" CAPITAL ACCOUNT (Condensed). **Cr.**

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
To Drawings ..	725 0 0	850 0 0	1,000 0 0	1,000 0 0	1,600 0 0
,, Balance: 31st Dec. ..	1,700 0 0	1,645 0 0	1,700 0 0	3,500 0 0	2,972 18 8
£	2,425 0 0	2,495 0 0	2,700 0 0	4,500 0 0	4,572 18 8

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
By Balance. 1st Jan. ..	1,500 0 0	1,700 0 0	1,645 0 0	1,700 0 0	3,500 0 0
,, Interest on Capital ..	75 0 0	85 0 0	82 5 0	85 0 0	175 0 0
,, Share of Profits	833 6 8	710 0 0	946 13 4	2,076 13 4	883 6 8
,, Transfer from B. on a/c of Goodwill ..	16 13 4	..	26 1 8	638 6 8	14 12 0
£	2,425 0 0	2,495 0 0	2,700 9 0	4,500 0 0	4,572 18 8

Dr "B" CAPITAL ACCOUNT (Condensed). **Cr**

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
To Balance: 1st Jan.	..	.	45 0 0		
,, Drawings .	400 0 0	400 0 0	400 0 0	400 0 0	400 0 0
,, Interest on Overdraft ..			2 5 0		
,, Transfer to A	16 13 4		26 1 8	638 6 8	14 12 0
,, Balance: 31st Dec .	..		.		27 1 4
	£416 13 4	400 0 0	473 6 8	1,038 6 8	441 13 4

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
By Balance: 1st Jan. ..	..	..	.	..	..
,, Interest on Capital .			.	.	..
,, Share of Profits	416 13 4	355 0 0	473 6 8	1,038 6 8	441 13 4
,, Balance: 31st Dec. ..		45 0 0	..	.	.
	£416 13 4	400 0 0	473 6 8	1,038 6 8	441 13 4

Dr "B" IN A/c WITH "A" IN RESPECT OF GOODWILL (Condensed).* **Cr**

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
To Agreed Premium	575 0 0	.	.		.
,, Balance. 1st Jan .		587 1 8	616 8 10	621 3 7	13 18 1
,, Interest for the year .. .	28 15 0	29 7 2	30 16 5	31 1 2	0 13 11
	£603 15 0	616 8 10	647 5 3	652 4 9	14 12 0

	1912	1913	1914	1915	1916
	£ s d	£ s d	£ s d	£ s d	£ s d
By Amount credited as paid on account	16 13 4		26 1 8	638 6 8	14 12 0
,, Balance 31st Dec. ..	587 1 8	616 8 10	621 3 7	13 18 1	..
	£603 15 0	616 8 10	647 5 3	652 4 9	14 12 0

NOTE.—These Problems are rather troublesome to solve, as the smallest error vitiates the figures of every subsequent year. It is best, therefore, to complete the Statement of Affairs for the whole period before attempting to compile the Capital Accounts of the various partners: these should then be compiled, taking care to see that the closing balances added together agree each year with the total capital of the firm, as shown in the Statement of Affairs.

DISSOLUTION OF PARTNERSHIP.

It is, however, chiefly in connection with Dissolutions that the problems most distinctive of this particular class of accounts arise. Accounts upon a dissolution of partnership may require adjustment in one of two ways:—

(*a*) One, or more, of the partners may continue the business, and pay out the retiring partner, or partners, or the personal representatives of a deceased partner.

(*b*) The assets of the firm may have to be realised, and—after payment of the firm's debts—the surplus distributed among the partners (or the personal representatives of deceased partners) in proportion to their respective interests. It may be noticed here that a surviving partner may

* It must be clearly understood that this Account cannot be included in the books of the firm, which show the relation of each partner to the business, but *not* the relations of the partners *inter se*. The Account must, however, be compiled as a memorandum, in order to know the amount due from B. to A. in respect of Goodwill from time to time, and also when the whole amount is cleared off.

continue the business and may mortgage or sell real or personal estate for the purposes of the winding-up of the business, or may give a mortgage on a particular part of the partnership property to secure in good faith one of the partnership debts; and the mortgagee or purchaser is not concerned to see to the application of the money unless he has notice that it is going to be used for an improper purpose. *Bourne v. Bourne* (1906, 2 Ch. 427). The same case decided that the equitable mortgagee of a surviving partner by deposit of the title deeds of partnership real estate has priority over the lien of a deceased partner's executors on the same deeds for his share of the partnership assets.

PAYING OUT RETIRING OR DECEASED PARTNER.

The first problem is for many reasons the simpler. The outgoing partner is then paid such sum as may have been agreed upon, the payment being either made in cash or spread over a period. The continuing partners will probably continue to use the books of the firm, and it then becomes necessary to consider the entries that require to be made in these books to adjust them to the altered position of affairs.

The following example shows alternative methods of dealing with this problem :—

PROBLEM.—On the 31st December 1920 the Balance Sheet of A. and B. stood as follows :—

BALANCE SHEET, 31st December 1920.

Liabilities	£ s d	*Assets*	£ s d
A. Capital Account	1,500 0 0	Premises	250 0 0
B. do do.	1,000 0 0	Stock	200 0 0
Sundry Creditors	500 0 0	Sundry Debtors	2,000 0 0
		Cash	550 0 0
	£3,000 0 0		£3,000 0 0

A. buys out B., agreeing to pay him £1,600 for his share of the assets and goodwill of the business as it stands, £400 being paid at once, and the balance to be paid in three months' time.

You are required to show the Balance Sheet of A. as at 1st January 1921 (after the transaction has been carried through), and also the Capital Accounts of A. and B.

Dr. "A." CAPITAL ACCOUNT. *Cr.*

		£ s d			£ s d
1920 Dec. 31	To Balance down	2,100 0 0	1920 Dec. 31	By Balance	1,500 0 0
			"	" Goodwill	600 0 0
		£2,100 0 0			£2,100 0 0
			1921 Jan. 1	By Balance	2,100 0 0

Dr. "B." CAPITAL ACCOUNT. *Cr.*

		£ s d			£ s d
1920 Dec. 31	To Transfer to "B." Account	1,600 0 0	1920 Dec. 31	By Balance	1,000 0 0
			"	" Goodwill	600 0 0
		£1,600 0 0			£1,600 0 0

Dr.		"B."			Cr.
1920 Dec. 31	To Cash	£400 0s 0d	1920 Dec. 31	By Transfer from "B." Capital Account	£1,600 0s 0d
"	" Balance down	1,200 0 0			
		£1,600 0 0			£1,600 0 0
			1921 Jan. 1	By Balance	1,200 0 0

BALANCE SHEET, 1st January 1921.

Liabilities	£ s d	*Assets*	£ s d
"A." Capital Account	2,100 0 0	Goodwill	1,200 0 0
"B."	1,200 0 0	Premises	250 0 0
Sundry Creditors	500 0 0	Stock	200 0 0
		Sundry Debtors	2,000 0 0
		Cash	150 0 0
	£3,800 0 0		£3,800 0 0

NOTE.—If preferred, the Goodwill Account might be written off, reducing "A.'s" Capital Account to £900. A shorter way of recording the transaction is to credit "B." with £600 (the amount required to adjust the balance of his account with the agreed purchase-price), and debit "A.'s" Capital Account with the same amount. No Goodwill Account will then be required.

TRANSFER OF BUSINESS.

Closely allied with the foregoing is the case of a sole trader selling his business as it stands to another, who wishes to continue using the same books. This problem is perfectly simple, if it be borne in mind that the Capital Account of the outgoing proprietor *primâ facie* shows the amount due to him from the business. If necessary, the balance of that account must be adjusted, so as to agree with the purchase-price that the vendor is about to receive; and, the sale being effected, the account remains open in the Ledger until the purchase-price has actually been paid. But from the date of the sale it, of course, ceases to be a "Capital" Account, the late proprietor now becoming merely a creditor of the business. The following example makes this position of affairs clear:—

PROBLEM.—On the 31st December 1920 A. D. prepared a Balance Sheet of his business as follows :—

BALANCE SHEET, 31st December 1920.

Liabilities	£ s d	*Assets*	£ s d
A. D. Capital Account	1,000 0 0	Premises	200 0 0
Sundry Creditors	500 0 0	Stock	300 0 0
		Book Debts	900 0 0
		Cash at Bank	100 0 0
	£1,500 0 0		£1,500 0 0

On the 1st January 1921 he transferred the business to his son C. D., who paid him £400 for the Goodwill, Premises, and Stock, and agreed to discharge the liabilities, and to collect and account for the Book Debts, subject to a commission of 2½ per cent. The balance at Bank was retained by the father. C. D. opened a new Bank Account with a balance of £1,000, out of which he paid the £400 premium to his father. He decided to continue using the same books.

You are required to show (1) C. D.'s starting Balance Sheet, after the transfer had been effected and the premium paid, (2) C. D.'s Capital Account, and (3) the closing of the Capital Account of A. D.

BALANCE SHEET, 1st January 1921.

Liabilities	£ s d	Assets	£ s d
C. D. Capital Account	1,000 0 0	Goodwill	400 0 0
A. D. (in respect of Book Debts) ..	900 0 0	Premises	200 0 0
Sundry Creditors..	500 0 0	Stock	300 0 0
		Book Debts	900 0 0
		Cash at Bank	600 0 0
	£2,400 0 0		£2,400 0 0

Dr. C. D.—CAPITAL ACCOUNT. Cr.

		£ s d			£ s d
			1921 Jan. 1	By Cash	1,000 0 0

Dr. A. D.—CAPITAL ACCOUNT. Cr.

		£ s d			£ s d
1921 Jan. 1	To Cash	100 0 0	1920 Dec. 31	By Balance ..	1,000 0 0
"	" do. per C. D.	400 0 0	1921 Jan. 1	" Goodwill ..	400 0 0
"	" Balance transferred to A. D. Account	900 0 0			
		£1,400 0 0			£1,400 0 0

Dr. A. D. Cr.

		£ s d			£ s d
			1921 Jan. 1	By Balance from A. D. Capital Account.	900 0 0

NOTE.—The taking over of the liabilities is exactly balanced by the taking over of the Premises and Stock, the £400 is thus paid entirely in respect of Goodwill. If it is preferred not to open a Goodwill Account, the £400 must be debited to C. D.'s Capital Account, reducing the balance to £600. It is best not to anticipate the 2½ per cent. Commission on the realisation of Book Debts, but to debit it to A. D.'s Account as and when remittances on account are made.

REALISATION ACCOUNTS.

The method of closing the books and adjusting the Capital Accounts of the various partners when the business is discontinued, and the assets realised, is shown in the next example. It should be stated, however, that in practice the Bought and Sold Ledgers would probably be discontinued as from the date of dissolution. If the Private Ledger is "self-balancing," the balances outstanding on the Sales Ledger Account and the Bought Ledger Account respectively at the date of the dissolution would be brought down in full detail, instead of being in total only so that the payment of the creditors and the realisation of the book debts might be perceived from a perusal of the Private Ledger alone. Or, if these creditors and debtors are very numerous, the better plan would be to adhere to the system of totals in the Private Ledger and to supplement the Adjustment Accounts by new Tabular Ledgers for creditors and debtors respectively, ruled in the form shown on the following page.

Ledger Folio	Name	Address	Ledger Balance	Date Paid	C.B. Folio	Cash	Discounts and Allowances	Remarks
			£ s d			£ s d	£ s d	

It will be perceived that the "Realisation Account" shown in the following example is for all practical purposes upon the same lines as an ordinary Profit and Loss Account. Often, however, the method is adopted of transferring the balance standing upon all the various assets' accounts to the debit of the Realisation Account as at the date of the dissolution. These assets' accounts are thus closed at once, and the cash realised on the disposal of the various assets is then posted direct to the credit of the Realisation Account. This last-named method is preferable where only a comparatively small number of accounts are involved, and is therefore specially suitable for problems arising at examinations. Whichever method be adopted, however, the balance of the Realisation Account will be the same—viz. loss (or profit) on the realisation—and this balance must be transferred to the Capital Accounts of the various partners; each partner bearing his share of the loss (or profit) in the proportions that may have been agreed.

The general rule as to profits and losses is laid down in Section 24 (1) of the Partnership Act, 1890: "All the partners are "entitled to share equally in the capital "and profits of the business, and must "contribute equally towards the losses, "whether of capital or otherwise, sustained "by the firm." All that the rule means is that there is no necessary connection between the proportions in which capital is contributed and that of profit and loss, and that, therefore, *primâ facie*, partners share profits and bear losses equally, notwithstanding that the capital contributed by each may not be equal. (See A. Underhill, "Principles of the Law of Partnership," 2nd Edition, 1906, and see F. Pollock's "Digest of the Law of Partnership," p. 81, 11th edition, 1920). In the absence of a special agreement to the contrary, all partners share both profits and losses equally, quite irrespective of the amount of capital standing to their credit; but if it has been agreed that profits are to be shared in any other proportion, partnership losses must be borne in the same proportion as profits were to have been, unless there is a special agreement that they are to be borne in a different proportion.

The following example shows in full the entries necessary to close the books of a firm and adjust the accounts of the various partners:—

PROBLEM.—J., H., and B. are partners; their interests in the profits of the firm are one-half, three-eighths, and one-eighth respectively. On December 31st 1919 the partnership terminates, and the Balance Sheet is as follows:—

BALANCE SHEET, 31st December 1919.

Liabilities	£	Assets	£
Sundry Creditors	3,550	Cash at Bankers	250
J., Capital Account	3,500	Bills Receivable	300
H., Capital Account	1,500	Book Debts	6,000
B., Capital Account	1,000	Stock	1,000
		Lease	500
		Plant and Machinery	1,500
	£9,550		£9,550

On June 30th 1920, when the affairs of the firm have liquidated, it is found that the assets have realised £400 less than the values on the Balance Sheet of December 31 1919, viz. Book Debts, £100 less; Lease, £150 less; and Plant and Machinery, £150 less.

The expenses of winding-up the business amount to £90, and the partners are entitled to interest at 5 per cent. per annum upon their Capital Accounts. Show how to close the books at June 30th 1920, giving each partner's account, with the balance ultimately found to be payable to him.

Dr. CASH AT BANKERS *Cr*

1920		£ s d	1920		£ s d
Jan. 1	To Balance	250 0 0	June 30	By Creditors	3,550 0 0
June 30	„ Bills Receivable	300 0 0	„	„ Liquidation Expenses	90 0 0
„	„ Book Debts	5,900 0 0	„	„ Balance down	5,510 0 0
„	„ Stock	1,000 0 0			
„	„ Lease	350 0 0			
„	„ Plant, &c.	1,350 0 0			
		£9,150 0 0			£9,150 0 0
July 1	To Balance down	5,510 0 0			

Dr. REALISATION ACCOUNT. *Cr*

1920		£ s d	1920			£ s d
June 30	To Loss on Book Debts	100 0 0	June 30	By Loss on Realisation, transferred to—		
„	„ do. Lease	150 0 0		J.	£320	
„	„ do. Plant, &c.	150 0 0		H.	240	
„	„ Cash, Liquidation Expenses	90 0 0		B.	80	
„	„ Interest, J.	87 10 0				640 0 0
„	„ do. H.	37 10 0				
„	„ do. B.	25 0 0				
		£640 0 0				£640 0 0

Dr. J. (CAPITAL ACCOUNT). *Cr.*

1920		£ s d	1920		£ s d
June 30	To Realisation Account—Loss	320 0 0	Jan. 1	By Balance	3,500 0 0
„	„ Balance down	3,267 10 0	June 30	„ Interest	87 10 0
		£3,587 10 0			£3,587 10 0
			July 1	By Balance down	3,267 10 0

Dr H. (CAPITAL ACCOUNT). *Cr*

1920		£ s d	1920		£ s d
June 30	To Realisation Account—Loss	240 0 0	Jan. 1	By Balance	1,500 0 0
„	„ Balance down	1,297 10 0	June 30	„ Interest	37 10 0
		£1,537 10 0			£1,537 10 0
			July 1	By Balance down	1,297 10 0

Dr.		B. (CAPITAL ACCOUNT).			*Cr.*
1920		£ s d	1920		£ s d
June 30	To Realisation Account—Loss	80 0 0	Jan. 1	By Balance	1,000 0 0
"	" Balance down	945 0 0	June 30	" Interest	25 0 0
		£1,025 0 0			£1,025 0 0
			July 1	By Balance down	945 0 0

Dr		BILLS RECEIVABLE.			*Cr.*
1920		£ s d	1920		£ s d
Jan. 1	To Balance	300 0 0	June 30	By Cash	300 0 0

Dr.		SUNDRY CREDITORS.			*Cr.*
1920		£ s d	1920		£ s d
June 30	To Cash	3,550 0 0	Jan. 1	By Balance	3,550 0 0

Dr.		BOOK DEBTS.			*Cr.*
1920		£ s	1920		£ s d
Jan. 1	To Balance	6,000 0 0	June 30	By Cash	5,900 0 0
			"	" Realisation Account	100 0 0
		£6,000 0 0			£6,000 0 0

Dr.		STOCK			*Cr*
1920		£ s d	1920		£ s d
Jan. 1	To Balance	1,000 0 0	June 30	By Cash	1,000 0 0

Dr.		LEASE			*Cr.*
1920		£ s d	1920		£ s d
Jan. 1	To Balance	500 0 0	June 30	By Cash	350 0 0
			"	" Realisation Account	150 0 0
		£500 0 0			£500 0 0

Dr.		PLANT AND MACHINERY			*Cr.*
1920		£ s d	1920		£ s d
Jan. 1	To Balance	1,500 0 0	June 30	By Cash	1,350 0 0
			"	" Realisation Account	150 0 0
		£1,500 0 0			£1,500 0 0

NOTE.—Interest upon Capital is not payable after the date of dissolution, save by special arrangement; but the wording of the problem suggests the existence of such a special arrangement between the partners.

When one partner of a firm in process of dissolution is insolvent, the position becomes slightly more complicated. The provisions on this subject of the Bankruptcy Act, 1914 (Sections 114-119), should be kept in view. If there be only two partners, and the Capital Account of one is overdrawn and he is unable to bring into the partnership the amount of such deficiency, it becomes necessary for the solvent partner to bring in such further moneys as may be required to pay the debts of the firm, and he would be entitled to claim against the estate of the insolvent partner for the additional amount so brought in by him, as well as for the balance standing to the debit of the insolvent partner's Capital Account; but, of course, he would not be able to rank for dividend in competition with the creditors of that partner's separate estate. (See, however, on this point *In re Head* [1894], 1 Q.B. 638; [1893], 3 Ch. 426; [1894] 2 Ch. 236.) When a firm consists of three or more partners the position becomes further complicated in the event of the insolvency of one, and the position then obtaining will be best explained by the aid of the following :—

PROBLEM.—A., B., and C. went into partnership under an agreement that the Capital of the business should be contributed by them in certain unequal shares, but that the profits should be divided equally. Upon a dissolution, after satisfying all liabilities to Creditors, the position was as follows :—

BALANCE SHEET.

Liabilities	£	s	d	*Assets*	£	s	d
A., Capital	2,500	0	0	Cash	1,916	0	0
B., "	314	0	0	C., Capital overdrawn	263	0	0
				Deficit	635	0	0
	£2,814	0	0		£2,814	0	0

C. is insolvent, and thus quite unable to make good his share of the deficit. How should the cash balance be divided ?

A., B., and C. are each liable to contribute £211 13s. 4d. (*i.e.* one-third of the deficit); A. and B. are in a position to contribute their respective shares, but C.—being insolvent—is not. The Balance of Cash will thus be increased to £2,339 6s. 8d., which will be available for distribution between A. and B. *pro rata*, according to their respective Capitals. *Prima facie* their respective Capitals will be determined by the articles of partnership, but these may have been varied by mutual consent · if it has been the practice (as is frequently the case) to debit drawings and credit profits to Capital and to carry forward the resultant balance, then the last Balance Sheet agreed to by all the partners will determine their respective Capitals. (*Garner v. Murray* [1904], 1 Ch. 57.) "Lindley on Partnerships," 8th Edition (1912) p. 687.

NOTE.—In the 8th Edition of "Lindley on Partnership" (1912, p. 687) this case is compared with the following case :—If the true meaning of the partners is that "all debts shall be paid out of the assets, and that "any surplus assets remaining after payment of debts shall be divided between the partners in proportion to their "interest therein or to their capitals, effect must be given to such agreement, and those partners who agree to bring "in most capital will lose most." (See Wood v. Scoles, L.R., 1 Ch. 369; Eclipse Gold Mining Co., 17 Eq. 490; and Holyford Mining Co., Ir. Rep. 3 Eq. 208. See also Pollock's "Digest of the Law of Partnership," 11th Edition (1920), p. 142.)

ORDER OF DISTRIBUTION OF ASSETS.

Another point that must be carefully borne in mind is the provision contained in the Partnership Act, 1890, as to the *order* in which the proceeds of the various assets are to be applied, in the event of a dissolution. This order is as follows :—

(1) In payment of the debts and liabilities of the firm to outside creditors.

(2) In payment to each partner rateably of amounts *lent* by him to the firm (if any), as distinguished from Capital.

(3) In payment to each partner rateably of the Capital due to him from the firm.

(4) The surplus (if any) to be divided in the same proportion as profits are divisible.

This rule sometimes gives rise to the misconception that, in the event of a deficiency of assets, those partners who have advanced money to the firm have a preferential claim upon all assets remaining after the outside creditors have been satisfied, and that in the event of there not remaining sufficient to repay capital in full the balance must be applied in the form of a dividend of so much in the £ upon the capital contributed by each partner. As a matter of fact, this view is quite incorrect Partners are liable to make good *inter se* whatever losses have been incurred by the partnership. If the assets are not sufficient to repay capital, as well as loans and outside creditors, there must necessarily have been a loss, and each partner is liable to repay to the firm his share of such loss. (But the case of *Boehm v. Goodall* ([1911] 1 Ch. 155) should be kept in mind. In that case, an action for dissolution of partnership, the Court appointed by consent a receiver and manager to carry on the business and he made payments that the assets could not satisfy. It was held that he was an officer of the Court and could only look to the assets under the control of the Court, and was not entitled to be indemnified by the partners personally.) In ordinary cases, it is not usual to require each partner to find his share in cash, and then to refund to him the whole of his capital intact ; what is done is to debit each partner's *account* with his proportion of the loss, and only to ask him for a further contribution in the event of his Capital Account (when so adjusted) showing a debit balance.

In the following example (page 80) the Capital Account of one of the partners shows a debit balance, which is made good by a transfer from his Loan Account. This example is included, as showing that the order of distribution stated in the Partnership Act, 1890, has under some circumstances the effect that one partner may find that he does not receive back even his loans in full, while another may receive back not only his loans, but also a portion of his capital. The golden rule to be observed in all these cases is that, in order to adjust the accounts of the various partners, *it is invariably necessary to ascertain the final balance of profit (or loss) up to the date of distribution, and to credit (or debit) each partner with his respective share, in the proportions in which it has been agreed that profits or losses are to be shared.* This is entirely irrespective of the amount of capital (or loans) that each partner may have put into the business. When, however, the partner whose account is in debit *cannot* pay what he owes to the firm, the rule in *Garner v. Murray* (p. 78) applies.

Questions will no doubt arise as to the effect on the order of distribution of assets of the Limited Partnerships Act, 1907. It is to be remembered that by Section 7 of this Act—the Partnership Act of 1890—applies to limited partnerships, subject to the provisions of the Act of 1907. It must be noticed that where a limited partnership is being carried on at a loss, and the general partner, who has made drawings on account of profits, refuses without any sufficient reason to sign the annual general account under which drawings in excess of profits would be repayable, and otherwise acts in a way calculated prejudicially to affect the carrying on of the business, the limited partner is entitled to a winding-up order under the Companies (Consolidation) Act, 1908, Section 268, Subsection 1, Ch. VII, and the Limited Partnership (Winding-up) Rules, 1909 (*In re Hughes & Co.* [1911] 1 Ch. 342). (See Pollock's "Digest," 11th Edition (1920), p. 218.)

PROBLEM.—A. and B. are partners sharing profits equally. Their capital, as it appears in the books of the partnership on the 30th June 1920 (the date on which they dissolve partnership), is A. £2,000 and B. £500. The total amount owing by the firm is £5,000, which includes £1,000 due to A. on Loan Account, and £500 due to B. on Loan Account. The whole of the assets of the firm realised £6,000.

Prepare accounts closing up the partnership, and show the position in which the partners stand with each other.

On the facts stated the Balance Sheet of the firm must have been as follows :—

BALANCE SHEET, 30th June 1920.

Liabilities	£ s d	*Assets*	£ s d
A., Capital Account	2,000 0 0	Miscellaneous Assets	7,500 0 0
B., Do.	500 0 0		
A., Loan Account	1,000 0 0		
B., Do.	500 0 0		
Sundry Creditors	3,500 0 0		
	£7,500 0 0		£7,500 0 0

The Ledger Accounts than appear as under :—

Dr. REALISATION ACCOUNT. *Cr.*

		£ s d				£ s d
1920 June 30	To Amount of Assets at this date as per books	7,500 0 0	1920 July 1	By Cash, total amount realised on Assets		6,000 0 0
			"	" Loss, apportioned thus :—		
				A.	£750 0 0	
				B.	750 0 0	
						1,500 0 0
		£7,500 0 0				£7,500 0 0

Dr. SUNDRY CREDITORS. *Cr.*

		£ s d			£ s d
1920 July 1	To Cash	£3,500 0 0	1920 June 30	By Amount as per Balance Sheet	£3,500 0 0

Dr A. (LOAN ACCOUNT). *Cr.*

		£ s d			£ s d
1920 July 1	To Cash	£1,000 0 0	1920 June 30	By Amount as per Balance Sheet	£1,000 0 0

Dr. B. (LOAN ACCOUNT). *Cr.*

		£ s d			£ s d
1920 July 1	To Transfer from Capital Account	250 0 0	1920 June 30	By Amount as per Balance Sheet	500 0 0
"	" Cash	250 0 0			
		£500 0 0			£500 0 0

Dr. A. (CAPITAL ACCOUNT) *Cr.*

		£ s d			£ s d
1920 July 1	To Share of Loss	750 0 0	1920 June 30	By Amount as per Balance Sheet	2,000 0 0
"	" Cash	1,250 0 0			
		£2,000 0 0			£2,000 0 0

Dr.	B. (CAPITAL ACCOUNT).				Cr.
1920 July 1	To Share of Loss	£ s d 750 0 0	1920 June 30 July 1	By Amount as per Balance Sheet .. .. " Transfer to Loan Account, being deficiency of Capital which B. is liable to make good	£ s d 500 0 0 250 0 0
		£750 0 0			£750 0 0

Dr.	CASH			CONTRA	Cr.
1920 July 1	To Proceeds of Realisation ..	£ s d 6,000 0 0	1920 July 1 " " "	By Sundry Creditors . .. . " A (Loan Account) . .. .. " B (balance of Loan Account) . .. " A (Capital Account)	£ s d 3,500 0 0 1,000 0 0 250 0 0 1,250 0 0
		£6,000 0 0			£6,000 0 0

NOTE. For convenience it has been assumed that the realisation of the estate was completed on 1st July 1920.

PAYMENT ON ACCOUNT.

When the whole of a partnership estate can be realised before it becomes necessary to make any payments on account to the several partners, unquestionably the simplest course to pursue is to proceed upon the lines already explained, and ascertain the exact amount of each partner's interest in the firm before making ***any*** payment to him. By this means all risk of over-paying a partner can be avoided. Occasionally, however, the necessity of making payments on account will arise (as *In re Hughes & Co.* [1911] 1 Ch. 342 *supra*), and the rule in such cases will readily be seen from the following :—

PROBLEM.—A., B., & C. entered into partnership on the terms that A. was to have a half-share of profits and B. and C. a one-fourth share each. On the partnership being dissolved, the position of affairs was as follows :—

BALANCE SHEET, 31st December 1920

Liabilities		£ s d	*Assets*	£ s d
A., Capital	£1,000 0 0		Miscellaneous Assets	4,000 0 0
B., "	1,000 0 0			
C., "	600 0 0			
		2,600 0 0		
Creditors		1,400 0 0		
		£4,000 0 0		£4,000 0 0

The Assets realised £3,400, which was received in instalments, as follows :—£1,400; £1,000; £1,000.

How should the proceeds of the Assets be applied, as and when received ?

In the first instance the outside creditors should be paid off, and the first instalment of £1,400 exactly suffices for this purpose, all subsequent receipts are therefore available for distribution among the partners *inter se*. It will be observed, however, that the partners' Capitals do not stand in the same ratio as their respective interests in the profits of the firm. The first moneys distributed must therefore be applied in *reducing the Capitals of those partners which are in excess* until they stand in the ratios of

A. two parts.
B. one part.
C. one part.

To enable this to be done £500 must be paid to B. and £100 to C. before anything can be returned to A. The second instalment of £1,000 will thus be applied as follows:—

£500 to B., and £100 to C.; after which the remaining £400 can be divided—£200 to A., £100 to B., and £100 to C. At this stage, therefore, there will remain £800 to the credit of A., £400 to the credit of B., and £400 to the credit of C., the Capital Accounts being now in the proper ratios.

The last instalment of £1,000 may *then* be distributed in the same proportions as profits, namely—

£500 to A.,
£250 to B.,
£250 to C.

There will then still remain £300 to the credit of A., £150 to the credit of B., and £150 to the credit of C.; and as no further assets remain to be realised, these amounts represent the losses respectively sustained by the partners, which, it will be seen, are in the correct ratios.

All this, of course, is only another way of saying that any interim distribution to partners should be made in the proportions they would respectively be entitled to the balance available, if all the unrealised assets were irrecoverable, and therefore represented losses.

It may be noted here that a partner who is appointed receiver of the partnership assets by the Court on the usual terms is entitled to be paid his remuneration and costs as receiver out of the funds in his hands as receiver, although as a partner he is indebted to the partnership and is unable to pay what he owes (*Davy v. Scarth* [1906], 1 Ch. 55).

CALCULATION OF INTEREST.

When, on a dissolution, one partner goes out and another continues the business, the question of interest frequently arises in practice, although all calculation of interest as a rule ceases at the date of dissolution, and not (apart from special agreement) on the date of the final settlement of the Partnership Accounts (see *Barfield v. Loughborough*, L.R. 8 Ch. 1, and *Bonville v. Bonville*, 35 Beav. 129), and Pollock's "Digest," 11th Edition (1920), p. 113), even if the partnership articles provide for interest on capital. When the continuing partner also continues the old books, the adjustment of this problem can usually be best effected by raising an Account Current *outside* the books altogether.

The following example will show what is meant better than any general explanation:—

PROBLEM.—M. & N., being equal partners, agree to dissolve as from 31st December 1919, and the following is their position:—

They owe Creditors £960, they have Debtors, £3,600, and Office effects £200. M. is to realise the debts, to pay the liabilities, to take over the office effects at £180, to allow N. £500 for his share of goodwill, and to pay him his proportion as realised. The debts realise less by £80, and after payment of creditors they are realised at an average date of six months from the date of dissolution. M. pays N. £1,000 at the end of three months, and the balance at the end of twelve months, with interest at 5 per cent. per annum.

What must he then pay?

Dr N. IN A/C WITH M. *Cr.*

		Interest £ s d	Cash £ s d			Interest £ s d	Cash £ s d
1920 Mar. 31	To Cash	37 10 0	1,000 0 0	1920 Jan. 1	By Half-Share of Office Effects taken over by M. at £180	4 10 0	90 0 0
Dec. 31	" Balance of Interest ..	24 0 0		"	" Half-Share of Goodwill ..	25 0 0	500 0 0
"	" Balance down (being amount due to N., including Interest)	..	894 0 0	June 30	" Half-Share of proceeds of Book Debts, less amount due to Creditors (£3,520—960=£2,560)	32 0 0	1,280 0 0
				Dec. 31	" Interest to date	..	24 0 0
		£61 10 0	£1,894 0 0			£61 10 0	£1,894 0 0
				1921 Jan. 1	By Balance down	..	894 0 0

An alternative method of calculating Interest is by products, as follows:—

Dr. N. IN A/C WITH M. *Cr.*

Date		No. of Days	Products	£	s	d	Date		No. of Days	Products	£	s	d
1920 Mar. 31	To Cash	275	275,000	1,000	0	0	1920 Jan. 1	By Half-Share of Office Effects, taken over by M. at £180 .. .	365	32,850	90	0	0
"	" Balance of Products .	..	175,870				"	" Half-Share of Goodwill	365	182,500	500	0	0
							June 30	" Half-Share of proceeds of Book Debts, *less* amount due to Creditors ..	184	235,520	1,280	0	0
			450,870							450,870			
Dec. 31	" Balance (due from M. to N.)	..	..	894	1	9	Dec. 31	" Interest (175,870 ÷ 7,300)	..	.	4	1	9
				£1,894	1	9					£1,2894	1	9
							1921 Jan 1	By Balance down	..	.	894	1	9

NOTE. (1) *It will be observed that there is a difference of 1s. 9d. in the Interest between the two methods; this is because the calculation is by months under the first method and by days under the second.* (2) *The rule for finding the proper divisor under the second method is to multiply the number of days in the year by 100, and then divide by the rate of interest employed* $\left(\frac{365 \times 100}{5} = 7,300\right)$.

AVERAGE DUE DATE.

The problem just considered suggests that, of the numerous items making up the debts received and the liabilities paid, the "average date" of settlement was the 30th June 1920. This question of average due date frequently arises in connection with interest calculations, as affording in many instances by far the simplest method of computing the actual amount of interest to be taken into account. The present seems, therefore, a suitable opportunity for explaining how such calculations are made.

For the sake of simplicity, only a limited number of items will be assumed. Let us suppose that the Book Debts collected are made up as follows:—

1920		£	
April	10	1,000	
"	11	120	
July	19	1,400	
Sept.	2	1,000	
		——	£3,520

and that the liabilities paid consist of the following items:—

1920		£	
March	21	100	
April	11	260	
May	15	300	
Nov.	26	300	
		——	£960

The rule to adopt is as follows:—Take any convenient date (preferably one of the dates recorded in the example), multiply each amount by the number of days intervening between the date selected and the date of that item. Add the products together, and divide by the total of the original amounts. The result will be the number of days between the average date and the date originally selected, so that the latter can by this means readily be ascertained. Having thus ascertained independently the average date of receiving the book debts, and the average date of discharging the liabilities, the combined average may be obtained in the same manner; save that the date selected must be one different from either average date, and the products must be deducted instead of being added together, and then divided by the difference between the two amounts. The full working is shown below, which (combined with the above description) will make the method of procedure clear.

£1000	×	0	=	Nil.
120	×	1	=	£120
1400	×	100	=	140000
1000	×	145	=	145000
£3520				£285120

£3520) £285120 (81 days after 10th April = 30th June
28160
3520
3520
....

£100	×	0	=	Nil.
260	×	21	=	£5460
300	×	55	=	16500
300	×	250	=	75000
£960				£96960

£960) £96960 (101 days after 21st March = 30th June
960
960
960
...

The shortest way of ascertaining a "combined" average date (working, say, from 1st July) is as follows:—

£3520	×	1	=	£3520
960	×	1	=	960
£2560				£2560

£2560) £2560 (1 day before 1st July = 30th June

CHAPTER IX.

COMPANY ACCOUNTS.

It is proposed in the present chapter to consider those problems in accounting which are peculiar to companies registered under the Companies (Consolidation) Act, 1908, or incorporated by special Act of Parliament. The treatment of companies' accounts in other respects is dealt with elsewhere, and with a few obvious exceptions all the chapters in this work apply to the accounts of companies as much as to those of other undertakings.

Speaking generally, for the purposes of the present chapter, the books of companies may be divided into two sections—viz. those that deal with the detailed accounts of the various shareholders and debenture-holders, and those that deal with the ordinary financial transactions of the undertaking. As, however, these two sections to some extent record the same transactions (although from different points of view), it will be convenient, when dealing with each particular problem, first to explain the method of recording it in the financial books, and afterwards those entries which are necessary in the subsidiary Share Books.

ISSUE OF CAPITAL.

In the nature of things one of the earliest transactions upon which a company embarks is the issue of capital. In the case of private syndicates and other similar undertakings—which, while securing the benefits of registration with limited liability, are owned by a very small number of proprietors—no very special treatment becomes necessary in connection with the issue of Capital. In such cases separate Share books are only necessary to meet the requirements of the statutes, and it will very likely be found convenient to record all the various transactions fully in the financial books, opening a Personal Account for each shareholder, which will be debited with the amount from time to time called up upon his shares and credited with the amount which he pays thereon. Under normal circumstances, however, the number of shareholders in a company is so considerable that it is not convenient to include their various Personal Accounts in the financial books. A separate Share Ledger is therefore employed, and "Total Accounts" only are kept in the General Ledger. These total accounts are for all practical purposes "Adjustment Accounts." The exigencies of the case point, as a matter of convenience, to two sets of such Adjustment Accounts being employed: one set to check the accuracy of the Ledgers with regard to the number of shares issued under each class and the amount called up thereon, and the other set to check the amount due (or in arrear) from time to time from the shareholders whose accounts are kept in detail in each separate Ledger. A separate account must invariably be kept in the General Ledger recording the amount from time to time called up upon each class of Shares, Stock, or Debentures issued, as the information under this heading has a fundamental bearing upon the financial aspect of the undertaking, and must therefore be shown in its periodical Balance Sheets. The amount due from time to time from individual investors need not, however, necessarily be shown in detail. This is rather a question of practical expediency. Separate totals must, of course, be shown of the arrears due from shareholders and the arrears due from debenture-holders; but it is not necessary for either of these totals to be further split up, unless the number of personal accounts is so considerable as to render this course desirable with a view to facilitating the exact balancing of the detailed records in the Share and Debenture Ledgers respectively. So far as stockholders are concerned, Stock being invariably fully paid-up, no arrears can arise, and no special difficulty will therefore occur under this heading.

The most convenient method of recording entries in connection with the issue of Capital is perhaps best shown by way of the following :—

PROBLEM.—A Company formed to acquire an established business issues £60,000 ordinary capital in £10 shares payable £1 on application, £2 on allotment, and the balance three months after allotment; £50,000 preference capital in £10 shares, payable in the same manner; and £50,000 in debentures of £100 each, payable 10 per cent on application, and the balance on allotment. The whole was subscribed and allotted on the 15th January 1920.

Make Journal entries relating to the issue of the capital.

JOURNAL, 1920.

		Dr. £	s	d	Cr. £	s	d
Jan. 15	Application Account (O.S.)	6,000	0	0			
	Allotment Account (O.S.)	12,000	0	0			
	To Ordinary Share Capital Account	..			18,000	0	0
	(Being £3 per share on 6,000 Ordinary Shares allotted this day, as per Minute of this date)						
Mar. 15	Call Account (O.S.)	42,000	0	0			
	To Ordinary Share Capital Account	..			42,000	0	0
	(Being call of £7 per share on 6,000 Ordinary Shares, due 15th April 1920, as per Minute of this date)						
	(Similar entries for 5,000 Preference Shares)						
Jan. 15	Sundry Debenture-holders	50,000	0	0			
	To Debentures Account	..			50,000	0	0
	(Being amount payable on 500 £100 Debentures issued this day, as per Minute of this date)						

NOTES.—It will be seen that in this case separate "Application," "Allotment," and "Call" Accounts are opened for each class of shares to facilitate separate balancing by stages; if, however, there is not likely to be any serious difficulty in balancing, one general "Shareholders' Account" would suffice. This latter method is shown in connection with the debenture issue. The date of the Journal entry relating to the Call will be the date of the resolution of the Board "making" the Call, and not the date when it becomes payable.

APPLICATIONS.

The detailed record of applications from investors, and of the subsequent allotments and the collection of instalments due, involves transactions of a somewhat special nature on account of the very considerable number of Personal Accounts that usually have to be kept, and also because the exigencies of the case require that these accounts should be compiled against time and therefore upon such a system as will readily enable them always to be kept up to date. These special requirements are met by a combination of the "Tabular System" with the "Slip System" of accounts. A general outline of the Tabular System has already been given in Chapter VI, while in Chapter XVIII will be found a description of the Slip System. Inasmuch, however, as its application for the present purpose involves only a quite rudimentary knowledge of the system, it is thought that the reader will experience no difficulty in grasping the following description without waiting to acquire a thorough mastery of the Slip System in all its numerous developments. The essential feature of the Slip System is to employ *the same record* for two or more different purposes in accounting, and for the present purpose it is not necessary to go beyond this point. For the sake of clearness, the following description is confined to the issue of a particular class of capital—*e.g.* Ordinary Shares. The same procedure will, however, apply to every other class of Share Capital, and also to Debenture issues; while in connection with issues of Stock, it is only necessary to add that, as a rule, Stock is not issued, save in exchange for fully paid-up shares; but in the event of its being issued direct, the collection of the various instalments making such Stock fully paid will invariably be recorded in the Application and Allotment Sheets, so that thereafter no record becomes necessary, other than the amount of Stock standing to the credit of each separate investor. Until it is fully paid, it is called "scrip," not "stock." When a simultaneous issue is being made for two or more different classes of Capital the various issues should be kept separate *ab initio*, both because the transactions are essentially separate, and also for the sake of facilitating balancing by keeping the work divided into well-defined sections. To guard against the confusion that would arise from entries being recorded under the *wrong* sections, it is, however, desirable that all papers and documents of every description should be clearly distinguishable, either by being printed upon distinctively tinted paper, or being clearly headed in differently coloured inks.

With these preliminary observations the detailed explanation of the issue of Capital may be proceeded with. The initial record in connection with these transactions is the letter of application received from the investor, which should in all cases be upon the prescribed form. This form will vary in detail, according to the requirements of the case, but should always consist of two separate parts—the upper containing the actual application (and showing *inter alia* the name, address, and occupation of the applicant, the number of shares applied for, and the amount deposited upon such application); while the second part—which is detachable—should consist of the Bankers' receipt for the deposit paid on application. The first part will be lodged with the Company's Bankers, and will be received by the Company from its Bankers at convenient intervals, varying naturally according to the heaviness of the subscription list. From this part the preliminary records are made. The second section (*i.e.* the receipt for deposits) will be retained by the applicant, and eventually given up by him in exchange for the share certificate if an allotment takes place, or for a cheque returning the deposit in the event of no allotment taking place. From the Application Forms, as received from the Company's Bankers, the "Application and Allotment Sheets" are written up. These forms will be numbered consecutively as received, and entered upon separate sheets corresponding to the initial letters of the applicants' surnames; or in the case of a very heavy list there may be a further sub-division on the "vowel index" principle, which will divide the applications into 130 sections, five for each letter of the alphabet. This portion of the work should be kept as closely up to date as possible from hour to hour, and once every day at least while the subscription list is open the total of the column headed "Deposits Received on Applications" should be agreed with the amount accounted for by the Bankers in the Bank Pass Book. The exact form of Application and Allotment Sheet will vary somewhat according to the conditions of the proposed issue. Speaking generally, it is desirable that these Sheets (which are in tabular form) should record the Personal Accounts of the various applicants up to as late a date as possible, with a view to simplifying the records that will have to appear later in the Share Ledger. On the other hand, the tabular form of Ledger is unsuitable from the moment when any extensive transfers of shares are likely to take place, and therefore in practice it is rarely possible to employ the Tabular System up to the point when the shares become fully paid. Alternative forms, suitable for different circumstances, are given, and it will, of course, be under-

EXAMPLES:

ORDINARY SHARES.

A.—APPLICATIONS AND ALLOTMENTS SHEET (suitable when the whole of the Capital is called up quickly).

No. of Application	Name of Applicant	Address	Occupation	No. of Shares Applied for	Deposits Received on Application £ s d	C.B. Fo.	Remarks	Proposed Allotment	No. of Shares Allotted	No. of Allotment Letter	Distinctive Numbers of Shares Allotted From To	Amount due on Allotment £ s d	Cash Received in Payment of Allotment Money £ s d	C.B. Fo.	No. of Letter of Regret	Cash Returned on Applications Declined £ s d	C.B. Fo.	Amount of Call due 19 £ s d	Cash Received in Payment of Call £ s d	C.B. Fo.	Total Amount Paid up £ s d	Share Ledger Fo.	No. of Share Certificate

ORDINARY SHARES.

B.—APPLICATIONS AND ALLOTMENTS SHEET (suitable when the whole of the Capital is not called up quickly).

No. of Application	Name of Applicant	Address	Occupation	No. of Shares Applied for	Deposits Received on Applications £ s d	C.B. Fo.	Remarks	Proposed Allotment	No. of Shares Allotted	No. of Allotment Letter	Distinctive Numbers of Shares Allotted From	To	Amount due on Allotment £ s d	Cash Received in Payment of Allotment Money £ s d	C.B. Fo.	No. of Letter of Regret	Cash Returned on Applications Declined £ s d	C.B. Fo.	Total Amount paid up £ s d	Share Ledger Fo.	No. of Share Certificate

stood that anything intermediate between these two forms will be practicable, if suited to the special requirements of the case.

A careful perusal of the foregoing forms will show that when the results of the various sheets are summarised, as they should be from time to time, the total of the columns showing the aggregate amount of deposits received should agree with the amount accounted for by the Company's Bankers. The total amount of shares allotted should agree with the actual allotment made, and therefore with the entries made in the General Ledger through the medium of the Journal. The total amount of the column marked "Amount Payable on Allotment" should agree with the amount debited to Applications and Allotments Account in the General Ledger on the date when the allotment takes place, and so on. If the first form of Application and Allotment Sheets be used, the only particulars required in the Share Ledger will be the number (quantity) and the distinctive numbers of the shares standing in the name of each shareholder; but if, at the date of opening the Share Ledger, the shares are not fully paid, then each shareholder's Personal Account in the Share Ledger must also show the amount called up on his shares, and the amount (if any) in arrear thereon. The aggregate amount of such arrears must agree with the balance of the Corresponding Calls Account in the General Ledger. From the date that the Share Ledger is opened the Application and Allotment Sheets must be definitely closed. They should then be bound up for future reference when required, and from that time occupy the place occupied by any ordinary Led[illegible] which has been used up and supers[illegible] by a new one. If the sheets have [illegible] previously prepared with that end in view, it will be found that a Loose-Leaf Ledger transfer case is very convenient for the permanent binding of the Application and Allotment Sheets.

The form of Share Ledger that is most convenient will naturally vary to some extent, according to the form of Application and Allotment Sheets that have been used. The following forms correspond with the two forms of Application and Allotment Sheets already given. Intermediate forms can readily be designed from these where necessary.

EXAMPLE:

A.—FORM OF SHARE LEDGER (for fully paid Shares).

(*Surname*).. (*Christian Names*)..

(*Address*)..

....

(*Occupation*)..

ORDINARY SHARES of £—— each (fully paid up).

Shares Disposed of					Shares Acquired					Balances	
Date	Folio	Distinctive Numbers From	Distinctive Numbers To	No of Shares	Date	Folio	Distinctive Numbers From	Distinctive Numbers To	No of Shares	Date	No. of Shares

B.—FORM OF SHARE LEDGER (for Shares not fully paid)

(*Surname*).. (*Christian Names*)..

(*Address*)..

....

(*Occupation*)..

ORDINARY SHARES of £—— each.

Dr. CASH ACCOUNT. *Cr.*

Date	Particulars	Amount per Share called up	Folio	Amount due	Date	Particulars	Folio	Amount paid
				£ s d				£ s d

SHARE ACCOUNT.

Shares Disposed of					Shares Acquired					Balances	
Date	Folio	Distinctive Numbers From	Distinctive Numbers To	No. of Shares	Date	Folio	Distinctive Numbers From	Distinctive Numbers To	No. of Shares	Date	No. of Shares

The forms given on the preceding page contain all the information that is prescribed in the statutory "Register of Members." It is not therefore necessary that the latter should be kept as a separate book; but, if thought desirable, a separate Register may readily be provided, and such a course is sometimes preferred, as it avoids the disadvantage of offering to all comers information which is not specifically required by statute.

A "Stock Ledger" will be upon the same lines as a Share Ledger; but, owing to the altered circumstances, certain variations occur, and it is therefore thought desirable to give the following form of ruling suitable under the altered circumstances.

EXAMPLE:

FORM OF STOCK LEDGER.

(*Surname*)............................... (*Christian Names*).....................................

(*Address*)..

(*Occupation*)..

ORDINARY STOCK.

Stock Disposed of			Stock Acquired			Balances	
Date	Fo	Amount*	Date	Fo	Amount*	Date	Amount*
		£ s d			£ s d		£ s d

CALLS.

When the whole of the Capital issue is called up before the Share Ledger is opened, the Calls made from time to time are entered in the column, or columns, provided for that purpose in the Application and Allotment Sheets (*vide* forms on pages 88 and 89), and the moneys received in payment of such Calls are also posted to these Sheets from the Cash Book. If, however, the Share Ledger is opened before the whole of the Capital is called up, a special "Call Book" has to be provided. This, however, will be ruled in the same manner as the simplest form of

* If Stock is only transferable in multiples of £1, the shillings and pence columns are, of course, unnecessary.

Day Book, and therefore requires no detailed description. It may be mentioned in passing that if Capital receipts are entered in detail in the General Cash Book, it is desirable to provide an additional (inner) column for the record of these details, so that the periodical totals may readily be arrived at, which only need be posted into the General Ledger. Save, however, in the case of quite small companies, it is usually more convenient to employ a subsidiary Cash Book for the record of these receipts, the daily totals only appearing in the General Cash Book ; and where there are several different classes of shares, it will generally be found desirable to open a special banking account in respect of *each*, and to employ a subsidiary Cash Book for moneys received in respect of each class. In intermediate cases, however, one subsidiary Cash Book will suffice ; but, in that event, separate columns should be provided for each class of Capital, with a view to facilitating the sectional balancing of the Share Ledgers.

SHARE CERTIFICATES.

For the purposes of this work it is unnecessary to discuss in detail the duties of a Company Secretary, other than those which arise directly out of the accounts. It may be mentioned in passing, however, that at about this stage Share Certificates will have to be issued, in exchange for Allotment Letters and Bankers' receipts for instalments of Capital paid. It is convenient that a column should be added to the Application and Allotment Sheets for the record of the consecutive numbers of these certificates. If transfers are likely to be numerous, it will be found to be far more satisfactory to provide a form of Certificate that allows of the distinctive numbers being placed in the *margin*, rather than to employ a form which requires the distinctive numbers to be inserted in the body of the Certificate, as the latter form is very inconvenient if several groups of shares have to be placed on the same Certificate. In the case of Stock Certificates, such a difficulty does not arise, as no distinctive numbers are required, and the aggregate amount of stock need never be stated in more than one figure. For example, if it becomes necessary to register £1,500 stock in the name of A., which has been acquired by him from, say, five different stockholders, the Certificate will only be for "£1,500 stock," whereas if 1,500 shares have been acquired from five different shareholders, there will probably be at least five different groups of distinctive numbers, and perhaps considerably more.

TRANSFERS,

whether of Shares, Debentures, or Stock, in no way affect the financial position of the Company, and therefore involve no entries whatever in the financial books. Naturally, however, they involve the entry of corresponding records in the Share, Debenture, or Stock Ledgers, as the case may be. These entries are made through the medium of a Register of Transfers, a book which is in the nature of a Journal, kept (for the sake of convenience) upon tabular lines. The following is a fuller form of ruling than is generally adopted, perhaps, but the additional columns will in all cases be found to facilitate the rapid record of transactions, while at the same time avoiding as far as possible the risk of errors. The extra columns for the number of the old Certificate and the numbers of the new Certificates will be found particularly useful in practice.

ACQUISITION OF PROPERTY.

In the majority of cases a new Company is formed for purposes which include the

EXAMPLE:

REGISTER OF TRANSFERS (a separate Register to be kept for each class of Capital).

ORDINARY SHARES.

Date when lodged	No. of Transfer Deed	No. of Share Certificate	Transferor's		Shares Transferred					Transfer passed		Transferee's				No. of New Certificate	No. of Balance Certificate
			Folio	Name	No. of Shares	Distinctive Nos. From	Distinctive Nos. To	Total Amount paid up	Consideration	Date	No. of Minute	Folio	Name	Address	Occupation		
								£	£								

acquisition of some specific property or business, or of several such, with a view to working it, or them, thereafter. Accordingly, what are known in bookkeeping as " opening entries " are of very common occurrence in connection with Company Accounts ; and even when a Company is formed with what may be termed a " clean slate "—that is to say, without being tied down to the acquisition of any specific property for the purpose of carrying out its objects – it will doubtless in the near future have to enter into such a transaction in some form or another. Consequently " opening entries " of some kind will almost invariably have to be made in the books of a Company during the earlier stages of its career. These opening entries differ only in form from those with which the reader is doubtless already acquainted in connection with elementary bookkeeping exercises. Whenever property is acquired, the account (or accounts) set aside to record transactions in such property are debited with the cost price thereof, and the Personal Account of the Vendor is credited. This elementary principle of bookkeeping holds good for large as well as for small transactions. The basis of the transaction will be a contract, under seal, entered into by the Company, under which it agrees to acquire certain specific property for a certain specified consideration. Such a contract is, as a rule, confirmatory to a preliminary contract previously entered into between the Vendor and a trustee on behalf of the Company, the object of such preliminary contract being to give the Company a " firm option " to purchase. It need hardly be stated, however, that such a preliminary contract is not essential, and that its only object is to bind the Vendor until such time as the Company is in a position to contract for itself. A short way of recording such a transaction would be to debit accounts representing the various assets acquired, and to credit accounts representing the various liabilities and reserves (if any) taken over, and the various classes of consideration given by way of purchase-price. In practice, however, such a mode of accounting would be inconvenient—first, because the consideration is not invariably wholly handed over at the time that the contract becomes binding; and, secondly, because the actual consideration that passes in practice will never be exactly the same as the nominal consideration named in the contract. The causes of these differences, and the best method of dealing with them in accounts, is shown in detail in Chapter X; for present purposes, therefore, it may be assumed, for the sake of simplicity, that the actual consideration that passes *is* the same as the nominal consideration.

As at the date of the execution of the contract of purchase, a Journal entry should be made, crediting the Vendor with the nominal purchase consideration and debiting the various assets acquired. If (as is very frequently the case) the contract of sale includes the taking over by the Company of the Vendor's liabilities, then, of course, accounts must be opened and credited with the amount of such liabilities, and the credit to the Personal Account of the Vendor will be reduced to a corresponding extent. As, and when, the purchase-money is paid, the Vendor's account will be debited; and when the whole purchase-price has been paid, no balance will remain outstanding on the Vendor's account.

If the whole of the purchase-price is agreed to be discharged in cash, the payment of the Vendor is a very simple matter, and will be recorded in the books by means of postings to the debit of the Vendor's account from the credit side of the Cash Book. As a rule, however, only a portion of the purchase-price is so discharged, and in some cases the Vendor agrees to receive nothing whatever in Cash. The purchase-consideration is, as a rule, discharged either wholly or partially by the issue of Shares or Debentures, credited as fully-paid up; that is to say, Shares or Debentures which involve upon the allottee no liability to pay to the Company the face-value thereof. Such "paper" consideration is regarded as being valid payment, and although in many cases the purchase-price may be swollen to compensate for the non-payment of Cash, in other cases it may actually be reduced by this process, because the consideration is known to have an intrinsic value considerably in excess of par. Prior to the passing of the Companies Act, 1900, the issue of "fully-paid" Shares was beset by numerous restrictions, which not infrequently resulted in considerable hardship to the allottees, or to subsequent transferees to whom a legal knowledge of the circumstances might be imputed. Under the Companies Act, 1900, however, it was provided that so long as Shares are duly paid for, they need not necessarily be paid for in cash; all that is now necessary when it is sought to avoid the liability to pay for such Shares in cash is that a contract reciting the whole of the circumstances under which the allottee claims such Shares as fully-paid up must be filed with the Registrar of Joint Stock Companies within one month from the date of the allotment of such Shares. "Shares, whether sub-"scribed for in the memorandum or other-"wise taken, may now be paid up in money "or (with the consent of the company) in "money's worth, *e.g.* by making over to

" the company property or rendering to it " services. *Baglan Hall Co.*, 5 Ch. 346 " (Palmer's " Company Law," 10th Edition (1916) p. 117). This is the position under the Companies (Consolidation) Act, 1908, but particulars of any contract for the issue of fully-paid or partly-paid Shares must appear in any prospectus issued by the Company. (See Sections 25, 80, 88, and Schedule II of the Act of 1908.) This contract should invariably be prepared by the Company's Solicitors, and need not therefore be discussed in these pages. From the point of view of the accounts, all that is necessary is that there should have been such a contract, that its execution should have been duly authorised by the Directors, and that such authorisation should have been recorded in the Company's Minute Book. The Journal entry recording the transaction should refer to the contract, and also to the Minute authorising its execution. The nature of the entry is that it debits the Vendor with the nominal value of the consideration paid to him, and credits such value to the accounts opened to record the amount called up from time to time on the various classes of Shares or Debentures issued. With these preliminary remarks the exact nature of the opening entries of a Company will be readily understood from a study of the following:—

PROBLEM.—A Company, under a contract dated 1st January 1920, takes over as a going concern the business of A. Jones. The purchase-price is agreed at £100,000, payable as to £50,000 in Ordinary Shares of £1 each, £25,000 in 6 per cent. Preference Shares of £1 each, and the balance in cash.

The assets consist of Freehold Land and Buildings, £16,000; Plant and Machinery, £42,000; Stock-in-Trade, £37,000; Book Debts, £51,000. The liabilities are Sundry Creditors on Open Account, £27,000; Bills Payable, £18,000. There is a Reserve for Bad and Doubtful Debts amounting to £1,000.

The completion of the sale takes place on 12th January 1920.

Show, by means of Journal entries, the necessary entries in the financial books of the Company, disregarding the apportionment of outstandings (*vide* Chapter X.) :—

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	£	s	d	£	s	d
1st January						
Freehold Land and Buildings	16,000	0	0			
Plant and Machinery	42,000	0	0			
Stock-in-Trade	37,000	0	0			
Sold Ledger Account	51,000	0	0			
To A. Jones				146,000	0	0
(Being Property, as described above, acquired from Mr. A. Jones, as per contract of this date between him and the Company ; vide Minute No.—.)						
A. Jones	46,000	0	0			
To Bought Ledger Account				27,000	0	0
„ Bills Payable				18,000	0	0
„ Reserve for Bad and Doubtful Debts				1,000	0	0
(Being Liabilities, &c., as above described, taken over from Mr. A. Jones, under contract of this date between him and the Company ; vide Minute No. —.)						
12th January						
A. Jones	100,000	0	0			
To Ordinary Share Capital Account				50,000	0	0
„ 6 per cent. Preference Share Capital Account				25,000	0	0
„ Cash				25,000	0	0
(Being 50,000 Ordinary Shares of £1 each, Nos. 8-50,007 and 25,000 6 per cent. Preference Shares of £1 each, Nos. 150,001-175,000, allotted to A. Jones as fully paid-up, in pursuance of contract between him and the Company, dated 1st inst., filed with the Registrar of Joint-Stock Companies this day ; also Cash paid him, being balance of consideration under such contract ; vide Minute No. —.)						

NOTE.—The Book Debts are brought into account at their nominal figure, and not at the agreed purchase-price, so that the Sold Ledger Account may agree with the corresponding Adjustment Account in the Sold Ledger.

Before leaving this subject, it is desirable to draw attention to two modifications that sometimes arise in practice. (1) Occasionally the Share consideration paid to the Vendor will take the form of *partly* paid-up Shares, instead of fully paid-up Shares. In such a case, the Vendor will be debited, and the Share Capital Account credited, with the amount agreed to be regarded as paid-up upon the Shares in question; and Calls, up to the nominal value of the Shares, may be made by the Company thereafter in the usual way. The issue of partly paid-up Shares is, for practical purposes, restricted to "Reconstructions," which are dealt with in Chapter XV. (2) Occasionally the agreed purchase-consideration will be satisfied by an issue of fully paid-up Shares amounting in all to a smaller sum. So long as it is perfectly clear that the assets acquired by the Company are worth the nominal value attached to them, the effect of such an arrangement as this is that the Vendor's Shares are issued to him "at a premium," and the proper treatment of premiums is explained hereafter (p. 97). There is, as a rule, no inducement to inflate the nominal purchase-consideration unduly, because an *ad valorem* stamp duty has to be paid thereon; but if the shares issued to the Vendor in satisfaction of the purchase-price are not worth more than par, a serious question may arise as to whether the real facts of the case are not that the actual cost price *to the company* of the assets acquired by it is less than the price stated in the contract of sale. In such a case, it would not be proper to debit the various assets' accounts with anything in excess of the actual cost price and it may therefore become necessary to go behind the letter of the contract of sale, ascertain the true facts, and (for purposes of accounting) reduce the purchase-price accordingly, transferring the difference to "Goodwill," or some similar account. Such cases are, however, not very likely to occur often in practice.

FORFEITURE OF SHARES.

Under most Articles of Association the power is reserved to the Company to forfeit any Shares upon which Calls may remain unpaid for more than a prescribed length of time; this power can, however, only be exercised after due notice has been given to the registered holder of such Shares. In order to understand clearly the necessary entries to be made on a forfeiture taking place, it is important to appreciate the state of the books at that date. From time to time the Share Capital Account will show as a credit balance the aggregate amount called up upon all Shares that may have been issued, while the Allotment Account (or Calls Account, as the case may be) will show as a debit balance the amount in arrear. The effect of forfeiture is to forfeit all the *rights* of the then holder of such Shares and to reduce *pro tanto* the issued Capital of the Company. Accordingly, when Shares are forfeited, the credit balance of the Share Capital Account must be reduced by the amount called up on such Shares as have been forfeited. The act of forfeiture does not extinguish the liability of the late shareholder, and therefore at first sight it might appear to be unnecessary to write off the debit balance on the Allotment (or Calls) Account; but inasmuch as such balance is in all probability a Bad Debt, the moment of forefeiture would appear to be the proper time to write this fictitious asset out of the books, and in any event it can no longer be correctly described as the amount due from a member of the Company. Therefore, in so far as the amount called up upon the Shares forfeited represents an amount in arrear upon such Shares, it should be credited to the Allotment (or Calls) Account ; and the difference, which represents the amount actually received by the Company on the Shares that have been forfeited, should be transferred to a "Forfeited Shares Account." If the arrears of Calls are ultimately recovered after forfeiture, they also should be credited to the Forfeited Shares Account.

The Directors of a Company have power from time to time to re-issue such Shares as may have been forfeited, and, if they be re-issued at par, the entries in the financial books will be in all respects upon the same lines as though the Shares so re-issued formed part of a new issue ; but the Directors may, if they think it in the interest of the Company, re-issue such Shares at any discount, not exceeding the amount previously received from the original holder. The amount standing to the credit of the Forfeited Shares Account is available to make good this Discount, which must then be re-transferred from the Forfeited Shares Account to the credit of Applications and Allotments Account. Any balance that may remain thereafter to the credit of the Forfeited Shares Account represents a Premium received on Shares, and may be treated accordingly. (See generally *Hopkinson v. Mortimer Harley & Co.* [1917] 1 Ch. 646.)

PROBLEM.—The Directors of a Company pass a resolution on 13th July 1920 forfeiting 100 Ordinary Shares of £1 each, upon which a deposit of 2s. 6d per Share has been received, but upon which the 7s. 6d. due on allotment and a further call of 5s. per share remain unpaid. On the same date they re-issue the Shares to X, one of their number, credited with 15s. per Share paid-up thereon, for £70. Show, in Journal form, the necessary entries in the financial books of the Company.

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13th July.	£ s d	£ s d
Share Capital Account	75 0 0	
To Allotment Account		37 10 0
„ Call Account		25 0 0
„ Forfeited Shares Account		12 10 0
(Being 100 Shares, No. — to —, standing in the name of ——, forfeited this day for non-payment of Calls, vide Minute No —.)		
Forfeited Shares Re-issued Account	75 0 0	
To Share Capital Account		75 0 0
X.	70 0 0	
Forfeited Shares Account	5 0 0	
To Forfeited Shares Re-issued Account		75 0 0
(Being 100 Shares, No. — to —, re-issued to ——, credited with 15s. per Share paid up, for £70, vide Minute No —.)		

In the Share Books of the Company the best way of dealing with forfeitures is to pass an entry through the Register of Transfers, transferring such Shares from the name of the defaulter to a "Forfeited Shares Account," and upon their re-issue to transfer them back from the Forfeited Shares Account into the name of the new holder. In order to complete the record which vouches the entries in the Register of Transfers, it is desirable that a slip should be inserted in the proper place in the binder where transfers are filed, giving a copy of the Minute of Forfeiture as the authority for the entries made.

ISSUE OF SHARES AT A PREMIUM.

Sometimes an issue of Shares is made under such circumstances that subscribers are required, in addition to paying up the face value of such Shares, to pay a premium (or Bonus) to the Company in consideration of receiving the privilege of an allotment. It is to be remembered that an instalment payable by the terms of the issue is not a call (*Crosskey v. Bank of Wales*, 4 Giff. 314; *Alexander v. Automatic Telephone Co.* [1900] 2 Ch. 56). In the Share Books the best method of dealing with such premiums is to provide an additional column on the Application and Allotment Sheets for the amount due in respect of such Premiums. There is no occasion to divide the Cash columns in the same way, as, if the whole amount due is not paid, the first moneys received would be allocated as being in respect of the Premiums charged. Such Premium would invariably be received before the entries are transferred to the Share Ledger, and consequently the ordinary form of ruling for the Share Ledger will still be all that is required. In the financial books the Applications and Allotments Account must be debited with the total amount due on allotment, including Premiums; but the amount of such Premiums, instead of being credited to the Share Capital Account, should be credited to a Premiums Account, as shown in the following :—

PROBLEM.—A Company offers for subscription 100,000 Shares of £1 each, at a premium of 2s. 6d. per Share, payable 5s. on application, 7s. 6d. on allotment, and the balance one month after allotment. Show the necessary entries in the financial books of the Company, assuming that the subscription list opened on 14th July 1920, that applications were then received for 120,000 Shares, and that the Company went to allotment on the following day.

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

		£	s	d			£	s	d
					1920 July 15	By Application Account	12,500	0	0
					,,	,, Allotment Account	37,500	0	0
					,,	,, Call Account	50,000	0	0

Dr APPLICATION ACCOUNT *Cr.*

		£	s	d			£	s	d
1920 July 15	To Share Capital Account	12,500	0	0	1920 July 14	By Cash	30,000	0	0
,,	,, Premium Account	12,500	0	0					
,,	,, Cash	5,000	0	0					

Dr ALLOTMENT ACCOUNT. *Cr.*

		£	s	d			£	s	d
1920 July 15	To Share Capital Account	37,500	0	0	1920 July —	By Cash	37,500	0	0

Dr. CALL ACCOUNT. *Cr.*

		£	s	d			£	s	d
1920 July 15	To Share Capital Account	50,000	0	0	1920 Aug —	By Cash	50,000	0	0

Dr. PREMIUM ACCOUNT. *Cr.*

		£	s	d			£	s	d
					1920 July 15	By Application Account	12,500	0	0

Dr. CASH. CONTRA. *Cr.*

		£	s	d			£	s	d
1920 July 14	To Application Account	30,000	0	0	1920 July 15	By Application Account (deposits returned)	5,000	0	0
—	,, Allotment Account	37,500	0	0					
Aug. —	,, Call Account	50,000	0	0					

The question as to how Premiums should eventually be treated is, from some points of view, still an open one, it never having been expressly decided whether or not such Premiums are legally available for distribution by way of dividend. To justify dividends out of premiums, it must be shown that they are net profits. (See *Lubbock v. British Bank of South Africa* [1892] 2 Ch. 198; *Foster v. New Trinidad Co.* [1901] 1 Ch. 208; also *Spanish Prospecting Co.* [1911] 1 Ch. 92; *Ammonia Soda Co. v. Chamberlain* [1918] 1 Ch. 266; and *Wall v. London & Provincial Trust* [1920] 1 Ch. 45.) It would appear, however, to be doubtful whether they can legally be so distributed, and it is therefore thought desirable, instead of following the usual practice of transferring Premiums to Reserve Fund, to retain them permanently to the credit of "Premiums Account," and show them as a separate item upon the Liabilities' side of the Balance Sheet. In Companies whose accounts are kept upon the "Double-Account System" (*vide* Chapter XII) all Premiums received are treated as part of the Capital Receipts of the Company. (Sir Francis Palmer "Company Precedents," Part I, p. 286, 11th Edition, 1912) thinks that there is nothing in Section 89 of the Act of 1908 to invalidate the practice of paying commission for underwriting out of premiums.

DEBENTURES.

As has already been stated, the entries in connection with the issue of Debentures or Debenture Stock, follow upon exactly the same lines as those already explained in connection with the issue of Shares or Stock. It remains to be added, however, that whereas the latter cannot be issued at a Discount and are irredeemable,* the former may be issued at a Discount, and may be issued upon such terms that they are redeemable, either by notice, or at the expiration of a certain definite period. The proper entries in connection with the issue of Debentures at a Discount and the redemption of Debentures have therefore still to be considered.

ISSUE OF DEBENTURES AT A DISCOUNT.

The entries in this case are naturally the converse of the issue at a Premium, with the result that "Discounts Account" must be debited, and "Applications (or Calls) Account" credited with the amount agreed to be deducted from the nominal value of the Debentures as an inducement to subscribers. The position is thus in many respects analogous to an issue of partly-paid Shares. In the detailed Debenture Books the most convenient method is to provide a special column on the Application and Allotment Sheets for the amount agreed to be considered as allowed off the nominal value of the Debentures allotted, and no entries need appear in connection with the matter in the Debenture Ledger.

The proper treatment of the debit balance on the "Discounts Account" varies according to the terms of the issue. It is perhaps desirable, however, to mention in passing that a special Discounts Account should be opened in respect of each such issue, and that under no circumstances should these Discounts be confused with the ordinary Discounts allowed by the Company in the course of its trading operations. If the Debentures are irredeemable, the debit balance of the Discounts Account will only become a realised loss in the event of the Company going into liquidation, and it would therefore not be improper permanently to include it upon the Assets'

* Under the Act of 1908 it is well settled that shares cannot be issued at a discount, except by a subterfuge, see Palmer's "Company Law," 9th Ed., p. 117. (See *In re Pilkin (or Pitkin) & Co.*, 85 L.J., Ch. 318.) But under Section 89 of the Act of 1908 a commission may be paid for subscribing for shares.

side of the Balance Sheet, or to deduct it from the Liability under Debentures appearing upon the Liabilities' side ; but although such treatment might be permissible, it would undoubtedly be preferable for the loss to be written off over a term of years, in the same manner as it is usual to write off Preliminary Expenses gradually. If, on the other hand, the Debentures are redeemable, then clearly the amount of the Discount allowed upon the issue will become a realised loss on the date when such Debentures become redeemable, and under these circumstances it is essential that the loss should be written off, out of Revenue, during the period of such issue. For example, if the Debentures be redeemable in seven years' time, then one-seventh of the aggregate Discount allowed should be written off against Profits each year.

REDEMPTION OF DEBENTURES.

In the Debenture books the best method of dealing with Debentures redeemed is, through the medium of the Register of Transfers, to transfer such Debentures as are redeemed from time to time to a "Debentures Redeemed Account." In the financial books the entries are not, as a rule, sufficiently numerous to make it worth while to adopt any abbreviated method, and it will therefore in general answer all practical purposes if Debentures Account be debited, and Cash credited, with the amount paid to Debenture-holders from time to time in redemption of these liabilities. If, however, the number of Debenture-holders renders some form of abbreviated entry desirable, the detailed particulars of the various payments may appear in an inner column of the Cash Book, and the total only may be posted to the debit of the Debentures Account. In exchange for the moneys so paid, the original Debenture Bonds should, of course, be received from the Debenture-holders, and submitted to the Auditors as vouchers for the respective payments.

CONVERSIONS AND SPLITS.

Conversions of fully-paid Shares into Stock, or of Stock of one denomination into Stock of another denomination, and the "splitting" of Shares or Stock into two denominations (see Sections 41 and 46 of the Companies (Consolidation) Act, 1908), are transactions that do not often occur in connection with registered Companies, but they are comparatively common with railway companies and other undertakings incorporated by special Act of Parliament. The authority for such transactions (unless already provided by the regulations of the Company) will, of course, under these circumstances be obtained by a supplementary Act. When Shares are converted into Stock, the entries in the financial books are quite simple, all that is necessary being to debit the appropriate Share Capital Account and to credit a corresponding sum to the new Stock Account. If the nominal amount of the new Stock be *less* than the amount paid up upon the old Shares, the new Stock has been issued at a Premium ; if the nominal amount be more, the new Stock has been issued at a Discount. Under these circumstances, however, the Discount is "capitalised," and not gradually written off out of profits. In the departmental books it will generally be found best to open an entirely new Stock Ledger, and to close up the old Share Ledger ; and as the number of Personal Accounts is generally very considerable, it will usually be found convenient to pass these transfers through a specially designed "Conversion Journal" ruled somewhat as follows:—

EXAMPLE:

FORM OF CONVERSION JOURNAL (Shares into Stock).

Old Shares								New Stock		
Share Ledger Folio	No. of Shares	Distinctive Nos		No. of Old Certificate	Name	Address	Occupation	Amount	Stock Ledger Folio	No. of New Certificate
		From	To							
								£ s d		

When Stock of one description is converted into Stock of another (as, for example, when 5 per cent. Stock is converted into 4 per cent. Stock), the capital value of the Stock will usually be increased *pro rata*, so that the income actually paid to the Stockholders may remain the same. In effect, therefore, the new Stock is issued at a discount. In other respects it follows the same lines as those already indicated, save that the Conversion Journal will require some slight modification, so far as the ruling of the left-hand side is concerned.

The commonest form of " splitting " is when uniform Shares or Stock are split up into Preference and Ordinary Shares or Stock. If the amount of new Shares (or Stock) issued in exchange for the old is, in the aggregate, equal to the nominal amount of old Shares (or Stock) the new issue at par; but if—as is very often the case—£100 of the Stock is split up into £100 Preference Stock *and* £100 Ordinary Stock, the new issue is, of course, at a Discount of 50 per cent. Such " Splits " are not uncommon when the market price is greatly in excess of the nominal value, and it is desired (for purposes of convenience) to effect a closer approximation of the two.

REGISTRATION OF PROBATE OR LETTERS OF ADMINISTRATION.

There is a very general misapprehension with regard to the consequences that ensue upon the death of a registered holder of Shares, Debentures, or Stock. It is frequently insisted that the investment must be transferred forthwith into the names of the legal personal representatives of the deceased holder, and that it is only after such transfer has been effected that the latter are competent to dispose of the investment. From the point of view of the Company, there is no objection to this plan, which incidentally has the effect of increasing the revenue from Transfer Fees; but it cannot be insisted upon, and in the case of partly-paid Shares is altogether indefensible, in that it seeks to place upon the legal personal representatives of the deceased shareholder a personal liability in respect of unpaid capital that cannot be enforced. The legal personal representatives (whether they be the executors named in the will of the deceased, or the administrators appointed by the Court to administer his estate) are entitled, on production of the probate—or letters of administration, as the case may be—to have their title to deal with the investment registered, without any transfer being made into their own names; and thereafter they may at any time execute a transfer in favour of a purchaser of such Shares. (See Section 29 of the Act of 1908.) Until such transfer is executed, any Calls that may be due, or become due, are payable out of the estate of the deceased (*Baird's* case, 5 Ch. 725); but the executors or administrators are not personally liable to pay Calls, should the estate be insufficient. Where the estate is insolvent the Company may prove for the value of the Shares (*Fuller v. McMahon* [1900] 1 Ch. 173). *Prima facie* the Court will not in an administration action require a fund to be retained in Court to provide for future Calls (*Mellor v. South Australian Land, &c.* [1907] 1 Ch. 72). If executors after distribution are compelled to pay Calls they can compel the residuary legatees to refund (*Whittaker v. Kershaw* 45 C.D. 320; also *In re Blow* [1914] 1 Ch. 233.) The proper entry to make in the Share Ledger notifying the title of the legal personal representatives of a deceased shareholder is as follows:—

Probate / Letters of Admin. } granted to A. of— — —, and B. of— — on— —— 19—. Registered— — —— — 19—

X. Z.,
Secretary.

Many Companies charge a half-crown fee for making such an entry, and, as a rule, such fee is paid without demur; but inasmuch as this registration is not a transfer, no fee can properly be charged for its record, save in the unlikely event of the Company's regulations making express provision therefor. By the general law, any one of several executors could transfer, but, as a rule, under the Articles of a Company, all must act.

PAYMENT OF DIVIDENDS.

In the case of an undertaking owned by a sole trader, or a private firm, the profit shown from time to time by the Profit and Loss Account is usually transferred to the Capital Account of the proprietor; or, in the case of a firm, it is divided into shares previously agreed upon, and the Capital Accounts (or Current Accounts) of the various partners are credited, each with his respective share. In the case of a Company, however, the profit cannot be divided (save to a limited extent, when the payment of interim dividends is authorised) until the shareholders in general meeting have passed a resolution dealing with the matter. (For the leading cases as to dividends and profits, see Palmer's "Company Precedents," 11th ed. [1912], p. 857; see also Arthur Stiebel's "Company Law and Precedents," 2nd Ed. [1920], pp. 97-108, 351-360.) Accordingly the accounts that have to be submitted for approval at such general meeting must show to the credit of Profit and Loss Account* whatever balance is at the disposal of the shareholders. Unless, therefore, some special modification of book-keeping were to be introduced, the Profit and Loss Account of each successive year would fail to show the actual results of that year's operations, because those results would be obscured by the balance of profit brought forward from the previous period and its disposition during the current period. It is therefore usual at the date of balancing, instead of bringing down the amount of net profit as a credit balance

* By a curious convention, the published Balance Sheet of a Company usually shows the balance upon the "Profit and Loss Account," although (as stated below) this account commonly shows no balance in the Company's books.

on the Profit and Loss Account, to transfer it to another account (which is variously called "Net Revenue Account," "Net Profit Account," "Profit and Loss Appropriation Account," &c.), and whatever disposition may be made of the amount standing to the credit of this latter account is recorded by entries to the debit thereof. That the Net Revenue Account may be kept in a concise form it is convenient that the entries to the debit should be made in totals through the Journal to the various accounts affected, upon the lines shown in the following example :—

PROBLEM.—The X. Company, Lim., on making up its accounts to 31st December 1919 shows a balance available for distribution of £7,567 12s 2d. At the Annual General Meeting, held on 6th April 1920, it is resolved to declare a dividend on the 40,000 Preference Shares (£1 each) of 5 per cent., and also a dividend of 10 per cent. (free of income-tax) on the 40,000 Ordinary Shares of £1 each. £1,000 is to be transferred to Reserve Fund, and the balance carried forward. Show the Ledger Accounts, detailing the appropriation of divisible profits.

Dr. NET REVENUE ACCOUNT *Cr.*

		£ s d			£ s d
1920			1920		
April 6	To Preference Dividend	2,000 0 0	Jan 1	By Balance forward	7,567 12 2
"	" Ordinary Dividend	4,000 0 0			
"	" Reserve Fund	1,000 0 0			
"	" Balance down	567 12 2			
		£7,567 12 2			£7,567 12 2
			1920		
			April 7	By Balance forward	567 12 2

Dr. PREFERENCE DIVIDEND ACCOUNT *Cr.*

		£ s d			£ s d
1920			1920		
April 12	To Cash	1,400 0 0	April 6	By Net Revenue Account	2,000 0 0
6	" Income Tax	600 0 0			
		£2,000 0 0			£2,000 0 0

Dr. ORDINARY DIVIDEND ACCOUNT. *Cr.*

		£ s d			£ s d
1920			1920		
April 12	To Cash	4,000 0 0	April 6	By Net Revenue Account	4,000 0 0

Dr. RESERVE FUND. *Cr.*

					£ s d
			1920		
			April 6	By Net Revenue Account	1,000 0 0

Dr. INCOME TAX ACCOUNT. *Cr.*

					£ s d
			1920		
			April 6	By Preference Dividend Account	600 0 0

NOTE.—(1) As a rule it is convenient to open a separate Bank Account for each dividend. (2) The £600 0s. 0d transferred to the credit of Income Tax Account is available to reduce the sum directly chargeable against profits in respect of Income Tax paid by the Company.

For information upon the important subject of Income Tax the reader is referred to Stiebel's "Company Law and Precedents," 2nd Ed. [1920], Index, p. 1750 (see also Palmer's "Company Precedents," 11th Ed. [1913], pp. 87-89). It may be mentioned here, however, that when any classes of shareholders are limited to a maximum dividend, such dividends must invariably be paid after deducting Income Tax at the current rate. Income Tax must also be deducted from interest paid to Debenture-holders. As to whether or not Income Tax is deducted from holders of the most deferred class of Shares is immaterial, and will depend upon the wording of the resolution declaring the dividend; but, unless otherwise provided, Income Tax must be deducted in this case also. *But whether Income Tax be deducted from the amount actually paid to shareholders or not, the Company will have been assessed upon its profits, and individual shareholders need not therefore again pay Income Tax on the dividends received by them, whether or not any specific deduction has been made from such dividends as representing Income Tax.*

PAYMENT OF INTEREST DURING CONSTRUCTION.

Section 91 of the Companies (Consolidation) Act, 1908, provides that where any shares of a Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings, or the provision of any plant which cannot be made profitable for a lengthy period, the Company may pay interest on so much of that share capital as is for the time being paid up, provided such payment be authorised by the Company's articles (or by special resolution); that the previous sanction of the Board of Trade has been obtained; that the rate of interest in no case exceeds 4 per cent. per annum, or such lower rate as may for the time being be prescribed by Order in Council; and that it be paid only for such period as may be determined by the Board of Trade, and in no case beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed, or the plant provided. Any interest paid under these provisions may be charged as part of the cost of constructing the works or buildings, or of providing the plant, as the case may be.

REDUCTION OF CAPITAL.

The Companies (Consolidation) Act, 1908 (Sections 46-56), provides that under certain circumstances a Company may reduce its Capital either by reducing the liability on Shares or by returning to shareholders money not actually required for the purposes of the undertaking, or by writing off ascertained losses. The convenience of being able to effect a reduction of Capital in the first-named case is sufficiently obvious to call for no detailed discussion, although it may be mentioned in passing that instances of its application rarely occur in practice. With regard to the second case, the ability to write off ascertained losses (whether a balance to the debit of Profit and Loss Account, representing an accumulated loss on Revenue Account, or a shrinkage in the value of fixed assets, which represents a loss on Capital Account) provided proper steps be taken to protect the interests of creditors and all minorities of shareholders, is equally convenient, on the assumption that until such losses have been made good no dividends can be declared. Numerous cases that have come before the Courts during recent years, however, throw considerable doubt upon the dictum at one time regarded as unquestionable, that no dividend can legally be declared so long as a debit balance remains outstanding on Profit and Loss Account, and under these circumstances the object of providing machinery for the reduction of Capital is somewhat obscure. For the purposes of this work, however, it is unnecessary to pursue such a subject in detail. It is sufficient to show the entries necessary in the books of a Company to give effect to a reduction of Capital when such a reduction has been authorised. The following example will clearly explain the procedure in such cases :—

PROBLEM.—The H. K. Company, Lim., having a capital of £1,000,000, divided into 100,000 Shares of £10 each, £5 per Share called up, obtains leave to reduce its capital to £250,000 by writing £100,000 off the value of its properties and returning £150,000 in cash to its shareholders. The capital of the Company (when reduced) will be £250,000, divided into 100,000 Shares of £2 10s. each, fully paid up.

Show by means of Journal entries the necessary entries in the Company's books.

JOURNAL.

Share Capital Account	£250,000	
To Cash		£150,000
" Property Account		100,000
(Being in reduction of the capital of the Company, as per scheme passed by the shareholders at General Meeting held on the ——— 19—, and confirmed by the Court under order dated ——— 19—, sanctioning a return to shareholders of £1 10s. per share in cash, and the writing down of Property Account by the sum of £100,000.)		

NOTES.—(1) The cash return will be treated like a dividend, so far as detailed entries are concerned. (2) Each account in the Share Ledger should be marked with a rubber stamp recapitulating the terms of the reduction scheme (3) The Share Certificates should be called in and exchanged for Certificates for an equal number of fully-paid up Shares of £2 10s. each.

COMPANIES' ANNUAL ACCOUNTS.

With regard to the liability of directors of companies to submit accounts annually to the shareholders, the following extract from the judgment of Mr. Justice Buckley (now Lord Wrenbury) in the case of ***Newton v. Birmingham Small Arms Co., Lim.*** ([1906] 2 Ch. at p. 386) will be found of interest :—" The Companies Act, 1862 " (said his Lordship), " was silent as to " accounts. Table A (which the company " might or might not adopt, as it chose) " contained provisions on the subject, but " otherwise the Act left the matter un- " touched, relying, no doubt, upon the " application of the ordinary principles " applicable as between partners, and " proceeds upon the footing that the mem- " bers of a company under the Act are " partners in a special sort of partnership " modified and governed by statutory pro- " visions. The Companies Act, 1879, " Section 7, contained, for the first time, " provisions as to audits of accounts, and " was confined to banking companies regis- " tered after 1879 as limited companies. " The Companies Act, 1900, Sections 21 to " 23, for the first time contained provisions " as to the audit of the accounts of other " companies under these Acts. The pro- " visions of the Act of 1879 and those of " the Act of 1900 are closely similar, though " not the same ; so similar, indeed, as that " the reason for the difference is hard to " seek. The principal differences that I " trace are that the Act of 1879 does, while "the Act of 1900 does not, provide affirmatively for an annual audit, and that the "Act of 1879 does, while the Act of 1900 "does not, provide that if there is no "auditor a meeting shall be forthwith "called to elect an auditor. As regards "the former of these, I think the Act of "1900 (though it does not do so expressly) "does impliedly provide for an annual "audit. Section 21, Subsection 1, requires "the annual appointment of an auditor "to hold office for one year, and the Act "contemplates that he will audit during "his year of office. There will thus result "an annual audit. As regards the latter, I "find that Section 21, Subsection 2, pro-"vides for the appointment of an auditor "by the Board of Trade on the application "of any member in case an auditor has not "been appointed at the annual meeting. "Neither statute contains any provision "in favour of the public in the matter of "publication of the accounts. The two "statutes do not, I think, really differ in "substance in their result. The question "is how far the Act of 1900 goes in requiring "for the protection of the members that "the accounts shall be open to audit and "that a report shall be made to the members "upon them . . . I think the language "of the Act is sufficient to show that by "implication it requires that there shall "be annually an audit of the accounts "resulting in a Balance Sheet, to whose "accuracy the auditors shall speak." The learned Judge therefore held that a company under the Companies Acts has no power to make regulations precluding its auditors from availing themselves of all the information to which under the Companies Act, 1900, they are entitled as material for the report to be made by them to the shareholders as to the true state of the company's affairs. There is nothing in the Companies (Consolidation) Act, 1908, to suggest that this finding does not still hold good. Sir Francis Palmer ("Company Precedents," 11th Ed. [1912], Part I, p. 755, and "Company Law," 9th Ed. [1911], p. 231) states that the dicta in *Newton v. Birmingham Small Arms Co.*, relating to the provision of a secret reserve, are not reconcilable with the audit provisions of that Act of 1908. Sir Henry Buckley, in the 9th edition of his work on the Companies' Acts (p. 267), commenting on this case, and Section 113 of the Act of 1908 says on this point :—"Regulations which compel the "auditor to withhold information which is "material to the true state of the company's "affairs, are inconsistent with the Act. "The majority of the shareholders may "within limits provide for secrecy as regards "matters of which knowledge will come to "the auditors in the course of the audit, "but the limit is passed if such a secrecy "is imposed as precludes the auditors "from availing themselves of all the infor-"mation to which under the Act they are "entitled as material for the report which "under the Act they are to make on the "Company's affairs." (See on the duty of auditors, Stiebel's "Company Law and Precedents," 2nd Ed. [1920], pp. 480 *et seq.*)

We may finally note a recent case of great importance on the duty of auditors (*In re Republic of Bolivia Exploration Syndicate, Lim.* [1914] 1 Ch. 139). The headnote to this case states that "Company "auditors are bound to know or make "themselves acquainted with their duties "under the Company's articles and under "the Companies Acts for the time being "in force, and if the audited Balance "Sheets do not show the true financial "position of the Company, and damage is "thereby occasioned, the onus is on the "auditors to show that this damage is not "the result of any breach of duty on their "part. Auditors are ***primâ facie*** respon- "sible for ***ultra vires*** payments made on the "faith of their Balance Sheet, but whether "and to what extent they are responsible "for not discovering and calling attention "to the illegality of payments made prior "to the audit must depend on the special "circumstances of each case." The principles governing the position of auditors are to be found in the following cases:— *Spackman v. Evans* [1868] L.R. 3 H.L. 171: *Leeds Estate Building and Investment Co. v. Shepherd* [1887] 36 Ch.D. 787; *In re London and General Bank* (No. 2) [1895] 2 Ch. 673; *In re Kingston Cotton Mill Co.* (No. 2) [1896] 2 Ch. 279 (as to Company auditors); *Thomas v Devonport Corporation* [1900] 1 Q.B. 16 (as to public auditors). The principles contained in these cases were discussed and applied by Astbury, J., in *In re Republic of Bolivia Exploration Syndicate, Lim.* [1914] 1 Ch. 139. It should be noted that where a Report of Auditors is based on a wrong principle it is not conclusive and binding on the parties (*Johnston v. Chestergate Hat Manufacturing Co.* [1915] 2 Ch. 338.)

CHAPTER X.

VENDORS' ACCOUNTS.

IN the course of the present chapter it is proposed to consider in detail those adjustments, or apportionments, of accruing income and expenditure that have to be taken into account as between vendor and purchaser when a property changes hands.

Taking first of all the comparatively simple case of the sale of a house, or a piece of land, a contract to purchase such property for an agreed price is, as usually drawn up, a contract to pay an agreed price on the date named for the completion of the sale, the vendor agreeing to defray all expenses appertaining to the property up to the date of completion, and the purchaser agreeing to give the vendor credit for all payments made by him on account of the property that have been made in advance. If the purchase-money, as so adjusted is not actually paid on the date named for completion, interest thereon must be paid to the vendor up to the date when completion actually does take place.

The payments which the vendor has to discharge up to the date of completion comprise all payments which are properly chargeable against the property about to be conveyed, such as Rent, Rates, and Taxes. Repairs would certainly not be included as a matter of course, and the vendor should therefore make no payments in respect of repairs without first obtaining the purchaser's consent, together with his express agreement to allow such payments in account. Fire insurance is a permissible payment in the case of leasehold property, as the lease will in such cases invariably include a covenant that the lessee is to keep the premises insured against fire. As a matter of business practice, however, fire insurance up to a reasonable amount will always be allowed as a payment. As the reader will be aware, these various outgoings are not paid from day to day, but at fixed intervals, and consequently it usually follows that at the date of completion certain of these charges have actually been paid in advance, in which case the vendor is entitled to credit for the amount so paid in advance, and that certain other charges have not been paid up to the date of completion. The charges in arrear must accordingly be debited to the vendor in account, thereby reducing the amount that the purchaser will have to pay him on completion. With these preliminary explanations no difficulty will be experienced in understanding the following problem, which represents a fairly typical case :—

PROBLEM.—Give a *pro formâ* account showing how the exact amount due to the Vendor on completion of a sale of property is arrived at, assuming that the date fixed for completion was the 29th December 1919, and that the completion actually took place on 21st February 1920.

Dr PURCHASER IN ACCOUNT WITH VENDOR. *Cr.*

		£ s d	£ s d			£ s d	£ s d
1919 Dec. 29	To Purchase-price, as per Contract of Sale	.	5,000 0 0	1919 Dec. 29	By Ground Rent from 26th to 29th December 1919, 4 days at £50 per ann. (*less* tax at 1/3 in the £) ..	0 10 3	
"	,, Fire Insurance paid in advance to 25th March 1920, 86 days at £3 15s. per ann.. ..	0 17 8		"	,, Poor Rate for the 6 months ending 25th March 1920, 91 days at £12 per 6 months	5 19 8	
"	,, General District Rate paid in advance to 31st December 1919, 2 days at £30 10s. per 6 months	0 6 8	1 4 4	"	,, Property Tax for the Year ending 5th April 1920, 268 days at £16 per ann.	11 15 0	18 4 11
				"	,, Balance down . ..	..	4,982 19 5
			£5,001 4 4				£5,001 4 4
1919 Dec. 29	To Balance down	..	4,982 19 5	1920 Feb. 21	By Cash	..	5,008 15 5
1920 Feb. 21	,, Interest to date of completion, 54 days at 5 % per ann. (*less* Income Tax at 6/-) ..	..	25 16 0				
			£5,008 15 5				£5,008 15 5

NOTES.—(1) *The date up to which apportionment has to be made will be fixed by the contract of sale.*

(2) *If—as is usual, unless the sale be to a Company about to be formed—a deposit has been paid by the Purchaser, it should be credited in this account.*

(3) *On completion the vendor must produce receipts for* (a) *Rent paid to 25th December* 1919, (b) *Fire Insurance paid to 25th March* 1920, (c) *General District Rate paid to 31st December* 1919, (d) *Poor Rate paid to 29th September* 1919, *and* (e) *Property Tax paid to 5th April* 1920.

(4) *Interest on the balance of £4,982 19s. 5d. will be charged up to the actual date of payment, less Income Tax at the current rate.*

SALE TO A COMPANY.

As has already been stated in the preceding chapter, certain apportionments have in practice invariably to be made when an existing business is sold to a Company. If possible, unquestionably the most straightforward manner of carrying the transaction through would be to prepare a Balance Sheet of the business as at the date fixed for completion, in which case the necessary apportionments will be made automatically in the ordinary course of balancing the books. Such a method, however, although very desirable, can but rarely be carried into effect, because the accurate balancing of the books of a going concern necessarily occupies time, and would thus cause delay in the completion of the purchase. Moreover, the provisional contract of sale generally fixes the date upon which the business (together with the benefit of all outstanding contracts) is to be transferred to the Company, while at the date of executing such provisional contract it is impossible to fix an exact date for the completion of the purchase. The usual custom, therefore, is for the undertaking to be conveyed to the Company as from a certain fixed date, the company paying interest on the purchase-money from that date forward. Whatever date may be fixed as the time from which the transfer is to be deemed as having taken place, the vendor is entitled to all profits accruing up to that date, while all profits accruing subsequently are the property of the purchasing Company. It is important to bear in mind, however, that although subsequent profits accrue to the purchasing Company, the latter can only divide among its shareholders such profits as may have accrued since the date when it was authorised to carry on business.* Any profits arising between the date of sale and the date when the Company is entitled to commence business must be capitalised, that is to say, that amount must be applied towards the reduction of the figure of cost at which the assets acquired stand in the books of the Company. This is, of course, only reasonable, as in fixing the purchase-price the vendor will doubtless have taken into account the probable amount of profits accruing between the date of the sale and the date of completion, and will have increased the purchase-price accordingly. In order, therefore, to arrive at the true purchase-price this loading must be deducted. If the assets acquired by the Company include the item of Goodwill, this should, as a rule, be the first item to be written down; but if nothing be included for Goodwill, then some other fixed asset—preferably the most permanent—should be the one to be reduced. It is, however, perfectly legitimate to set off interest on purchase-money against accruing profits, with a view to avoiding the necessity of charging against Revenue Account interest accruing prior to the date upon which the company is entitled to commence business.

*Some authorities state the profits earned since the date of registration of the company are divisible. There is no legal decision upon the matter, one way or the other.

If there be but a slight interval of time between the date of the preliminary contract of sale and the date of completion, these apportionments of accrued profits will probably raise no very vital question, and may even represent a negligible quantity; but cases are by no means infrequent in which (owing probably to some delay in the flotation of the Company) an interval of six or nine months may have elapsed, and in such cases the matter is of very considerable importance. It may be quite impossible for the Directors of the new Company to determine exactly what profits had accrued up to the date when the Company was entitled to commence business and what profits have accrued subsequently; but the responsibility will rest upon them to make a proper apportionment, and they must therefore act reasonably in the matter. A rough-and-ready division of the total profits according to time would not usually be a reasonable apportionment. A better method would be to apportion the Gross Profit between the two periods according to the total Sales in each, and to apportion the expenses chargeable against Gross Profits directly according to time. This method would give a very accurate result in the case of most businesses; but if the percentage of Gross Profit earned at different periods of the year was unequal, that fact would undoubtedly have to be taken into consideration in determining the apportionment of Gross Profit.

The following problems will, it is thought clear up all remaining points that properly arise under this heading, and will at the same time serve to further explain those that have already been mentioned :—

PROBLEM.—On 3rd January 1921 A. agrees to sell his business as a going concern to an approved Company about to be formed by a promoter X. The sale is to take effect as from 31st December 1920, and the agreed purchase-price is made up as follows:—

Goodwill	£20,000
Plant and Machinery	12,500
Freehold Land and Buildings	18,750
Stock-in-Trade	21,970
Book Debts and Bills Receivable (guaranteed by A. to produce) ..	31,000
	104,220
Less Trade Liabilities (guaranteed by Vendor not to exceed) ..	14,220
	£90,000

It is further agreed that the completion shall take place during 1921, and that, pending completion, A. is to be entitled to interest at 5 per cent. per annum, A. in the meanwhile to carry on the business as Trustee for the Company.

X. registered the British Manufacturing Company, Lim., on 26th March 1921. The Company duly went to allotment, and on 1st May 1921 it was authorised to commence business It was accordingly arranged to complete the purchase on the 8th May 1921. A. supplied an account showing—

(1) Receipts from 1st January to 8th May 1921, £24,175.
(2) Payments ,, ,, ,, ,, £19,620.
(3) Book Debts amounting to £39 are admitted to be irrecoverable.
(4) The Liabilities outstanding on 31st December 1920 are admitted to have been understated by £25.

Assuming that A. opened new Trade Ledgers on 1st January 1921, show the entries now necessary in the Company's General Ledger, assuming the completion to be duly carried through on 8th May 1921, and 80,000 fully paid-up Shares then allotted to A. in part satisfaction of purchase-price, the balance being paid in cash.

Dr. GOODWILL ACCOUNT. *Cr.*

			£ s d	
1921 May 1	To A		20,000 0 0	

Dr. PLANT AND MACHINERY. *Cr.*

			£ s d	
1921 May 1	To A.		12,500 0 0	

Dr FREEHOLD LAND AND BUILDINGS. *Cr.*

			£ s d	
1921 May 1	To A.		18,750 0 0	

Dr. STOCK-IN-TRADE. *Cr.*

			£ s d	
1921 May 1	To A.		21,970 0 0	

Dr. SOLD LEDGER ACCOUNT. Cr.

1921		£	s	d	1921		£	s	d
May 1	To A.	31,000	0	0	May 8	By A.	39	0	0

Dr BOUGHT LEDGER ACCOUNT. Cr.

					1921		£	s	d
					May 1	By A.	14,220	0	0
					8	" "	25	0	0

Dr. A. Cr.

1921		£	s	d	1921		£	s	d
May 8	To Cash (to be credited to Sold Ledger Account and other accounts affected)	24,175	0	0	May 1	By Sundries	90,000	0	0
	" Sold Ledger Account (Bad Debt) ..	39	0	0	8	" Cash (to be debited to Bought Ledger Account and other accounts affected)..	19,620	0	0
	" Bought Ledger Account (Liability omitted)	25	0	0	"	" Interest (on £90,000—£64 from 31 Dec. 1920 to date at 5%)	1,577	0	0
	" Ordinary Share Capital Account ..	80,000	0	0					
	" Cash	6,958	0	0					
		£111,197	0	0			£111,197	0	0

Dr. INTEREST ON PURCHASE MONEY. Cr

1921		£	s	d					
May 8	To A.	1,577	0	0					

NOTE.—In practice, income tax would be deducted from the interest on purchase-money.

PROBLEM.—Taking the facts stated in the preceding problem, assuming that the books of the British Manufacturing Company, Lim., are balanced on 31st December 1921, and that the accounts for the year show the following result, how would you deal with the net profit?—

Gross Profit	£18,720
General Expenses	5,305
Directors' Fees, &c.	700
Depreciation of Plant and Machinery at 10 per cent.	
Do. Land and Buildings, at 2 per cent.	

The first step is to apportion the gross profit equitably between the two periods. Assuming that it has been earned at a regular rate, and that from 1st January to 30th April the Sales were £60,000 and from 1st May to 31st December they were £140,000, then the gross profit earned since 1st May may be assumed to be $\frac{7}{10}$ths × £18,720 = £13,104. The Profit and Loss Account from 1st May to 31st December then stands as follows:—

	£	s	d	£	s	d
Gross Profit				13,104	0	0
General Expenses ($\frac{2}{3}$ × £5,305)	3,536	13	4			
Directors' Fees, &c.	700	0	0			
Depreciation of Plant	833	6	8			
" Land	250	0	0			
				5,320	0	0
The Net Profit available for Dividend is thus ..				£7,784	0	0

The total net profit for the year is £11,090; therefore £3,306 must be held over. This may be applied (1) towards paying £1,577 due to A. for interest, (2) towards writing down Preliminary Expenses or Goodwill Account.

CHAPTER XI

EXECUTORSHIP AND TRUST ACCOUNTS.

GENERAL CONSIDERATIONS.

MOST writers upon Executorship Accounts have enlarged upon the highly technical nature of this branch of accounting, and as a consequence the impression is very prevalent that the proper keeping of Executorship Accounts is a matter of the greatest intricacy, that is properly understood by only a comparatively small number of persons. It may be—and probably is—quite true that few people are thoroughly versed in the proper treatment of Executorship Accounts, but this is less due to any inherent difficulty presented by the subject itself than to systematic attempts to make a " mystery " of that which is, after all, but a quite ordinary matter.

The object of every properly designed system of accounting is to adapt itself to the special requirements of the case, arising out of the general nature of the transactions that have to be recorded, and no properly designed system will present greater variations from the normal type than are necessary to meet these requirements. It follows, therefore, that no material departure from the ordinary system of accounting can be justified that is not *necessitated* by the particular circumstances arising from the transactions that have to be recorded. If the matter be viewed in this light, it must be admitted that there is nothing very exceptional in the transactions that have to be recorded in executorship matters.

NATURE OF TRANSACTIONS.

Avoiding details of a purely legal nature, it may be stated that the transactions that have to be recorded by Executors relate to (1) the keeping of a strict account of the property of which the testator died possessed ; (2) realising such property, and —after payment of all proper debts, duties, and expenses—distributing the surplus in such manner as the testator may have decreed. In the majority of cases such distribution takes place as soon as possible ; but sometimes the terms of the Will require the whole, or a portion, of the estate to be invested, and the income derived therefrom to be applied for the benefit of one or more persons, called " life-tenants," until the happening of some event, when the estate (or some specified fraction thereof) is bodily handed over to the life-tenants, or some of them, or to some other parties. Strictly speaking, these last conditions, where a portion of the estate is held in trust, form no part of " Executorship Accounts," but relate rather to the accounts of Trustees ; but it is convenient to deal with all transactions connected with the estates of deceased persons under this general heading

For that reason also it is well to point out here that, in the absence of a Will, the general law of succession applies, and the estate is distributed in accordance with that general law; while if the Will makes no provision as to who is to be held entitled to any particular portion of the estate, there is an intestacy so far as that particular portion is concerned, and it is dealt with accordingly.

Where there is no Will there can be no Executors, for Executors are appointed under the Will; and occasionally it will be found that even a Will omits to provide effectively for the appointment of Executors. In all such cases application must be made to the Court, who will appoint whomsoever it thinks proper to "administer" the estate, and so far as the accounts are concerned the accounts of the Administration are for all practical purposes the same as Executorship Accounts.

It will thus be seen that, speaking generally, the class of transactions involved in Executorship Accounts consists of the getting in of assets and their distribution among the persons entitled thereto; while in some cases, instead of their being immediately distributed, the assets (or a portion of them) are invested in suitable securities, and the income derived therefrom is distributed among the persons entitled thereto. There is thus absolutely nothing about the transactions themselves distinguishing Executorship Accounts from other classes of accounts. Transactions involving the realisation and distribution of an estate are also common to bankruptcy, company liquidation, &c.; while accounts relating to investments that are held more or less permanently, and to the collection and distribution of the income derived therefrom, present no essentially new feature because the original capitalist happens to have died and the collection and distribution therefore devolves upon his representatives. Hitherto, therefore, no reason has been found in the nature of the transactions themselves that calls for any peculiar modification of the ordinary system of accounting, as applied to ordinary commercial requirements.

SPECIAL REQUIREMENTS.

There are, however, certain forms and returns that have to be submitted to the prescribed authorities, and there is always the possibility that at some future time the Executors' accounts may have to be submitted to, and passed by, the Court. It is therefore important that the system adopted shall be one that readily lends itself to these requirements; but this does not of itself appear to justify such a radical departure from all the principles of sound account-keeping as is involved by the adoption of the so-called "cash system" which is so generally in use where solicitors, instead of accountants, have the conduct of matters. A plain Cash Account has, of course, the merit of simplicity, and where only a few transactions have to be recorded it is quite adequate for the requirements of the situation; but accounts upon a cash basis do not lend themselves conveniently to an exhaustive examination at some future date of *all* the transactions of the executors. This much must be admitted by the advocates of the "cash system," who even go so far as to put it forward as one of the advantages of their method that it obviates the necessity for numerous adjusting entries showing the differences between the original valuations of the assets and the amounts they eventually realise.

Seeing that the Executors are *primâ facie* responsible for the advantageous realisation of all property passing through their hands, it will be seen that, however much the accounts may be simplified, they cannot fail to be seriously defective, if they omit to record one of the most important points affecting the due discharge of the Executor's duties—viz. the shrinkage (or appreciation) on the realisation of the various items of property for which he is accountable.

It has been urged that accounts kept upon the "cash system" are preferred by the Rules of the Supreme Court. It is no doubt true that the Chancery Division of the High Court of Justice, in all cases that come before it, requires a Cash Account to be passed; but every adequate system of accounting requires a proper Cash Account to be kept, and the mere fact that the Court is not up to date in its requirements does not dispose of the fact that the Cash Account is not, *in itself*, a complete record of all transactions. It is to be noticed that the Judge in Chambers may, in such way as he thinks fit, obtain the assistance of accountants and others, the better to enable any matter to be determined, and he may act upon the certificate of any such person (Order LV, Rule 19). The employment of an accountant is ancillary to the taking of the accounts in Chambers (*Hutchinson v. Norwood* [1884] 50 L.T. 486). It should be noted that an action for an account is "an action to recover money" within the Trustee Act, 1888, Section 8 (1) (*b*) (*In re Blow* [1914] 1 Ch. 233).

From the point of view of the accountant there is this further advantage in the general adoption of the ordinary commercial system, that the accounts, being kept upon the same fundamental principles as all other classes of accounts, present only differences upon necessary points of detail, which can readily be grasped as soon as the requirements of the situation are duly appreciated. Unquestionably the *chief* requirement is a set of accounts that—even 50 years hence, if need be—will be perfectly intelligible to all parties interested and to their professional advisers; and it is hardly going too far to say that this end is more likely to be achieved by adopting the system of accounting that has been found adequate to meet the requirements of business men, than by adhering to a system which—while still regarded as sufficient by the High Court of Justice—has remained without alteration and improvement ever since that Court existed. It has been thought desirable in the first place to clear the ground by pointing out the inadequacy of the system of accounts so generally favoured by lawyers; but this having now been done, the proper treatment of this section of accounts can be proceeded with without further delay. It is to be noted, however, that by Order XXXIII, Rule 3, the Court (or Judge) may give special directions as to the mode in which the account is to be taken or vouched.

CASH BOOK.

The most convenient form of Cash Book for Executorship Accounts is unquestionably one having separate columns in respect of Capital and Income. The balance of the Capital columns then shows the amount of Capital that for the time being is not invested, while the balance of the Income columns shows the amount of Income in hand that has not been distributed. Of course, if, under the terms of the Will, no one has a life-interest in the Estate (that is to say, no one is entitled to receive certain payments out of Income, and out of Income alone) there is no occasion to observe any distinction between Capital and Income; in that event the Income columns may be omitted from the Cash Book and the Income Account from the Ledger, all moneys received by way of Income being then credited direct to the Estate Account, and treated as an accretion of Capital.

All moneys received should invariably be banked intact, and all payments made by cheque. If a Petty Cash Book be necessary, it should be kept upon the "imprest" system, so that eventually *all* cash payments may pass through the Cash Book and then be posted into the Ledger. A separate Bank Account should invariably be kept in connection with the trust estate; and if the Executors are carrying on the business of the deceased under special directions contained in the Will, a complete set of separate accounts and a distinct bank account should be kept in respect of the business transactions.

The chief advantage of the double-column Cash Book is that, if it be written up from day to day, it provides all the information that the Executors would require to have constantly before them, thus enabling the Ledger to be posted up at more convenient intervals. This is especially convenient when the Ledger is kept by an Accountant, and not by the Executors themselves. The double-column Cash Book has also the further advantage that it offers a check upon the accuracy of the Income Account in the Ledger, seeing that the balance of the Income columns in the Cash Book should always agree with the Income Account in the Ledger.

THE JOURNAL.

In many cases the employment of a Journal for Executorship Accounts is unnecessary. Unless absolutely necessary a Journal is actually undesirable, as it is especially important that the fullest possible detail should be contained in the Ledger itself, while if a Journal be employed there is always the temptation to make "bare" entries in the Ledger, and include whatever explanation may be thought necessary in the Journal only. In many cases there would be no scope for the use of a Journal, except in connection with the opening entries, and these can quite conveniently be made by way of transfers in the Ledger from the Estate Account to the various other accounts concerned. Where, however, the estate is a complicated one, and a considerable number of distributions "in kind" take place amongst beneficiaries, the employment of a Journal may be found a great convenience. But under no circumstances should its use be allowed to reduce the amount of detailed explanation appended to all entries in the Ledger itself.

THE LEDGER.

Concerning the Ledger, the only point that calls for special attention is that in the case of Investments separate columns should be provided for "Capital" and "Income," and a further column upon each side for "quantities" of stocks or shares, so that the amount invested from time to time may readily be perceived, even if frequent realisations of investments take place at varying prices.

All moneys received by way of income should be posted from the Cash Book to the account recording the Investment, where they will appear in the Income column upon the credit side of the account. When the books are periodically balanced the credit balances of the Income columns on each Investment Account should be transferred to the Income Account. At interim balances (that is to say, when the books are merely being balanced periodically, and not at a time when an apportionment has to be made) all accruing interest should be disregarded, as the Executors are not accountable to the Beneficiaries for income until it is received, and it is convenient that the books should disclose what the Executors are accountable for, rather than the exact position of the estate, which latter is of little consequence, save when there is a change of life-tenants, or when a distribution of the estate (or of some portion of it) has to be made. Moreover, an accurate Balance Sheet, showing the exact position of the estate, can never be prepared without taking into account fluctuations in the value of the various investments, and it would be ridiculous to adjust these from time to time when such readjustments could mean nothing, and would only serve the purpose of complicating the accounts.

OPENING THE BOOKS.

In ordinary commercial bookkeeping the first step to be taken, when opening a set of books in respect of a new business, is to compile a Statement of Affairs, showing the financial position to date, and then to raise the various necessary accounts in the Ledger in accordance with that Statement. It is submitted that exactly the same procedure should be observed in connection with Executorship Accounts.

The authorities from whom the Executors obtain the grant of Probate which authorises them to deal with the estate of the testator require that a statement (in the prescribed form) shall be submitted to them of the affairs of the testator, as at the date of his death. This statement must be verified by affidavit, and may fairly be taken as the starting-point for the Executors' books, seeing that it discloses under oath the whole estate passing into the hands of the Executors, for which they are accountable to the beneficiaries. If at any subsequent time it should be found that the original estimate of the position was a mistaken one—whether by way of over- or under-estimate—a Corrective Affidavit has to be filed with the Inland Revenue authorities, setting forth the full facts, and claiming a return of over-paid duty, or paying the under-paid duty, as the case may be. If, therefore, these affidavits and the accounts in support thereof, be followed, it will be seen that they necessarily afford the most reliable, and the best possible, basis for opening the Executorship Accounts.

It is not proposed in the present work to consider in detail executorship law, or the duties leviable in executorship matters. The former would be quite foreign to the subject of this work, and the latter vary so from time to time that no detailed consideration of them could be expected to apply for more than a very limited period. The general principles, however, will doubtless remain constant, and it is unlikely in the extreme that any alteration in the law will be effected that will render the form of accounts here advocated either inapplicable or inconvenient.

ACCOUNT FOR ESTATE DUTY.

The form of Inland Revenue Account for Estate Duty at present in force is given on pages 119 to 129, and the various blanks have been filled in in accordance with the assumed facts of a typical case, which, it is thought, will sufficiently explain the leading features in connection with this particular class of accounts. This account should be carefully studied in conjunction with the explanatory notes and instructions supplied with the form, and the reader will then be in a position to consider further the best method of opening the books in accordance with the position there disclosed.

PROBLEM.—X. died on 30th November 1909, his Estate on that date being as follows :—

	£
Cash in House	10
Cash at Bank	1,000
Household Furniture	500
Leasehold Property valued at £1,000 (let at £60 a year, rent payable half-yearly, 30th June and 31st December, paid to 30th June 1909).	
Freehold Property (hitherto in deceased's occupation)	2,000
30 £10 shares in the Mont Blanc Ice Company, Lim., quoted at £$14\frac{15}{16}$-$15\frac{3}{16}$ per Share (dividend for the year ended 31st December 1909, 10 per cent., paid 31st December 1909).	
£1,000 5 per cent. Debentures East Western Railway Company, Lim., quoted at $159\frac{3}{4}$-$160\frac{1}{4}$ (interest payable half-yearly 30th June and 31st Dec.).	

X. was partner in a business, and accounts were taken at the date of his death showing his share to be :—Capital, £4,000 ; share of profit to date of death £550, less drawings to same date £450. Debts due from deceased at the date of his death amounted to £300, and the funeral expenses were £100.

Prepare an Account for Probate, and show upon what amount duty was payable, the account being rendered on 31st March 1910.

[For use where the Deceased died on or after the 19th April 1907.]

Printed by Authority. **ESTATE DUTY.**

FORM **A-7.** [Affidavit or Affirmation for Inland Revenue.] Finance Acts, 1894 to 1907

Name and Address of Solicitor (if any)—

. . . . .

If communications as to Revenue Requirements are to be sent to the Solicitor, the Executors should sign here—

. . . .

. . . .

This form should be used in ALL CASES for Original Grants of Representation where the Deceased *died on or after the 19th April* 1907, EXCEPT where the form B–2, B–4, A–4, or A–6 is applicable.

B–2 is for "Estates," including property over which the Deceased had and exercised by will a general power of appointment and property, which by default of exercise of the power of appointment, belonged to the Deceased absolutely, not exceeding £500 in *gross* value, where there is no other Settled Property, *and* representation is being obtained under Section 16 (1) of the Finance Act, 1894.

B–4 is for "Estates," including property over which the Deceased had and exercised by will a general power of appointment and property, which by default of exercise of the power of appointment, belonged to the Deceased absolutely, not exceeding £500 in *gross* value, where there *is* other Settled Property, and representation is being obtained under Section 16 (1) of the Finance Act, 1894.

A–4 is for "Estates" consisting *exclusively* of free personal property in the United Kingdom, passing under the Deceased's will or intestacy.

A–6 is for "Estates" consisting *exclusively* of free personal *and real* property in the United Kingdom, passing under the Deceased's will or intestacy.

Where "Settlement Estate Duty" on settled property is payable (See Clause 37 of the Form A–2) a separate form (C–2) is supplied for the payment thereof.

(ENGLAND.)

In the High Court of Justice.

PROBATE, DIVORCE, AND ADMIRALTY DIVISION.

(PROBATE.)

> **Observe** – A paper of Instructions (Form A–2) for the information of the executor is issued with this form.
> THE "WARRANT" (Form 28), also issued herewith, SHOULD BE FILLED IN with a summary of the duty and interest, and be transmitted with this Affidavit and the Duty.

NOTE.—The paragraphs should be completed, adapted, or struck out, according to the circumstances of the case.

(1) Insert here "Principal" or "District" as required, and in the latter case add the name of the district.

(2) Insert here the name, address, and description of each person who joins in the Affidavit or Affirmation.

(3) If affirmed substitute "do solemnly and sincerely affirm."

(4) Insert here "Probate of the Will," or "Administration with the Will annexed of the estate," or "Administration of the estate," as the case may be.

(5) Insert here the address and occupation of Deceased, and his or her personal description, as "Bachelor," "Spinster," "Widower," or "Widow."

THE (1) . . . . REGISTRY. . . . .

IN the Estate of . . . . deceased

. . . . (2) . . . .

. . . .

. . . .

. . . .

. . . .

(3) make oath and say as follows –

1 . . . . desire to obtain a grant of (4) probate of the will of the above-named . . . . . .

. . . .

of (5) . . . .

. . . .

deceased, who died on the 30th day of November one thousand nine hundred and nine, aged . . . .

at . . . . domiciled

in (6). . . . . that part of the United Kingdom called. . . . .

2. The Deceased left (7) .... husband widow............ .lawful children.... ... ...other more remote lawful issue .. .. . lawful parent.. . . . grandparent . . .surviving [A] [No] [All the] child....... of the Deceased ha......attained 21, or, being ... .daughter.... ., ha .. ..married (8).

3. The First Part of the Account No. 1, hereto annexed, is a true account of the particulars and value, AS AT THE DATE OF THE DECEASED'S DEATH, so far as . have been able to ascertain the same, of all the personal property of the Deceased, whether in possession or reversion, within the United Kingdom, exclusive of what the Deceased may have been possessed of or entitled to as a trustee and not beneficially, but including personal property over which the Deceased had and exercised by will an absolute power of appointment The gross value thereof, as at the date of the Deceased's death, was altogether £8,685 and (7) [the whole]
(7) Part thereof, amounting in value to £ ... . , was then situate in England
(7) Part thereof, amounting in value to £ . .... , was then situate in Scotland
(7) Part thereof, amounting in value to £. .. . . , was then situate in Ireland

4. The First Part of the Schedule No 1, hereto annexed, contains a true and particular list of the debts (9) due and owing from the Deceased at the time of his death to persons resident *within the United Kingdom*, or due to persons resident out of the United Kingdom, but contracted to be paid in the United Kingdom, or charged on property situate within the United Kingdom, with the names and addresses of the several persons to whom the same are respectively due, and the descriptions and amounts of such debts The Second Part of the same Schedule contains a true account of the funeral expenses of the Deceased.

5 The aggregate amount of the debts and funeral expenses in the said Schedule No 1 is £400, which, being deducted from the value of the personal property as specified in the First Part of the said Account No. 1 reduces such value to the sum of £8,285

6. The Second Part of the Account No 1, hereto annexed, is a true account of the particulars and value, AS AT THE DATE OF THE DECEASED'S DEATH, so far as . have been able to ascertain the same, of all the real property, situate in ENGLAND, (10) vested in the Deceased without a right in any other person to take by survivorship, including real property over which the Deceased executed by will a general power of appointment, but exclusive of land of copyhold tenure or customary freehold where an admission or act by the lord of the manor is necessary to perfect the title of a purchaser from the customary tenant The gross value thereof, as at the date of the Deceased's death, was altogether £2,000

7 The aggregate gross value of the (11) Estate, which by law devolves to and vests in the personal representative of the Deceased, for or in respect of which the grant is to be made, as at the date of the Deceased's death, was altogether £10,685

8. (12) The Account No 2, hereto annexed, is a true account of the particulars and gross value, as at the date of the Deceased's death, so far as . .have been able to ascertain the same, of all the personal or movable property of the Deceased whether in possession or reversion situate out of the United Kingdom, exclusive of what the Deceased may have been possessed of or entitled to as a trustee and not beneficially, but including the personal or movable property over which the Deceased had and exercised by will an absolute power of appointment

9. (12) The Schedule No 2 hereto annexed contains a true and particular list of the debts (9) due and owing from the Deceased at the time of h ..... death to persons resident *out of the United Kingdom*, other than debts contracted to be paid in the United Kingdom, or charged on property situate within the United Kingdom, which have been deducted in the said Schedule No 1, with the names and addresses of the several persons to whom the same are respectively due, and the descriptions and the amounts of such debts The Schedule No 2 contains also a true statement of the amount of any duty payable in any foreign country by reason of the Deceased's death in respect of property situate in that foreign country, and included in the said Account No. 2

10. The said debts in the said Schedules Nos. 1 and 2, are payable by law out of the personal property comprised in the said Accounts Nos 1 (First Part) and 2 respectively They were incurred by the Deceased *bona fide* for full consideration in money or money's worth wholly for the Deceased's own use and benefit. They are not, nor are any of them, debts which are primarily payable out of any real property (13) or debts in respect whereof there is a right to reimbursement from any other property or person (14).

11. There was (15).... ....OTHER personal property of which the Deceased was at the time of h......death *competent to dispose*, within the meaning of the Finance Act, 1894, but of which he did not dispose. The particulars and value thereof as at the date of the Deceased's death, so far as ...have been able to ascertain the same, are truly set forth in the Account No. 3 (a) hereto annexed

12. The Deceased had (16)....... general power........to charge money on real property. The particulars of such power....... are set forth in the Account No. 3 (b) hereto annexed.

13. (17) Other property which should be included in the Accounts Nos. 1, 2, 3 (a), and 3 (b), or in some one or more of them, exists, but although.... have made the fullest possible inquiries, ... have not been able to ascertain the precise amount or value thereof. So far as the amount and value can now be estimated, they are stated in Account No. . . .. by reference to the Exhibit, marked ... ...annexed hereto, which contains all the particulars of such property known to .... undertake, as soon as the amount and value are fully ascertained, to bring in a full account thereof, and to pay both the additional duty (if any) payable thereon for which.... am [are] or may be liable and any further duty, payable by reason thereof, for which ....am [are] or may be liable on the other property mentioned in this affidavit.

(6) If Deceased was domiciled abroad, insert here the name of the Country, State, Canton, or Province, as the case may be, and strike out the rest of the paragraph

(7) Adapt to suit the facts, and strike out what is not necessary.

(8) If the Deceased was more than once married, annex a statement showing the name of the surviving husband or wife, and the names of the children of the several marriages, distinguishing them

(9) See Clauses 52 to 54 of the Form A—2 as to what debts may NOT be deducted

(10) See the Land Transfer Act, 1897, sec. 1.

(11) Insert the *gross* value of the personal estate (First Part of Account No 1) plus the gross value of the real estate as defined by sec 1 of the Land Transfer Act, 1897 (Second Part of Account No 1)

(12) Where the Deceased died domiciled out of the United Kingdom the Account No. 2 and Schedule No. 2 should not be filled in.

(13) A mortgage debt not created by the Deceased himself but charged on real property which was acquired by the Deceased subject to the mortgage is primarily payable out of such real property A mortgage debt created by the Deceased himself on his real property, but which is payable by his heir or devisee under "Locke King's Act," 17 & 18 Vict, c 113, is a debt in respect of which there is a right to reimbursement, and it must not be deducted as against the personal property.

(14) If there is a right to reimbursement which cannot be obtained, adapt the paragraph. A debt for payment of which the Deceased was surety only must not be deducted, unless the executor has already paid it and cannot recover it from the original debtor.

(15) Insert "no" if the fact is so, and strike out all remainder of paragraph after "not dispose."

(16) Insert "a" or "no," or add "s" to "power," as the fact may require, and if "no" strike out all remainder of paragraph after "property." *The clause does not refer to the Deceased's power in right of ownership to charge money on his own real property.*

(17) Strike out paragraph if inappropriate.

(18) **Read the observation at foot of this page.** Insert "no" if the fact is so, and strike out all words after "Deceased." If there is other property strike out words in square brackets. *Inter vivos* gifts within a year of death are property deemed to pass on the death.

(19) See Clause 66 of the Form A—2. If the duty on the other property is not to be paid on this Affidavit, do not use the Accounts Nos. 4 or 5.

(20) See Clause 41 of the Form A—2. Strike out this paragraph if the Estate duty is not now paid on such other property. Strike out "that part," or "the whole," as the case may be. Where real property vests in the Executors under the Deceased's Will, it will be found convenient to pay Estate duty on the principal value thereof upon delivery of this Affidavit.

(21) If there is a right to reimbursement which cannot be obtained adapt the paragraph.

(22) See Clause 65 of the Form A—2. Annex a statement giving such particulars as will enable the amount of the deduction to be verified.

14. To the best......knowledge and belief there is ( )......other property [UNDER ANY TITLE WHATSOEVER], beyond that already referred to, otherwise than in paragraph 6, in respect of which Estate Duty is payable on the death of the Deceased, and such property, in so far as ......have been able to ascertain the same, is specified ([19]) in "appropriate accounts" hereto annexed and marked respectively . . . .

15. In addition to the Estate duty on the property included in the said Accounts Nos 1 (First Part), 2, 3 (a), and 3 (b). . elect to now pay ([20]) the Estate duty on that part (or) the whole of the other property, including that in the Account No. 1 (Second Part), of which the particulars and value AS AT THE DATE OF THE DECEASED'S DEATH, are wholly and truly set forth in the Accounts Nos 4 and 5 hereto annexed.

Observe.—Where the Estate duty in respect of the other property is to be now paid, the Account No. 4 or No. 5, according to circumstances, should be used, and will be the "appropriate account." Where the duty is not to be now paid, an account in appropriate form on a separate paper should be annexed to the affidavit.

16. The Schedules Nos. 4 and 5, hereto annexed, contain true and particular lists of the debts and incumbrances which were subsisting charges at the Deceased's death on the leaseholds for years and on the real property, respectively, comprised in the said Accounts Nos. 4 and 5, or on some part or parts thereof, with the particulars of the instruments by which the debts and incumbrances were secured or created, and the names and addresses of the several persons to or in whom the same debts and incumbrances are now due or vested

17. The said debts and incumbrances were incurred or created by the Deceased, or by some one or more of his predecessors in title. In so far as they were incurred by the Deceased, or were created by a disposition made by him, they were incurred or created *bona fide* for full consideration in money or money's worth, wholly for the Deceased's own use and benefit, and they take effect out of his interest The said debts and incumbrances are not, nor are any of them, primarily chargeable upon any other property, and they are not debts or incumbrances in respect whereof there is a right to reimbursement from any other property or person ([21]).

18. The duty in connection with the Deceased's death, payable in a British Possession to which Section 20 of the Finance Act, 1894, applies, in respect of property included in the said Accounts Nos. 2, 3 (a), and 4, situate in such Possession is, as stated in the Summary on pages 8 and 9 of this Affidavit, £.........................

Fill in Summary on Pages 8 and 9.

19 The amount of the deduction to be allowed under Section 21 of the Finance Act, 1896, and Section 15 of the Finance Act, 1907, against the Estate duty now payable in respect of the property included in the Accounts Nos. 1 (First Part) 3 (a) and 4, is, as stated in the Summary on pages 8 and 9 of this Affidavit, £... .... ([22])

All which is true to the best of knowledge and belief

(23) Insert here the name of each Deponent, and if affirmed, substitute "affirmed" for "sworn."

([23]) SWORN by the above-named..
....
at...in the County of ....
this..day of..............................191 .

Before me,

a Commissioner for Oaths.

([23]) SWORN by the above-named..
....
at...in the County of ....
this..day of..............................191 .

Before me,

a Commissioner for Oaths.

Observe.—**If there is any Property other than that in the Accounts Nos. 1, 2, 3 (a), 3 (b), 4 and 5, in respect of which Estate Duty is payable on the Deceased's death, it should to the best of the executor's knowledge and belief be specified in appropriate accounts annexed to this affidavit. See Clauses 1 to 32 of the Form A—2. The Accounts, No. 4 (Personal), and No. 5 (Real), printed on pages 6 and 7 of this affidavit, show the shape which the accounts should take. The names and addresses of trustees and of donees and other beneficiaries should in all cases be stated.**

(A) Where securities have been valued according to the official list of a *provincial* Stock Exchange, a copy of that list should be attached. But where there is no *official* market quotation, other published Quotations or Brokers' Certificates, or letters from the Secretaries of the Companies, showing the market price at the date of death, should be attached (*).

Where there is not sufficient space to insert all the particular details of the different items, a separate schedule should be annexed.

(B) The name or names of the banks should be stated.

(C) If the power or Interest was derived under a Will, state name and date of death of the Deceased, but if under a Deed, state the date, together with names and addresses of the Trustees, and if the Deed has been already produced give the official reference appearing upon it.

(D) Annex a schedule of such specific articles bequeathed for national or *quasi*-national purposes as are within the purview of sect. 15 (2) of the Finance Act, 1894, See Clauses 28 and 35 of Form A—2. State the value in each case, and whether the Treasury has remitted the Estate duty thereon, and if not whether it is intended to apply for remission.

Annex also a schedule of such specific articles settled to be enjoyed in kind in succession by different persons as are within the purview of sect. 20 (1) of the Finance Act, 1896. See Clauses 29 and 36 of Form A—2. State the value in each case, and whether the Treasury has authorised the application of the section to them, and if not whether it is intended to apply for authorisation. State also whether the property has yet been sold, or is in the possession of a person now competent to dispose of it.

(E) If there is a valuation, it should be annexed. The Commissioners reserve the right to require the separate value of each item to be stated, and in the case of pictures the names of the artists.

(F) State date from which profits are computed.

(G) A valuation must be annexed.

(H) These words to be cancelled where the amount is actually ascertained.

ACCOUNT No. 1.

Personal Property situate in the United Kingdom, and Real Property situate in England, for or in respect of which the Grant is to be made.

The Property situate in Scotland and Ireland respectively should be so marked.

FIRST PART.—Personal Property.

No Foreign Property should be included in this Account.

	Nominal Value of Stocks	Market Price of Stocks at date of Death (*)	Gross Principal Value at date of Death
	£ s d		£ s d
Stocks or Funds (including Exchequer Bills) of the United Kingdom, viz. :—			
Stocks, Funds, or Bonds of Foreign Countries, or of British Dependencies and Colonies, transferable in the United Kingdom, viz. :—			
Proprietary Shares or Debentures of Public Companies (A)			
30 £10 Shares in Mont Blanc Ice Co., Lim.	300 0 0	15	450 0 0
£1,000 5 % Debentures East Western Railway Co., Lim.	1,000 0 0	160	1,600 0 0
Dividends, and Interest declared, received, and accrued due, in respect of the above Investments, to date of death, *as per statement annexed* ..			
Cash in the House			10 0 0
Cash at the Bankers (B) { (1) on Drawing Account, and Interest (if any) thereon to date of death ..			1,000 0 0
{ (2) on Deposit, and Interest thereon to date of death ..			
Money out on Mortgage, and Interest thereon to date of death, *as per statement annexed.*			
Money out on Bonds, Bills, Promissory Notes, and other Securities, and Interest thereon to date of death, *as per statement annexed*			
Book Debts			
Other Debts, *as per list annexed*			
Unpaid Purchase Money of Real and Leasehold Property contracted in lifetime of the Deceased to be sold			
Deceased's interest in proceeds of sale of Real Property directed to be sold by settlement or by will of some other person whether actually sold or not, estimated at (C)			
Personal Property over which the Deceased had and exercised by will a general power of appointment (C)			
Personal property over which the Deceased had, but did not exercise, a general power of appointment, and which, by default of exercise of the power of appointment, belonged to the Deceased absolutely (C)			
Policies of Insurance, and Bonuses (if any) thereon, on the life of the Deceased, *as per statement annexed* ..			
Saleable value of Policies of Insurance and Bonuses (if any) on the life of any person other than the Deceased, *as per statement annexed* ..			
(D) Household Goods, Pictures, China, Linen, Apparel, Books, Plate, Jewels, Carriages, Horses, &c.— If sold, realised gross £ ; (E) If unsold, estimated at £ 500 0 0			500 0 0
Stock-in-Trade, Live and Dead Farming Stock, Implements of Husbandry, &c.— If sold, realised gross £ ; (E) If unsold, estimated at £			
Goodwill of Business, if taken over at a price .. £ ; If valued according to custom of trade .. £ ; If neither, estimated at .. £ (viz.,..........years' purchase of net profits.)			
(F) Profits of Business from..................1........to date of death ..			
(G) Ships and Shares of Ships registered at Ports in the United Kingdom, and Profits of same to date of death, *as per statement annexed* (H), estimated at			
The Deceased's share in real and Personal Property as a Partner in the Firm of X. & Y. ..			
as per Balance Sheet annexed, signed by the surviving Partners .. If none, estimated at ..			4,100 0 0
Carried forward .. £			7,660 0 0

* *Market Price of Stocks, &c.*—Where there is a published quotation, a price one quarter up from the lower to the higher of the official "closing prices" should be adopted as an estimated price. For example :—Where the "closing prices" were "98—100," the market price is $98+\frac{100-98}{4}=98\frac{1}{2}$. Where the death occurred on a Sunday, or other day for which no prices are available, the price for the day before should be taken.

N.B.—Where the space is insufficient, the account or schedule should be continued on a separate sheet.

(I) No Mortgage Debt created or *incurred* by the Deceased himself is to be deducted unless such debt was created or incurred *bonâ fide* for full consideration in money or money's worth wholly for the Deceased's own use and benefit.

(K) If the interest was derived under a will, state name and date of death of the Deceased, but if under a Deed state the Date, together with names and addresses of the Trustees, and if the Deed has been already produced give the official reference appearing upon it.

(L) All Interests in Expectancy in personal property, whether vested or contingent, should be included, whether or not the property is chargeable with Estate Duty, on the Deceased's death as passing under the earlier disposition.

(M) But where the Deceased was entitled to the interest expectant upon his own death, or upon the death of another person who survives him, and Estate Duty is payable upon the corpus of the property on the Deceased's death, the Interest in Expectancy is not also chargeable with Estate Duty on the Deceased's death as part of his free Estate. Although, as it is in fact part of his free Estate, its value must be looked at for the purposes of the Probate Court. The Interest in Expectancy should be brought into this Affidavit, and be taken out again in the Summary on p. .

(N) *No deduction is to be taken here unless Treasury authority has been first obtained.*

ACCOUNT No. 1 (FIRST PART)—*continued*

	Gross Principal Value at date of Death.
	£ s d
Brought forward	7,660 0 0

Leasehold Property (for years) *as per detailed description subjoined or annexed*—

Giving—
1. Particular description
2. Term unexpired at date of death
3. Gross rents, where let, or if not let, either the *gross* assessment to property tax (not the *reduced* assessment *for collection of Income Tax*, under Finance Act, 1894, s. 35) or *gross* (not rateable) assessment to Poor Rate
4. The Ground Rent
5. The nature and amount of the yearly outgoings paid by the Lessee as owner

If sold, realised gross £
If unsold, estimated at £ 1,000 0 0

£ 1,000 0 0

Less (I) a Mortgage Debt of £ due from the Deceased and created by an Indenture dated the day of ... 1.. for which the said Leasehold Property is the sole security ... 1,000 0 0

Rents of the Deceased's own Real and Leasehold Property due prior to the death, but not received by the Deceased, (H) estimated at

Apportionment of the rents of the Deceased's Real and Leasehold Property to date of death, (H), estimated at ... 25 0 0

(K) Income accrued due, but not received prior to the death, arising from Real and Personal Property of which the Deceased was Tenant-for-life, or for any less period, viz., ...

Apportionment of such Income to date of death

The Deceased's Interest (L) expectant upon the death of now aged... years, under the Will of proved or under a Settlement dated the day of , 1. . , and made between (setting out the parties to the Deed) in the property (M) set out in the statement annexed and of which Fund the present Trustees are

(K) Other Personal Property not comprised under the foregoing heads, viz

(a) Gross Personal Property in First Part of Account No 1	£ 8,685 0 0	
N.B.—(a) is the "gross value" which is to be carried to par 3 on page 1		
(b) Deduct total of First and Second Parts of Schedule No. 1	£ 400 0 0	
N.B.—(b) is the "aggregate amount" which is to be carried to par 5 on p. 1		
(c) Net Personal Property in First Part of Account No 1	£ 8,285 0 0	
N.B.—(c) is the reduced "value" which is to be carried to par 5 on p. 1		
(d) Deduct (N) specific articles [see note (D) on page 3] whereon Estate duty is either not payable at all, or is not now payable	£	
(e) Balance remaining	£ 8,285 0 0	
N.B.—(e) is the amount of "Personal Property [Account No 1 (First Part)]" which is to be carried to Part I. of the Summary		£ 8,685 0 0

ACCOUNT No. 1—*continued*. SECOND PART.—Real Property in England

(*Note.—This Account is* NOT *to include land of copyhold tenure or customary freehold where an admission, or any act by the lord of the manor is necessary to perfect the title of a purchaser from the customary tenant.*)

Interests in expectancy in Real Property, where the circumstances are otherwise appropriate, should be included here, as well as interests in possession. Particulars, as in the case of interests in expectancy in Personal Property (see First Part above), should be furnished

	Gross Annual Value at Date of Death	Gross Principal Value at date of Death
		£ s d
Real Property in ENGLAND vested in the Deceased without a right in any other person to take by survivorship .. .. (The particulars of that part of the property in respect of which the duty is to be now paid are stated in the First Part of the Account No. 5, and of that part of the property in respect of which the duty is not to be now paid in an "appropriate account" marked. ..)		2,000 0 0
(C) Real Property in ENGLAND over which the Deceased executed by will a general power of appointment .. .. (The particulars of that part of the property in respect of which the duty is to be now paid are stated in the Third Part of the Account No. 5, and of that part of the property in respect of which the duty is not to be now paid in an "appropriate account" marked. . ...)		
N.B.—This is the "gross value" which is to be carried to par. 6 on p. 1 .. .		£ 2,000 0 0

(C) See Note (C) on page 3.

To be signed by the persons making oath or affirmation

Total of First and Second Parts £ 10,685 0 0

N.B.—This is the "aggregate gross value" which is to be carried to par. 7 on p. 1

N.B.—WHERE THE SPACE IS INSUFFICIENT, THE ACCOUNT OR SCHEDULE SHOULD BE CONTINUED ON A SEPARATE SHEET.

SCHEDULE No. 1.

FIRST PART.—An account of the debts due, and owing from the Deceased, to persons resident in the United Kingdom, or due to persons resident out of the United Kingdom, but contracted to be paid in the United Kingdom, or charged on property situate within the United Kingdom.

Where the debts on the Deceased's personal property exceed the value thereof, and the deficiency is a proper deduction for Estate Duty purposes against the Deceased's real property, deduction of such deficiency may be taken in Schedule No. 5.

NOTE.—See Clauses 52 to 54 of the Form A—2 as to what debts may *not* be deducted. A STATEMENT OF ANY DEBTS PAYABLE BY LAW OUT OF THE PERSONAL PROPERTY IN ACCOUNT NO. 1, BUT WHICH CANNOT BE DEDUCTED AGAINST ESTATE DUTY, SHOULD BE ANNEXED TO THE SCHEDULE BY WAY OF RIDER.

Where a debt is claimed to be due to the husband or wife, or any other member of the Deceased's family, a full explanation should be given, and evidence of the debt should be annexed.

A mortgage debt not created by the Deceased himself but charged on real property which was acquired by the Deceased subject to the mortgage is primarily payable out of such real property and must not be deducted here.

A mortgage debt created by the Deceased himself on his real property, but which is payable by his heir or devisee under "Locke King's Act," 17 & 18 Vict. c. 113, is a debt in respect of which reimbursement may be claimed and must not be deducted here, unless such reimbursement cannot be obtained.

A debt for payment of which the Deceased was surety only must not be deducted, unless the executor has already paid it, and cannot recover it from the original debtor.

Where the debt is for "money lent" or "overdraft" to a Bank, the date of the loan and the particulars of the security, if any given, or, if none, the facts relied on, as showing that the debt is legally recoverable, should be stated.

Name and Address of Creditor.	Description of Debt (This should include the date and short particulars of any security for the Debt.)	Amount
		£ s d
		300 0 0
	£	300 0 0

SECOND PART.—An account of the funeral expenses of the Deceased.

NOTE.—The cost of mourning or tombstone cannot be deducted.

		£ s d
		100 0 0
	£	100 0 0
To be signed by the persons making oath or affirmation	Total of First and Second Parts .. £	400 0 0

ACCOUNT No. 2.

Personal or movable property situate abroad, which is not saleable or transferable in the United Kingdom.

NOTE.—Property saleable or transferable in the United Kingdom should be included in Account No. 1 as "Personal Property situate *in* the United Kingdom."

It should be clearly shown how the value of the property expressed in English money is arrived at.

Particulars and Local Situation of the Property.		Principal Value at date of Death
		£ s d
	Gross Value .. .. £	
	Deduct Total of Schedule No. 2 .. £	
To be signed by the persons making oath or affirmation	Net Value .. .. £ N.B.—This is the amount to be carried to Summary.	

SCHEDULE No. 2.

An account of the debts due and owing from the Deceased to persons resident out of the United Kingdom, other than debts contracted to be paid in the United Kingdom or charged on property situate within the United Kingdom, which have been deducted in the above Schedule No. 1.

See Clauses 52 to 54 of the Form A—2 as to what debts may *not* be deducted, AND SEE NOTES TO SCHEDULE No. 1.

Deduction may be here claimed (*a*) of any duty payable in any *foreign* country by reason of the Deceased's death in respect of property situate in that *foreign* country and included in the Account No. 2, and (*b*) of an amount not exceeding 5 per cent. on the value of any property in the Account No. 2, representing *additional* expense incurred in administering or realising such property by reason of its being situate *out of the United Kingdom*.

Name and Address of Creditor	Description of Debt (This should include the date and short particulars of any security for the debt.)	Amount
		£ s d
To be signed by the persons making oath or affirmation	£	

NOTE.—If any part of the property is *not aggregable with the Deceased's free property*, a separate statement should be annexed showing, in the case of each Account, (*a*) the amount *aggregable with the free property*, (*b*) the amount of any property which *would* be aggregable with the free property, but is *not* because the free and other unsettled property is, by reason of its small value, an "Estate by itself" [see Clause 34 of the Form A—2], (*c*) the amount of any "Estate by itself." The several amounts should be separately carried to the Summary. See Clauses 33 to 36 of the Form A—2 as to aggregation.

ACCOUNTS Nos. 3 (A) AND 3 (B).

3 (a). An account of the PERSONAL property, whether in possession or reversion, OTHER THAN THAT IN THE ACCOUNTS Nos. 1 and 2, of which the Deceased at the time of his death was *competent to dispose* within the meaning of the Finance Act, 1894 [see Sec. 22 (2) (a)], but did *not* dispose. *The duty on this property* MUST BE PAID *on the delivery of this Affidavit.*

3 (b). An account of money which the Deceased had, at the time of his death, a general power to charge on real property whether the power was exercised by his will or not. *The duty on this property* MUST BE PAID *on the delivery of this Affidavit.*

Short material particulars of Disposition conferring the Power, with date of and names of Parties to any Deed, and name of any Testator, and date of Probate of his Will	Particulars of Property. (A separate statement should be attached giving full particulars, as in Account No. 5 on page 7, of any Leaseholds for years.)	Principal Value at date of Death
		£ s d
3 (a)		
	Gross Value .. .. £	
	†Deduct Debts and Incumbrances upon Leaseholds £ (†A separate statement marked Schedule No. 3 (a) should be attached, giving full particulars as in Schedule No. 5 on page 7)	
	Net Value .. .. £ N.B.—This is the amount to be carried to Summary (see Note.)	
3 (b) (i) Where the power was exercised		
(ii) Where the power was not exercised		
To be signed by the persons making oath or affirmation	N.B.—This is the amount to be carried to Summary £	

ACCOUNT No. 4.

An account of OTHER PERSONAL property passing on the Deceased's death (including Leaseholds for years in which the Deceased's interest was less than an absolute interest), *whereon the Estate Duty is* ELECTED TO BE *paid on the delivery of this Affidavit.*

Title to Property Date and short material particulars of Disposition, with date of and names of Parties to any Deed, and name of any Testator, and date of Probate of his Will. The names and addresses of the beneficiaries should also be given, together with their relationship (*a*) to the Deceased, and (*b*) to the predecessor from whom the property is derived	Particulars of Property (A separate statement should be attached giving full particulars, as in Account No 5, on page 7, of any Leaseholds for years)	Principal Value at date of Death
		£ s d
	Gross Value .. .. £	
	†Deduct Debts and Incumbrances upon Leaseholds .. £ (†A separate statement marked Schedule No. 4 should be attached giving full particulars as in Schedule No. 5 on page 7.)	
To be signed by the persons making oath or affirmation	Net Value .. .. £ N.B.—This is the amount to be carried to Summary (see Note.)	

ACCOUNT No. 5.

An Account of REAL Property passing on the Deceased's Death, *whereon the Estate duty is* ELECTED TO BE PAID *on the delivery of this Affidavit.*

Title under which the property passes on the death of the Deceased. Date and short material particulars of disposition, with date of any deed, and names of parties thereto, and name of any testator or intestate, and date of probate of his will or grant of administration. The names and addresses of the beneficiaries should also be given, together with their relationship (*a*) to the Deceased, and (*b*) to the predecessor from whom the property is derived.	Particulars of Real Property. Description of property, including situation, tenure, quantity, tenants' names, and nature of tenancy, and distinguishing between arable, meadow, pasture, orchards, gardens, woods, moors, commons, wastes, pleasure grounds, building land, &c.	Rental, if let, or gross (not rateable) value for the poor rate, if unlet and not assessed to property tax	Value for property tax. State the *gross* assessment (and not the *reduced* assessment *for collection of Income Tax* under Finance Act 1894, s. 35)	Nature of deductions from the gross annual value. Tenants' outgoings should not be deducted unless paid by owner	Amount of Deductions	Net Annual Value	Number of Years Purchase as estimated	Estimated principal value at date of death, and gross amount realised, *if since sold* and date of completion of sale
		£ s d	£ s d		£ s d.	£ s d		£ s d
FIRST PART.—Real Property passing under the Deceased's will or intestacy, other than the property in Second Part (below)								
England—								
Scotland and Ireland—								
SECOND PART.—Land of copyhold tenure or customary freehold, passing as in First Part (above) where an admission or act by the Lord of the Manor is necessary to perfect the title of a purchaser from the customary tenant								
THIRD PART.—Real property over which the Deceased executed by will a general power of appointment, other than the property in Fourth Part (below)								
England—								
Scotland and Ireland—								
FOURTH PART.—Land as in Second Part (above) over which the Deceased executed a power as in Third Part (above)								
FIFTH PART.—Real Property passing under other titles, viz .—								

NOTE.—If any part of the property in this Account is *not aggregable with the Deceased's free property*, a separate statement should be annexed showing (*a*) the amount *aggregable with the free property*, (*b*) the amount of any property, which *would* be aggregable with the free property, but is *not* because the free and other unsettled property is, by reason of its small value, an "Estate by itself." [See Clause 34 of the Form A—2], (*c*) the amount of any "Estate by itself." The several amounts should be separately carried to the Summary See Clauses 33 to 30 of the Form A—2 as to aggregation

Gross value ....£
Deductions in Schedule No. 5 ..£
Net value ....
N.B.—This is the amount to be carried to Summary [see Note] .... £

To be signed by the persons making oath or affirmation

Observe.—As to Agricultural property, see Clause 46 of Form A—2.
If the real property includes unlet fishing or sporting rights, church patronage, timber, unlet building land, mines, or other property which has no annual value, or the annual value whereof is no criterion of the principal value, full details should be given Where the property is licensed it should be expressly so stated, and the particulars of the lease and other lettings should be fully set out.
Generally, as to all property, all such particulars should be furnished as are requisite to arrive at the principal value.

SCHEDULE No. 5.

An Account of the debts and incumbrances upon the Real Property in Account No. 5. (See Clauses 52 to 54 of the Form A—2 as to what debts and incumbrances may *not* be deducted, AND SEE FIRST NOTE TO SCHEDULE No. 1.) *Where the debts on the Deceased's real property exceed the value thereof, and the deficiency is a proper deduction for Estate duty purposes against the Deceased's personal property, deduction of such deficiency may be taken in Schedule No. 1.*

Nature of debt or incumbrance and by whom created	Short material particulars of security, with date of and names of parties to any deed, and name of any testator, and date of Probate of his will	Short particulars of property charged, to identify it in above account	Names and addresses of persons to or in whom the debt or incumbrance is now due or vested	Amount of debt or incumbrance
				£ s d
			Total .. £	

To be signed by the person making oath or affirmation

....Deceased.

SUMMARY OF AFFIDAVIT.

This Summary is not on oath, and if wrong may be amended without the Affidavit being resworn.

PART I.—THE DECEASED'S FREE PROPERTY AND PROPERTY AGGREGABLE THEREWITH

(As to Aggregation, see Clauses 33 to 36 of the Form A—2.)

FIRST TABLE.—For determining Rate of Estate Duty

		Net Value of Property: Personal	Real
		£ s d	£ s d
I	Personal Property [Account No. 1 (First Part)]	8,285 0 0	
II	" " [" " 2]		
III	" " [" " 3 (a)]		
IV	" " [" " 3 (b)]		
V	" " [" " 4]		
VI	" " [" " 5]		2,000 0 0
VII	Total net values of Personal and Real property, respectively, in Accounts Nos. 1 (First Part), 2, 3 (a), 3 (b), 4, and 5	8,285 0 0	2,000 0 0
VIII	*Deduct* value of Interests in Expectancy in Property on the corpus whereof Estate Duty is payable on the Deceased's death under the earlier disposition, provided that the Property is itself *aggregable with the free property, but not otherwise.* [See note (M) at page 110] Deduct no other Interests in Expectancy here £		
IX	Total net values of Personal and Real Property, respectively, in Accounts Nos. 1 (First Part), 2, 3 (a), 3 (b), 4, and 5, for determining Rate of Estate Duty	8,285 0 0	2,000 0 0
X	*Add* other Property *aggregable with the free property* [See par. 14 of Affidavit, and marginal notes 18 and 19 on page 2], passing on the Deceased's death in respect of which Estate Duty is NOT to be paid on this Affidavit £		
XI	Total net values of Personal and Real Property respectively	8,285 0 0	2,000 0 0
XII	Carry down into "*Personal*" column from No. XI. the total value of Real Property £	2,000 0 0	
XIII	Total net value of Personal and Real Property. [Read note (*) on page 10] £	10,285 0 0	

XIV The appropriate RATE of Estate Duty [See clause 70 (3) of Form A—2] is £5 per cent. [Read footnote (†) on this page]

SECOND TABLE.—For determining Value on which Estate Duty or an instalment thereof is to be now paid

		Net Value of Property: Personal	Real
		£ s d	£ s d
XV	Values as in No. VII above	8,285 0 0	2,000 0 0
XVI	*Deduct* value, or a proportion thereof, of Interests in Expectancy such as are mentioned in note (M) on page 110, whether the Property itself *is or is not aggregable with the free property, including* any deducted at No. VIII above [Read Note (**) on page 10] £		
XVII	Balance	8,285 0 0	2,000 0 0
XVIII	*Deduct* value of *other* Interests in Expectancy, in respect of which Estate Duty is payable, but is elected to be paid when the Interest falls into possession:— Account No. ....£ ; " " ....£ ; £		
XIX	Net values of Personal and Real Property, respectively, for determining amount of Estate Duty. [Read Note (*) on page 10] £	8,285 0 0	2,000 0 0

THIRD TABLE.—For determining AMOUNT of Estate Duty and interest to be now PAID

	£ s d
A.—Estate Duty on the net value of the PERSONAL Property (XIX) at the appropriate rate (XIV) of 5 per cent. £	414 5 0
Deduct duty payable in any British possession, to which sec. 20 of the Finance Act, 1984, applies by reason of the Deceased's death, in respect of Property situate in such possession (The deduction is not to exceed the amount of the Estate Duty to be now paid on the Property in respect of which such duty is payable). [Read footnote (*) on this page] £	
Net duty £	414 5 0
Deduct the amount of duty allowable under sec. 21 of the Finance Act, 1896, and sec. 15 of the Finance Act, 1907, in respect of the property (If the amount of the duty to be deducted is to be calculated with reference to the proviso to sec. 15 of the Finance Act, 1907, it is not to exceed the amount of the Estate Duty to be now paid on the property in respect of which such duty has been paid or is payable) £	
Net duty £	414 5 0
Add 3 per cent. per annum interest thereon, from day after death, viz., 30th November 1909, till date of delivery of affidavit, viz., 31st March 1910, both days inclusive, i.e., ... years and 122 days	4 3 1
Total duty and interest (Personal Property) £	418 8 1
B.—Estate Duty on the net value of the REAL Property (XIX), at the appropriate rate (XIV) of 5 per cent: Whole duty £100 0 0; $\frac{1}{5}$th or $\frac{1}{10}$th thereof £ ...... £	100 0 0
[Read Note (‡) on page 10.]	
If the Deceased has been dead more than a year, [Read Note (§) on page 10], *and the whole duty is to be now paid*—	
Add 3 per cent. per annum interest upon the whole duty, from day after expiration of 12 months, after death till date of delivery of affidavit, both days inclusive, i.e. .... years and .... days £	
But if only the instalments due are to be now paid—	
Add 3 per cent. per annum interest upon *whole* duty from day after expiration of 12 months after death till date when *last overdue* instalment was payable, both days inclusive, i.e. .... years and .... months £	
Add 3 per cent. per annum interest upon amount of *overdue* instalments, from day after date when *last overdue* instalment was payable till date of delivery of affidavit, both days inclusive, i.e. .... days £	
Total duty and interest (Personal and Real) Property £	518 8 1

† If the free and other unsettled property by reason of its value is an "Estate by itself." [See Clause 34 of the Form A—2] the value at XIII determines the rate of duty.

* Documentary evidence in support of the deduction, if now claimed, should accompany this Affidavit.

Part II.—Property not Aggregable with the Deceased's Free Property.

Each "Estate by itself," should be separately shown. If the spaces provided are not sufficient, additional statements in similar form should be annexed.

Fourth Table.—For determining Rate of Estate Duty on an "Estate by itself."

	No of Account	Whether Real or Personal	Value of "Estate by itself" — Actual
			£ s d
I			

II The appropriate Rate of Estate Duty [see Clause 70 (3) of Form A—2] is .... per cent

Sixth Table.—[For Personal Property.] For determining Amount of Estate Duty and interest to be now paid on the "Estate by itself," referred to in Fourth Table, or the property referred to in Fifth Table

A.—Estate Duty on the net value of the Personal Property (I), * at the appropriate rate (II) of per cent . . . £

Deduct duty payable in any British Possession, to which Section 20 of the Finance Act, 1894, applies, by reason of the Deceased's death, in respect of property situate in such possession. (The deduction is not to exceed the amount of the Estate Duty to be now paid on the property in respect of which such duty is payable) [Read footnote (†) on this page] . . . . £

Net duty £

Deduct the amount of duty allowable under Section 21 of the Finance Act, 1896, and Section 15 of the Finance Act, 1907, in respect of the property. (If the amount of the duty to be deducted is to be calculated with reference to the proviso to Section 15 of the Finance Act, 1907, it is not to exceed the amount of the Estate duty to be now paid on the property in respect of which such duty has been paid or is payable) . £

Net duty . £

Add 3 per cent. per annum interest thereon, from day after date of death, viz , ...1.. ., till date of delivery of affidavit, viz., ...191 , both days inclusive, *i.e.*.......... years and. ......days .. £

Total duty and interest (Personal Property) . £

Fifth Table.—For determining Rate of Estate Duty on property which would be aggregable with the Free and other unsettled property, were not such Free and other unsettled property an "Estate by itself."

	No of Account	Whether Real or Personal	Value of Property — Actual
			£ s d
I			

II The appropriate Rate of Estate Duty [see Clause 70 (3) of Form A—2] is .. per cent

Note.—The appropriate Rate of Estate Duty at (II) above is to be thus arrived at —

(a) Value at (I) above . . . £

(b) Add value of other property liable to aggregation . .. £

(c) Total value of property liable to aggregation £

(d) The appropriate Rate for (c), treated as an "Estate by itself," is .. . . . per cent

Seventh Table.—[For Real Property.] For determining Amount of Estate Duty and interest to be now paid on the "Estate by itself," referred to in Fourth Table or the property referred to in Fifth Table

B.—Estate Duty on the net value of the Real Property (I), * at the appropriate Rate (II) of .. per cent.

‡ {Whole duty .. £. ... ...} £
‡ {⅛th or $\frac{1}{16}$th thereof £ ..

If the Deceased has been dead more than a year (§) and the whole duty is to be now paid—

Add 3 per cent. per annum interest upon the whole duty from day after expiration of 12 months after death till date of delivery of affidavit, both days inclusive, *i.e.*, . years and ... .days £

But if only the instalments due are to be now paid—

Add 3 per cent. per annum interest upon *whole* duty, from day after expiration of 12 months after death till date when *last overdue* instalment was payable, both days inclusive, *i.e.*. ...... .years and .. . . .. months . .. . £

Add 3 per cent. per annum interest upon amount of *overdue* instalments, from day after day when *last overdue* instalment was payable till date of delivery of affidavit, both days inclusive, *i.e.*............days .. £

Total duty and interest (Real Property) .. .. £

* ‡ § See the Notes on page 10

† Documentary evidence in support of the deduction, if now claimed, should accompany this Affidavit.

Note.—The Estate Duty in respect of Annuities provided by the Deceased otherwise than by his will, which are referred to in Section 2 (1) (d) of the Finance Act, 1894, may be paid by four annual instalments [see Clause 63 of the Form A—2]. No interest is chargeable for the first year after the Deceased's death. If the duty, or a part thereof, is to be now paid, adapt the Fourth and Seventh Tables to meet the case.

If an "Estate by itself," or an aggregable property, consists partly of Personal Property and partly of Real Property, adapt the Tables to meet the case.

* *The duty is chargeable upon the exact net principal value of the Estate, both as regards rate and amount of duty* See Clause 72 (6) of the Form A—2.

Real property directed to be sold at or after the Deceased's death, whether actually sold or not, is to be treated as REAL property.

** If the Property, the subject of the Interest in Expectancy forms an "Estate by itself" and is chargeable at the *same* or a *higher* rate of Estate Duty than the aggregated "one estate," deduct at No XVI the *whole* value of the Interest in Expectancy. But if the "Estate by itself" is chargeable at a *lower* rate, then deduct only so much of the value of the Interest as represents that lower rate Thus, if the "Estate by itself" is chargeable at 2 per cent, and the aggregated "one estate" at 3 per cent, deduct two-thirds, and if the rates are 3 per cent and 7 per cent. respectively, deduct three-sevenths, and so on If payment of the duty which still remains to be paid is elected to be deferred until the interest falls into possession, then deduct the *remaining* part of the value (in the above examples, one-third and four-sevenths respectively) at No. XVIII.

‡ If at the time of the delivery of this affidavit *not more than* 12 months has expired since the date of the Deceased's death, carry out *what is elected to be now paid*, that is the whole duty, or $\frac{1}{8}$th or $\frac{1}{16}$th of it according as the duty is to be paid in one sum, or by yearly or by half-yearly instalments. No interest is chargeable.

§ Where at the time of the delivery of this affidavit *more than* 12 months has expired since the date of the Deceased's death, the duty on the Real property, whether it is paid in one sum or by instalment is chargeable with interest The interest is chargeable upon the *whole* unpaid duty, from 12 months after the Deceased's death, up to the date of payment of the duty or of an instalment thereof, although part only of the duty may be overdue. See Clause 62 of the Form A—2 Where the duty is elected to be paid by instalments, and payment is not made on a date when an instalment becomes payable, the interest upon the whole duty is to be calculated up to the date when the last overdue instalment was payable, and interest from that date is to be calculated upon the *overdue* instalments

PART III—Total of Parts I and II of Summary.

		£ s d	Rate per cent.
	Part I—Total duty and interest ..	£	
NOTE —The total amount paid on each "Estate by itself," or property liable to aggregation, and the rate, should be separately shown. (Annex a schedule if the space is insufficient)	" II — Total duty and interest (Personal).	£ £ £ £	
	" " " (Real)	£ £ £ £ £	
	Total duty and interest paid on this Affidavit	£	

RECEIPT FOR DUTY AND INTEREST

Here state the name and full address of the person who pays the duty ....

A.G.'s No. ....

Received the ...... day of ...., 191.. .., the sum of .... Pounds, ... shillings and .... pence, or *Estate Duty* and Interest thereon

Assessed at

£ ....

.... for Commissioners of Inland Revenue.

....

for Secretary, Estate Duty Office

£ ....

This receipt does not imply that the amount of duty is not subject to rectification.

For use at Chief Office.

These stamps do not imply that the Rates of duty are not subject to rectification

PARTNERSHIP ACCOUNTS.

It should be noted that when a person who has been in business by himself dies, the account for Estate Duty contains full and detailed particulars of *all* his assets and liabilities, both with regard to his business and in respect of his private affairs. Where, however, the partner of a firm dies, the assets and liabilities of the firm do not come into this account at all. In their place must be stated, as a separate asset, the deceased's share in real and personal property as a partner in the firm ; his share being, of course, represented by the amount standing to his credit in the firm's books after they have been adjusted up to the date of death. If anything is payable to the executors of the deceased partner as his share of the Goodwill of the business, it is, of course, included in this amount. In considering these accounts, it must be ascertained if the case is one to which the Limited Partnerships Act, 1907, applies.

DUTY ON REAL AND PERSONAL ESTATE.

Both Real and Personal Estate are liable to Estate Duty under the Finance (1909-10) Act, 1910, and the rate at which the duty is levied depends upon the aggregate net value of both estates added together. It is important, however, to bear in mind that, while in the ordinary course the executors may very likely pay the duty out of the Personal Estate, that proportion paid which is in respect of the Real Estate is a deduction from the Real Estate itself, and must not be *charged* against the Personal Estate. It must be borne in mind that in so far as legacies are payable out of the portion attributable to realty, they are real estate and must bear their own estate duty, notwithstanding a direction to pay " testamentary expenses " out of the netted fund (*Poe v. Spencer Cooper* [1908] 1 Ch. 130 ; see also 106 L.T. 319. Where, however, an annuity is not a rent-charge, but a personal annuity charged on realty, the Estate Duty must be paid by the Executors as testamentary expenses (*Trenchard v. Trenchard* [1905] 1 Ch. 82). This point is, of course, only of practical importance if the persons entitled to the Real Estate (or the Residue thereof) are not the same as the persons entitled to the Residue of the Personal Estate. The same principle applies to Legacy Duty, when it is payable by the Estate and not by the Legatee. It has been decided (*Travers v. Kelly* [1904] 1 Ch. 363) that Settlement Estate Duty on personalty is not a testamentary expense, although the Executor is accountable for it, but is payable out of the settled property under the Finance Act, 1896, Section 19 (1), notwithstanding a direction in the will to pay testamentary expenses out of Residue. If, however, " duties " or "death duties " are directed by the testator to be paid out of a specific fund, settlement estate duty is paid out of the fund. (See *In re Pimm* [1904] 2 Ch. 345 ; *In re Cayley* [1904] 2 Ch. 781 ; *In re Turnbull* [1905] 1 Ch. 726 ; *In re Briggs* [1914] 2 Ch. 413 ; *In re Kennedy* [1916] 2 Ch. 379). Estate duty on the subject matter of a *donatio mortis causa* is not a testamentary expense, and is therefore not payable by the executor under a direction in a will to pay " testamentary expenses " out of the testator's residuary estate. (*In re Hudson* [1911] 1 Ch. 206). It should be noted that testamentary expenses do not include estate duty in respect of property of which a testator is competent, but does not in fact dispose (*Porte v. Williams* [1911] 1 Ch. 188).

The expression " Legacies free of Legacy Duty " does not include the case of a diviso of a farm on which succession duty is payable (*Ellard v. Philan* [1914] 1 Tr.R. 76).

Where legacy duty as to a life interest is inadvertently paid out of capital by executors beneficially entitled, there must be recoupment by the tenant-for-life (*Finch v. Smith* [1915] 2 Ch. 96). As to estate duty in respect of settled properties, see *In re Crocker* [1916] 1 Ch. 25. As to super tax, see *In re Bowring* [1918] 34 T.L.R. 575; *Howe (Earl) v Inland Revenue Commissioners* [1919] 2 K.B. 336.

APPORTIONMENT.

Although it is not intended in this work to discuss the law with regard to executorships and administrations, it is impossible altogether to ignore the question of Apportionment. It will, however, be treated from an accounting point of view—that is to say, its practical effect will be considered in detail—while the reader must be referred to some legal text-book (such as Strachan's "Digest of the Law of Trust Accounts") for information as to exactly when to apply the rules here laid down.

Speaking generally, the executors are accountable for the estate of the deceased as from the date when he died; and where any portion of that estate represents money laid out at interest in undertakings making a regular return of income by way of rent, interest, or dividend, the income accruing up to the date of death represents part of the *capital* of which the deceased died possessed. This is of importance in two ways. (1) Duty has to be paid upon the value of the estate at the date of death, and therefore accruing income has to be included in the amount upon which duty is payable. (2) Persons entitled to the income derived from the estate (or any portion of it) are not entitled to all the *cash* that may be received by way of income after that date, but merely to the proportion that represents income accrued since the date of death. An apportionment has therefore to be made of the income accruing partly before and partly after the death of the testator. Recent cases of importance as to apportionment between a tenant-for-life and remaindermen are *In re Pennington* [1910] 1 Ch. 203; *In re Jenkins* [1915] 1 Ch. 46; *In re Muirhead* [1916] 2 Ch. 181. It must be noted that a bonus, or surplus profits, accruing after the death of the deceased is subject to apportionment. Moreover, dividends and bonuses declared during the life of deceased are part of his estate, even if paid after his death.

This seems the most convenient place to draw attention to the fact that where a specific investment is bequeathed, the legatee is entitled to that investment as from the date of death, together with the benefit of all income accruing *from that date*; but the income accruing due on the investment up to the date of death (inclusive) is part of the general estate.

Income-tax at the current rate must, of course, be deducted from all income before arriving at the amount that is to be apportioned; but in the case of rents it must be remembered that as the full half-year's tax is commonly deducted from an instalment of rent, an adjustment is here required, which necessitates the apportionment of the gross rent and of the tax separately.

In spite of the foregoing, it cannot too strongly be impressed upon the reader that when securities having a current market value are included in the account for Estate Duty at their market price, it is *not* necessary to add to this value any further sum as representing the accruing income up to date, unless the market price is quoted as being *ex div*. A moment's reflection will show the reason for this. The market price is the price at which the investment can be bought (or sold) at the date in question, and unless the price is expressly quoted *ex div.* anyone purchasing on that date would acquire the benefit of all accruing interest or dividend; so that, if the investment had been sold at the date of death, the total amount receivable in respect of it would have been the market price, and not the market price *plus* a further sum for income accruing to date. It is not, however, by any means every class of investment earning income for which market prices are quoted, and, where the valuation included in the Estate Duty Account is upon any other basis, the proportion of income accruing may have to be accounted for separately. But whether the accruing income is separately accounted for, or included in the market price, the first dividend receivable after the date of death must, *in all cases where it is necessary to separate Income from Capital*, be apportioned so that only the proportion earned after death may be credited to Income Account, the proportion earned up to the date of death being applied towards the reduction of the value at which the investment stands in the books. This is, of course, as it should be, seeing that the market price will naturally fall when the dividend is paid, unless other circumstances influence it in the opposite direction. Where preference shares carrying a fixed cumulative preferential dividend were bequeathed in trust for a life-tenant and remainderman, and no dividend was declared or paid for the financial years including the life-tenancy, the life-tenant's executors were held not to be entitled to have the arrears made good out of future preferential dividends (*In re Sale* [1913] 2 Ch. 697, which was followed in *In re Grundy*, 117 L.T. 470). The Apportionment Act, 1870, does not apply to an accruing dividend in the case of a bequest, not of shares, but of money to buy shares (*In re White* [1913] 1 Ch. 231), nor to a case where the destination of income through a forfeiture claim is not finally determined until it had actually accrued, that is to say became payable to the tenant-for-life (*In re Jenkins* [1915] 1 Ch. 46). As to a direction which is not a stipulation within the meaning of Section 7 of the Act, see *In re Edwards* [1918] 1 Ch. 142.

In many undertakings it is customary to pay interim dividends half-yearly, or at even more frequent intervals. The apportionment in such cases must be upon the footing that the dividend earned during the whole year accrued day by day, and is the aggregate of the interim and final dividends declared in respect of that year, the amounts received as interim dividends being regarded as merely payments on account, and treated as such in the calculation of the apportionment; but under no circumstances will any dividend declared prior to the date of death be liable to be apportioned so that part thereof is treated as Income. A share in the profits of a private partnership is not apportionable.

PROBLEM.—A. died on 31st March 1914, leaving, amongst other estate, the following investments:—

1,000 £10 Shares, fully paid, in James Cope & Co., Lim., at 19.
1,500 ,, ,, George Tosh & Co., Lim., at 21.
350 ,, ,, John Tribe & Co., Lim., at 12

Each Company's financial year ended on 30th June.

James Cope & Co., Lim., paid quarterly interim dividends on 1st December, 1st March, and 1st June, at 7½ per cent. per annum; George Tosh & Co., Lim., a half-yearly interim dividend at the rate of 5 per cent. per annum; while John Tribe & Co. paid no interim dividend.

When the accounts of the three Companies were made up, dividends for the year at the rate of 10 per cent. were declared by each, the balance for the year to be payable on 1st September.

How would you deal with these in the books of the trust ?

The total dividends received are as follows :—

		£ s d	£ s d
J. Cope & Co., Lim.	1st Dec.	187 10 0	
	1st Mar.	187 10 0	
	1st June	187 10 0	
	1st Sept.	437 10 0	
			1,000 0 0
G. Tosh & Co., Lim.	1st Mar.	375 0 0	
	1st Sept.	1,125 0 0	
			1,500 0 0
J. Tribe & Co., Lim	1st Sept.		350 0 0
	Total for the year ended 30th June		£2,850 0 0

The apportionment works out as follows (taking months instead of days, and disregarding income tax):—

	Already received on a/c of Capital.	Proportion of receipts since death on a/c of Capital.	Proportion of receipts since death on a/c of Income.
J. Cope & Co., Lim	375 0 0	375 0 0	250 0 0
G. Tosh & Co., Lim	375 0 0	750 0 0	375 0 0
J. Tribe & Co., Lim	..	262 10 0	87 10 0
	£750 0 0	£1,387 10 0	£712 10 0

Dr. SHARES OF £10 EACH IN JAMES COPE & CO., LIM. *Cr.*

		No. of Shares	Capital	Income			No. of Shares	Capital	Income
			£ s d	£ s d				£ s d	£ s d
1914 Mar. 31	To Estate Account ..	1,000	19,000 0 0		1914 June 1	By Cash		187 10 0	
					Sept. 1	" "		187 10 0	250 0 0

Dr. SHARES OF £10 EACH IN GEORGE TOSH & CO., LIM. *Cr.*

		No. of Shares	Capital	Income			No. of Shares	Capital	Income
			£ s d	£ s d				£ s d	£ s d
1914 Mar. 31	To Estate Account ..	1,500	31,500 0 0		1914 Sept. 1	By Cash		750 0 0	375 0 0

Dr. SHARES OF £10 EACH IN JOHN TRIBE & CO., LIM. *Cr.*

		No. of Shares	Capital	Income			No. of Shares	Capital	Income
			£ s d	£ s d				£ s d	£ s d
1914 Mar. 31	To Estate Account ..	350	4,200 0 0		1914 Sept. 1	By Cash ..	..	262 10 0	87 10 0

Dr. ESTATE ACCOUNT. Cr.

		£ s d			£ s d
			1914 Mar 31	By 1,000 Shares of £10 each in J. Cope & Co., Lim.	19,000 0 0
				" 1,500 Shares of £10 each in G. Tosh & Co., Lim.	31,500 0 0
				" 350 Shares of £10 each in J. Tribe & Co., Lim.	4,200 0 0

Dr. CASH. CONTRA. Cr.

		Capital	Income			Capital	Income
		£ s d	£ s d			£ s d	£ s d
1914 June 1	To J. Cope & Co., Lim., Interim Dividend	187 10 0					
Sept. 1	" J. Cope & Co., Lim., Final Dividend	187 0 0	250 0 0				
	" G. Tosh & Co., Lim., Final Dividend	730 0 0	375 0 0				
	" J. Tribe & Co., Lim., Final Dividend	262 10 0	87 10 0				

WHEN APPORTIONMENT IS MADE.

An apportionment having once been made as at the date of the death of the Testator, all further sums received by way of income are treated as being Income in respect of the period up to (and including) the date of such receipt, and are distributed accordingly. When, therefore, the Executor's books are balanced from time to time, no account is taken of accruing Income. If occasion should arise for an investment to be realised, and the proceeds reinvested in another class of security, only the sums ***actually received as representing interest or dividend*** are treated as Income, although this may have the effect of increasing (or reducing) the normal income for the period under review. The reason for ignoring apportionment upon a change of investment is that the Apportionment Act, 1870, does not provide for an apportionment being made under such circumstances, and the Court does not order an apportionment under any other circumstances, unless equity clearly demands it. It will thus be seen that there is scope for a Trustee, by frequent changes of investments, either materially to increase the income of a life-tenant, or materially to reduce it. Under such circumstances, however, any of the parties concerned might (and doubtless would) apply to the Court for redress; and the Court, if satisfied that the action of the Trustee was not *bona fide*, would make such order as it thought just under the circumstances, which would probably be in the form of an order for the Trustee to make good the damages caused out of his own pocket, without giving him any right to recover from the party who had benefited. Abuses of this description are thus not likely to occur often.

But although no apportionment is made between Capital and Income when investments are changed, upon the happening of any event (except apparently—save in the case of tithe—on the death of an incumbent of a living) under which the interest of the life-tenant *ceases*—as, for instance, on the death of a life-tenant, or her re-marriage (if a widow, and if the Will so provides)—an apportionment must be made, so as to arrive at the balance of income due to the late life-tenant up to the date when his (or her) interest in the income ceased. The reason for this is that the life-tenant is entitled to the whole of the income earned from the date of the death of the testator up to (and including) the day when, for any reason, the interest of such life-tenant ceases. At the same time, it should be noted that this apportionment applies only to Income actually received, and not to the proceeds of investments sold *cum div.* From this may be deduced the general rule that no apportionment is ever made, except when a different person becomes entitled to the income, or when the income (*e.g.* a terminable annuity or rent-charge) ceases. But, as already stated, apportionment does not always occur, even in these cases.

The same rule must, of course, be applied where there are several life-tenants and the interest of one ceases: an apportionment of the whole income must be made up to that date, so as to arrive at the exact balance due to the late life-tenant. It has been decided (*In re Atkinson* [1904] 2 Ch. 160) that where a fund is settled upon a tenant-for-life and remaindermen, and is invested in accordance with the powers of the settlement upon a mortgage which proves to be insufficient for the payment of the principal and interest in full, the sum realised by the security ought to be apportioned between the tenant-for-life and the remaindermen in the proportion which the amount due for *arrears* of interest bears to the amount due in respect of the capital debt. See also on this point *Matheson v. Taylor* [1905] 1 Ch. 734; *Broadwood v. Broadwood* [1908] 1 Ch. 115; *Coates v. Bayley* [1911] 1 Ch. 171; *Nisbet v. Philp* [1913] 2 Ch. 697; and *Pennington v. Pennington* [1914] 1 Ch. 213.

There are other cases as to apportionment of capital, or capital losses, between tenant-for-life and remaindermen. In the case of *In re Bacon* (62 L.T. Ch. 445) decided in 1893, Kekewich, J., held that where a capital payment had to be made out of a settled capital "the moneys should be raised by a sale or mortgage of a sufficient part of the estate, and should be paid in that way out of capital, but that the tenant-for-life, bearing as he of course would the interest on the mortgage, there would be a fair distribution of the liability between tenant-for-life and remaindermen. I do not mean to say that it is scientifically accurate, or that it would always work out satisfactorily, but if you are to have a general rule, that seemed to me to be the right one, and in accordance with the authorities." In the case of *In re Dawson* ([1906] 2 Ch. 211), Swinfen Eady, J., adopted a different principle. "He takes the actuarial values, at the death of the testator, of the estate of the tenant-for-life and the estate of the remaindermen, and then distributes the liability between the two estates in the proportions ascertained by actuarial valuation." Kekewich, J., in making the summaries, points out that either principle is, so far as justice is concerned, at the mercy of the facts. If the tenant-for-life lives a short time he will contribute little to the total loss "That is a difficulty which is quite as inherent to an actuarial valuation as to the plan which I propose to pursue." The case in which those comments were made was that of *Gordon v. Gordon* ([1907], 1 Ch. 30). In that case the estate of a testator was liable for a periodical payment of an uncertain amount, and by a deed of compromise this payment was commuted for a lump sum of £7,000, and the estate released from the liability. The plaintiff, who was entitled to a settled share of the testator's estate for her life, with remainder to her children, provided £3,500 out of her own moneys to get rid of this liability on the estate. Held by Kekewich, J., following his decision in *In re Bacon*, in preference to the decision in *In re Dawson*, that the tenant-for-life was entitled to be repaid this sum out of the testator's estate, and the proper mode of apportioning the burden between herself, as tenant-for-life, and the remaindermen, was for the trustee of the will to raise it out of her settled share of the estate. In the case of *Brown v. Perkins* [1907] 2 Ch. 596, Swinfen Eady, J., declined (once more) to follow *In re Bacon* and *Gordon v. Gordon*, and followed the rule in *Allhusen v. Whittell* [1867] L.R. 4, Eq. 295, and *In re Harrison* [1889] 43 Ch.D. 55, 61. Thus an annuity payable out of a settled fund was as to each instalment to be apportioned between Capital and Income as follows :—Calculate what sum with interest from a particular date to date of payment would meet the instalment ; charge that sum to Capital, the balance to Income. The views of Swinfen Eady, J., were followed by Joyce, J., in *In re Thompson* [1908] W.N. 195, and by Parker, J., in *Landon v. Poyser* [1910], 2 Ch. 444. Parker, J., agreed that the method of apportionment was within the discretion of the Court, and made an order similar to that in *In re Perkins*. The minutes of the Order which are of importance to accountants dealing with this subject are set out in Appendix "A," under "Partnership Accounts." In the cases of *In re McEuen* [1913] 2 Ch. 704, and *In re Wills* [1915] 1 Ch. 769, the whole subject has been considered by Sargant, J., and in the latter case it was held that the true principle is to deprive the tenant-for-life of the income of such sum as (together with interest thereon from the date of the testator's death down to the date of payment) is sufficient to satisfy the liabilities ; this principle is not limited to the first year after death, but applies to payments made in subsequent years. The bookkeeping must be of such a nature as to produce an equitable result between life-tenant and remainderman.

In making these apportionments it is important to be clear as to the actual date when the line must be drawn. As to this, the law does not appear to be perfectly clear ; but the Inland Revenue Authorities admit no doubt upon the subject, and for all practical purposes it will doubtless suffice to take their view. They proceed upon the assumption that a man who dies on a given day is presumed to have lived through that day ; so that, for apportionment purposes, the income accruing *during the day of death* must be regarded as accruing to Capital. While on this subject it may be mentioned that an infant attains his majority on the completion of his 21st year ; but as the law (ordinarily) recognises no fractions of a day, the twenty-first year is looked on as completed on the first instant of the day *before* the anniversary (*Fitzhugh v. Donnington* [1704] 2 Ld. Raymond, 1094 ; *Lester v. Garland* [1808] 15 Ves. 248). Thus an infant born (say) on the 1st February 1900 attained his majority on the first instant of the 31st January 1921 ; and had he died on that day, he would not have died a minor (*Roe d. Wrangham v. Hersey* [1771] 3 Wilson 274). Another point worth noting is that a posthumous child, born after the next rent day from the death of his father, is entitled (*Reeve v. Long*, 1 Salk. 228 and under 10 & 11 Will. III, c. 16) to the intermediate profits of the *settled* land ; but the proceeds of a *descended* estate, on the other hand, belong to a posthumous child only from the date of his birth, which (as indicated above) includes the income accruing during that day. As to the moments of beginning and terminating of a term of 21 years for the purposes of the rule against perpetuities, see *English v. Cliff* [1914] 2 Ch. 376.

PROBLEM.—The Estate of W. Quits, deceased, vested in trustees, consisted of property and investments producing the following income during the year 1914:—

Yearly Rents	Half-yearly Payments due	Received Less Tax*
£210	Feb. 20th and Aug. 20th	7 days after due.
150	June 20th and Dec. 20th	10 ,,
90	March 20th and Sept. 20th	2 ,,

Loans on Mortgage.	Rate of Interest.	Interest due Half-yearly
£10,000	3 per cent	Jan. 20th and July 20th
6,000	4 per cent.	April 20th and Oct 20th

Interest, less Tax, was received in each case the day following that on which it became due. The widow (who was entitled to the income during her life) died on the 20th July 1914, having been paid on account of the income received as above stated:—

£200 on March 1st.
100 on April 1st.
100 on July 1st.

After the widow's death the income was divisible between a son and daughter in equal shares. Write up the following Accounts for the year, showing what sums were due to the beneficiaries on the 31st December 1914:—

(1) Income Account (3) Son's Account.
(2) Widow's Account (4) Daughter's Account.

*Divisions of Income may be made by months instead of days, and deductions for Income Tax omitted

Dr. INCOME ACCOUNT. Cr.

1914			£ s d	£ s d	1914			£ s d
June	30	To Widow		495 0 0	Jan 21	By Cash		150 0 0
Dec.	31	,, Widow, apportionment to 20 July, viz.:—			Feb 27	,, Do		105 0 0
		July 20 Interest (the whole)	150 0 0		Mar 22	,, Do		45 0 0
		Aug. 20 Rent (5/6 of £105)	87 10 0		April 21	,, Do		120 0 0
		Sept 20 Do. (2/3 of £45)	30 0 0		June 30	,, Do		75 0 0
		Oct. 20 Interest (1/2 of £120)	60 0 0		July 21	,, Do		150 0 0
		Dec. 20 Rent (1/6 of £75)	12 10 0		Aug. 27	,, Do.		105 0 0
				340 0 0	Sept 22	,, Do		45 0 0
,,		,, Son	77 10 0		Oct 21	,, Do		120 0 0
,,		,, Daughter	77 10 0		Dec 30	,, Do		75 0 0
				155 0 0				
				£990 0 0				£990 0 0

Dr. WIDOW'S ACCOUNT. Cr.

1914			£ s d	1914			£ s d
Mar.	1	To Cash	200 0 0	June 30	By Income Account		495 0 0
April	1	,, Do.	100 0 0	,,	,, ,, Do.		340 0 0
July	1	,, Do.	100 0 0				
Dec.	31	,, Balance down	435 0 0				
			£835 0 0				£835 0 0
				1915 Jan. 1	By Balance down		435 0 0

Dr. SON'S ACCOUNT. Cr

		1914		£ s d
		Dec. 31	By Income Account	77 10 0

Dr. DAUGHTER'S ACCOUNT. Cr.

		1914		£ s d
		Dec. 31	By Income Account	77 10 0

SPECIFIC LEGACIES.

A Specific Legacy (according to Lord Selborne) is the bequest of something "which a testator, identifying it by a sufficient description and manifesting an intention that it should be enjoyed or taken in the state and condition indicated by that description, separates in favour of a particular legatee, from the general mass of his personal estate." (*Robertson v. Broadbent*, 8 A.C. 815.) If it should so happen that at the time of his death the testator was not possessed of any property answering to the description contained in the Will, the bequest lapses altogether; its place is not taken by a pecuniary legacy of the corresponding assumed value. On the other hand, a Specific Legacy is not liable to abate with the general legacies, if there be a deficiency of assets. Lord Haldane in *Walford v. Walford* [1912] A.C., p. 662, defines a Specific Legacy as "a specific residue secured under the testator's will on his death," and adds, "of course it does not abate if the rest of the assets are insufficient for the payment of the general legacies; but it has this disadvantage, that if the particular residue, which is the subject of the Specific Legacy, disappears in the meantime, then the legatee gets nothing. The distinctive character of a Specific Legacy is well brought out by the case of *Gretton v. Machen* [1911] 1 Ch. 662, where a Specific Legacy belonging to a defaulting trustee of the Will was not liable in respect of the default.

Specific Legacies are best dealt with in the books as though they were pecuniary legacies satisfied in kind, instead of in cash. That is to say, the property specifically bequeathed should in the first instance be credited to Estate Account and debited to a special (asset) account dealing with that class of property. When it is ascertained that the estate is sufficient to pay debts and costs without having recourse to this property, an entry can be passed debiting Estate Account and crediting the specific legatee with the amount at which that property is valued in the books; when the legacy is actually handed over, a further transfer should be made from the credit of the Asset Account to the debit of the Specific Legatee's Account.

If the Specific Legacy be an investment bearing interest (or producing rents), it is important to bear in mind that the income accrued due up to the date of the Testator's death (inclusive) belongs to the general estate, and not to the specific legatee. The latter is, however, entitled to all income accrued since the date of death, even although—owing to delay in the handing over of the legacy—that income may in the meantime have been received by the Executors. (See *Lyall v. Broadwood* [1911], 1 Ch. 277.) Bonuses declared after the Testator's death on shares specifically bequeathed are apparently also subject to apportionment (see *Carr v. Griffiths*, 12 C.D. 655; *Nisbet v. Philp* [1913], 2 Ch. 697). As to costs of securing and transferring specific legacies, see *Re Scott* [1915], 1 Ch. 592, and *Re Grosvenor* [1916], 2 Ch. 375.

GENERAL LEGACIES.

Pecuniary Legacies can only be paid if the estate produces sufficient to provide in the first instance for all debts, duties, and expenses, without recourse to Specific and Demonstrative Legacies. If, however, there be a special direction that a legacy for a fixed sum is "immediately" payable, that may be regarded as a Specific Legacy to the extent of entitling the legatee to a preference over the other pecuniary legatees, despite the decision in *In re Hardy*

17 C.D. 798. (See *Oppenheim v. Schroeder* [1891], 3 Ch. 46.) It should be noted that Specific Legacies bequeathed as general legacies are general. *In re Compton* [1914] 2 Ch. 119.

From the accounting point of view, the total amount of Pecuniary Legacies should be debited to Estate Account and credited to Legacies Account—in the latter the various names of the legatees should, of course, be stated separately. As the legacies are paid, Cash Account is credited and Legacies Account debited, so that, by the time all the legacies are paid, no balance remains upon the Legacies Account.

Unless the Bequest be expressly declared to be "free of legacy duty," whatever duty may be payable on the legacy must be deducted from the amount paid to the legatee, and accounted for to the Inland Revenue authorities. The cash postings to the debit side of the Legacy Account will thus consist of the various payments to the legatees (*less* duty), and a further payment to the Inland Revenue authorities in respect of the Legacy Duty so deducted. If, however, the Legacy Duties (or any of them) have to be paid out of the Estate, a corresponding transfer must be made from the debit of Estate Account to the credit of Legacies Account, in order to balance the latter.

In all cases of reversionary interests the Legacy Duty which becomes payable on their falling into possession is—in the absence of express contract—payable by the assignee. If a legatee settles part of a reversionary interest, the duty does not fall exclusively on the unsettled part (*Wodehouse v. Scobell* [1904] 1 Ch. 811). Where a testatrix, who made her will in 1893 and died in 1903, bequeathed numerous Pecuniary Legacies, and directed that all the Legacies should be paid "free from duty," it was held that the Legacy Duty payable on each legacy must be treated as an additional legacy, and be added to the legacy for the purposes of abatement, and that one of the legacies being settled on certain trusts, the Finance Acts, 1894 and 1896, applied, and that the directions to pay "free from duty" included the Settlement Estate Duty, which must (like the Legacy Duty), be treated as an additional legacy, and be added to the legacy for the purposes of abatement (*Skipper v. Wade* [1905] 1 Ch. 726).

DEMONSTRATIVE LEGACIES.

Reference must be made to a class of legacies that combine the characteristics of both Specific and General Legacies—that is to say, legacies that are not liable to abate with the general legacies or to ademption or lapse. Such legacies are called Demonstrative Legacies, and usually consist of bequests of money with reference to a particular fund for their payment, or more generally may be defined as legacies of quantity with reference to a particular source of distribution on which the legatee has a lien. A gift of a specific number of sheep out of a specific flock, or of a specific number of shares out of a specific fund, would be Demonstrative Legacies. From the accounting point of view, such legacies may be classed with Specific Legacies.

Lord Haldane in *Walford v. Walford* [1912] A.C. 663, defines a Demonstrative Legacy as follows:—"Simply a general legacy, with the quality attached to it that if it is directed to be paid out of a specific fund, and, if there is a shortage of assets and that fund remains, is paid out of that fund without abating. On the other hand, if the fund does disappear, then it has the advantage over a specific legacy that it is still payable, in virtue of its quality of a general legacy out of the Testator's residue, along with other general legacies." As to when a legacy is demonstrative and not specific, see *Dawson v. Reid* [1915] 113 L.T. (H.L.).

ANNUITIES.

A Bequest not infrequently takes the form of an Annuity payable during the lifetime of the Beneficiary. This may be provided for in the accounts in any one of the four following ways (unless, of course, the Will contains special directions with regard to the matter) :—(1) By payment out of the general Income of the Estate from year to year. (2) By setting aside and "ear-marking" special securities and applying the interest received thereon towards the payment of the Annuity during the lifetime of the Annuitant, re-transferring the securities back to the general Estate on the death of the Annuitant. (3) By purchasing an Annuity out of Capital, either from the Government or a Life Insurance Office. As to the charging of an Annuity to Corpus or Income, see the cases of *Boden v. Boden* [1907], 1 Ch. 132, *Granville v. Moore* [1907], 1 Ch. 714, and *Howarth v. Makinson* [1909], 2 Ch. 19, *Mills v. Spence* [1911], 1 Ch. 1, *Brown v. Hodgson* [1912], 2 Ch. 479, *In re Croxon* [1915], 2 Ch. 290, *Borthwick v. Lovell* [1915], 1 Ch. 795 ; also *In re Buchanan*, C.A. [1915], 1 I.R. 95, *In re Rose*, 113 L.T. 142. (4) By taking a capital sum, instead of the annuity, in which event the capital value should be calculated by reference to the Government Tables and not to the price at which the annuity could be purchased from an insurance company (*Re Castle*, W.N. [1916] 195), Consols is the proper basis to adopt (*Re Hollins* [1918], 1 Ch. 503 C.A.). It may be noted that when money is bequeathed to be invested in the purchase of an Annuity for the life of the Legatee, it is a vested legacy, and the Legatee can elect whether to take the sum itself or to have an Annuity purchased therewith. Where a husband by his will directed his trustees out of the proceeds of sale and conversion, and after deductions for debts and general and testamentary expenses, to purchase for his widow a Government Annuity, and his wife died shortly before the will was proved or any debts paid, it was held that the Annuity, and the right to take its value in cash instead of the annual payment, vested in the widow on the testator's death, and, therefore, her legal personal representatives were entitled to the sums which at the date of the testator's death would have purchased the annuity (*Robbins v. Legge* [1906], 2 Ch. 648), affirmed by the Court of Appeal [1907], 2 Ch. 8. (See also *Gammon v. Dale* [1909], 1 Ch. 276.) As to possible deficiency, see *In re Platt* [1916], 2 Ch. 563 As to redemption of an Annuity, see *In re Givan's Estate* [1918], 1 I.R. 68.

The following examples show the accounting entries in connection with each of the above methods. It must be borne in mind, however, that when either the second or third method is adopted, the proportion of Annuity accruing from the date when the Annuity commenced up to the date when it is otherwise provided for must be paid out of the Estate, as shown in the first method.

PROBLEM.—A. died on 13th November 1900, leaving *inter alia* an annuity of £50 per annum to B., aged 60, and an annuity of £50 per annum to C., aged 72, both free of Legacy Duty. The executors elect to provide for C.'s annuity by setting aside £1,818 3s. 4d. of 2¾ per cent. Consols, which are purchased *ex div.* on 5th January 1901, at 105. They provide for B. by the purchase of an annuity of £50 per annum from the North British and Mercantile Company on 31st December 1900, for which they pay £623 14s. 2d. C. died on 5th July 1901.

Show the necessary entries in Journal form.

JOURNAL

	£	s	d	£	s	d
31st December 1900						
Estate Account	623	14	2			
To B Annuity Account				623	14	2
B. Annuity Account	623	14	2			
To Cash				623	14	2
Being provision for an annuity of £50 per annum to be paid to B. by the North British and Mercantile Insurance Company, commencing 1st January **1901.**						
Income Account		13	8			
To B. Annuity Account				7	13	8
B Annuity Account	7	13	8			
To Cash				7	13	8
Being payment to B. of proportion of annuity from 5th November 1900 to date : 56 days at £50 per annum.						
5th January 1901						
Estate Account	1,911	9	0			
To Annuity for C Trust Account				1,911	9	0
2¾ per cent Consols	1,911	9	0			
To Cash				1,911	9	0
Being provision for an annuity of £50 per annum to C, by purchase of £1,818 3s. 4d. Consols at 105 (Brokerage £2 7s 6d)						
Income Account ..	8	7	1			
To C Account ..				8	7	1
C Account ..	8	7	1			
To Cash				8	7	1
Being payment to C of proportion of annuity from 5th November 1900 to date : 61 days at £50 per annum.						
5th April						
Cash	12	10	0			
To 2¾ per cent Consols				12	10	0
2¾ per cent Consols ..	12	10	0			
To C Account				12	10	0
C Account	12	10	0			
To Cash				12	10	0
Being quarter's dividend on Consols received, and handed over to C.						
5th July						
Cash	12	10	0			
2¾ per cent Consols				12	10	0
2¾ per cent Consols	12	10	0			
To C Account				12	10	0
C. Account	12	10	0			
To Cash				12	10	0
Being quarter's dividend on Consols received, and handed over to C						
Annuity for C. Trust Account	1,911	9	0			
To Estate Account				1,911	9	0
Being provision for annuity to C., re-transferred to General Estate upon death of C. this day.						

Legacy Duty is payable on the cash value of the Annuity, arrived at by tables provided by the Inland Revenue authorities. The actual payment of duty is made by four yearly instalments, but if the annuitant dies in the interim no further instalments are payable. Unless the Annuity is left free of Legacy Duty, these instalments are deducted from the Annuity payments (*Finch v. Smith* [1914], 2 Ch. 96).

ADVANCES TO BENEFICIARIES.

It frequently occurs that Executors (or Trustees) are authorised to make advances to Beneficiaries on account of their respective shares of the Residue of the Estate.

Such advances sometimes bear interest, but not as a rule if made in pursuance of an advancement clause in a settlement (*Wodehouse v. Fox* [1904], 1 Ch. 480). As a matter of accounting, this interest must be debited to the respective Beneficiaries and credited to Estate (or Income) Account, thus increasing the balance of the latter that is available for distribution. (See *In re Craven* [1914], 1 Ch 358, *In re Forster-Brown* [1914], 2 Ch. 584, and *In re Cooke* [1916], 1 Ch. 480.)

PROBLEM.—A. B. died on 5th April 1901, leaving among other assets £50,000 of 2¾ per cent. Consols (valued at 93½), which he bequeathed to his nephews C., D.. and E. His Trustees were directed to sell the Stock and to divide the proceeds; the dividends on the Stock to the date of Sale, and any interest received up to the date of division free of duty and expenses or deduction of any kind on the dividends, among his three nephews, in the proportion of half to C., one-third to D., and one-sixth to E. The Stock was sold on 5th October 1901 *ex div.*, at 93, the price and dividends from the date of death were received on that day and deposited in Bank, and the Brokerage and Charges were, as directed, paid out of the General Trust Estate. The dividend due 5th July was received on 5th October along with the dividend due on that day. The Trustees had power, out of the General Trust Estate, to make advances to the Beneficiaries to account of their shares to an amount not exceeding £7,500 each, said Advances to be equalised as between the Beneficiaries themselves, with interest at 4 per cent., but no interest was to be payable by them to the General Trust Estate. The Trustees advanced to C. on 30th April 1901 £5,000, and on 29th May £2,500; to D. on 15th May £1,000, and on 1st June £3,000; and to E. on 20th June £6,000, and on 15th July £500.

Frame a statement of Progressive Interest on the Advances, and prepare a scheme of division showing the exact amount payable to each Beneficiary on 15th December 1901. Calculate Interest on the Bank Deposit at 2½ per cent. Leave out fractions of a penny.

Dr TRUST IN FAVOUR OF C., D., AND E. ACCOUNT. *Cr.*

1901		£ s d	1901		£ s d
Oct. 5	To 2¾% Consols Account—Loss on Sale	250 0 0	April 5	By 2¾% Consols Account	46,750 0 0
Dec. 15	„ C. Account	23,905 6 2	Oct. 5	„ Do. Interest to date	687 10 3
„	„ D. „	15,936 17 5	Dec. 15	„ Interest Account	623 2 3
„	„ E. „	7,968 8 8			
		£48,060 12 3			£48,060 12 3

Dr 2¾% CONSOLS ACCOUNT. *Cr.*

1901		Stock £ s d	Capital £ s d	Income £ s d	1901		Stock £ s d	Capital £ s d	Income £ s d
April 5	To Trust in favour of C., D., and E.	50,000 0 0	46,750 0 0	..	Oct. 5	By Cash (2 quarters dividend)	..	..	687 10 0
Oct. 5	„ Do.—Half-year's dividend to date	..	..	687 10 0	„	„ Do. (Sale of Consols)	50,000 0 0	46,500 0 0	
					„	„ Trust Account—Loss on Sale	..	250 0 0	
		£50,000 0 0	£46,750 0 0	£687 10 0			£50,000 0 0	£46,750 0 0	£687 10 0

Dr. C. ACCOUNT *Cr*

1901		£ s d	1901		£ s d
April 30	To Cash	5,000 0 0	Dec. 15	By Trust Account	23,905 6 2
May 29	„ „	2,500 0 0			
Dec. 15	„ Interest	180 0 0			
„	„ Cash	16,225 6 2			
		£23,905 6 2			£23,905 6 2

Dr D. ACCOUNT. *Cr*

		£ s d			£ s d
1901			1901		
May 15	To Cash ..	1,000 0 0	Dec. 15	By Trust Account	15,936 17 5
June 1	" " ..	3,000 0 0			
Dec. 15	" Interest .	88 4 3			
"	" Cash ..	11,848 13 2			
		£15,936 17 5			£15,936 17 5

Dr. E. ACCOUNT. *Cr*

		£ s d			£ s d
1901			1901		
June 20	To Cash	6,000 0 0	Dec 15	By Trust Account	7,968 8 8
July 15	" "	500 0 0			
Dec. 15	" Interest ..	125 8 6			
"	" Cash	1,343 0 2			
		£7,968 8 8			£7,968 8 8

Dr. BANK DEPOSIT ACCOUNT. *Cr*

		£ s d			£ s d
1901			1901		
Oct. 5	To Cash	47,187 10 0	Dec 15	By Cash .	47,416 19 6
Dec 15	" Interest .. .	229 9 6			
		£47,416 19 6			£47,416 19 6

Dr. INTEREST ACCOUNT. *Cr*

		£ s d			£ s d
1901			1901		
Dec 15	To Trust Account . .	623 2 3	Dec. 15	By C.	180 0 0
			"	" D.	88 4 3
			"	" E.	125 8 6
			"	" Bank Deposit Account ..	229 9 6
		£623 2 3			£623 2 3

Dr. CASH. CONTRA *Cr*

		£ s d			£ s d
1901			1901		
Oct 5	To 2¾% Consols—Interest .. .	687 10 0	April 30	By C.—Advance ..	5,000 0 0
"	" Do. Proceeds of Sale .	46,500 0 0	May 15	" D. Do. . .	1,000 0 0
Dec. 15	" Bank Deposit Account	47,416 19 6	29	" C. Do. .	2,500 0 0
			June 1	" D. Do. . . .	3,000 0 0
			20	" E. Do. .. .	6,000 0 0
			July 15	" E. Do.	500 0 0
			Oct 5	" Bank Deposit Account .	47,187 10 0
			Dec. 15	" C.	16,225 6 2
			"	" D.	11,848 13 2
			"	" E	1,343 0 2
		£94,604 9 6			£94,604 9 6

ESIDUARY LEGATEES.

As it is practically impossible for a Testator to know the exact value of the property that he will leave behind him at his death, it is usual to appoint a Residuary Legatee, or Residuary Legatees, who are entitled to receive the surplus or residue of the personal estate after payment of all prior claims. If no Residuary Legatee can be ascertained from the terms of the Will, there is an intestacy in respect of the Residue, which accordingly goes to the next-of-kin. The ultimate distribution of the Residue may be either in cash, or in kind; that is to say, the whole Estate may be realised, and the cash balance distributed among those entitled to the Residue, or the Estate in its existing form may be divided among them. If the various Residuary Legatees are (owing to their different relationship to the deceased) liable to legacy duty at different rates, each must pay the duty upon his respective share of the Residue, even although it may have been expressly bequeathed to him "free of legacy duty." The words "free of legacy duty" have no meaning as applied to the Residue, seeing that after the distribution of the Residue there remains no general Estate out of which legacy duty could possibly be paid.

If the estate is insufficient to pay the legacies, the duty in the case of duty free legacies must be added to the legacy, to be followed by rateable abatement, and duty is paid on and out of the abated amount (*Wilkins v. Rotherham*, 27 C.D. 703). When the Residue settled includes investments in "unauthorised" securities the tenant-for-life is as a rule only entitled to interest at the rate of 4 per cent. on the value of the securities, the balance being capitalised to provide a Sinking Fund to cover depreciation (*Chaytor v. Horn* [1905], 1 Ch. 233); see also *Hodgson v. Bates* [1907], 1 Ch. 22, *Moore v. Wilson* [1907], 1 Ch. 394, and *Eade v. Nicholson* [1909], 2 Ch. 111. (See also *Re Daniells* [1912], 2 Ch. 90; *Skerry v. Skerry* [1913], 2 Ch. 509; *In re Godfree* [1914], 2 Ch. 110; *In re Inman* [1915], 1 Ch. 187.)

An Executor has power at the final distribution of the Estate, even though no express authority be given him for that purpose in the Will, to agree with a general Legatee to appropriate a specific portion of the Estate to him. Moreover, where a residuary trust fund is settled by Will, upon trust for several persons and their families, the trustees have power, *virtute officii*, to appropriate specific investments to any of the settled shares before the period of final division without making any corresponding appropriation to other shares. The principle upon which executors and trustees under a Will which contains a trust for sale and conversion have power to appropriate any specific part of the Estate towards satisfaction of a legacy or share of the Residue, seems to be that they have power to sell the particular asset to the legatee, and to set off the purchase-money against the legacy. This doctrine is not confined to pure Personal Estate, but extends to chattels real, such as Leaseholds, and (it would seem) to Real Estate which is subject to a trust for sale and conversion. As to appropriation and subsequent deterioration, or difficulty of realisation, see the cases of *Fraser v. Murdoch* (6 App. Cas. at p. 864) (Lord Selborne); *Watson v. Craven* [1914], 1 Ch. 358; also *Barry v. Forster-Brown* [1914], 2 Ch. 584. The accounts must, of course, show such appropriations and settings-off in full detail.

A common form of Bequest in connection with Residue, where the Testator leaves children who are minors, is one in the nature of a direction that it is to be held in trust for the benefit of the children until such time as they come of age, or, in the case of daughters, until such time as they become of age or marry, whichever event may happen first. It is not unusual—but not really essential—to endow the Executor with a discretion enabling him to determine the share of each child as he becomes entitled to it absolutely. In these cases of appropriation an accurate Balance Sheet must be prepared each time one of the children becomes entitled to his share, all accruing interest apportioned up to date, and the accounts adjusted so that the balance of the Estate Account and

Income Account respectively show the exact estimated value of the capital in hand and the Income accrued up to date. The accounts of each of the children (which represent the amounts to which they are respectively entitled) are correspondingly adjusted, and the account of the one who is entitled immediately to receive his share is debited with the corresponding amount of cash. A portion of the Estate is realised, if necessary, to produce that sum; or, by arrangement with the legatee, specific securities may be handed over at an agreed price, instead of actual cash passing.

The following example shows clearly the various entries in connection with transactions of this description :—

PROBLEM.—An Estate consisting of £10,000 2¾ per cent. Consols, purchased at 110, is held in trust for A. and B., who are to receive the income during their minority, each being entitled to receive his (half) share of the Capital on his coming of age. The income has been regularly divided up to 5th July 1901. On 28th September 1901 A. came of age; £5,000 Consols were accordingly sold for cash at 93 *ex div.* (less Brokerage £6 5s.) and the proceeds handed to him.

Show the accounts in the Trustee's Ledger.

Dr. TRUST IN FAVOUR OF A. ACCOUNT. *Cr.*

1901		Capital £ s d	Income £ s d	1901		Capital £ s d	Income £ s d
Sept. 28	To Consols Account—Loss on Realisation	856 5 0		Sept. 1	By Balance	5,500 0 0	
"	" Cash	4,643 15 0		Oct. 5	" Interest on Consols .	.	34 7 6
Oct. 5	" "	.	34 7 6				
		£5,500 0 0	£34 7 6			£5,500 0 0	£34 7 6

Dr. TRUST IN FAVOUR OF B. ACCOUNT *Cr.*

1901		Capital £ s d	Income £ s d	1901		Capital £ s d	Income £ s d
Oct. 5	To Cash	..	34 7 6	Sept. 1	By Balance	5,500 0 0	
				Oct. 5	" Interest on Consols ..	..	34 7 6

Dr. 2¾% CONSOLS ACCOUNT *Cr.*

1901		Stock £ s d	Capital £ s d	Income £ s d	1901		Stock £ s d	Capital £ s d	Income £ s d
Sept. 1	To Balance	10,000 0 0	10,000 0 0		Sept. 28	By Cash	5,000 0 0	4,643 15 0	
Oct. 5	" A.—Interest ..	..	..	34 7 6	"	" Loss on Sale of Consols to pay out A. transferred to his account	..	856 5 0	
"	" B. " ..	..	..	34 7 6	Oct. 5	" Cash	..	.	68 15 0

NOTE.—There being only one investment it is convenient to add Income columns to the accounts of A. and B. rather than to open an Income Account. For the same reason it becomes unnecessary to re-value B.'s shares of the estate: this can be conveniently left standing at cost. As the £5,000 Consols are sold ex div., A. will, of course, be entitled to half the dividend received on the 5th October 1901.

INSUFFICIENT ASSETS.

The ultimate disposal of the Residue has already been dealt with. It remains, however, to be explained what procedure must be adopted when, instead of there being a Residue, the Estate is insufficient to provide for all the bequests made by the will.

In a work of this description it is not necessary to discuss the order of precedence of the various debts due on the death of the Testator when the Estate is insolvent, beyond stating that if the general Personal Estate not specifically bequeathed is insufficient to pay the Debts then the Real Estate not specifically bequeathed must bear the deficiency; if there be no Real

Estate (or it be insufficient), the General Pecuniary Legacies must abate *pro rata*, or, if necessary, be abandoned entirely. Devised and Residuary Real Estate and Specific Legacies contribute rateably on the failure of the General Legacies to meet the deficiency.

Assuming, however, that there is sufficient to pay all Debts, Costs, and Specific Legacies, but not sufficient to pay the Pecuniary Legacies, then the latter must all abate *pro rata*, unless the Will, or any rule of law, indicates any special order of priority. An Executor, however, is entitled to a preference in respect of any Debt due to him by the Deceased, as against other creditors of equal degree; but this right does not make him a "secured creditor" within the meaning of Section 10 of the Judicature Act, 1875.

When the Estate is not sufficient to pay Legacies in full, Legacy Duty is, of course, only paid upon the reduced, and not upon the full, amount (*Withers v. Rotherham*, 27 C.D. 703).

ORDER FOR ACCOUNTS.

See *Flanagan v. Flanagan* [1915], 49 L.T. 95. A defence by executors and trustees under the Trustee Act, 1888 (52 & 53 Vict., c. 59), Section 8, must be made at the time of the Order, and not in Chambers, while accounts are being vouched or on further consideration. (See *Re Williams* [1916], 2 Ch 38; *Re Richardson* [1919], 2 Ch. 5[illegible].)

RESIDUARY ACCOUNT.

It has already been stated that Residuary Legatees have to pay Legacy Duty. The amount upon which duty is payable is arrived at by preparing a Residuary Account, which must be in the prescribed form, and verified by affidavit. The form at present in use is shown on page 149. It will be seen that it differs from the form of the Estate Duty Accounts chiefly in that it deals (so far as possible) with actual realisations instead of estimated values, and that it is brought up to date, all payments made before arriving at the Residue being deducted from the Corpus, while all income received since the date of death is added.

PROBLEM.—Taking the Estate of X. shown on page 118, assume that the testator bequeathed £25 to each of his Executors A. and B., who were strangers in blood, that the Leasehold Property was bequeathed absolutely to his Widow, and the Residue to his Widow in trust for life, and afterwards in equal shares to his Partner Y., and his brother Z. Assume that Mrs. X. died on 31st May 1910, that the remainder of the Estate was realised on that day, the Freeholds fetching £20,000 net, the Furniture £450, the Shares £14 10s. each, and the Debentures £165 (net). Assume, further, that all rents, dividends, &c., are received in due course, all debts and legacies paid on 30th June, and Residuary Account made up on that date. Disregard Settlement Duty.

Prepare (*a*) The Executors' Cash Book and Ledger.
(*b*) The Residuary Account.

Dr CASH.

		Capital £	s	d	Income £	s	d
1909 Nov. 30	To Estate Account	1,010	0	0			
Dec. 31	" E. &. W. Ry. Co., Lim., ½ yr's interest (less tax)	19	15	0	4	0	0
1910 Jan. 31	" Leasehold Property, ½ yr's rent (less tax)	23	13	11	4	16	1
"	" Mont Blanc Ice Co., Lim., yr's dividend to 31/12/09 (less tax)	26	3	2	2	6	10
May 31	" Household Goods, &c., proceeds of sale	450	0	0			
"	" Mont Blanc Ice Co., Lim., sale of Shares at £14 10s. ..	435	0	0			
"	" E. & W. Ry. Co., Lim., sale of Debentures at £165* ..	1,630	7	0	19	13	0
"	" X. & Y., in payment of deceased's interest per Y. ..	4,100	0	0			
"	" Freehold property .. .	2,000	0	0			
		£9,694	19	1	£30	15	11

CONTRA. *Cr.*

		Capital £	s	d	Income £	s	d
1910 Mar. 31	By Estate A/c. · Estate Duty..	514	5	0	4	3	1
"	" Do.—Executorship Exps. ..	4	2	8			
June 30	" Debts due at death (sundry accounts)	300	0	0			
"	" Funeral Expenses (Toombes & Son)	100	0	0			
"	" Legacies A/c. A. (less duty)	22	10	0			
"	" Do. B. " ..	22	10	0			
"	" Income A/c., Exctrs. Mrs. X.	..			21	16	9
"	" Residue A/c. Y. (less duty)	3,926	19	1			
"	" Do. Z. " ..	4,145	2	5			
"	" Legacy Duties	659	9	11			
"	" Leasehold Properties A/c.; proportion of Rent from 30/11/09 to 31/12/09 due to Executors, Mrs. X. ..				4	16	1
		£9,694	19	1	£30	15	11

* It is assumed that, under the provisions of the will, an apportionment takes place here.

ESTATE ACCOUNT.

Dr.		£ s d	£ s d	Cr.		£ s d	£ s d
1909 Nov. 30	To Debts due at Death ..	..	300 0 0	1909 Nov. 30	By Mont Blanc Ice Co., Lim. ..		450 0 0
"	" Funeral Expenses ..	..	100 0 0	"	" East Western Railway Co., Lim.		1,600 0 0
1910 Mar 31	" Cash: Estate Duty ..	..	514 5 0	"	" Cash		1,010 0 0
"	" Do. Executorship Expenses	.	4 2 8	"	" Household Goods ..		500 0 0
"	" Balance down		9,766 12 4	"	" Share in Firm of X. & Y.		4,100 0 0
				"	" Leasehold Property		1,025 0 0
				"	" Freehold Property		2,000 0 0
			£10,685 0 0				£10,685 0 0
		£ s d	£ s d				£ s d
1910 May 31	To Difference on realisation of Household Goods ..	..	50 0 0	1910 Mar. 31	By Balance		9,766 12 4
June 30	" Legacies Account: A. ..	25 0 0		May 31	" Difference on Mont Blanc Ice Co., Lim.		11 3 2
"	" Do. B. ..	25 0 0	50 0 0	"	" Difference on E. W. Ry. Co., Lim ..		50 2 0
"	" Specific Legacies Account, Mrs. X.		1,001 6 1				
"	" Residue Account		8,726 11 5				
			£9,827 17 6				£9,827 17 6

£10 SHARES IN MONT BLANC ICE COMPANY, LIM

Dr.		Shares	Capital £ s d	Income £ s d	Cr.		Shares	Capital £ s d	Income £ s d
1909 Nov. 30	To Estate Account . .	30	150 0 0		1910 Jan 31	By Cash Dividend for year ended 31st December 1909		26 3 2	2 6 10
1910 May 31	" Estate Account, difference on Realisation .		11 3 2		May 31	" Cash—Sale of Shares	30	435 0 0	
"	" Income Account .			2 6 10					
			£161 3 2	£2 6 10				£161 3 2	£2 6 10

£100 5% DEBENTURES IN EAST WESTERN RAILWAY COMPANY, LIM.

Dr		No	Capital £ s d	Income £ s d	Cr.		No	Capital £ s d	Income £ s d
1909 Nov. 30	To Estate Account .. .	10	1,600 0 0		1909 Dec 31	By Cash—½-year's Interest ..		10 15 0	4 0 0
1910 May 31	" Estate Account, difference on Realisation ..		50 2 0		1910 May 31	" " —Sale of Debentures	10	1,630 7 0	19 13 0
"	" Income Account .		..	23 13 0					
			£1,650 2 0	£23 13 0				£1,650 2 0	£23 13 0

SHARE IN FIRM OF "X. & Y."

Dr.		£ s d	Cr.		£ s d
1909 Nov. 30	To Estate Account ..	£4,100 0 0	1910 May 31	By Cash: Per "Y" .	£4,100 0 0

LEASEHOLD PROPERTY ACCOUNT (giving full details).

Dr.		£ s d	£ s d	Cr.		£ s d	£ s d
1909 Nov. 30	To Estate Account	1,025 0 0		1909 Dec. 31	By Cash Rent	23 13 11	4 16 1
1910 May 31	" Cash—Mrs. "X."—Income accrued since death on Property specifically bequeathed to her ..	..	4 16 1	1910 May 31	" Mrs. "X"—Property specifically bequeathed to her, handed over this day .	1,001 6 1	
		£1,025 0 0	£4 16 1			£1,025 0 0	£4 16 1

FREEHOLD PROPERTY ACCOUNT (giving full details).

Dr.		£ s d	£ s d	Cr.		£ s d	£ s d
1909 Nov. 30	To Estate Account	£2,000 0 0		1910 May 31	By Cash: Proceeds of Sale	£2,000 0 0	

Dr. HOUSEHOLD GOODS, &c **Cr.**

Date		£ s d	Date		£ s d
1909 Nov. 30	To Estate Account	500 0 0	1910 May 31	By Cash: Net Proceeds of Sale	450 0 0
				" Estate Account: Difference on Realisation	50 0 0
		£500 0 0			£500 0 0

Dr. LEGACY DUTIES ACCOUNT. **Cr.**

Date		£ s d	Date		£ s d
1910 Nov. 30	To Cash: Commissioners of Inland Revenue	659 9 11	1910 June 30	By Legacy Account: A	2 10 0
			"	" Do. B.	2 10 0
			"	" Residue Account: Y.	436 6 7
			"	" Do. Z.	218 3 4
		£659 9 11			£659 9 11

Dr DEBTS DUE AT DEATH **Cr.**

Date		£ s d	Date		£ s d
1910 June 30	To Cash (in detail)	£300 0 0	1909 Nov 30	By Estate Account (in detail)	£300 0 0

Dr. FUNERAL EXPENSES. **Cr.**

Date		£ s d	Date		£ s d
1910 June 30	To Cash: Coombes & Son	£100 0 0	1909 Nov. 30	By Estate Account	£100 0 0

Dr. LEGACIES ACCOUNT. **Cr.**

Date		£ s d	£ s d	Date		£ s d	£ s d
1910 June 30	To Cash: A.	22 10 0		1909 Nov. 30	By Estate Account, viz.—		
"	" Legacy Duty	2 10 0			A.	25 0 0	
			25 0 0		B	25 0 0	
"	" Cash: B.	22 10 0					50 0 0
"	" Legacy Duty	2 10 0					
			25 0 0				
			£50 0 0				£50 0 0

Dr. SPECIFIC LEGACIES ACCOUNT. **Cr.**

Date		£ s d	Date		£ s d
1910 May 31	To Leasehold Property Account	1,001 6 1	1910 May 31	By Estate Account Mrs. X.	1,001 6 1

Dr. INCOME ACCOUNT. **Cr.**

Date		£ s d	Date		£ s d
1910 Mar. 31	To Cash: Interest on Estate Duty	4 3 1	1910 May 31	By Mont Blanc Ice Co., Lim.	2 6 10
June 30	" " Executors. Mrs. X, being income accrued up to date of her death	21 16 9	"	" East Western Railway Co., Lim.	23 13 0
		£25 19 10			£25 19 10

Dr RESIDUE ACCOUNT. **Cr.**

Date		£ s d	£ s d	Date		£ s d	£ s d
1910 June 30	To Cash: Y.	3,926 19 1		1910 June 30	By Estate Account, viz.:—		
"	" Legacy Duty	436 6 7			Y	4,363 5 8	
			4,363 5 8		Z.	4,363 5 9	
"	" Cash: Z.	4,145 2 5					8,726 11 5
"	" Legacy Duty	218 3 4					
			4,363 5 9				
		£	8,726 11 5			£	8,726 11 5

Form No. 3. INLAND REVENUE. **[Form of Residuary Account.**

Here state the Name and Address of the Person who forwards this Account. ....

All Personal Estate, and also, where mixed up with the Personal Estate, all Moneys arising from the sale, mortgage, or other disposition of all Real Estate directed by Will to be sold, &c., are to be accounted for upon this Form, for the purpose of having the Legacy Duty assessed pursuant to the Legacy Duty Act, 1796 (36 Geo. III, c. 52); the Legacy Duty Act, 1805 (45 Geo. III, c. 28); the Stamp Act, 1815 (55 Geo. III, c. 184), the Finance (1909-10) Act, 1910 (10 Edw. VII, c. 8) and the Succession Duty pursuant to the Customs and Inland Revenue Act, 1888 (51 & 52 Vict. c. 8), the Finance Act, 1894 (57 & 58 Vict. c. 30); and the Finance (1909-10) Act, 1910 (10 Edw. VII, c. 8.)

Where the Personal Estate is not chargeable with Legacy Duty, the proceeds of sale of Real Estate directed to be sold should be accounted upon the Form No. 8; as also where moneys arising from the sale of Real Estate do not form part of the General Estate but are separately given.

The Account, when filled up *in duplicate*, should be *transmitted by post* to the Secretary, Estate Duty Office, Somerset House, London, W.C. The envelope should be legibly marked "Account" If preferred, the Account may be left at the office by hand. In suitable cases, an appointment will be arranged.

Observe.—*Money should not be remitted until the account has been delivered by the parties, and the amount payable and the mode of payment have been notified to them.*

Directions

Executors and Administrators, before the Retainer of any part of the Property to their own use, are to deliver the particulars thereof, and pay the duty thereon within 14 days after, under the penalty of treble the value of the Duty.

All Rents, Dividends, Interest, and Profits arising from the Personal Estate of the Deceased, or from the Real Estate directed by will to be sold, &c., subsequently to the time of the death, and all accretions thereon down to the time of retainer, must be considered as part of the Estate, and be accounted for accordingly.

File 19 . | **Register** of the Year 1 , Folio . Affidavit

(A) Please read the Instructions printed above.

(B) Here state the Name and Address of the Executor or Administrator.

(C) If the duty became payable on the death of any person other than the Testator (or Intestate) insert the particulars required.

An Account (A) of the Personal Estate, and of Moneys arising out of the Real Estate of X., who died on the 30th day of November 1909 exhibited by (B)

the Executor....(or) Administrator........of the Deceased, (or) Trustee........of the Real Estate directed by the Will to be sold, &c, acting under the Will (or) Letters of Administration [with Will annexed] of the effects of the Deceased proved in, or granted by, the Registry of the Probate Division of the High Court of Justice, on the day of 1

The duty on the property comprised in this account became payable on the death of (C) Mrs. X., who died on the 31st day of May 1910.

Observe.—*If this Account is delivered in connection with a life-tenant's death, and the required particulars cannot be fully stated, the existing fund, together with any sums advanced and taken out of trust, should be brought in, and a statement should be annexed to both copies of the Account giving all the information available. Investments should as a general rule be valued as at the date of the life-tenant's death, and no income accrued since that date (or payments thereout) should be shown on the 3rd page of the Account. Interest at 3 per cent. per annum from the date of the life-tenant's death will be added to the duty.*

ACCOUNT I.

Capital Account of the Deceased's Estate, exclusive of Real or Leasehold property not directed to be sold.

N.B.—Detailed Schedules, where necessary, of the various items to be annexed to both copies of the Account, following, if possible, the same order as in the Inland Revenue Affidavit.

The Foreign Assets, if any, included in Account No. 2 of the Inland Revenue Affidavit, to be accounted for under the separate heading, No. 26, on page 2 of this Account.

Items	Description of Property	Date of Sale, if Sold	No. 1. Value of Property not converted into Money £ s d	No. 2. Money received and Property converted into Money £ s d
1	Stocks or Funds (including Exchequer Bills) of the United Kingdom. (*See* Schedule annexed)			
2	Stocks, Funds, or Bonds of Foreign Countries, or of British Dependencies and Colonies (*See* Schedule annexed)			
3	Proprietary Shares or Debentures of Public Companies. (*See* Schedule annexed) ..	31/5/10	..	2,111 5 2
4	Dividends, &c., on the above Investments declared, received and accrued due prior to the death. (*See* Schedule annexed)			
5	Cash in hand	..	..	10 0 0
6	Cash at Bank { (1) On drawing account, with interest, if any, thereon, apportioned up to the date of the death .. .. (2) On deposit, with interest apportioned as above	..	..	1,000 0 0
7	Money on mortgage, with interest apportioned to the date of the death .. .. } (*See Schedules annexed, showing amount, date, and rate of interest of each item*)			
8	Money due on Bonds, Bills, Promissory Notes, and other Securities, with interest as above .. .. }			
9	Book Debts. *N.B.*—Gross amounts to be stated, and any reduction fully explained ..			
10	Other Debts. (*See* Schedule annexed)			
11	Unpaid Purchase Money of Real or Leasehold Property contracted in lifetime of the Deceased to be sold, with rents or interest, if any, apportioned to the date of the death			
	Carried forward			£3,121 5 2

Note.—(*a*) Stocks, Shares, &c., not converted into money to be valued at the market price of the day of retainer. If this was a Sunday or other day for which there were no quotations, the prices for the day before to be taken. A price one quarter up from the lower to the higher of the "closing prices" of a published quotation to be regarded as the market price: thus, if the "closing prices" are 98-100, the market price is $98 + \frac{100-98}{4} = 98\frac{1}{2}$. But if there are no quotations in the London Daily Official List, Brokers' Certificates, Published Quotations, or Letters from Secretaries to Companies to be annexed.

(*b*) When the price quoted is "*ex. div.*," the dividend *should be included in Account II.*

Model Schedule :—

Description of Stocks, Shares, &c.	Nominal Value	Closing Prices	Market Price	Date of Sale	Value if not converted	Amount, if converted
	£ s d				£ s d	£ s d
Bank of England Stock	1,000 0 0	263-267	264		2,640 0 0	
Great Central Railway 4½ per cent. South Yorks Perpetual Rent Charge Stock	1,000 0 0					
100 Bovril Limited Ordinary £1 Shares	100 0 0	20/-21/-	20/3	21 Sept., 1908	101 5 0	1,040 0 0
					£2,741 5 0	1,040 0 0
					No. 1.	No. 2.

Items	Description of Property	Date of Sale, if Sold	Value of Property not converted into Money	Money received and Property converted into Money
			£ s d	£ s d
	Brought forward			3,121 5 2
12	Deceased's interest in proceeds of sale of Real Property directed to be sold by settlement or by will of some other person whether actually sold or not. (*See* Schedule annexed) *N.B.*—Read Note 1 at foot of page.			
13	Personal Property over which the Deceased had and exercised by will an absolute power of appointment. (*See* Schedule annexed) .. .. (*N.B.*—Read Note 1 at foot of page.			
14	Policies of Insurance, and Bonuses (if any) thereon, on the life of the Deceased. (*See* Schedule annexed)			
15	Saleable value of Policies of Insurances and Bonuses (if any) on the life of any person other than the Deceased. (*See* Schedule annexed)			
16	Household Goods, Pictures, China, Linen, Apparel, Books, Plate, Jewels, Carriages, Horses, Wines and other Liquors, &c... .. .. *N.B.*—Read Note 2 at foot of page.	31/5/10		150 0 0
17	Stock-in-trade, Live and Dead Farming Stock, Implements of Husbandry, &c. . .. *N.B.*—Read Note 2 at foot of page.			
18	Goodwill, &c., of Trade or Business, and Profits to date of death .. . . *N.B.*—The basis on which the value is arrived at should be stated.			
19	Ships or Shares of Ships and Profits to date of death. (*See* Schedule annexed)			
20	The Deceased's share in Real and Personal Property as a Partner in the Firm of X. & Y. as per Balance Sheet annexed, signed by the surviving Partners	31/5/10		4,100 0 0
21	‡Leasehold Property directed to be sold. (*See* Schedule annexed) .. .. *N.B.*—Read Note 2 at foot of page.			
22	Rents of Deceased's Real and Leasehold Property apportioned up to date of death of the deceased. (*See* Schedule annexed)			23 13 11
23	Income apportioned up to date of death, arising from Real and Personal Property of which the Deceased was Tenant-for-life, or for any less period. (*See* Schedule annexed) .. *N.B.*—Read Note 1 at foot of page.			
24	The Deceased's Interest in Property, expectant upon the death of ....now aged.............years......... *N.B.*—Read Note 1 at foot of page.			
25	Other Personal Property not comprised under the foregoing heads. (*See* Schedule annexed)			
	Total Capital of Personalty in the United Kingdom (except Leaseholds not directed to be sold). (1) Not converted. (2) Converted.			7,691 19 1
26	Movable Personalty situate abroad. (*See* Schedule annexed)	31/5/10		2,000 0 0
27	‡Real Estate directed to be sold. (*See* Schedule annexed) .. .. *N.B.*—Read Note 2 at foot of page.			
28	Investments made since the death of the Deceased. (*See* Schedule annexed)			

‡Was the Deceased possessed for life or otherwise of any *Real or Leasehold* property, other than that brought into this Account? Reply .... (Say "Yes" or "No.")

Total of Column No. 1	£
Deduct value of specific Stocks, &c., bequeathed or transferred in specie to Legatees, duty on which is accounted for on separate Forms No. 1	£
Net total of Column No. 1 carried to Account III	£

Cash Capital, *i.e.* Total of Column No. 2... †£ 9,694 19 1

Payments out of Cash Capital up to date of this Account.
N.B.—Detailed Schedules signed by the Executors or Administrators to be annexed to both copies of the Account.

	£ s d
*Probate or Administration, excluding Estate Duty on Real Estate not comprised in this Account	514 5 0
*Funeral Expenses (not including mourning or monument, unless directed by the Deceased's Will)	100 0 0
*Expenses attending Executorship or Administration	4 2 8
*Debts on simple Contract due at the death	300 0 0
*Debts on Mortgage with interest apportioned up to the death	
*Debts on Bonds and other securities, with ditto	
*Pecuniary Legacies	50 0 0
*Actual amount expended in Investments made since the death of the Deceased	
*Sums advanced to Residuary Legatees out of moneys in Column No. 2 and accounted for on Separate Forms No. 1	

*The whole of these payments may be deducted against Cash Capital, although in point of fact some part of such payments may have been met out of the Income in Account II.

Deduct total of payments from total of Column No. 2, as shown above†	968 7 8
Net total of Column No. 2 carried to Account III ..	£8,726 11 5

Note 1.—Full particulars of the title to property included in Items 12, 13, 23 and 24 to be furnished. If the interest or power was derived under a Will, state full name and date of death of the testator and date and place of Probate; if under a Deed, state the date together with the names and addresses of the trustees, and if the Deed has already been produced, the official reference appearing upon it.

Note 2.—If Items 16, 17, 21 and 27 have been sold, the *gross* amounts realised should appear in Column No. 2.

ACCOUNT II.

Account of Income of Property comprised in Account I subsequent to the death.

N.B.—Detailed Schedules to be annexed to both copies of the Account. Dates when dividends due and periods of interest to be shown in the same order as in the Schedules of Assets in Account I.

	£	s	d
Rents of Real and Leasehold Property directed to be sold; if sold, up to the time of sale; if unsold, to the date of this Account, including apportionment of current rents ..	4	16	1
Dividends declared, received and accrued due on Stocks, Shares, &c., up to the date of this Account; or, if sold, to the time of sale ..	2	6	10
Interest on Mortgages, Bonds, &c., apportioned up to date of this Account; or, if paid off, to date of payment ..	23	13	0
Interest actually earned since the death, in respect of Cash Balances, and, so far as Interest has not been actually earned, Interest at 3 per cent. per annum upon the Balances of Cash in hand from time to time, calculated from the end of the Executor's year up to the date of the Account ..			
The value of the benefit accruing to the person entitled to the Residue from the Interest of money or Dividends of Stock retained to answer vested or contingent Legacies payable at a future day without the intermediate Interest or Dividends ..			
Profits to the date of this Account from any business forming part of the Deceased's Estate carried on by the person acting in the Administration of the Estate ..			
Income from any other Property not included in the above items, apportioned up to the date of this Account ..			
Total ..	£30	15	11

PAYMENTS OUT OF INCOME, SO FAR AS NOT DEDUCTED AGAINST CASH CAPITAL.
(*See* page 2.)

	£	s	d
Interest on Mortgages, Bonds, &c., due from the Estate ..			
Interest on Pecuniary Legacies ..			
Payments on Accounts of Annuities ..			
Dividends on Specific Stocks, &c., bequeathed or transferred in specie to Legacies, duty on which is accounted for on Separate Forms No. 1 ..			
Other Payments, viz. Interest on Estate Duty ..	4	3	1
Mrs. X. ..	26	12	10

	£	s	d
Deduct Total Payments from Total of Income ..	£30	15	11
Balance of Income carried to Account III ..	Nil		

ACCOUNT III.

SHOWING THE PROPERTY NOW CONSTITUTING THE RESIDUE AND THE AMOUNT UPON WHICH DUTY IS CHARGEABLE.

	£	s	d
Net Total of Column No. 1, Account I ..			
,, ,, No. 2 ..	8,726	11	5
Balance of Income in Account II ..			
Total ..	£8,726	11	5

DEDUCTIONS FROM RESIDUE.

	£	s	d
Debts still due from the Estate. (*See* Schedule annexed) ..			
Retained to pay Outstanding Legacies and Annuities. (*See* Schedule annexed) ..			

	£	s	d
Deduct total from total Residue ..	Nil		
Net Residue ..	£8,726	11	5
Deduct any portion of the Residue not liable to duty, or in respect of which duty is paid on separate Receipts, viz. ..	Nil		
Residue on which duty is chargeable ..	£8,726	11	5

DECLARATION.

(D) State whether this Sum is the whole or what part of the Residue. (E) Insert the Christian and Surnames of the Residuary Legatees or next of kin, and (F) their Relationship or Consanguinity, in the words of the Act, as set forth below.

No. 1.

FOR USE IN ALL CASES EXCEPT AS IN NO. 2.

I (or) We do declare that the foregoing is a just and true Account, and I (or) We offer to pay the sum of £ for the Legacy Duty, at the rate of per cent. upon the sum of £ being (D) of the said Residue and Moneys to which

No. 2.

FOR USE ONLY WHERE THE TESTATOR DIED AFTER 30th JUNE 1888, AND BEFORE 2ND AUGUST 1894, and then only where the Residue comprises Real Estate directed to be sold as well as Personal Estate.

I (or) We do declare that the foregoing is a just and true Account, and I (or) We offer to pay the sum of £ , of which £ is the *Legacy* Duty at per cent. on £ the proportion representing Personal Estate, and £ is the *Succession* Duty at per cent. on £ the proportion representing Real Estate, to which

This portion to be used with either form of declaration.

I am (or) We are entitled and which I (or) We intend to retain to my (or) our own use, and for the use of (E) being (F) of the testator (intestate) under whose will (intestacy) the property is derived.

Dated this day of 191 .

(*Here sign the Account*)..........................

FOR OFFICIAL USE ONLY

ASSESSMENT.

TOTAL DUTY.

The *Legacy Duty* on the said sum of ..	£ ,,	at	per cent. is £ ,, ,,			
Interest thereon ..	.. ..		£ ,, ,,			
			TOTAL LEGACY DUTY	£ ,,		
The *Succession Duty* on the said Sum of ..	£ ,, ,,	at	per cent. is £ ,, ,,			
Interest thereon ..	.. ..		£ ,, ,,			
			TOTAL SUCCESSION DUTY	£	,,	,,
				£	,,	,,

SOMERSET HOUSE,
LONDON, W.C.

By the Commissioners,

191 .

Examiner.

RECEIPT FOR DUTY.

RECEIVED *the* *day of* 191 *the Sum o*

being the Amount mentioned in the above Assessment

Registered,

£ ,, ,,

For Commissioners of Inland Revenue.

RELATIONSHIP OR CONSANGUINITY.

The relationship of the Residuary Legatees or next of Kin to the Testator (intestate) under whose will (intestacy) the property is derived is to be stated in one of the following forms.—

1. Husband, Wife.

2. Child (or Husband, or Wife, of), Descendant of a Child (or Husband, or Wife of), Father, Mother, Grandfather, Grandmother, &c.

3. Brother (or Wife of) Sister (or Husband of), Descendant of a Brother (or Husband, or Wife, of), Descendant of a Sister (or Husband or Wife, of), &c.

4. Brother (or Wife of Brother) of the Father, Brother (or Wife of Brother) of the Mother, Sister (or Husband of Sister), of the Father, Sister (or Husband of Sister) of the Mother, Descendant of a Brother (or the Husband, or Wife, of) of the Father (Mother), Descendant of a Sister (or the Husband, or Wife, of) of the Father (Mother), &c.

5. Brother (or Wife of Brother) of a Grandfather, Brother (or Wife of Brother) of a Grandmother, Sister (or Husband of Sister) of a Grandfather, Sister (or Husband of Sister) of a Grandmother, Descendant (or Husband, or Wife, of) of a Brother of a Grandfather, &c.

6. If the degree of relationship to the Testator or Intestate is more remote than that shown in the preceding paragraph (5), the exact relationship leading back to a common ancestor with the Testator or Intestate should be stated, and if there is no blood relationship between the Beneficiary and the Testator or Intestate, the Beneficiary should be described as a Stranger in Blood.

NOTE.—Relations of the Husband or Wife of the Testator or Intestate are chargeable with duty as Strangers in Blood, unless they are themselves related in blood to the Testator or Intestate.

Observe.—Interest at the rate of 4 per cent. per annum is chargeable upon Legacy and Succession Duty in arrear, under the provisions of the Finance Act, 1896 (59 & 60 Vict. c. 28), Section 18 (2).

DUTIES.

The rates of Estate Duty, as fixed by Section 29 of the Finance Act, 1919, are as follow :—

Where the Principal Value of the Estate		Estate Duty shall be payable at the rate per cent of
Exceeds	and does not exceed	
£	£	£
100	500	1
500	1,000	2
1,000	5,000	3
5,000	10,000	4
10,000	15 000	5
15 000	20,000	6
20,000	25,000	7
25,000	30 000	8
30,000	40,000	9
40,000	50,000	10
50,000	60,000	11
60,000	70,000	12
70,000	90,000	13
90,000	110,000	14
110,000	130,000	15
130,000	150,000	16
150,000	175,000	17
175,000	200,000	18
200,000	225,000	19
225,000	250,000	20
250,000	300,000	21
300,000	350,000	22
350,000	400,000	23
400,000	450,000	24
450,000	500,000	25
500,000	600,000	26
600,000	800,000	27
800,000	1,000,000	28
1,000,000	1,250,000	30
1,250,000	1,500,000	32
1,500 000	2,000,000	35
2,000,000		40

The Finance Act, 1914, abolishes Settlement Estate Duty, and (while granting relief in the case of quick successions) makes Estate Duty payable each time there is a passing of the interest in settled property owing to death.

Duty is (now) payable on the exact value of the Estate at the date of death.

There are alternative scales for small estates: if the *gross* value of the estate does not exceed £300, an Estate Duty of 30s. may be paid; or in the case of estates not exceeding £500 *gross*, 50s. duty may be paid. (See as to this Section 61 of the Act of 1910.)

The rates of Legacy and Succession Duties were altered somewhat considerably by the Finance (1909-10) Act, 1910. At the present time the only cases in which no Legacy Duty is payable are where the value of the personal estate does not exceed £100, or where the total value of the estate (real and personal) does not exceed £1,000 and proper Estate Duty has been paid. Where these conditions apply the husband, wife, children, or remoter descendants, father or mother or remoter direct ancestors, of the deceased are not liable for Legacy Duty. In all other cases the rates of duties payable on Legacies, Annuities, Residues, and Successions are as follows :—

Husband or wife, or direct lineal descendants or ancestors of the deceased	1 per cent.
Brothers and sisters of the deceased, and their descendants	5 ,,
Brothers and sisters of the parents of the deceased, or their descendants, all more remote relations, and strangers in blood	10 ,,

Relatives of the husband or wife of the deceased rank as strangers in blood, but beneficiaries who have married relatives of the deceased rank as having the same relationship to the deceased as their respective wives or husbands.

A "LEGAL" SYSTEM OF EXECUTORSHIP ACCOUNTS.

In his work on "Trust Accounts," Mr. Pretor W. Chandler describes a system of keeping Executorship and Trust Accounts which would seem to be quite suitable to small estates, such as those that would normally be dealt with in lawyers' offices. It is thought, however, that it would lead to hopeless confusion in the case of large estates, where the investments should be proportionately numerous; and, indeed, it is not claimed to be suitable under such circumstances. The accounts of large, and comparatively large, estates are naturally usually kept by professional accountants, to whom the system already described will be familiar; it is thought, however, that it will be found of interest to show the working of this simplified system, as applied to the condition of affairs already set forth in the Problem appearing upon page 118.

The accounts consist of three distinct parts :—(1) The Schedule, which is merely a list of the property of which the deceased died possessed, indicating what has been done therewith. (2) The (so-called) Capital Account, which, so far as its Cash columns are concerned, is a statement of the receipts and payments in rsspect of Capital, and so far as the Securities columns are concerned, a statement of " charge and discharge " in respect of securities having a nominal pecuniary value, the account being kept in nominal values and not in estimated realisable values. (3) A (so-called) Income Account, which is an account of receipts and payments in respect of Income.

There are somewhat obvious disadvantages in keeping the Receipts and Payments of Capital and of Income in quite distinct accounts—unless, of course, a separate Bank Account be opened for each, which would be quite impracticable with small estates. Moreover, the mode of accounting for securities in nominal values only is elude to a degree, and would involve a very careful scrutiny of the account to detect irregularities or fraud. It is thought, however, that the following example, particularly when contrasted with the same data worked out on page 146, will show the working of the system better than any explanation that can be given within the space available here :—

EXAMPLE :

RE X. (Deceased)

THE SCHEDULE.

No. of Item	Particulars	Reference to Capital Account
1	Cash in the house, £10	1
2	Cash at —— Bank, £1,000	2
3	Household Furniture. (Sold 31/5/10)	8
4	Leasehold Property at —, bequeathed to Mrs X. absolutely. (Transferred 30/5/10)	..
5	Freehold Property at —. (Sold 31/5/10)	12
6	30 £10 Shares in Mont Blanc Ice Co, Lim. (Sold 31/5/10.)	9
7	1,000 5% Debentures in East Western Railway Co., Lim. (Sold 31/5/10.)	10
8	Capital (£4,000) and Undrawn Profits (£100 in the business of X. and Y. (Received 31/5/10.)	11

Dr. CAPITAL ACCOUNT

Date		Particulars		Cash £ s d	Securities £ s d
1909 Nov.	30	To Cash in the House ..	1	10 0 0	
"		" " at Bank	2	1,000 0 0	
"		" 30 Shares in Mont Blanc Ice Co., Lim. ..	3		300 0 0
"		" 5% Debentures in East Western Railway Co., Lim.	4		1,000 0 0
Dec.	31	" Proportion of half-year's Interest on East Western Railway Co., 5% Debentures	5	19 15 0	
1910 Jan.	31	" Proportion of half-year's Rent on Leasehold Property	6	23 13 11	
"		" Proportion of year's Dividend on Mont Blanc Ice Co. Shares	7	26 3 2	
May	31	" Proceeds of Sale of Household Goods ..	8	450 0 0	
"		" Proceeds of Sale of 30 Mont Blanc Ice Co. Shares at £14 10s. ..	9	435 0 0	
"		" Proceeds of Sale of £1,000 E. & W. Ry. Co. Debentures at 165	10	1,630 7 0	
"		" Y., in Payment of Deceased's Interest in X. and Y.	11	4,100 0 0	
"		" Proceeds of Sale of Freehold Property ..	12	2,000 0 0	
				£9,694 19 1	£1,300 0 0

CONTRA. *Cr.*

Date		Particulars		Cash £ s d	Securities £ s d
1910 Mar.	31	By Estate Duty . ..	1	514 5 0	
"		" Executorship Expenses	2	4 2 8	
May	31	" Sale of 30 Mont Blanc Ice Co. Shares at £14 10s. to M. .	3c		300 0 0
"		" Sale of £1,000 Debentures in E. W. Ry. Co. at 165 to M. ..	4c		1,000 0 0
June	30	" Debts due at death (shown in detail) ..	3	300 0 0	
"		" Funeral Expenses, Toombes & Son ..	4	100 0 0	
"		" Legacy to A. (less duty)	5	22 10 0	
"		" " B. (")	6	22 10 0	
"		" Half of Residue to Y (less duty) .. .	7	3,926 19 1	
"		" Half of Residue to Z (less duty)	8	4,145 2 5	
"		" Legacy Duties ..	9	659 9 11	
				£9,694 19 1	£1,300 0 0

Dr.	INCOME ACCOUNT.	£ s d		CONTRA.	Cr. £ s d
1909 Dec. 31	To Proportion of half-year's interest on E. & W. Ry. Co. Debentures	4 0 0	1910 June 30	By Executors, Mrs. X., in respect of balance of Income to 31/5/10	21 16 9
1910 Jan. 31	" Proportion of Rent since 30/11/09 on Leasehold Property specifically bequeathed to Mrs. X.	4 16 1	Mar. 31	" Interest on Estate Duty	4 3 1
"	" Proportion of Dividend on Mont Blanc Ice Co. Shares	2 6 10	June 30	" Proportion of Rent collected from Leasehold Properties payable to Executors of Mrs. X., as specific Legatee	4 16 1
"	" Proportion of accruing Interest on E. & W. Ry. Co. Debentures payable to life-tenant under special terms of the will	19 13 0			
		£30 15 11			£30 15 11

CONCLUSION.

It has been suggested to the author that it might be well to illustrate the practical working of some of the leading cases in regard to Trust Accounts by the aid of examples. To a large extent this has already been done, although without special reference to the cases in question; but, for the information of the student, the following concise *résumé* of the more important rulings is appended :—

THE RULE IN RE EARL OF CHESTERFIELD'S TRUSTS (24 C.D. 643).—This rule applies to Reversionary Interests, to Mortgage Deeds on which the interest is in arrear, to Annuities in arrear, and to moneys payable under a Life Policy; *i.e.* to any asset of a trust which is not regularly producing Income in the ordinary way, but which eventually results in the receipt of a lump sum. The rule in such cases is that the amount ultimately received is to be apportioned between Capital and Income by ascertaining the sum which, put out at interest at 4 per cent. per annum on the day of the testator's death and accumulating at compound interest calculated at that rate with yearly rents and deducting income tax, would with the accumulation of interest, have produced, at the day of receipt, the amount actually received; and the sum so ascertained should be treated as capital, and the residue as income. The rate in later cases was reduced to 3 per cent., but it may be taken that 4 per cent. is again the correct rate (*In re Goodenough* [1895] 2 Ch. 537). In *In re Hollebone* [1919] 2 Ch. 93, the principle settled in (among other cases) *In re Earl of Chesterfield* was adopted and followed.

RULES AS TO LIFE-TENANCY OF RESIDUE. —The rule in *Allhusen v. Whittell* [1867], L.R. 4 Eq., 295, that "in adjusting the accounts between the tenant-for-life and the remaindermen the executors must be taken to have paid the debts and legacies not out of capital only or out of income only, but with such portion of the capital as, together with the income of that portion for one year from the testator's death, was sufficient for the purpose" works perfectly well in all cases where "the capital subtracted from the gross estate before the ascertainment of residue is not subtracted before the end of the first year." The rule is really the principle applied in *Holgate v. Jennings* (24 Beavan 623) namely that "the intermediate income of what is eaten up before the ascertainment of residue cannot itself be income of residue, or payable, as such, to a tenant-for-life of residue. *Allhusen v. Whittell* merely affirmed that principle" (Sargant, J., in *McEuen v. Phelps* [1913], 2 Ch. 7). The learned Judge proceeds :—"In that useful work, Chandler on 'Trust Accounts,' 2nd Ed., at pp. 89-91, there is an elaborate working-out of an apportionment between capital and income which appears to me to be fair and correct, and which throws on income a proportion of debts, legacies, and other payments calculated with reference to the intermediate income only of the capital employed, and not with reference to the income of that capital during the whole year. I adopt the following observation on p. 90 of that work, and particularly that part of it which I have placed in italics :—' Whenever the income arising from any asset applied in paying debts, general and testamentary expenses or legacies is itself, in fact, exhausted in paying debts, the income so applied should be carried over to the capital account with explanatory entries, and *to this extent the rule will have been fully complied with, and no further adjustment will be necessary.*' " The learned Judge drew attention to the prevailing opinion at the Chancery Bar that the rule in *Allhusen v. Whittell* " would work grave injustice in cases where large sums had been expended in clearing the estate at intervals considerably prior to the end of the first year." The learned Judge came to the general conclusion that " the Court is not bound, either by authority or any general course of practice to any more precise rule than this, namely, that the bookkeeping referred to by Wood, K.C., is to be of such a nature as to produce an equitable result between tenant-for-life and remainderman. . . . The actual accountancy will not be difficult so long as the true object is borne in mind." This case of *McEuen v. Phelps* is of the highest importance from the point of view of accountancy, and should be carefully studied by every student. It has now been supplemented by *In re Wills* [1915] 1 Ch. 769 (*vide* p. 136, *supra*) : in applying the rule, the correct principle is to deprive the tenant-for-life of the income of such a sum as, with the interest thereon from the date of the testator's death, would be sufficient to discharge the liabilities.

It is to be kept in mind that 3 per cent. and not 4 per cent. must be computed in applying the principle of *Brown v. Gelatly* [1867], L.R. 2 Ch. 751, whereby when wasting securities forming part of the residuary estate of a testator given up on trust for conversion are retained under a power to postpone conversion, the tenant-for-life is entitled during the period of postponement to interest on the value of the securities. Where in such a case the interest at 3 per cent. is paid out of the actual income of the wasting securities to the tenant-for-life, and the balance is invested in capital of the estate, the tenant-for-life is entitled to the income of the invested fund (*In re Woods* [1904] 2 Ch. 4). This case is distinguished in *In re Beech* [1920], 1 Ch. 40, where it was held that the tenant-for-life was entitled to interest at 4 per cent. upon the capital value (ascertained at the testator's death) of unauthorised income producing investments.

THE RULE IN RE ATKINSON ([1904] 2 Ch. 160).—Where part of the assets of a trust consist of a mortgage under which there has been default, and the security is ultimately realised at a sum insufficient to pay principal and interest in full, the rule provides that the net amount realised (after deduction of costs and expenses) is to be divided between Capital and Income *pro rata* in the proportion which the amount due for arrears of interest bears to the amount due in respect of the capital debts. (See also *Broadwood v. Broadwood* [1908], 1 Ch. 115 ; *Coates v. Bayley* [1911] 1 Ch. 171, and note the case of *In re Pennington* [1914], 1 Ch. 240, in which the principle of *In re Atkinson* was held not to apply.)

The Rule Re Hargreaves ([1902] 86 L.T. 43, 88 L.T. 100).—The rule in this case provides that where an advance has been made to a Beneficiary prior to the date of distribution of a testator's estate, the correct course is to charge interest from that time until the actual distribution of the estate at 4 per cent. (See *In re Davy* [1908] 1 Ch. 61.) The rule has not been followed in recent cases; compare *In re Poyser* [1908] 1 Ch. 828; *In re Craven* [1914], 1 Ch. 358, and *Barry v. Forster-Brown* [1914], 2 Ch. 584, in which Sargant, J., called *In re Hargreaves* a "peculiar" case. The case was distinguished in *In re Cooke* [1916], 1 Ch. 480, and held to be of not general application in *In re Tod* [1916] 1 Ch. 567.

CHAPTER XII.

THE DOUBLE-ACCOUNT SYSTEM.

THE second chapter of this work was devoted to an explanation of the essential difference between Capital and Revenue, and it was also there shown that both receipts and expenditure upon Capital Account were capable of a further subdivision—the receipts into "fixed liabilities" and "floating liabilities," and the expenditure into "fixed assets" and "floating assets." It is now necessary to consider the matter in further detail, with a view to explaining the nature and operations of the Double-Account System.

NATURE OF DOUBLE-ACCOUNT SYSTEM.

In the first place, it will perhaps be convenient to state what the Double-Account System is *not*. Students of accounting not infrequently are under the impression that the Double-Account System is synonymous with the Double-Entry System. This, however (as will be seen later on), is a complete misapprehension. Another common form of error is to suppose that the Double-Account System is a peculiar system of accounts which especially distinguishes between Capital and Revenue. The proper distinction between Capital and Revenue is a fundamental principle of *every* system of accounting. A Trial Balance summarises all Ledger balances into one general statement, and the operation known as "closing the books" consists in the separation of the Capital items from the Revenue items. The latter are focussed together into the Revenue Account, which in practice is often sub-divided into sections (headed respectively "Trading Account," "Profit and Loss Account," "Net Profit Account," &c.), while the Ledger balances remaining after this operation has been concluded—*i.e.* the Capital items—are brought together in the form of a Balance Sheet. The process of closing the books up to this point is identical under all systems of bookkeeping. The distinction between the Double-Account System and the Single-Account System lies mostly in the form that the Balance Sheet takes. As has already been pointed out, the Revenue Account is, for purposes of convenience, frequently divided into sections: the first section showing the results of manufacturing (or of buying and selling, as the case may be); the second section reducing the Gross Profit shown by the preceding section to the Net Profit by the charging up of all establishment expenses; and the third section showing the ultimate disposition, or division, of such Net Profit. In connection with most undertakings it is found to answer all practical purposes sufficiently well to frame the Balance Sheet as an undivided whole; but with regard to some undertakings it is thought convenient to divide it into two sections, the first of which comprises "Fixed Assets" and "Fixed Liabilities," along with the balance of Working Capital; while the second section contains the "Floating Assets," the "Working Capital," and the "Floating Liabilities." Undertakings which divide their Balance Sheet upon these lines are said to employ the "Double-Account System."

If any attempt were being made in this work to deal with the subject of accounting upon an historical basis, it would be necessary to discuss in detail the origin of the Double-Account System, and a complete discussion of the matter would probably reach to considerable lengths. For present purposes, however, such an inquiry is hardly necessary, although perhaps a few words upon the subject will not be out of place. The object of the Double-Account System would appear to be to direct special attention to the importance of keeping a strict account of the expenditure of moneys obtained by the creation of Fixed Liabilities; that is to say, from the issue of Capital to Shareholders or Debenture-holders. The system is applied almost exclusively to Local Authorities and to Companies that have been incorporated by special Act of Parliament to work public undertakings—such as Railways, Gas Companies, Water Companies, Electric Light Companies, and the like—in connection with which it has been made an express condition of authorising the Company to raise capital that such capital should be expended in certain specified directions. The Double-Account System will enable even those who are unacquainted with scientific bookkeeping to ascertain to what extent moneys received from Shareholders and Debenture-holders have been applied in the acquisition of Fixed Assets, and this would appear to be the principal—if not the sole—reason for employing this particular form of accounts. Another point to be borne in mind in connection with this subject is that, prior to the introduction of electrical undertakings in commerce, those concerns which were required to frame their accounts upon the Double-Account System possessed in common the important factor that, while they were required to carry on their undertaking permanently at least as much for the public good as for the benefit of investors, the Fixed Assets which they acquired were in the nature of things extremely numerous, so numerous indeed that the cost of replacing them from time to time as they wore out would (roughly speaking) automatically average itself as a fairly level charge against the profits of each successive year: consequently—in view of the fact that such replacements of worn-out assets must necessarily take place, in order to enable the concern to continue its business—it was considered that it would be a more certain and a sounder basis for the accounts to require such provision for the replacement of worn-out Fixed Assets to be made directly out of Revenue as "maintenance," than to charge Revenue with an estimated provision for Depreciation and to allow successive replacements of assets to be capitalised as and when they were effected.

LIMITATIONS OF DOUBLE-ACCOUNT SYSTEM.

This idea, ingenious as it undoubtedly is, would appear to have emanated from a lawyer, rather than an accountant. One seems to trace in it the well-known affection of the Chancery Division for a Cash Statement, as well as its rooted distrust of all accounts framed upon any other basis; while the system, although approximately accurate under most circumstances, omits to provide for several contingencies that could hardly have escaped the notice of the trained accountant. To some extent, this subject may be more profitably discussed under the heading of "Depreciation and Reserves," which is fully dealt with in Chapter XVII, but the following points may be mentioned here :—

(1) Assuming that for a period of, say, 50 years, the total amount of expenditure necessary to keep the Fixed Assets of an undertaking in a proper state of working efficiency was £50,000, then as a matter of fact the sum of £1,000 (or thereabouts) ought to be charged against each year's revenue in order to arrive at the true net profit for that year, and this remark applies as much to the first year of the undertaking's existence as to the fiftieth. Under the Double-Account System, however, if only actual expenditure on replacements be charged against Revenue, it is clear that during the first few years the payments under this heading will be much smaller than the average expenditure of £1,000. Consequently, if the Double-Account System be applied strictly in its entirety, the true Net Profits of the undertaking during the first few years of its existence will, as a matter of course, be over-stated. This defect is in practice generally obviated by debiting to Revenue, not with the actual expenditure incurred, but with an estimated average expenditure : for example, taking the case already cited, if the proper annual charge for renewals be estimated at £1,000 but the actual expenditure during the first year were only £400, then, instead of debiting Revenue Account with but £400 for renewals, Revenue Account would be debited with £1,000 and a "Provision for Renewals Account" credited with the corresponding sum. The Provision for Renewals Account would be debited with the actual expenditure incurred (£400) and the credit balance of £600 would be brought forward into the Balance Sheet taken out at the end of the first year as a Floating Liability. By this means the over-stating of Net Profits may be avoided, while still retaining the *form* of the Double-Account System. It will be seen, however, that the ***principle*** of the Double-Account System is no longer retained in its entirety.

(2) If the Double-Account System be rigidly adhered to, the aggregate amount of Capital Expenditure can only be altered as actual extensions of the original work are undertaken. The cost of replacement of Fixed Assets will in all cases be charged against Revenue, no matter whether such replacements cost more or less than the original expenditure under the same heading. From whichever point of view the matter be regarded, this seems hardly reasonable. The Single-Account System—*i.e.* the ordinary commercial system of accounting—aims at charging the cost of assets against Revenue during the period that such assets are of use to the undertaking, the annual charge being so framed that by the time these assets are useless the whole of their cost has been written off, leaving the undertaking free to purchase, out of Capital, further new assets to take their place. If the new assets cost more than the old ones that have now been worn out, the result of this operation will be that the actual Capital Expenditure will be increased ***pro tanto***; while ***per contra*** if the cost of such new assets has been less, the

aggregate capital expenditure would be reduced to a corresponding extent. This is as it should be, for it makes the charges against Revenue for Depreciation of Fixed Assets dependent upon the actual cost of the Fixed Assets that are then in existence. With the Double-Account System, on the contrary, if, for example, a gas-main has become worn out and has to be replaced, the cost of such replacement is charged against Revenue. If the cost of making and laying mains has increased since the Company was formed, the result will be that the Capital Expenditure of the Company stands at a lower figure than the actual expenditure incurred on Fixed Assets then in existence, with the result that an unfair charge has been made against Revenue Account: if, on the other hand, the cost of materials and labour has decreased since the Company first came into existence, the result will be that the whole cost of the original assets that are now worn out has not been made good out of Revenue by the time they have been removed and replaced by others of equal utility, and under these circumstances, of course, Revenue Account is favoured at the expense of Capital Account. The effect of this rigid adherence to the Double-Account System is to discourage replacements and renewals in localities where the cost has risen, and to encourage them somewhat unduly in localities where the cost has fallen.

In point of fact, instances of a Fixed Asset being replaced by another of an exactly similar description are rare, but the same principles will, of course, apply where enlargements are contemplated, as only that portion of the new work which represents an improvement in working efficiency or earning capacity can, under the Double-Account System, be treated as Capital Expenditure. In practice, business men have to some extent reduced matters to a reasonable level by departing from the strict letter of the Double-Account System. For example, in Australia—where the cost of engineering work was in pre-war times considerably less than it was when railways were first started on that continent—the usual practice was to write down the actual expenditure gradually, as the high-priced old assets become worn out and were replaced by lower costing assets of equal efficiency; while in this country, where the cost of engineering work shows a tendency continually to increase, the initial Capital Expenditure is indirectly written up as the Fixed Assets are renewed by charging Capital with more than its strictly fair proportion of the aggregate cost when renewals and enlargements take place simultaneously.

(3) Perhaps the weakest feature of the Double-Account System as a whole is that, while it provides for all neceˉary renewals being made good out of Revenue (a provision which, as has already been explained, to a large extent obviates the necessity of providing for Depreciation), it omits to take into account what may be styled as expenditure upon *abandoned objects*. Under any sound business system of accounting Fixed Assets that have become useless for the purposes of the business, or are no longer used for its purposes, should in all cases be written down to their actual realisable value, and the amount that has to be written off would then be charged against Revenue. Under the Double-Account System, however, nothing has to be charged against Revenue, until a renewal of the original assets takes place! If the assets are being continually used, such renewal cannot, of course, be delayed very considerably beyond the proper time; but

if the assets have altogether fallen out of use, expenditure upon their renewal may be postponed indefinitely, and thus losses which have in fact actually occurred are not charged against Revenue. For example, if a siding, or a station, be abandoned, it will, under the Double-Account System, still enter into the total of Capital Expenditure, even although it may be possessed of no value, either intrinsic or as a means of earning Revenue.

(4) Again, while disregarding such extreme cases as the preceding, it may be pointed out that the actual amount to be charged against the profits of any one year for renewals may easily be modified to some extent by *deferring* expenditure which is really necessary to make good a shrinkage in value that has actually taken place. To some extent this risk is obviated by the fact that the Fixed Assets of such undertakings must be kept in a reasonable state of efficiency to enable them to carry on their work without accident, and to some extent also the certificates required from the permanent officials of the Company, that the assets of their respective departments are in proper working order, may also be regarded as a safeguard. But there is a considerable margin of difference between such deterioration as makes the continued working of an asset dangerous and such deterioration as may have a marked effect upon its true value; while the certificates of permanent officials (being, in the nature of things, but the expression of an individual opinion—and not an independent opinion at that) also leave room for a certain amount of latitude.

(5) Upon the whole, however, it seems probable that it is in matters of detail that the system will be found most defective in practice. The sort of undertaking to which the system is applied is almost invariably of a complex nature, and numerous inter-departmental transfers take place daily, which are—or should be—charged out at cost price. This necessitates the employment of accurate Cost Accounts, whereas the rough-and-ready provision for Depreciation under the Double-Account System renders the keeping of really reliable Cost Accounts an impossibility. It is thought that the question here raised has been, as yet, very incompletely explored; but its vital importance is hardly likely to be gainsaid.

APPLICABILITY OF DOUBLE-ACCOUNT SYSTEM.

It has already been stated that the Double-Account System has been prescribed by Parliament as being applicable to the accounts of certain specific undertakings. Its use in practice is, however, by no means necessarily confined to these. All undertakings working upon similar lines may, with equal convenience, employ the Double-Account System; and so long as its rules are interpreted with a reasonable amount of intelligence and latitude in cases where a strict application would unfairly favour either Capital or Revenue, the system may well be applied, not merely to the accounts of Railway, Gas, Water, and Electric Companies, but also to Tramway, Canal, Shipping, Telephone, and Mining Companies, and to Companies owning property from the letting of which they derive a regular income. The system is, however, unsuitable to undertakings which from time to time sell a portion of their Fixed Assets (or rather those assets which under ordinary circumstances would be regarded as "fixed"), as, for example, a Land Development Company, which after spending money upon the acquisition of land and upon draining and road-making, disposes of it in plots for building purposes.

Speaking generally, it is, as has already been stated, a distinctive feature of the Double-Account System that it does not provide directly for the Depreciation of Fixed Assets. There is, however, no difficulty in employing the Double-Account *form* while yet writing down Fixed Assets to provide for Depreciation; but under such circumstances it is not obvious what advantages remain, as perhaps the greatest advantage of employing the Double-Account System at all is that it shows clearly the actual Capital Expenditure that has been incurred upon Fixed Assets from time to time, regarding such figure of cost as being a more useful item of information than any hypothetical valuation of assets which have not been realised, and which it is not intended to realise in the ordinary course of business operations.

As applied to the accounts of Local Authorities, it would seem desirable that there should be some modification in the form that accounts framed on the Double-Account System should take, if absurdities are to be avoided. In the case of local authorities, the Capital Account is the account recording the receipts of Loan Capital and their subsequent application towards the acquisition of fixed assets; but, unlike ordinary Companies, Local Authorities are required to repay their Loan Capital from time to time, and are (subject to certain limitations, which need not here be discussed) entitled to borrow for renewal purposes. It will be seen, therefore, that, if the ordinary Double-Account System be employed without qualification, the credit total will steadily increase as time goes on; and will represent, not the total of outstanding indebtedness that has to be accounted for, but the total of all that ever has been borrowed, including Loans repaid; while, similarly, the debit entries would represent, not merely the total of Capital Expenditure *bona fide* incurred in acquiring the undertaking then in existence, but all Capital Expenditure incurred from the start, *plus* all expenditure incurred for purposes of renewals that the Local Authority may have effected with the aid of Loans. To reduce a Capital Account of this kind to reasonable proportions, it seems desirable that the form should be modified so as to admit of loans repaid, and the cost of assets discarded, being periodically deducted. This plan is not infrequently adopted in practice; and, although it is not strict Double-Account form, it is especially desirable in connection with the trading departments of Local Authorities, as by its means alone can any useful comparison be made between the volume of business transacted and the Capital Expenditure involved.

CHAPTER XIII

BANKRUPTCY AND INSOLVENCY ACCOUNTS.

THE special points arising in connection with the accounts relating to the estates of insolvent persons have their origin in the statutory requirements made upon persons administering these trusts.

STATEMENTS OF AFFAIRS.

Under normal conditions the object of any system of bookkeeping is to produce at regular intervals, or whenever required, a statement showing the financial position at that date in the form of a Balance Sheet, and also an account showing—in a summarised form, and classified under convenient headings—the various sources of income, expenditure, or loss, that have contributed to the alteration of the position as contrasted with the previous occasion. The latter account is frequently divided into several sections, which are known collectively as the Profit and Loss Account or Revenue Account.

When an estate is found to be insolvent, somewhat similar accounts are prepared; but, owing to the special circumstances of the case, certain alterations of detail are found to add materially to their value for the purposes for which they are then required. In place of the usual Balance Sheet a Statement of Affairs is required that will afford unsecured creditors some idea of the amount of their claims in the aggregate, and of the net amount of assets available to meet them. Consequently, assets appear at their current realisable value, and the Balance Sheet form is varied so that all assets pledged as security for liabilities appear, not as assets, but as deductions from the claims of secured creditors. If a creditor be fully secured, the *surplus* value of the asset after liquidating his claim alone appears as an asset; while if a creditor be partially secured, the unsecured balance of his claim alone appears as a liability ranking against the general estate. There are also certain classes of creditors who are by law entitled to be paid in priority to the general body of creditors, and the claims of these are stated separately and deducted from the assets, so that a Statement of Affairs so compiled may show upon the one hand the total unsecured liabilities that are expected to rank against the estate for dividend, and upon the other the net total of "free" assets, which (subject to loss on realisation and costs) is available for distribution among creditors.

The excess of the former figure over the latter is the Deficiency which the insolvent person has to account for.

To enable this Deficiency to be accounted for, some modification of the ordinary form of Profit and Loss Account must be provided. This modified account (which is called a "Deficiency Account") differs chiefly from the ordinary Profit and Loss Account in that it starts with an opening balance, representing the amount of surplus assets of the insolvent (or the deficiency of assets, as the case may be) at some previous period. To this surplus are added all sources of profit or gain that increase the total amount that has to be accounted for, while upon the other side are included the insolvent's personal expenditure, and (under suitable headings) all losses incurred by him, including probable losses on the realisation of assets, so that the ultimate balance of the account is the Deficiency shown in the Statement of Affairs.

In order to show more clearly the precise difference between the ordinary Balance Sheet and Profit and Loss Account upon the one hand, and the statutory form of Statement of Affairs and Deficiency Account in bankruptcy on the other, the following example is appended :—

PROBLEM.—(*a*) From the following Trial Balance as on 31st December 1920 prepare Balance Sheet, Trading Account, Profit and Loss Account, and Partners' Capital Accounts :—

TRIAL BALANCE, 31st December 1920

A. Capital 1st January 1920		£150
B. " "		3,000
Sales		6,250
Purchases	£6,100	
Rent	150	
Salaries	450	
General Expenses	750	
Bad Debts	1,250	
Stock-in-Trade 1st January 1920	1,400	
Fixtures	150	
Bills Receivable	100	
Lease of Premises (held by Bank)	700	
Bills Payable		500
Trade Creditors		1,250
Book Debts	500	
Bank (Loan)		1,050
C. for Rent due		75
Salaries due (one month)		48
Cash at Bank	110	
A. Drawings	300	
B. "	363	
	£12,323	£12,323

Stock on 31st December 1920, £1,750. Five per cent. interest to be credited on Partners' Capital Accounts.

(*b*) Assuming that A. and B. begin business on 1st January 1920, draw up front sheet of Statement of Affairs and Deficiency Account in the form provided under the Bankruptcy Acts, allowing for a further liability on Bills discounted estimated to rank for dividend at £2,000.

(A) **BALANCE SHEET, 31st December 1920.**

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Capital Account :—B.			Lease of Premises	..	700 0 0
Balance, 1st January 1920	3,000 0 0		Fixtures	..	150 0 0
Interest	150 0 0		Stock-in-Trade	..	1,750 0 0
			Bills Receivable	.	100 0 0
	3,15c 0 0		Book Debts	..	500 0 0
Less Drawings £363 0 0			Cash at Bank	..	110 0 0
Share of Loss .. 1,128 15 0			Capital Account :—A. (overdrawn)		
	1,491 15 0		Drawings	300 0 0	
		1,658 5 0	Share of Loss	1,128 15 0	
Bank Loan	..	1,050 0 0			
Bills Payable	..	500 0 0		1,428 15 0	
Trade Creditors	..	1,250 0 0	*Less* Credit Balance 1/1/20 £150 0 0		
Sundry Creditors	..	123 0 0	Interest 7 10 0		
				157 10 0	
					1,271 5 0
		£4,581 5 0			£4,581 0 0

Dr. **TRADING ACCOUNT, for the Year ended 31st December 1920.** *Cr.*

	£ s d		£ s d
To Stock: 1st January 1920	1,100 0 0	By Sales	6,250 0 0
„ Purchases	6,100 0 0	„ Stock: 31st December 1920	1,750 0 0
„ Gross Profit, transferred to Profit and Loss Account ..	500 0 0		
	£8,000 0 0		£8,000 0 0

Dr. **PROFIT AND LOSS ACCOUNT, for the Year ended 31st December 1920.** *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Rent	150 0 0		By Gross Profit from Trading Account ..	..	500 0 0
„ Salaries	450 0 0		„ Balance, being Loss for the Year, viz—		
„ General Expenses .. .	750 0 0		A.	1,128 15 0	
„ Bad Debts	1,250 0 0		B.	1,128 15 0	
		2,600 0 0			2,257 10 0
„ Interest on Capital—A. ..	7 10 0				
„ Ditto B. . .	150 0 0				
		157 10 0			
		£2,757 10 0			£2,757 10 0

(*For answer to Problem* (b) *see next page.*)

(B)

THE BANKRUPTCY ACT, 1914.

STATEMENT OF AFFAIRS.

(1) High Court of Justice or the County Court of .... holden at ....

In the Court of

In Bankruptcy. No. of 1921.

Re A. and B.

To the Debtor.—You are required to fill up, carefully and accurately, this Sheet, and the several Sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz., the first day of January 1921.

Such Sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration

Gross Liabilities	Liabilities (as stated and estimated by Debtor)		Expected to rank
£ s d			£ s d
1,750 0 0	Unsecured Creditors, as per list (A) ..		1,750 0 0
	Creditors fully secured as per list (B)	£ s d	
	Estimated value of Securities		
	Surplus		
	Less amount thereof carried to Sheet C		
	Balance thereof to *contra*		
		£ s d	
1,050 0 0	Creditors partly secured, as per list (C)	1,050 0 0	
	Less estimated value of Securities	810 0 0	240 0 0
	Liabilities on bills discounted other than Debtor's own acceptances for value as per list (D), viz. —	£ s d	
	On accommodation bills as drawer, acceptor, or indorser		
	On other bills as drawer or indorser	2,000 0 0	
		2,000 0 0	
2,000 0 0	Of which it is expected will rank against the estate for dividend		2,000 0 0
	Contingent or other liabilities as per list (E).. .. .. £		
	Of which it is expected will rank against the estate for dividend	£ s d	
	Creditors for Rent, &c., recoverable by distress as per list (F)..	75 0 0	
	Creditors for Rates, Taxes, Wages, &c., payable in full, as per list (G)	48 0 0	
	Sheriff's Charges payable under Section 11 of the Bankruptcy Act, 1890, estimated at.. ..		
123 0 0	Deducted *contra* .. .. .. £	123 0 0	
£4,923 0 0			£3,990 0 0

Assets (as stated and estimated by Debtor)		Estimated to Produce
		£ s d
Property as per list (H), viz.—		
(a) Cash at Bankers (claimed by Bank) .. .		
(b) Cash in hand		
(c) Cash deposited with Solicitor for Costs of Petition		
(d) Stock-in-Trade (cost £) ..		1,750 0 0
(e) Machinery		
(f) Trade Fixtures, Fittings, Utensils, &c...		150 0 0
(g) Farming Stock		
(h) Growing Crops and Tenant Right		
(i) Furniture		
(j) Life Policies		
(k) Other Property, viz. —		
Total as per list (H)		1,900 0 0
Book Debts, as per list (I), viz.—		
Good.		500 0 0
Doubtful	£ s d	
Bad	1,250 0 0	
	1,250 0 0	
Estimated to produce		
Bills of Exchange or other similar Securities, on hand, as per list (J) ..	£100 0 0	
Estimated to produce		100 0 0
Surplus from Securities in the hands of Creditors fully secured (*per contra*)		
		2,500 0 0
Deduct Creditors for distrainable Rent, and for preferential Rates, Taxes, Wages, Sheriff's Charges, &c. (*per contra*)..		123 0 0
Deficiency explained in statement (K)		2,377 0 0 1,613 0 0
		£3,990 0 0

I, of in the County of , make oath and say, that the above Statement and the several lists hereunto annexed, marked A, B, C, D. E. F, G, H, I, J, and K, are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at..
in the County of ....
this.........*day of* ....192......
before me ....

Signature ....

A.—UNSECURED CREDITORS.

The names to be arranged in alphabetical order and numbered consecutively, creditors for £10 and upwards being placed first.

No.	Name	Address and Occupation	Amount of Debt	Date when Contracted		Consideration
				Month	Year	
			£ s d			
	[Full particulars to	be set out here.]				

NOTE.—The prescribed Form contains the following notes :—

(1) When there is a *contra* account against the Creditor less than the amount of his claim against the Estate, the amount of the Creditor's claim and the amount of the *contra* account should be shown in the third column, and the balance only be inserted under the heading " Amount of Debt," thus :—

Total amount of Claim .. .. £ :
Less Contra account .. .. .. £ :
£

No such set-off should be included in Sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

B.—CREDITORS FULLY SECURED.

No	Name of Creditor	Address and Occupation	Amount of Debt	Date when Contracted		Consideration	Particulars of Security	Date when given	Estimated Value of Security	Estimated Surplus from Security
				Month	Year					
			£ s d						£ s d	£ s d

C.—CREDITORS PARTLY SECURED.

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when Contracted		Consideration	Particulars of Security	Month and Year when given	Estimated Value of Security	Balance of Debt Unsecured
				Month	Year					
			£ s d						£ s d	£ s d

D.—LIABILITIES OF DEBTOR ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE.

No.	Acceptor's Name, Address, and Occupation	Whether liable as Drawer or Indorser	Date when due	Amount: Accommodation Bills	Amount: Other Bills	Holder's Name, Address, and Occupation (if known)	Amount expected to rank against Estate for Dividend
				£ s d	£ s d		

(*NOTE.—Ordinary "Bills Payable" are included in Schedule "A" Only Bills for which the Debtor is liable as* DRAWER OR ENDORSER *appear in this Schedule.*)

E.—CONTINGENT OR OTHER LIABILITIES.

[Full particulars of all Liabilities not otherwise Scheduled to be given here.]

No	Name of Creditor or Claimant	Address and Occupation	Amount of Liability or Claim	Date when Liability occurred: Month	Date when Liability occurred: Year	Nature of Liability
			£ s d			

F.—CREDITORS FOR RENT, &c., RECOVERABLE BY DISTRESS

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which claim accrued due	Date when due	Amount of Claim	Amount recoverable by distress	Difference ranking for Dividend (To be carried to List A)
						£ s d	£ s d	£ s d

G.—PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES.

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which Claim accrued due	Date when due	Amount of Claim	Amount payable in full	Difference ranking for Dividend (To be carried to List A)
						£ s d	£ s d	£ s d

H.—PROPERTY.

Full particulars of every description of Property in possession and in reversion as defined by Section 38 of the Bankruptcy Act, 1914, not included in any other List, are to be set forth in this List.

Full Statement and Nature of Property	Estimated to Produce
	£ s d
(a) Cash at Bankers	
(*NOTE.—If anything is due to Bankers they have a lien on all moneys in their hands.*)	
(b) Cash in Hand	
(c) Cash deposited with Solicitor for Costs of Petition	
(d) Stock-in-Trade at (Cost £)	1,750 0 0
(e) Machinery at	
(f) Trade Fixtures, Fittings, Utensils, &c., at	150 0 0
(g) Farming Stock at	
(h) Growing Crops and Tenant Right at	
(i) Household Furniture and Effects at	
(j) Life Policies	
(k) Other Property (*state particulars*), viz.:—	
Lease of Premises	700 0 0

NOTE.—In practice a fair realisable value should be placed on all assets. In this example the book-values have been shown to facilitate comparison with the Balance Sheet previously given.

I.—DEBTS DUE TO THE ESTATE.

No.	Name of Debtor	Residence and Occupation	Amount of Debt: Good	Amount of Debt: Doubtful	Amount of Debt: Bad	Folio of Ledger or other Book where Particulars to be found	When contracted: Month	When contracted: Year	Estimated to Produce	Particulars of any Securities held for Debt
			£ s d	£ s d	£ s d				£ s d	

NOTE.—The prescribed Form contains the following:—

If any Debtor to the Estate is also a Creditor, *but for a less amount than his indebtedness*, the gross amount due to the Estate and the amount of the *contra* account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus:—

Due to Estate .. .. .. £ :
Less c tra accoun .. .. £ :
£

No such claim should be included in Shee "A."

J.—BILLS OF EXCHANGE, PROMISSORY NOTES, &c., AVAILABLE AS ASSETS.

No.	Name of Acceptor of Bill or Note	Address, &c	Amount of Bill or Note	Date when due	Estimated to Produce	Particulars of any Property held as Security for Payment of Bill or Note
			£ s d		£ s d	

K.—DEFICIENCY ACCOUNT.

	£ s d	£ s d
Excess of Assets over Liabilities on the (1) first day of January 1920 (if any)	..	3,150 0 0
Net Profit (if any) arising from carrying on business from the (1) ....day of........... 1........, to date of Receiving Order, after deducting usual Trade Expenses		
Income or Profit from other sources (if any) since the (1)..........day of.............		
Gifts from relations and others..		
Deficiency as per Statement of Affairs.. ..	.	1,613 0 0
Total Amount to be accounted for ..	.. (5) £	4,763 0 0

	£ s d	£ s d
Excess of Liabilities over Assets on the (1) ....day of................1 (if any)		
Net Loss (if any) arising from carrying on business from the (1) first day of January 1901, to date of Receiving Order, after deducting from profits the usual trade expenses (*)	..	2,100 0 0
Bad Debts (if any) as per Schedule "I" (2)..	..	2,000 0 0
Depreciation of Stock-in-Trade	..	
Depreciation of Machinery	..	
Depreciation of Trade, Fixtures, Fittings, &c.	.	
Expenses incurred since the (1) first day of January 1910, other than usual Trade Expenses, viz., Household Expenses of selves and (3)		663 0 0
(4) Other Losses and Expenses (if any) ..		
Surplus as per Statement of Affairs (if any) ..		
Total amount accounted for ..	.. (5) £	4,763 0 0

Each Sheet must be signed and dated by the Debtor, thus :—

Signature..................................

Dated....................................1........

NOTES.—(1) *This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.*

(2) *This Schedule must show when debts were contracted.*

(3) *Add "wife and children" (if any), stating number of latter.*

(4) *Here add particulars of other losses or expenses (if any), including depreciation in the value of stock and effects or other property as estimated for realisation, and liabilities (if any), for which no consideration received*

(5) *These figures should agree.*

**Interest on Capital has been eliminated. Compare with Profit and Loss Account on page* 166.

EXAMPLE (A):

ACCOUNTS 2.

RECEIPTS.								PAYMENTS.			
Date	Particulars	Total	Drawn from Bank	Debts Collected	Property Realised	Receipts from Securities held by Creditors	Other Receipts	Date	Particulars	Voucher Nos. (inserted).	Total
		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d				£ s d

Left-hand side.

PRIVATE ARRANGEMENTS.

It does not, of course, follow that every insolvent person who calls his creditors together has first had a Receiving Order made against him, and become amenable to the bankruptcy laws and regulations. The accounts submitted to private meetings of creditors do not, therefore, come strictly under the foregoing rules, but very much the same class of information will be required by the creditors attending such meetings, and as a rule, therefore, the bankruptcy forms are followed very closely, the only noticeable difference being that "Cash Creditors" are generally shown separately from "Trade Creditors," and full particulars of the Cash Creditors' claims are given, so that it may be readily perceived how much of the claims consists of principal, how much of interest, and to whom the money is owing. It is also usual to append a full list of the Trade Creditors for the information of those interested. On the other hand, as a rule, no particulars of the assets are given, other than the short particulars appearing upon the summarised Statement of Affairs (" front sheet ").

In bankruptcy the filing of a proper Deficiency Account is compulsory, but in the case of private arrangements with creditors it is often not insisted upon. Where given, however, it usually follows the bankruptcy form, save that the sides are transposed so as to follow more closely an ordinary Profit and Loss Account form, in which the losses appear upon the debit and the gains upon the credit side.

TRUSTEES' CASH ACCOUNTS.

Trustees in bankruptcy are required to keep and periodically to file detailed accounts of their receipts and payments. These accounts must be filed in duplicate. One copy is in tabular form, and provides columns for all the principal sources of receipts and classes of payments, while the other consists merely of the total columns of the more detailed account. Examples of both these forms are given above and on the opposite page.

PAYMENTS.

Paid into Bank	Costs of Realisation								Allowance to Debtor	Preferential Creditors (Section 40) and Rent	Payments to Redeem Securities	Dividends Paid	Other Payments
	Board of Trade and Court Fees	Law costs of Petition (including £5 stamp)	Law Costs after Receiving Order	Commission on Realisation and Distribution		Charges of Auctioneer, Accountant, Shorthand Writer, etc., as taxed	Notices in *Gazette* and Local Paper	Incidental Expenses, including Possession					
				Board of Trade	Trustee								
£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

Right-hand side.

EXAMPLE (B): THE BANKRUPTCY ACT, 1914

Accounts 2 B.

Copy of Estate Cash Book for Filing. *In the* *Court of* No. of 19

RE ESTATE CASH BOOK.

	Date	Receipts	Total	Drawn from Bank	Date	Payments	Voucher No.	Total	Paid into Bank
			£ s d	£ s d				£ s d	£ s d

TRUSTEE'S TRADING ACCOUNT.

In cases where the Trustee is carrying on the business, he is required to file monthly a Trading Account kept in the prescribed form, which differs from the ordinary Trading Account in that it is merely a detailed account of cash receipts and payments relating to the carrying on of the business. Where a separate Trading Account is kept the ***monthly totals only*** need be shown in the general Cash Account, instead of the full details being given twice over.

The following is the form prescribed :—

EXAMPLE: THE BANKRUPTCY ACT, 1914.

In the Court of

In Bankruptcy. No. of .

Re

the Trustee of the Property of the Bankrupt in account with the Estate.

Dr.	RECEIPTS.					PAYMENTS.	*Cr.*		
Date		£	s	d	Date		£	s	d

....*Trustee.*

Date...19 .

*We have examined this Account with the Vouchers and find the same correct, and we are of opinion the expenditure has been proper.

Dated this day of 19 .

.... *Committee of Inspection.*

.... [*Or Member of the Committee of Inspection.*]

....

* A similar certificate has to be appended to the General Cash Accounts, but it is not printed on the official forms.

SUMMARISED ACCOUNT OF RECEIPTS AND PAYMENTS.

When the estate has been completely realised and distributed the Trustee can apply for his release; but before doing so he must forward to each creditor who has proved, and to the debtor, a summarised account of all his receipts and payments in the prescribed form. A similar account has to be forwarded to all creditors each time a dividend is declared. When more than one account is sent out, the second and subsequent accounts do not each begin where the preceding one left off, but each is a complete statement of receipts and payments from the date of the receiving order up to date.

The following example shows the form of account employed :—

EXAMPLE:

THE BANKRUPTCY ACT, 1914

In the High Court of Justice.
IN BANKRUPTCY. No. of 19 .

IN THE MATTER of A. C. and B. C. trading as "The C. Company," lately carrying on business at Road and Street, both in the County of London, as the said A. C. residing at Road, in the County of London, and the said B. C. residing at Road, in the County of London.

(Under Receiving Order, dated the day of 19 .)

Dr. STATEMENT, showing position of Estate at date of declaring Third Dividend. *Cr.*

	Estimated to produce per Debtor's Statement	Receipts
	£ s d	£ s d
To Total Receipts from date of Receiving Order, viz.:—		
Cash in hand..	79 10 4	69 10 4
Cash deposited with Solicitor	10 0 0	10 0 0
Stock-in-Trade	1,200 0 0	1,071 5 6
Fixtures and Fittings	25 0 0	
Provident Association Bond	30 0 0	35 11 8
Book Debts and Trading Receipts	2,377 0 0	1,625 8 4
Surplus from Securities	87 7 0	20 16 5
Receipts per Trading Account		
Other Receipts		5 0 0
Total £	3,808 17 4	2,837 12 3
Less.—		
Deposit returned to Petitioner		
Payments to Redeem Securities		
Costs of Execution		
Payments per Trading Account		223 3 7
Net Realisations		£2,614 8 8

	£ s d	Payments £ s d
By Board of Trade and Court Fees (including Stamp of £5 on Petition)		57 10 3
Law Costs of Petition	20 0 6	
Other Law Costs	114 11 6	134 12 0
Trustee's Remuneration as fixed by the Committee of Inspection, viz.:—		
5 per cent. on £2,361 12s. 1d. Assets realised	118 1 7	
2½ per cent. on £1,749 8s. 1d. Assets distributed in Dividend	43 14 8	161 16 3
Special Manager's Charges		
Person appointed to assist Debtor under Sec. 70 of Bankruptcy Act, 1883		7 7 0
Auctioneer's Charges as taxed		139 5 4
Other Charges		87 10 11
Costs of Possession		
Cost of Notices in *Gazette* and Local Papers		3 9 6
Incidental Outlay		64 7 9
Total Cost of Realisation		655 19 0
Allowance to Debtors		34 13 0
Creditors, viz.:—		
Preferential	110 19 11	
Unsecured: First Dividend of 4/- in the £ on £6,361 9s. 8d.	1,272 5 10	
2nd Dividend of 1/- in the £	318 1 6	
3rd Dividend now declared of 6d. in the £	159 0 9	
The Debtor's estimate of amount expected to rank for dividend was £5,916 13s. 1d.		1,860 8 0
Balance		63 8 8
		£2,614 8 8

By sec. 82 (2) of the Bankruptcy Act, 1914, it is provided that "if one-fourth in number or value of Creditors dissent from the resolution, or the bankrupt satisfies the Board of Trade that the remuneration is unnecessarily large, the Board of Trade shall fix the amount of the remuneration."

Assets not yet realised estimated to produce £50.

The outstanding assets consist of Book Debts, owing under hiring Agreements, and are of very doubtful character, and the estimate of £50 must be regarded as approximate only. The debts are payable by small instalments. The balance is reserved to provide the dividends (already declared), upon a claim which is expected to rank, but is not yet proved.

Creditors can obtain any further information by inquiry at the office of the Trustee.

Dated this day of 19 .

X. Z., *Trus*

PRIVATE ARRANGEMENTS.

In private arrangements, also, it is usual, every time a dividend is declared, to forward to each creditor an account of receipts and payments upon the same lines as those prescribed in bankruptcy, although in practice the form is frequently departed from in matters of detail.

Section 13 of the Deeds of Arrangement Act, 1914 (coupled with Rule 30), provides that every trustee under a private arrangement shall transmit an account of his receipts and payments as such Trustee to the Board of Trade yearly, dating from the date of registration of the Deed, within 30 days thereafter.

The prescribed form (No. 16) is very similar to that appearing upon page 173. Section 14 provides that the Trustee shall send to each creditor every six months a summary of his receipts and payments in the prescribed form (No. 13), which is given below :

EXAMPLE.—

No. 13.

DEEDS OF ARRANGEMENT ACT, 1914.

Statement pursuant to Section 14.

IN THE MATTER of a Deed of Arrangement, dated the day of , 19 and registered on the day of 19 between as debtor and as trustee.

STATEMENT OF TRUSTEE'S ACCOUNTS AND OF PROCEEDINGS UNDER THE DEED FROM THE DAY OF 19 , TO THE DAY OF 19 .

Receipts.	£ s d	*Payments.*	£ s d	£ s d
Cash deposited by Debtor with Solicitor for costs of deed ..		Law Costs of preparation and registration of deed		
Cash at Bank at date of deed		Law Costs of Solicitor to Trustee		
Cash in hand at date of deed		Other Law Costs (3)		
Book Debts				
Stock-in Trade realised from sale by (1)		Accountant's charges		
Machinery realised from sale by (1)		Auctioneer's and Valuer's charges.		
Trade fixtures, fittings, &c., realised from sale by (1)		Trustee's Remuneration		
Furniture realised from sale by (1)		Possession		
Surplus from Securities in hands of Creditors.		Incidental Expenses		
Trading Receipts		Other Costs and Charges (3)		
Other Property, viz.:—realised from sale by (1)				
Gross Receipts .. .. £ s d		Total Costs and Charges	.. ..	
		Allowance to Debtor	.. ..	
Less—Trading Payments		Payments to Creditors, viz.:—	£ s d	
Payments to redeem Securities, viz. (2) £ s d		Rent from the day of 19 , to the day of 19 .		
		Rates and Taxes		
		Salaries and Wages		
		Other Preferential Payments, viz. (3).		
		Dividends of in the £ on £ . Paid		
		Unpaid		
Net Realisations		Other payments (if any) (3)		
		Total	.. ..	
Balance due to Trustee (if any)		Balance in hand (if any)	.. ..	
	£			£

(1) Insert gross proceeds of sale, and state how goods were sold, *e.g.*, by auction, by valuation, or as the case may be.
(2) Here insert to whom payments made, nature of security redeemed, and amount of each payment or annex schedule giving these particulars.
(3) Insert particulars or annex schedule.
(4) Insert name of Bank.

The total payments into the(4) Bank to the day of 19 were £ and the total payments out of the said Bank to the day of 19. were £ .

The amounts of the Assets and Liabilities at the time the Deed was executed as estimated by the debtor were:—

Assets after deducting £ the value of securities held by creditors and required to cover debts due to them £

Liabilities after deducting £ , the amount covered by securities £ .

The nature and value of the assets unrealised are (3)

The causes which delay the termination of the winding up of the estate are (3)

The est[illegible] [illegible]bly be completely wound up within

[illegible] [illegible]rcumstances affect the costs of realisation and the administration of the estate, viz., (3)

Trustee.

Address

Date

The prescribed form of Trading Account (No. 19) is similar to that used in Bankruptcies (*vide* p. 174)

Section 16 makes provision with regard to unclaimed dividends, &c. Whenever a dividend or composition is paid, the following form (No. 20) must be completed and forwarded to the Board of Trade :

EXAMPLE.—

No. 20.

LIST OF DIVIDENDS OR COMPOSITIONS.

IN THE MATTER of a Deed of Arrangement dated the day of , 19 , and registered the day of , 19 , between as debtor and as Trustee.

I HEREBY CERTIFY that a dividend (*or* composition) of in the £ has been paid in the above matter and that the creditors whose names are set forth below are entitled to the amounts set opposite their respective names in the columns headed "Amount of Dividend (*or* Composition)," and I further certify that the column headed "Unpaid" contains a full and complete list of all unpaid dividends or compositions.

Trustee.

Dated the day of , 19 .

To the Board of Trade.

Surname	Christian Name	Amount of Claim	Amount of Dividend (or Composition)	
			Paid	Unpaid

BANKRUPTCY OF FIRMS.

When a Receiving Order is made against a firm, the estates of all the partners pass into bankruptcy, and the Trustee appointed of the joint estate becomes also the Trustee of each of the separate estates. These various estates must be all administered separately, but any surplus that there may be upon any of the separate estates must be handed over to the joint estate and distributed among the joint creditors until such time as they have received 20s. in the £, together with interest at 4 per cent. from the date of the Receiving Order. After this has been done, whatever surplus may remain upon any separate estate is handed back to that particular debtor. If, on the other hand, there should happen to be a surplus on the joint estate, it is divisible among the separate estates in proportion to the respective interests of the partners as though no Receiving Order had been made ; but, of course, the surplus is handed over to the separate estates and applied towards the payment of the separate liabilities, so that no one of the debtors can receive h anything out of either joint or sepa estate until the whole of the joint cr tors and the whole of the creditors of is separate estate have been paid in with interest. Partners are not, how , liable for the payment in full of the parate debts of their co-partners.

The forms of account are precisely the same as those already indicated. It should be mentioned, however, that where any separate estate does not produce sufficient to cover costs, it is competent for the Trustee with the consent of the Committee of Inspection of the joint estate, to p , these costs out of the joint estate, so to this extent one partner may be liable indirectly for the costs of adm ing the estate of a co-partner.

The following example will clearly show the proper tre assets belonging to separate es pledged as security for the

PROBLEM.—(*a*) **From the following particulars construct the respective Balance Sheets of the firm of I., C. & A., and of the several partners :—**

PARTICULARS *re* I., C., & A., 3rd April 1920.	£	s	d
Trade Creditors, Joint Estate, unsecured	31,280	0	0
Cash Creditors, Joint Estate, unsecured	6,642	0	0
Cash Creditors, Joint Estate, collaterally partly secured by Policies of Assurance	9,015	0	0
On the life of I., worth	1,615	0	0
On the life of C., worth	738	0	0
Cash Creditors, Joint Estate, fully secured	10,435	0	0
They holding Securities belonging to the firm, worth ..	14,395	0	0
Liabilities on Bills discounted, considered good	1,340	0	0
Preferential Creditors of Joint Estate	2,128	0	0
Tradesmen's Claims on Separate Estate of I.	697	0	0
Cash Creditors on Separate Estate of I.	2,578	0	0
They holding as security Freehold Property of his, worth ..	3,000	0	0
Tradesmen's Claims on Separate Estate of C.	119	0	0
Tradesmen's Claims on Separate Estate of A.	190	0	0
Cash Creditors of A., unsecured	510	0	0
Cash at Bank at Credit of Joint Estate	1,050	0	0
Cash in hand do.	843	0	0
Debtors do.	2,975	0	0
Stock do.	30,155	0	0
Fixtures and Furniture do.	1,400	0	0
Household Furniture, Separate Estate of I.	1,000	0	0
Do. do. C.	1,000	0	0
Do. do. A.	500	0	0
Reversionary [illegible]rest under Will of John Smith, deceased, Separate Estate of A., [illegible]orth	200	0	0
I. had overdraw[illegible] Account with the Firm by	4,500	0	0
C. ,, ,, ,, ...	3,000	0	0
A. ,, ,, ,, ...	1,182	0	0

(*b*) **Show (in condensed form) the Statement of Affairs of the firm and the three separate partners.**

(A)

I., C. & A.'s BALANCE SHEET, 3rd April 1920.

Liabilities	£	s	d	£	s	d	*Assets*	£	s	d	£	s	d
Trade Creditors	..			31,280	0	0	Cash at Bank	..			1,050	0	0
Cash Creditors	..			6,642	0	0	Cash in Hand	..			843	0	0
Do. (partly secured)	9,015	0	0				Debtors	..			2,975	0	0
Estimated value of Securities	2,353	0	0				Stock	..			30,155	0	0
							Fixtures and Furniture	..			1,400	0	0
				6,662	0	0	Surplus from Securities (as per contra)	..			3,960	0	0
(fully secured) ..	10,435	0	0				Partners' Accounts overdrawn, viz. :—						
Estimated value of Securities	14,395	0	0				I.	2,885	0	0			
							C.	2,262	0	0			
							A.	1,182	0	0			
Surplus (as per contra) ..	3,960	0	0								6,329	0	0
[illegible]lls discounted	1,[illegible]	0	0										
[illegible]d to rank for [illegible] ..	..												
.. .. ..	..			2,128	0	0							
				£46,712	0	0					£46,712	0	0

I.'s BALANCE SHEET, 3rd April 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Tradesmen's Claims	..	697 0 0	Household Furniture	..	1,000 0 0
Cash Creditors (fully secured)	2,578 0 0		Surplus from Securities	..	422 0 0
Estimated value of Securities	3,000 0 0		Life Policy (deposited with creditors of joint estate)	1,615 0 0	
Surplus (as per contra) ..	422 0 0		Deficiency	..	2,160 0 0
Amount due to firm of I., C. & A. ..	..	2,885 0 0			
		£3,582 0 0			£3,582 0 0

C.'s BALANCE SHEET, 3rd April 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Tradesmen's Claims	.	119 0 0	Household Furniture		1,000 0 0
Amount due to firm of I., C. & A. ..	.	2,262 0 0	Life Policy (deposited with creditors of joint estate)	738 0 0	
			Deficiency . . .		1,381 0 0
		£2,381 0 0			£2,381 0 0

A.'s BALANCE SHEET, 3rd April 1920.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Tradesmen's Claims	.	190 0 0	Household Furniture		500 0 0
Cash Creditors	..	510 0 0	Reversionary Interest under Will of John Smith (decd.)		200 0 0
Amount due to firm of I., C. & A. ..	..	1,182 0 0	Deficiency	.	1,182 0 0
		£1,882 0 0			£1,882 0 0

(B)

STATEMENT OF AFFAIRS.

Re I., C. & A. (JOINT ESTATE).

Gross Liabilities	LIABILITIES (as stated and estimated by Debtor)		Expected to rank
£ s d		£ s d	£ s d
46,937 0 0	Unsecured Creditors, as per list (A)		46,937 0 0
10,435 0 0	Creditors fully secured, as per List (B)	10,435 0 0	
	Estimated value of Securities ..	14,395 0 0	
	Surplus	3,960 0 0	
	Less amount thereof carried to Sheet (C)		
	Balance thereof to contra ..	£3,960 0 0	
	Creditors partly secured, as per List (C)	—	
	Less estimated value of Securities	—	
	Liabilities on Bills discounted, other than Debtor's own acceptances for value, as per List (D) viz. :—	£ s d	
	On Accommodation Bills as Drawer, Acceptor, or Indorser		
1,340 0 0	On other Bills, as Drawer or Indorser	1,340 0 0	
		£1,360 0 0	
	Of which it is expected will rank against the Estate for Dividend		
	Creditors for Rates, Taxes, Wages, &c., payable in full, as per List	£ s d	
2,128 0 0	(G)	2,128 0 0	
	Deducted contra	£2,128 0 0	
£60,840 0 0			£46,937 0 0

ASSETS (as stated and estimate[illegible] Debtor)	Estimated to produce
	£ s d
*Property, as per List (F[illegible]) :—	
(a) Cash at Bankers	1,050 0 0
(b) Cash in ha[illegible]	843 0 0
(d) Stock-in-T[illegible] (cost £)	30,155 0 0
(e) Machiner[illegible]	
(f) T[illegible]s, Fittings, Utensils, &c.	1,400 0 0
(k) [illegible]perty, viz. :—	
Estimated surplus from separate Estate of I.	725 [illegible]
Ditto C. . . .	881 0
Total as per List (H) .. .	35,054 0
Book Debts, as per List (I), viz. :—	
Good	2,975 0
Surplus from Securities in the hands of Creditors fully secured (per contra)	
	41
Deduct Creditors for distrainable Rent, and for Preferential Rates, Taxes, Wages, Sheriff's Charges, &c. (per contra)	
Deficiency explained in Statement (K)	

STATEMENT OF AFFAIRS.
Re I.

Gross Liabilities	Liabilities (as stated and estimated by Debtor)		Expected to rank	Assets (as stated and estimated by Debtor)	Estimated to produce
£ s d			£ s d		£ s d
697 0 0	Unsecured Creditors as per List (A)		697 0 0	Property, as per List (H), viz. :—	
	Creditors fully secured, as per List	£ s d		(*i*) Furniture	1,000 0 0
2,578 0 0	(B)	2,578 0 0			
	Estimated value of Securities ..	3,000 0 0			
	Surplus	422 0 0		Total as per List (H)	1,000 0 0
	Less Amount thereof carried to Sheet (C)				
	Balance thereof to contra ..	£422 0 0		Surplus from Securities in the hands of Creditors fully secured (per contra)	422 0 0
	Surplus (to Joint Estate)		725 0 0		
£3,275 0 0			£1,422 0 0		£1,422 0 0

STATEMENT OF AFFAIRS.
Re C.

Gross Liabilities	Liabilities (as stated and estimated by Debtor)	Expected to rank	Assets (as stated and estimated by Debtor)	Estimated to produce
£ s d		£ s d		£ s d
119 0 0	Unsecured Creditors as per List (A)	119 0 0	Property as per List (H), viz. :—	
	Surplus to Joint Estate	881 0 0	(*i*) Furniture	1,000 0 0
£119 0 0		£1,000 0 0	Total as per List (H)	£1,000 0 0

STATEMENT OF AFFAIRS.
Re A.

Gross Liabilities	Liabilities (as stated and estimated by Debtor)	Expected to rank	Assets (as stated and estimated by Debtor)	Estimated to produce
£ s d		£ s d		£ s d
700 0 0	Unsecured Creditors as per List (A)	700 0 0	Property as per List (H), viz. :—	
			(*i*) Furniture..	500 0 0
			(*k*) Other Property, viz. :— Reversionary Interest under Will of John Smith (decd.)	200 0 0
700 0 0		£700 0 0	Total as per List (H)	£700 0 0

NOTE.—A secured creditor is defined by the Bankruptcy Act, 1914 (sec. 167), as "a person holding a mortgage ... the property of the debtor, or any part thereof, as a security for a debt due to him from the debtor." Cash ... are collaterally partly secured by policies of insurance on the lives of I. and C. are therefore "unsecured" ... of the joint estate, provided those policies are the property of the respective partners, and not the property of the

S.

...position is accepted, and the ...ue trading, a "paper" profit them upon carrying through the arrangement. In partnership cases the rights of the partners *inter se* must, of course, be considered; as shown in the following

PROBLEM.—M. & N. being in difficulties, effect an arrangement with their creditors under which the estate is to vest in a Trustee to be realised; 15s. in the £ paid to the creditors, and the balance (if any) returned to the debtors after payment of costs. The creditors' claims amounted to £1,700. M.'s capital was £500 in credit, N.'s £250 overdrawn. M. handed a further £100 to the Trustee out of his private estate to further secure the payment of the composition. The partnership assets were:—Cash, £50; Debtors, £750 (produced £700); Machinery, Plant, and Furniture, £800 (realised £400); and Stock, £350 (sold for £150). Raise the following Accounts:—(1) Firm's Balance Sheet; (2) Trustee's Cash Account (the whole costs were £75); (3) Realisation Account; (4) Creditors' Account; (5) Profit and Loss Account; (6) M.'s Capital Account; and (7) N.'s Capital Account.

(1) BALANCE SHEET.

Liabilities	£ s d	£ s d	*Assets*	£ s d
Capital Accounts:—			Machinery, Plant, &c.	800 0 0
M. in Credit	500 0 0		Stock-in-Trade	350 0 0
N. Overdrawn	250 0 0		Debtors	750 0 0
		250 0 0	Cash	50 0 0
Creditors		1,700 0 0		
		£1,950 0 0		£1,950 0 0

(2) *Dr.* TRUSTEES' CASH ACCOUNT. *Cr.*

Receipts	£ s d	*Payments*	£ s d
To Cash	50 0 0	By Costs	75 0 0
„ Book Debts	700 0 0	„ Creditors, composition of 15s. in the £	1,275 0 0
„ Machinery, Plant, &c.	400 0 0	„ Balance handed over to M.	50 0 0
„ Stock-in-Trade	150 0 0		
„ Amount received from M.	100 0 0		
	£1,400 0 0		£1,400 0 0

(3) *Dr.* REALISATION ACCOUNT. *Cr.*

	£ s d		£ s d
To Sundry Assets	1,950 0 0	By Cash	1,300 0 0
		„ Profit and Loss Account	650 0 0
	£1,950 0 0		£1,950 0 0

(4) *Dr.* CREDITORS' ACCOUNT.

	£ s d		
To Cash	1,375 0 0	By Balance	
„ Profit and Loss Account	425 0 0		
	£1,700 0 0		

(5) *Dr.* PROFIT AND LOSS ACCOUNT.

	£ s d		
To Realisation Account	650 0 0	By Creditors' Account	
„ Expenses	75 0 0	„ Balance, viz.:—	
		M.	
		N.	
	£725 0 0		

(6)

M.—CAPITAL ACCOUNT.

Dr.	£	s	d	Cr.	£	s	d
To Profit and Loss Account ..	150	0	0	By Balance ..	500	0	0
" Cash from Trustee ..	50	0	0	" Cash Paid to Trustee ..	100	0	0
" Balance down ..	400	0	0				
	£600	0	0		£600	0	0
				By Balance down ..	400	0	0

(7)

N.—CAPITAL ACCOUNT.

Dr.	£	s	d	Cr.	£	s	d
To Balance ..	250	0	0	By Balance down ..	400	0	0
" Profit and Loss Account ..	150	0	0				
	£400	0	0		£400	0	0
To Balance down ..	400	0	0				

CHAPTER XIV.

LIQUIDATION ACCOUNTS.

IN many respects the accounts in Company Liquidations follow the lines already laid down in the chapter on Bankruptcy and Insolvency Accounts. The statutory provisions, however, modify these to some extent; while the rights of shareholders *inter se* claim special consideration, particularly where there is a surplus.

DIFFERENT CLASSES OF LIQUIDATION.

There are three modes of liquidation applicable to companies. (1) Voluntary liquidation. (2) Voluntary liquidation under the supervision of the Court. (3) Compulsory liquidation.

VOLUNTARY LIQUIDATION.

With regard to the first, it need only be said that the winding-up is conducted by a Liquidator appointed by the shareholders, and subsequently confirmed by the creditors or by the Court, and that the procedure is one involving a minimum amount of formality. There is no statutory necessity for a Statement of Affairs and Deficiency Account, or—to speak more accurately—the late officers of the Company cannot be called upon to prepare one. When, therefore, it is thought desirable to compile such a Statement for the information of creditors, the work devolves upon the Liquidator.

It is usual, but not compulsory, for the Liquidator every time he declares a dividend to forward therewith an account of his receipts and payments since the commencement of the liquidation. Such account should be, as nearly as possible, upon the same lines as similar accounts in Bankruptcy.

If the winding-up continues for more than one year, the liquidator is required by Section 194 (2) of the Companies (Consolidation) Act, 1908, to summon a Ger[illegible] Meeting of the Company at the end of the first year and at the end of each succeeding year, or as soon thereafter as may be convenient, and to lay before such meeting an account showing his acts and dealings, and the manner in which the winding-up has been conducted. The account referred to in this section is an ordinary Account of Receipts and Payments, no special for[illegible] being prescribed.

When the winding-up of the Co[illegible] has been completed, the Liqui[illegible] required to summon a final meeting [illegible] Company, and to submit thereto hi[illegible] account. Again, no special form i[illegible] scribed, and it may therefore be u[illegible] same lines as the preceding; [illegible] course, that as it is a final accoun[illegible] show the ultimate disposal of that have been received. All vouchers should be produced for inspection. The view is held in some quarters that the shareholders at this meeting vote the Liquidator's remuneration, and that consequently this item cannot be included in the final accounts. This is a mistake. The shareholders are not required to vote the Liquidator's remuneration. It merely rests with them to approve the account; and if they do so, the approval of the account as a whole constitutes, of course, an approval of every item contained therein. If they disapprove, the practical effect is that the final meeting has not been "held," and consequently the Company cannot be dissolved under the provisions of Section 195 of the Companies (Consolidation) Act, 1908. The meeting can, however, be adjourned from time to time, to admit of the accounts being amended to the satisfaction of the contributories. Beyond this purely negative power, the only course open to the contributories (or any one of them) is to apply to the Court under Section 193, when the Court will make whatever order it thinks just. Under the same Section any creditor has a like power to apply to the Court, should he be dissatisfied with the remuneration paid to the Liquidator, or with any other matter arising out of the liquidation.

The following is an example of a Liquidator's final account:—

PROBLEM.—The Welsh Mining Company, Lim., goes into voluntary liquidation on the 30th June 1920 with Trade liabilities £1,200, Cash liabilities £1,050, Rent owing £75, Wages and Rates £56, Debentures £2,000. On the debentures six months' interest at 6 per cent. per annum was due on the date of the winding-up resolution. After a lapse of six months the leasehold property, &c., are sold for £3,600 and some small rents have come in amounting to £27 10s., whilst a minimum rent of leasehold at £150 per annum has been growing due since the date of winding-up. Make up the Liquidator's final account, allowing £45 3s. 6d. for Law Costs and Outlays, and for Liquidator's remuneration 3 per cent. on realisation, and 2 per cent. on distribution to unsecured creditors, and show the dividend payable.

THE WELSH MINING COMPANY, LIM. (in Liquidation).

ACCOUNT OF LIQUIDATOR'S RECEIPTS AND PAYMENTS.

Dr. TO DATE OF FINAL MEETING..1921. *Cr.*

	£ s d	£ s d		£ s d	£ s d
·eds of Realisation of Property ..	3,600 0 0		By Law Costs and Outlays	..	45 3 6
Received	27 10 0		„ Liquidator's Remuneration, viz.:—		
		3,627 10 0	3% on £3,627 10s. realised ..	108 16 0	
			2% on £1,125 distributed ..	22 10 0	
					131 6 6
			Total Costs of Winding-up..	..	176 10 0
-(1) *The Rent, although*			„ Preferential and Secured Creditors:—		
ictly preferential, would			Wages and Rates	56 0 0	
› be paid in full before			Rent (one year)	150 0 0	
·perty could be trans-			Debentures	2,000 0 0	
a purchaser unencum-			Debenture Interest (one year) ..	120 0 0	
2) Interest on deben-					2,326 0 0
'd run to date of			„ Unsecured Creditors		
			First and final Dividend of 10s. in the £ upon £2,250	..	1,125 0 0
		£3,627 10 0			£3,627 10 0

LIQUIDATIONS UNDER SUPERVISION.

So far as the accounts are concerned, the provisions here are in all respects the same as in the case of a voluntary liquidation conducted without the supervision of the Court, save that the Liquidator's remuneration is fixed by the Court, and subject, of course, to any special directions that the Court may give with regard to the rendering of accounts.

COMPULSORY LIQUIDATIONS.

The procedure when the Court makes an order for a Company to be wound up is entirely different from the preceding. In the first place, instead of the Liquidator being appointed by the shareholders, the Official Receiver becomes *ipso facto* Provisional Liquidator immediately upon the making of the order for the winding-up. It is the duty of the directors and the secretary (or other chief officer) to submit to the Official Receiver a Statement of Affairs, prepared in the prescribed form, which follows very closely the lines prescribed for Statements of Affairs in Bankruptcy. A printed copy of this statement (*i.e.* of the "front sheet" and the Deficiency Account) is forwarded by the Official Receiver to every shareholder and every creditor, and it is of interest to note that the practice is to include in that form only those items in the prescribed form against which figures actually appear. That is to say, no "blank" items are included. The following example shows clearly the prescribed form, and the method of filling it up; but for the sake of completeness, every item has been included, even where no such assets or liabilities arise in the example given.

PROBLEM.—From the following prepare a Statement of Affairs and Deficiency Account of A., B. & C., Lim., as on 31st December 1920, under the Companies (Winding-up) Act, 1890. The capital consists of 7 Founders' Shares of £10 each, £5 per Share called up and paid, and 20,000 Ordinary Shares of £1 each, all called up:—

	£	£
Debtors (Good)	8,175	
„ (Doubtful) estimated to produce 50 per cent.	3,160	
„ (Bad)	1,874	
	——	13,209
Buildings, Engines, &c., valued at		10,672
Unsecured Creditors		10,267
Secured Creditor, holding Mortgage of Buildings, &c.		7,175
Partly Secured Creditors (security £1,500)		4,203
Liabilities on Bills Discounted (£280 to rank) ..		1,700
Bills Receivable—£350 valued at		280
Managing Director's Salary, owing for five months ..		250
Weekly Wages unpaid		180
Calls on Ordinary Shares unpaid (estimated to produce £50)..		100
Uncalled Capital—seven £10 Shares, £5 unpaid ..		35
Bank Account overdrawn		19
Cash in hand		7

In the High Court of Justice.

COMPANIES (WINDING-UP).
IN THE MATTER OF THE COMPANIES (CONSOLIDATION) ACT, 1908.
AND
IN THE MATTER OF * A. B. & COMPANY, LIMITED,
STATEMENT OF AFFAIRS on the 31st day of December 1920, the date of the Winding-up Order.

* Insert full Name of Company.

(I.) AS REGARDS CREDITORS.

Gross Liabilities £ s d	Liabilities	£ s d	Expected to Rank £ s d
	Debts and Liabilities, viz. :—		
10,536 0 0	(a) Unsecured Creditors, as per list "A" .. (State number)		10,536 0 0
7,175 0 0	(b) Creditors fully secured (not including Debenture Holders) as per list "B"	7,175 0 0	
	Estimated value of Securities	10,672 0 0	
	Estimated surplus £ Carried to list "C" £	3,497 0 0	
	Balance to contra (d) £	3,497 0 0	
4,203 0 0	(c) Creditors partly secured, as per List "C" ..	4,203 0 0	
	Less estimated value of Securities ..	1,500 0 0	
	Estimated to rank for Dividend ..		2,703 0 0
1,700 0 0	(d) Liabilities on Bills discounted other than the Company's own acceptances for value, as per list "D"	1,700 0 0	
	Of which it is expected will rank for Dividend		280 0 0
	(e) Other Liabilities, as per list "E"		
	Of which it is expected will rank against the Assets for Dividend ..		
180 0 0	(f) Preferential Creditors for Rates, Taxes, Wages, &c., as per list "F" deducted contra	180 0 0	
	(g) Loans on Debenture Bonds, as per list "G" deducted contra		
	Estimated Surplus (if any) after meeting Liabilities of Company, subject to cost of Liquidation		
			13,519 0 0
£23,794 0 0			£13,519 0 0

Assets	£ s d	Estimated to Produce £ s d
(a) Property, as per list "H," viz. :—		
(a) Cash at Bankers		
(b) Cash in hand		7 0 0
(c) Stock-in-Trade .. .. (Estimated Cost, £ : :)		
(d) Machinery		
(e) Trade Fixtures, Fittings, Utensils, &c. ..		
(f) Investments in Shares, &c.		
(g) Loans on Mortgage		
(h) Other Property, viz. :—		
		7 0 0
(b) Book Debts (Debtors), as per list "I," viz.:— Good		8,175 0 0
Doubtful	3,160 0 0	
Bad	1,874 0 0	
	£5,034 0 0	
Estimated to produce		1,580 0 0
(c) Bills of Exchange or other similar securities on hand, as per list "J"	350 0 0	
Estimated to produce		280 0 0
(d) Surplus from Securities in the hands of Creditors fully secured (per contra) (b)		3,497 0 0
(e) Unpaid Calls, as per list "K" ..	£100 0 0	
Estimated to produce		50 0 0
Estimated Total Assets		13,589 0 0
Deduct Preferential Creditors, as per contra (f)		180 0 0
Estimated amount available to meet claims of Debenture-holders		13,409 0 0
Deduct Loans on Debenture Bonds secured on the Assets of the Company as per contra (g)		
Estimated Amount available to meet Unsecured Creditors subject to cost of Liquidation		13,409 0 0
Estimated Deficiency of Assets to meet Liabilities of the Company, subject to cost of Liquidation ..		110 0 0
		£13,519 0 0

The Nominal Amount of Unpaid Capital liable to be called up to meet the above Deficiency is £35.

(II.) AS REGARDS CONTRIBUTORIES.

	£ s d	£ s d		£ s d
Capital Issued and Allotted, viz. :—			Estimated Surplus as above (if any) subject to costs of Liquidation	
7 Founders' Shares of £10 per share .. (7 Shareholders).				
Amount called up at £5 per Share, as per list "L"	35 0 0			
20,000 Ordinary Shares of £1 per Share .. .. (420 Shareholders).				
Amount called up at £1 per Share, as per list "M"	20,000 0 0			
.... Preference Shares of £.... per Share (.... Shareholders).				
Amount called up at £.....per Share, as per list "N"				
... par- (a) any l.	£20,035 0 0			
...paid Calls estimated to be irre...ble	50 0 0			
		19,985 0 0		
...ciency to meet Liabilities as above		110 0 0	Total Deficiency as explained in Statement "O"	20,095 0 0
		£20,095 0 0		£20,095 0 0

......................................of ....make oath and say that the ...g Statement and the several Lists hereunto annexed marked "A," "B," "C," "D," "E," "F," "G," "H," "I" "J," "K," "L," "M," and "O (1)" "O (2)" are, to the best of my knowledge and belief, a full, true, and complete statement of the affairs of the above-named Company, on the ....day of...................................1 , the date of the winding-up order.

Sworn at...
in the County of...................................
this....................*day of*....................1 .
Before me ....

Signature..

LIST "A."—UNSECURED CREDITORS.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

NOTES.—1. When there is a contra account against the Creditor, less than the amount of his claim against the Company, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the Balance only be inserted under the heading "Amount of Debt," thus:—

	£ s d
Total Amount of Claim	
Less: Contra Account	

No such set-off should be included in List "I."

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

3. The names of any Creditors who are also Contributories, or alleged to be Contributories, of the Company, must be shown separately, and described as such at the end of the List.

No.	Name	Address and Occupation	Amount of Debt	Date when Contracted		Consideration
				Month	Year	
			£ s d			

LIST "B."—CREDITORS FULLY SECURED (NOT INCLUDING DEBENTURE-HOLDERS)

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when Contracted		Consideration	Particulars of Security	Date when given	Estimated Value of Security	Balance of Debt Unsecured
				Month	Year					
			£ s d						£ s d	£ s d

LIST "C."—CREDITORS PARTLY SECURED.

(State whether also Contributories of the Company.)

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when Contracted		Consideration	Particulars of Security	Month and Year when given	Estimated Value of Security	Balance of Debt Unsecured
				Month	Year					
			£ s d						£ s d	£ s d

List "D."—LIABILITIES OF COMPANY ON BILLS DISCOUNTED OTHER THAN THEIR OWN ACCEPTANCES FOR VALUE.

No	Acceptor's Name, Address, and Occupation	Whether Liable as Drawer or Indorser	Date when Due	Amount	Holder's Name, Address, and Occupation (if known)	Amount expected to rank for Dividend
				£ s d		£ s d

List "E."—OTHER LIABILITIES.

Full particulars of all Liabilities not otherwise Scheduled to be given here.

No.	Name of Creditor or Claimant	Address and Occupation	Amount of Liability or Claim	Date when Liability incurred		Nature of Liability	Consideration	Amount expected to rank against Assets for Dividend
				Month	Year			
			£ s d					£ s d

List "F."—PREFERENTIAL CREDITORS FOR RATES, TAXES, SALARIES, AND WAGES

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which claim accrued due	Date when due	Amount of Claim	Amount payable in full	Difference ranking for Dividend
						£ s d	£ s d	£ s d

List "G."—LIST OF DEBENTURE HOLDERS.

The Names to be arranged in alphabetical order and numbered consecutively.
SEPARATE LISTS must be furnished of holders of each issue of Debentures, should more than one issue have been made.

No.	Name of Holder	Address	Amount	Description of Assets over which Security extends
			£ s d	

List "H."—PROPERTY.

Full particulars of every description of property not included in any other lists are to be set forth in this list.

	Full Statement and Nature of Property	Estimated Cost	Estimated to Produce
		£ s d	£ s d
	(a) Cash at Bankers		
	(b) Cash in hand		
	(c) Stock in Trade, at		
	(d) Machinery, at		
	(e) Trade Fixtures, Fittings, Office Furniture, Utensils, &c.		
[State particulars]	(f) Investments in Stocks or Shares, &c.		
[State particulars]	(g) Loans for which Mortgage or other security held		
	(h) Other Property, viz.—		

List "I."—DEBTS DUE TO THE COMPANY.

The names to be arranged in alphabetical order, and numbered consecutively.

NOTE.—If any Debtor to the Company is also a Creditor, but for a less amount than his indebtedness, the gross amount due to the Company and the amount of the Contra Account should be shown on the third column, and the balance only be inserted under the heading "Amount of Debt," thus.—

	£ s d
Due to Company	
Less: Contra Account	

No such claim should be included in Sheet "A."

No	Name of Debtor	Residence and Occupation	Amount of Debt			Folio of Ledger or other book where particulars to be found	When Contracted		Estimated to Produce	Particulars of any Securities held for Debt
			Good	Doubtful	Bad		Month	Year		
			£ s d	£ s d	£ s d				£ s d	

List "J"—BILLS OF EXCHANGE, PROMISSORY NOTES, &c., on HAND AVAILABLE AS ASSETS.

No.	Name of Acceptor of Bill or Note	Address, &c.	Amount of Bill of Note	Date when due	Estimated to Produce	Particulars of any Property held as Security for Payment of Bill or Note
			£ s d		£ s d	

LIST "K."—UNPAID CALLS.

Consecutive No.	No. in Share Register	Name of Shareholder	Address and Occupation	No. of Shares held	Amount of Call per Share unpaid	Total Amount due	Estimated to realise
					£ s d	£ s d	£ s d

LIST "L."—LIST OF FOUNDERS' SHARES.

Consecutive No	Register No	Name of Shareholder	Address	Nominal Amount of Share	No. of Shares held	Amount per Share called up	Total Amount called up
						£ s d	£ s d

LIST "M."—LIST OF ORDINARY SHARES.

No	Register No.	Name of Shareholder	Address	Nominal Amount of Share	No. of Shares held	Amount per Share called up	Total Amount called up
						£ s d	£ s d

LIST "N."—LIST OF PREFERENCE SHARES.

Consecutive No	Register No.	Name of Shareholder	Address	Nominal Amount of Share	No. of Shares held	Amount per Share called up	Total Amount called up
						£ s d	£ s d

LIST "O" (1)

Deficiency Account.

(1) Deficiency Account where Winding-up Order made within Three Years of Formation of Company

	£ s d
I Gross Profit (if any) arising from carrying on business from date of formation of Company to date of Winding-up Order (as per Trading Account annexed)	
II Receipts (if any) during same period from under-mentioned sources :—	
Interest on Loans	
Interest on Deposits	
Transfer Fees	
Amount paid on Shares issued and subsequently forfeited (as per List annexed) ..	
III Other Receipts (if any) during same period not included under any of the above headings, viz :—	
IV Deficiency as per Statement of Affairs—Part II ..	
Total Amount to be accounted for . .. (2) £	

	Amount discharged £ s d	Due at date of Winding-up order £ s d	£ s d
I Expenditure in carrying on business from date of formation of Company to date of Winding-up Order, viz. —			
II General Expenditure :—			
Salaries			
Wages not charged in Trading Account.. .			
Rent			
Rates and Taxes			
Law Costs			
Commission			
Interest on Loans			
Interest on Debentures ..			
Miscellaneous Expenditure (as per details annexed)			
III Directors' Fees from date of formation of Company to date of Winding-up Order			
IV Dividends declared during same period			
V Losses and Depreciation written off in Company's Books (1) :—			
Bad Debts			
Losses on Investments			
Depreciation on Property			
Preliminary Expenses			
VI Losses and Depreciation not written off in Company's Books, now written off by the Directors (1) —			
Bad Debts			
Losses on Investments			
Depreciation on Property			
Preliminary Expenses			
VII Other Losses and Expenses			
Total amount accounted for .. .. (2) £			

Notes.—(1) Where particulars are numerous they should be inserted in a separate Schedule.

(2) These figures should agree.

Signature

Dated 19

LIST "O" (2).

Deficiency Account.

(2) Deficiency Account where Winding-up Order made more than Three Years after Formation of Company

	£ s d
I Excess of Assets over Capital and Liabilities on the (1) day of 19 (if any), as per Company's Balance Sheet. (This and any previous Balance Sheets to be annexed or handed to O. R.)	
II Gross Profit (if any) arising from carrying on business from the (1) day of 19 , to date of Winding-up Order as per Trading Account annexed	
III Receipts (if any) during same period from under-mentioned sources:—	
Interest on Loans	
Interest on Deposits..	
Transfer Fees..	
Amounts paid on Shares issued and subsequently forfeited (as per List annexed) ..	
IV Other Receipts (if any) during same period not included under any of the above headings ..	
V Deficiency as per Statement of Affairs—Part II ..	
Total Amount to be accounted for .. .. (3) £	

[*Note the difference here, as compared with Form "O. (1)." At the date of its formation a Company has neither Assets nor Liabilities (although, of course, it may subsequently* adopt *liabilities incurred before that date); if, however, the account does not date back to the date of registration, a starting balance must be taken into account, as in the Bankruptcy Form, which see.*]

	Amount discharged £ s d	Due at date of Winding-up Order £ s d	£ s d
I Excess of Capital and Liabilities over Assets on the (1) day of 19 (if any), as per Company's Balance Sheet. (This and any previous Balance Sheets to be annexed or handed to O. R.)			
II Expenses of carrying on business from the (1) day of 19 , to date of Winding-up Order, viz :—			
General Expenditure —			
Salaries			
Wages not charged in Trading Account ..			
Rent			
Rates and Taxes ..			
Law Costs			
Commission .. .			
Interest on Loans ..			
Interest on Debentures			
Miscellaneous Expenditure (as per details annexed)			
III Directors' Fees from the (1) day of 19 , to date of Winding-up Order..			
IV Dividends declared during same period			
V Losses and Depreciation from the day of 19 , (1) written off in Company's Books, viz. (2):—			
Bad Debts			
Losses on Investments			
Depreciation of Property			
Preliminary Expenses			
VI Losses and Depreciation not written off in Company's Books, now written off by Directors (2):—			
Bad Debts			
Losses on Investments			
Depreciation of Property			
Preliminary Expenses			
VII Other Losses and Expenses (2)			
Total amount accounted for.. .. .. (3) £			

Notes.—(1) Three years before date of Winding-up Order.

(2) Where particulars are numerous they should be inserted in a separate Schedule.

(3) These figures should agree.

Signature

Dated 19

List "P."—IN SUBSTITUTION FOR SUCH OF THE LISTS NAMED "A" TO "O" AS WILL HAVE TO BE RETURNED BLANK.

List	Particulars, as per Front Sheet	Remarks *Where no particulars are entered on any one or more of the Lists named "A" to "O" the word "Nil" should be inserted in this column opposite the particular List or Lists thus left blank.*
A	Unsecured Creditors	
B	Creditors fully secured (not including debenture-holders)	
C	Creditors partly secured	
D	Liabilities on Bills discounted other than the Company's own acceptances for value	
E	Other Liabilities	
F	Loans on Debenture Bonds	
G	Preferential Creditors for Rates, Taxes, Wages, &c	
H	Property	
I	Book Debts	
J	Bills of Exchange or other Similar Securities on hand	
K	Unpaid Calls	
L	Founders' Shares	
M	Ordinary Shares	
N	Preference Shares	
O	Deficiency Account	

Signature..

Dated..19

Meetings of creditors and of contributories respectively are convened by the Official Receiver, and at these meetings the permanent Liquidator of the Company is appointed. If the creditors and contributories do not agree upon a Liquidator, the Court makes the appointment. The Official Receiver may be appointed as permanent Liquidator. The accounts to be kept by the Liquidator in a compulsory liquidation are upon the same lines as in bankruptcy. That is, they are restricted to an account of cash receipts and payments, kept in the prescribed form, and supplemented by a Trading Account where the business of the Company is carried on pending realisation. As in bankruptcy, the Liquidator is required to pay all moneys received into an account opened for that purpose at the Bank of England, unless special leave has been given for an account to be opened at a local bank.

The prescribed forms of Cash Book, Cash Account, and Trading Account are as follow :—

EXAMPLE:

COMPANY'S CASH BOOK.

RECEIPTS.									PAYMENTS.			
Date	Particulars	Total	Drawn from Bank	Debts Collected	Property Realised	Receipts from Securities held by Creditors	Calls	Other Receipts	Date	Particulars	Voucher Nos. (in red)	Total
		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d				£ s

Left-hand side.]

PAYMENTS.

Paid into Bank	Costs of Realisation								Preferential Creditors and Rent	Payments to Redeem Securities	Dividends Paid	Repayments to Contributories	Other Payments
	Board of Trade and Court Fees	Law Costs of Petition	Law Costs after Winding-up Order	Remuneration of Manager and Liquidator	Official Receiver's Com. on Assets Realised, and Amount Distributed in Dividend or Paid to Contributories	Charges of Auctioneer, Accountant, Shorthand Writer, &c., as taxed	Notices in *Gazette* and Local Paper	Incidental Expenses including Possession					
£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

[*Right-hand side.*

EXAMPLE:

Cash Book
Filing Copy } THE COMPANIES (CONSOLIDATION) ACT, 1908.

In the Court

In the matter of No. of 1

CASH BOOK.

Date	Receipts	Total	Drawn from Bank	Date	Payments	Voucher No.	Total	Paid into Bank
		£ s d	£ s d				£ s d	£ s d

EXAMPLE:

LIQUIDATOR'S TRADING ACCOUNT UNDER SECTION 155.

(*Title.*)

G. H., the Liquidator of the above-named Company in account with the Estate.

Dr. RECEIPTS.			PAYMENTS	*Cr.*
Date		£ s d	*Date*		£ s d

Liquidator.

(*Date*)

We have examined this account with the vouchers and find the same correct, and we are of opinion the expenditure has been proper.

Dated this day of 19 .

Committee of Inspection
[*or* Member of the Committee of Inspection.]

RETURNS TO BOARD OF TRADE.

Section 224 of the Companies (Consolidation) Act, 1908, provides that if the winding-up of the company is not concluded (*i.e.* the company dissolved) within one year after its commencement, the liquidator shall, at such intervals as may be prescribed, forward to the Board of Trade a statement in the prescribed form relative to the liquidation. The prescribed form is as follows :—

EXAMPLE:

No. 75.

No. of Company } ....

Form of Statement of Receipts and Payments and General Directions as to Statements.

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(1) Every Statement must be on sheets 13 inches by 16 inches. — Size of Sheets.

(2) Every Statement must contain a detailed account of all the liquidator's realisations and disbursements in respect of the Company. The Statement of Realisations should contain a record of all receipts derived from assets existing at the date of the winding-up order or resolution and subsequently realised, including balance in Bank Book Debts and Calls Collected, Property Sold, &c.; and the amount of disbursements should contain all payments for costs and charges, or to creditors, or contributories. Where property has been realised, the gross proceeds of sale must be entered under realisations, and the necessary payments incidental to sales must be entered as disbursements. These accounts should not contain payments into the Companies Liquidation Account or payments into or out of Bank, or temporary investments by the liquidator, or the proceeds of such investments when realised, which should be shown separately :— — Form and contents of Statement.

(*a*) by means of the Bank Pass Book;

(*b*) by a separate detailed statement of moneys invested, and investments realised.

Interest allowed or charged by the Bank, Bank Commission, &c., and profit or loss upon the realisation of temporary investments, should, however, be inserted in the accounts of realisations or disbursements, as the case may be. Each receipt and payment must be entered in the account in such a manner as sufficiently to explain its nature. The receipts and payments must severally be added up at the foot of each sheet, *and the totals carried forward from one account to another without any intermediate balance, so that the gross totals shall represent the total amounts received and paid by the liquidator respectively.*

(3) When the liquidator carries on a business, a Trading Account must be forwarded as a distinct account, and the totals of receipts and payments on the Trading Account must alone be set out in the Statement. — Trading Account.

(4) When dividends or instalments of compositions are paid to creditors, or a return of surplus assets is made, to contributories, the total amount of each dividend or instalment of composition, or return to contributories, actually paid must be entered in the Statement of Disbursements as one sum; and the liquidator must forward separate accounts showing in lists the amount of the claim of each creditor and the amount of dividend or composition payable to each creditor, and of surplus assets payable to each contributory, distinguishing in each list the dividends or instalments of composition and shares of surplus assets actually paid, and those remaining unclaimed. Each list must be on sheets 13 inches by 8 inches. — Dividends, &c.

(5) Credit should not be taken in the Statement of Disbursements for any amount in respect of liquidator's remuneration, unless it has been duly allowed by resolution of the Company in general meeting or by order of Court.

LIQUIDATORS' STATEMENT OF ACCOUNT.

Pursuant to Section 224 of the Companies (Consolidation) Act, 1908.

Name of Company ....

....

Nature of proceedings (whether wound up by the Court, or under the supervision of the Court or voluntarily) ....

Date of commencement of winding up ....

Date to which Statement is brought down ....

Name and Address of Liquidator ....

....

This Statement is required in duplicate.

LIQUIDATOR'S STATEMENT OF ACCOUNT

REALISATIONS

Date	Of whom received	Nature of Assets realised	Amount
			£ s d
		Brought forward ..	
		Carried forward ..	

This margin is reserved for binding, and should not be written across.

pursuant to S. 224 of the Companies (Consolidation) Act, 1908.

This margin is reserved for binding, and should not be written across.

DISBURSEMENTS			
Date	To whom paid	Nature of Disbursements	Amount
			£ s d
		Brought forward ..	
		* Carried forward ..	

*Note.—No balance should be shown on this Account, but only the total Realisations and Disbursements, which should be carried forward to the next Account.

[Turn Over]

ANALYSIS OF BALANCE.

Total Realisations				
„ Disbursements				
Balance ..				
The Balance is made up as follows:—				
1. Cash in hands of Liquidator				
	£	s	d	
2. Total Payments into Bank, including balance at date of commencement of winding up (*as per Bank Book*)				
Total withdrawals from Bank				
Balance at Bank				
3. Amount in Companies Liquidation Account				
	£	s	d	
*4. Amounts invested by Liquidator				
Less amounts realised from same				
Balance ..				
Total Balance as shown above £				

NOTE.—Full details of Stocks purchased for investment and of realisation thereof should be given in a separate statement.

* The investment or deposit of money by the liquidator under competent authority does not withdraw it from the operation of Sec. 224 of the Companies (Consolidation) Act, 1908, and any such investments representing money held for six months or upwards must be realised and paid into the Companies Liquidation Account, except in the case of investments in Government Securities, the transfer of which to the control of the Board of Trade will be accepted as a sufficient compliance with the terms of the section.

NOTE.—The Liquidator shall also state—

(1)	The amount of the estimated assets and liabilities at the date of the commencement of the winding-up ..	Assets (after deducting amounts charged to secured creditors and debenture-holders) £ Liabilities: Secured creditors .. £ Debenture-holders .. £ Unsecured creditors .. £
(2)	The total amount of the capital paid up at the date of the commencement of the winding-up	Paid up in cash .. .. £ Issued as paid up otherwise than for cash .. .. .. £
(3)	The general description and estimated value of outstanding assets (if any) ..	
(4)	The causes which delay the termination of the winding-up	
(5)	The period within which the winding-up may probably be completed	

EXAMPLE:

No. 75 E.

No. of Company

SUMMARY OF LIQUIDATOR'S ACCOUNTS.

Name of Company

Nature of proceedings (whether wound up by the Court or under the supervision of the Court or voluntarily) . .

Date of commencement of winding up . . . .

Date to which Statement is brought down . . . .

Name and Address of Liquidator .

(To be forwarded in Duplicate.)

ACCOUNT of Realisations and Disbursements pursuant to

From

RECEIPTS.

	£	s.	d.
Amounts of calls (if any) realised			
Amount of other assets realised			
Interest on Investments made by the liquidator			
Trading receipts			
Other receipts			
£			

This margin is reserved for binding, and should not be written across.

I,

of

the liquidator of the above-named company, make oath and say that the above statement is a full and true summary of my receipts and payments in the winding-up of the company from the day of 1 , to the day of 1 ; that all dividends, instalments of composition, and shares of surplus assets which have remained unclaimed or undistributed for six months have been paid into the Companies Liquidation Account, and that the minimum balance of other money representing unclaimed or undistributed assets which I have had in my hands or under

This margin is reserved for binding, and should not be written across.

Section 224 of the Companies (Consolidation) Act, 1908.

To

PAYMENTS.

	£	s	d
Amount paid to secured creditors			
Amount paid to preferential creditors			
Amount paid to unsecured creditors			
Amount returned to contributories			
£			
Costs, namely:—			
(a) Law costs			
(b) Liquidator's remuneration			
(c) Other costs			
Trading payments			
Other payments			
£			

my control during the six months immediately preceding the date to which the above statement is brought down is £

Sworn at

this day of 1 .

Before me,

NOTE.—The Liquidator should also state—

(1) The amount of the estimated liabilities at the date of the commencement of the winding-up.. ..	
(2) The general description and estimated value of outstanding assets (if any)	
(3) The causes which delay the termination of the winding-up	
(4) The period within which the winding-up may probably be completed	

		£ s d
(5) The balance of realised funds	Invested	
	In Bank	
	In Hand	
	Total .. .. £	

It should be added that all unclaimed dividends in voluntary liquidations must be paid into the Companies' Liquidation account at the Bank of England, and a detailed return thereof submitted to the Board of Trade. All moneys that have been in the hands of a voluntary Liquidator for twelve months must also be paid into this account, and can only be drawn out again as required for the purposes of the liquidation. The necessary forms, both for paying in and drawing out, are issued by the Board of Trade, and it is important that the directions given on these forms be carefully observed, if it is desired to avoid delay in obtaining the repayment of moneys from the Companies' Liquidation Account.

RETURNS TO CONTRIBUTORIES.

Where a surplus remains in the Liquidator's hands after payment of all costs and creditors' claims, it must be distributed among the contributories (shareholders) in accordance with their respective rights. These rights are determined by the Company's Memorandum and Articles of Association. If the Memorandum and Articles make any special class (or classes) of shares preferential as regards capital, there must be paid in full before any surplus is available for distribution among shareholders who are not so preferred. For example, Preference Share Capital must usually (although not necessarily always) be returned in full before anything is returned on account of Ordinary Share Capital; but (ordinarily) no arrears of preference dividend are payable until *all* Capital has been returned in full, because dividends upon shares are only payable out of profits.

Theoretically, all unpaid Capital should be called up by the Liquidator before adjusting the rights of contributories. For example, uncalled Ordinary Capital may require to be called up to enable a repayment of Capital to be made to the holders of Preference Shares. In practice, however, calls are never made unnecessarily, and consequently the Capital would not be called up if it were clear at the outset that it would immediately afterwards have to be returned to the *same* shareholders. Thus, if the assets have realised sufficient to enable Preference Capital to be returned in full, any Capital uncalled on Ordinary Shares would not usually be called up, because when received it would merely have to be returned to the ordinary shareholders again. An exception to this rule arises, however, where a different amount has been called up upon groups of the *same* class of shares. For example, where some Ordinary Shares are fully paid and others only partly paid up, in order to adjust the rights of the ordinary shareholders *inter se* it may be necessary to call up a part of the uncalled Capital. From most points of view, the shareholders of a Company may be regarded as co-partners, and as under the heading of Partnership Accounts it was shown that upon a final adjustment it was necessary to charge each partner with his proper share of the loss incurred, or to credit each partner with his proper share of the profit earned, as the case may be, so, in Companies, shareholders of a like class must, at the final adjustment, be left losing (or gaining) the same amount per share. The following example shows clearly the working out of the general principle already described :—

PROBLEM.—In the voluntary winding-up of the Barclutha Electric Light Company, Lim. (whose undertaking has been purchased by the local authority), the Liquidator having realised all the assets finds that the funds on hand amount to £10,525. These are subject to the Liquidator's remuneration and costs of liquidation, including estimated cost of closing the liquidation, which together amount to £745.

The amounts due to Creditors are :—	£
Preferable Debts	285
Ordinary Creditors	4,320
The Capital of the Company is as follows :—	
Preference Shares having a preference as to Capital, as well as to dividends :	
500 Shares of £10 each fully paid up	5,000
Ordinary Shares :—	
2,000 Shares of £10 each fully paid up ..	20,000
2,500 Shares of £10 each £8 per share paid up .	20,000

With the exception of the provision that the 500 Preference Shares have a Preference as to capital, as well as to dividends, there are no special provisions in the Memorandum or Articles of Association as to the distribution of the assets in a winding-up.

Draw up a scheme showing the order in which the Liquidator, in accordance with his duty, should apply the realised funds, and state the mode in which he should adjust the rights of the different classes of shareholders among themselves, showing the actual results in figures.

THE BARCLUTHA ELECTRIC LIGHT COMPANY, LIM. (IN LIQUIDATION).

ACCOUNT OF LIQUIDATOR'S RECEIPTS AND PAYMENTS

To date of Final Meeting..............191....

	£ s d	£ s d		£ s d	£ s d
To Realisation of Assets :— (Show details)		10,525 0 0	By Costs of Liquidation :— (Show details)		745 0 0
" Proceeds of Call of £1 per Share on £2,500 Ordinary Shares of £10 each, making same £9 per Share paid up		2,500 0 0	" Creditors paid in full :— Preferential Claims .. .	285 0 0	
			Unsecured Claims	4,320 0 0	4,605 0 0
			" Return to Shareholders :— Preference Shares, 500 Shares of £10 each, fully paid, returned in full ..	5,000 0 0	
			Ordinary Shares, 2,000 Shares of £10 each, fully paid, return of 23/- per Share	2,300 0 0	
			Ordinary Shares, 2,500 Shares of £10 each, £9 per Share paid, return of 3/- per Share	375 0 0	7,675 0 0
		£13,025 0 0			£13,025 0 0

NOTE.—Shareholders of the same class must leave off losing, or gaining, the same amount per Share. In this case all the holders of Ordinary Shares lose £8 17s. 0d. per Share. If any shareholders fail to pay the call made by the Liquidator, their Shares would be forfeited, and they would not participate in the final return in respect of those Shares.

CHAPTER XV.

RECONSTRUCTIONS AND AMALGAMATIONS.

THE term " Reconstruction " is usually (although somewhat inaccurately) applied to a scheme under which a Company goes into liquidation for the express purpose of selling the whole, or some portion, of its undertaking to another Company formed for that specific object. It is also generally used where such an arrangement is effected, even although it was not in contemplation at the date when the vendor Company went into liquidation. Where, however, the undertaking of a Company is sold to another Company already in existence, the process is described as an " Amalgamation," and the latter term is also used to describe the arrangement under which the undertakings of two or more Companies are combined, even although the purchasing Company may have been formed specially to carry the arrangement into effect.

RECONSTRUCTIONS.

In spite of these distinctions between Reconstructions and Amalgamations, however, the necessary accounts in connection with each process are very similar. So far as the accounts of the Vendor Company are concerned, it is probable that, in practice, the books would not actually be closed at all, as it is generally thought desirable to keep the books as they stood at the date of liquidation, and for the liquidator to keep his own accounts quite separate. None the less, it is important that the actual nature of the transactions should be understood by the reader, and this will doubtless best be done by following the entries that would be necessary to close the books completely, were it thought desirable to do so.

Naturally, the closing entries have much in common with the corresponding entries in the case of a partnership that is completely wound up. A variation, however, occurs in that the chief—if not the only—return to the shareholders will be in the form of fully (or partly) paid-up shares in the new Company. To enable such a distribution to be effected, the first step is to adjust the rights of contributories *inter se*, and for that purpose to " settle " a List of Contributories. As regards the latter, the formalities prescribed by statute must be duly observed. With regard to the former, it need only be mentioned that, as in the case of ordinary liquidations so in reconstructions, the rights of contributories *inter se* must be " adjusted," and for this purpose it is necessary that the same amount *per share* should be called up upon all shares of the same class.

The proceeds of the Calls so made will, of course, increase to a corresponding extent the cash balance available for distribution among the contributories as a whole.

So far as the purchasing Company is concerned, the position of affairs is quite simple, and differs in no way from that of any ordinary Company acquiring a going concern. The mere fact that the Vendor is the Liquidator of a Company, instead of a firm or a promoter, makes no difference whatever in the form of the necessary opening entries.

These preliminary remarks will enable the reader to trace without difficulty the working out of the following problem, which relates to a comparatively simple state of affairs :—

PROBLEM.—The " B " Company goes into voluntary liquidation on 30th September 1920. Its assets appear in the books as follow :—

Cost of Properties	.. ..	£150,000
Machinery and Stores	.. ..	12,000

Its Liabilities are £25,000, and its Capital (fully paid-up) £200,000. The assets are sold to the " C " Company, Lim., for £100,000 payable in Shares of that Company of £1 each credited with 16s. 8d. per Share paid, and £30,000 in cash, which just suffices to pay the liabilities and liquidation costs.

(*a*) Close the books of the " B " Company.

(*b*) Show the opening entries in the books of the " C " Company.

(*a*) On the 30th September 1920 the Balance Sheet of the " B " Company stood as follows :—

BALANCE SHEET, 30th September 1920.

Liabilities	£	s	d	*Assets*	£	s	d
Capital	200,000	0	0	Property	150,000	0	0
Creditors	25,000	0	0	Machinery and Stores	12,000	0	0
				Profit and Loss Account	63,000	0	0
	£225,000	0	0		£225,000	0	0

In Journal form the closing entries would be as follow :—

JOURNAL, 1920.

30th September	£	s	d	£	s	d
Realisation Account	162,000	0	0			
To Property	..			150,000	0	0
,, Machinery and Plant	..			12,000	0	0
"C" Company	130,000	0	0			
To Realisation Account	..			130,000	0	0
Realisation Account	5,000	0	0			
To Liquidation Costs	..			5,000	0	0
Profit and Loss Account	37,000	0	0			
To Realisation Account	..			37,000	0	0
Cash	30,000	0	0			
Shares in " C " Company (120,000 of £1 each, 16s. 8d. per Share paid)	100,000	0	0			
To "C" Company	..			130,000	0	0
Creditors	25,000	0	0			
Liquidation Costs	5,000	0	0			
To Cash	..			30,000	0	0
Capital Account	100,000	0	0			
To Profit and Loss Account	..			100,000	0	0
Capital Account	100,000	0	0			
To Shares in " C " Company .. .. (Being a distribution at the rate of 3 " C " Shares (16s. 8d. per Share paid up) for each 5 Shares held in the " B " Company)	..			100,000	0	0

(*b*) The opening entries in "C" Company's Journal are as follow:—

JOURNAL, 1920.

30th September	£ s d	£ s d
Property Account ..	113,000 0 0	
Machinery and Stores ..	12,000 0 0	
Preliminary Expenses ..	5,000 0 0	
To Liquidator of "B" Company ..	..	130,000 0 0
Liquidator of "B" Company ..	130,000 0 0	
To Cash ..	.	30,000 0 0
" Share Capital Account (120,000 Shares of £1 each, issued with 16s. 8d. per Share paid up, as per contract dated—1920, adopted—1920, filed—1920) ..	..	100,000 0 0

Assuming that the "C" Company has issued the remainder of its Capital (say 30,000 Shares) for cash, and that all Shares are fully paid up, the Balance Sheet of the "C" Company will appear as follows:—

BALANCE SHEET, 1st October 1920.

Liabilities	£ s d	*Assets*	£ s d
Share Capital:—		Property (at cost) ..	113,000 0 0
150,000 Shares of £1 each fully paid . .	£150,000 0 0	Machinery and Stores ..	12,000 0 0
		Cash ..	20,000 0 0
		Preliminary Expenses ..	5,000 0 0
	£150,000 0 0		£150,000 0 0

NOTES.—(a) *The purchase price is £130,000 payable in Cash and Shares; as the Shares are only partly paid up the number issued is increased proportionately.* (b) *It is assumed* (1) *that the Machinery and Stores are worth their book value, otherwise the cost of the property would be increased pro rata;* (2) *That the "B" Company has paid the costs of registering the "C" Company, in which case the £5,000 is best treated as Preliminary Expenses; it might, however, be added to the cost of property instead.*

"ABSORPTIONS."

Where an undertaking as a whole is sold to an already existing Company, the closing of the Vendor Company's accounts is upon the same lines as in a Reconstruction, while the opening entries in the Purchasing Company's accounts involve no new principle. A practical variation, however, arises in that as a rule the business that is being bought and sold is a valuable one, so that instead of the transactions resulting in a loss to the Shareholders of the Vendor Company there is usually a profit. Such profit may arise from any one of the following causes, or from all:—

(*a*) From the price paid for Goodwill being in excess of the amount (if any) at which that item stands in the books of the Vendor Company.

(*b*) From the fact that Reserves which the Vendor Company has in the past thought it prudent to maintain need no longer be regarded as liabilities in the accounts.

(*c*) From the fact that the intrinsic value of the shares received in payment (or part payment) of the purchase-price is in excess of their nominal value.

Per contra the entries in the books of the Purchasing Company recording the purchase may require any (or all) of the following points to be borne in mind :—

(*a*) The purchase-price paid may exceed the value of the tangible assets acquired (or the excess of such tangible assets over the liabilities taken over).

(*b*) It is necessary that at all events the floating assets taken over should not be entered in the books at a figure in excess of their actual value.

(*c*) The Shares of the Purchasing Company may be issued at a premium, or (in fact) at a discount.

A careful study of the following example will enable the proper treatment in connection with all these various points to be traced. It only remains to be stated that unless the contract of sale expressly states that the Purchasing Company takes over the liabilities of the Vendor Company, these liabilities must be paid by the latter ; but where property passing is specifically charged with the repayment of certain liabilities, it can only be conveyed subject to the charge, so that in such cases the liability would have to be taken over, unless special arrangements were made for its redemption.

PROBLEM.—The Rufus Iron and Steel Company, Lim., of Birmingham, is purchased or absorbed by the Blackrod Iron and Steel Company, Lim., of Darlington, on 31st December 1920, and is afterwards carried on as a Branch Works only. The consideration for the purchase or absorption is the discharge of the Debenture Debt at a premium of 10 per cent. and a payment in cash of £7 10s., and the exchange of three £1 Shares in the Blackrod Company, of the market value of £2 10s. per Share for every Share in the Rufus Company.

The following is the Balance Sheet of the Rufus Company when taken over :—

BALANCE SHEET, 31st December 1920.

Liabilities	£	*Assets*	£
Capital—60,000 £10 Shares fully paid	600,000	Land and Buildings	189,885
Debenture Stock	280,000	Plant and Machinery, &c.	435,492
Sundry Creditors	39,754	Patterns and Drawings	5,000
Workmen's Savings Bank	21,205	Patents	9,577
Insurance Fund	10,000	Work in Progress and Stocks on hand	211,452
Reserve Fund	65,000	Furniture and Fittings	1,444
Revenue Balance	5,662	Cash in hand	120
		Cash at Bankers	77,396
		Sundry Debtors	91,255
	£1,021,621		£1,021,621

(*a*) Make the necessary closing entries in the books of the Rufus Company.

(*b*) Open the books of the Blackrod Company, so far as they relate to these transactions.

(A) JOURNAL, 1920.

31st December	£ s d	£ s d
Realisation Account ..	1,021,621 0 0	
To Sundry Assets (specified)	..	1,021,621 0 0
Cash ..	758,000 0 0	
Shares in Blackrod Co. (180,000 Shares of £1 each, fully paid, valued at 50s. per Share)	450,000 0 0	
To Realisation Account	..	1,208,000 0 0
Realisation Account ..	28,000 0 0	
To Debentures (premium on redemption) ..	..	28,000 0 0
Insurance Fund ..	10,000 0 0	
Reserve Fund ..	65,000 0 0	
Revenue Balance ..	5,662 0 0	
To Realisation Account	..	80,662 0 0
Debentures ..	308,000 0 0	
To Cash ..	..	308,000 0 0
Sundry Creditors ..	39,754 0 0	
Workmen's Savings Bank	21,205 0 0	
To Cash ..		60,959 0 0
Share Capital ..	600,000 0 0	
Realisation Account ..	239,041 0 0	
To Cash	..	389,041 0 0
„ Shares in Blackrod Co. (being a distribution of 12s. 11¾d. (nearly) in the £ in cash, and 15s. in the £ in Shares of the Blackrod Co.)	..	450,000 0 0

(B) JOURNAL, 1920.

31st December	£ s d	£ s d
Land and Buildings ..	189,885 0 0	
Plant & Machinery, &c. ..	435,492 0 0	
Patterns and Drawings ..	5,000 0 0	
Patents ..	9,577 0 0	
Work in Progress and Stocks on hand ..	211,452 0 0	
Furniture and Fittings ..	1,444 0 0	
Cash in hand ..	120 0 0	
Cash at Bank ..	77,396 0 0	
Sundry Debtors ..	91,255 0 0	
To Liquidator of Rufus Company ..	..	1,021,621 0 0
Liquidator of Rufus Company ..	1,021,621 0 0	
To Cash (for Debenture Debt) ..	..	308,000 0 0
„ Do. ..	..	450,000 0 0
„ Share Capital A/c (180,000 Shares of £1 each, issued as fully paid as per contract dated ———, *vide* Minute No.) ..	..	180,000 0 0
„ Premium on Issue of Shares (being excess of value of Assets acquired over cash and nominal value of Shares issued) ..	..	83,621 0 0

NOTES.—In the books of the Vendor Company it is best to take the Blackrod Shares at their market value. The accounts then give a fair idea of the effect of the transaction, which has (presumably) been carried through on the assumption that the Goodwill of the Vendor Company is worth £186,379; this, added to the Revenue balance and Reserves, gives a total profit to date of £267,041, of which the debenture-holders take £28,000, leaving £239,041 for the shareholders. In the books of the Purchasing Company, on the other hand, the Company's own Shares can only be regarded as of par value. It appears that the property acquired is worth £83,621 more than the nominal value of the Shares and the Cash paid for it—the difference is the amount of premium actually realised on the issue. Another way of treating the matter would be to raise a Goodwill Account for £186,379, which would raise the premium on the issue to £270,000 = 30s. per Share on 180,000 Shares: as, however, the balance on Premium Account would probably be at once applied towards writing off the Goodwill Account, the first-named method seems simpler.

AMALGAMATIONS.

It is, perhaps, unnecessary to point out that the closing entries in the Vendor's books are not affected by any consideration as to the exact constitution of the Purchasing Company, while the mere fact that the latter may arrange to acquire simultaneously the undertakings of two or more different Companies presents no new difficulty, in that the opening entries in respect of each purchase will, of course, have to be kept entirely distinct. It remains, however, to consider the most convenient method of arranging the terms under which two separate Companies shall amalgamate their resources.

In practice, complications sometimes arise in the adjustment of these amounts, owing to the amalgamations being the result of a bargain that has not taken into consideration any detailed examination of their respective positions, although in opening the books of the new Company such detailed investigation is essential. What is meant here will perhaps be best understood by considering in detail the following example:

PROBLEM.—Two Mining Companies agree to amalgamate upon the basis that the value of their respective assets shall be taken at the figures appearing in the books. State what you think would be the best way of carrying out the amalgamation, the two Balance Sheets being as follows:

"A" COMPANY, LIM.—BALANCE SHEET

Liabilities	£	s	d	*Assets*	£	s	d
Capital, 100,000 Shares of £10 each	100,000	0	0	Property Account	95,000	0	0
Creditors	2,500	0	0	Debtors	3,000	0	0
Reserve Fund	20,000	0	0	Bullion in Transit	10,000	0	0
Profit and Loss Account	5,000	0	0	Cash	19,500	0	0
	£127,500	0	0		£127,500	0	0

"B" COMPANY, LIM.—BALANCE SHEET.

Liabilities	£	s	d	*Assets*	£	s	d
Capital, 50,000 Shares of £2 each	100,000	0	0	Property Account	80,000	0	0
Creditors	1,000	0	0	Debtors	2,000	0	0
Profit and Loss Account	20,000	0	0	Consols	25,000	0	0
				Cash	14,000	0	0
	£121,000	0	0		£121,000	0	0

Show the Balance Sheet of the new Company.

In the above example, the problem has been intentionally simplified by the assumption that the book-values of the various assets and liabilities have been admitted. If they had not been admitted, it would have been necessary to prepare revised Balance Sheets setting forth the actual figures and adjusting the balance of undivided profit (or loss, as the case may be) accordingly. Again, had the basis of valuation been that the properties of both Companies were assumed to be of equal value, then either the undivided profits of the "A" Company must have been written down £15,000 or the undivided profits of the "B" Company written *up* by that amount. All necessary adjustments having been made, the next point is to equalise the position, as between the two sets of shareholders, so that the percentage of undivided profits (including Reserves) to Capital, may be the same in respect of both Companies. In the instance cited above it will be seen that this adjustment requires £5,000 in cash to be distributed among the shareholders of the "A" Company, or else £5,000 in cash to be contributed by the shareholders of the "B" Company. It will depend upon the available resources which course it is thought best to adopt. The following Balance Sheet

shows the position of the amalgamated Company upon the assumption that the amalgamation has been carried through on the basis of first making a return of 5 per cent. to the shareholders of "A" Company, and then issuing six fully paid shares in the new Company to each holder of five shares in the "A" Company, and twelve shares in the new Company to each holder of five shares in the "B" Company. There being an ample cash balance, it has been assumed that the creditors' claims have been paid off, and the Balance Sheet then stands as follows:—

A. & B. UNITED, LIM BALANCE SHEET.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
Nominal Capital, 240,000 Shares of £1 each	£240,000 0 0		Property Account		175,000 0 0
			Debtors ..		5,000 0 0
			Bullion in Transit		10,000 0 0
			Consols ..		25,000 0 0
Capital Subscribed (240,000 Shares, fully paid up) . . .		240,000 0 0	Cash		25,000 0 0
		£240,000 0 0			£240,000 0 0

In practice, the terms of an amalgamation are frequently settled the other way round. That is to say, instead of any detailed valuation of the assets and liabilities being agreed upon, the intrinsic value of the *shares* in the Vendor Companies is agreed, and it is left for the amalgamating Company to adjust the details. When this course is pursued, it is necessary to proceed upon the assumption that the Capital *plus* undivided Profits (including Reserves) of a Company are in fact at all times equal to the aggregate market value of its shares. Thus, if the shares of a Company stand at 1¼, the undivided Profits (including Reserve Fund, if any) must be assumed to be equal to one-fourth of its paid-up Capital, and an adjusted Balance Sheet compiled upon this assumption. Liabilities and floating assets would appear on this Balance Sheet at their actual value, and the difference would be assumed to be the value of the fixed assets, the Goodwill in the case of an industrial or trading concern being the item usually left to bear all necessary adjustments.

FRACTIONS OF SHARES.

Wherever distributions of shares are made, the difficulty will always arise in practice that an exact distribution generally requires fractions of shares to be distributed In practice this difficulty is got over by setting upon one side the total number of shares which these fractions represent, realising them to the best advantage, and distributing the proceeds among the various parties in accordance with their respective rights.

To take a very simple case:—Supposing it appears that 50 shareholders are each entitled to half a share, then there are 25 shares over that cannot be specifically allotted. If these 25 shares realised £10, each of the 50 shareholders would receive four shillings as representing the cash value of his half-share. Occasionally fractional share certificates are issued; but it is doubtful whether this is any advantage to the holder, as such certificates are usually quite unmarketable.

CHAPTER XVI.

FALSIFIED ACCOUNTS.

IN the present chapter it is proposed to consider errors of all kinds in accounts which have been made deliberately with the intention of misrepresenting the actual position of affairs. The usual object of such falsification is to conceal the fact that there has been an actual misappropriation of property belonging to the undertaking, but this is by no means necessarily the only motive. Cases sometimes arise in which the accounts have been falsified merely with a view to misrepresenting the actual profits made. Again, falsification is, as a rule, employed in connection with the record of cash, but not by any means necessarily. If, therefore, it is desired to guard against, or detect, falsification, the matter must be viewed from a broad and comprehensive standpoint.

MISREPRESENTATION OF PROFITS.

Taking first of all the more unusual cases of falsification *not* employed as a cloak to conceal misappropriation, the commonest motives are—

(1) On the part of a vendor to overstate the profits of the undertaking to an intending purchaser;

(2) On the part of an intending purchaser, who has previously had charge of the books, to understate the profits of the undertaking he is about to acquire;

(3) On the part of a manager whose commission, or whose appointment, is dependent upon a certain standard of results, with a view to securing a continuance, or improvement, of his present position.

Taking each of these cases separately, the first may be more conveniently considered under the heading of "The Criticism of Accounts" (*vide* Chap. XXII); the second is of very common occurrence, although as a rule within somewhat narrow limits, but as it raises no special points it may be dismissed with the caution that the proprietor of a business should never think of selling it on the basis of accounts that have been prepared by—or exclusively in the interest of—the intending purchaser.

The third class named above calls for more careful consideration on account of its importance, and the variety of manners in which the falsification may be accomplished. Speaking generally, it may be stated, as being part of an effective system of internal check (*vide* Chap. III), that no employee whose remuneration is based upon results should be allowed in any way to control the record of those results in the books. This applies whether the basis of remuneration be a commission on sales, a commission on cash received, a commission on net profits, or upon any other class of transactions or results. It is clear that in such cases the employee is so directly interested that an effective system of control, and of internal check, requires the record of these figures to be entirely independent of the person whom they so directly affect. In most business houses this point is duly appreciated at its full value, and as a rule, therefore, falsifications of this description do not arise in practice; but when the employee's remuneration is not in any way based upon results, there is a tendency to lose sight of the fact that he is still interested in those results proving favourable—first, because he may reasonably expect an increased remuneration if the business progresses; and, secondly, because if the business be found to be unprofitable, or otherwise unsatisfactory, there is at all events a risk of his services being dispensed with altogether. Under these circumstances, it is especially important that adequate precautions should be taken, partly because it would often be extremely difficult to prove fraudulent intent in connection with such cases (while immunity from a criminal prosecution must at all times remove a very effective automatic safeguard), but more particularly because many persons who would under no circumstances think of applying directly to their own use moneys belonging to their employers, would not scruple to misrepresent the position of affairs in order to avoid unpleasant consequences. Such misrepresentation may be absolute and deliberate, or it may merely arise through undue optimism (which is frequently another name for incompetence); but whatever the actual cause, the result must in all cases be unsatisfactory from the employer's point of view. A typical example of falsification, arising possibly from undue optimism, is when the manager of a trading department values his stock-in-trade at balancing time at too high a figure; either because he is incompetent to estimate its true worth, or because, knowing the results of the past period have been somewhat unsatisfactory, he desires to carry forward a certain portion of the loss, and bring it in to the next period. This latter form of falsification is only one step removed from the form of fraud which suppresses unpaid invoices, and thereby allows goods to be taken into stock as assets without their cost price being credited in the Bought Ledger; but to a certain extent even this will be found to be a not altogether uncommon practice on the part of those whose honesty in other matters is unimpeachable. From one point of view, the practice of over-valuing stock-in-trade with a view to throwing losses into the next ensuing period is, of course, on a par with debiting losses, or unprofitable expenditure, to a Suspense Account, to be written over a term of years; but there is this essential difference between the two, that whereas employees when valuing the stock-in-trade are required to confine themselves strictly to the point of issue, directors and proprietors when finally settling draft accounts are reasonably entitled to look at the matter from every available standpoint.

FALSIFIED COST ACCOUNTS.

Another typical form of falsification that comes under this head, and is very difficult of detection, may occur when the manager of a manufacturing or contracting firm is responsible for its profit-earning capacity. Upon such manager must necessarily devolve the task of computing the cost of the work in progress, and as a rule it is difficult—if not impossible—to verify the manager's calculations exhaustively. If, under these circumstances, it should transpire that there has been a loss upon certain work completed during the period under review, there may be a danger of the loss being transferred to work in progress, and thus carried forward. A somewhat notorious case of this kind was brought to light some years since in connection with the accounts of an important local authority. It was there found that such a system had been systematically carried on for a number of years, with the result that whereas each contract completed showed satisfactory results, much of the cost of the completed contracts had in point of fact been debited to those which from time to time remained uncompleted. This kind of falsification is rendered the more easy, because the records, upon the value of which work in progress is based, often form no part of the financial books. This emphasises the importance of all statistical records, that it is thought worth while to keep at all, being kept with the same care, and checked with the same amount of accuracy and systematisation, as the financial records themselves. The importance of this precaution is emphasised by the circumstance that whereas any material falsification of the financial accounts is usually impossible without fraudulent collusion, it is often by no means a difficult matter to get statistical records passed and signed for by persons who, however careless, have no idea that they are lending themselves to the concealment of a fraud. For example a foreman who would on no account allow Plant to go out of his yard without a proper authority might quite conceivably—whether through carelessness or for some other reason—sign vouchers that Plant had been forwarded to one contract, when in point of fact it had been forwarded to another. Such differentiations are somewhat difficult of comprehension to those who are trained in accounts, and realise the importance of accuracy at all points, but the fact remains that falsifications of this kind are far more common than is generally supposed. And even when they are discovered, their reprehensible nature is but rarely duly appreciated, the general view being that the whole matter is a somewhat complicated "question of accounts," upon which those who are not experts might easily make mistakes without being in any way culpable.

That the exact nature of the class of falsification here referred to may be clearly understood, the following example is appended. The group of accounts given first, and marked "A," are supposed to indicate the true position of affairs; while the second group, marked "B," shows how the true position may be obscured by the passing of improper entries, which in the absence of careful supervision might easily remain undetected.

EXAMPLE "A":

Dr. CONTRACT No. 1. *Cr.*

		£ s d			£ s d
1920	To Wages	3,172 0 0	1920	By Contract Price	6,000 0 0
	„ Materials and Plant issued	3,400 0 0		„ Materials and Plant returned	160 0 0
				„ Loss	412 0 0
		£6,572 0 0			£6,572 0 0

Dr. CONTRACT No. 2. **Cr**

		£	s	d			£	s	d
1920	To Wages	1,620	0	0	1920	By Balance down	3,691	0	0
	„ Materials and Plant issued ..	2,071	0	0					
		£3,691	0	0			£3,691	0	0
1921	To Balance down	3,691	0	0	1921	By Contract Price	6,150	0	0
	„ Wages	1,848	0	0		„ Materials and Plant returned ..	307	0	0
	„ Materials and Plant issued .. .	975	0	0		„ Loss	57	0	0
		£6,514	0	0			£6,514	0	0

Dr CONTRACT No 3 **Cr**

		£	s	d			£	s	d
1921	To Wages	813	0	0	1921	By Balance down .	2,285	0	0
	„ Materials and Plant issued . ..	1,472	0	0					
		£2,285	0	0			£2,285	0	0
1922	To Balance down	2,285	0	0					

EXAMPLE "B":

Dr. CONTRACT No 1. **Cr.**

		£	s	d			£	s	d
1920	To Wages .	3,172	0	0	1920	By Contract Price	6,000	0	0
	„ Materials and Plant issued	3,400	0	0		„ Materials and Plant returned .	700	0	0
	„ Profit ..	188	0	0					
		£6,760	0	0			£6,760	0	0

Dr. CONTRACT No 2 **Cr**

		£	s	d			£	s	d
1920	To Wages	1,620	0	0	1920	By Balance down	4,291	0	0
	„ Materials and Plant issued .	2,671	0	0					
		£4,291	0	0			£4,291	0	0
1921	To Balance down . .	4,291	0	0	1921	By Contract Price .	6,150	0	0
	„ Wages .. .	1,848	0	0		„ Materials and Plant returned ..	1,007	0	0
	„ Materials and Plant issued	975	0	0					
	„ Profit	43	0	0					
		£7,157	0	0			£7,157	0	0

Dr. CONTRACT No. 3. **Cr.**

		£	s	d			£	s	d
1921	To Wages	813	9	0	1921	By Balance down	2,985	0	0
	„ Materials and Plant issued	2,172	0	0					
		£2,985	0	0			£2,985	0	0
1922	To Balance down	2,985	0	0					

NOTE.—The above example shows falsification by over-crediting Contracts completed for the value of Materials and Plant returned, a corresponding sum being debited to Work in Progress. The like result might be achieved by debiting Cost to the wrong account.

FALSIFICATIONS BY DIRECTORS.

So far as the possibilities of fraud on the part of ordinary employees have alone been considered; but, in connection with the accounts of Companies, it is important to bear in mind that the position of a Managing Director, and sometimes even of a Board of Directors, is somewhat analogous to that of the manager of a private undertaking. The continuance of a Director's appointment is—to some extent, at least—dependent upon the continued profit-earning capacity of the undertaking; if, therefore, there is a falling off in profits, there is a possibility that a tendency may arise to strain points in connection with accounts, with a view to making the apparent profits larger than the real profits. Within limits, this tendency may be permissible, for it is the recognised custom in the case of sound business undertakings somewhat to over-estimate such items as provision for Bad Debts, and the like, in profitable years, with a view to creating a Secret Reserve available in times of need. When, therefore, the need arises, it is perfectly legitimate to fall back upon any Secret Reserve that may be in existence. In practice, the only way of having recourse to a Secret Reserve is to under-estimate the expenses (or losses) for the current period; and so long as they are not so greatly under-estimated as to turn the Secret Reserve into a minus quantity, this course is permissible on the part of directors, although it would not be permissible on the part of subordinates.

DEFALCATIONS.

Turning now to the more direct forms of falsification, which have for their object the concealment of actual misappropriation, the nature of these false entries will (as might be expected) depend largely upon the exact form of misappropriation. As a rule, the misappropriation will take the form of money, but not necessarily, and it is important to bear in mind that an exhaustive check upon all receipts and payments is not always sufficient to afford an effective safeguard against all possible misappropriations. Taking, however, misappropriation of money first, these may take the form either of suppressing receipts, or of creating fictitious payments. With a proper system of internal check, coupled to an adequate system of bookkeeping by double-entry with self-balancing Ledgers, the suppression of cash received cannot reach serious proportions without detection. So far as Sold Ledger Accounts are concerned, if the various Sold Ledgers are regularly balanced and independently checked, and if the Sold Ledger clerks have not the handling of the Sold Ledger cash, there is little or no risk of any peculation under this heading. So far as Cash Sales are concerned, it is usually practicable to devise a system which will render impossible the abstraction of moneys received under this heading without considerable collusion on the part of the employees. The risk of fraud in this direction is thus, as a rule, limited to unusual receipts on the one hand, or, on the other hand, to comparatively small undertakings which do not employ a sufficient staff to enable an effective system of internal check to be organised. In both these cases the best, and perhaps the only effective, safeguard is for the principal in the case of a private concern, or the secretary (or managing director) in the case of a company, himself to devote sufficient personal time to the matter to enable him, in conjunction with the professional auditors, to establish a complete system of check in all departments. It may be mentioned in passing, however, that serious frauds by way of omitting to account for cash received rarely occur, save when the system of accounting employed is quite primitive. If the books be kept by single-entry, there is undoubtedly a somewhat serious risk that such omissions may remain undetected, for under such circumstances it is impossible to apply the check of balancing the Ledgers, either separately or collectively, and consequently moneys received from customers, but misappropriated, may quite conceivably be credited to the customers' accounts without being debited to Cash.

FICTITIOUS PAYMENTS.

Misappropriations by the creation of fictitious payments may, in the first place, be rendered extremely difficult by the adoption of a hard and fast rule that all payments, other than by Petty Cash, must be made by cheque, the person signing the cheques being responsible that the account is actually due, and that the cheque is so drawn as to ensure (so far as possible) its being cashed only by the persons entitled to it. "Bearer" cheques and "open" cheques should never be drawn without a sufficient explanation being obtained as to why this exceptional form of payment is necessary, and as an additional safeguard all "crossed cheques" should be marked "not negotiable"; and, if for large sums, they should, wherever practicable, be crossed "specially" to the bank of the payee. There should be a regular system in force for passing accounts for payment, rendering at least two persons responsible for the fact that the goods have been received, or the work performed, in respect of which payment is to be made, and at least two members of the counting-house staff should be made responsible for the arithmetical accuracy of the account, and for the fact that the cheque put forward for signature agrees with the corresponding personal account in the Bought Ledger. A cheque should never be signed without these precautions being adopted, and (save under exceptional circumstances) it ought to be possible to produce to the persons who are called upon to sign cheques accounts from the various creditors, showing that the amounts of such cheques are actually claimed by them respectively. If these precautions be adopted, the creation of fictitious payment is practically impossible, but with some undertakings such formalities could not be carried out in their entirety. For example, Banks have to pay large sums in cash, and it is not practicable for them to do so on anything better than the security of one cashier. Bank frauds are, however, of somewhat rare occurrence, and as all Bank employees are required to give guarantees for comparatively large sums, the risks incurred by a Bank that works upon a reasonable system of internal check are not serious. Some few years since, however, a somewhat notorious case occurred in which a Bank lost large sums of money through the dishonesty of a clerk who was *not* entrusted with the handling of any moneys or securities. This particular case is thus useful, as showing that it is not merely cashiers whom it is important to supervise. Here a clerk in charge of a Customers' Ledger forged cheques for large amounts in the name of one of the customers, which were duly paid through the Clearing House, but never debited by him to the account of the customer. The continuance of these frauds was, however, only rendered possible by the omission to provide some of the most usual and obvious safeguards. In the first place, the delinquent remained in undivided control of the same Customers' Ledger over an extended period, whereas an obvious precaution is continually to change the work devolving upon each of the various members of the staff; and, in the second place, he was, it appears, able to conceal the fact that his Ledger did not balance by making entries in a Journal which was not under his keeping, whereas every effective system should distinctly allocate the various books among the different members of the staff—not merely making each responsible for his own books, but also making it an invariable rule that *no one else* shall make any entries in those books. A clerk in charge of any book of account, whether a Cash Book, Journal, or Ledger, should be made responsible for the accuracy of that book as a whole, and also for every entry made therein. In the case of a Journal particularly it is difficult to understand how fraudulent and improper entries could have been made from time to time without it being someone's business to verify those entries as being proper and duly authorised.

Fraudulent misappropriations are capable of being divided into classes upon yet another basis, and an examination of them from this new point of view will probably be found helpful. The actual misappropriation of assets, whether cash or otherwise, directly results in a corresponding amount of loss to the undertaking. When, therefore, the books come to be balanced, that loss must either fall against Revenue or be taken into the Balance Sheet. If it falls against Revenue, the Net Profits will be reduced to a corresponding extent; accordingly, there is a distinct limit, beyond which misappropriations cannot be carried without their effect upon the profits being apparent. Consequently one frequently finds in practice that fraudulent entries are made in the books, with a view to concealing the loss by taking it into the Balance Sheet instead of into the Profit and Loss Account; that is to say, by some false entry the book value of the assets brought into the Balance Sheet is shown at a figure in excess of their proper valuation. A detailed examination of all the assets brought into the Balance Sheet would invariably result in the detection of such false entries. It is not always possible for such a detailed examination to be made by the professional auditors in the case of large concerns, but where—owing to the magnitude of the undertaking—it is unreasonable to expect so much to be done by the professional auditors, the bookkeeping staff can—with a reasonable amount of intelligent organisation—be so employed as to enable the various Ledger Accounts purporting to represent assets to be verified in the utmost detail.

THEFTS OF STOCK, &c.

Passing on to the forms of misappropriation other than of cash, the most common of these is a theft of Stock-in-Trade, or Raw Materials, including Loose Tools. Unless the Stock-in-Trade be possessed of considerable intrinsic value, detailed Stock Accounts cannot often be kept, and under such circumstances the only precautions that it is possible to adopt against this form of fraud are a careful actual inspection at frequent intervals by departmental managers, and the test which the periodical accounts afford of the percentage of gross profit actually realised, as compared with the percentage that might fairly be expected. It is not usually possible to go further in this direction than to hold the head of the department responsible for a certain percentage of gross profit, leaving him to bear the blame if that percentage be not realised either through careless buying or leakage. In the same way, with regard to Materials and Tools, foremen and heads of departments can (if they be competent) reduce the risk of losses under these headings to a minimum : if, therefore, competent persons be employed, and they be held responsible for the results that they achieve, it is probable that those results will be quite as satisfactory as though the most complete system of Stock Accounts were devised and carried out in actual practice. As a rule, however, Stores Accounts should be kept, to assist the persons held responsible in their supervision ; and in the case of really valuable stocks (as, for example, jewellery), complete Stock Accounts are, of course, absolutely essential.

Further, and more detailed, information on this interesting subject will be found in a handbook entitled "FRAUD IN ACCOUNTS," which forms Vol. XXX of "The Accountants' Library" series (published by Gee & Co.).

CHAPTER XVII.

DEPRECIATION, RESERVES, RESERVE FUNDS, AND SINKING FUNDS.

IN the present chapter it is proposed to consider those provisions which are regarded by all prudent business men as being essential to the continued prosperity of an undertaking, but which do not arise as a necessary record of actual tangible transactions that have taken place. For the most part, these provisions are necessitated by an alteration of circumstances, which—from one point of view at least—might be regarded as an actual " transaction " calling for a proper record in the usual way. They differ, however, in that the money value of the transaction must at all times be estimated, its exact amount never being capable of absolute determination in advance. The money value attached to the record must thus of necessity be a matter of opinion, rather than a matter of absolute fact. For this reason, doubtless, many misapprehensions are rife as to the true significance of these " transactions," and the proper method of recording them in accounts.

DEPRECIATION.

In order to place any business undertaking in such a position that it may be regarded (so far as is humanly possible) as permanent, and able for an indefinite period to continue earning Revenue, it is necessary—as has already been explained in Chapter II—to provide from time to time for the maintenance of the Fixed Assets comprised therein, and for their renewal out of Revenue as and when such renewal is required by the circumstances of the case. In the meanwhile repairs and partial renewals will in most cases be required in addition. The necessity for these latter, however, is but rarely overlooked, and attention may therefore profitably be concentrated upon that heavy expenditure which from time to time becomes necessary, when further tinkering with, and repairing of, an asset becomes impracticable, and the occasion arises to replace it entirely by another of similar description. The term " similar " is employed advisedly, for, in the nature of things, with the normal progress of science and invention, it is usually desirable, when the time comes to replace a worn-out asset, to replace it not by another of identical description, but by one of improved form, designed better to carry out a similar class of work. It need hardly be added that in some industries the evolution of the most approved designs is far more rapid than in others.

From what has been stated, it will be seen that, over an indefinitely long period, the actual *cash* expended to repair, partially renew, and eventually replace, assets as they become worn out (such as is necessary to maintain the undertaking as a whole), will, in a sense, cover such provision as may be necessary for Depreciation ; but that at no moment of time, after a concern has once been started in going order, will the actual expenditure that can usefully have been made in this direction cover the actual shrinkage in value arising from wear and tear, the lapse of time, and the progress of modern invention. In the case of any single asset the total expenditure incurred up to the time that it is cast aside as useless, and replaced by another of a similar description (including, of course, the original cost of that asset), will be the cost chargeable against Revenue for Maintenance—a comprehensive term which includes Depreciation. But taken as a whole, inasmuch as all of the assets comprised in any given undertaking will naturally not all wear out at once, the actual expenditure that can usefully be incurred will never be sufficient to cover the amount properly chargeable against Revenue under this heading. Consequently, for this reason if for none other, it is necessary, in addition to charging actual expenditure upon repairs and replacements to Revenue, to charge against the Revenue Account of each year a further sum, with a view (as far as possible) to averaging the expenditure on Revenue Account over a long term of years; and that provision, which it is so necessary to charge, is usually called by the name of "Depreciation."

The essential factors to be borne in mind when making provision for Depreciation are:

(*a*) That during the life of an asset its original cost (*plus* all expenditure incurred in keeping it going, *minus* its residual value) is a charge against Revenue;

(*b*) That, in order to state as accurately as possible the net profit earned in each year during the period covered by the life of such asset (and also the working costs) it is important that the aggregate charge for repairs and maintenance (including Depreciation) be spread over those years in the fairest possible manner.

In practice there are several different methods of apportioning these charges from year to year:—

(1) Charging each year with the actual cost of repairs and small renewals, and an equal fraction of the original cost of the asset.

(2) Charging each year with the actual cost of repairs and small renewals, and, in addition, with a sum for Depreciation, arrived at by way of a percentage on the reducing annual balance of the Asset Account, the percentage being calculated at such rate as to reduce the asset to its then actual realisable value by the time that it becomes useless for revenue-earning purposes.

By this means, the direct charge for Depreciation becomes gradually reduced from year to year, and thus affords a rough sort of compensation for the facts (*a*) that repairs and partial renewals will probably steadily increase, (*b*) that the earning capacity of the asset will also probably decrease as it becomes older. On the other hand, it necessarily involves a somewhat heavy charge against the earlier years.

(3) By estimating in advance the total sum that will be chargeable against Revenue during the life of the asset in respect of repairs, partial renewals, and original cost, and charging each year with an equal fraction of such total.

This method has the advantage of "levelling up" the charges against Revenue in respect of repairs and small renewals better than either of the two preceding; but, inasmuch as it is based more than either of these upon estimates, it can in practice only be adopted with caution, save in cases where the experience of the past affords a really reliable indication as to the future.

(4) By charging Revenue with such a sum as will, at the expiration of the life of the asset, write off the original cost thereof, *plus* interest on the capital from time to time invested therein.

When the asset has more than a few years' life, this factor of interest is one that, in strictness, ought never to be lost sight of; but in practice it is not as a rule thought necessary to take interest into consideration, save in connection with Leases, where (as has already been explained on page 13) the question must of necessity be taken into account in order that each year's Revenue Account may be charged with the proper sum for the *use* of the premises occupied.

(5) By charging to Revenue in each year such a sum as represents the difference between the book value of the asset and its actual value at the present time, as ascertained by a revaluation made by an expert valuer.

This last method, while theoretically the most perfect, as enabling the assets to be brought into the Balance Sheet on a more theoretically correct basis of valuation, is as a rule very defective in practice, on account of the uneven sums that it charges against Revenue from year to year in respect of practically identical services rendered to Revenue by the assets in question. As an occasional check upon the rate of Depreciation employed it is, however, extremely useful.

(6) By creating a Sinking Fund to provide for the Renewal of the asset at the expiration of its estimated life, the annual instalments of such Sinking Fund being charged against Revenue, along with either the actual or average expenditure upon repairs and small renewals.

The Sinking Fund method may be employed as supplemental to any of the previously named methods of providing for Depreciation, and in general it is desirable that this systematic means of providing an available sum of *money* to meet the cost of renewals should be employed, unless the actual expenditure that can be incurred usefully in each year on renewals is approximately uniform. The effect of charging against Revenue a provision for Depreciation is to retain in the business a corresponding amount of assets; that is to say, floating assets are increased to an extent corresponding with the estimated decrease in the value of fixed assets. There is a risk that, if not specially allocated, these floating assets may eventually get locked up so as to be not readily available for purposes of renewal when the proper time arrives, hence the convenience of Sinking Funds. Very commonly, however, when the Sinking Fund system is employed the procedure is simplified, the asset being allowed to stand in the books at its original cost, and the credit balance on Sinking Fund Account appearing as a separate item on the liabilities' side of the Balance Sheet as "Reserve for Depreciation." When the asset is "scrapped" the balance on the Asset Account is set off against the balance on the Reserve (Sinking Fund) Account, any deficiency being, of course, at once written off against Revenue, while the Sinking Fund investments are realised and provide the wherewithal for the purchase of new assets in place of the old ones. An alternative (and perhaps better) method is to state the assets in the Balance Sheet during the continuance of their life, subject to deduction therefrom of the balance from time to time appearing to the credit of the Sinking Fund Account, instead of showing the latter as a liability.

When the annual instalments in respect of Sinking Fund are not large, it will often be found more economical in the long run to take out a Sinking Fund Policy, or Policy of Leasehold Assurance, with one of the leading insurance companies, as by that means the existence of an exact sum at a given future date can be absolutely assured; whereas it is impossible to foresee the fluctuations that may take place in the market value of Sinking Fund investments, even if it were possible to determine in advance the exact rate of compound interest which the Sinking Fund instalments could be relied upon to yield in practice.

The application of the above-mentioned six methods of making provision for the depreciation of assets is well shown by the following:—

PROBLEM.—Show the different means by which provision may be made for charging against Revenue the cost of an asset having an estimated life of five years, the original cost being £1,000; assuming, further, that it is estimated that during the five years the expenditure on Repairs and small Renewals will be £120, the actual expenditure being subsequently ascertained to be as follows:—First year, nil; second year, £10; third year, £20; fourth year, £60; fifth year, £40.

METHOD I.—Under this method the asset is written-off out of Revenue by equal instalments of £200 per annum. The cost of Repairs, &c., is also debited to Revenue as incurred, so that the total charges to Revenue are:—

1916	£200 0 0	
1917	210 0 0	
1918	220 0 0	
1919	260 0 0	
1920	240 0 0	
Total		£1,130 0 0

METHOD II.—Under this method it is necessary to charge Depreciation at the rate of (say) 50 per cent. per annum to arrive at anything approaching zero at the end of five years. [In practice this method would never be employed unless (*a*) the assumed life of the asset exceeded ten years, (*b*) some residual value remained at the end of the term which rendered the absolute zero unnecessary.]

The annual charges against Revenue (including repairs, &c.) are:—

1916	£500 0 0	
1917	260 0 0	
1918	145 0 0	
1919	122 10 0	
1920	102 10 0	
Total		£1,130 0 0

METHOD III.—Under this method the total charge against Revenue during the five years is estimated at £1,120. One-fifth of this is accordingly written off each year, any difference between the estimate and the actual result being corrected in the last year, thus:—

1916	£224 0 0	
1917	224 0 0	
1918	224 0 0	
1919	224 0 0	
1920	234 0 0	
Total		£1,130 0 0

METHOD IV.—This method has already been mentioned upon page 13. The Asset Account in the Ledger appears as follows (assuming interest at 5 per cent.):—

Dr. ASSET ACCOUNT. *Cr.*

		£ s d			£ s d
1916	To Cost	1,000 0 0	1916	By Depreciation	231 0 0
	„ Interest	50 0 0		„ Balance	819 0 0
		£1,050 0 0			£1,050 0 0
1917	To Balance	819 0 0	1917	By Depreciation	231 0 0
	„ Interest	40 19 0		„ Balance	628 19 0
		£859 19 0			£859 19 0
1918	To Balance	628 19 0	1918	By Depreciation	231 0 0
	„ Interest	31 9 0		„ Balance	429 8 0
		£660 8 0			£660 8 0
1919	To Balance	429 8 0	1919	By Depreciation	231 0 0
	„ Interest	21 9 0		„ Balance	219 17 0
		£450 17 0			£450 17 0
1920	To Balance	219 17 0	1920	By Depreciation	231 0 0
	„ Interest	11 3 0			
		£231 0 0			£231 0 0

NOTE.—Following the usual practice, Depreciation has been reckoned only approximately, leaving a small balance to be adjusted in the last year.

The net charge to Revenue in each year is the difference between the Depreciation and the Interest, *plus* provision for Repairs.

If repairs be dealt with under Method I, the total charges to Revenue are :—

1916	£181 0 0	
1917	200 1 0	
1918	219 11 0	
1919	269 11 0	
1920	259 17 0	
Total		£1,130 0 0

If Method III be adopted as to Repairs, the annual charges work out thus :—

1916	£205 0 0	
1917	214 1 0	
1918	223 11 0	
1919	233 11 0	
1920	253 17 0	
Total		£1,130 0 0

METHOD V.—Under this method the charges against Revenue will be very unequal, and might quite conceivably be as follows :—

1916	£400 0 0	
1917	200 0 0	
1918	120 0 0	
1919	180 0 0	
1920	230 0 0	
Total		£1,130 0 0

METHOD VI.—This is the "Sinking Fund" method and is fully described under that heading (*vide* page 234). Excluding Repairs, &c. the annual charge against Revenue (at 3 per cent.) works out at £188 7s. 1d.; at 4 per cent. at £184 12s. 7d.; at 5 per cent. at £180 19s. 6d.

NECESSITY FOR DEPRECIATION.

The question as to whether it is invariably necessary to provide for the Depreciation of Wasting Assets may usefully be considered at this stage. That the matter may be clearly comprehended in its true light, it may be pointed out that all visible assets are in the nature of things non-permanent. That is to say, at some future date—more or less removed according to the nature of the assets—the time will come when they are either worn out, superseded by others of more modern type, or lost to the present holder. These assets are subject to the operations of wear and tear, but in addition certain assets—as, for example, Leaseholds and Patents—cease to be of value after the expiration of a certain number of years, because thereafter the benefit of them can no longer be enjoyed by the former owner. Thus, when a lease expires, the premises revert to the superior landlord; and when a patent lapses, the monopoly formerly enjoyed by the owner ceases, and although he may still retain a valuable asset in the shape of Goodwill, he can under no circumstances expect to continue to derive an income from royalties paid by licencees. Certain assets—as, for example, Freehold Lands—are of such a character that for all practical purposes they are not subject to Depreciation,* while certain other assets (*e.g.* Loose Tools) are of so ephemeral a character that they continually have to be replaced, and, so long as they are so replaced, their depreciation in value during their short spell of life is so unimportant that it may safely be ignored. But, with these exceptions, it may be stated in general terms that all assets are liable to Depreciation. Apart from Freehold Lands, practically the only asset that is beyond the reach of Depreciation in the ordinary sense of the term is Goodwill. Goodwill is, of course, liable to considerable fluctuations in value from time to time, and it is safe to assume that in at all events the great majority of cases it cannot be regarded as an absolutely permanent asset; but it is not liable to any natural and inevitable process of decay, and therefore the necessity of providing systematically for Depreciation, as such, does not arise. It should perhaps be added, however, that no Balance Sheet

*This is, of course, disregarding risk of loss owing to earthquakes, volcanic eruption, coast erosion, &c. In a larger sense (thinking, so to speak, geologically) even freehold land is subject to depreciation as a non-permanent asset.

upon which the asset Goodwill appears can be regarded as being altogether satisfactory until a Reserve Fund has been accumulated out of profits of at least equal amount. Occasionally Goodwill is systematically written down out of profits, thus creating *pro tanto* a Secret Reserve.

This being the position of affairs, it is clear that, if provision be not made for Depreciation by charging a proper sum against Revenue in each year, the time will eventually come when either the undertaking must be abandoned, or else further Capital must be introduced into the business to enable new assets to be acquired for its continuance. The latter contingency ought never to arise if a proper system of accounting be employed, save under wholly exceptional circumstances—as, for instance, where an accident has destroyed certain assets owned by an undertaking, or when a new invention has suddenly and unexpectedly rendered valueless much valuable plant. The possibilities of even this latter contingency ought never to be overlooked by business men, and so far as it can reasonably be foreseen it should be taken into account as a factor in Depreciation; but, inasmuch as a loss under this heading can only be provided for by way of estimates, cases of insufficient provision may occur without anyone being seriously at fault, and under such circumstances the necessity may arise for introducing fresh Capital to make good the ravages of Depreciation. Save, however, under these purely exceptional circumstances, *all* losses coming under this heading ought properly to be borne out of Revenue, and ought to be ***apportioned systematically*** against the profits earned during each year while the assets are in use; for the true profits of an undertaking can only be that surplus that remains after providing for *all* expenses of carrying on the undertaking upon a permanent basis.

Some concerns, however, are of such a nature that it is not to be expected that they can be carried on profitably for an indefinite period. Their very object is ephemeral in its nature, and at the outset it was clearly foreseen that at some future (although, possibly, unknown) date the business would naturally and automatically come to an end. Under this heading may be included such concerns as the following: A Single-Ship Company, a Mine, Colliery, or Quarry; a Company (or partnership) formed to develop and sell a landed estate, to build upon and let leasehold lands, to work a patent (or a few patents), or any novelty which by its nature cannot be expected to prove permanently attractive. In the case of all these undertakings the proprietors must have foreseen at the outset that the venture upon which they were embarked had only a limited span of life, and that therefore the concern could not last for ever; although in many cases it might be absolutely impossible for anyone to put, in advance, a definite limit upon its actual duration. In such cases it is practically impossible to make such a provision for Depreciation as will insure that the Capital of the undertaking will be returned intact to the proprietors at the end of the venture, as when an undertaking is wound up even its so-called "fixed" assets have to be realised; and under these circumstances—and these alone—the attempt to provide for Depreciation at all may be legitimately abandoned, so long as it is made clear that this course is being pursued, and that (*a*) at the expiration of the venture the whole, or the bulk, of the Capital will have been dissipated; (*b*) the distributions made to proprietors during the continuance of the venture are not true net profits, but a surplus of incomings over outgoings, which includes the gradual distribution of Capital.

One of the most obvious objections to this course of procedure is that it is inconvenient to investors to receive periodically sums that are compounded of Capital and Income, in that if they spend all dividends as received their Capital becomes gradually dissipated; while a further objection that may be raised is that, under these circumstances, the instalments of Capital as well as the pure profit have to bear Income Tax and Super-Tax. On the other hand, if the attempt were made in all good faith to provide for Depreciation, it is quite likely that such provision as might be made would subsequently be found to be insufficient; so that, in spite of all endeavours, the dividends distributed would very probably exceed the true profits earned. Moreover, the accumulation in the hands of the managers of large funds to compensate for the wastage in the value of Fixed Assets might in many cases present undesirable features, as those who may safely be entrusted with the business management of undertakings of this description may not necessarily be possessed of sufficient financial ability to invest such funds to the best advantage. If, therefore, an undertaking is by its nature of a non-permanent character, provision for Depreciation may not improperly be ignored, so long as the inevitable consequences of so doing are clearly appreciated. If, however, the company (or partnership) is intended to be permanent, even although its "objects" be ephemeral, proper provision for Depreciation should in all cases be made in order to ensure the permanence of the undertaking as a whole. Thus, if a company be formed to carry on a general shipping business, provision must be made for Depreciation, so that new ships may be purchased as the old ones become worn out, without the necessity of raising further Capital; and similarly if a company be formed for the general purpose of speculating in land, and blocks of land are developed and sold, only the *profit* on such sales may be distributed, after providing for all known and expected losses and shrinkages, as otherwise the Capital will gradually become depleted, and the time will eventually arrive when further operations are impossible, on account of insufficiency of funds.

AGGREGATE LEDGER ACCOUNTS AND DEPRECIATION.

It may be pointed out that in many cases the difficulty of making due provision for Depreciation is enhanced by the fact that several different assets are, not infrequently, included in the same Ledger Account; while in some cases one Ledger Account (*e.g.* "Plant and Machinery Account") does duty for an enormous number of different items, having very varying working lives, and aggregating to a very considerable sum. It is clearly desirable that—so far as possible—a separate Ledger Account should be opened in respect of each asset; that the number of such accounts should by no means be limited to the number of headings under which the fixed assets are stated in the published Balance Sheet. With regard to such items as "Business Premises," no difficulty will arise; even if a separate Ledger Account be opened for each property comprised under separate title deeds, the total number of such accounts will still be sufficiently small to prevent any difficulty occurring in the balancing of the Ledger in which they are contained. With regard to such assets as Plant, Machinery, &c., however, it is clear that, if a separate account is to be opened in respect of each item, the best results are likely to be achieved by employing a separate subsidiary Ledger for such detailed accounts, while retaining the "Plant and Machinery Account" in the General Ledger as an "Adjustment Account" of the Plant and Machinery Ledger. This latter Ledger can then (with very little trouble) be arranged so as to constitute a detailed Register in respect of all the more important items; showing when they were purchased, what they cost, and what expenditure has been incurred from time to time on partial renewals. It may even be found expedient to record expenditure on current renewals against each separate item; but, if that be done, the record in so far as it relates to repairs should be statistical only, and form no part of the double-entry system of accounts. It is submitted that the best form of ruling to be employed under such circumstances is a matter for the Engineer or Works Manager, rather than for the Accountant; but the example in the next column may be found useful, as suggesting what will probably be required.

If this system be employed, it becomes as easy to make a reliable provision for Depreciation of Plant and Machinery as it is to make a reliable provision for Bad and Doubtful Debts. Indeed, the problem is considerably simpler, because, in course of time, far more reliable data is available. So far as each of the Ledger items of equipment is concerned, a rate of Depreciation should be determined, based (as far as possible) on actual experience, and it is by no means necessary that the same method of providing for Depreciation be employed in each case. The total figure of Depreciation appearing in the General Ledger will merely be the aggregate of these items, and will not by any means necessarily be a uniform percentage.

EXAMPLE:

Dr.	1919.	Cr.	Dr.	1920.	Cr.	Dr.	1921.	Cr.	Dr.	1922.	Cr.
	£ s d	£ s d		£ s d	£ s d		£ s d	£ s d		£ s d	£ s d
Dr.		Cr.	Dr.		Cr.	Dr.		Cr.	Dr.		Cr.
	£ s d	£ s d		£ s d	£ s d		£ s d	£ s d		£ s d	£ s d
Dr.		Cr.	Dr.		Cr.	Dr.		Cr.	Dr.		Cr.
	£ s d	£ s d		£ s d	£ s d		£ s d	£ s d		£ s d	£ s d

It should further be borne in mind that, whatever method of providing for Depreciation be adopted, it is desirable that its results should be reviewed in the light of further experience, and that (where necessary) rates should be modified accordingly. The advantage of a Subsidiary Ledger (or Register), recording in detail the items that constitute the aggregate Ledger Account, is that it enables this to be done with comparative certainty. Where there is nothing to go upon but the aggregate account, there is considerable risk that individual items may be discarded while yet some portion of their original cost remains outstanding in the books. The detailed Register shows at a glance what (if any) portion of the original cost remains outstanding when an asset is discarded; properly speaking, such outstanding amounts ought all to be charged against the profits of the current period, but in exceptional cases they may be transferred to a Suspense Account, and charged against the profits of the next two or three years

RESERVES AND RESERVE FUNDS.

It would appear that these terms are in practice used somewhat loosely, different meanings being attached to them by different persons. In his work on "Auditors: their Duties and Responsibilities," Mr. Francis W. Pixley, F.C.A., states that there is a "distinct difference" between the two terms. "A Reserve," he considers, "is merely the surplus of the credit side "of the Balance Sheet over its debit side," "although perhaps the Reserve may be "divided under two or three different "headings, such as 'Reserve' and 'Balance "of Profit and Loss Account carried for-"ward.' A Reserve of this nature is either "a provision against loss of Capital or a "Reserve for the equalisation of dividends, "or a Reserve as an extra inducement to "those with whom the company may do "business to give credit. A Reserve Fund, "however, is not merely a surplus shown "on the debit side of the Balance Sheet, "but must be represented by special invest-"ments which may, or may not, be shown "distinctly on the credit side of the Balance "Sheet. If, therefore, the Reserve is used "in the general business of the company "it is not a Reserve Fund, although perhaps "the term might be properly so used, if "some stock used in the ordinary course "of the business were specially set aside, "and when made use of represented by "cash set aside, until reinvested in further "stocks specially ear-marked."

The above view is one that is very prominent in certain quarters, and it must be admitted that, inasmuch as there is a very general impression on the part of the public that the term "Reserve Fund" signifies that a corresponding amount of profits has been retained by the company *and invested* to provide against future contingencies, it is perhaps desirable that more care should be devoted to the nomenclature of this important item than is generally observed. It will be noted, however, that Mr. Pixley advances no specific authority in support of his definitions of the terms "Reserve" and "Reserve Fund," and it may be added that his views upon the subject are by no means universally accepted. In particular, the late Mr. T. A. Welton held the view that, so long as divisible profits are not divided, they may properly be described as "Reserve Fund," no matter what the form of the assets may be; and as a matter of account this would appear to be the sounder view, in that it is impossible to state that any particular credit balance in a Ledger is represented by—or represents—any particular debit balance in that Ledger. That is to say, short of actually lodging assets with—or charging them in favour of—creditors as security, it is impossible to ear-mark certain assets as in any way "representing" certain liabilities: the whole of the assets must be marshalled against the whole of the liabilities in the form in which they appear in a Balance Sheet, as ordinarily constructed.

For these reasons, the writer favours the view endorsed by Mr. Welton, that the term "Reserve Fund," properly understood, means neither more nor less than undivided profits which have been formally "reserved" when they might have been divided; while the term "Reserve" means a provision for an *expected* loss or liability that has not as yet been definitely ascertained. At the same time, it must be admitted that the uncertainty with regard to the exact meaning of these important terms in any particular case is greatly to be regretted. In considering further the nature of Reserves and Reserve Funds, and their respective functions in accounts, however, it must be understood that the former term is applied to those provisions which are properly charges *against* profits, and have to be made before arriving at true Net Profits that are properly divisible; while the latter term will be employed to designate true Net Profits, that might have been divided as such, but which have been reserved, or capitalised, *pro tem.*

Since the first edition of this work was issued the views above expressed have been endorsed by Sir William Plender, F.C.A., who, as an independent shareholder of a company whose accounts had been attacked by certain dissentient members, adopted the practice (quite unusual with a shareholder who is not a member of the board) of seconding the Directors' Report and Accounts. It is thought that Sir William's speech upon this occasion is of sufficient interest in connection with this subject to justify reproduction in full. It was as follows:—

"I think that, in view of the circumstances under which the company is labouring at the present time, it may not be inadvisable if an independent shareholder from this side of the table seconds the resolution, and supplements, in a very brief manner, the statement the Chairman has made in reference to the circular which we have all received. There are only two or three matters in that circular that I would refer to; but, not being altogether unfamiliar with the Accounts and Balance Sheets of companies, it may not be inopportune if I refer to certain charges relating to the treatment of the Premiums received, the allegation of the Balance Sheet being false, and the question of the illusory character of the Reserve. A very simple examination of the Balance Sheets and Reports of the company clearly reveals the fact that the premiums received by the Directors have been accounted for. A simple arithmetical sum, consisting of four items taken from the Balance Sheets between 1899 and 1902, indicates clearly that £390,000 of the Reserve is represented by premiums received, and the remaining £10,000, making up the £400,000, is the figure on the Balance Sheet; and even a cursory reading of the Directors' Report makes it obvious that the difference between the total premiums received of £513,000 and the £390,000 I have mentioned has been used in writing off the various items of expenditure which the Chairman has enumerated, all of which charges are, in my opinion, perfectly proper and legitimate charges to which to devote the premiums received on shares. As regards the Balance Sheet being misleading, I can only say that I have examined it somewhat closely, and I express unhesitatingly the opinion that it is perfectly in order, and truly represents the condition of the company at its date. With regard to the illusory character of the Reserve, I would say this about it: In a financial undertaking, or a bank, it is manifestly necessary that the Reserve should exist in the form of liquid securities that can be readily realised to meet a run on the part of depositors or loan creditors; and in the case of a commercial undertaking, where assets have to be replaced at intervals, it is also desirable—as, for example, in a Cable Company—that Reserves should be invested so that at a moment's notice the money may be realised and ready to reinvest, in the company's property; but in the case of a commercial undertaking such as this the circumstances are different. There is no call for the money being needed at once. The best investment is in large revenue-producing properties, and, were the directors to invest this outside, the result would be that they would have to issue, obviously, more capital, and so widen the area upon which interest or dividends must be paid. The effect of that is, obviously, to reduce the rate of dividend which would be distributable among the shareholders. That cannot, therefore, be in the shareholders' interests. Well, I do not want to say anything more about the Reserves and Accounts. They have been dealt with very fully by the Chairman; but perhaps I may be allowed to make this general observation, not only in our own interests, but in the interests of the public generally. Criticism that is intelligent and *bona fide* is always welcomed by boards of directors and by shareholders, but criticism that does not possess those qualities, and is, in fact, malignant, cannot deserve too severely our condemnation. I am sure that the Directors of this company will receive our support, and, in condemning the character of the circular which we have received, you will join with me in letting the Directors see how much we appreciate their services; for those services have brought this company into a condition of prosperity that is hardly paralleled in the history of joint-stock enterprises."

RESERVES.

Following the lines indicated in the preceding paragraphs, the necessity for providing for Reserves arises whenever it is required to charge something against profits, to represent an expense, or loss, which is known (or believed) to have been incurred. Thus a Reserve may be made to provide against loss from Bad and Doubtful Debts, to provide for Depreciation (*i.e.* to pay the cost of renewals), or to provide against loss incurred in connection with a pending claim or action. Debts known to be irrecoverable would naturally be written off to the debit of Bad Debts in the ordinary way; but in addition it is generally necessary to make some further provision for loss under this heading, while it is clearly undesirable actually to write off debts so long as there remains any probability of their being eventually collected. Again, in some cases, with a view to averaging the charges against successive years, it is thought that the best way of providing against loss under this heading is by way of a percentage on the Sales which experience has shown to be reasonable and sufficient. Under these circumstances, it becomes necessary to pass an entry through the Journal, debiting Bad Debts Account with the estimated loss; but because there is no other Ledger Account that can conveniently be credited, an account has to be opened, entitled "Reserve for Bad and Doubtful Debts Account." The balance of this latter may appear upon the liabilities' side of the Balance Sheet; it is preferable, however, in the case of Reserve Accounts raised to provide for shrinkage in the value of specific assets, to deduct them from those particular assets, in which case, of course, no entry whatever will appear upon the liabilities' side of the Balance Sheet. The amount of the Reserve may, if thought desirable, be shown in detail upon the face of the Balance Sheet as a deduction, or, if preferred, the net value placed upon the Book Debts may alone appear there.

With regard to Reserves for Depreciation, the more usual course is to credit the Asset Account with such provision as it may be thought necessary to charge against Revenue; but sometimes this course is inconvenient—as, for example, when Depreciation is provided for by way of a fixed percentage upon the original cost of the assets, and further additions have to be debited to the Ledger Account from time to time. If, under these circumstances, Depreciation were credited to the Ledger Account, the balance periodically brought down would not show the total cost, but the total cost *less* Depreciation, and a calculation would have to be made every time in order to arrive at the amount upon which Depreciation must be charged. In such cases it is better to open a Reserve Account, to which the provision for Depreciation may be credited. In the Balance Sheet the credit balance of this account should in all cases be deducted from the asset against which the provision is being accumulated; but the practice of showing the credit balance separately upon the liabilities' side of the Balance Sheet is not uncommon. This is especially to be deprecated when the item bears the undistinctive title of "Reserve Account," for under such circumstances it might readily be supposed that the balance of the Reserve Account represented undivided profits, whereas it represents in fact admitted *losses* that should have been deducted from the assets which are estimated to be of less value than their respective Ledger balances. If, therefore, a Reserve for Depreciation be placed upon the liabilities' side of the Balance Sheet at all (as may sometimes be necessary, if it includes provision against a loss arising from several different classes of assets), it should be stated clearly as "Reserve for Depreciation," and not as "Reserve" or "Reserve Account."

The third kind of Reserve is neither more nor less than a Suspense Account, and—if it be separately shown upon the liabilities' side of the Balance Sheet—should be so styled, in order to avoid any possibility of its being confused with undivided profits. Unless, however, the item is a relatively large one, it might reasonably be added to the "Sundry Creditors," instead of being shown separately.

RESERVE FUNDS.

A Reserve Fund, as has already been stated, is an item appearing upon the liabilities' side of a Balance Sheet, represented by a credit balance upon a corresponding Ledger Account which has been formed by the transfer to this account of items which from time to time have been debited to Net Profit Account. It intimates that there are in existence undivided profits of a corresponding amount, and, in the view of the writer, so long as these profits remain in existence and undivided the item is correctly described, no matter what form the assets of the undertaking may take from time to time. If, however, a loss is subsequently experienced which throws the balance of Profit and Loss Account on to the debit side, then any balance of profits carried forward from previous periods must forthwith be applied towards the reduction or extinction of this debit balance, and any deficiency remaining thereafter must be debited to the Reserve Fund (in so far as the latter will allow), to record the fact that these profits are no onger in existence, they having been eaten up by subsequent losses. This, it is conceived, is the true nature of a Reserve Fund. Its continued existence depends upon the continued existence of a corresponding surplus of assets over liabilities and capital, without being in any way concerned with the form—as contrasted with the value—of those assets. It may be added that a Reserve Fund may cease to exist owing to subsequent losses, *notwithstanding the fact that there still remains in existence a specific investment of the value of the amount originally standing to the credit of Reserve Fund Account;* and *per contra* fluctuations in the value of an investment supposed to represent the Reserve Fund would not automatically and directly affect the balance of the Reserve Fund Account, but would (if taken into account at all) properly be debited, or credited, to Revenue. It has been held (*Re Hoare & Co., Lim.* [1904] C.A.), in connection with a scheme for reduction of capital, that a Reserve Fund need not necessarily be wiped out of existence before it can be said that there has been an actual loss of capital: this ruling is doubtless convenient in the interests of commercial morality, but undoubtedly a Reserve Fund that is not represented by a corresponding excess in the value of assets over liabilities plus paid-up capital can have no real existence.

But although it is thought that the idea that there is an intimate connection between the Reserve Fund and a corresponding investment in "gilt-edged" securities is based upon an illusion, it must not be supposed that it is sought to discourage the practice—very general among prudent business men—of investing surplus assets in such a form that they are readily available in case of need. The whole object of refraining from dividing profits up to the hilt is to place the company in a more advantageous position, and it is a question of business policy how that end may best be achieved. Usually it is desirable to invest (in some high-class security) a sum equal to the amount of profits reserved, as such a sum is thus rendered readily available in case of need, while in the meantime it earns a fair—although not very tempting—rate of interest. But cases may easily arise in which the reason for reserving profits is because, owing to increasing business, the working capital of the undertaking is found to be insufficient, and it is not thought desirable to raise further capital. Under such circumstances it is not only perfectly legitimate, but actually wise, to employ the assets represented by the undivided profits as working capital, or (as it is commonly termed) to invest the Reserve Fund in the business itself. It would manifestly be bad management to invest (say) in Consols at a time while interest at 7 or 8 per cent. was being paid to debenture-holders, or upon a bank overdraft. But unless there is any specific reason why reserved profits should *not* be invested outside, it is always desirable that they should be so dealt with; otherwise the working capital will be in excess of the legitimate requirements of the business, when due attention may perhaps not be given to the prompt turning of floating assets into cash. The whole matter, however, as has already been stated, is one of administration rather than of general principle.

SINKING FUNDS.

When it is desired to accumulate a certain specific sum at the end of a definite period, in such a manner that the withdrawal of a corresponding amount of money from the business may cause no inconvenience, recourse is had to a Sinking Fund. An estimate is made of the amount of interest that can be earned upon outside investments, and the amount that must be invested annually to produce the required sum is ascertained, upon the footing that the income derived from the investments is to be reinvested so that the whole may accumulate at compound interest. In practice, however, a certain margin must invariably be allowed to compensate for the loss of time in effecting such reinvestments, and it is prudent also to provide a further margin in case of a possible decline in the market price of the securities selected when the whole of the investment has to be sold.

When the object of accumulating the moneys in question is to provide for the replacement of assets that will then be worn out (or otherwise valueless), the cost of making such provision is a charge against profits, in the nature of Depreciation; but when the object is to provide for the repayment of borrowed money—as, for example, an issue of Debentures—the cost is not properly chargeable against Revenue, for the payment of debts as they become due is not *per se* a Revenue charge. If, however, the liability (for the eventual repayment of which provision is being made) was originally incurred for the sake of providing working capital, then it is clear that when it is repaid working capital will, to a corresponding extent, be depleted; and if it be proposed to avoid this undesirable contingency, the only possible alternatives are: (1) to re-borrow in the future; (2) to provide for the repayment of loans out of profits. If it were desired to re-borrow in the future, no Sinking Fund would be necessary, for the old loan might in that case be paid off out of the new one; but if it be desired to pay off borrowed working capital out of profits, it is clear that profits must be allocated specifically to that purpose, and not otherwise employed. Hence the necessity of providing a Sinking Fund, which—under these circumstances—is similar to a Reserve Fund systematically formed and invested outside the business, save that the income derived from the investments is credited to the Sinking Fund Account instead of being credited to Revenue.

It will thus be seen that the formation of a Sinking Fund involves two distinct sets of operations. In the first place, Sinking Fund must be credited annually with the prescribed instalments, which must be debited either to Profit and Loss Account or to Net Profit Account, according to whether the Fund is raised to replace wasting assets or to discharge liabilities; and, in the second place, Cash must be credited and Sinking Fund Investment Account debited with a corresponding sum, which must be taken out of the business and invested. Income received from investments must be debited to Cash, and credited to Sinking Fund Account, and from time to time a corresponding sum must be reinvested, being credited to Cash Account and debited to Sinking Fund Investment Account. Theoretically, the Sinking Fund instalments may be determined accurately in advance, but in practice they will probably have to be modified from time to time, in order to ensure the realisable value of the investments reaching the prescribed sum at the future date already determined upon.* When that date arrives, the investments will be sold, Sinking Fund Investment Account credited, and Cash debited. There is then money in hand, available for the purpose for which the Sinking Fund was originally created. If that purpose be the replacement of assets, entries should be passed through the books writing off the amount standing to the debit of the various assets that have now become valueless, and debiting Sinking Fund Account therewith. If the Sinking Fund Account then shows a debit balance, the provision made in the past will have been insufficient to cover the realised loss, and the balance must therefore now be written off as an ascertained loss; if, on the other hand, the account shows a credit balance, the provision is in excess of the actual requirements, and such balance might be credited to Revenue, although it would doubtless be more prudent to transfer it to the credit of Reserve Fund. When the Sinking Fund has been created for the purpose of redeeming liabilities at a future date out of profits, and that end has been achieved, the balance to the credit of Sinking Fund Account should be transferred to the credit of Reserve Fund; representing—as it does—profits that have been reserved, instead of being distributed among the proprietors by way of dividend.

LOCAL AUTHORITIES AND DEPRECIATION.

The employment of Sinking Funds for the purpose of providing for the repayment

*Losses on the realisation of Sinking Fund investments may be reduced to a minimum by selecting securities repayable at a fixed price on (or shortly after) the aforesaid future date, as the tendency always is for the market price of redeemable securities to tend towards the price of redemption as the date of redemption approaches.

of liabilities is common in the case of Local Authorities, which are authorised to raise such funds as may be necessary for their purposes by the issue of Loans, subject to their providing for the redemption of such Loans at the end of a prescribed period by the creation of a Sinking Fund, and charging the annual instalments in respect thereof against Revenue. The conditions under which such Loans have been sanctioned by the Local Government Board (now the Board of Health) have varied considerably from time to time, and from first to last would appear not to have been based upon any very definite principle; save that, of late, some inquiry has been made as to the probable working life of the assets proposed to be acquired with the proceeds of the Loan, and the term of the Loan has usually been fixed approximately at the *average* estimated life of the assets. Simultaneously the impression has grown up—and would appear to be very widely held at the present time—that because provision is thus systematically made for the eventual repayment of the Loan, no necessity exists for a Local Authority to provide, in addition, for the Depreciation of its assets. It is conceivable that in some cases it may so happen that the amount of the annual Sinking Fund instalment is equal to an adequate charge for Depreciation; but it cannot be stated too clearly that Sinking Fund is not *per se* a Revenue charge, and that its creation cannot therefore be regarded as in any way equivalent to—or in substitution for—Depreciation, which is a necessary charge against Revenue.

The effective provision of a Sinking Fund will enable a Local Authority to accumulate a sufficient sum to repay the original Loan at the date when it matures; and upon such repayment, the regulations of the Local Government Board will allow further Loans to be sanctioned for renewal purposes. It will be observed, therefore, that Loan sanctions are by no means necessarily restricted to Capital Expenditure and *per contra* it may be mentioned that there are certain classes of Capital Expenditure for which borrowing is not permitted. It is, however, because of Loans being issued for an equated period that the assumption that Sinking Fund is equivalent to Depreciation breaks down altogether. Loans being in all cases issued for a period more or less corresponding to the estimated average life of the somewhat miscellaneous assets proposed to be acquired, it follows that, while many of such assets will have an estimated life exceeding the loan period, others will have an estimated life of considerably less duration. Thus renewals upon a somewhat extensive scale will become necessary at various periods during the continuance of the Loan. In spite of such renewals no further borrowings will be sanctioned, except to the extent to which provision has already been made by way of Sinking Fund for the redemption of the original Loan Thus in the case of these "short-lived" assets, the major part of the cost of renewal—if they are to be renewed at all—must of necessity be borne out of Revenue. Consequently some charge in addition to Sinking Fund must be provided out of Revenue during the currency of the Loan; and, to avoid that charge falling unequally and unfairly against the several years comprised in the loan period, it is important that a Reserve should be built up systematically to equalise the charge against Revenue in respect of the cost of those renewals in respect of which no re-borrowing is permitted.

Since about 1912 the practice of sanctioning Loans for an equated period has been discontinued. In future, accordingly, the above-named difficulties will not arise, but it will be many years before the difficulties arising out of past sanctions have been entirely eliminated.

SECRET RESERVES.

The term "Secret Reserve" is applied to a Reserve Fund that does not appear upon the face of the published accounts, which latter accordingly underrate the financial soundness of the position of the undertaking. A Secret Reserve can, of course, only be created by making charges against Revenue that are unnecessary, and *per contra* either inflating the liabilities or unnecessarily writing down the assets of the undertaking. It is impossible to say that there has been a complete disclosure to shareholders of the whole of the company's affairs where a Secret Reserve exists; but the practice is so very general among thoroughly sound concerns, is so well understood, and is in practice generally conducive to such good results, that a course of procedure which is theoretically entirely indefensible seems amply justified in practice.

The arguments in favour of a Secret Reserve are, first, that exceptional losses may be sustained without any shock to the stability of the undertaking: thus the serious fall in the price of Consols during the past twenty years or so has been met by the leading banks, insurance companies, &c., without any recourse to current Revenue. The advantages of such a conservative basis of valuation for assets are, it is thought, sufficiently obvious. The disadvantages are that losses arising from reckless speculation or bad management can be concealed from shareholders with equal facility; and that, as the whole of the profits are not disclosed, the market price of the company's shares may well be found to be below their intrinsic value. In the same way, heavy losses arising through Bad Debts, a fall in exchange, &c., may be made good out of Secret Reserves without recourse being had to the profits of the year current when the loss is ascertained. The same advantages and objections will be found to apply here. A second advantage claimed for Secret Reserves is that a business which of necessity produces highly fluctuating profits may by this means be made to show steadily progressive results. Here again, however, the desired end is only achieved by a suppression of material facts, and the propriety of deliberately concealing the fact that the business is of a fluctuating (and therefore of a more or less speculative) character may well be questioned. A more potent argument in favour of Secret Reserves is to be found in the known weakness of shareholders in favour of large dividends. Substantial Reserve Funds may be absolutely essential for the continued welfare of an undertaking, but in practice it may be found extremely difficult to raise them if the full facts be disclosed. The purity of the end may in this case be held, to some extent, to justify the questionable means employed.

But whatever arguments may be put forward in justification of the policy of creating Secret Reserves, it is impossible to lose sight of the fact that, unless the utmost confidence can be felt in those responsible for the management of the undertaking, the practice is one fraught with very considerable risk. Obviously, the only way of falling back upon a Secret Reserve to inflate the profits during a "lean" period of trade is by writing *up* some asset that has previously been written down, or by writing down some liability that has previously been written up. There are cases upon record in which a fraudulent Managing Director has been able to induce his subordinates to certify fictitious valuations of Stock, Plant, &c., by alleging that the necessity has arisen to write up this asset, but that the excess was "more than covered" by an existing Secret Reserve, when in point of fact the whole of the Secret Reserve that had at one time existed had been utilised long since for this very purpose. It may be added that, even where there is a Secret Reserve in existence, which has been created (say) by making an excessive provision for Bad and Doubtful Debts in past years, that Secret Reserve cannot be utilised for making good a loss arising from unprofitable trading without producing accounts so warped as to interfere seriously with their value for comparative purposes. And, in the same way, if a Stock which in previous years has been "taken low" be written up to compensate for the loss arising from an exceptionally heavy bad debt, the results shown by the accounts will be quite misleading. The whole question is a most difficult one; but in general it is thought that the more straightforward practice of accumulating a substantial Reserve Fund, and having recourse to that Reserve Fund for the equalisation of dividends, is to be preferred, as being considerably less liable to abuse.

CHAPTER XVIII.

"BOOKKEEPING WITHOUT BOOKS."*

UNTIL comparatively recently the science of systematically recording business transactions was invariably described as "Bookkeeping." Now, however, that further developments of that science have to an increasing extent substituted the use of loose sheets, or cards, for pages in bound books of account, the term "bookkeeping" appears to be too narrow to cover the whole subject, and accordingly the word "Accounting" is coming into more general use. "Bookkeeping without books" is very commonly supposed to have originated in the United States of America, and until about the beginning of the present century the necessary appliances for keeping accounts upon such a system were only manufactured there and in Canada. The system is, however (so far as can be traced) not of American but of Chaldean origin, it being the earliest known form of accounting, and perhaps the earliest ever employed. This, however, is the less surprising when it is borne in mind that the science of accounting, in some form or another, was in general use long before bound books, or even paper, were thought of.

The Chaldean system of bookkeeping appears to have been very much upon the lines employed in public libraries at the present date. That is to say, a certain number of receptacles represented one class of accounts, and a certain number of portable articles represented transactions. The Chaldean worked this principle by using a wide-mouthed jar to represent the account with each person with whom he did business, placing in such jars from time to time tablets, each of which had a peculiar significance. The contents of the jar at any moment thus showed the balance of the account. The twentieth century librarian applies the same principle in a slightly different manner, using frames or sets of pigeon holes instead of jars, and cards instead of tablets. These enable him to tell almost at a glance what persons have taken books out of the library, and what books are from time to time in their possession; and he thus carries the principle further than the Chaldean in all probability attempted, in that by the same mechanism he keeps a detailed set of Personal Accounts, and also a detailed set of Stock Accounts. A similar system might with great advantage be substituted for many of the elaborate bookkeeping methods employed for keeping tally of casks, packing cases, and other empties which are of sufficient value to render an accurate system of accounting imperative.

It has throughout the course of this work been assumed that the reader is well

* *The illustrations to this and the following chapter are reproduced from blocks kindly lent for that purpose by Messrs. Kenrick & Jefferson, Lim., and "Kardex."*

acquainted with the general principles of ordinary double-entry bookkeeping, and may therefore be taken to know that under the ordinary system of keeping accounts in books each transaction is in the first place recorded in a book of first entry, and that afterwards that record is again copied into the Ledger. If the transactions are complicated, the number of separate times that the record of the transaction has to be copied out is increased accordingly, with the result that in a concern of any importance a very large staff is kept employed in so multiplying copies of the record of transactions. The aim of any system of bookkeeping without books—which, for the sake of conciseness, may be referred to as the " Slip System "—is (as far as possible) to do away with the necessity for this continual recopying, by so framing the original record that it may, in turn, serve all the purposes that are ordinarily served by books of first entry, and sometimes by Ledgers as well.

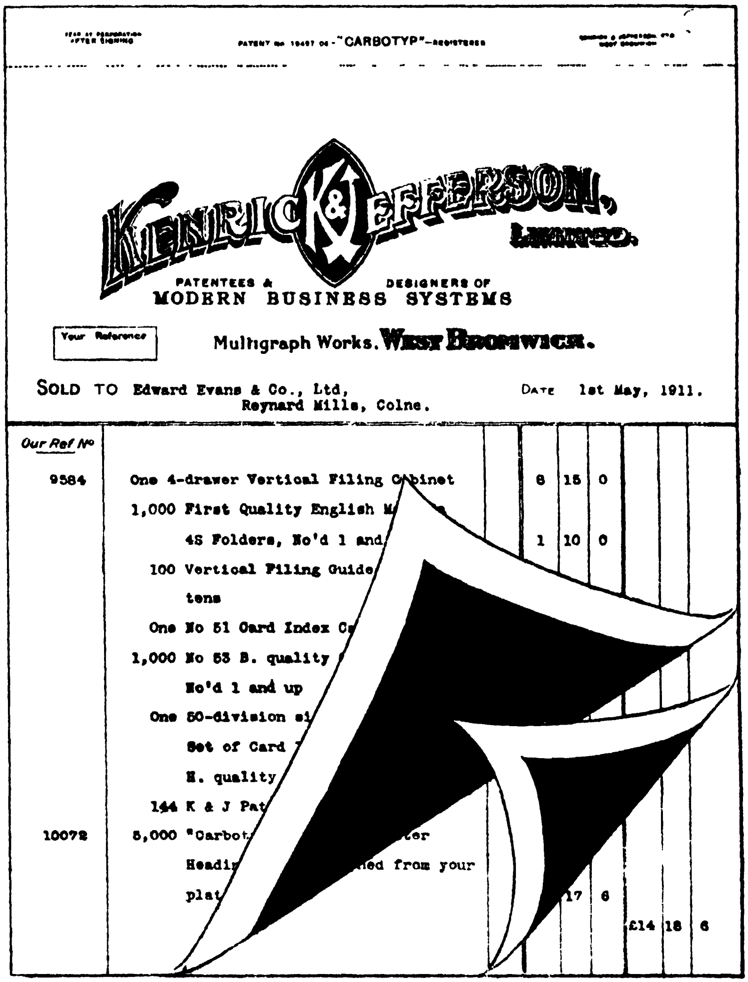
If this system be adopted in its entirety it is sometimes practicable to obviate the necessity for any manual copying at all. Thus a carbon facsimile of an invoice for goods sold may in the first place perform the functions of a Day Book, and afterwards those of a Ledger Account ; while in the same way the carbon copy, or counterfoil, of a Cheque Book, or of a receipt, may enable the Cash Book entries and Ledger postings of Cash to be dispensed with. The arrangement of systems of bookkeeping is, however, at all times very largely a matter of compromise between principle and convenience, and consequently it may often be thought undesirable to carry the Slip System to this extreme, while yet appreciating the advantages of employing it up to a point. The question as to how far it may be desirable to employ the Slip System, and as to how far it is better to retain what may conveniently—although inaccurately—be described as the " old " system of recording transactions in bound books of account, is a matter which can, in each case, only be determined after carefully considering all the attendant circumstances. No prudent accountant would think of laying down any general conclusions upon such a matter, as so much depends upon the size of the staff and the system of internal check that can be employed. In the present work, therefore, all that can usefully be attempted is to describe the possible applications of the Slip System to accounts ; to indicate the manner in which these applications may be combined, if thought desirable ; and to point out in general terms some of the leading advantages, and most important disadvantages, that are likely to be experienced in consequence.

It may be mentioned, however, that the system is now well past the experimental stage ; that it has been used, with very excellent results, by a large number of well-known business houses for many years past ; and that its use has given every satisfaction. It is therefore now possible to speak of the matter with much more certainty than seemed prudent when the first edition of this work was published.

SLIP "DAY BOOKS."

One of the most useful applications of the Slip System is undoubtedly that which does away with the necessity of copying every invoice sent out into a book of account, from which postings into the Sold Ledger have afterwards to be made. The chief disadvantages of the bound Day Book are the time occupied in compiling it, the great difficulty in dissecting the entries when dissection is necessary, the risk that the entries actually made in the Day Book may not be a true copy of all the invoices forwarded to the customers, the inevitable delay in getting the Ledgers posted, and the difficulty often found in practice of arriving at the totals required for a proper system of sectional balancing. All these disadvantages are obviated by the Slip System. The application of the system will naturally vary to some extent according to circumstances, but rudimentary examples have been in general use for a great number of years. Probably the commonest is to be found in most retail shops (*cf.* p. 41), where the counterman makes out invoices for whatever he sells upon forms which, by means of a carbon sheet, enable an exact reproduction of the invoice handed to the customer to be retained. Simultaneously he enters in a summary at the end of his book against the corresponding distinctive number the total of each invoice, and these summaries should therefore show the total of his sales from time to time. The totals so shown may be used as a check upon the Cash received by the Cashier (for Cash Sales and Credit Sales would be entered in different books, printed upon distinctively coloured paper); while, if the forms are systematically put away in consecutive order, there is frequently no occasion for any detailed entries to be made in the Day Book, even in connection with Credit Sales. The work of the Dissecting Clerk is also greatly facilitated, the actual dissection being to a large extent readily performed by *sorting out* the duplicate invoices into groups according to the selling departments that have issued them.

EXAMPLE:



"CARBOTYP"

KENRICK & JEFFERSON, LIMITED.

PATENTEES & DESIGNERS OF MODERN BUSINESS SYSTEMS

Your Reference

Multigraph Works, WEST BROMWICH.

SOLD TO Edward Evans & Co., Ltd, Reynard Mills, Colne. DATE 1st May, 1911.

Our Ref No				
9584	One 4-drawer Vertical Filing Cabinet	6	15	0
	1,000 First Quality English M			
	48 Folders, No'd 1 and	1	10	0
	100 Vertical Filing Guide			
	tens			
	One No 51 Card Index C			
	1,000 No 53 B. quality			
	No'd 1 and up			
	One 50-division			
	Set of Card			
	B. quality			
	144 K & J Pat			
10072	5,000 "Carbot ... er			
	Headi ... ed from your			
	pla		17	6
		£14	18	6

This system, as has already been stated, has been in very general operation for a number of years past; if, however, it be slightly amplified, its utility can be greatly increased. A somewhat larger form of invoice will usually be found desirable, and it is often convenient that the Invoice Forms be made up in sets, as shown in the above illustration; or sometimes they are arranged upon the lines of a large Cheque Book, so that three or four forms may appear upon an opening. Unlike a Cheque Book, however, this book should be so arranged as—by the aid of a carbon sheet—to take a duplicate of all entries made upon the invoice form, which duplicate is also detachable, and should be sent to the counting-house at the same time that the original is despatched with the goods.*

In addition to the advantages already enumerated, the employment of carbon invoices possesses another material advantage over the old-fashioned system of Day Book—namely, that it is absolutely impossible to prepare an invoice upon the properly headed form without at the same time bringing into existence a copy of such invoice. This effectively disposes of a risk that undoubtedly exists in practice—namely, that of inadvertently despatching goods accompanied by an invoice, without having first copied a record thereof into the Day Book.

It will be noted that the importance of using headed invoice forms distinctively numbered has been emphasised in connection with the employment of sales records. It not infrequently happens that when a new idea—in itself excellent—is introduced, it is rejected without consideration in some quarters, and in others is indiscriminately accepted and applied without discretion. The Slip System has been no exception to this rule. Some business houses have abandoned the use of bound Day Books without substituting anything equally effective in their stead; that is to say, the practice prevails in certain quarters of utilising carbon copies of the original invoice as slips, without taking the elementary precaution of seeing that carbon copies are preserved of *all* invoices prepared. The only possible way of making sure that such carbon copies are invariably kept is by having all invoice forms consecutively numbered, and taking steps to see that the duplicates afterwards forwarded to the counting-house for entry are in point of fact numbered consecutively. In many cases these absolutely necessary precautions can best be observed by employing the book form of duplicate invoices described above; but provided all invoice forms are consecutively numbered before being issued to the entering clerks,† and provided there be an adequate system of control, it is by no means essential that the forms should be bound up in book form. It need hardly be added that loose forms possess the material advantage that they more readily adapt themselves to the requirements of ordinary typewriters, and are far less expensive. It is, of course, important that the slips should be filed away carefully in order, and that each Ledger entry should contain a reference which would enable the corresponding slip to be readily turned up at any moment when required; but so long as these precautions are attended to, no inconvenience will as a rule be found to result from posting direct from the copy invoice. The system possesses the material advantages of saving time, and of saving the risk of error in copying from the invoice into the Day Book—a matter which is the more important inasmuch as such an error would not disturb the balancing of the Ledger.

This application of the Slip System has been for a great number of years employed by banks in connection with their customers' accounts, which are generally posted up

* In many cases it will be found a great advantage to multiply the number of carbon copies, so that the various necessary processes may be performed simultaneously in the different departments. If one copy be permanently retained in the book, all the advantages of a bound Day Book will be secured, combined with the great conveniences of the slip system. Thus, copies may be produced as follows:—(1) Invoice for Customer, (2) slip for Ledger Clerk, (3) slip for Packing Department, (4) slip for Dissecting Department, (5) slip for Order Office, (6) slip for Counting House, (7) permanent copy to remain in Invoice Book. To avoid error, each should be distinctively tinted.

† If the form shown in the illustration on page 241 be used, an excellent plan is to have the consecutive number printed on the tear-off margin as a guide to the entering clerk, who types (or writes) it on the invoice form itself.

direct from the paying-in slips and cheques. An additional advantage of the system is that, if the original record contains bad or ambiguous figures, inasmuch as it has to pass through several hands, there is but little risk if those figures have been misread in the first instance of the error being afterwards perpetuated throughout all the books, because each entry is made direct from the original source. Practically the only disadvantage of the system is that reference to loose slips at a subsequent date might possibly occupy a little more time than reference to the Day Book, although even this is quite doubtful if a good system of filing be employed. As a rule, however, such references would be sufficiently rare to make the point one of minor importance; while in those exceptional cases where, owing to the nature of the transactions, references are likely to be frequent, it would probably be thought better in any event to post full details of the entries into the Ledger, in which case the original slip would only have to be referred to if a dispute arose. Such cases may, however, be met by a further extension of the Slip System, under which the copy invoice does duty for a Ledger Account as well.

SLIP LEDGERS.

Where it is desired to dispense with Ledgers as well as Day Books, and to make the original invoice slip serve all purposes, the underneath (or duplicate) slip—or, where manifold copies are produced, *one* of the slips—requires to be slightly modified, and may take the following form :—

EXAMPLE:

19 ......

Name

No. Aooo.

	Particulars	Details	*Dr.*	*Cr.*
	Forward ( )	£ s d	£ s d	£ s d
Sales Abst. Fo. ...... Dissection Fo.........				*(NOTE.—The space occupied by this column must not be written upon on the upper sheet. It may be utilised for advertisements of specialities.)*
	Forward ( )			

Under these circumstances the slips, instead of being sorted out into consecutive order and carefully put away, only to be referred to thereafter under somewhat exceptional circumstances, are sorted out and put away in trays or drawers, similar to that shown on page 245, a separate space being set aside for the Personal Account of each customer. The Account of that customer, therefore, instead of being comprised upon a single Ledger folio (or series of folios) consists of a considerably greater number of loose slips—each of which contains only one entry, as well as the totals of the debits and credits both before and after that transaction was recorded. The number of slips in connection with any one Personal Account might under these circumstances easily reach inconvenient proportions ; but this difficulty is to a very large extent obviated by providing two sets of filing mechanism, one of which contains all records of accounts that have been settled, leaving only the unsettled transactions in the filing frame that is being used and added to daily. The advantages of this development of the system are its absolute directness, and the impossibility of errors arising through incorrect posting. It is not particularly suitable where the number of transactions with each individual customer is likely to be very considerable, but it is of particular value in a business where the number of Sold Ledger Accounts is of necessity very large, although but comparatively few can be described as accounts of regular customers, and of course it need not necessarily be applied to *all* the customers' accounts, because the " Sundry Debtors' " Accounts are kept on this basis. This idea also provides a solution to what is often a most troublesome problem—namely, the most convenient method of dealing with small outstanding accounts in connection with " cash " businesses, which are sometimes obliged to give credit to a known customer for a few days. There being no regular credit system, the Sold Ledgers will be non-existent ; but a Sold Ledger *pro tem.* can be readily compiled from those invoice slips which represent unpaid accounts for the time being. By filing these slips upon a proper system, and dealing with them as transactions in accounts, it becomes possible to reduce the record to a proper and systematic basis ; whereas, no matter how carefully memoranda may be preserved until it is supposed that the occasion for further keeping them has gone by, there is always a likelihood of some oversight occurring.

AN " EVER-READY " STATEMENT SYSTEM.

However divergent the methods adopted in different counting-houses may be, they nearly all have two common aspirations : the one is to get statements out at the stipulated time in order to ensure prompt collection of accounts ; and the other is that all figures shall be checked efficiently before leaving the office.

There are various obstacles standing in the way of the former accomplishment. If the old-style bound Ledgers be in use, much delay is caused by only one clerk being able to work at a Ledger ; and even if the work of posting, &c., is right up to date, the statements being commenced on the first day of the month it is impossible for them to reach the post before some days have been consumed by the lengthy operation of abstracting the items from the Ledger to the statements. This loss of time is often responsible for a corresponding delay in collection of the accounts.

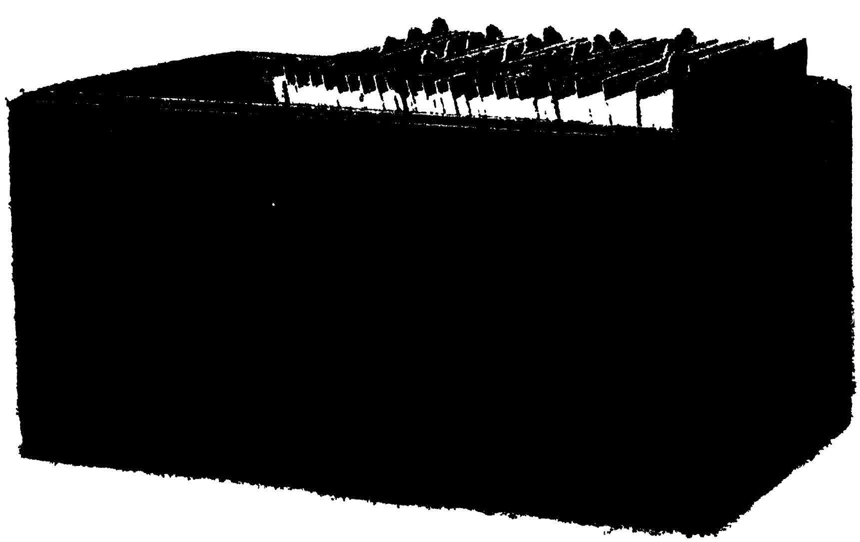
On the other consideration—that of accuracy—the disadvantage lies in the amount of " calling out " and checking that is necessary—from Day Book to Invoice, Day Book to Ledger, Cash Book to Ledger, and so on. The waste of time and energy in this process is considerable, and its elimination would mean greater efficiency in the general routine.

The "Ever-Ready" Statement System is arranged so that *daily postings are made to the statement*, and at the end of the month, immediately the statements have been checked and ruled off, they are ready for despatch.

A portion of the "Ever-Ready" Statement Outfit is shown below, with the statements filed between alphabetical guides and subdivided under their folio numbers. The example illustrated is an "Ever-Ready" equipment worked in conjunction with a Loose-Leaf Ledger or Card Ledger. In both places the accounts are folioed under each initial, thus: A1, A2, A3; B1, B2, B3; and so on. It will be seen that the Loose-Leaf Ledger has an advantage in this respect over the ordinary bound book, by reason of the fact that all accounts under each letter can be kept together *continuously.*

The above remarks with regard to Slip Day Books are equally applicable to the initial record of all transactions other than cash. In most businesses it will not be practicable to deal with any transactions other than Sales upon the Slip System, but individual cases may easily arise in which a further development of the system may be desirable. In this connection, it may be pointed out that the manner in which most solicitors keep their draft Bills of Costs contains in it the germs of the Slip System, and is capable of further amplification upon the same lines. It is not as a rule desirable to apply the system to Purchases, because the basis of the record in this case is an invoice received from outside, which naturally is not in the prescribed form suitable for such a purpose. It would, however, be quite possible to annex slips to all invoices, as received, which would supply the omission; but, bearing in mind the fact that such invoices would be of

EXAMPLE:



all shapes and sizes, it is questionable whether it would often be found desirable to make the attempt, more especially in view of the fact that the number of Personal Accounts in connection with the Bought Ledger is never very great, and the demand therefore for labour-saving contrivances is thus less felt in this department than in connection with Sales.

SLIP CASH BOOKS.

Under this heading, as has already been foreshadowed, may be placed those developments of the Slip System which obviate the necessity of keeping subsidiary Cash Books for the sake of recording detailed postings into Trade Ledgers. Under all circumstances, it would doubtless be desirable to keep the General Cash Book as a bound book of account; but in a concern of any magnitude, various subsidiary Cash Books would ordinarily be employed to record the entries affecting each of the several Trade Ledgers, and the Slip System may often be usefully applied here, with a view to reducing work, of saving unnecessary recopying in connection with these records, and of saving time in recording the Ledger postings.

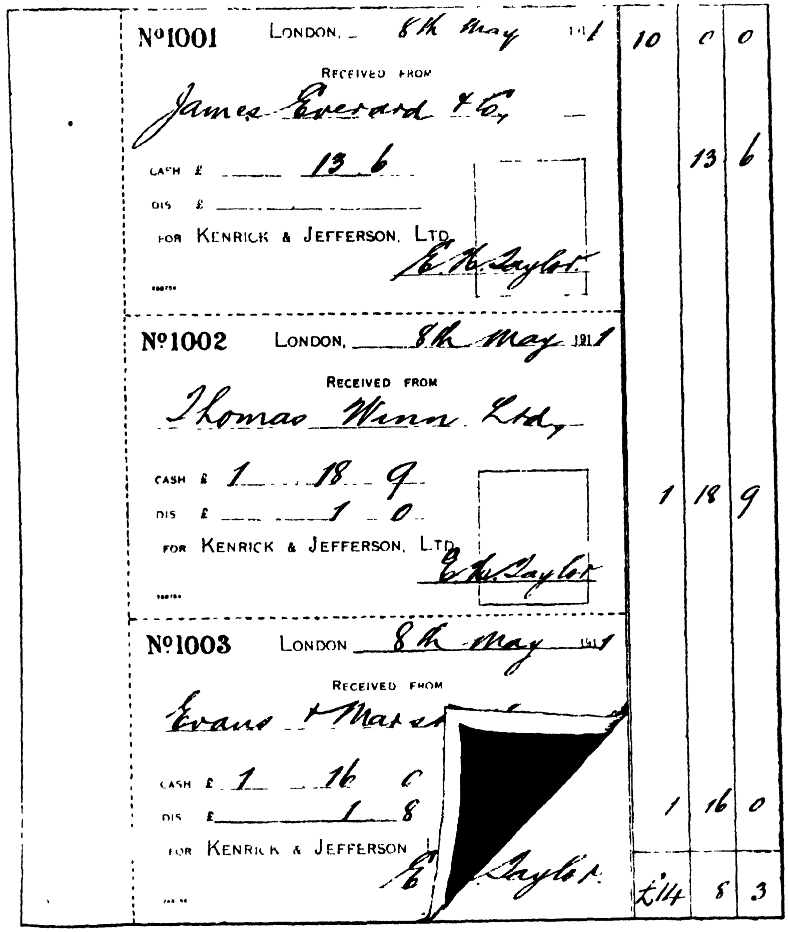
Dealing first with Cash Received, as in the case of the old-fashioned Day Book, there is a risk of entries being omitted although goods have been sent out, so in the case of Cash there is a risk of money being acknowledged without the Cashier being debited with a corresponding sum. This risk is (to some extent at least) obviated by substituting carbon duplicate receipts for counterfoil receipts. In the case of an undertaking dealing with customers, some of whom may be of questionable standing, it would be prudent not altogether to overlook the risk that the *customer* might fraudulently alter the receipt that had been handed to him. This, however, may be obviated if suitable precautions are taken. If a suitable pen be employed the record on the upper sheet may be written in ink and yet produce a clear carbon duplicate, or indelible pencils may be used; but the fact that the under sheet would be in all cases a facsimile of the upper is as a rule a sufficient check, from whichever point of view the matter be regarded. Some prefer to issue the carbon duplicate to the customer, and retain the original.

The form of Receipt Book shown overpage will fully explain the general idea in connection with this part of the system.

In its most rudimentary form this system will be so applied that the carbon duplicates (which are facsimiles of the actual receipts issued to customers) are detached from the Receipt Book and handed to the Ledger clerks, to be posted by them to the Personal Accounts of the various customers. The counterfoils in the Receipt Book will enable a total of Cash Received to be arrived at which will serve the double purpose of enabling each Sold Ledger to be balanced, and of checking the cash debited in the General Cash Book as having actually been received from customers. If, however, the system be developed further (as previously explained) so that the original slips are employed to take the place of Ledger Accounts, then—like the Day Book slips—the triplicates must be somewhat altered in form, and will bear the same relationship to the above form that the form on page 241 bears to that shown on page 243. It need perhaps hardly be pointed out that, if these slips are to be used in conjunction with the copy invoices as constituting a Slip Ledger, it is important that the two sets of slips should be of uniform size, in order that they may be readily filed away together, and that they should be printed upon distinctively coloured paper.

It is unnecessary again to go into the question of the relative advantages of the "old" and "new" systems at this point, as the matter has already been referred to in connection with the development of Sales Slips into Sold Ledger Accounts (pp. 240-2). It may be added, however, that it is very possible to over-estimate the disadvantage of receipts given from carbon books. The possible risks that they might be fraudulently altered by the customer may, it is thought, be left out of account, because—apart from the evidence of the customer's cheque—the fact that a duplicate can be produced that *ought* to be an exact facsimile of the original reduces this risk to a minimum. The risk that the duplicate may be altered to conceal a deficiency on the part of the Cashier is a contingency which, in the first place, can only arise if the Cashier has control of the duplicates (a contingency that ought never to be possible); while, in the second place, given these undesirable conditions, the more common form of counterfoil receipt affords even less protection than the carbon duplicate variety, for with the former there is nothing to prevent the body of the receipt and the counterfoil having been made out for different amounts *ab initio*, whereas with the carbon variety an alteration is a *sine quâ non* before any discrepancy is possible. It is, perhaps, just conceivable that the upper sheet might be filled up without any carbon sheet underneath, and the under sheet subsequently filled up by writing direct upon the carbon, but such irregularities as these would be too dangerous to be likely to occur in any well ordered office where a regular system of supervision applied. In the absence of supervision, irregularities of all kinds are, of course, not merely possible, but to be expected; in such cases, however, their occurrence must in fairness be attributed, not to the system of accounting employed, but to the

EXAMPLE:—


No 1001 LONDON, 8th May 1911 | 10 0 0
RECEIVED FROM James Everard & Co
CASH £ 13 6 | 13 6
DIS £
FOR KENRICK & JEFFERSON, LTD.

No 1002 LONDON, 8th May 1911
RECEIVED FROM Thomas Winn Ltd
CASH £ 1 18 9 | 1 18 9
DIS £ 1 0
FOR KENRICK & JEFFERSON, LTD.

No 1003 LONDON 8th May 1911
RECEIVED FROM Evans & Mars
CASH £ 1 16 0
DIS £ 1 8 | 1 16 0
FOR KENRICK & JEFFERSON
£14 8 3

lack of system in connection with the supervision. It may be added that, if thought desirable, additional " manifolds " of receipts may be provided, *e.g.* to supply a *confirmation* to be forwarded to the customer by someone other than the man who made out the receipt ; to provide a detailed return of cash received to the chief cashier, &c. &c.

Passing on to Cash Payments, a book containing particulars of remittances can readily be framed (upon the lines already described) so as to form the basis of postings to the debit of Ledger Accounts, without necessitating the intervention of a Bought Ledger Cash Book ; and, if thought desirable, such a book might be extended further so as to include the actual cheques themselves. It may be pointed out, however, that with most concerns Bought Ledger payments would not be so numerous as to make this particular development of the Slip System specially advantageous, while expenditure which had to be posted to the debit of Nominal Accounts would, it is thought, in most cases be better recorded on the " old " system, through the medium of bound books. There is an obvious advantage to be gained by the application of the Slip System to Sold Ledger Cash, because it reduces to a minimum the risk of money being received and acknowledged upon the proper form without being afterwards duly accounted for. In the case of the Bought Ledger Cash, however, and other payments by cheque, the counterfoils of the Cheque Book (which are themselves a rudimentary form of Slip System) afford a sufficient safeguard against omissions.

ALPHABETICAL CARD LEDGERS.

With the ordinary bound Ledger, a page —or a certain number of pages—is in the first place set aside for each of the various accounts, and if the space so originally provided be filled up before the Ledger as a whole is full, the account has to be carried forward to some other portion of the same Ledger ; while eventually, when the whole Ledger has been completely filled, every account therein contained (except those which show no balance, and upon which no further transactions are expected) has simultaneously to be carried forward into a new Ledger, opened upon similar lines. For the Alphabetical Card Ledger the following advantages are claimed :—

(1) By keeping two sets of frames for " open " and " closed " accounts respectively, the number of actual Ledger Accounts that have to be handled from time to time is reduced to a minimum, and the labour of extracting balances simplified to a corresponding extent.

(2) The record of transactions with each individual customer can be kept together, instead of being scattered over a number of different parts of a series of Ledgers.

(3) As the cards can be kept in any desired order, no Ledger Index is necessary.

(4) The time never arrives when a new Ledger and Index have to be prepared *in toto*. The Card Ledger is " perpetual."

(5) The Cards being—for the sake of convenient handling—comparatively small, there is never any temptation to have recourse to the objectionable device of opening two or three accounts upon the same page.

The disadvantages are :—

(1) A card may be displaced or lost.

(2) A falsified card may be bodily substituted for one that the Ledger-keeper desires to suppress.

(3) An elaborate special ruling is impracticable upon a small-sized card.

(4) Objections might be raised to a Card Ledger, if produced as evidence in a Court of law.

It cannot be denied that under certain conditions each of these objections may assume important dimensions, and at all events they all require to be carefully considered :

(1) This is an objection which never ought to assume serious proportions in a well regulated office, although it cannot be denied that—apart from any question of fraud—the temporary loss of a card, owing to displacement, may prove extremely inconvenient. It is important to bear in mind, however, that this objection applies *only* to the Alphabetical form of Card Ledger, and not at all to the Numerical form described on page 250.

(2) Before a falsified card can be substituted for the proper one, it is necessary for the fraudulent bookkeeper to obtain access to a spare card. Under any reasonable system of internal check this would be impracticable, if each business house employs its own distinctive cards. If the Alphabetical system be employed, the name of the account should be written on the card by some disinterested person before it is issued to the Ledger clerk. If the Numerical system be employed, the same precaution may be adopted if desired, but (for the reasons stated later) it hardly appears to be necessary.

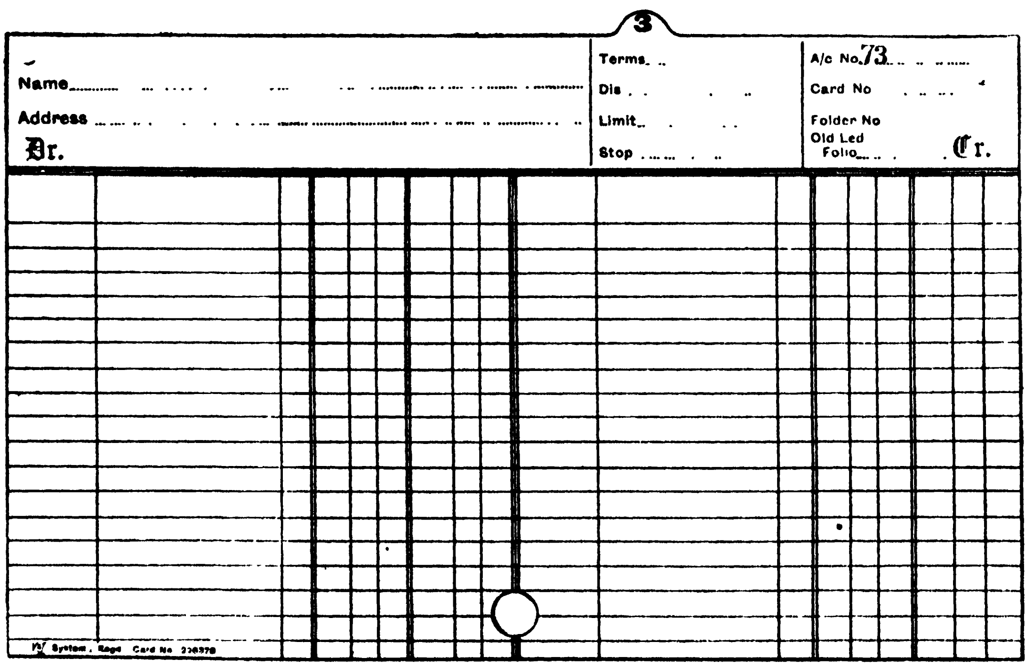
(3) This objection undoubtedly operates to limit the general utility of Card Ledgers, but in the nature of things it is of quite restricted application. As has already been stated, Card Ledgers are chiefly used in connection with the record of Trade Debtors' personal accounts, and there is no difficulty in recording all desirable detail in connection with these within the limits of an ordinary-sized card, and in practice space is often further economised by employing a Journal ruling (*c.f.* page 251), so that the narration for both debit and credit entries is recorded in the same column. By this means nearly double the number of entries can be recorded upon each card—a somewhat important matter where the postings are likely to be numerous.

(4) It is submitted that this objection is founded chiefly upon a misapprehension. If a Ledger be produced in a Court of law as evidence, it is merely as being in the nature of a record made at the time, to which the witness who made it is entitled to refer for the purpose of refreshing his memory, thus better insuring the administration of justice and saving the time of the Court. If the point were to be contested seriously, the only documentary evidence that could be admitted in this way would be that made when the transaction in question actually took place—*i.e.* the records in the books of first entry. The exact form of the Ledger is thus for this purpose somewhat beside the point ; but, however that may be, it is submitted that, should the necessity arise to produce any particular Ledger Cards in Court, it is far more convenient to produce the separate cards actually relating to that account than a number of heavy books ; and this convenience will be felt not merely by those attending the Court, but also by those remaining in the counting-house, whose work will under these circumstances not be at a standstill because the Ledger is perforce away from the office. (The Loose-Leaf Ledger, of course, also possesses this same advantage.)

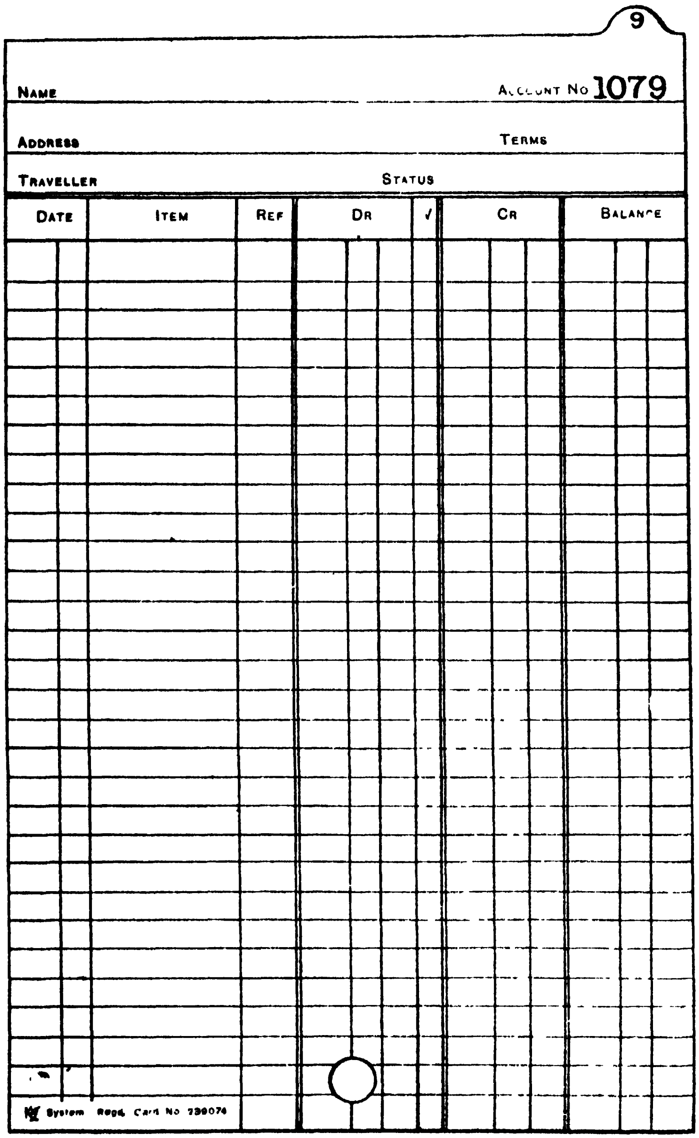
NUMERICAL CARD LEDGERS.

Since the first edition of this work was published another—and greatly improved—form of Card Ledger has come into use—namely, that framed upon the numerical system. Under this system two cards are used for each account, the one a Ledger card, provided with a "progressive shoulder" and a "tab," and the other an Index card. On these two cards are written the name and address of the customer and the number allotted to him. The Ledger Card is filed numerically, and the number on the card having once been fixed is permanent to that customer. The Index card thus remains good for all time, and the Index is permanent. The Index card is filed alphabetically in a separate frame (*vide* page 252); but if desired, of course, this frame can be made in two compartments, so that the operative and moribund accounts may be kept separate. The exact form of the Ledger Card is shown by the following examples :—

EXAMPLE:



EXAMPLE:


9

Name Account No 1079

Address Terms

Traveller Status

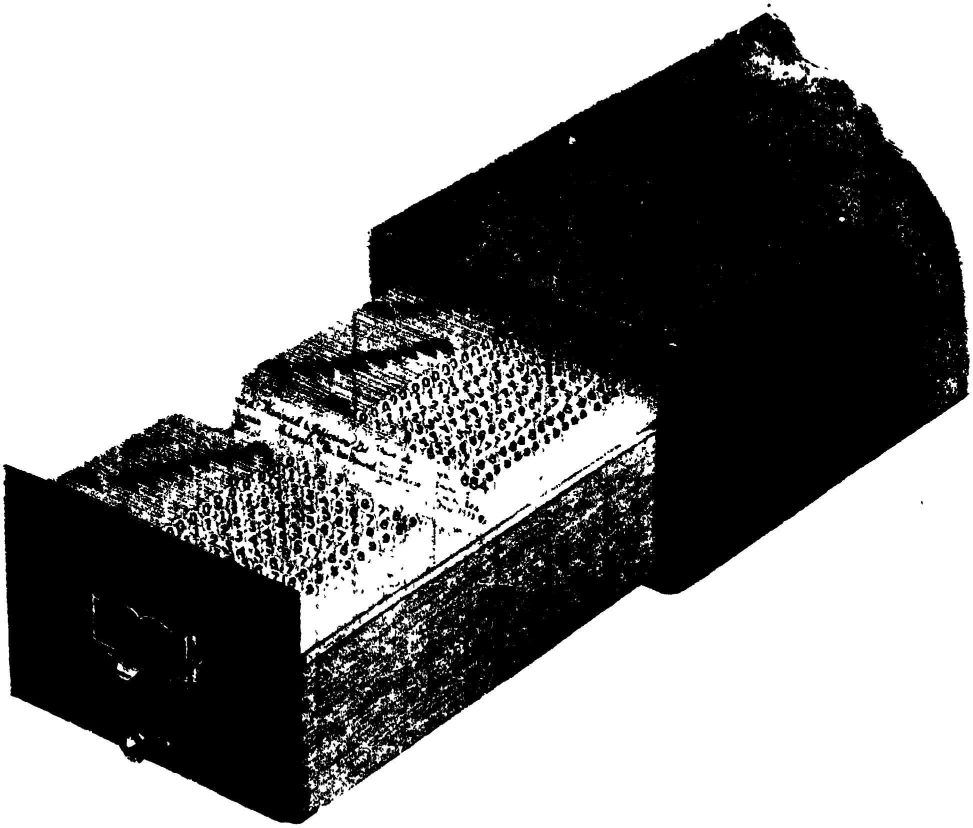
Date	Item	Ref	Dr	✓	Cr	Balance

System Regd. Card No 239074

The great advantage of the numerical system is that it becomes far more difficult for a dishonest clerk improperly to substitute a new card for one he is desirous of destroying; the absence of a card can be detected at a glance, being as obvious to the most casual inspection as a missing tooth.

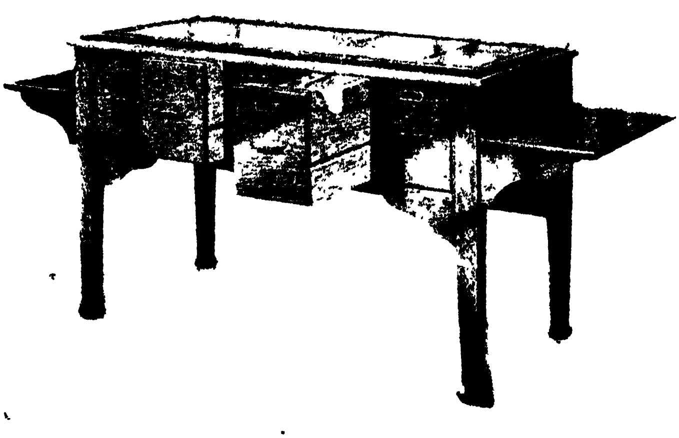
As already stated, the Index cards are filed separately, and the illustration at the foot of page 252 shows the most convenient method.

EXAMPLE:

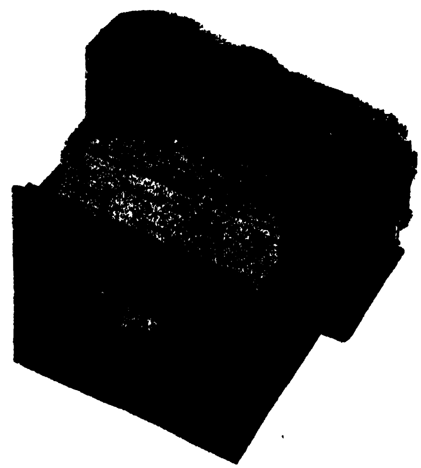


Cards may be most quickly handled when suitable office furniture is employed. With the following type of "Card Table," some 5,000 Ledger Accounts are under the book-keeper's hand without opening a single drawer.

EXAMPLE:



EXAMPLE:



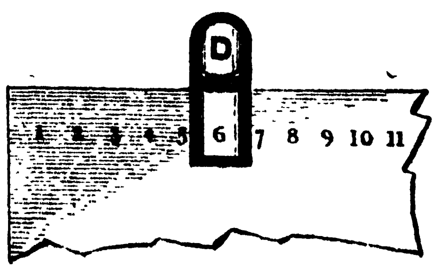
At first glance it may seem a waste of time to employ a separate Index, which is unnecessary under the alphabetical system. It may be pointed out, however, that the Index is permanent, and therefore the labour of compiling it, after the first effort, is absolutely imperceptible. Moreover, it is a distinct convenience that the names and addresses *should* be separate, so that one set of clerks may be employed in addressing envelopes while another set are preparing statements of account for submission to customers.

When the numerical system is employed it is no longer practicable to observe the distinction between "open" and "closed" accounts; but experience seems to show that this "advantage" is of questionable utility, although there is no doubt something to be said in favour of extracting absolutely "dead" accounts from the series of cards that have to be handled continually. Absolutely "dead" accounts may, however, be removed, and their numbers allocated to the next new accounts that are opened.

TABS.

The illustration below shows how metal clips (or "tabs") may be used as date reminders; distinctively coloured tabs may also be employed to facilitate reference to overdue accounts, &c.

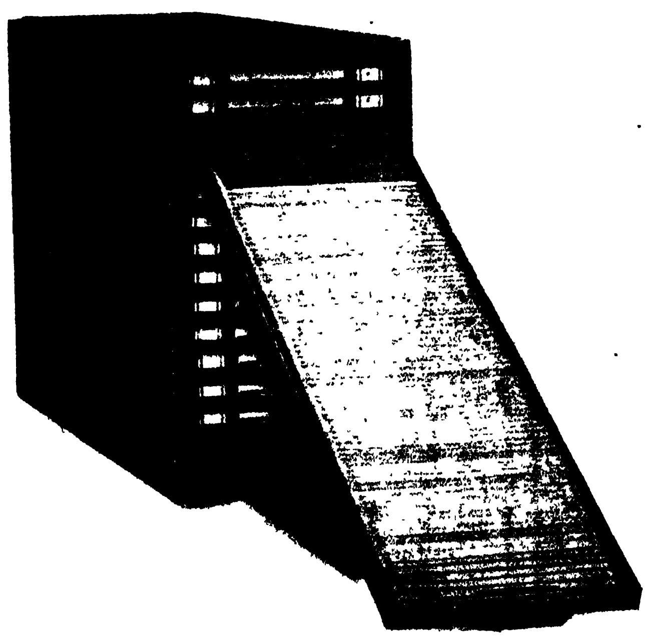
EXAMPLE:



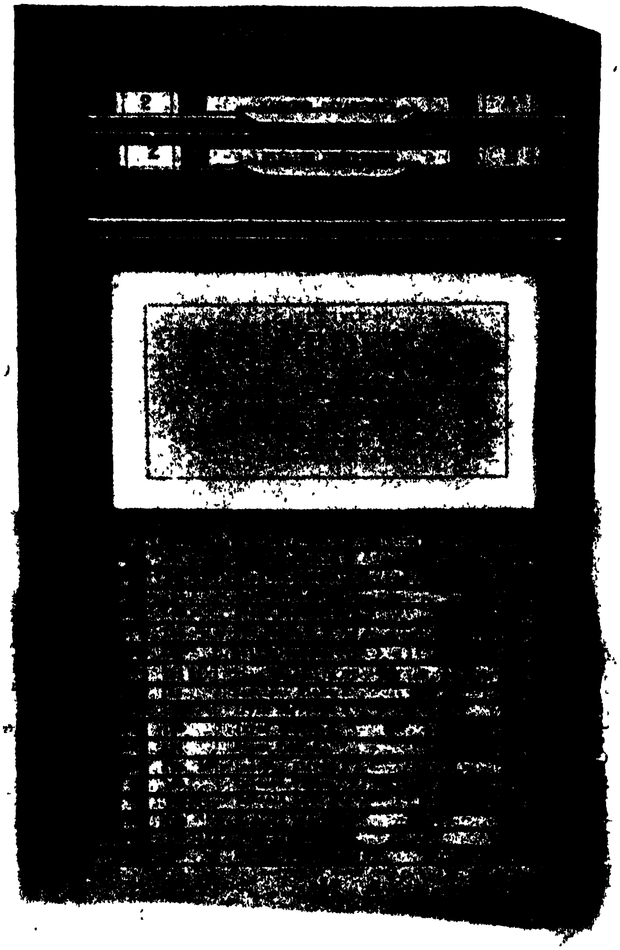
"KARDEX."

What is known as the Kardex, represents a new and, from any point of view, improved arrangement for operating Record Cards, so that the essential part of these cards is always visible, thus making for instantaneous reference, while entries upon both sides of the card may readily be made without removing it from its proper position. It may be added, however, that with the Kardex the conveniences of a Card System may be obtained without the use of actual cards, as carbon copies of original documents upon ordinary paper can under this system be handled with the same facilities as the cards themselves. The system is not merely suitable to Ledger Accounts, but to all kinds of records that call for continual reference or entry, *e.g.* Costing and Stock Records, Price Lists, Employees' Lists, Specimens of Signatures, Work in Progress, and the like.

EXAMPLE:



EXAMPLE:



The above illustration shows a 'close-up" view of a Kardex "slide" indicating the frontal indexing, which dispenses with Guide Cards. The individual cards are securely held in pockets, or card-holders, and so arranged that the typing at the foot of each card is visible through the transparent pocket that contains it, thus serving the double purpose of securely holding the card in place and protecting the exposed margin from dirt and wear. If, for any reason, a card has to be removed from its pocket, its absence is at once apparent by the appearance of an empty pocket strip. Kardex slides are usually, and most conveniently, arranged as horizontal drawers in a steel cabinet, as shown by the illustration appearing on page 253. It is quite unnecessary to remove a slide from the cabinet in order to refer to a card, or to make entries thereon, though all slides are readily removed and interchangeable. If a slide, when drawn out, should be at a slope inconvenient for writing purposes, it can be adjusted to any desired angle by drawing out a lower slide as a rest. The unit cabinet generally used contains 14, 15, or 16 slides, according to card size, each having a capacity for about 70 cards, the Cabinet holding 1,000 records. These units, supported upon steel tube stands, may be made up into "batteries" of any desired size, and are exceedingly compact, a battery having a capacity of 12,000 cards six inches by four inches, occupying a space of only four feet wide and two feet deep, and a height of two feet six above the stand. For certain purposes the Kardex is also made up in book units, which, being made of steel, will stand indefinite wear and tear, and as they are equipped with fibre shields they cannot damage office furniture.

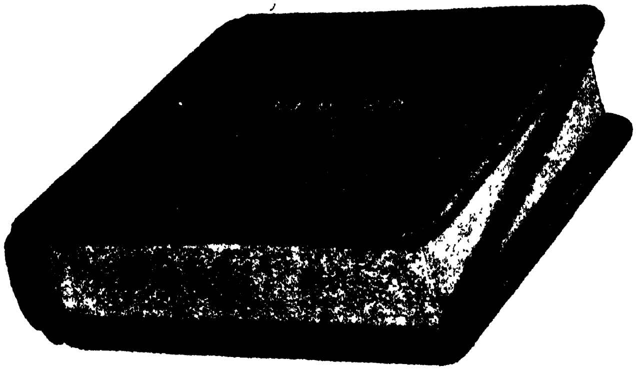
Constant handling impairs the legibility of ordinary cards at a comparatively rapid rate, but the names, addresses, and other information exposed on Kardex cards being all protected, necessarily last as long as the cards themselves. The perfect visibility of the Kardex system naturally represents a very appreciable saving in the time of all engaged either in recording upon them or in referring to what has been recorded.

Another strong argument in favour of the Kardex is the transparent colour "signal" system. These signals are firmly placed in the pockets containing the cards, and are therefore always visible and absolutely secure, though readily moveable into different positions of indication. Any desired complexity of signalling may be introduced by means of different colours and differently shaped signals in various positions. Corresponding signals placed under the "transoloid" cover to the Index label on the outside of the slide naturally direct the attention to the contents of that particular slide, and enable those, whose duty it is to deal with any particular class of facts, to get rapidly down to their work, without having even to open those slides that do not for the time being interest them. The standard sizes of cards used in connection with the Kardex system are 5 inches by 3 inches, 6 inches by 4 inches, and 8 inches by 5 inches; but owing to the support provided by the pockets, cards of practically any desired size may be used for special purposes without the somewhat disastrous results that usually accompany the employment of large cards under other systems. An existing standard record may be transferred to Kardex Equipment without having to be rewritten.

LOOSE-LEAF LEDGERS.

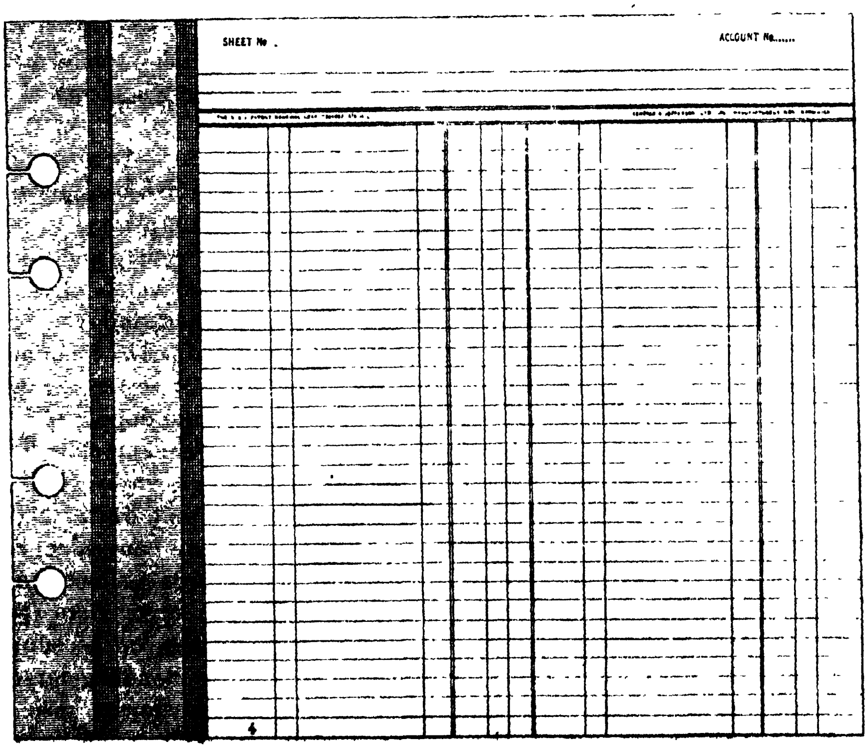
Loose-Leaf Ledgers occupy a place midway between Card Ledgers and Book Ledgers. In form they are like the latter, with the important exception that the leaves, instead of being permanently bound together, are merely held by a locking arrangement, which grips them tightly for the time being. As often as may be required the Ledger can be unlocked, filled up folios removed and placed in the "Old Accounts" binding cover, and their place taken by new sheets, which, of course, can be introduced as, when, and where required for the opening of new accounts. The advantages of the Loose-Leaf Ledger over the Card Ledger would appear to be chiefly that it can readily be manipulated by those who have had no previous experience of the Slip System; and, further, that the sheets may be of any convenient size and ruling, whereas Cards cannot very conveniently be much larger than (say) five inches by eight inches, on account of the difficulty of quickly handling larger sizes. Under some circumstances, when it is desired that the Ledger postings should

EXAMPLE:



contain considerable detail—as, for instance, in the case of Cost or Stock Ledgers—the advantage of being able to employ large Ledger Sheets of varying special rulings may be considerable. A form of Loose-Leaf Ledger is shown below—

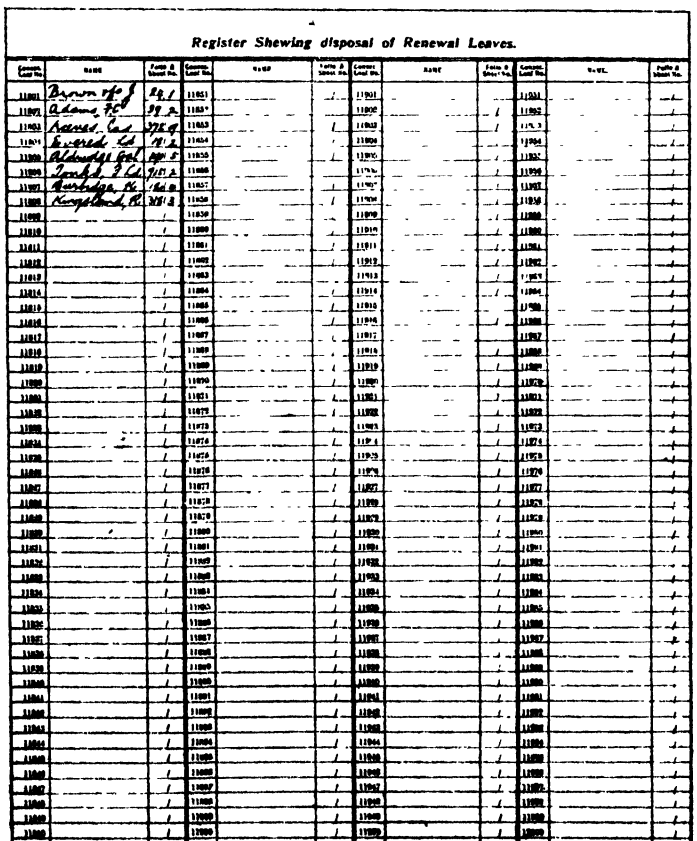
EXAMPLE:



As with the Card Ledger, so with the Loose-Leaf Ledger, the objection has been raised that once the security of bound books is abandoned, there can be no assurance that accounts which purport to have been written up from day to day over a considerable period of time have not been constructed subsequently to show a position of affairs desired by the bookkeeper, or to assist in the "satisfactory" settlement of a dispute with a customer. This objection has been met in the case of Card Ledgers by the introduction of the numerical system. In connection with Loose-Leaf Ledgers it is met by the introduction of a suitable system of registration. Under this system each sheet issued by the stationers has a distinctive number, and no two sheets bearing the same number are ever issued to the same business house: these numbers must, however, not be confounded with those allocated to customers. A Registration Sheet is provided in the form shown below.

As each sheet is issued to the Ledger clerk its distinctive number and destination are recorded in this Register, and thereafter that Ledger Clerk is responsible for the production of the sheet bearing that registered number, and responsible for seeing that it is used for the record of transactions relating to the particular account recorded at the time of issue.

EXAMPLE:


Register Shewing disposal of Renewal Leaves.

Sometimes this Register is placed at the end of the Loose-Leaf Ledger. It is suggested, however, that as an effective check it would be far better that it should be kept by the head of the counting-house, or at least by some clerk other than a Ledger clerk, and therefore the advantage of so framing it that it can be filed in a Loose-Leaf Ledger is not particularly obvious. Of course, if the Private Ledger be in loose-leaf form, these Sheet Registers may conveniently be filed at the end of the Private Ledger ; but it is open to question whether for Private or General Ledgers any improvement on the old-fashioned form of bound book is likely to be introduced.

LOOSE-LEAF BOOKS OF FIRST ENTRY.

It is perhaps hardly necessary to mention that the Loose-Leaf idea is at least equally suitable to books of first entry. When so applied it possesses the important advantage—as compared with bound books—that these books need not be duplicated so as to enable the Ledger clerks to post transactions while the entering clerks are simultaneously recording further transactions. As each sheet is filled up it is passed on from the entering department to the Ledger department, and is subsequently filed away in a "binder." As all sheets are distinctively numbered, there is no risk of individual sheets going astray. The sheet may be typewritten, or may be carbon copies of the original Invoices.

SUMMARY.

From what has been stated above, it will be seen that the Slip System is—to some extent at least—a "reversion" to keeping records upon loose sheets of paper, instead of in bound books. If it is to retain its functions as a "system," it need hardly be pointed out that it is essential that especial care should be taken to see that everything is done properly and in order—in fact, systematically. It would probably never be safe to depute inexperienced or inefficient bookkeepers to keep records upon the Slip System ; but experience has shown that competent bookkeepers, if reasonably supervised, can produce excellent results from this system, and that a material saving of time—and, in consequence, of salaries—may result from its introduction. Inquiries made by the author have thoroughly convinced him that the practical experience of many large business houses fully endorses the views expressed in earlier editions of this work. The matter has now got well beyond the experimental stage.

Another special convenience, which in some cases is particularly valuable, is that the system readily lends itself to every possible sub-division of labour. With bound books it is not usually practicable for more than two clerks to be at work upon the same pair of books (Ledger and book of first entry) at the same time. Under the Slip System, however, there is no difficulty whatever in any desired number of clerks being at work simultaneously. This naturally does away with one of the more important advantages of sub-dividing heavy Trade Ledgers ; but the convenience of being able to balance each Ledger separately is such that a similar distinction should, as a rule, be observed in connection with Card or Slip Ledgers as much as with bound or Loose-Leaf Ledgers. This division can, however, be very readily marked by regarding each drawer or file in which the Cards, or Slips, are kept as a Ledger capable of being separately balanced. Alternatively, some houses prefer to abandon all attempt to divide, say, the Sold Ledger into sections, but balance the whole daily. So long as it is practicable to extract a Trial Balance each day, a sub-division is probably unnecessary; and—in connection with the Slip System—a permanent record of the Ledger balances at the close of each day is undoubtedly of very considerable value; but if, for any reason, it is not practicable to balance the Ledger at such frequent intervals, some form of sub-division will doubtless be found desirable, to enable errors to be located when a difference in balancing is found to exist.

In conclusion, it may be added that, apart from all other advantages, the employment of either Slip, Card, or Loose-Leaf Ledgers materially facilitates the preparation of monthly statements, the extraction of Ledger balances, and other similar operations; in that at such times of pressure the work may be sub-divided to an extent only limited by the number of the available staff, whereas with Book Ledgers two is the maximum number that can be usefully employed simultaneously, and even then the work cannot be proceeded with at twice the rate of one. When, however, the Ledger can be cut up into numerous sections, a section can be allotted to each separate clerk, and the desired result can then be obtained in a minimum period of time. This important advantage will, it is thought, be at once appreciated, and will be found to compensate amply for any slight difficulty that may be experienced at first in handling accounts framed upon an unfamiliar system.

A further, and very important, development of this subject is dealt with in Chapter XXVI.

CHAPTER XIX.

COST ACCOUNTS.

COST ACCOUNTS are accounts supplemental—or subsidiary—to financial accounts, and are compiled for the purpose of giving additional information as to the detailed cost of working an undertaking, or any particular section thereof. It will thus be seen that, whereas the financial accounts are complete in themselves and independent of the Cost Accounts, the latter are of the very greatest importance and value to those responsible for the successful working of the undertaking. Speaking generally, a Cost Account may be said to be a section (or portion) of the Trading Account or of the Trading and Profit and Loss Account combined. It may sometimes represent some division thereof in point of time, or in departments (each section covering the same period as the combined account); or the divisions may be made in both respects simultaneously, as when separate Cost Accounts are prepared of each contract undertaken—numerous contracts being worked upon at the same time, while the period occupied over each contract is a varying quantity.

The nature of the Cost Accounts, and also the manner in which they are compiled, will depend greatly upon the nature of the transactions embarked upon. Before discussing the matter further, therefore, it will perhaps be convenient to indicate the different classes of Cost Accounts most usually to be found. They are as follow :—

(1) Undertakings whose transactions are divisible into several distinct departments, each dealing with a separate class of goods, which are regularly being constructed (*e.g.* Spinners, Weavers, &c.).

(2) Undertakings whose transactions are divisible into distinct contracts, where the separate result of each contract is required (*e.g.* Builders).

(3) Undertakings whose transactions are divisible into separate contracts (each of which contracts is executed in part by various different departments), when it is desired to show separate departmental results, and also the results of each separate contract (*e.g.* Engineers).

(4) Undertakings whose transactions consist of the manufacture of a single product; but where the conditions are such that the costof manufacturing that product varies greatly from time to time (*e.g.* Smelters, Collieries, &c.).

(5) Undertakings whose transactions involve the manufacture of a great number of different articles, each consisting of two or more processes, where it is desired to show separate results, both departmentally and in respect of each article; but where, owing to the number of the latter, complete Cost Accounts are impracticable (*e.g.* Smallware Manufacturers).

The foregoing classification of Cost Accounts has been suggested by a perusal of STRACHAN'S "COST ACCOUNTS," and will serve the present purpose as well as any other; it is important to bear in mind, however, that it is by no means exhaustive. It will readily be understood that, in the nature of things, Cost Accounts are hardly capable of any exact division into distinct classes, on account of the widely varying requirements of different undertakings.

(1) DEPARTMENTAL COST ACCOUNTS.

The requirements under this heading are comparatively simple, inasmuch as all that is required is a number of detailed Trading Accounts—one for each department—all of which will cover the same period as the Trading Account which forms part of the system of financial books. Under these circumstances, it will be convenient that the financial Trading Account should include those items included in the Departmental Cost Accounts, and no others, so that the aggregate result of the Cost Accounts may agree with the balance transferred from the Trading Account to the Profit and Loss Account. This system of accounting will be found suitable to manufactures which include a number of comparatively simple and distinct articles, in which case the accounts are merely upon the lines of ordinary Departmental Accounts (already explained in Chap. V); the system is also suitable where the mánufactures consist of a number of distinct, and well-defined, processes through which every article has to be taken.

A typical example of such a condition of affairs will be found to obtain in a Boot and Shoe Factory. The procedure in such cases will be similar to the Departmental Accounts, save that each department, after the first, must be treated as purchasing from the preceding department its manufactured product. A definite scale of prices must therefore be arranged as between one department and another, each department being treated as having earned its profit as soon as it has completed its part of the whole process of manufacture. This system lends itself readily to the preparation of detailed and accurate accounts, and (speaking generally) infringes no fundamental principle of accounting. It is important, however, when preparing the financial accounts at the end of each period, to review the general position broadly, with a view to guarding against partly-finished goods being taken into stock at a sum in excess of actual cost, unless there is every reason for supposing that their manufacture will in due course be completed and the articles will then find a ready purchaser at the normal price. If there be any doubt under either of these headings, a reserve should be made against any possible loss on the work already done in the earlier departments of manufacture.

(2) SIMPLE CONTRACT ACCOUNTS.

This, as a class of Cost Accounts, is not likely to occur often in practice, but it is convenient to consider the simpler problems here provided before viewing them in their more practical (and more complicated) aspect as appearing under heading (3). The nature of the transactions is that certain simple articles, which can be completely manufactured in a single department, are contracted to be made at definite prices, and the object of the Cost Accounts is to show the actual cost of production, with a view (*a*) to checking the estimate upon which the contract was based; (*b*) to providing data for future estimates; and (*c*) to enabling leakages to be detected, thus paving the way for the introduction of further economies in the future. The principle in these cases is identical with the principle of Departmental Accounts, save that the division, instead of being upon definite lines that are invariably the same, varies from time to time according to the contracts then in hand, each account being closed up as soon as that contract is completed; the Cost Accounts thus do not run on for a period equal to the financial year of the undertaking, but for a period equal to the duration of the contract. To enable the Cost Accounts to be reconciled with the financial accounts, however, each contract remaining uncompleted at the close of a financial year must be totalled up to that date, in addition to being balanced off when the work is finished.

(3) DEPARTMENTAL CONTRACT ACCOUNTS.

The distinction between the accounts that come under this heading and those referred to under the preceding is that the contract in each case consists of several "parts" or distinct processes, the results of each of which have to be shown separately. The accounts therefore require still further sub-division in order to produce the required result. Each separate Cost Account should show not merely the result of that particular contract, but also the expenses incurred in connection with each department, or process, and *per contra* that portion of the contract price which may be allocated thereto. The latter may readily be arrived at, in that the estimate would always be the aggregate of the estimate for each separate department or process. Cost Accounts coming under this classification should be tabulated from time to time, so as to show not merely the separate result of each contract and the aggregate result of the contracts as a whole, but also the aggregate result of each separate department. The majority of manufacturers' accounts, where the work is contracted for in advance, will come under this heading.

When work is divisible into different processes, the correct treatment of losses arising through such work being spoilt is a matter of considerable importance where departmental or process costs are aimed at, although naturally unimportant if only final results are considered. The department or process responsible for "spoils" should be charged with the cost of all previous processes upon such spoilt work, and the previous department should receive corresponding credit. It is only in this way that the actual departmental or process cost can be arrived at with even approximate accuracy, and it is rarely that the seriousness of the loss arising from "spoils" is duly appreciated until the matter is treated upon these lines. The pressure that can then be brought to bear upon departmental managers commonly effects a considerable reduction in the loss arising from this cause. If the spoilt article has any value as scrap, credit should, of course, be allowed accordingly to the department that is charged with the spoil, and the corresponding account in Stores Department debited.

EXAMPLE: Suppose the output of a factory for a given period be 950 articles and total cost £387 10s. Then cost per article = £0.4079 = 8s. 1¾d.

But suppose work consists of three processes, A, B, and C, the respective costs of which were £99 10s., £193, and £95; superficially the process costs are:—

A	.. ..	£0.1047	or	£0	2	1
B	.. ..	0.2032	"	0	4	0¾
C	.. ..	0.1000	"	0	2	0
		£0.4079		£0	8	1¾

But suppose, further, that the original works order was for 1,000 articles; that 5 were spoilt in Process A, 20 in Process B, and 25 in Process C; and that there is no value in the "scrap."

Then the cost per article of Process A is:—

$$£99\ 10s. \div 995 = £0.1000.$$

The cost per article of Process B is:—

$$£193 + £2\ (20 \times £0.1) = £195 \div 975 = £0.2000.$$

The cost per article of Process C is:—

$$£95 + £7\ 10s.\ (25 \times £0.3) = £102\ 10s. \div 950 = £0.1079.$$

The corrected process costs are thus:—

A	£0.1000	or	£0	2	0
B	0.2000	,,	0	4	0
C	0.1079	,,	0	2	1¾
	£0.4079		£0	8	1¾

In practice the discrepancies might easily be very much greater.

(4) "SHORT-PERIOD" COST ACCOUNTS.

The requirements under this heading are comparatively simple, in that the account is practically neither more nor less than a Trading Account for a limited period, save that (as a rule) the particulars of cost will be fuller than is usually considered necessary in financial accounts. Examples of such accounts are afforded by Collieries, Iron and Steel Manufacturers, Gas Works, and the like; while accounts prepared upon exactly the same lines are compiled by Railways, Tramways, Hotels, and certain other undertakings, which, although not engaged in manufacture, require for their successful working to keep careful and constant supervision over their working expenses. The problem in such cases is comparatively simple, in that the analysis of expenditure follows exactly the same lines as that required for the financial accounts, save that perhaps some further dissection is necessary to provide the additional detail required. Assuming, however, that the Cost Accounts are prepared (say) fortnightly, then 13 such accounts should agree exactly in all particulars with the half-yearly Trading Account. The objects of compiling the record at more frequent intervals are (1) that leakages may be detected and rectified at the earliest possible moment, and (2) that the output may be controlled, by restricting it when conditions are unfavourable, and enlarging it when the value of the product is relatively high as compared with the cost of its production.

In spite of the heading attached to this section it should be added that, although the Cost Accounts are customarily prepared for short periods (usually coinciding with the intervals at which wages are paid), from time to time these Cost Accounts are aggregated so as to show the results over a more extended period. In connection with both the short-period accounts and the aggregated accounts, these results (as shown in the examples given at the end of this chapter) are prepared not merely in absolute figures representing the totals for the period under review, but as comparative figures corresponding with a unit of work done The unit must in all cases be carefully chosen, so that these comparative figures (or "decimal calculations," as they are sometimes called) may produce results that are of practical value, and for that purpose it is desirable that the unit selected be one which, as far as possible,

varies directly with the periodical variations in cost. In connection with certain industries—as, for example, gas works—it is found desirable to employ *two* distinct units, so that the imperfections of the one basis may to some extent be compensated by the advantages of the other; probably in most cases a dual basis would be a distinct advantage. The following units are in general use:—

Collieries—Per Ton of saleable Coal raised.
Other Mines—Per Ton of Ore raised, or per ton (cwt. or oz.) of metal *sold*.
Iron and Steel Manufacturers, Smelters, &c.—Per Ton produced.
Rubber Companies—Per Pound of Rubber *sold*.
Breweries—Per Barrel (of 36 gallons) brewed.
Gas Works—Per Ton of Coal carbonised, and per 1,000 cubic feet of Gas *sold*.
Electric Light Works—Per Ton of Coal used as fuel, and per 1,000 units of Electricity *sold*.
Railways—Per Train-mile (per Ton-mile is favoured in some quarters, but is not general).
Tramways—Per Car-mile, per Passenger-mile, and per K.W. of Current used.
Brickworks—Per 1,000 Bricks made.
Hotels, &c.—Per Visitor per day.

Undertakings whose output is more complex generally adopt as a unit per £100 of sales, or else reduce all other figures to a percentage of the total Sales for the period.

If the undertaking be of a complex character, in the nature of things no single unit can give satisfactory results for costing purposes. Recourse must then be had to a "built-up" unit. Thus, in the motor car industry, a particular chassis complete may be expressed in terms of unity. All the various parts of which it is composed, plus the cost of assembly, are allotted corresponding decimal values, the total of which amounts exactly to unity, their respective decimal values being determined as accurately as possible by average cost in past years. Other standards of chassis employing the same individual parts will have allotted to those parts the same decimal values as in the standard car, but where the parts differ they will have allotted to them decimal values corresponding to differences in the normal cost. The total cost of the car in this case will accordingly not be unity, but some other figure, more or less according to circumstances. Upon this system, units of output can be calculated in terms of the original standard car, and costs will be expressed in terms of "per unit of output," even although the original standard car may have become obsolete. The chief value of the system, of course, lies in the facility that it provides for comparisons over a long period of time, notwithstanding the fact that conditions are continually changing, but for the results so arrived at to be useful, it is obvious that considerable care must be taken in the first instance in applying suitable decimal equivalents to each separate part manufactured.

(5) MISCELLANEOUS COST ACCOUNTS.

Under this heading may be included the accounts of those manufacturers who deal with a vast number of different and continually varying articles, some of which are made for "stock" purposes, and some on contract, under such conditions that it is practically impossible to employ a complete system of Cost Accounts, such as those already described. In such cases naturally all that is possible is to compile the most complete accounts that are reasonably practicable in the difficult circumstances of the case. As a rule, it will not be practicable to do more than keep complete Departmental Accounts (as explained under paragraph (I)), and to supplement these by Cost Accounts in connection with certain articles, selected from time to time as tests ; while occasionally it may be found practicable to keep complete particulars of all costing operations over a comparatively short period, although the cost of keeping such accounts continuously would be prohibitive. It is under this heading that the most difficult problems will arise in practice ; but inasmuch as each must be dealt with upon its own merits, no general observations, such as could be made here, are likely to prove very useful in practice.

When a manufacturing undertaking makes its own Plant, and when, accordingly, the cost of such Plant has to be treated as Capital Expenditure, special care must be taken to avoid any exaggeration of the amount so capitalised. It is submitted, however, that if Cost Accounts are properly designed, the figures of cost that they show are the correct figures to capitalise.

PREPARATION OF COST ACCOUNTS.

The general nature of Cost Accounts under varying circumstances having now been described, it will be seen that, in general, the process of compiling such accounts involves neither more nor less than an elaborate dissection of all expenditure into more or less numerous subdivisions. Such expenditure may be broadly classified under four headings :—

I.—(*a*) Labour.

(*b*) Materials specially acquired for that particular purpose, and capable of being directly charged thereto.

(*c*) Materials consumed from Stock.

II.—(*d*) General Establishment Expenses (often called " Overhead ").

The most convenient method of dissecting these four classes of expenditure will, in the nature of things, vary to a large extent according to the manner in which it is found convenient to record such expenditure in the financial books of account. The question is one that should always be taken into consideration when the system of financial accounts is being designed ; but, inasmuch as such systems will naturally vary enormously according to the requirements of each particular undertaking, only a few general indications can be given in the present work. This, it is thought, will be self-evident, when it is borne in mind that a volume at least the size of the present one might usefully be written on the Cost Accounts of any one representative industry. It may be added, however, that Slip Systems are peculiarly suitable, as they admit of the cost department and the accounts department both getting to work simultaneously. In a really large concern the employment of office machinery is practically essential.

(*a*) LABOUR.—If the financial books are designed to show departmental results, the Wages Analyses may readily be framed to dissect the total wages paid from time to time into departments. When, however, it is desired to sub-divide Wages further, so as to show the expenditure upon each of a number of different contracts, such dissection must (as a rule) take place outside the books necessary for financial purposes. Sometimes the dissection may be best accomplished upon sheets ruled similar to the following :—

EXAMPLE :

WAGES DISSECTION, for the fortnight ended.................................. 192 .

Name	Total	Numbers of Contract										
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
Contract Ledger fo.	....	....	....	.. .	. .	....	....	...	....	...	...	

If practicable, however, it will often be found to reduce the amount of work involved materially, if some development of the Slip System (Chap. XVIII) be applied to the analysis of Wages over the various contracts. The Slip System lends itself well to work of this description, in that there is rarely (if ever) any imperative necessity for keeping a permanent record of how the various details of Wages are made up, so long as the amount debited weekly (or fortnightly) to the various contracts then open is made to agree with the total of Wages paid.

It goes without saying that if the dissection of Wages for Cost Account purposes cannot be commenced until after the Wages for any given period have been priced out and paid, it is impossible for the cost records to be kept up to date : in consequence, some application of the Slip System is greatly to be preferred, wherever practicable. All that is necessary is that the written instructions to workers should be given out in the form of Work Cards, a separate card for each job. When the work is finished (or the current wage-period comes to an end, whichever happens first), the Work Card is returned to the foreman, certified by him, and handed in to the Cost Office for record, being afterwards transferred from the Cost Office to the Pay Office to enable the latter to make up the Pay Sheet. This Pay Sheet should be agreed with the Wages debited in the Cost Ledger *before* the wages are paid ; and if the work of both departments proceeds regularly from hour to hour, instead of being all compressed into a few hours at the end of each week or fortnight, no difficulty will be experienced in arriving at this absolute agreement at the proper time—*i.e.* before the workers have been paid, when it is still possible to rectify mistakes.

It may be added that, under the general term " Wages," as employed here, it should be understood that all payments to workers and supervisors are included that are capable of being analysed directly over the various contracts in hand. Salaries paid to managers, and other similar expenses which cannot be dissected so readily, are best included under the heading of Establishment Expenses, and divided in the manner explained hereafter.

(*b*) Materials Directly Chargeable.—The expenditure under this heading may be readily arrived at, if a suitable form of Purchase Book be employed for the record of invoices for all goods received, such as the following :—

EXAMPLE :

PURCHASE BOOK, for the month of....................192 .

Date	No. of Invoice	Name	B. L. Fo.	Amount of Invoice	Miscellaneous Accounts			Stores	Contracts		
					Account	N. L. Fo.	Amount		No.	C. L. Fo.	Amount
				£ s d			£ s d	£ s d			£ s d

In the case of large undertakings it will probably be found convenient to provide the Cost Office with a separate Materials Journal, as otherwise some inconvenience may be caused by the Purchases Book being at the Cost Office when required in the Counting-house, and *vice versa*.

Here again, however, the principles of the Slip System may often be employed with advantage, the actual invoices themselves being handled, and charged up direct to the various contracts ; or Analysis Sheets, supplementary to the Purchases Book, may be employed, such sheets being for all practical purposes " intermediate " Ledgers, collecting the materials directly chargeable against each contract, so that the periodical total only is posted to the Ledger Account opened in respect thereof in the Cost Ledger.

(*c*) Stores Consumed.—Under this heading may be included all materials (including Plant) issued from the works for the use of any particular contract, each contract being afterwards credited with the value of such Materials and Plant as may be returned unconsumed. In the case of Plant, however, credit should be given at a reduced figure, to compensate for the wear and tear incurred during the time that the Plant remained at the disposal of that particular contract. To avoid confusion, it is perhaps desirable to add that this actual debiting and crediting of Plant to a contract would only be performed in cases where the work was done away from the factory ; it is, then, most important to keep an accurate record of all Plant that may leave the factory premises, with a view to seeing that it finds its way back again to the factory after the contract has been completed.

There are numerous methods in general use of keeping a record of Stores ; but many of these methods are unreliable owing to their unsystematic nature, and it is thought that some application of the Slip System is the only really satisfactory method that can be employed. Under this system a requisition must be made out and given to the Storekeeper in exchange for whatever may be required. This requisition should be recorded—

(1) To the debit of the contract;

(2) To the credit of that particular class of Stores or Plant.

On Stores (or Plant) being returned, the reverse process should be pursued.

A good form of "Stores Issued Slip" for general purposes is the following:—

EXAMPLE:

(UPPER SHEET.)

ACME ENGINEERING COMPANY, LIM.

No. 000 ——————19——

To the Storekeeper

Deliver to bearer

(This space to be left blank)

Charge to

Contract No.————

(Signed)————

(LOWER SHEET.)

STORES ISSUED SLIP.

No. 000. ——————19——

Debited to————Priced by————

Credited to————Passed by————

	Price	Amount
		£ s d

Debit to

Contract No.————

NOTE.—The Lower Sheet is forwarded from the office direct to the clerical staff in charge of Stores records, to be priced out and duly entered up by them. If desired, it is, of course, an easy matter to multiply copies of the requisitions further by the aid of carbon sheets.

The Stores Returned Slip might be upon the same lines, but should be printed on distinctively coloured paper, in order to guard against possible errors.

Theoretically, the Stores Ledgers ought to be kept by someone other than the Storekeeper, in order that they may provide an absolutely independent check upon the Storekeeper and his stock; but it is only in very large concerns that this plan can be carried out in its entirety. As a rule, however, there is no difficulty in arranging that the debits to the various contracts or jobs be kept by someone other than the Storekeeper, and the total of such debits can be compared at frequent intervals with the total credited by the Storekeeper against the corresponding Stores Accounts. If the Stores Ledger be kept in double columns—in quantities as well as in money —it becomes increasingly difficult for manipulations to occur, provided, of course, the posting of the Stores Ledger is carefully checked at frequent intervals. In large concerns it is an excellent plan for the Stores Ledger to be kept in the Cost Office, and for a duplicate to be kept (in quantities only) by the Storekeeper, preferably in card form.

By whomever they may be kept, the detailed record of Stores involves the employment of two Ledgers (each of which might usefully be of the Loose-Leaf, or Card, variety, as may be preferred), the first one to contain an account for each Contract to be debited with all Stores issued, and credited with all Stores returned; the second (or Stores Ledger) to contain an account for each distinctive class of Stores, to be credited with all Stores issued, and debited with all Stores received or returned into stock. Each month the bookkeeper should compile a schedule of his total debits and credits to each account in both his Ledgers. The one set of figures will supply the periodical totals of Stores Issued and Stores Returned, to be debited and credited respectively to each Contract in the Cost Ledger; the other set will supply the totals of Stores Issued and Stores Returned to be credited and debited respectively to the corresponding Stores Account in the Stores Ledger.

It should be added that in many cases the full details of the Stores Issued are posted direct to the debit of the job in the Cost Ledger, which in such cases may advantageously be in tabular form, so that the total expenditure under each heading may be shown separately during the continuance of the contract.

The practical effectiveness of Stores Accounts will depend to no small extent upon the number of separate accounts that have been opened in the Stores Ledger. In the long run nothing whatever is gained by attempting to keep records of different kinds of things in the same Ledger Account, and this applies at least as much to Stores as to anything else. A considerable saving of time all round will be effected if every kind of Stores stocked have a definite reference number allotted to it, by which it can be designated for all internal purposes. When this is done, Stores can be requisitioned according to their schedule number, without any verbal description being necessary; and if these schedule numbers be also the account numbers of the corresponding accounts in the Stores Ledger, the risk of items being posted to the wrong account is reduced to a minimum. As a matter of convenience, these numbers should run serially in the Store, so that even a stranger may be able to find his way about, and reach any particular article of which he knows the schedule number, Sometimes Stores are charged out at their original cost price, and sometimes at their current purchasable price. There are arguments in favour of each course, but upon the whole it is suggested that the latter is the more correct, and that costs of manufacture should not be confused with profits or losses arising from buying Stores well or badly. In practice, there is no difficulty in supplying the clerk whose duty it is to price out Stores requisitioned with a schedule of authorised prices, which may be modified from time to time as circumstances require.

Clearly, however, the result of charging out Stores at any figure other than the original cost will be to cause a discrepancy between the results as shown by the Cost Accounts, and the results as shown by the financial books. This can be readily avoided by treating the Stores Department in the latter as a separate operative department, capable of making a profit or a loss according to circumstances, which must be brought into Profit and Loss Account direct. Or, if preferred, Overhead Charges may be modified from time to time accordingly; although (as already stated) there is not really any connection between the factory costs and speculations in raw materials.

(*d*) Establishment Charges.—Under this heading must be included all those expenses that are not comprised in the three preceding ones, but are included in the financial books as a debit to the Trading Account (or to the Trading and Profit and Loss Accounts, as the case may be). As the charge in respect of Establishment Expenses has to be made in the Cost Accounts before the close of the financial year (and therefore before the exact total of such expenses has been ascertained), it is clear that the amount to be debited to each of the various accounts in the Cost Ledger in respect of Establishment Expenses can only be an estimated item. The estimate should, however, be compiled as carefully as possible, and should (if anything) err upon the side of being too heavy, rather than too light, so that the results shown by the Cost Ledger may be "conservative" estimates of the actual results achieved.

It is suggested, however, that although the view is very general that Establishment Charges can only be treated approximately in the manner indicated above, if the matter be dealt with systematically, the approximation can be made very much more accurate. Thus it ought to be no impossible task for the Counting-House to supply the Cost Office at the end of each week, fortnight, or month, with the total expenditure (under each of an agreed series of headings) for the past period. These totals would in the majority of cases be so close to the facts as to admit readily of any necessary subsequent adjustment; but in connection with such items as bad debts, discount, interest, and the like, the system would probably be found not to work well in practice. This, however, merely affords an additional argument for not attempting to deal with such extraneous expenses in the Cost Accounts at all. It is further submitted that the proper "loading" for Establishment Charges against any given contract or job is its due proportion of those charges ***actually incurred during the period that the contract or job was in hand;*** that is to say, at a time when the factory is full the Establishment Charges are—and should be—less than when the factory is working (say) at half time. As ordinarily compiled, Cost Accounts cease to be Cost Accounts directly the allocation of standing charges is reached, and in place of actual facts estimates are employed. Such estimates, it is thought, very materially interfere with the real value of the Cost Accounts as a whole. It may at first sight seem to be a little more trouble to debit Establishment Charges weekly (or at other frequent intervals) than to wait until the whole of the contract is completed and then charge it up *en bloc*, but a moment's consideration will show that they can be apportioned much more accurately when apportioned frequently. Moreover, whatever system be generally employed, it will from time to time produce manifestly inequitable results; and these can be much more easily detected, and adjusted, if the work proceed by instalments practically continuously. For example, if all work be machine work, Depreciation of Machinery and Cost of Motive Power may, in general, be apportioned equitably *pro rata* according to the amount of Wages paid : but if some work be hand work, then obviously the loading in respect of these charges will be heaviest against those contracts, or jobs, which derive the *least* benefit from this class of expenditure. This is by no means an isolated instance. It may be stated in general terms that whatever method of apportionment be employed it must be used, not blindly, but with intelligence ; and, to enable it to be so used, it is essential that those responsible for the apportionment should have the detailed facts before them at frequent intervals.

The best method of apportioning Establishment Expenses over the various accounts is a matter upon which some difference of opinion exists, and also one which must to some extent vary according to the circumstances of the case. Speaking generally, however, it may be stated that while certain Establishment Charges may be said to vary according to the total cost of the work performed, others will vary more closely according to the contract price, according to the amount of wages paid, or according to the amount of time occupied on the job. As it is extremely desirable that the basis of apportionment should be as exact as possible, it is desirable that Establishment Expenses should be subdivided into two or more headings, and a separate amount for Establishment Expenses debited in respect of each group, upon the principle that appears to be the fairest. For the sake of showing clearly what is intended here, the following sub-division is given. It must be understood, however, that each case should be considered upon its own merits, in order that an accurate basis of apportionment may be arrived at.

(*a*) Establishment Expenses to be apportioned *pro rata* according to the number of hours booked to the job—

Rent of Factory.
Rates, Taxes, Insurance, and Repairs of Factory.
Salaries of Factory Managers, &c.

(*b*) Establishment Expenses to be apportioned *pro rata* according to the amount of (machine-minders') Wages paid—

Depreciation and Repairs of Machinery.
Motive Power.

(*c*) Establishment Expenses to be apportioned *pro rata* according to the total prime cost—

Interest on Capital.
General Office Expenses.
Discounts and Bad Debts (if included).

If Interest on Capital be treated as a factor in Overhead Charges, it should be interest on the amount of Capital actually employed in the business, and not merely interest paid upon borrowed Capital. The Capital so employed consists of Fixed and Movable Plant, Premises, Stocks of Raw Materials (less amount of cost thereof still owing), and amounts due in respect of work unpaid for, less amounts (if any) received in advance on current work. It may very well be that the only considerable items of Capital are represented by Plant and Buildings. If that be the case, a method of providing for Depreciation which takes cognisance of Interest on Capital sunk may be employed, and the question of Interest will then be dealt with, so far as may be necessary, under the heading of Depreciation (*vide* paragraph (*b*) above). Where some contracts occupy very much longer than others in completion, and there are considerable sums outstanding in respect of them in the meanwhile, it is clear that the question of Interest cannot be altogether ignored, if accurate Cost Accounts are to be kept.

Enough has probably been said to show that the writer does not favour the practice of attempting to allocate, as part of the cost of individual items of the production of a factory, those expenses which have in fact nothing whatever to do with the factory output. As has already been explained, the introduction of these very "indirect" charges into the Cost Accounts tends to vitiate the comparison of results, as between one period and another, where it is practicable to express those results "per unit"; and in all cases the assumption that these charges are capable of being distributed *pro rata* over the output of the factory (whatever exact method of distribution may be employed) is so arbitrary as to render unreal, and largely imaginary, results that would otherwise be absolute statements of fact. It may be further added that the Cost Accounts, being in essence a highly departmentalised —if somewhat amplified—Trading Account, are constructed at so much trouble, not for the purpose of supplying a purely theoretical demand, but for the essentially practical purpose of enabling those at the head of affairs to be supplied with the needful information to enable them to control practical managers directly responsible for results, and also for the purpose of showing those practical managers what results have actually been achieved. Under no circumstances can the practical, or factory, manager be in any way held responsible for indirect expenses of the kind here under consideration, and as a result the introduction of these items into the Cost Accounts is, it is thought, disturbing rather than helpful. When, to the above objections, it is added that it is only in connection with these extraneous items that any serious difficulty arises in connection with the direct and immediate allocation of *all* items of cost (including Overhead) week by week, and month by month, it is thought that a very fair case has been made out in deprecation of a system which would appear to have had its origin with theorists rather than with practical men.

COST LEDGERS.

So far the method of dissecting costs over distinct contracts has alone been dealt with. When, however, each contract has further to be sub-divided into separate processes for costing purposes, each such process must have allocated to it a separate Ledger Account. As a rule, it is convenient to let each contract as a whole bear a consecutive number, rather than to allot a distinct number to each such process, the various processes being identified either by distinctive initials or secondary numbers; for example, 1562A, or 1562/1. Another method of numbering sometimes employed is to allocate a number which is a multiple of ten to each separate contract, allowing the distinctive unit number to indicate sub-contracts. Thus the number 15,620 would represent a definite contract as a whole, while numbers 15,621 to 15,629 inclusive would represent as many different sub-divisions of that contract. It may be questioned, however, whether this plan is as good as either of the first two previously mentioned. It is inelastic, in that it limits the possible number of sub-divisions, unless fractions be employed, while it is obviously inconvenient that the contract number should contain more figures than are absolutely essential to meet the requirements of the case.

Speaking generally, it is thought that, of all forms of Ledger, the Loose-leaf variety is that most suitable for the record of Cost Accounts. It enables those contracts of short duration to be removed from the current binder forthwith, while permitting the whole of the record of the longer (and therefore more important) contracts invariably to be kept upon sheets that run consecutively, all of which remain in the current Ledger so long as the contract is in progress, and all of which are together transferred to the closed accounts file as soon as the contract is completed. The Loose-Leaf Ledger, moreover, readily adapts itself to any desired form of ruling, and, should the necessity arise, it is a perfectly simple matter to combine two or more different types of ruling in the same Cost Ledger, each individual sheet being framed according to the requirements of the contract recorded thereon. This is an advantage that may not be very apparent in connection with every type of business, but in the majority of cases it will be found a convenience, in that Summary Sheets specially ruled (of which an example is given on this page) can then easily be added at the end of the Ledger as required without giving rise to the necessity—inseparable from the bound Ledger—of

EXAMPLE:

COST LEDGER SUMMARY for the $\frac{\text{year}}{\text{half-year}}$ ended ....192 .

Cost Ledger Fo.	Contract No.	Sub-Contract No.	Wages	Special Materials	Stores and Plant	Total	Less Stores and Plant Returned	Prime Cost	Establishment Expenses A	Establishment Expenses B	Establishment Expenses C	Total Cost	Contract Price	Extras	Total Credits	Profit	Loss	Value of Work in Progress	Remarks
			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	

calculating in advance the probable number of sheets of each pattern that will be required, and closing the Ledger *in toto* and starting a fresh one whenever the sheets allocated to any one of those sections have become exhausted. Often, however, the Summary Sheet may be of uniform ruling with the rest of the Ledger.

Some manufacturers prefer to frame their Cost Ledger Accounts upon ordinary *Dr*. and *Cr*. lines, debiting cost and crediting contract price and value of " extras," and then at the conclusion of the contract striking a balance of profit or loss on each separate Ledger Account. An alternative method, which for many purposes will be found preferable, is to keep the Ledger Accounts (which, of course, in any case will be ruled in tabular form), as a debit side only, the debit totals on the completion of the contract being transferred to the Cost Ledger Summary, where the credit side of the account is added. The advantage of this latter method is that it enables the aggregate costs under each heading to be arrived at more readily, thus facilitating a periodical comparison (and agreement) with the financial books. It raises a difficulty with regard to credit items for returns, allowances, &c., however, as it involves these credits being recorded in red ink among the debits, which is not always a very convenient arrangement.

For marshalling the aggregate total of Cost Accounts at stated periods, an analysis of the Cost Ledger, ruled in tabular form, will be found extremely convenient. Where the contracts are numerous it will usually be found best to give a separate line to each contract (or section thereof), the different classes of expenditure appearing in different columns; by this means the number of columns may be kept within reasonable limits. The form of ruling given on the preceding page will be found useful. It will, however, naturally require considerable modification according to circumstances.

CARD COST LEDGERS.

With comparatively small jobs, or contracts, a form of Card Ledger will often be found most convenient, the more so as it amounts to a mere development of what is probably upon the whole the most convenient method of recording the costs of Labour and Materials. This may be framed upon the lines that a " guide " card bearing the distinctive number of the job, is specially ruled so as to enable it to contain a summary of the contents of the various Work Cards, Stores Cards, &c., that constitute the details of cost against the job, all of which are filed away in drawers upon the same general lines as a " Slip Ledger." There is no difficulty about the use of cards in connection with carbon manifolds, so long as the card copy is made the undermost of the series.

A useful form of guide card is shown below. It is ruled on both sides, the precise detail varying according to circumstances, and serves to summarise the entries on the detailed cost cards just referred to.

EXAMPLE:

NAME								Date Completed							
LABOUR.								MATERIAL.							
ITEM	£	s	d	ITEM.	£	s	d	ITEM.	£	s	d	ITEM	£	s	d.
IRONWORK LABOUR—				Brot forward				IRONWORK—				Brot forward			
Rivetting				Masts, Sails and Rigging				Forgings				Anchors and Chains			
Forgings				Boats and Fittings				Rivets				Masts, Sails & Rigg			
Castings				Sundry Labour and Petty Expenses				Service Bolts & Nuts				Boats and Fittings			
Service Bolts & Nuts				Waterman Pilotage and Towage				Iron Castings				Binnacle & Compass			
Fitters & Screwers				Marking Packing and Shipping Off				Moulds, Models and Templates				Side Lights and Ventilators			
Moulds, Models and Templates								Shipwrights				Sundry Items of Outfit			
Shipwrights								Joiners				Cooking Stove and Utensils			
Joiners								Painting				Insurance			
Painting								Pumps & Plum W'k W C s & Brasswork				Board of Trade and Lloyd s Survey			
Pumps & Plum W'k W C s & Brasswork								Steering Gear				Marking, Packing and Shipping Off			
Steering Gear								Towing Gear				Insurance			
Towing Gear								Windlass				Sundry Labour and Petty Expenses			
Wood Caulking								Wood Caulking							
Cementing								menting							
Carried forward				TOTAL				Carried forward				TOTAL			

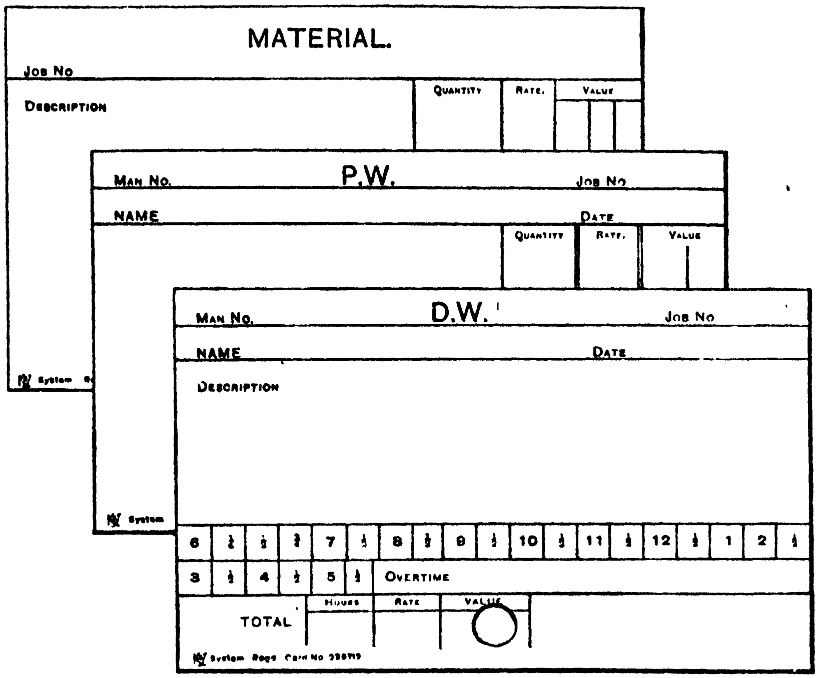
(BACK.)

ITEM	£	s	d	CONTRACT PRICE			REMARKS.
LABOUR							
MATERIAL							
OFFICE CHARGES							
PROFIT							
System · Regd Card No [illegible]							

(FRONT.)

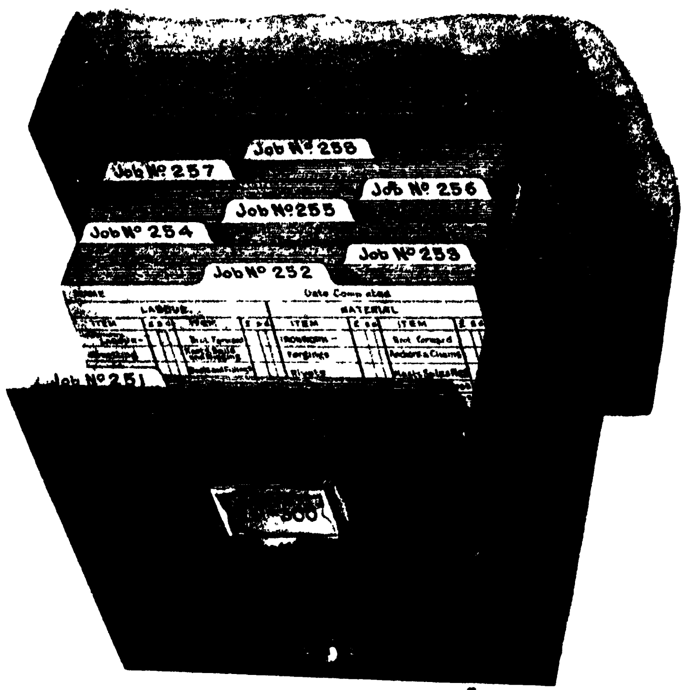
The following example illustrates *pro forma* cards (distinctively coloured) useful for recording different items of costs :—

EXAMPLE:



These cards are arranged in drawers, under their respective job numbers, as shown in the following

EXAMPLE:



For obvious reasons this system is more likely to prove generally useful for small jobs, or standardised processes, than for large contracts, extending over a lengthy period.

RECONCILIATION WITH FINANCIAL ACCOUNTS.

Cost records which are not capable of being reconciled, or agreed, with the actual results shown by the financial books are practically valueless, inasmuch as there can be no assurance even of their approximate accuracy. It is, therefore, an essential feature of every system of Cost Accounts which puts forward the least claim to completeness that the results should be capable of being—and should be—reconciled with the results shown by the financial books every time the latter are balanced. In the absence of a scientific system of cost accounting there will be some discrepancy between the two sets of results, for the following reasons:—

(1) Some portion of the actual expenditure upon Wages may not be directly chargeable against any Contract. Such portion should properly be included under the heading of "Establishment Expenses," but, owing to the difficulty of exactly estimating it in advance, there is likely to be some discrepancy under this item.

(2) In Materials directly chargeable there ought to be an exact agreement between the cost and financial records. Any Materials directly charged against a contract, but returned into stock because unconsumed, should be credited to the contract and debited to the appropriate Stores Account, and such entries ought not to interfere with an exact agreement under this heading.

(3) There should be no difficulty in obtaining an exact agreement between the general Stores actually debited to the various contracts and those credited to the Stores Accounts ; but in practice there will always be a certain amount of shortages in the latter that have to be written off. Experience should show the amount of leakage that may fairly be expected under this heading—a leakage which ought to be entirely explainable as a loss of weight, or quantity, arising from the breaking of bulk, or from a loss of weight (*e.g.* through drying) while the goods remained in stock. Assuming, however, that an efficient supervision is kept over the Storekeeper, and that no improper leakages occur, a reserve sufficient to cover any loss under this heading may easily be provided for under "Establishment Expenses."

(4) Under the heading of Establishment Expenses there is bound to be some discrepancy between the estimates contained in the Cost records, and the actual facts recorded in the financial books. The most important factor in this discrepancy would be that, even supposing the correct amount of Establishment Expenses could be estimated in advance, it is practically impossible to estimate the output in advance, and therefore the percentage on the Prime Cost, &c., that must be added to the Prime Cost in order to cover Establishment Expenses cannot be absolutely determined beforehand. Such discrepancies as may arise under this heading, however, ought to be readily capable of being explained at the close of the financial period, and inasmuch as the total Establishment Expenses ought not in the case of most industries to represent more than 5 per cent. or 6 per cent. of the total output, any difference that may legitimately occur under this heading ought not to be serious.

It is perhaps hardly necessary to point out that, if the method already advocated be employed, of ascertaining the total amount of Establishment Expenses at frequent intervals, and then distributing that total over the various contracts, the discrepancies already referred to will never arise—or, at all events, will be kept within quite negligible limits, provided those indirect expenses which have really nothing to do with the factory output are eliminated from the Cost Accounts altogether. But, of course, it goes without saying that, to enable the Cost Accounts to be reconciled with the financial books, it is desirable that all those expenses that are included in the former should be debited in the latter to Trading Account rather than Profit and Loss Account. If thought desirable, the Trading Account can, of course, be divided into two sections, the break being made where the line would ordinarily have been drawn between Trading Account and Profit and Loss Account. If this plan be pursued, the aggregate of the Cost results (as shown by the Cost Ledger Summary) should agree exactly with the balance transferred from the Trading Account to the Profit and Loss Account, such balance representing Factory Profit, and not Net Profit.

It has already been stated that the Cost records are, as a rule, best kept quite separate from the financial books. The most obvious advantages of so treating them are—

(1) That entirely different staffs may then be kept upon the two classes of records, when each will provide a check upon the accuracy of the other's work.

(2) The advantages that naturally obtain when Ledgers are sub-divided, namely, that an exact balance can be more readily arrived at, and (to some extent) that each balance may be employed as a check upon the other.

The exact accounts to be opened in the financial books to record the cost transactions in total, and to link up with the Cost Ledger, will naturally vary considerably according to circumstances. It is thought, however, that in the great majority of cases the principle of the Adjustment Account—as employed for Self-Balancing Ledgers and for Branches—is not very suitable, as it would necessarily involve periodically transferring the balances of all the Nominal Accounts in the financial books to a "Cost Ledger Adjustment Account." This would naturally interfere with the building up in the financial books of the usual Trading and Profit and Loss Accounts, and would leave the Counting-house entirely dependent upon the Cost Office in respect of these most important matters. A better plan would seem to be to make the Cost Ledger self-balancing, not by the introduction there of an ordinary Adjustment Account to complete the double-entry of the various transactions recorded in the accounts of the various contracts (or jobs), but by including a tabulated Adjustment Account ruled with distinctive columns for each class of item dealt with in the Cost Ledger. In this way, while it remains a perfectly simple matter to balance the Cost Ledger independently of the financial books, in sections, its records may be reconciled with those contained in the latter by a comparison of the totals of the various total columns in the Adjustment Account. Thus, while the total of the "Stores" column of the Cost Ledger Summary should agree with the total of the "Stores" column in the Adjustment Account in the Cost Ledger, it should also be capable of being reconciled with the total credited to the "Stores Account" in the Nominal Ledger as representing the difference between Stores Issued and Stores Returned; while, in a like manner, every other total of cost should be equally capable of reconciliation. In comparing the total of "Labour" in the Cost Ledger, however, with the total of "Wages" in the Nominal Ledger, it is important to bear in mind that certain unproductive wages have (for costing purposes) been included under "Establishment Expenses"; but no difficulty will be experienced in reconciling the totals, provided an adequate number of analysis columns have been opened in the Adjustment Account in the Cost Ledger. In the financial books there should be an account entitled "Works-in-Progress Account"; on making up the Trading Account for the period the balance of Works-in-Progress brought forward from the succeeding period should be transferred from the "Works-in-Progress Account" to "Trading Account"; and the value of the Works-in-Progress at the end of the period (as shown by the Cost Ledger Summary) should be brought into the financial books by a Journal entry, crediting "Trading Account" and debiting "Works-in-Progress Account" therewith.

CONCLUSION.

The subjoined *pro forma* Cost Accounts provide examples of such accounts which have been found useful in actual practice in connection with the various industries named. Up to a point, they may be taken as an indication of the general requirements of these respective industries. It need hardly be pointed out, however, that even the requirements of undertakings carrying on a similar business are by no means uniform. Special and local considerations have to be taken into account, and (as has been already stated) the most suitable system for any particular undertaking can only be ascertained after a full and detailed inquiry has been made into its peculiar circumstances and conditions. The figures in all the statements appearing at the end of this chapter represent pre-war values.

EXAMPLES:

FOR IRON FOUNDERS, STEEL MANUFACTURERS, &c.

COST OF MANUFACTURE.

From .... .19.. to 19....

	Tons	Cwts	Qrs	lbs
Make	639	13	1	12

Dr.

	Weight	Average price per ton	Amount	Cost per Ton	Consumption of Materials per Ton of Iron
	Ts. cts. qs. lbs.	£ s d	£ s d	£ s d	Ts. cts. qs lbs
To Puddled Bars	316 9 3 0	3 5 7	1,037 8 10	1 12 5.25	9 3 16
,, Scrap Iron	413 11 0 14	2 11 0	1,054 2 4	1 12 11.25	12 3 11
	730 0 3 14	—	2,091 11 2	3 5 4.50	1 2 3 9
Coal ..	564 18 0 0	7 8	214 5 5	6 8.40	17 2 18
,, Firebricks, Clay, and Sand ..			33 3 4	1 0.44	
,, Stores ..			57 8 11	1 9.55	
,, Repairs—Materials ..			41 15 2	1 3.67	
,, Do. Labour ..			22 5 10	8.36	
,, Trade Charges ..			32 12 8	1 0.24	
,, Rent, Rates, and Taxes			54 18 6	1 8.60	
,, Gas and Water ..			10 17 6	4.08	
,, Office Expenses .			31 13 6	11.90	
,, Wages and Salaries ..			467 11 4	14 7.43	
Total Cost			3,056 3 4	4 15 7.17	
,, Balance, being Profit (carried to Profit and Loss Account)			249 8 [illegible]	7 9.85	
			£3,307 12 0	£5 3 5.02	

Cr.

	Ts cts. qrs lbs	£ s d	Ts cts. qs lbs	£ s d	£ s d
By Bar Iron			646 14 1 21	3,593 2 9	Value per ton
Less—					
Discounts and Allowances	0 1 0 0	94 10 [illegible]			
Carriage, Freight, &c. ..		105 11 3			
Commission .		47 10 0	6 1 0 0	307 14 10	
			640 13 1 12	3,285 7 11	5 2 6.77
Deduct—					
Decrease in Stock of Bar Iron—					
Stock at 1 Jan 1911 ..	19 0 0 0	101 10 0			
Stock at 31 July 1911 ..	18 0 0 0	[illegible]0 0 0	1 0 0 0	14 10 0	
				3,270 17 11	5 2 3.22
By Mill Cinder Scale, &c. .. 145 tons 10 cwt. .				36 14 1	
Total make and value of same			639 13 1 12	£3,307 12 0	£5 3 5.02

FOR COLLIERIES. PIT No.............

SUMMARY COST SHEET, 4 weeks ending................19 .

			This Month		Last Month
		Tons	Average per Saleable Ton		This is for the corresponding figures of the previous weeks.
Tons Raised		14,000			
Tons Saleable (On which Costs are calculated)		12,600			
	Tons	£ s d		s d	
Sales Coal and Slack	12,000	3,912 10 0		6 6.25	
Coal Stock, Increase	600	150 12 6		5 0.23	
Total Credits	12,600	£4,063 2 6		6 5.39	
	£ s d	£ s d	s d	s d	
Wages—Colliers	1,050 0 0		1 8		
„ Underground	551 5 0		0 10.5		
„ Surface	498 15 0	2,100 0 0	0 9.5	3 4	
Timber used	315 0 0		0 6		
Rails „	13 2 6		0 0.25		
Stores „	52 10 0	380 12 6	0 1	0 7.25	
Repairs and Renewals, exclusive of Wages	78 15 0		0 1.5		
Horse-keep and Stables	91 17 6	170 12 6	0 1.75	0 3.25	
Royalty, Freehold and Leasehold	315 0 0		0 6		
Depreciation	157 10 0	472 10 0	0 3	0 9	
Cost Loaded		3,123 15 0		4 11.5	
Management	105 0 0		0 2		
Salaries and Travelling	91 17 6		0 1.75		
Office Expenses	52 10 0		0 1		
Rents, Rates, Taxes, Insurance and Employers' Liability	91 17 6	341 5 0	0 1.75	0 6.5	
Discounts and Bad Debts	..	52 10 0		0 1	
Total Cost	..	3,517 10 0		5 7	
Apparent Profit, 4 weeks	..	545 12 6		0 10.39	
	£	4,063 2 6		6 5.39	

FOR GAS COMPANIES.

........................GAS COMPANY.

WORKING STATEMENT for the Year ended............19

Gas made, as per Station Meter	..	Cubic Feet 156,288,000
Gas Sold—Private Lighting	137,963,400	
Public Lighting	10,953,450	
		148,916,850 or 95.28 per cent. on make
		7,371,150
Gas used on Works and Office, as per Meters	..	2,500,000 or 1.60 ,,
Gas unaccounted for	..	4,871,150 or 3.12 ,,
		100.00
Capital Employed	..	£76,689 0s. 0d.
,, per Ton of Coal Carbonized	..	£5 6s. 0d.
,, per 1,000 cubic feet of Gas sold	..	10s. 3d.
Coal Carbonized—Common	..	14,117 Tons or 97.62 per cent.
Cannel	..	344 ,, 2.38 ,,
		14,461 ,, 100.00
Gas made per Ton of Coal Carbonized	..	10,807 cubic feet
Gas sold per Ton of Coal Carbonized	..	10,298 ,,
Coke made	..	14,460 chaldrons
Coke made per Ton of Coal Carbonized		36 bushels
Coke used for fuel per cent. on make		22.18
Tar made	..	150,180 gallons
Tar made per Ton of Coal Carbonized	..	11 ,,
Liquor made	..	405,504 ,,
Liquor made per Ton of Coal Carbonized	.	28 ,,
Net average price realised for Coke sold	..	8s. 2[illegible]d. per chaldron
,, ,, Breeze sold	.	2s. 8[illegible]d. ,,
,, ,, Tar sold	.	1[illegible]d. ,,
,, ,, Liquor sold	..	34s. per 1,000 gallons
Net proceeds of Coke and other Residuals per cent. on cost of Coal .. .	.	73 32

			Per Ton of Coal Carbonized		Per 1,000 Cubic Feet Sold	
	£ s d	£ s d	s d	s d	Pence	Pence
Coal	..	8,791 0 11	.	12 1 90	..	14.17
Less Residuals—Coke	4,633 0 4		6 4.89	..	7.47	
Breeze	118 6 0	..	1 96	.	0.19	
Tar	1,002 10 3	..	1 4 64	..	1.62	
Liquor	692 3 0	..	11.49	..	1.11	
Total Residuals		6,445 19 7		8 10.98		10.39
Net for Coal	..	2,345 1 4	..	3 2.92	..	3 78
Purifying	443 7 11	..	7.36	.	0.71	
Salaries of Engineers	350 0 0	..	5.81	..	0 56	
Wages and Gratuities at Works	1,436 0 11	..	1 11.83	..	2.31	
Repair of Works and Plant	3,816 7 6	..	5 3 34	..	6.15	
Salaries of Inspectors and Clerks	341 0 0	..	5 66		0.55	
Repair of Mains and Services	115 7 3	.	1.91	.	0.19	
Repairing and Renewing Meters	687 10 6		11.41	.	1.11	
Lighting and Repairing Public Lamps	558 17 10	..	9 28	..	0 90	
Rates and Taxes	738 16 3	..	1 0.26	.	1.19	
Directors' Allowances	420 0 0	..	6.97	..	0.68	
Salaries of Secretary, Accountant, and Clerks	148 5 0	..	2 46	..	0.24	
Collectors' Commission	400 0 0	..	6.64	.	0.65	
Stationery and Printing	119 11 8	..	1.99	..	0.19	
General Establishment Charges	170 14 7	..	2.83	..	0.28	
Auditor	31 10 0	..	0.52	..	0.05	
Bad Debts	60 8 11	..	1.00	..	0.10	
Allowances	20 2 5	..	0.33	..	0.03	
Total Working Expenses		9,858 0 9		13 7 60		15.89
Coal and Working Expenses, less Residuals	..	12,203 2 1	..	16 10.52	..	19 67
Sale of Gas—Private Lighting	17,245 8 6					
Public Lighting	1,848 13 3					
	19,094 1 9	..	26 4.89	..	30.77	
Rental of Meters	554 6 10	..	9.20	..	0.90	
Rents	92 19 2	..	1.54	..	0.15	
		19,741 7 9		27 3.63		31.82
Profit	..	£7,538 5 8		10 5.11		12.15

The form of Cost Sheet for Water Companies will be similar, except that the units of calculation will be per 1,000 gallons of water supplied and per £1 of rateable value of property in district.

The following Forms, which are extracted from a Lecture by the late Mr. RICHARD BROWN, C.A., will be found of interest in this connection.

———, MERCHANTS, —— ——

Dr. REVENUE ACCOUNT for year ending 31st December 1903. *Cr.*

Expenditure	p.c.	£	Per cent.	£	*Income*	Per cent.	£
To Wages			2	800	By Sales—Net	100	40,000
,, Warehouse Charges			.5	200	*Less* Purchases Account	85·6	34,250
,, Carriage			1·25	500		14 4	5,750
,, Travellers' Salaries and Expenses			3·75	1,500	,, Commissions	·6	250
,, Rent Taxes, and Insurance			1	400			
,, Office Salaries			1 25	500			
,, Stationery and other Office Expenses			.25	100			
,, Bad Debts			1	50			
,, Cash Discounts			.1	50			
,, Interest—Balance			[illegible]	150			
Total Expenditure			10·6	£4,250			
,, Balance being—							
Salaries to Partners	1·5	600					
Interest on Capital	.6	250					
Profit Divisible— A, £500; B, £400	2 3	900					
			4 1	1,750			
			15	£6,000	Total Income	15	£6,000

— — —, PAPERMAKERS,

Dr. REVENUE ACCOUNT for year ending 31st December 1903 *Cr.*

Expenditure	d. per lb.	£	d. per lb.	£	*Income*	d. per lb.	£
To Materials			·96	16,000	By Paper Account	3·00	50,000
,, Chemicals			·24	4,000			
,, Wages			·42	7,000			
,, Coal, Oil, and Light			15	2,500			
,, Rent, Taxes, and Insurance			09	1,500			
,, Mill Furnishings			04	600			
,, Upkeep of Plant			08	1,400			
,, Depreciation of Plant			06	1,000			
			2 04	34,000			
,, Carriage	·09	1,500					
,, Packing	·06	1,000					
,, Salaries	·07	1,200					
,, Office Expenses	02	300					
,, Bad Debts	015	250					
,, Cash Discounts	·03	500					
,, Interest	·03	500					
			·315	5,250			
,, Income Tax			·03	500			
,, Balance, being Divisible Profit for year			·615	10,250			
			3·00	£50,000		3·00	£50,000

——— BREWERY CO., ———

Dr. REVENUE ACCOUNT for year ending 31st December 1903 *Cr.*

Expenditure	% to Sales	£	Per Excise Barrel	£	*Income*	Per Excise Barrel / £	£
To Malt			£·371	£13,000	By Edinburgh Sales	£48,000	
,, Hops			·086	3,000	*Less* Discounts, 33·3%	16,000	
,, Manufacturing Charges			·241	8,438			£32,000
,, Depreciation of Plant			·057	2,000	,, Glasgow Sales	28,570	
,, Duty			·387	13,562	*Less* Discounts, 30%	8,570	
			1·142	40,000			20,000
,, Selling Charges and Bad Debts, viz.:—					,, Dundee Sales	12,000	
Edinburgh	10·4	£5,000			*Less* Discounts, 25%	3,000	
Glasgow	10·5	3,000					9,000
Dundee	12·5	1,500			,, Beer Stock—Increase		1,000
	10·75		·271	9,500		£1·771	62,000
,, General Management, including Directors and Auditors			·029	1,000	,, Yeast	·029	1,000
,, Interest			·058	2,000	,, Draff	·014	500
			1·5	52,500			
,, Income Tax			·014	500			
,, Balance, being Divisible Profit for year			·3 [illegible]	10,500			
			£1·814	£63,500		£1·814	£63,500

CHAPTER XX.

PAYMENTS BY INSTALMENTS AND INTEREST.

IN certain classes of undertakings the transactions—or a considerable part thereof—involve dealings on credit extending for a term of years, the indebtedness so created being liquidated by equal periodical instalments. Unless the period be quite a short one, it becomes, under these circumstances, important to consider the question of interest if the profits of successive years are to be determined accurately. In some cases the transactions are clearly stated to involve the question of interest—as, for example, when money is lent out on mortgage by a Building Society, or when a manufacturer of railway wagons disposes of them under a hire-purchase agreement—while in other cases (as, for example, in the Furniture, Musical Instrument, and Bicycle trades) a higher price is charged for instalment transactions, which covers interest without any exact rate being prescribed. In both cases, however, the question of interest must be carefully taken into consideration.

It will be convenient in the first instance to describe the general principles involved, as exemplified in the case of hire-purchase agreements for railway wagons, as the problem here is of especial significance both to the manufacturer and to the hirer. The manufacturer is concerned in distinguishing between the Gross Profit on trading, which (with a reasonable reserve for contingencies) may fairly be stated to have been earned upon the execution of the hire-purchase agreement, and the income that he derives from interest charged to customers as compensation for the extended terms of credit given. To the hirer the question of interest is of importance, in that the aggregate amount of instalments paid by him under the hire-purchase agreement is naturally in excess of the intrinsic value of the assets acquired. It would consequently be improper for him to capitalise the whole amount of such instalments; while, for the purpose of debiting each year's Revenue Account with its proper charges, it becomes important to ascertain how much of each instalment represents interest, and how much may properly be capitalised. The necessity for going into the matter thus exhaustively arises from the fact that those industries which acquire wagons on the hire-purchase system at all (Collieries, Quarries, and the like) usually engage in these transactions to an extent which—as compared with their transactions as a whole—renders the matter one of serious import, if the true result of their transactions in the aggregate is to be shown by the accounts. On the other hand, some transactions of a similar nature—*e.g.* the acquisition of a Musical

Instrument, a Bicycle, or an Encyclopædia on terms of deferred payment—are as a rule relatively unimportant to the hirer, and in consequence such a nice distinction between Capital and Revenue—and especially between the Revenue charges of successive years—need not be made. Exceptions, however, will arise even here: thus, if a hotel, or a boarding-house, be furnished on the hire-purchase system, the transaction is of sufficient importance to call for treatment upon scientific lines in the accounts of the undertaking; and similarly, if a musical academy were to acquire its pianos upon these terms, the matter would be of sufficient importance, as compared with its transactions as a whole, to call for proper treatment. In such cases the record of the transactions, from the hirer's point of view, will be the converse of the record from the point of view of the manufacturer, and it is therefore unnecessary to deal with the matter in further detail, as the record in connection with Colliery Accounts is fully described.

WAGON HIRE-PURCHASE AGREEMENTS.

The general nature of a contract of this description is that, if the "tenant" (*i.e.* the hirer) makes the necessary periodical payments regularly, the manufacturer agrees to hand over the ownership of the articles in question to him at the end of the prescribed term upon the payment of a further nominal sum. There are various other conditions which, in practice, may have some bearing upon the contract, but these are the main features that have to be taken into consideration in connection with the treatment of the contract, as a matter of account.

IN MANUFACTURERS' ACCOUNTS.—It is obvious that, from the point of view of the manufacturer, it would be most improper—even although it might perhaps be technically correct—to treat these instalments as simple hire, and at the end of the term (if they have been punctually paid and the further nominal consideration duly paid) treat the articles in question as a *gift* from the manufacturer to the tenant. The right course for the manufacturer is unquestionably for him to regard all these transactions as *sales* of the articles in question, he at the same time lending to the purchaser the whole of the purchase-money, upon consideration of its being paid back to him by instalments with interest.

All the material information that would be expressed in any hire-purchase agreement would be (1) the number of instalments, (2) the period over which they are extended, and (3) the amount of each instalment. It is obvious, however, that the manufacturer cannot treat the transaction as being a sale to the extent of the aggregate amount of the instalments, inasmuch as interest has been added and the amounts of the instalments equalised. It is, therefore, only proper for him to credit his Trading Account at the outset with the "present value" of these future repayments. In order to arrive at this figure it is, of course, absolutely essential, first of all, to assess the rate of interest which the manufacturer reckons to get, as a consideration for the delay in payment of the purchase-price. This is, under ordinary circumstances, either 5 per cent. or 6 per cent.; but usually the calculations are not worked out accurately, the instalments being taken at some more or less round sum approximating to what the amount would come to if worked out exactly. Still, the proper course to pursue is, no doubt, to assume a fixed rate of interest, and upon this basis to arrive at the present value of the sum of the future instalments. This present value may be taken as the cash value of the article sold, and the transaction may be treated as a sale for that amount; *per contra,* it must be regarded as an advance to the purchaser of a corresponding amount. To the debit of this Advance Account, interest at 6 per cent. (or whatever the rate may be) will be added from time to time, and the actual instalments received will be credited; so that by the time the agreement expires there is no balance to either the debit or credit of the account.

A. JONES. CONTRA

Dr Agreement No. 4,061 (10 half-yearly payments of £7 0s. 8d.). Cr.

			£ s d				£ s d
1916				1916			
Jan.	1	To Sales Account	60 0 0	June	30	By Cash	7 0 8
June	30	" Interest	1 16 0	Dec.	31	" "	7 0 8
Dec.	31	" "	1 12 10		"	" Balance	49 7 6
			£63 8 10				£63 8 10
1917				1917			
Jan.	1	To Balance	49 7 6	June	30	By Cash	7 0 8
June	30	" Interest	1 9 8	Dec	31	" "	7 0 8
Dec.	31	" "	1 6 3		"	" Balance	38 2 1
			£52 3 5				£52 3 5
1918				1918			
Jan.	1	To Balance	38 2 1	June	30	By Cash	7 0 8
June	30	" Interest	1 2 10	Dec.	31	" "	7 0 8
Dec.	31	" "	0 19 3		"	" Balance	26 2 10
			£40 4 2				£40 4 2
1919				1919			
Jan.	1	To Balance	26 2 10	June	30	By Cash	7 0 8
June	30	" Interest	0 15 8	Dec.	31	" "	7 0 8
Dec.	31	" "	0 11 11		"	" Balance	13 9 1
			£27 10 5				£27 10 5
1920				1920			
Jan.	1	To Balance	13 9 1	June	30	By Cash	7 0 8
June	30	" Interest	0 8 1	Dec.	31	" "	7 0 8
Dec.	31	" "	0 4 2				
			£14 1 4				£14 1 4

In the above example the interest is worked out at half-yearly rests, but it may be added that many manufacturers use yearly rests, even when the instalments are payable half-yearly or quarterly.

It will be seen that the arrangement which is embodied in the above account is for the payment of half-yearly instalments, the first taking place six months after the execution of the agreement. It is not always, however, that this is the nature of the transaction. It frequently happens that the manufacturer requires the first instalment to be paid on the signing of the agreement. When this course is adopted it will be found to affect the "cash value" of the article materially, inasmuch as there are by this means only *nine* instalments of interest to be debited instead of ten, and these in each case upon a smaller amount. Instead of the "cash value" being £60—as stated in the *pro forma* example—it will be £61 16s. 0d. (*i.e.* £60 *plus six* months' interest thereon), if the instalments were required to be made *in advance* for each half-year. It will thus be seen how very important it is that these transactions should be treated upon a proper basis at the outset, for obviously a difference of 3 per cent. in the price of the goods sold would make a very considerable difference in the amount to be taken to the credit of Profit and Loss Account, as being the gross profit upon the sales. If the interest were taken at yearly rests, and the instalments were paid annually, the difference would be proportionately greater —*i.e.* 6 per cent.

Attention has already been drawn to the fact that this treatment of hire-purchase transactions is a purely artificial one. There is no compulsion on the part of the tenant to continue paying the instalments, if it suits his purpose better to cancel the agreement and return the wagons. While the agreement continues, however, he is liable for the wagons being kept in good repair, and has to continue to pay the instalments as arranged. The result of this is that, if the tenant chooses at some subsequent date to cancel the agreement and return the wagons, in the majority of cases the result will be an additional profit to the manufacturer. But this would not necessarily follow if the wagons were new at the date of executing the agreement and were returned, say, within one year from that date. In that case there might be a loss, and to that extent, the treatment just described may be said to be unduly favourable, having regard to the worst possible contingencies. But it is so rarely that these agreements are cancelled in the first year or so that this consideration may be disregarded, it being probable that the few cases in which it occurs will be very much more than counterbalanced by those in which default is made at a later period of the currency of the agreement, in which case the manufacturer reaps a profit.

In point of fact, it is generally admitted that—at all events after the first two years have been completed—the tenant possesses some value in his agreement, even if he decide to discontinue the payments ; and it is by no means unusual for him either to sell his rights under the agreement to some other person who is desirous of acquiring the wagons upon a hire-purchase system (obtaining the manufacturers' consent to the transfer), or for the manufacturer himself to pay some cash consideration to the tenant if the latter decides to abandon his rights under the agreement and return the wagons in good condition. That being so, it may be taken that the asset standing in the manufacturer's books, as being the amount due upon the loan of the purchase-money for the wagons, is generally a good asset for that amount, even if default should be made by the tenant.

In Hirers' Accounts.—It now becomes necessary to consider how these transactions should be dealt with in the books of the tenant or hirer. In view of the fact already mentioned, that the ownership of the goods remains with the manufacturer until the completion of the whole transaction, it might be argued that, strictly speaking, the whole of the instalments should be charged against Revenue. On the other hand, it is obvious that this would very unduly affect the profits of the earlier years, for the simple reason that the instalments on a hire-purchase agreement are very much heavier than upon a simple hiring agreement (being, as a rule, something more than twice the amount), so that during the earlier years the undertaking would appear to be losing money by entering into hire-purchase agreements at all, whereas this is by no means the case in reality, the instalments being a wise capital outlay for the purpose of acquiring fixed assets at a future date. It will thus be seen that, even if the very strictest view of the position of affairs be taken, it is not necessary to charge against Revenue a larger proportion of the hire-purchase instalment than the amount for which the use of the wagons in question could have been obtained upon simple hire. Even this is really too much to charge, because the wagon companies naturally look to make a larger profit out of simple hiring than out of hire-purchase agreements. It therefore becomes necessary to go into the matter very much more exhaustively; and, assuming that almost all these transactions are negotiated upon a basis of 6 per cent. interest by half-yearly rests, it is thought that the following table, which shows the cash value of a wagon upon which half-yearly instalments of £5 are payable for any period from one to five years, will be found of use. As already stated, the usual term of these agreements is five years, but a considerable number are for 3, 3½, or 4 years.

EXAMPLE:

TABLE showing cash value of debt repayable by half-yearly instalments of £5 each (rate of interest – 6 per cent., calculated with half-yearly rests).

Number of Instalments unpaid	Cash Value £ s d
2 (Agreement one year to run)	9 11 5
4 („ two years „)	18 11 9
6 („ three „ „)	27 1 8
8 („ four „ „)	35 1 11
10 („ five „ „)	42 13 0

From the above table it will be seen that, assuming a hire-purchase agreement were entered into under which the tenant paid £10 per annum by half-yearly instalments during five years, the cash value of the wagon must be taken as being £42 13s., allowing interest at the rate of 6 per cent. with half-yearly rests. At the end of the first year (that is to say, after two instalments have been paid) the amount standing to the debit of Loan Account in the manufacturer's books will be reduced to £35 1s. 11d., at the end of the second year to £27 1s. 8d., at the end of the third year to £18 11s. 9d., at the end of the fourth year to £9 11s. 5d., which amount would be altogether extinguished at the end of the fifth year.

To a certain extent, this position of affairs may be taken as reciprocal—*i.e.* the difference between the original cash value and the reduced cash value in the manufacturer's books from time to time may be taken as being the investment of capital by the tenant in the property in question. There are, however, other considerations to be borne in mind; and for the sake of bringing these more prominently forward, it seems desirable to take a concrete example. Take the case of an agreement entered into on the 1st January 1917, by which the tenant agreed to make seven half-yearly payments of £8 6s. 6d. (the first being due on the 30th June 1917), the interest being assumed to be 6 per cent., with half-yearly rests. By reference to the foregoing table it will be found that the cash value of the wagon in this case is £51 17s. 6d. The following table may now be compiled, showing what proportion of the instalments paid during each year is

Date	Amount of Instalment	Interest on Outstanding Debt	Proportion to Capital	Total to Wagon Purchase Account to date
	£ s d	£ s d	£ s d	£ s d
31st December 1917	16 13 0	2 18 2	13 14 10	13 14 10
„ „ 1918	16 13 0	2 1 5	14 11 7	28 6 5
„ „ 1919	16 13 0	1 3 7	15 9 5	43 15 10
30th June 1920	8 6 6	0 4 10	8 1 8	51 17 6
	£58 5 6	£6 8 0	£51 17 6	

in respect of interest upon the outstanding debt due to the manufacturer, the balance of the instalments being consequently the portion which has to be capitalised. The column upon the extreme right in the example shows the accumulations upon the "Wagons Purchase Account" at the close of each year.

A careful examination of the above table will show that when the agreement was completed on the 30th June 1920 the tenant had paid in all £58 5s. 6d., of which £51 17s. 6d. has been allocated to Capital, and £6 8s. to Revenue. The point which next claims attention is as to whether any further charge to Revenue is necessary, and, if so, how much.

REPAIRS.—The question of repairs should on no account be allowed to confuse the treatment of the hire-purchase agreement itself. The proper course is either to debit each year's Profit and Loss Account with the actual repairs incurred, or else to debit the Profit and Loss Account and credit Reserve for Repairs Account with the best available estimate of a normal charge for repairs, and to debit the latter account with the cost of such repairs as are actually executed. The latter course has the advantage of averaging—as far as possible—the charge to Revenue in respect of these items; but, in view of the fact that both the railway companies themselves and the Board of Trade regulations are very strict as to wagons being kept in a thoroughly effective state of repair, it is probable that in the long run these repairs will be found to average themselves, particularly when the tenant possesses numerous wagons of different ages. But whichever method be adopted, the treatment of repairs should be kept quite distinct from the statement of the gradual purchase of the wagons on a hire-purchase agreement.

DEPRECIATION.—The next question that calls for consideration is Depreciation. Up to the present the treatment indicated has been a question of right and wrong, rather than one of individual preference or discretion, but depreciation is largely a question of individual discretion. In the first place, there is the precedent afforded by the statutory form of accounts with regard to railway companies, which suggests that *no Depreciation whatever need be provided for*, but that the proper course is to renew worn-out wagons out of Revenue. When a very large number of wagons are held by the same owner this is no doubt the simplest course to pursue, as the charges to Revenue will be found to average themselves fairly closely. But if only a few wagons be owned, it will be found that the charges to Profit and Loss arising from their renewal are very unequal, and it will therefore be found preferable to adopt some means which will have the effect of averaging them. Then, again, there arises the consideration that railway wagons—when owned by the class of persons who would naturally acquire them upon hire-purchase agreements—are "fixed assets," and not "floating assets"; therefore, even in the case of ordinary joint-stock companies, there is no statutory obligation requiring that Depreciation should be provided for from year to year. It will thus be seen that the whole matter is (subject to the articles of association of the particular Company concerned) entirely one of individual choice; but that is no reason why the effect of the various methods which may be adopted under different circumstances should not be considered, and their respective merits contrasted.

It may be taken at the outset that a railway wagon has a very long span of life. Being made up of a number of interchangeable parts, it is quite possible, in the ordinary course of repairing, to renew the wagon entirely from time to time; thus the time never really arises when the asset itself is absolutely worthless and cannot be tinkered with any longer. But those who are desirous of making ample reserves against Revenue for every possible risk will probably prefer not to rely too much upon this fact, but will assume a length of life upon the part of the wagons which is likely to be realised in all but abnormal cases—as, for instance, where accidents occur. So far as the author has been able to ascertain, the minimum life of a wagon may be put down at sixteen years, and many are used for a very much longer time. But, for those who wish to provide an ample reserve in the nature of Depreciation, it is worth while to regard the limit as sixteen years, because by this means they will be building up a Reserve which will be available in the event of that particular pattern becoming obsolete by reason of further improvements, and also in the event of the destruction of one or more wagons by accident. There are various methods by which the "cash value" of a wagon may be written down, and it is desirable that the precise effect of each should be fully studied.

Perhaps the most favourite method of writing off Depreciation, in the case of articles which from time to time require repairs, is to adopt a fixed percentage upon the amount of the reducing annual balance. The effect of this method is to write off much heavier sums in the earlier years, and smaller sums in later years of the asset's life, the object of this being to compensate for the fact that the amount of necessary annual repairs will probably be upon the increase. If it is desired to extinguish the value of an article in sixteen years by writing a fixed percentage off the reducing balance, it will be necessary to adopt a rate of depreciation of about 17½ per cent. The following table is prepared upon this basis with regard to the example already shown :—

EXAMPLE:

Date	Interest	Depreciation	Total Charge to Revenue	"Book" Value of Wagon at close of year
	£ s d	£ s d	£ s d	£ s d
1917	2 18 2	9 1 6	11 19 8	4 13 4
1918	2 1 5	7 9 10	9 11 3	11 15 1
1919	1 3 7	6 3 7	7 7 2	21 0 11
1920	0 4 10	5 1 11	5 6 9	24 0 8
1921	..	4 4 1	4 4 1	19 16 7
1922	.	3 9 5	3 9 5	16 7 2
1923	..	2 17 2	2 17 2	13 10 0
&c.				

With reference to the figures appearing in the last money column above, it will be noted that for the first four years the amount is increasing, while afterwards it is reduced. The reason for this is that during the continuation of the hire-purchase agreement a portion of the instalments is in respect of Capital, therefore the amount of the capital asset is increased during this period in spite of the amounts which are credited to that account and debited to Profit and Loss for Depreciation. It will further be noticed that at no time does the value of the wagon appear in the books at more than £24 0s. 8d., although the original value of the wagon when new was £51 17s. 6d., and, further, that during each of the first three years the total charge to Revenue exceeds £7. This figure of £7 is mentioned in this connection because that is approximately the amount which would be charged for simple hire, and it is obvious that under no circumstances can it be proper to charge more against Revenue than the amount of simple hire, because, in addition to getting the use of the wagon—which is all that is paid for in the case of simple hire—the tenant is gradually acquiring the ownership of the wagons themselves. It will thus be seen that the above system is one which operates very unfairly upon the earlier years' profits, and is also one which unnecessarily reduces the value of the wagons, for it cannot be said that the value of a wagon which is kept in thorough repair is reduced by anything like 50 per cent. in the course of four years.

Another method of providing for Depreciation is to write off annually one-sixteenth of the original "cash value" of the wagons. If this method be adopted in the present case it will be found that the rate of Depreciation must be approximately 6¼ per cent. per annum upon the original value, and the following table shows the figures corresponding to those already mentioned, if this alternative system be adopted :—

EXAMPLE :—

Date	Interest	Depreciation	Total Charge to Revenue	"Book" Value of Wagon at close of year
	£ s d	£ s d	£ s d	£ s d
1917	2 18 2	3 4 10	6 3 0	10 10 0
1918	2 1 5	3 4 10	5 6 3	21 16 9
1919	1 3 7	3 4 10	4 8 5	34 1 4
1920	0 4 10	3 4 10	3 9 8	38 18 2
1921	..	3 4 10	3 4 10	35 13 4
1922	..	3 4 10	3 4 10	32 8 6
1923 &c.	..	3 4 10	3 4 10	29 3 8

Upon this system the total charge to Revenue does not in any year exceed the amount which would have to be paid for simple hire ; but during the continuance of the hire-purchase agreement the charges to Revenue are very much larger than afterwards, being during the first year nearly twice what they become after the agreement has run out. It will further be noticed that the maximum value at which the wagon appears in the tenant's books is £38 18s. 2d., or about 75 per cent. of its original value when new. From many points of view this is a very much better method to adopt than the preceding, seeing that apparently the assets are not overstated in the hirer's books, nor are the charges to Revenue liable to serious fluctuations ; but even this system is one which cannot be looked upon as being so perfect as to leave no room for alternative methods.

A third method is, during the continuance of the hire-purchase agreement only to write off Depreciation upon the capitalised instalments. This method can be justified in theory by the argument that it is obviously unreasonable that the tenant should be expected to provide in his own Profit and Loss Account against Depreciation of property that does not belong to him ; and, although this view may be thought to be somewhat specious, it is worth while to consider how the various annual charges to Revenue will work out if this basis of calculation be adopted. It will be found that, in order to extinguish the asset entirely at the end of 16 years, it will be necessary to somewhat raise the rate of Depreciation if this system be adopted, as compared with 6¼ per cent. which was necessary when each instalment of Depreciation was equal. A simple calculation shows that 10 per cent. will produce approximately the desired result.

EXAMPLE :—

Date	Interest	Depreciation	Total Charge to Revenue	"Book" Value of Wagon at close of year
	£ s d	£ s d	£ s d	£ s d
1917	2 18 2	1 7 6	4 5 8	12 7 4
1918	2 1 5	2 13 11	4 15 4	24 5 0
1919	1 3 7	3 19 5	5 3 0	35 15 0
1920	0 4 10	4 7 8	4 12 6	39 9 0
1921	..	3 18 11	3 18 11	35 10 1
1922	..	3 11 0	3 11 0	31 19 1
1923 &c.	..	3 3 11	3 3 11	28 15 2

The obvious objection to this method—and, indeed, the only one which can seriously be raised—is that the charges to Revenue *increase* during each of the first three years (that is to say, during the continuance of the agreement), for, although the charge for interest decreases as the amount due to the manufacturer is reduced, the charges for Depreciation naturally become heavier and to a much more largely increasing extent.

In order to avoid this, the method has sometimes been adopted of averaging the charges against Revenue during the period of the agreement, so that at its expiration the same amount stands to the debit of the Asset Account as upon the last-mentioned method, but that the Revenue charges *during* the continuance of the agreement are equal. From many points of view it is thought that this last is really the most convenient method to adopt under normal circumstances; but, as already stated, the question of apportioning Revenue charges among the various years of the estimated life of the asset is entirely a matter of individual discretion, and one in which the greatest latitude must be allowed, provided the apportionment is made in good faith. It ought not to be overlooked, however, that the Capital expended in paying the instalments has to be withdrawn from the business by instalments, and that the effect of so withdrawing it is gradually to reduce profits. Thus, even when the charges against Revenue during the currency of the agreement have been equalised "on paper," they are still, in fact, upon an ascending scale. Upon the whole, therefore, the second method seems preferable.

OTHER HIRE-PURCHASE TRANSACTIONS.

As has already been stated, hire-purchase transactions in connection with railway wagons generally run into very large figures, thus emphasising the importance of accurate treatment. The "loading" of the cash price is also calculated (at all events approximately) at a definite rate of interest, which may reasonably be regarded as compensation for the money lent. In connection, however, with the furniture, musical instrument, bicycle and other trades, the difference between the cash and credit prices is often such as to show clearly that the "loading" covers more than a reasonable charge for interest upon money lent, the industry being subject to other risks, and in particular to bad debts and to failure on the part of the hirers to continue their instalments, in which case the manufacturer, at the best, only becomes re-possessed of an asset which in this case has greatly depreciated in value. The enormous number of transactions involved also frequently precludes the possibility of any very accurate apportionment as between Capital and Revenue being made in the books of the manufacturer, and in such cases the following simplified method will be found useful, while at the same time answering all practical purposes. In order to describe this system in detail it has been thought best to take a particular case, afterwards showing how the principles involved may be applied to any given sets of facts.

PROBLEM.—A piano costing £17 10s. is catalogued at £36, and may be purchased by twelve quarterly instalments of £3 each, or it may be bought for cash (at a discount of 20 per cent.) for £28 16s. Show how the instalments of £3 per quarter should be apportioned between Capital and Revenue, and describe how such transactions may conveniently be recorded in the books of the dealer, assuming them to be of frequent occurrence.

In this case, if the piano were sold for cash the gross profit would be £11 6s., and this may be taken as the basis upon which to proceed. It will thus be seen that the £36, which represents the aggregate of the instalments, is made up as follows:—

Cost	£17 10 0	or	48·6 per cent.
Gross Profit	11 6 0	,,	31·4 ,,
Interest, &c.	7 4 0	,,	20·0 ,,
	£36 0 0		100·0

A special Day Book should be provided for the record of hire-purchase agreement transactions, through which each hirer is debited with the aggregate amount of instalments receivable from him. At the end of each month the total of this Day Book should be posted to an account in the Nominal Ledger entitled "Sales on Hire-purchase," and when the books are balanced 80 per cent. (48·6% + 31·4%) of the amount standing to the credit of this Account may be transferred to Sales Account, and 20 per cent. to Hire-Purchase Interest Suspense Account.

It remains to be considered how the amount standing to the credit of Hire-purchase Interest Suspense Account should be dealt with at balancing. It may be mentioned in passing, however, that as for convenience sake these transactions have to be dealt with in totals, it may be found that the percentage of Gross Profit is not in all cases uniform, and that, therefore, the 80 per cent. already referred to may require some adjustment, so that the amount to be transferred to Sales Account may represent (as nearly as it can be ascertained) the cash value of the instrument dealt with during the current period.

Assuming for present purposes, however, that 20 per cent. of the total is the proper amount to credit to "Hire-Purchase Interest Suspense Account," it will be found that this represents a charge of somewhat less than 12½ per cent. (12·3 per cent). per annum on the amount of debts outstanding at the commencement of each year, and upon this basis the £7 4s. that represents loading for interest, &c., may be apportioned as follows:—

First year	£3 17 6
Second year	2 8 0
Third year	0 18 6
	£7 4 0

Or, in the form of a percentage, as follows:—

First year	53·82 per cent.
Second year	33 33 ,,
Third year	12·85 ,,
	100·0 ,,

Consequently, if all the transactions were entered into on the first day of each year, at the conclusion of the first year, 53·82 per cent. of the balance standing to the credit of Hire-Purchase Interest Suspense Account might properly be credited to Revenue as interest earned, and in the second and third years 33·33 per cent. and 12 85 per cent. respectively of the original balance. As a matter of fact, however, transactions of course take place throughout the whole of the year, and consequently all the hire-purchase agreements entered into during, say, the year 1904, will not have come to an end by the 31st December 1906. Assuming that the transactions are usually evenly spread throughout the whole twelve months, the proper credit to revenue during the first year would be only one-half of 53·82 per cent., or 26·91 per cent.; during the second year the remaining half of the 53·82 per cent. and half of 33·33 per cent.; and so on. Disregarding fractions, therefore, the proper transfers from Hire-Purchase Interest Suspense Account to the credit of Revenue might be taken to be as follows:—

End of the First year ..	27 per cent.;	or, quite roughly,	25 per cent.
,, ,, Second year ..	43 ,,	,, ,,	40 ,,
,, ,, Third year ..	23 ,,	,, ,,	25 ,,
,, ,, Fourth year ..	7 ,,	,, ,,	10 ,,
	100 ,,		100 ,,

In order that these calculations may readily and correctly be made, it is desirable that a separate Hire-Purchase Interest Suspense Account should be opened in the Ledger for the transactions that take place in each financial year. Each such account will, therefore, remain open for four years, and (assuming the business has been established so long) there will always be four such accounts open at the same time.

The above calculations are, as has already been stated, based upon the assumption that 20 per cent. of the aggregate value of the instalments represents loading for interest, &c.; but the same principle will apply whatever the exact amount of loading may be.

So far, it has been assumed that the whole of the loading may fairly be regarded as interest charged as compensation for deferred payment; but, as has already been stated, in industries of this description it is but reasonable to suppose that some part of the loading is to cover other losses. These, however, for the sake of simplicity, are best dealt with quite independently of the apportionment of the instalments received as between Capital and Revenue. As to the exact Reserve to be made for Bad Debts and other losses arising from Depreciation in connection with uncompleted contracts, each manufacturer would be guided largely by his own individual experience. It is suggested, however, that until the business has been sufficiently established to enable a safe opinion to be formed, a Reserve against loss should be created by debiting Revenue Account and crediting "Reserve for Bad Debts and Depreciation Account" with, say, 10 per cent. of the Gross Profits arising from hire-purchase transactions. Losses actually realised should from time to time be transferred to the debit of this account, and care should be taken to see that the credit balance remaining is sufficiently large to provide a reasonable Reserve against all likely contingencies.

Card Ledgers will be found very suitable for the record of Customers' Personal Accounts in connection with hire-purchase transactions.

BUILDING SOCIETY MORTGAGES.

The proper treatment of accounts in respect of Building Society mortgages follows closely upon the lines already explained in connection with the hire-purchase of railway wagons, save that in some cases the interest is calculated at shorter "rests" than is customary with the latter transactions. Most Building Societies, however, issue tables showing the amount outstanding from time to time on the mortgages that they take, and these will enable the annual balance upon each Mortgage Account to be determined without difficulty. Such an account would in all respects be identical with that shown upon page 287, save that the first item to the debit would represent the amount of the original advance, while the cash postings to the credit of the account would be the instalments received from time to time from the borrower, which instalments would (as a rule) be paid at much more frequent intervals—say, weekly or monthly. The general principle, however, is identical in all respects.

ANNUITY AND SINKING FUND SYSTEMS OF DEPRECIATION.

As explained in Chapter XVII, one method of providing for Depreciation is to charge Revenue with such a sum as will at the expiration of the life of the asset write off the original cost thereof, *plus* interest on the capital from time to time invested therein. The object of this method is to compensate for the fact that as the assets become of less value, and as certain sums are from time to time set aside out of Revenue to compensate for such wastage, the Working Capital of the undertaking becomes to a corresponding extent increased, and the amount invested in Fixed Assets reduced. The "Annuity" method, as it is called, compensates for this circumstance by charging each successive year with a gradually increasing sum as a gradually increasing amount of the undertaking's resources is released from Fixed Assets and—being placed among the Floating Assets—is thus available to earn profits in other directions. When the Sinking Fund system is adopted, and the periodical instalments are invested *outside* the business, no such compensation is required, and (assuming that the Sinking Fund investments can be accumulated at the same rate of interest) it would be sufficient to charge against each year's profits the net amount charged against the *first* year's profits under the Annuity system.

Referring again to the *pro forma* Ledger Account given on page 287, by altering the wording, this may be assumed to be an account of a five years' Lease which originally cost £60, which it is desired to write off under the Annuity system, reckoning interest at 6 per cent. upon the half-yearly balances. The postings to the credit side of the account must in that case be taken as representing the charges for Depreciation, instead of being postings from the Cash Book. This gives a fixed charge of £14 1s. 4d. per annum (which might be described indifferently as "Depreciation of Lease," or "Rent" charged against Revenue for the use by the business of the Leasehold Premises); while the Interest charges — which amount to £3 8s. 10d. in the first year and are gradually reduced to 12s. 3d. in the fifth year—represent Interest on the amount of Capital from time to time remaining sunk in this asset during the term of its life. Inasmuch as the £14 1s. 4d. per annum is not actually paid away, but accumulated in the business, it is assumed that its utilisation in this manner will, in one way or another, produce profits compensating the business for the decreasing amounts credited to Revenue Account in respect of Interest. If, however, the half-yearly instalments by way of Depreciation were to be taken out of the business, and could be invested elsewhere at 6 per cent., the interest also being promptly re-invested at the same rate as and when received, it would be sufficient to provide Sinking Fund instalments of (£7 0s. 8d. — £1 16s. =) £5 4s. 8d. per half-year, as this sum, invested at 6 per cent. compound interest, would at the end of five years accumulate to the original £60. *Prima facie*, therefore, the employment of a Sinking Fund would appear to effect an economy; but *per contra* it must be borne in mind that, had the Sinking Fund instalments remained in the business as Working Capital, they would presumably have been earning profits at least equal to any rate of interest that may be earned from outside investments of a suitable character. No really satisfactory form of investment is, indeed, likely to be found that will yield 6 per cent. interest over any long term of years, and at the same time provide adequate security of capital combined with facility for prompt realisation at any required moment. The advantage of employing a Sinking Fund lies not in any direct economy of Revenue charges that it may effect, but in the assurance which it gives that, when the wasting asset against which it has been created has become valueless, there will be moneys in hand available for the purchase of another asset of equal cost: if such a renewal of assets be not contemplated, there is no very obvious advantage in the employment of the Sinking Fund system.

CHAPTER XXI.

FORM OF PUBLISHED ACCOUNTS.

IT is usual for all undertakings carrying on operations over an extended period to balance their books, and prepare accounts showing the position of affairs and the progress made during the current period, at regular intervals. In the case of partnerships, and other private ventures, the partnership articles generally state when—and how often—such accounts are to be prepared, it being customary to stipulate for the preparation of annual accounts, the financial year running from the commencement of the partnership. When, however, that date is—for any particular reason—inconvenient, some other date may be substituted; and in this, as in all other respects, the terms of the articles of partnership may be modified from time to time with the consent of all the partners. These periodical accounts are, of course, prepared solely for the information of the partners, and consequently in such form as they may mutually agree.

In the case of Public Companies, the shareholders may for many purposes be regarded as the partners in the undertaking, while the Articles of Association (or special Act of Parliament under which the Company is incorporated) may be regarded as analogous to articles of partnership. It is usual for Companies to prepare accounts annually for the purpose of submission to the proprietors in general meeting assembled. In many cases, however, the books are actually balanced half-yearly for the information of directors, although the information which is thus obtained is not published. It is usual for the annual (or other) accounts of a Company to be printed and circulated among the shareholders, although in the case of Companies registered under the Companies Acts it is still not quite clear that there is any compulsion to publish a Balance Sheet; but any Shareholder of a Company may now obtain a copy of the Balance Sheet upon payment, and all Companies other than "Private" Companies must annually file with the Registrar of Joint Stock Companies a statement "in the form of a Balance Sheet."

The Articles of Association of a Company also, to some extent, determine the amount of information that shall be given in the published accounts, although this is a matter that is in all cases very largely within the discretion of the directors, who—within very wide limits—have power to determine the form that the accounts shall take.

This question of form is one upon which it would be difficult to lay down any hard and fast rules of universal application. The varying circumstances determining the position of different undertakings render the adoption of any stereotyped form practically impossible, although concerns carrying on similar classes of business might, as a rule, have their accounts framed upon very much the same lines. Opinions, however, vary greatly as to the amount of information which it is desirable to disclose, and the precise form that that information should take, with the result that in practice the published accounts of almost every concern present some points of difference. Doubtless some nearer approach to uniformity would be desirable from most points of view, and in the case of clearly defined industries it would be by no means impracticable, as is shown by the fact that Railways, Gas Companies, Electric Light Companies, Life Assurance Companies, Building Societies, and certain other undertakings are required to publish their accounts in the forms prescribed by the Legislature, and are enabled to adhere very closely to such forms without inconvenience.

The following report of a public lecture, delivered by the author at the London School of Economics on 7th October 1920, is reproduced, as bearing generally upon the subject, and showing the difficulty of dogmatising concerning it :—

" I have chosen as the subject of my lecture to you this evening 'Published Balance Sheets and Accounts,' partly on account of its importance and partly because it is not a highly technical subject and is, therefore, not unsuitable for consideration at the beginning of a session, but chiefly because of the widely divergent views as to what a published Balance Sheet ought to be. We may, therefore, I think, very usefully consider the question in its various aspects, and also consider how far the criticisms which are sometimes passed upon published Balance Sheets and accounts are reasonable, and how far they are unreasonable as being really impracticable. We find that it is said upon the one hand—and this, perhaps, of the two is the view more widely held—that a Balance Sheet should be a statement showing exactly the financial position of an undertaking, containing facts and nothing but facts, showing exactly how that undertaking would pan out if the business were to be discontinued and the affairs of the business wound up. At the other extreme we find it suggested that a Balance Sheet means practically none of these things, and that it is simply a statement prepared by the bookkeeper when he has finished his work at the end of a year, or some other period, and then simply puts together in the form of an annual statement a sort of list of the uncompleted transactions.

" If we take the first view as being our standard of what a Balance Sheet ought to be, it might be regarded more or less as a statement of fact, although even then there might be widely divergent views as to what certain kinds of property would realise if sold, before any attempts had been made to find a purchaser for them. If we take the second view, it is possible to regard the Balance Sheet as a statement of fact, again up to a point; but of a different kind of fact. We must then regard it rather as a statement showing on the one hand what the undertaking has received and has not repaid, and is, therefore, liable to account for; and on the other hand a statement of what it has done with the moneys so received and not yet refunded. There again, to some extent, matters of opinion must crop up, and our Balance Sheet even on that basis cannot be regarded as a cold statement of absolute facts. Whichever way we look at it, we must expect to find questions of opinion, so to speak, mixed up with our statements of fact, and the opinion must in the first instance clearly be the opinion of those who are rendering this statement of fact—the accounting parties.

" When the Balance Sheet is audited, it becomes the duty of the auditor not to 'certify' that the Balance Sheet is a true statement of fact, because that, as I have just said, would be impossible as regards at least a part of it; but he is called upon to express an opinion as to whether the statement as put before him by the accounting parties properly discloses the position of affairs. If his opinion differs from theirs, it is his duty to report in what respect it differs; but it is important to bear in mind that the auditor's report is to a very large extent a matter of opinion and that the expression 'auditor's certificate,' which is so very commonly used, is a misnomer. One can certify facts, but one cannot certify matters of opinion, and as a matter of fact the law does not require a Balance Sheet to be certified, but it does require the auditor to report whether in his opinion it is properly drawn up.

"Supposing we were to take as our standard of what the ideal Balance Sheet ought to be the view that it ought to show what the position will be if the business is disposed of and its affairs are wound up, then clearly, if its possessions are at the time when we prepared the Balance Sheet likely to be sold at something appreciably above their cost price, we are looking forward to a profit on realisation. We are expecting that the position will turn out better on a realisation than it would have done had there been no rise in prices. If we frame our Balance Sheet upon those lines, it must necessarily result in its showing a profit up to date which includes a profit that has not yet been realised, and is, therefore, not at present available to be divided in money. In so far as that profit may be expected from the sale of what we may call the general equipment of the undertaking—what is technically spoken of as the 'fixed assets' of the undertaking, the things that it does not try to turn into money in the ordinary course of business, but has acquired with the object of using them in their existing form as a means of increasing the profits of the undertaking—in so far as we include possible profits on the realisation of equipment, we shall be including as profits actually already made profits which there is no intention whatever of ever making on the assumption that the business is not being disposed of or shut down, but is to be continued.

"Accordingly, when, as at a time like the present, the tendency is for prices to rise and to go on rising, a Balance Sheet so prepared would show very large profits which would be largely, if not entirely, illusory. At other times it might be that, with falling prices, Balance Sheets so prepared would show serious losses, that is to say, the existing equipment might perhaps only be saleable at a price very considerably less than what it originally cost, even after making due allowance for the fact that it is partly worn out and, therefore, that we should not regard it as being to-day worth the original cost. Its realisable price might be less still. If we were to be debarred from dividing profits derived from the practical working of our business merely because equipment could be bought more cheaply to-day than when we purchased our equipment, this would certainly not make it easy for us to find new capital for expansion, it would not make it easy for other similar undertakings to find new capital for new enterprises. But, apart from that, these losses which a Balance Sheet so framed would show would be just as illusory as the profits would have been after a period of rising prices; that is to say, they would be hypothetical losses which would be sustained if we were to dispose to-day of something which we have no intention whatever of trying to sell. In our attempt, therefore, to produce a Balance Sheet which will get into close touch with actual facts, we find that we have entirely defeated our purpose and have got right away from the true facts of the position, the essential fact being that the business is a going concern which we are going to continue to carry on so far as we can anticipate, and which we have every reason to suppose that we shall be able to continue.

"Then there is another point. If we frame our Balance Sheet so that it may show as profit increases of wealth which, even if turned into money, are manifestly of a non-recurring nature (and a profit derived from the sale of one's equipment clearly could only be made once, and not annually), the effect would be to encourage by this form of accounting the payment of very large dividends after a period of rising prices and no dividends at all after a period of falling prices. We should find that not even the soundest undertaking could maintain anything like a uniform rate of distribution among its proprietors by way of dividend, and that again would make it very difficult for us to get capital for new enterprises.

"Then, again, if we keep to this first ideal of a Balance Sheet which represents absolutely realisable value, we have got to cut out altogether a number of items which, if we adopted the second ideal, we should certainly include in our Balance Sheet along with our possessions, or 'assets' as they are commonly called. In almost every kind of business activity certain kinds of expenditure occur, the full benefit of which is not received entirely within the year (or other accounting period) in which the expenditure takes place, so that at the date of the Balance Sheet the whole of the advantage to be derived from that expenditure is not exhausted ; there is still a surviving value in that expenditure which, with varying degrees of confidence, according to circumstances, we expect will be received in future years—sometimes a few years, sometimes many years. Now, clearly, expenditure the benefit of which is entirely exhausted within one week, is a proper charge against the profits of one week. Expenditure which is entirely exhausted within one year is similarly a proper charge against the profits of that year. Expenditure which is not entirely exhausted until, let us say, the end of 20 years, is equally properly chargeable over the longer period of 20 years. Theoretically at least, we ought to ascertain what benefits will be received from this outlay in each accounting period during which it is any advantage to us whatsoever, and charge the corresponding portion of the cost against each accounting period. That is what is commonly done in practice with such items as plant and machinery and the like, which we know will last very much longer than one year, and the cost of which is spread over a longer period—a period approximately as nearly as one can tell, and as nearly as experience will help one to determine, to the time during which that plant and machinery continues to be useful as equipment, and, therefore, to serve its function as a profit-earner. If we accept that as a reasonable way of dealing with expenditure of this character, it necessarily follows that in each successive Balance Sheet prepared during the time that the effective life of that equipment continues, we must bring in such part of the original cost of the equipment as we consider is not already worked out or worn out—that part which we consider survives and for that reason is more properly chargeable against future profits than against current profits. If we work upon these lines, it necessarily follows that from time to time such outlays will appear in our Balance Sheets at figures quite different from the then realisable values of the articles represented by the outlay.

"We cannot possibly frame a Balance Sheet which will carry out both ideals ; we must choose which of the two is the one that we propose to adopt. In every case where we are proposing to continue the business and there is no reason to suppose that we shall not do so, and no reason, humanly speaking, to suppose that the future profits of that business will not be able to bear the burden that we are throwing upon them, that seems to be a perfectly sound method, and it has at least the advantage of charging against the gross earnings of each year their fair share of the burden that has to be borne by all of the years. The system, therefore, tends in the direction of producing statements of profit from year to year that will be as uniform as the varying circumstances of the case would permit or justify. At least, we are not going out of our way to make the profits fluctuate more wildly than the conditions of trade necessitate.

"Shareholders, in the nature of things, for the most part prefer uniform dividends. They are quite willing that distributions out of profits should tend to increase, but they are always inclined to be disappointed, and frequently inclined to grumble, when the rate of dividend falls. Accordingly, those who are responsible for the preparation of accounts, and for the successful conduct of a business, very naturally adopt in the main a procedure that tends in the direction of avoiding large distributions of profits which they know it will be impossible to maintain in the future. But although shareholders as a body like uniform dividends, as representing fixed income, they are not always very consistent, and, accordingly, we commonly find that where the dividend that it is proposed to declare is markedly less than the amount of the undivided profits available to be divided, pressure is brought to bear by the shareholders for the dividend to be increased, and directors as a rule endeavour to resist that pressure where in their opinion the standard of distribution proposed is too high to be maintained. To assist them in resisting that pressure, it is a very common thing to transfer a certain (or rather an uncertain) part of the profits actually earned to a reserve, thus reducing the amount of undivided profits shown. The device, although exceedingly thin to the initiated, seems to serve its purpose quite well in practice. We rarely find shareholders clamouring for a dividend to be paid out of a reserve, although at times, when the reserve gets very high, they may look forward to, and expect, a free distribution of shares out of reserved profits ; but the practice of transferring what we may call ' surplus profits ' to reserve is generally effective, as permitting current dividends to be kept within the safety limit. Nevertheless we do not always find that this particular method is employed by directors to keep dividends within what they consider to be desirable limits. Instead of transferring profits to a reserve that is clearly shown upon the face of the Balance Sheet as something which has to be accounted for in the future—or what is called a liability—the practice has grown up, and during recent years appears to be decidedly upon the increase, of piling up what are sometimes called ' internal reserves,' sometimes ' undisclosed reserves,' and sometimes ' secret reserves.' The term ' secret reserve ' does not seem to be much used save by those who oppose this particular kind of policy and regard it as being highly undesirable.

" The effect of the policy is to withhold from those to whom the Balance Sheet may be sent the fact that the undertaking has made certain profits which have not yet been divided. The directors do not ' account ' to the extent of such reserves. On the face of it that might seem to be entirely improper and highly unjustifiable, but it has been held that there is nothing whatever illegal about such a practice so long as it is not contrary to the regulations of that particular company. Most companies in their regulations take power for their directors to make such reserves as they think fit, without specifying whether those reserves are to be shown upon the face of the Balance Sheet or not. The only thing that the Courts have so far objected to in the matter is that they have decided that the existence and the extent of these reserves must not be concealed from the company's auditor. They throw upon the latter the grave responsibility of determining whether he shall make any disclosure to the shareholders with regard to the matter. This seems very clearly to suggest that the auditor will not do so without good reason, so that as long as the directors are acting in good faith these internal reserves are apparently recognised as being a reasonable business policy.

" Such reserves may be made in a great number of ways, all of which will indirectly affect the published Balance Sheet. Excessive sums may be charged against current profits to provide for contingencies, such as the wear and tear and obsolescence of equipment, possible future bad and doubtful debts, the deterioration in value of stock in trade or investments, and so on. Almost everybody applauds the systematic and drastic writing down of goodwill in the case of a successful company. The policy is, no doubt, excellent in itself, but we have got to remember that the more successful the undertaking may be the more valuable does its goodwill become Although, therefore, we may write goodwill off against profits, and out of the Balance Sheet as rapidly as the earning capacity of the undertaking will permit, we are deliberately preparing a Balance Sheet which underestimates the value of that particular asset. The policy may be justified on the ground that even in the most successful business the value of goodwill is subject to wide fluctuations, because even in the most successful business profits fluctuate ; but, however that may be, the effect of writing down goodwill is to state this particular asset in our Balance Sheet at less than we believe it to be worth, and to leave a corresponding amount of money (if the profits are realised profits) in the control of the directors for future purposes.

" We may also build up internal reserves by overstating the total amount of our liabilities, by including reserves for possible future claims or in excess of what we really believe to be the actual extent of our commitments at the present time. Again, various kinds of outlay, which result in acquiring new possessions, whether by way of buildings or plant or investments, or what not, may be and sometimes are charged direct against profits as a working expense, with the result that that which has been acquired as a result of this outlay does not come into the Balance Sheet as an existing asset at all. The result of this kind of policy is that it leaves us without any formal record in our accounts of the property that we have purchased, the existence of which ought to be carefully verified from time to time.

"The strongest argument in favour of reserves, whether disclosed or undisclosed, is the impossibility of saying with absolute certainty what the future has in store for us. We are only justified in putting into our Balance Sheet as assets that which we think we shall in the future receive real value for, either when it is disposed of and turned into money, or as the result of using it in its existing form. We can never say with absolute certainty what future benefits we shall derive from our present possessions. We must, therefore, leave a wide discretion in the hands of those responsible for the management of the business as to the value that they put upon these items as being fair and reasonable. Similarly, although not as a rule to such a great extent, it is not practicable in the case of a going concern to say with absolute certainty what claims may be made upon it in the future arising out of events that have already happened. We must permit the management, therefore, to provide an adequate and even a generous amount for future contingencies which, in their judgment, not only are likely to happen but also may happen. We cannot, and ought not to, complain, but rather to congratulate them if their general policy is always to be upon the safe side, and to aim at disclosing a position in their published Balance Sheets that is certainly not better than the true position.

"We see then that we must give the accounting parties a very wide discretion as to how they frame their accounts, and that in the nature of things they cannot put before us a statement of facts in connection with things that have not yet happened, and that things which may happen in the future will react upon what is, or is thought to be, the present position, in so far as they have not been provided for or have been over-provided for. In spite of all this we must draw the line somewhere, or we shall find that we are driven to the conclusion that the Balance Sheet may mean little or nothing, and would, therefore, be useless.

"It is only shareholders who have a statutory right to see a Balance Sheet. On the other hand, most companies go much further than that and issue copies of their Balance Sheets to practically anybody who likes to ask for one, and some even go to the extent of advertising their Balance Sheets so as to make them as far as possible common knowledge. There must clearly be some responsibility resting on those who publish Balance Sheets for the information they contain, even although you may not find ther responsibility defined in the Companies' Acts. We find it mentioned, however, in a rather forceful way in the Larceny Act, where it is provided that it is a misdemeanour to publish a Balance Sheet with intent to deceive a member or a creditor, or with intent to induce anyone in the future to become a member or a creditor, so that the Balance Sheet is not a purely domestic document.

"In ordinary practice Balance Sheets seem to be used and to a surprising extent to be relied upon, not merely as a means by which the rank and file of the shareholders may test the degree of success with which a board of directors has conducted the affairs of the undertaking, but also as a means of enabling the initiated to determine what is the true value of the company's shares from time to time. It is very doubtful whether a Balance Sheet can be of much use for this latter purpose. The true value of the shares in a company depends, no doubt, to a certain extent upon what return would be likely to be made to shareholders in the event of the company being wound up, but it depends certainly to a greater extent upon the income derived from the possession of the shares and the degree of probability of that income being maintained. The Balance Sheet as ordinarily prepared gives very little idea as to what shareholders may expect to receive if the company were wound up. It will give some idea as to the probability of the business being successful in the future, and it should enable us to determine whether the resources of the undertaking are sufficient to enable it to meet its debts as they fall due. We may, by looking at a Balance Sheet which has been prepared with reasonable honesty, satisfy ourselves that it is not likely that the company will be obliged to discontinue operations because it is unable to pay its debts, or we may form the conclusion from looking at the Balance Sheet that there is a greater or a less probability that it will be obliged to stop for want of money; but we can form no very useful idea from looking at any Balance Sheet as to whether the profits of the next few years will be as great as those of the last few years. You must remember that perfectly sound undertakings sometimes carry on for a year, or even more, with very little profit, or perhaps even at a loss. The existence of sufficient reserves will, however, enable them to tide over lean years, and still to go on paying dividends. That we may form a useful idea of the position of an undertaking from its Balance Sheet is all that we are able to say.

"The Balance Sheet should show in reasonable detail the grouping of its assets. Most Balance Sheets do that Some certainly do not; and as an illustration of one that does not, I should like to read you an extract from a Balance Sheet of a well-known company. Explaining an outlay of upwards of 5¾ millions sterling, it does it in five lines of print, as follows:—'By land, water rights, reservoirs, effluent works, buildings, plant, machinery, office furniture, goodwill, designs, engraving, and sampling, as per last account, £5,776,212 19s. 8d. Further capital expenditure at cost (less sales) for the two years ended 26th June 1920, £14,922 16s. 11d.,' making a total of £5,791,135 16s. 7d. I suggest that that is not an ideal way of disclosing to interested parties what the main resources of the undertaking consist of. Another example of how not to do it I should like to give you: The Balance Sheet of a shipping company having total assets amounting to £1,305,000 odd, explains £1,073,811 of that amount by simply describing it as 'Stock in steamships and investments, book value at 31st December 1918, after deducting depreciation previously written off.' At the annual meeting of that company the chairman was asked whether he would state how much of that figure represented steamships and how much represented investments, and he said that it was not in the interests of the company to give that information. At that time the £10 shares of the company stood at about £45. A little later the ships were sold and the company was wound up, and the return to the shareholders is now expected to be about £130 per share. One wonders whether it really was in the interests of the company that shareholders should have no information which would suggest to them that their shares were worth a very great deal more than the current market price.

"I put these matters before you, but I have no time this evening, and I do not think that I have any particular inclination just now, to suggest a remedy. I have merely tried to point out to you that the question of what a Balance Sheet ought to be, and ought to contain, is not a very simple one that can be answered off-hand, and yet that it is a very urgent one, in that clearly there are cases where shareholders and other interested parties do not get the information that would be of great use to them from the published accounts, and seem at present to be entirely without a remedy."

Until something more nearly approaching uniformity is reached, it is thought that little would be gained in the present work by dogmatising upon the question as to the best form of accounts for different classes of representative undertakings. It has been thought that a collection of a number of representative published accounts will prove at once more interesting and more instructive. Such a collection has accordingly been appended to this chapter. Some of the accounts have been selected on account of the excellence of their form, some for the opposite reason, and others on account of special circumstances which render it probable that their careful study may be found of value. The accounts have accordingly been given in their published form without any alterations whatever, and the published reports of the Auditors have been appended. The names of the Auditors have been added, with a view to showing the practice of certain firms as to the wording of their Reports. It must not, however, be supposed that in this respect the information afforded can be regarded as anything like complete, and in particular it must be borne in mind that the responsibility for the form in which the accounts of a Company are published rests primarily with the Directors, rather than with the Auditors. It does not, therefore, necessarily follow that the forms reproduced are regarded by the respective firms of Auditors as being, in their opinion, the most suitable that could have been designed to meet the circumstances of each particular case.

ADMIRAL STEAM TRAWLING COMPANY, SCARBOROUGH.

STATEMENT OF ACCOUNTS FOR HALF-YEAR ENDING JUNE 30TH 1896.

The "Admiral" is insured against total loss for £1,200.

CAPITAL ACCOUNT.

		£ s d			£ s d
1895 Dec 31	To "Admiral"	2,250 0 0	1896 June 30	By "Admiral"	2,250 0 0

REVENUE ACCOUNT.

1896		£ s d	£ s d	1896		£ s d	£ s d
June 30	Commission	67 4 8		June 30	By Sales	889 13 0	
,,	Landing Dues	9 3 10		,,	,, Sale of Old Rope, &c.	0 11 0	
,,	Harbour Dues { Scarborough	2 4 6		,,	,, Insurance Club's proportion of Salvage Claim	10 13 4	
	{ Hartlepool	3 9 2					
			82 2 2				900 17 4
,,	Fishermen	170 15 2					
,,	Wages	179 13 0					
,,	Labour	21 17 5					
			372 5 7				
,,	Coals	119 0 0					
,,	Oils	14 2 4					
			133 2 4				
,,	Engineers, Repairs, &c.	92 6 7					
,,	Ropes, Stores, &c.	51 9 5					
,,	Net Braiding, Mending, and Tarring	11 11 2					
,,	Carpenters	1 8 0					
,,	Painting	2 11 0					
,,	Salvage Claim	20 0 0					
			179 6 2				
,,	Insurance	12 0 0					
,,	Management	10 0 0					
,,	Sundries	2 7 0					
,,	Printing and Stamps	0 9 3					
,,	Bankers' Charge	0 5 0					
			25 1 3				
,,	Profit and Loss Account	44 19 10					
,,	Dividends	64 0 0					
			108 19 10				
			£900 17 4				£900 17 4

PROFIT AND LOSS ACCOUNT.

			£ s d				£ s d
Dec. 31	1895	To Balance due to Bank	21 15 10	Dec. 31	1895	By Cash in hand	0 10 6
June 30	1896	,, Cash in hand	1 12 11	June 30	1896	,, Revenue Account	44 19 10
		,, Balance at Bank	22 1 7				
			£45 10 4				£45 10 4

Examined with Vouchers and found correct—SAMUEL SMITH, Merchant and Broker, Scarborough.

THE AMALGAMATED PRESS, LIMITED.

BALANCE SHEET, 31st October 1913.

Liabilities

	£	s	d	£	s	d
Capital—						
Authorised						
750,000 Ordinary Shares of £1 each ..	750,000	0	0			
550,000 5 per cent. Cumulative Preference Shares of £1 each ..	550,000	0	0			
1,300,000 Shares	£1,300,000	0	0			
Issued						
515,000 Ordinary Shares of £1 each	515,000	0	0			
550,000 5 per cent. Cumulative Preference Shares of £1 each.	550,000	0	0			
1,065,000 Shares				1,065,000	0	0
Reserve Account	235,000	0	0			
Deduct Amount written off Goodwill ..	35,000	0	0			
				200,000	0	0
Forfeited Share Account				41	17	6
Pensions and Allowances Fund .				70,000	0	0
Creditors and Credit Balances				167,422	15	10
Profit and Loss Account— Balance				299,490	13	5
				£1,801,955	6	9

Assets

	£	s	d	£	s	d
Purchase of Goodwill and Copyright— Balance, 31st October 1912 ..	500,000	0	0			
Deduct Amount written off from Profit and Loss Account .. £5,000 0 0						
Amount transferred from Reserve Account 35,000 0 0						
	40,000	0	0			
				460,000	0	0
Freehold Land and Buildings, Farringdon Street and Whitefriars Street, E.C., and Gravesend; Leasehold Buildings, Lavington Street and the Broadway, Ludgate Hill; and Plant and Machinery .	249,014	7	3			
Deduct Depreciation	25,000	0	0			
				224,014	7	3
Investments				899,928	4	6
Stock of Paper, &c.				6,700	0	0
Sundry Debtors (*less* Reserve for Discounts, Returns, &c.) .				58,565	4	1
Cash—						
At Bankers—						
On Short Loan .. .	105,000	0	0			
On Current Accounts .	47,480	1	2			
In hand .	267	9	9			
				152,747	10	11
				£1,801,955	6	9

On behalf of the Board of Directors,
NORTHCLIFFE, A. E. LINFORTH, } *Directors.*
T. ANDERSON, *Secretary.*

PROFIT AND LOSS ACCOUNT for the Year ending 31st October 1913.

Dr.

	£	s	d
To Paper and Printing	395,205	12	7
„ Editorial and Commercial Salaries and Literary Expenses	197,584	15	3
„ Trade Expenses, Postages and Carriage .. .	37,946	6	5
„ Advertising	75,035	12	9
„ Insurance Claims	1,300	0	0
„ Pensions and Allowances	20,000	0	0
„ Depreciation of Buildings and Plant	25,000	0	0
„ Amount written off Goodwill and Copyright ..	5,000	0	0
„ Balance carried to General Profit and Loss Account ..	372,329	12	9
	£1,129,401	19	9

Cr.

	£	s	d
By Sales and Advertisements	1,103,018	17	1
„ Transfer Fees	134	10	0
„ Interest and Dividends received on Investments	26,248	12	8
	£1,129,401	19	9

GENERAL PROFIT AND LOSS ACCOUNT.

Dr.

	£	s	d	£	s	d
To Amount carried to Reserve Account ..	25,000	0	0			
„ Dividends paid for Six months to 31st October 1912	142,500	0	0			
				167,500	0	0
„ Dividends paid for six months to 30th April 1913				91,000	0	0
„ Balance carried to Balance Sheet ..				299,490	13	5
				£557,990	13	5

Cr.

	£	s	d	£	s	d
By Balance at 31st October 1912	184,823	1	11			
„ Amount recovered from Cycle Press, Lim.	837	18	9			
				185,661	0	9
Net Profit for the Year ending 31st October 1913				372,329	12	8
				£557,990	13	5

AUDITORS' CERTIFICATE.

We certify that we have obtained all the information and explanations we have required, and we report to the shareholders that we have examined and compared this Balance Sheet and Profit and Loss Account with the Books and Vouchers of the company, and in our opinion the Balance Sheet is a full and fair Balance Sheet, and properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

5th December 1913.

TURQUAND, YOUNGS & CO } *Auditors.*
B. LAYTON BENNETT & CO

ARMY AND NAVY CO-OPERATIVE SOCIETY, LIMITED.

BALANCE SHEET, 30th January 1909.

(Including the Indian Depôts Accounts to the 22nd September 1908.)

Dr.

Liabilities	£ s d	£ s d	£ s d
To Capital Account, 1,200,000 Shares of 1s. each			60,000 0 0
,, Life Ticket Account			1,551 10 0
,, Permanent Ticket Account			6,287 15 0
,, Three Per Cent. Mortgage Debenture Account			193,840 0 0
,, Creditors, for Trade Accounts and other Debts			170,718 10 0
,, Creditors for Deposit Order Account			170,608 8 4
,, Creditors for Deposit Interest Account and Deferred Pay, including interest thereon			488,044 14 6
,, Creditors, for Provident Fund Deposit			97,507 13 2
,, Managers' Special Remuneration and Indian Good Service Funds, including Interest thereon			29,684 0 7
,, Contingencies Fund			489,770 0 8
,, Leases Redemption Fund			86,529 17 7
,, Net Profit from previous Balance Sheets		201,486 12 5	
Less—Dividend at 1/10 per Share on 1,200,000 Shares of 1s. each	110,000 0 0		
Income Tax on ditto	5,500 0 0		
Contingencies Fund	10,000 0 0		
Income Tax on Directors' Remuneration, Auditors' Fees, and Staff Incomes	1,300 0 0		
Provident Fund	4,047 15 7		
Auditors' Fees	500 0 0		
Indian Good Service Fund	1,500 0 0		
Bonus, Selected Countermen, &c., in London	3,000 0 0		
		135,847 15 7	
			65,638 16 10
,, Balance from Profit and Loss Account		195,869 0 8	
Less Interim Dividend at 1s. per Share on 1,200,000 Shares of 1s. each	60,000 0 0		
Income Tax on ditto	3,000 0 0		
		63,000 0 0	
,, Net Profit			132,869 0 8
			£1,993,050 7 4

CONTINGENCIES FUND.

	£ s d	£ s d
Colonial and other Bonds, Mortgage and Freeholds, Cost as per last Acc't.		465,666 3 10
Less Mortgage, Freehold, and Bonds transferred or redeemed		29,020 14 0
		436,645 9 10
Bonds, &c., purchased as below		53,105 2 0
Colonial and other Bonds and Freeholds, Cost		489,750 11 10
Balance uninvested, as per last Account	£429 7 2	
Amount voted at last Meeting	10,000 0 0	
Cash received for Mortgage, Freehold, and Bonds, transferred or redeemed	28,989 9 0	
Dividends received during past year, and interest paid by the Society on uninvested Balance	14,905 14 8	
	54,324 10 10	
Less— Bonds, &c., Cost £53,105 2 0; Amount voted to Major McCrea 1,200 0 0	54,305 2 0	
		19 8 10
Total Amount of Fund		£489,770 0 8

LEASES REDEMPTION FUND.

	£ s d	£ s d
Colonial and other Bonds, Cost as per last Account		83,878 19 2
Bonds purchased as below		2,644 1 3
Colonial and other Bonds, Cost		86,523 0 5
Balance uninvested, as per last Account	£109 11 5	
Dividends received during past year, and Interest paid by the Society on uninvested Balance	2,541 7 0	
	2,650 18 5	
Less Bonds Cost	2,644 1 3	
		6 17 2
Total Amount of Fund		£86,529 17 7

Certificates for the above seen by us—16th April 1909.

Wm. H. May, F.C.A.
P. D. Leake, F.C.A. } *Auditors.*

Cr.

Assets	£ s d	£ s d	£ s d
By Stock, 30th January 1909			662,400 4 7
,, Cash in hand		8,380 4 9	
,, ,, at Bankers		46,516 9 0	
,, ,, ,, ,, on Deposit		4,973 14 0	
			59,870 7 9
,, Temporary Investments			1,464 15 1
,, Sundry Debtors for sums owing by Canteens, Messes, &c.			80,795 0 8
,, Balance of various Indian Transactions, from 23rd September 1908 to date			20,754 3 8
,, Contingencies Fund Investment Account			489,770 0 8
,, Leases Redemption Fund Investment Account			86,529 17 7
,, Cost of Victoria Street Premises—Purchase of Lease, Alterations, &c.		225,378 1 1	
Less Written off		104,278 1 1	
			121,100 0 0
,, Cost of Johnson's Place Premises—Alterations, &c.		26,853 15 4	
Less Written off		24,853 15 4	
			2,000 0 0
,, Cost of Ranelagh Road Premises—Alterations, &c.		30,890 14 6	
Less Written off		24,490 14 6	
			6,400 0 0
,, Cost of Francis Street Premises—Freehold Buildings, &c.		78,726 15 11	
Less Written off		19,026 15 11	
			59,700 0 0
,, Cost of Howick Place Premises—Freehold, Alterations, &c., Nos. 1–4		39,154 3 1	
Less Written off		15,654 3 1	
			23,500 0 0
,, Johnson Street Premises—Alterations, &c.		19,913 10 9	
Less Written off		14,113 10 9	
			5,800 0 0
,, Cost of Gatliff Wharf Premises—Purchase of Lease, &c.		2,166 5 2	
Less Written off		1,166 5 2	
			1,000 0 0
,, Cost of Coburg Row Premises—Purchase of Freeholds, Leases &c.		49,971 7 2	
Less Written off		9,471 7 2	
			40,500 0 0
,, Cost of Spencer Buildings—Purchase of Lease, &c		7,299 15 5	
Less Written off		2,899 15 5	
			4,400 0 0
,, Cost of Greycoat Place and Artillery Row Premises—Purchase of Leases, Buildings, and Additions		104,118 6 3	
Less Written off		13,318 6 3	
			90,800 0 0
,, Cost of Wilton Road Premises—Alterations, Expenses, &c.		1,732 13 1	
Less Written off		1,432 13 1	
			300 0 0
,, Cost of Bombay Premises—Purchase of Lease, Alterations, &c.		49,808 16 11	
Less Written off		13,808 16 11	
			36,000 0 0
,, Cost of Calcutta Premises—Purchase of Freehold, Expenses, &c.		81,240 12 7	
Less Written off		9,240 12 7	
			72,000 0 0
,, Cost of Plymouth Premises—Purchase of Freehold, Leases, Alterations, &c.		12,431 2 0	
Less Written off		4,631 2 0	
			7,800 0 0
,, Cost of Swanley Junction Premises—Purchase of Freehold, Alterations, &c.		6,720 13 9	
Less Written off		520 13 9	
			6,200 0 0
,, Cost of Southsea Premises—Purchase of Freehold, Alterations, &c.		2,181 13 0	
Less Written off		381 13 0	
			1,800 0 0
,, Cost of Fixtures and Furniture—General Account		257,036 7 4	
Less Depreciation deducted to 1st February 1908	171,038 11 1		
Depreciation this year	4,299 18 0		
		175,338 9 1	
			81,697 18 3
,, Cost of Manufacturing Plant, Fixtures, &c.—General Account		116,417 16 0	
Less Depreciation deducted to 1st February 1908	82,564 10 4		
Depreciation this year	3,385 6 7		
		85,949 16 11	
			30,467 19 1
			£1,993,050 7 4

ARMY AND NAVY CO-OPERATIVE SOCIETY, LIMITED—*continued*

TRADING AND PROFIT AND LOSS ACCOUNTS from the 2nd February 1908 to the 30th January 1909. (Including the Indian Depôts Accounts to the 22nd September 1908.)

Dr. TRADING ACCOUNT. *Cr.*

	£	s	d		£	s	d
To Stock, 2nd February 1908	674,028	15	4	By Sales, &c.	3,103,876	11	10
„ Purchases, &c.	2,623,747	18	6	„ Stock, 30th January 1909	662,400	4	7
„ Balance to Profit and Loss Account	468,500	2	7				
	£3,766,276	16	5		£3,766,276	16	5

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

	£	s	d	£	s	d
To Remuneration of Chairman and Seven Directors	5,200	0	0			
„ Salaries and Wages of Staff	186,616	0	0			
„ Sundry Rents, *less* Rents Received	445	6	0			
„ Lighting, Rates, Insurance, Income and other Taxes	20,372	14	11			
„ Stationery and Printing	3,412	17	7			
„ Price List and Circular, cost of Printing, Postage, and forwarding of same .. £16,732 9 6; *Less* Advertisements, &c 2,484 4 2	14,248	5	4			
„ Postage and Receipt Stamps	6,590	0	5			
„ Trade and Miscellaneous Expenses	3,864	17	3			
„ Legal Expenses	421	2	10			
„ Depreciation of Fixtures and Furniture	4,299	18	0			
„ Maintenance and Repair of Buildings, &c	4,470	17	11			
				249,942	6	3
„ Interest on Remuneration Funds				1,005	14	9
„ „ „ Deposit Interest Account, Deferred Pay, &c.				15,584	4	3
„ „ „ 3% Mortgage Debenture Account				5,868	0	0
„ „ „ Provident Fund				3,804	8	6
„ Donations and Subscriptions to Hospitals, Charities, &c.				910	6	1
„ Written off Victoria Street Premises				2,300	0	0
„ „ „ Francis Street „				1,000	0	0
„ „ „ Howick Place „				500	0	0
„ „ „ Spencer Buildings				200	0	0
„ „ „ Greycoat Place and Artillery Row Buildings				2,000	0	0
„ „ „ Bombay Premises				2,000	0	0
„ „ „ Calcutta „				2,333	18	9
„ „ „ Plymouth „				200	0	0
„ „ „ Southsea „				226	13	6
„ Balance carried to General Balance Sheet				195,869	0	8
				£183,750	13	7

	£	s	d
By Balance from Trading Account	468,500	2	7
„ Miscellaneous Revenue—Advertisements, Tickets, &c.	15,250	11	0
	£483,750	13	7

EBURY,
W D. RICHARDSON, } *Directors.*

AUDITORS' REPORT TO THE SHAREHOLDERS.

We have audited the Accounts of the Army and Navy Co-operative Society, Limited, to the 30th January 1909, and we report that we have obtained all the information and explanations we have required, and in our opinion the above Balance Sheet, at the 30th January 1909, is properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Society.

16th April 1909.

WM. H. MAY, F.C.A.
P D. LEAKE, F.C.A. } *Auditors.*

EMPLOYÉS' PROVIDENT, PENSIONS, AND GRATUITY FUND from 1st February 1908 to 31st January 1909.

Dr. *Cr.*

	£	s	d		£	s	d
To Balance from 31st January 1908 with the Society	95,952	4	5	By Amount paid on account of Sickness	5,128	16	4
„ Amount contributed by the Society	4,047	15	7	„ „ „ at Death	686	7	0
„ „ subscribed to Fund by Employés	3,816	16	6	„ „ of Subscriptions returned to Employés	64	7	10
„ Contributions by Members	6	3	0	„ „ paid for Pensions and Allowances	4,238	10	10
„ Interest on Accumulated Fund deposited with the Society at 4%	3,804	8	6	„ Cost of Cheque Books	0	8	4
				„ Legal Expenses	1	4	6
				„ Cash on Deposit with the Society	97,507	13	2
	£107,627	8	0		£107,627	8	0

The Cost of Administering the Fund, including Medical Supervision, has been borne by the Society.

Audited and found correct.

16th April 1909.

WM H. MAY, F.C.A.
P. D LEAKE, F.C.A. } *Auditors.*

THE ASHBY-DE-LA-ZOUCH BATHS AND HOTEL COMPANY, LIMITED.

STATEMENT OF ACCOUNTS for the Year ending 31st December 1918.

REVENUE AND EXPENDITURE ACCOUNT.

Outlay	£	s	d
To Stock on hand, 31st December 1917	235	10	9
„ Provisions, Meat, Milk, &c.	1,006	0	2
„ Wines, Spirits Ales, Cigars, and Mineral Waters, &c.	1,206	10	4
„ Salaries, Wages, &c.	718	2	11
„ General Repairs and Replacements	331	3	0
„ Gas, Coal, &c.	269	15	1
„ Rents, Rates and Taxes	208	1	4
„ Establishment Account—including Newspapers, Licenses, Stationery, and Sundry Expenses	132	9	10
„ Licenses and Stable Requisites	44	14	6
„ Corn, Hay, Straw, &c.	308	13	9
„ Stock for Gronnds and Sundries	182	14	2
„ Secretary's Petty Cash Payments, Allowances and Bad Debts	8	11	3
„ Depreciation of Furniture and Hotel Fittings	63	8	0
„ „ Machinery and Plant at Baths and Effects in Grounds	35	8	0
„ „ Horses, Carriages, &c.	188	4	0
„ Balance to Profit and Loss Account (Profit)	650	16	11
	£5,590	4	9

Returns	£	s	d
By Cash Receipts from Hotel, Stables, Baths, and Bath Grounds	5,117	1	11
„ Year's Book Debts owing to the Company	294	7	6
„ Stock on hand, 31st December 1918	167	8	10
„ Bank Interest	11	6	6
	£5,590	4	9

PROFIT AND LOSS ACCOUNT.

	£	s	d
To 12 months' Debenture Interest	75	0	0
„ Balance to Balance Sheet	742	16	10
	£817	16	10

	£	s	d
By Balance brought forward	166	19	11
„ Balance Revenue and Expenditure Account	650	16	11
	£817	16	10

BALANCE SHEET.

Assets	£	s	d
To Furniture, Hotel Fittings, &c.	1,216	6	9
„ Horses, Carriages, &c.	518	0	0
„ Machinery and Plant at Baths and Effects in Grounds and Tea Rooms	318	11	0
„ Book Debts owing to the Company	324	0	5
„ Cash in hand, 31st December 1918	232	8	5
„ Cash at Bank	687	19	5
„ Petty Cash in hand	1	18	0
„ Stock on hand	167	8	10
„ War Loan Stock	500	0	0
	£3,966	12	10

Liabilities	£ s d	£	s	d
By Trade Debts owing by the Company		717	11	0
„ Capital Account 1,000 Shares of £1 each		1,000	0	0
„ Debenture Stock	£1,500 0 0			
„ Interest thereon, accrued to 31st December 1918	6 5 0			
		1,506	5	0
„ Profit and Loss Account (Profit)		742	16	10
		£3,966	12	10

J. G. SHIELDS, } *Directors.*
GEORGE BULLEN, }

I have audited the Accounts of the Ashby-de-la-Zouch Baths and Hotel Co., Ltd., to the 31st December 1918. I have obtained all the information and explanations I have required. In my opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of my information and the explanation given to me and as shown in the Books of the Company.

11th March 1919. THOS. HEAFIELD, *Auditor*

THE ASSOCIATED COAL CONSUMERS, LIMITED.

BALANCE SHEET, 31st March 1912.

Liabilities	£	s	d	£	s	d
To Share Capital:						
Authorised—						
50,000 Preferred Shares of £1 each ..	50,000	0	0			
1,000 Deferred Shares of 1s. each ..	50	0	0			
Issued:						
8,262 Preferred Shares of £1 each ..	8,262	0	0			
982 Deferred Shares of 1s. each ..	49	2	0			
				8,311	2	0
„ Forfeited Shares Account (Cash paid on account of 262 Preferred Shares of £1 each)				131	0	0
„ Deposit on application for Preferred Shares not yet allotted				55	10	0
„ Reserve Account for Repairs to Steam Lorry				36	15	2
„ Sundry Creditors				2,897	15	3
„ Directors' Fees, 1910-11				193	4	5
				£11,625	7	4

Assets	£	s	d	£	s	d
By Sundry Debtors	3,817	6	11			
Less Reserve for Bad and Doubtful Debts ..	202	4	2			
				3,615	2	9
„ Amounts Paid in Advance, Advertisements carried forward, &c.				392	7	1
„ Stocks on Hand as Certified by the Company's Officials				452	19	0
„ Office Furniture and Fittings as last Balance Sheet	225	17	9			
Additions during year	61	14	0			
	287	11	9			
Less Depreciation at 5 per cent. .. .	14	7	7			
				273	4	2
„ Steam Lorry as last Balance Sheet .. .	599	11	3			
Additions during year	30	0	0			
	629	11	3			
Less Depreciation at 10 per cent. per annum on original cost	63	4	2			
	566	7	1			
Less amount due Fodens, Lim.	265	0	0			
				301	7	1
„ Railway Wagons as last Balance Sheet	352	10	0			
Additions during year	40	0	0			
	392	10	0			
Less Depreciation at 5 per cent. per annum on original cost	19	5	0			
				373	5	0
„ Premises, Appliances, &c., as last Balance Sheet						
Gospel Oak	173	15	11			
Somers Town . .	15	14	11			
Brompton and Fulham .	31	13	3			
	221	4	1			
Additions during year .	127	5	0			
	348	9	1			
Less Depreciation at 5 per cent. .	17	8	6			
				331	0	7
Plant: Gospel Oak				9	0	0
„ Cash at Bank and in hand				118	15	6
„ Preliminary Expenses as last Balance Sheet	1,328	2	10			
Less amounts received from Life Members (838 at 10s. 6d.)	439	19	0			
				888	3	10
„ Commission for Placing Shares as last Balance Sheet	75	10	8			
Expenditure during year	3	14	0			
	79	4	8			
Less amount written off	41	9	4			
				37	15	4
„ Commission for obtaining Life Members as last Balance Sheet	6	9	0			
Expenses during year	61	8	10			
	67	17	10			
Less amount written off	23	14	1			
				44	3	9
„ General Revenue Account, Balance as last Balance Sheet	3,017	4	3			
Add loss for the year	1,770	17	8			
				4,788	1	11
				£11,625	7	4

CECIL POWNEY, *Chairman*.
F. MONTAGUE SMITH, *Managing Director*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF ASSOCIATED COAL CONSUMERS, LIMITED.

We have audited the Balance Sheet of Associated Coal Consumers, Limited, dated the 31st day of March 1912, above set forth. We have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given us and as shown by the books of the company.

LONDON, E.C. *25th July* 1912. H. F. KNIGHT & Co., *Chartered Accountants*.

Dr. PROFIT AND LOSS ACCOUNT for the Year ending 31st March 1913. *Cr.*

Dr.	£	s	d
To Rent, Salaries, Commission, Stationery and Printing, Advertising and General Management Expenses, &c. &c.	3,467	19	3
„ Depreciation of Premises, Plant, &c.	126	10	3
„ Commission on Placing Shares written off	41	9	4
„ Commission for obtaining Life Members written off ..	23	14	1
„ Directors' Travelling Expenses	24	9	0
	£3,684	1	11

Cr.	£	s	d
By Balances from Trading and Departmental Accounts	1,847	10	10
„ Rents Receivable	62	14	2
„ Interest	1	0	3
„ Transfer Fees	1	13	0
„ Balance, being Loss .. .	1,770	17	8
	£3,684	1	11

ASSOCIATED NEWSPAPERS, LIMITED.

BALANCE SHEET, 31st March 1917.

Liabilities	£	s	d	£	s	d
Capital Authorised and Issued—						
500,000 5 per cent. Cumulative Preference Shares of £1 each, fully paid	500,000	0	0			
600,000 7 per cent. Cumulative Ordinary Shares of £1 each, fully paid	600,000	0	0			
500,000 Deferred Shares of £1 each, issued to Vendors as fully paid in part payment of Purchase Price	500,000	0	0			
				1,600,000	0	0
1,600,000 Shares						
Reserve Account				250,000	0	0
Pension Fund				12,339	12	9
Sundry Shareholders for Dividends—(*less* Tax)						
Unclaimed Dividends for period to 30th September 1916 ..	1,071	8	10			
Dividends on Preference and Ordinary Shares for half-year ended 31st March 1917, payable June 1917	25,117	10	3			
				26,188	19	1
Creditors and Reserves against Contingencies .. .				274,287	2	1
Profit and Loss Appropriation Account—Balance as per account				31,441	6	11
NOTE.—There is a contingent liability for £100,000 under a joint and several guarantee with two other companies.				£2,194,257	0	10

Assets				£	s	d
Cost of Goodwill, Copyrights, Freehold and Leasehold Properties, Machinery, Plant, &c., after deducting depreciation on Buildings, Machinery, Plant, &c., and including additions				1,289,886	2	5
Stocks of Paper, Ink, Metal, Materials, and Literary Matter				138,972	2	4
Investments at Cost				489,436	13	0
Debtors (*less* Reserves for Returns, &c.)				180,638	18	3
Pension Fund Investments				9,100	0	0
Cash—						
At Bank—On Short Loan ..	£20,000	0	0			
Deposit Account ..	10,000	0	0			
Current Accounts .	52,841	16	0			
In hand	3,381	8	10			
				86,223	4	10
				£2,194,257	0	10

To the Shareholders of the Associated Newspapers, Limited.

We have audited the above Balance Sheet dated 31st March 1917, and have obtained all the information and explanations we have required. In our opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

DELOITTE, PLENDER, GRIFFITHS & CO.
(Chartered Accountants),
Auditors.

5 London Wall Buildings,
Finsbury Circus, E.C.2.
25th May 1917.

E. LAYTON BENNETT, SONS & CO.
(Chartered Accountants),
Accountants.

Approved on behalf of the Board,
NORTHCLIFFE, THOMAS MARLOWE, } *Directors*
H. F. WOODINGTON, *Secretary.*

Dr. PROFIT AND LOSS ACCOUNT for the Year ending 31st March 1917. *Cr.*

	£	s	d
To Income Tax	23,554	18	0
" Balance carried to Profit and Loss Appropriation Account	141,688	11	5
	£165,243	9	5

	£	s	d
By Profit on Trading and Interest, after deducting all Working, Office, and other outlays, including all Legal Charges and Payments, Pension Fund, Depreciation on Buildings, Plant, Type, Reserve for Doubtful Debts and other purposes	165,126	7	8
" Transfer Fees	117	1	9
	£165,243	9	5

Dr. APPROPRIATION ACCOUNT. *Cr.*

	£	s	d
To Final Dividend on Deferred Shares to 31st March 1916 (free of tax)	40,000	0	0
" Dividends on Preference and Ordinary Shares for the year ended 31st March 1917	67,000	0	0
" Interim Dividends paid on Deferred Shares.. ..	50,000	0	0
" Balance carried to Balance Sheet	31,441	6	11
	£188,441	6	11

	£	s	d
By Balance of Profit and Loss Account at 31st March 1916	46,752	15	6
" Balance brought down	141,688	11	5
	£188,441	6	11

BANK OF IRELAND.

BALANCE SHEET, 31st December 1920.

Liabilities				£	s	d
Capital paid up				2,769,230	15	5
Rest				970,000	0	0
Notes and Post Bills in Circulation				10,926,456	17	2
Government and other Public Accounts				4,203,714	11	6
Deposit, Current and other Accounts				32,152,141	14	0
Profit and Loss—						
Net Profit for the Half-year to 31st December 1920	277,865	3	2			
Balance from last Account	40,902	4	8			
	318,767	7	10			
Amount transferred to Depreciation of Securities and other Contingencies	160,000	0	0			
				158,767	7	10
				£51,180,311	5	11

Assets	£	s	d	£	s	d
Cash at Head Office, Branches, and Bank of England	8,602,365	0	1			
Cash at Call and Short Notice	820,739	13	6			
				9,423,104	13	7
British Government Treasury Bills				3,350,000	0	0
British Government Debt				2,630,769	4	7
British Government Stocks	14,641,659	0	0			
Indian and Colonial Government Securities	1,648,070	0	0			
Railway and Corporation Debentures, and other Securities	1,206,387	0	0			
				17,496,116	0	0
Bills Discounted, Advances to Customers, &c.				17,825,804	16	6
Bank Premises, Head Office, and Branches—at cost, less depreciation				454,516	11	3
				£51,180,311	5	11

Dr. PROFIT AND LOSS ACCOUNT for Half-year ending 31st December 1920. *Cr.*

				£	s	d
Total Expenditure of Head Office and Branches, including Rents, Repairs, Salaries, &c.				242,196	5	7
Amount transferred to Depreciation of Securities and other Contingencies				160,000	0	0
Proposed Dividend for the half-year at the rate of 12 per cent. per annum, *less* Income Tax at 6s. in £	£116,307	13	11			
Amount to be carried forward to next Account	42,459	13	11			
				158,767	7	10
				£560,963	13	5

	£	s	d
Balance from last Account	40,902	4	8
Gross Profits of half-year after providing for Interest on Deposits, Income Tax, Composition for Stamp Duty on Notes and Post Bills, Rebate on Bills Discounted, and making provision for Bad and Doubtful Debts, &c.	520,061	8	9
	£560,963	13	5

GEO R. DEVERELL,
Accountant-General.

WILLIAM P CAIRNES, *Governor.*
HENRY S. GUINNESS, *Deputy Governor.*

AUDITORS' REPORT.

We have examined the above Balance Sheet, dated the 31st December 1920, with the balances on the books at the Head Office in Dublin and with the Returns from the Branches, as certified by the Agents and Sub-Agents. We have satisfied ourselves as to the correctness of the Cash Balances at the Head Office, and at the Bank of England; we have verified the Investments of the Bank as well as the Securities held against Cash at Call and Short Notice; and the Bills Discounted held at the Head Office have been produced to us.

We have obtained all the information and explanations we have required, and, in our opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books at the Head Office and the Certified Returns from the Branches.

12th January 1921.

DELOITTE, PLENDER, GRIFFITHS & CO., *Chartered Accountants.* } *Auditors.*

BELSIZE MOTORS LIMITED.

Dr PROFIT AND LOSS ACCOUNT for the Year ending 30th September 1920 *Cr.*

	£	s	d		£	s	d
To Depreciation of Buildings, Plant, Machinery, Tools, Patterns, Drawings, Furniture, &c.	10,152	0	6	By Balance from Trading Account .	85,796	17	7
" National Health Insurance	1,589	1	9	" Transfer Fees	64	5	0
" Bank Interest, &c.	9,205	1	7	" Profit on Sale of Investment . .	45	0	0
" Writing off Allowance on Buildings, Plant, &c., brought forward from 1918 and 1919 .. .	6,416	0	0				
" Balance, net Profit	58,543	18	9				
	£85,906	2	7		£85,906	2	7

BALANCE SHEET, 30th September 1920.

Liabilities	£	s	d	£	s	d
Capital Authorised and Issued—						
200,000 Ordinary Shares of £1 each, fully paid	200,000	0	0			
100,000 6 per cent. Cumulative Preference Shares of £1 each, fully paid	100,000	0	0			
				300,000	0	0
Sundry Creditors				395,986	14	1
Reserve Account				100,000	0	0
Bank Overdraft (*less* Cash in hand) ..				116,677	13	6
Profit and Loss Account—						
Balance, 30th September 1919 ..	38,829	10	6			
Less—Income Tax £25,000 0 0; Auditors' Fees 262 10 0	25,262	10	0			
	13,567	0	6			
Profit for the year ending 30th September 1920, subject to the liability to Excess Profits Duty (if any), and Corporation Profits Tax ..	58,543	18	9			
	72,110	19	3			
Less—Dividend paid on Ordinary Shares May 1920, for the 6 months to 31st March 1920, at 8 per cent. per annum, *less* Tax, and Dividend paid on Preference Shares at 6 per cent. per annum, *less* Tax, for 12 months to 31st August 1920	9,800	0	0			
				62,310	19	3
NOTE.—A Series of First Mortgage Debentures of £50,000 is held by the Bank as part security against the Bank overdraft.				£1,004,975	6	10

Assets	£	s	d
Land and Buildings at cost, *plus* additions to date, *less* Depreciation written off	72,325	19	1
Plant, Machinery, and Fixtures, at cost, *plus* additions to date, *less* Depreciation written off	154,952	15	11
Patterns, Drawings, Jigs, and Gauges, at cost, *plus* additions to date, *less* Depreciation written off	8,407	17	10
Furniture and Fittings at cost, *plus* additions to date, *less* Depreciation written off	2,059	11	10
Investments in Subsidiary Companies at cost	2,528	10	0
Sundry Debtors	88,147	19	1
Stock in Trade, Raw Materials and Work in Progress, finished and unfinished, as taken by the Company's Officials and certified by the Managing Director ..	676,552	13	1
	£1,004,975	6	10

GEO. P. DAWSON,
JAS. HOYLE SMITH, } *Directors.*

TO THE SHAREHOLDERS OF BELSIZE MOTORS LIMITED.

We report that, in accordance with the provisions of the Companies (Consolidation) Act, 1908, we have audited the Balance Sheet of Belsize Motors, Limited, dated 30th September 1920, as above set forth. We have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company according to the best of our information, and the explanations given us, and as shown by the books of the Company.

64 Cross Street,
MANCHESTER, 3rd *December* 1920

PHILIP SWANWICK, TERRAS & CO.
Chartered Accountants.

THE BIRKBECK BUILDING SOCIETY.

BALANCE SHEET, March 31 1910.

Liabilities

	£	s	d	£	s	d
To "A" and "B" Shares—Completed	308,100	0	[illegible]			
" "A" Shares—Subscribing . .	635,628	2	6			
				1,053,728	2	6
" Current Accounts, &c. .. .	2,084,784	0	0			
" Deposit Accounts	8,449,258	17	11			
" Deposit Receipts	250,281	1	10			
				10,784,323	19	9
				11,838,052	2	3
" Permanent Guarantee Fund	300,000	0	0			
Temporary Reserve :— As per last Balance Sheet.. £102,989 13 4; Add from Profit and Loss Account .. 28,485 19 1	131,475	12	5			
				431,475	12	5
				£12,269,527	14	8

Assets

	£	s	d	£	s	d
By Mortgages and Loans, with Interest to 31st March 1910				713,762	12	5
" Mortgages with Interest more than twelve months in arrear				1,729	14	5
" Property on hand valued at £11,810 . ..				11,117	14	7
				726,610	1	5
" Money at Call, Short Loans and Advances to Customers				995,466	5	8
" Investments:—						
British Funds, Consols, Indian Stocks, Local Loans, Bank Stock, Egyptian 3%, Guaranteed Stock, Transvaal 3%, Irish Land Stock, Metropolitan Water B Stock and Debentures, Port of London A and B Stock .. .	£3,015,514	4	6			
Colonial Inscribed Stocks and Bonds, and English Corporation Stocks	1,916,649	15	1			
English, Indian and Colonial Railway Stocks and Debentures	994,500	10	1			
Austrian and French Rentes, Belgian, Danish, German and Prussian 3% .. .	535,876	19	2			
Chilian, Dutch, Norwegian, Swedish, and other Foreign Bonds	272,765	[illegible]	[illegible]			
American Railroad Bonds, Foreign Railway Stocks and Debentures	275,380	13	8			
Colonial, Indian, and other Banks, Deposits and Inscribed Stock Deposits ..	89,852	13	6			
Canals and Docks, Commercial and Industrial Debentures, Brewery Stocks and Debentures	695,571	12	5			
Financial Land and Investment Stocks, Trusts, Corporation Bonds and Debentures ..	504,869	10	10			
Gas and Electric Lighting, Shipping, Telegraph, Tramways and Omnibus Shares and Debentures, London Bridge Annuities, and New River Shares .. .	439,805	2	6			
				8,740,778	0	3
" Ground Rents				433,526	13	7
" Bank Building, Offices, Shops, and Chambers .				269,493	14	3
" Interest and Dividends due March 31 1910 (since received)				33,899	11	8
" Cash at Bankers and in hand				1,069,753	7	10
				£12,269,527	14	8

PROFIT AND LOSS ACCOUNT.

	£	s	d
To Interest on Current and Deposit Accounts, and on "A" and "B" Shares, Discounts, &c.	287,733	2	
" Pension Fund	2,000	0	0
" Management Expenses (detailed in Abstract Cash Account)	47,590	2	0
" Bonus on "A" and "B" Shares	8,348	0	0
" Income Tax deducted from Interest received .. .	16,345	17	0
" Balance (Profit for the year) carried to Balance Sheet	28,485	19	1
	£390,503	0	8

	£	s	d
By Interest, Dividends, Ground Rents, and Net Profit on Sale of Investments, &c.	368,767	2	2
Less—Accrued Interest, as per Balance Sheet, March 31 1909	33,723	13	6
	335,043	8	8
" Interest and Dividends due March 31 1910	33,899	11	8
" Sundry Receipts (detailed in Abstract Cash Account)	7,679	14	11
" Income Tax deducted from Interest paid . ..	13,880	5	5
	£390,503	0	8

THE BIRKBECK BUILDING SOCIETY—*continued.*

ABSTRACT CASH ACCOUNT AND SUMMARY OF TRANSACTIONS.

Receipts	£	s	d	£	s	d
To Cash at Bankers from last Account ..	..			1,142,428	11	9
,, Deposits received and Interest credited thereon	..			16,224,108	5	6
,, Repayments on Account of Mortgages	..			109,258	15	0
,, Subscriptions Received	..			234,002	11	6
,, Investments and Ground Rents Sold .	.			407,981	5	9
,, Interest, Dividends, Ground Rents, Net Profit on Sale of Investments, &c. ..	.			368,707	2	2
,, Short Loans and Advances to Customers				3,210,243	16	5
,, Sundry Receipts—						
Entrance Fees	831	2	6			
Fines	39	10	4			
Stamped Cheque Books ..	4,366	18	6			
Contingent Fund Fees . ..	1,538	14	4			
Register Fees	326	12	6			
Transfer Fees	51	4	6			
Commission	295	15	6			
Stamps, &c.	119	16	0			
Sundries	110	0	9			
				7,679	14	11
Income-tax deducted from Interest Paid	..			13,880	5	5
				£21,778,350	8	5

Disbursements	£	s	d	£	s	d
By Deposits Repaid	..			16,187,734	7	7
,, Amount Advanced on Mortgage ..	..			75,598	9	6
,, Subscriptions Repaid	..			283,042	11	2
,, Investments and Ground Rents Bought	..			478,216	15	5
,, Interest on Shares and Deposits Paid and Accrued, and Discount	..			287,733	2	7
,, Bonus on "A" and "B" Shares ..	.			8,348	0	0
,, Short Loans and Advances to Customers	..			3,321,987	15	4
,, Management Expenses :—						
Directors' Fees, Chartered Accountants' and Auditors' Fees, Survey Committees' Fees, Travelling and other Expenses	4,852	13	0			
Salaries, Agents' Commission, and Retiring Allowances	26,930	3	9			
Advertising	5,171	12	1			
Printing, Account Books, and Stationery	2,769	0	3			
Repairs, Alterations, and Miscellaneous Expenses	662	5	1			
Stamps	5,808	13	10			
Law Charges	1,395	14	0			
				47,590	2	0
,, Pension Fund				2,000	0	0
,, Income-tax Deducted from Interest Received .				16,345	17	0
,, Cash at Bankers and in Hand				1,069,753	7	10
				£21,778,350	8	5

The foregoing Accounts, together with the Vouchers and Securities, have been examined by us, and found to be correct.

T. M. SCOTT, F.S.A.A.
G. W. WHEELER, A.S.A.A. } *Auditors.*

We have verified the Cash Balances and the existence and safe custody of the Investments and Mortgages set out in the above Balance Sheet, and we have also satisfied ourselves that the Dividends and Interest have been duly accounted for.

DELOITTE, PLENDER, GRIFFITHS & CO.,
Chartered Accountants
5 London Wall Buildings, E.C.

(Countersigned) CLARENCE F. RAVENSCROFT, *Secretary.*

In the High Court of Justice.

COMPANIES (WINDING-UP). No 00213 of 1911.

Mr. Justice ASTBURY.

IN THE MATTER OF THE COMPANIES (CONSOLIDATION) ACT, 1908.

AND

IN THE MATTER OF THE **BIRKBECK PERMANENT BENEFIT BUILDING SOCIETY (AND THE BIRKBECK BANK), Southampton Buildings, Chancery Lane, and 329 High Holborn, London, W.C.**

TAKE NOTICE that I, the undersigned Senior Official Receiver and Liquidator of the above-named Company, intend to apply to the Board of Trade for my release, AND FURTHER TAKE NOTICE that any objection you may have to the granting of my release must be notified to the Board of Trade within twenty-one days of the date hereof.

A summary of my receipts and payments as Senior Official Receiver and Liquidator is hereto annexed.

Dated this 31st day of March 1915.

H. BROUGHAM,

Senior Official Receiver and Liquidator.

33, Carey Street,

Lincoln's Inn, W.C.

OBSERVATIONS.

Sir William Plender, who was appointed Special Manager, has acted throughout the liquidation in conjunction with the Official Receiver and has rendered valuable assistance in the realisation of the assets.

In the Summary and Observations issued by the Official Receiver on the 26th March 1912, reference was made (paragraph 19) to a mortgage given by the trustees of the will of the late Francis Ravenscroft to secure the value of the Advance Society's property. At the date of the liquidation this mortgage stood at £142,000, and was subsequently reduced to £141,000. Mention was also made (paragraph 25) of guarantees having been given by officials of the Society, and it was intimated that the question of liability under these heads would receive due consideration.

Messrs. C. F. and P. B Ravenscroft were the trustees above-mentioned and were also the officials who had given the guarantees, and acting on advice they disputed their liability under both heads.

Two actions were accordingly brought against them to enforce their liability, and the liquidator's claims were eventually compromised by the payment to him of the sum of £130,000, together with a sum of £11,571 6s. already in his hands on Messrs. Ravenscroft's behalf, and by their foregoing all dividends to come to them in respect of their "B" shares. The total amount received by the liquidator under this compromise was £148,697 17s. 4d.

As stated in paragraph 38 of the Summary and Observations, it was found impossible to include the "B" shareholders in the scheme for equal distribution of the assets, and after the scheme had been approved by the Court it became necessary to continue the litigation so that the rights of the "B" shareholders and of the other parties should be definitely ascertained. The Court of Appeal confirmed the decision of the Court below, giving priority to shareholders over customers, and the liquidator was advised that if that decision stood he would have great difficulty in enforcing his claims against Messrs. C. F. and P. B. Ravenscroft. Accordingly the matter was brought before the House of Lords, and on the 12th February 1914, their Lordships decided, with certain qualifications, that the assets ought to be distributed equally amongst the depositors and unadvanced shareholders in proportion to the amounts properly credited to them in the books of the Society.

At the time when the appeal to the House of Lords was decided upon, the liability to the "B" shareholders had been discharged, and in consequence of their Lordships' judgment the "B" shareholders have (with one exception) repaid the amount received by them in excess of the dividends paid to the customers and "A" shareholders. There is little doubt that the decision of the House of Lords materially assisted the liquidator in effecting the compromise with Messrs. Ravenscroft.

"Bank Buildings, £311,029," represents the purchase price of the premises, office furniture, fixtures, fittings, &c., which was fixed by Award.

The item "Salaries of Bank Staff, &c.," was largely incurred in the earlier stage of the liquidation, when it was necessary to retain the whole of the Society's staff to deal with the immediate distribution of 10s. in the £ to members and customers out of the advance which was arranged with the Bank of England.

The subsequent distributions of 3s. 4d. and 2s. 8d. in the £ were undertaken by the London County and Westminster Bank, under the supervision of the liquidator and special manager, without any charge against the assets being made by the Bank.

In consequence of the liquidator being relieved of the detail work in connection with these distributions, the Treasury, on the application of the Board of Trade, consented to a reduction of the statutory fees chargeable, to the extent of £10,000, and also by a further sum of £1,250, representing the fee agreed to be paid to the London County and Westminster Bank for undertaking the final distribution.

The interest dividends and rents received between the date of suspension and the closing of the Estate amount to £196,903 6s. 5d., a sum considerably in excess of the whole of the costs and charges of the liquidation, viz. £144,818 13s. 3d.

Creditors and Contributories can obtain any further information by inquiry at the Department of the Official Receivers, 33, Carey Street, Lincoln's Inn, London, W.C.

H. BROUGHAM,

Dated this 31st day of March 1915. ***Senior Official Receiver and Liquidator.***

Statement showing position of Society at date of Application for Release

	£ s d	Estimated to Produce per Society's Statement of Affairs £ s d	Realisations £ s d
Cash in Hand		158,470 5 7	160,191 0 11
Investments in Stocks and Shares .		5,145,395 10 9	4,937,391 15 10
Loans on Mortgage		589,968 16 2	554,460 13 4
Book Debts		33,871 11 6	
Properties on Hand		4,000 0 0	5,279 0 0
Bank Buildings		435,092 4 10	311,029 0 0
Ground Rents . ..		233,377 3 0	196,803 0 10
Short Loans and Advances to Customers		775,286 15 1	804,242 17 11
Surplus from Securities		12,000 0 0	10,126 17 9
Proceeds of Security ..	110,162 10 0		
Payment to Redeem ..	100,035 12 3		
Interest, Dividends, and Rents	151,024 14 2		
Board of Trade Interest	23,676 15 5		
Interest on Deposits made by Official Receiver	12,291 10 10		
Interest on Purchase Money re Bank Premises	9,910 6 0		
Total Interest, &c.			196,903 6 5
Other Receipts —			
Stamps	604 16 3		
Law Costs Due to Society	816 5 11		
Waste Paper	137 4 7		
Liability under Guarantee . ..	18,563 5 8		
Commission on Insurance Business ..	904 19 11		
Various	1,043 9 11		
			22,070 2 3
		£7,387,462 7 1	£7,198,497 15 3

		£ s d	Payments £ s d
By Board of Trade Fees, viz.—			
Fees in respect of 92,012 Members, Creditors and Debtors (including Printing, Postages, and Stationery)		9,202 0 0	
Percentage on £7,298,533 7s. 6d. gross assets realised		37,177 13 4	
Percentage on £7,051,128 8s. 11d. Assets distributed		17,970 6 6	
Audit Fee		6,024 1 3	
		70,374 1 1	
General reduction sanctioned by Treasury.. . .	£10,000		
Reduction to cover London County and Westminster Bank's Charges paying Final Dividend	1,250	11,250 0 0	
			59,124 1 1
Charges of London County and Westminster Bank re Final Dividend			1,250 0 0
Court Fees			20 13 0
Law Costs of Petition..			59 16 5

Liquidation Costs as Taxed.—

	Solicitors to Official Receiver £ s d	Solicitors to other Parties £ s d	Payments £ s d
Sale of Properties	7,429 4 5		
Scheme of Arrangement	600 2 4	933 10 11	
Determining rights of Members and Customers, including Appeal to House of Lords	1,162 10 4	6,061 5 2	
Collection of Claims and Book Debts	2,943 13 11	283 0 4	
	12,135 11 0	7,277 16 5	19,413 7 5

	£ s d	Payments £ s d
Remuneration of Special Manager and his Staff ..		14,185 0 0
Fee for preparing Statement of Affairs		3,031 12 3
Auctioneers and Valuers Charges as Taxed		9,246 2 1
Other Costs (including £1,525 Stamp Duty on Sale of Bank Premises)		3,115 1 1
Salaries of Bank Staff, Rent of Premises, &c. (see Observations)..		28,705 3 11
Interest on Advance by Bank of England to pay 10s. in the £ to Customers and Depositors		6,427 6 1
Advertising		57 15 3
Incidental Expenses		182 14 8
Total Costs and Charges..		144,818 13 3
Creditors, viz. —		
Preferential Creditors...	5,579 3 3	
General Creditors 20s. in the £ ..	16,883 11 10	
Customers and Depositors:—		
Set-offs allowed against Advances..	51,623 12 8	
Dividends amounting to 16s. 9½d. in £ on £7,287,670 6s. 8d.	6,118,706 12 3	
"A" Shareholders:—		
Dividends amounting to 16s. 9½d. in £ on £988,773 13s. 11d., including £16,547, interest allowed under Clause 5 of Scheme..	846,705 11 4	
"B" Shareholders:—		
Dividends amounting to 16s. 9½d. in £ on £13,851 19s. 3d.	11,629 17 7	
		7,051,128 8 11
Other Payments:—		
Excess Dividend paid to a "B" Shareholder, irrecoverable		242 5 3
Balance in Hand to meet possible further claims .		2,308 7 10
		£7,198,497 15 3

THE BRITISH THOMSON-HOUSTON COMPANY, LIMITED.

Dr. BALANCE SHEET, 31st December 1918 *Cr.*

	£	s	d	£	s	d
To Capital Authorised and Issued—						
40,000 Ordinary Shares, £10 each fully paid	400,000	0	0			
40,000—4% Cumulative Preference Shares, £10, each, fully paid. (Dividend paid to 5th February 1904)	400,000	0	0			
				800,000	0	0
„ 4½% Debenture Stock .. .				168,195	0	0
„ Interest accrued on Debenture Stock				2,522	18	6
„ General Electric Company of New York				1,319,073	5	2
„ Sundry Creditors, Retentions, &c. ..				1,014,732	4	11
„ Capital Reserve Account—						
As at 31st December 1917 ..	237,958	16	4			
From Profit and Loss Account annexed	7,595	18	6			
				245,554	14	10
„ Profit and Loss Account— Balance as per the account annexed, which account is subject to adjustment of the reserve made for Munitions Levy and Excess Profits Duty for 1917 and 1918				150,862	16	2
				£3,700,940	19	7

	£	s	d	£	s	d
By Goodwill, Patents, and Licences at cost, as at 31st December 1917 ..	219,844	3	8			
Add Expenditure in connection with Patents year to date	2,769	14	4			
				222,613	18	0
„ Cost to date of Rugby, Coventry, and Willesden Factories, Freehold Land, Buildings, Machinery, and Equipment, *less* Depreciations, as at 31st December 1917	830,000	0	0			
Add Expenditure, year to date ..	103,131	9	10			
	933,131	9	10			
Less Amount written off as per Profit and Loss Account ..	108,131	9	10			
				825,000	0	0
„ Shares and Debentures in Lighting, Traction and other Companies ..	68,064	2	6			
Less Amount written off as per Profit and Loss Account ..	8,064	2	6			
				60,000	0	0
„ Office Furniture and Equipment of Storerooms (Rugby Storeroom excluded), as at 31st December 1917 ..	20,000	0	0			
Add Adjustment of last year's amount, also additions during year	2,940	16	10			
				22,940	16	10
„ **Apparatus, Supplies, &c., at Rugby, Coventry, Willesden, and at the London Storerooms and in the Provinces, finished and in process of manufacture**				1,317,718	16	1
„ **Sundry Debtors, Retention Moneys, and other Outstanding Accounts** ..				1,014,770	1	6
„ **Exchequer and National War Bonds** ..				102,000	0	0
Cash at Bankers				135,897	7	2
				£3,700,940	19	7

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st December 1918. *Cr.*

	£	s	d
To Interest on Debentures and Loans	107,946	1	0
„ **Capital Reserve Account**	7,595	18	6
„ **Depreciation of Plant Account** .	108,131	9	10
„ **Depreciation of Shares and Debentures**	8,064	2	6
„ **Balance carried to Balance Sheet**	150,862	16	2
	£382,600	8	0

	£	s	d	£	s	d
By Profit for the year after Deducting all Expenses and Charges, other than Interest on Debentures and Loans and after making Provision for Estimated War Taxation for 1918				317,015	16	6
„ **Amount brought forward from last Financial Year**	53,713	14	9			
Add **Adjustment of Munitions Levy and Excess Profits Duty to end of 1916**	11,840	16	9			
				65,584	11	6
				£382,600	8	0

On behalf of the Board,

H. C. LEVIS, } *Directors*
CARMICHAEL,

We report to the Shareholders that we have examined the above Balance Sheet and Profit and Loss Account with the Books and Vouchers of the Company, and have received all the information and explanations we have required. We are of opinion that the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Company.

3 Frederick's Place, Old Jewry, London, E.C. 2 PRICE, WATERHOUSE & CO.

17th July 1919.

THE CALICO PRINTERS' ASSOCIATION, LIMITED.

STATEMENT OF ACCOUNTS for the Two Years ended 26th June 1920.

(Including the Assets and Liabilities of the Association's Subsidiary Companies, the whole of the Share Capital in which belongs to the Association.)

CAPITAL ACCOUNT.

Dr.

	£ s d	£ s d
To Land, Water Rights, Reservoirs, Effluent Works, Buildings, Plant, Machinery, Office Furniture, Goodwill, Designs, Engraving, and Sampling, as per last account ..	5,776,212 19 8	
„ Further Capital Expenditure at cost (*less* Sales) for the two years ended 26th June 1920	14,922 16 11	
		5,791,135 16 7
„ Balance carried to General Balance Sheet		2,435,704 3 5
		£8,226,840 0 0

Cr.

	£ s d	£ s d
Share Capital Authorised :— 6,000,000 Shares of £1 each £6,000,000		
By Share Capital Issued :—		
3,016,104 Five per cent. Cumulative Preference Shares, fully paid ..	3,016,104 0 0	
2,010,736 Ordinary Shares, fully paid	2,010,736 0 0	
		5,026,840 0 0
„ Four per cent. Perpetual First Mortgage Debenture Stock		3,200,000 0 0
		£8,226,840 0 0

PROFIT AND LOSS ACCOUNT

Dr.

	£ s d
To Dividend on Preference Shares, year ended 30th June 1918	150,805 4 0
„ Dividend on Ordinary Shares, year ended 30th June 1918, at 5% per annum ..	100,536 16 0
„ Employees Benefit Fund ..	50,000 0 0
„ Writing down value of Work in Process ..	50,000 0 0
„ Stock Contingencies Reserve Account ..	50,000 0 0
„ Capital Reserve Account ..	60,000 0 0
„ Reserve Account	100,000 0 0
„ Balance carried down ..	73,041 11 0
	£634,383 11 0
To Dividend on Preference Shares, year ended 30th June 1919	150,805 4 0
„ Dividend on Ordinary Shares, year ended 30th June 1919, at 5% per annum ..	100,536 16 0
„ Balance carried to General Balance Sheet ..	1,038,660 4 4
	£1,290,002 4 4

Cr

	£ s d
By Balance as per last Account ..	634,383 11 0
	£634,383 11 0
By Balance brought down	73,041 11 0
„ Profit for the period, after providing for Excess Profits Duty, Corporation Tax, and £1,567,431 11s. 6d. for Maintenance, Depreciation, Repairs, Renewals, and Up-keep, and £256,000 for Debenture Interest ..	1,216,960 13 4
	£1,290,002 4 4

GENERAL BALANCE SHEET, 26th June 1920.

	£ s d	£ s d
Capital Account: Balance at credit thereof as per above Account		2,435,704 3 5
Sundry Creditors and Reserve for Contingencies ..		3,994,123 11 10
Debenture Interest accrued		53,333 6 8
Depreciation Account—Balance at credit thereof		1,348,694 3 6
Reserve Account Do. ..		750,000 0 0
Capital Reserve Account Do. ..		60,000 0 0
Reserve for Equalisation of Dividends—Do. ..		150,000 0 0
Profit and Loss Account :—		
Balance, as above	£1,038,660 4 4	
Less Dividend on Preference Shares, half-year to 31st December 1919 ..	75,402 12 0	
		963,257 12 4
		£9,755,112 17 9

	£ s d
Cash and Bills in hand and at Banks	793,143 5 2
Cash and Securities held by the Trustees for the Debenture Stockholders	52,370 16 2
Stock-in-Trade	5,025,057 19 3
Sundry Debtors, including Rents, Rates, Insurances, &c., paid in advance, and Investments at cost ..	3,153,830 14 8
Copper and other Rollers	730,710 2 6
	£9,755,112 17 9

MANCHESTER, 21st August 1920.

L. B. LEE, *Chairman*, } *Directors.*
CHAS. HEAPE }

J. E. CLEMENT, *Secretary.*

We report to the Shareholders that we have examined the Books, Accounts, and Vouchers of the Company for the two years ended 26th June 1920, and have obtained all the information and explanations we have required. In our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Company.

104 KING STREET, MANCHESTER,
31st August 1920.

ASHWORTH, MOSLEY & CO.,
Chartered Accountants, Auditors

CARGO FLEET IRON COMPANY, LIMITED.

BALANCE SHEET at 30th September 1913.

	£ s d	£ s d
Share Capital—		
Subscribed and Issued—1,000,000 Shares of £1 each ..		1,000,000 0 0
4½% First Mortgage Debentures of £100 each, redeemable by 1st January 1946—		
Issued:—5,000	500,000 0 0	
Less—Purchased for Cancellation to 30th September 1913	132,400 0 0	
	367,600 0 0	
Interest Accrued to 30th September 1913	4,135 10 0	
		371,735 10 0
6% "A" Mortgage Debentures, in Bonds of £10 and in multiples of £10, redeemable after 1st January 1925, at a premium of 5 per cent.—		
Subscribed	500,000 0 0	
Less Purchased and Cancelled to 30th September 1913 ..	3,500 0 0	
	496,500 0 0	
Interest accrued to 30th September 1913	7,447 10 0	
		503,947 10 0
Sundry Creditors (*less* provision for Discounts, &c.)	83,605 6 9	
Bills Payable	4,975 19 4	
Unclaimed Dividends and Debenture Interest . .	69 7 2	
		88,650 13 3
Provision for Renewals and Re-Linings		15,075 6 0
Profit and Loss Account—		
Balance at 30th September 1912, as per last Account ..	54,065 9 5	
Less—Written off for Depreciation	50,000 0 0	
	4,065 9 5	
Add—Profit for year to 30th September 1913 . ..	124,218 12 0	
	128,284 1 5	
Less— Debenture and Other Interest	46,051 11 10	
		82,232 9 7
		£2,061,641 9 4

Contingent Liabilities—
Steel Ingot Makers' Association (Promissory Note on Guarantee Fund Account) .. . .. £650.
Amount uncalled on Shares in other Companies . £8,333 13s. 0d.

	£ s d	£ s d
Freehold and Leasehold Works and Mines, Fixed and Loose Plant and Machinery, &c.—		
Amount at 30th September 1912	1,783,787 10 4	
Less Depreciation written off out of Profits made during the year ending 30th September 1912 . .	50,000 0 0	
	1,733,787 10 4	
Additions since	91,960 17 0	
	1,825,748 7 4	
Less Sales and Profit on Redemption of Debentures	2,646 19 6	
	1,823,101 7 10	
Less Loose Tools transferred to Stock	43,215 7 10	
		1,779,886 0 0
Investments in Shares and Debentures of Other Companies at Cost	9,833 7 0	
Interest Accrued on Debentures to 30th September 1913	37 10 0	
		9,870 17 0
Stock-in-Trade (including Raw and Finished Material, Loose Tools, &c.)		169,170 1 4
Sundry Debtors (*less* provision for Discount and Doubtful Debts)		101,121 15 7
Workmen's Compensation & Other Insurance Premiums, &c., paid in advance		130 5 0
Cash—		
At Bankers	464 9 4	
" " for Unclaimed Dividends and Debenture Interest	69 7 2	
In hand	928 13 11	
		1,462 10 5
		£2,061,641 9 4

JOHN EDWIN ROGERSON, *Chairman.*
JOHN STORBY BARWICK, *Deputy Chairman*
BENJAMIN TALBOT, *Managing Director.*
FRANK LEY, *Secretary.*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF CARGO FLEET IRON COMPANY, LIMITED.

We have audited the above Balance Sheet with the Books and Vouchers of the Company, and have obtained all the information and explanations we have required. The Stock-in-Trade has been taken and valued by the Company's Officials and is certified by the Managing Director and Secretary. We understand that the Directors propose to appropriate £60,000 out of the profits of the year towards depreciation. Subject to these observations, in our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Company

W. B. PEAT & CO.,
Chartered Accountants

Middlesbrough,
8th November 1913.

CHATTERLEY-WHITFIELD COLLIÉRIES, LIMITED.

BALANCE SHEET, 31st December 1900.

Capital and Liabilities

			£ s d	£ s d
NOMINAL CAPITAL—				
20,000 6 per cent. Cumulative Preference Shares of £10 each			200,000 0 0	
20,000 Ordinary Shares of £10 each ..			200,000 0 0	
			£400,000 0 0	
SUBSCRIBED AND PAID-UP CAPITAL—				
20,000 6 per cent. Cumulative Preference Shares, fully paid			200,000 0 0	
20,000 Ordinary Shares, £7½ per Share paid			150,000 0 0	
				350,000 0 0
Five per cent. First Mortgage Debentures		£200,000 0 0		
Interest thereon paid (1st January 1901)		4,750 0 0		
			204,750 0 0	
Six per cent. Second Mortgage Debentures			20,000 0 0	
				224,750 0 0
(*Note.*—£1 5s. od. per Share of the Uncalled Capital has been hypothecated to the Bankers as security up to £20,000, with Interest thereon, if required.)				
Sundry Creditors for Materials, Royalties, Workpeople's Wages, &c. .. .				26,444 13 5
Instalment due in respect of Wagons Purchased on "Deferred Payments" ..				184 7 6
Profits on Investments realised, per the Trustees for the Debenture-holders ..				143 7 9
PROFIT AND LOSS ACCOUNT—				
Balance at 31st December 1899		£27,704 18 7		
Less Dividend on Preference Shares for the year 1899, and arrears		26,000 0 0		
			1,704 18 7	
Add Profit for the year ended 31st December 1900		95,346 8 1		
Deduct Interest on Debentures and Loans .	£11,347 18 11			
Depreciation per Contra	5,000 0 0			
		16,347 18 11		
Net Profit for the year			78,998 9 2	
			80,703 7 9	
Less Interim Dividend on Preference Shares at 3 per cent., and on Ordinary Shares at 4s. 6d. per share			10,500 0 0	
Balance available . ..				70,203 7 9
				£671,725 16 5

Property and other Assets, &c.

		£ s d	£ s d
Freehold Lands and Minerals, Leasehold Mines, Plant, Machinery, Railways, &c., as at 31st December 1899		497,991 13 4	
Add Outlay on Capital Account during the year		346 7 5	
		498,338 0 9	
Deduct Sales of Materials	£458 7 8		
Net Proceeds of Sales of Land and Royalty in respect of Coal from the Company's Freehold for the year..	855 11 7		
Amount written off in respect of Depreciation for the year	5,000 0 0		
		6,313 19 3	
			492,024 1 6
Railway Wagons and Proportion of Instalments to date on Wagons purchased on "Deferred Payment"			38 973 16 8
Stock of Coal, Iron, Stores, &c. .. .			18,015 17 8
Sundry Debtors for Coal, Iron, &c. .			48,880 0 3
Sundry Investments in the names of the Trustees for the Debenture-holders, cost			10,033 13 0
Minimum Value of estimated Interest in North Stafford Employers' Insurance Limited Reserve Fund—and Investment in the Company's name			849 10 8
Cash at Bankers and at short notice ..			38,032 2 7
			647,408 13 2
Special Outlay Account . . .			12,894 9 11
Overpaid Royalties .. .			11,422 13 4
			£671,725 16 5

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and we report to the Shareholders that we have examined the Books, Accounts, Vouchers and Securities of the Company for the year ended 31st December 1900, and certify to the correctness of the same. Subject to the Stock-in-Trade being of the value above stated, and to the provision for depreciation being adequate, we are of opinion that the foregoing Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the books of the Company.

ASHWORTH, MOSLEY & Co., *Chartered Accountants.* } *Auditors.*

MANCHESTER, *13th March 1901*

THE CHICAGO AND NORTH-WEST GRANARIES COMPANY, LIMITED.

REVENUE ACCOUNT for Twelve Months to 31st July 1905.

Dr.

		£ s d
To Directors' Fees		750 0 0
" Salaries and Office Rent		250 0 0
" Notarial Charges, Stationery, Printing, Books, Advertising, Cablegrams, Postages, Petty Cash, &c.		68 13 7
" Auditors' Fee		26 5 0
" Legal and Professional Charges		56 3 9
" Interest, Sinking Fund and Repayment of Debentures		11,578 19 11
" Exchange on Remittance from America		123 8 10
" Income Tax		57 6 9
" Balance carried to Balance Sheet		406 18 2
		£13,317 16 0

Cr.

		£ s d
By Deposit Interest Account		139 5 11
" Transfer Fees		7 2 9
" Dividend declared by the American Companies, \$63,142·35 at \$4.86 25	£12,985 11 6	
" Value of Unpresented Storage Tickets credited to London, \$904·15 at \$4.86·65	185 15 10	
		13,171 7 4
		£13,317 16 0

BALANCE SHEET, 31st July 1905.

		£ s d	£ s d
To Capital Account—			
12,000 Eight per cent. Cumulative Preference Shares of £10 each		120,000 0 0	
12,000 Ordinary Shares of £10 each		120,000 0 0	
			240,000 0 0
" Debenture Capital Account—			
1,200 Six per cent Debentures of £100 each		120,000 0 0	
Less 720 Bonds paid off per last Account	£72,000 0 0		
46 during year	4,600 0 0		
10 % paid off 384 Bonds	3,840 0 0		
		80,440 0 0	
			39,560 0 0
" Debenture Sinking Fund			80,878 6 3
" Debenture Interest accrued to date			500 14 7
" Sundry Persons for Debenture Interest, &c., unclaimed			25 19 11
" G. W. Van Dusen & Co.			34,656 19 4
" Sundry Credit Balances			283 12 6
			£395,905 12 7

MEMORANDUM.—The arrears of Dividend accrued since 1895 on the 8 per cent. Cumulative Preference Shares will form a first charge on future profits available for distribution.

		£ s d
By Purchase Accounts (Represented by 18,000 Shares of \$50 each of the G. W. Van Dusen Co., Incorporated, and 4,000 Shares of \$50 each of the Star Elevator Co., being the whole of the Capital Stocks of these Companies.)		260,000 0 0
" Amounts advanced to the American Companies for Working Capital per last Account		100,000 0 0
" Cash Balance, &c.		4,503 3 0
" Revenue Account—		
Balances from last Account	£31,809 7 9	
Less Profit for Year ending 31st July 1905	406 18 2	
		31,402 9 7
		£395,905 12 7

In accordance with the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with. We report that we have audited the Books and Accounts of the Company in London, and that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the Company's affairs on the 31st July 1905, as shown by the Books of the Company.

The Accounts of the American Companies have been audited locally; the result shows, after providing for Managers' remuneration, a profit of \$33,927·06.

Though no reserve is made against depreciation, the Elevators, Warehouses, and other properties belonging to the American Companies are stated to have been kept in good repair and the cost of maintenance charged against Working.

We have inspected the Certificates of the Shares held in the American Companies.

5 London Wall Buildings,
London, E.C., *1st November* 1905.

DELOITTE PLENDER GRIFFITHS & CO., *Chartered Accountants*, } *Auditors*

Y

THE CHICAGO AND NORTH-WEST GRANARIES COMPANY, LIMITED—(*continued*).

REVENUE ACCOUNT for Twelve Months to 31st July 1906.

Dr.

	£ s d
To Directors' Fees	750 0 0
„ Salaries and Office Rent	250 0 0
„ Notarial Charges, Stationery, Printing, Books, Advertising, Cablegrams, Postages, Petty Cash, &c.	45 19 4
„ Auditors' Fee	26 5 0
„ Legal and Professional Charges	33 2 0
„ Interest, Sinking Fund and Repayment of Debentures	13,415 5 4
„ Exchange on Remittance from America	83 11 11
„ Income Tax	402 9 2
	£15,006 12 9

Cr.

	£ s d
By Deposit Interest Account	103 19 9
„ Transfer Fees	8 9 6
„ Dividend declared by the American Companies, $33,927·06 at $4.86·25	6,977 5 8
„ Balance carried to Balance Sheet	7,916 17 10
	£15,006 12 9

BALANCE SHEET, 31st July 1906

	£ s d	£ s d
To Capital Account—		
12,000 Eight per cent. Cumulative Preference Shares of £10 each	120,000 0 0	
12,000 Ordinary Shares of £10 each	120,000 0 0	
		240,000 0 0
„ Debenture Capital Account—		
1,200 Six per cent. Debentures of £100 each	120,000 0 0	
Less Amount repaid as per last account £80,440 0 0; During the year 10,760 0 0	91,200 0 0	
Balance outstanding, viz.:— 12 Debentures of £100 each and 345 of £80 paid		28,800 0 0
„ Debenture Redemption Account— Amount available for redemption of further Debentures		468 8 0
„ Debenture Interest accrued to date		364 10 8
„ Sundry Persons for Debenture Interest, &c., unclaimed		21 2 6
„ Sundry Credit Balances		351 11 1
		£270,005 12 3

Memorandum.—The arrears of Dividend accrued since 1895 on the 8 per cent. Cumulative Preference Shares will form a first charge on future profits available for distribution.

	£ s d	£ s d
By Purchase Account	260,000 0 0	
Less Sum written off corresponding to amount of Debentures repaid to date	91,200 0 0	
		168,800 0 0
(Represented by 18,000 Shares of $50 each of the G. W. Van Dusen Co., Incorporated, and 4,000 Shares of $50 each of the Star Elevator Co., being the whole of the Capital Stocks of these Companies.)		
„ Amounts advanced to the American Companies for Working Capital per last Account	100,000 0 0	
Less Amount remitted to meet Working Expenses and Debenture Service	40,091 17 11	
		59,908 2 1
„ Cash Balances		1,978 2 9
„ Revenue Account—		
Balance from last Account	31,402 9 7	
Further for year ending 31st July 1906	7,916 17 10	
		39,319 7 5
		£270,005 12 3

In accordance with the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with. We report that we have audited the Books and Accounts of the Company in London, and that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the Company's affairs on the 31st July 1906, as shown by the Books of the Company.

The Accounts of the American Companies have been audited locally; the result shows, after providing for Managers' remuneration, a profit of $42,480·56. Though no reserve is made against depreciation, the Elevators, Warehouses, and other properties belonging to the American Companies are stated to have been kept in good repair and the cost of maintenance charged against Working.

We have inspected the Certificates of the Shares held in the American Companies.

5 London Wall Buildings,
London, E.C., 8th November 1906.

DELOITTE, PLENDER, GRIFFITHS & CO. } *Auditors.*
Chartered Accountants.

CIVIL SERVICE SUPPLY ASSOCIATION, LIMITED.

BALANCE SHEET AND STATEMENT OF AFFAIRS for the Year ended 31st December 1916.

Liabilities	£ s d	£ s d
Capital		353,920 0 0
Surplus Profits Unpaid		443 11 11
Deposit Accounts		52,923 18 8
Trade Creditors, &c.		118,409 10 4½
Reserve Fund		107,007 19 6
Reserve Fund Interest	3,745 6 2	
Less Paid	1,872 13 5	
		1,872 12 9
Ticket Reserve and Contingency Account	6,828 15 11	
Less transferred to Dividend Account	4 10 6	
		6,824 5 5
Balance from last year	4,104 2 2	
Balance from Profit and Loss Account	48,363 0 3	
	52,467 2 5	
Less Interim Dividend	21,231 14 7	
		31,235 7 10
		£672,637 12 5½

Proposed Appropriation :—	£ s d
To Pension and Gratuity Fund	£2,000 0 0
" Employees' Provident Fund	500 0 0
" Surplus Profit Account	21,235 4 0
Balance carried forward	7,500 3 10

Assets	£ s d	£ s d
Trading Stock, Paper, String, Stationery, &c.		325,687 10 11
Fixtures, Machinery, &c.—		
Amount, 31st December 1915	19,884 15 7	
Expenditure during year	395 16 8	
	20,280 12 3	
Less Depreciation at 10 per cent.	2,028 1 3	
		18,252 11 0
Special Repairs—		
Amount, 31st December 1915	1,463 15 1	
Less charged this year	731 17 7	
		731 17 6
Premises, Freehold—		
Bedford Street	10,815 0 0	
3 & 4 Chandos Street	30,000 0 0	
Agar Street	36,514 8 9	
Hatfield Street and other Properties	44,380 1 0	
Maclise Road	5,000 0 0	
		129,709 9 9
Premises, Leasehold—		
Queen Victoria Street	60,500 0 0	
Bedford Street and 1 & 2 Chandos Street	13,000 0 0	
5 Chandos Street	5,000 0 0	
	78,500 0 0	
Less Leasehold Expiration Fund Account	11,642 3 2	
		66,857 16 10
Leasehold Expiration Fund Investment—		
Amount, 31st December 1915	10,324 7 6	
Invested during year	1,315 0 3	
		11,639 7 9
[314 Madras Railway £1 B Annuities.		
£1,348 13 10 Union of South Africa 4% Stock.		
£1,200 0 0 Bengal and Nagpur Railway Co.'s 4% Debenture Stock.		
£1,285 11 6 War Loan 4½%.		
£1,315 0 0 Exchequer Bonds 6%.]		
[The Market value of these Stocks on the 31st December was £9,372 11s. 10d.]		
Investments—		
Amount, 31st December 1915	38,194 10 2	
Less written off during year	1,000 0 0	
		37,194 10 2
[£10,296 9 2 Local Loans.		
10,236 11 8 India 3%.		
2,664 0 0 L. & N.W. R. Co.'s 3% Debenture Stock.		
8,450 0 0 G N R. Co.'s 3% Pref. Stock ('96).		
6,400 0 0 Glasgow & S.W.R. Co.'s 4% Pref. Stock ('94).		
461 7 3 Consols.		
4,714 8 6 War Loan 4½%.]		
[The Market value of these Stocks on the 31st December was £27,229 11s. 9d.]		
Sundry Accounts—Clubs, Institutions, &c.		42,956 7 2
Cash at Bankers	28,213 12 0	
Cash and Stamps in hand	11,394 9 4½	
		39,608 1 4½
		£672,637 12 5½

CIVIL SERVICE SUPPLY ASSOCIATION, LIMITED—*continued.*

Dr. PROFIT AND LOSS ACCOUNT. *Cr*

	£	s	d		£	s	d
Rent, Rates, and Taxes ..	11,141	3	3	Gross Profit from Trading ..	294,748	7	2½
Salaries, Allowances, &c. ..	128,136	5	10½	Tickets ..	472	2	0
National Health Insurance ..	1,352	0	6½	Interest, Rents, Sundry Receipts, &c. ..	2,052	6	10½
Paper, String, Straw, &c. ..	13,333	4	6½				
Stationery and Printing ..	4,893	7	11½				
Price Lists and Circulars (including cost of delivery), less Advertisements ..	8,381	19	1½				
Postage and Receipt Stamps ..	4,148	14	0				
Electric Light, Coal, &c. ..	9,099	13	0				
Fire, &c., Insurances ..	2,522	8	10				
Air Craft Insurance ..	1,411	18	10				
Expenses of Meeting ..	312	11	6				
Law Expenses ..	60	4	11				
Miscellaneous Trade Expenses ..	9,775	19	1½				
Repairs, &c. ..	2,840	3	2½				
Special Repairs, Proportion for Year ..	731	17	7				
Depreciation of Fixtures and Furniture ..	2,028	1	3				
Carriage ..	37,146	15	0				
Remuneration to Committee and Auditors ..	3,665	0	0				
Income Tax ..	863	19	11				
Written off Investment Account ..	1,000	0	0				
Leaseholds Expiration Fund ..	1,000	0	0				
Interest on Reserve Fund ..	3,745	6	2				
Interest to Depositors ..	1,321	1	2½				
Balance ..	48,363	0	3				
	£297,274	16	1		£297,274	16	1

Having had access to all the Books, Accounts, Vouchers, and Securities of the Society, and having examined the foregoing General Statement, we certify that we have verified the same with the Books, Accounts, and Vouchers relating thereto, and have found it to be correct, duly vouched and in accordance with law. We have to report that all our requirements as Auditors have been complied with.

HARRY TOMLINSON,
E. MERRICK, } *Auditors.*

16th February 1917.

Public Auditors under the Industrial and Provident Societies Acts.

COUTTS & CO.

Dr. BALANCE SHEET, 30th June 1917 **Cr.**

	£ s d	£ s d		£ s d	£ s d
To Partners' Capital	800,000 0 0		By Cash—		
" " Reserve	700,000 0 0		In hand and at Bank of England	2,475,644 17 0	
		1,500,000 0 0	At Call and Short Notice .	1,712,451 11 6	
					4,188,096 8 6
			" Investments*—		
" Current and Deposit Accounts ..		14,409,999 14 4	British Government Stocks .	2,964,993 13 2	
" Acceptances on behalf of Customers		333,898 17 9	Indian Government Securities, Corporation Stocks, Railway Debenture Stocks and Bonds, and other Investments	1,084,083 17 7	
Memorandum. The guarantee of £8,928 in respect of the Yorkshire Penny Bank, Ltd., is not included in the above.					4,049,077 10 9
			(*Of these £200,000 Stock, is lodged for Queen Anne's Bounty)		
			" Bills discounted and Loans ..		7,332,525 15 1
			" Liability of Customers for Acceptances (per contra) .. .		333,898 17 9
			" Bank Premises		340,300 0 0
		£16,243,898 12 1			£16,243,898 12 1

W. G. COVINGTON,
Secretary, 17th July 1917

W. R. MALCOLM,
A. J. ROBARTS,
G. J. MARJORIBANKS, } *Managing Partners.*

AUDITORS' CERTIFICATE AND REPORT.

In accordance with the provisions of Section 113 of the Companies (Consolidation) Act, 1908, we report that we have audited the above Balance Sheet, and have obtained all the information and explanations we have required. From an examination of the Books, Cash, Bills, and Investments, we certify that, in our opinion, such Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of Messrs. Coutts & Co.'s affairs on 30th June 1917, according to the best of our information and the explanations given to us, and as shown by their Books.

GERARD VAN DE LINDE & SON,
CHATTERIS NICHOLS & CO., } *Auditors.*

Chartered Accountants.

London 17th July 1917

FARROW'S BANK, LIMITED.

Dr. BALANCE SHEET, 30th June 1920. *Cr.*

Liabilities

			£	s	d
Capital :—					
1,000,000 Shares of £1 each.					
700,000 Shares Issued.					
26,486 fully paid.					
673,514 10s. paid.					
Reserve Liability	£336,757				
Amount called up	£363,243				
Amount paid up			361,423	0	0
Reserve Fund (invested as per contra) . .			138,500	0	0
Current and other Accounts .. .			1,458,316	12	3
Deposit Accounts (subject to Notice) .			2,678,726	10	11
Net Profit (including balance from last account)	£53,450 0 6				
Reserve Fund, Interim Dividend, &c.	32,630 7 3				
			20,819	13	3
			£4,657,786	2	5

Assets

	£	s	d
Cash —			
In hand and at Bankers	307,792	15	[illegible]
Reserve Fund invested in 5 per cent War Loan, National War Bonds, 5½ per cent. Exchequer Bonds, Consols, and India 3½ per cent. Stock* .. .	138,500	0	0
Investments —			
War Loan, Exchequer Bonds, Consols, Government Guaranteed Stocks, British, Foreign, and Colonial Railway Debenture and Preference Stocks and other Stock Exchange Securities,* Freehold Properties, and other Investments, *less* Depreciation	1,665,171	15	5
Advances and loans to Customers, including loans to take up Government War issues, Bills discounted and other Accounts, after deducting provision for doubtful debts	2,473,012	13	9
Bank Premises and Fittings, *less* Depreciation . ..	73,308	17	11
	£4,657,786	2	5

*These Investments have been taken at prices quoted in the Official List or by Brokers at the 30th June 1920.

THOMAS FARROW,
Chairman and Managing Director.

W. WALTER CROTCH, } *Directors.*
WILLIAM MOORE, }
WALTER H JONES, *Manager.*

AUDITORS' CERTIFICATE.

We have examined the above Balance Sheet in detail with the books at the Head Office and with the Returns from the Branches and Agencies, as certified by the respective Managers, Sub-Managers, and Agents We have satisfied ourselves as to the correctness of the Cash Balances and have verified the investments set forth therein. We have also examined the Securities and other documents of the Bank, and the Bills held at Head Office have been produced to us.

In accordance with the Companies' (Consolidation) Act, 1908, we have obtained all the information and explanations we have required, and we are of opinion that such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and explanations received, and as shown by the Books at the Head Office and the certified Returns from the Branches and Agencies.

LONDON, 21st *August* 1920. HART & CO., *Auditors.*

THE FINE COTTON SPINNERS' AND DOUBLERS' ASSOCIATION LIMITED.

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st March 1919 *Cr.*

	£	s	d
To Interest on Debenture Stocks ..	110,000	0	0
,, Insurance Fund	10,000	0	0
,, Pension Fund	75,000	0	0
,, Research Fund	15,000	0	0
,, Reserve for Contingencies	100,000	0	0
,, Balance carried to Balance Sheet	730,089	17	11
	£1,046,089	17	11

	£	s	d
By Balance brought forward from last year's Account ..	152,430	10	9
,, Profits for the Year, including undistributed Profits of Subsidiary Companies, after charging Central Office Expenses, Management Salaries, and Directors' Fees, and after provision for Depreciation, Income Tax, Bonuses to Management and Excess Profits Duty	893,659	7	2
	£1,046,089	17	11

BALANCE SHEET, 31st March 1919

Liabilities

		£	s	d	£	s	d
Share Capital:—							
Nominal Capital—							
3,000,000 Five per cent. Cumulative Preference Shares, £1 each		3,000,000	0	0			
1,000,000 Five per cent. Cumulative Preferred Ordinary Shares, £1 each		1,000,000	0	0			
3,000,000 Ordinary Shares, £1 each		3,000,000	0	0			
		£7,000,000	0	0			
Capital issued and subscribed—							
3,000,000 Preference Shares, £1 each, fully paid		£3,000,000	0	0			
450,000 Preferred Ordinary Shares, £1 each, fully paid .		450,000	0	0			
2,450,000 Ordinary Shares, £1 each, fully paid ..		2,450,000	0	0			
					5,900,000	0	0
Four per cent. First Mortgage Debenture Stock — Amount authorised and issued					2,000,000	0	0
Four per cent First Mortgage Extension Debenture Stock. Amount authorised and issued .					750,000	0	0
Interest on Debenture Stocks (less Tax) .					38,499	18	9
Reserves—							
Amount set apart out of Profits .		£730,075	0	0			
Premiums on Shares issued .		540,384	7	6			
					1,270,459	7	6
Insurance Fund . .					85,024	18	8
Pension Fund .					100,000	0	0
Research Fund . .					25,000	0	0
Reserve for Contingencies .					100,000	0	0
Reserve against Depreciation of Investments					325,000	0	0
Superannuation and Pension Fund .		£62,930	9	2			
Less Amount Invested . ..		42,348	1	9			
					20,582	7	5
Loans					172,005	12	0
Sundry Creditors, on Bills and Open Accounts					3,017,457	4	8
Amount owing to Bankers—							
On Current Accounts .		£16,950	3	0			
War Loan Advances . .		237,500	0	0			
					254,450	3	0
Profit and Loss Account—Balance ..		£730,089	17	11			
Deduct Interim Dividends paid—							
On Preference Shares at 5 per cent. per annum	£75,000 0 0						
On Preferred Ordinary Shares at 5 per cent. per annum	11,250 0 0						
On Ordinary Shares at 10 per cent. per annum	122,500 0 0						
		208,750	0	0			
Balance available for appropriation ..					527,339	17	11
					£14,585,819	0	11

Assets

	£	s	d	£	s	d
Properties, comprising Land, Mills, Buildings, Machinery and Goodwill of Associated Concerns, at cost, as per last Balance Sheet				5,694,735	12	3
Add Additions to Properties during the Year ended 31st March 1919, *less* Realisations				25,662	8	5
				£5,720,398	0	8
Less Depreciation Fund— Balance at 31st March 1918 ..	£572,286	15	5			
Add Depreciation for Year ended 31st March 1919	180,000	0	0			
	£752,286	15	5			
Deduct Outlay on Renewals of Properties during the Year, in addition to Ordinary Repairs charged against Profits . ..	55,126	5	1			
				697,160	10	4
				£5,023,237	10	4
Sundry Investments, Loans, Shares, and Undistributed Profits in Subsidiary Companies..				2,499,083	11	4
Investments in British War Funds . ..				977,113	12	6
Central Office Furniture, Fixtures, &c. .				5,000	0	0
Stock-in-Trade.—Cotton, Yarn, and Stores .. .				4,049,336	0	0
Trade and other Debtors . .	£2,010,245	19	8			
Rents, Rates, Insurance, &c., paid in advance	19,232	14	3			
				2,029,478	13	11
Cash in hand . . .				2,570	1	10
				£14,585,819	0	11

A. HERBERT DIXON, } *Directors.*
H. W. LEE, }

To the Shareholders of The Fine Cotton Spinners' and Doublers' Association Limited.

We have examined the Books and Accounts of your Company for the year ended 31st March 1919, and have obtained all the information and explanations we have required.

Since the Armistice it has been possible for your Directors to ascertain the condition of the properties representing the Association's Investments in France, and a review of the whole situation leads your Directors to believe that any liability which may ultimately attach to the Association for reparation of damaged properties and plant, over and above the amounts which the Association expects to recover from the French and British Governments, will be adequately provided for by the amount appearing in the Balance Sheet as "Reserve against Depreciation of Investments." Meantime, the Investments in the French Mills are included in the Balance Sheet at the Values at which they appeared in last year's accounts.

Subject to these observations we are of opinion that the Balance Sheet as above set forth is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given us and as shown by the Books of the Company.

Manchester,
14th May 1919.

EDWIN GUTHRIE & Co.,
Chartered Accountants, Auditors.

THE FORESTAL LAND, TIMBER AND RAILWAYS COMPANY, LIMITED.

BALANCE SHEET, 31st December 191

	£ s d	£ s d
To SHARE CAPITAL—Authorised		
1,612,500 Preference Shares of £1 each (entitled to a fixed cumulative dividend of 6 per cent. per annum and 25 per cent. of the surplus profits available for dividend)	1,612,500 0 0	
1,612,500 Ordinary Shares of £1 each (entitled to 75 per cent. of the surplus profits available for dividend)	1,612,500 0 0	
	£3,225,000 0 0	
Issued:		
1,352,543 Preference Shares of £1 each fully paid ..	1,352,543 0 0	
1,352,542 Ordinary Shares of £1 each fully paid ..	1,352,542 0 0	
		2,705,085 0 0
,, Five per cent. First Mortgage Refunding Debentures — Authorised £1,200,000		
Issued	1,056,000 0 0	
Deduct— Debentures drawn in 1913 for redemption ..	11,900 0 0	
		1,044,100 0 0
,, Five per cent. First Mortgage Debentures — Debentures outstanding		8,000 0 0
[NOTE.—As security for the above £8,000 outstanding Debentures and Interest thereon, the sum of £8,200 has been deposited with the Trustees, *per contra*.]		
,, Debentures drawn for redemption: amount outstanding.		43,198 0 0
,, Debenture Interest accrued—payable 1st January 1914 .		27,199 0 1
,, Depreciation Account (including sums set aside for redemption of Debentures)		374,828 19 0
,, Reserve Account		703,331 6 8
,, Difference between cost and proceeds of sale of £130,952 7s. 7d. Debentures of La Sociedad Anonima Quebrachales Fusionados—in suspense (see note (b) below)		14,146 8 11
,, Sundry Credit Balances—including Debts due by the Company and Bills Payable .		556,413 17 7
,, Unclaimed Interest and Dividends		591 2 7
,, Undivided Profit per Directors' Report on the Accounts to the 31st December 1912:—		
Preference Shareholders . ..	6,949 15 9	
Ordinary Shareholders . ..	20,827 2 8	
		27,776 18 5
,, Profit and Loss Account —		
Profit for Year to the 31st December 1913, subject to remuneration of Directors and Local Board .	383,362 0 8	
Less Interim Dividend of 3 per cent. on Preference Shares paid on 2nd October 1913 . ..	40,576 5 10	
		342,785 14 10
		£5,847,456 8 1

NOTE.—(*a*) There are contingent liabilities in respect of Bills Discounted and Contracts.

(*b*) The Company has unconditionally guaranteed the principal and interest of £130,952 7s. 7d. 5% First Mortgage Debentures of La Sociedad Anonima Quebrachales Fusionados, of which £118,020 are outstanding to this date.

(*c*) This Company agreed to acquire, as from 1st January, 1914, certain of the Assets of the New York Tanning Extract Company and the Argentine Quebracho Company, on the terms specified in the Agreement.

(*d*) There was, at the date of the Balance Sheet, a contingent liability in respect of £250,000 Debentures of the Santa Fé Land Company, Limited.

	£ s d
By Freehold Timber and Pastoral Lands, Railways, Factories, Machinery and Plant; Working Bullocks and Horses; Steamers, Barges and Carts; Buildings, Wells, Fences, Furniture, &c., and Goodwill ..	3,436,820 14 2
,, Investments in Associated Undertakings	163,259 8 10
,, Livestock	420,035 13 11
,, Stocks of Extract and Felled Timber	759,689 18 0
,, Stocks of Stores and Materials	232,237 0 11
,, Sundry Debit Balances—including Debts due to the Company, Bills Receivable and Payments in advance ..	642,015 2 10
,, Trustees for Holders of First Mortgage Debentures—Cash deposited with them to provide for Principal and Interest of Original Debentures outstanding—*per contra*	8,200 0 0
,, Cash at Bankers and in hand	185,198 8 8
	£5,847,456 8 1

THE FORESTAL LAND, TIMBER AND RAILWAYS COMPANY, LIMITED—*continued.*

PROFIT AND LOSS ACCOUNT, Year to 31st December 1913.

Dr.

	£	s	d
To General Charges, Bankers' Interest and Commission, Managers' Commission, &c.	81,316	9	4
" Depreciation ..	96,022	14	8
" Balance carried down	489,804	10	9
	£667,143	14	9
To Interest on 5% First Mortgage Debentures	2,424	14	11
" Interest on 5% First Mortgage Refunding Debentures and Income Tax thereon	55,880	0	0
" Premium on Redemption of First Mortgage Refunding Debentures	297	10	0
" Expenses in London:—Office Rent and Salaries, Audit Fee, Legal Charges, Cables, Printing, &c.	6,488	0	0
" Fees of Trustees for Debenture Holders	500	0	0
" Reserve Account—Amount reserved, pursuant to Articles of Association	43,187	7	9
" Balance—subject to remuneration of Directors and Local Board	383,362	0	8
	£492,139	19	4

Cr.

	£	s	d
By Profit on Trading and Dividends from Associated Undertakings	633,995	15	5
" Profit on Land Sales	33,147	19	4
	£667,143	14	9
By Balance brought down	489,804	10	9
" Interest, Transfer Fees, &c., London	2,335	8	7
	£492,139	19	4

On behalf of the Board,

EMILE B. D'ERLANGER,
L. H. KIEK,
HERMANN RENNER. } *Directors*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF THE FORESTAL LAND, TIMBER AND RAILWAYS COMPANY, LIMITED

We have examined the Accounts of the Company in London and Buenos Aires for the year ended 31st December 1913. We have obtained all the information and explanations we have required, and in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

DELOITTE, PLENDER, GRIFFITHS & CO., } *Auditors*
Chartered Accountants

5, LONDON WALL BUILDINGS,
FINSBURY CIRCUS, E.C.

16th June 1914.

THE FREEMAN'S JOURNAL, LIMITED.

BALANCE SHEET, 31st December 1911.

Capital and Liabilities

	£	s	d	£	s	d
Share Capital Authorised—						
10,000 Six per cent. Cumulative Preference Shares of £5 each	50,000	0	0			
15,000 Ordinary Shares of £4 each (reduced from £5 in 1900)	60,000	0	0			
Share Capital Issued—	110,000	0	0			
10,000 Six per cent. Cumulative Preference Shares of £5 each	50,000	0	0			
15,000 Ordinary Shares of £4 each—£3 paid	45,000	0	0			
	95,000	0	0			
Less Calls in Arrear	38	15	0			
				94,961	5	0
Four per cent. Debenture Stock, as per last account				36,000	0	0
Sundry Creditors including Bank				13,527	18	8
Bills Payable				3,834	1	11
Debenture Stock Holders—for Interest . . .				702	13	5
Profit and Loss Account—						
Balance from last Account . .	2,053	1	7			
Balance from Profit and Loss Account for 1911 (including certain Credit Balances at 31st December 1910, £410 10s. 10d.) subject to provision for Depreciation and Bad Debts	1,661	19	10			
	3,715	1	5			
Less Debenture Interest for year ..	1,440	0	0			
				2,275	1	5
				£151,301	0	5

Property and Assets

	£	s	d	£	s	d
Goodwill, per last Account				102,304	14	10
Premises, Plant and Machinery, as per last Account	22,569	2	5			
Additions during year	29	5	0			
				22,598	7	5
Stocks (including Horses, Vans, &c.), taken and certified by the Management at cost				2,303	6	2
Cash on Hand				352	0	0
Bills Receivable				17	10	6
Investments at Cost (including £350 of the Company's Debenture Stock)				1,044	3	1
Capital Suspense, per last Account				2,508	0	0
Law Charges, as per last Account	2,516	0	1			
Additions during 1911 (after charging £200 3s. 2d. to Revenue) ..	190	16	8			
				2,706	16	9
Sundry Debtors (including Debit Balances £70 1s. 11d.) as per Sundry Debtors' Controlling Account (individual Ledger Accounts amounting to £19,127 9s. 6d.)	19,452	5	11			
Bad Debts' Reserve, £2,005 15s. 7d. (after writing off in February 1911, £508 5s. 6d.) out of which a further sum of £1,071 19s. 9d. has since been written off, leaving a Balance of £933 15s. 10d.	2,005	15	7			
				17,446	10	4
Difference in Books				19	11	4
				£151,301	0	5

S. ROWAN WATSON, } *Directors*
JOHN PURCELL, }

AUDITOR'S REPORT

1. I have audited the above Balance Sheet dated the 31st December 1911, and the Revenue Account for the twelve months ended that date with the books and vouchers of the company.

2. The books of the company do not balance, the unidentified difference, namely, £19 11s. 4d., being shown on the Balance Sheet.

3. Ascertained liabilities amounting to some £400 have been omitted from the Accounts, and no provision has been made in respect of certain rebates which it is customary to allow, amounting approximately to £375.

4. I am unable to form an opinion as to the value of the company's investments, certain of which have no market quotation and are non-dividend paying. No certificates have been produced to me in respect of three of these holdings, which, together, stand in the books at £212 14s. 7d.

5. The amount held up as debts due to the company appears to me to be in excess of what is likely to be recovered, in view of the age and non-liquid character of many of the debts. The amount to the credit of Bad Debt Reserve, namely, £2,005 15s. 7d., is in my opinion insufficient.

6. The last dividend paid on the Cumulative Preference Shares was in respect of the period ended 31st December 1908.

7. Contrary to the practice in the past, the balance of profit for the year is stated on the Balance Sheet before charging Debenture Interest, this being subsequently deducted from the accumulated balance on Profit and Loss Account.

8. No depreciation has been provided for out of the year's profits in respect of Premises, Plant and Machinery, and the Goodwill figure remains at original cost. The Capital Suspense Account which is not represented by Assets also remains unliquidated.

9. Subject to the foregoing remarks, I have obtained all the information and explanations I have required, and I report that, in my opinion, the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of my information and the explanations given to me and as shown by the books of the company.

5 London Wall Buildings,
Finsbury Circus, London, E.C.
23rd March 1912.

W. PLENDER, F.C.A.

ACCOUNTANTS' NOTE

Note of Messrs. M. Crowley & Co., Chartered Accountants and Auditors on the Auditor's Report

3. System of Accounts. This observation suggests a change in the method hitherto applied of charging certain items outstanding on the last day of every year and paid after the next year had begun to the year in which they were discharged. The effect of debiting the amounts referred to against 1911 instead of against 1912, according to all previous practice, would be to load 1911 with a double set of charges, viz. those outstanding on 31st December 1910, paid in 1911, and also the corresponding items outstanding on 31st December 1911, and paid in 1912. If this were done the Balance Sheet would not exhibit a true and correct view of the result of the year's working, and would no longer afford an accurate standard of comparison with any other year before or after. Moreover, it appears to the Directors that a system of accounting coeval with the company itself cannot properly be altered without the company's sanction. To arrive at a non-contentious settlement of the question without deranging the finances of 1911 the Directors suggest an allocation of £750 from the current credit balance for the purpose of adjusting the system of accounts to the view submitted by the Auditor.

4. Investments. The particulars under this head were fully detailed in the Directors' Note to the Auditor's Report on the Balance Sheet of 31st December 1908. An item of £169 was not the subject of a certificate. The remaining items amount to only £45.

5. Bad Debts Reserve.—The Directors' Report recommends an allocation of £500 to the Bad Debt Reserve, and the Secretary certifies that in his opinion the fund with this addition is sufficient.

7. Surplus and Debenture Interest.—It is clearly desirable, under present conditions, to facilitate comparison by means of the Balance Sheet between the amount of the surplus of the year, the amount of the whole balance available and the amount of the yearly charge in respect of Debenture Interest. The form in which this comparison appears in the Balance Sheet has been found suitable in the Directors' Reports.

8. Assets and Suspense.—The recent valuation of Premises, Plant and Machinery indicates that the sum at which they stand in the Balance Sheet being under the true value need not be further written down at present. The original figure of the item of Goodwill has never at any time been altered.

The view of the Directors on the Capital Suspense item was submitted when the Balance Sheet of 31st December 1909 was adopted by the General Meeting.

16 College Green,
Dublin.

M. CROWLEY & CO.,
Chartered Accountants.

MESSRS. FURNESS, WITHY & CO., LIMITED.

BALANCE SHEET, 30th April 1910

Capital and Liabilities		£ s. d.	£ s. d.
Share Capital—			
Total Authorised Issue:			
150,000 5% Cumulative Preference Shares of £10 each		1,500,000 0 0	
2,000,000 Ordinary Shares of £1 each		2,000,000 0 0	
		£3,500,000 0 0	
All of which are issued and fully paid up			3,500,000 0 0
Reserve Fund— Separately invested (as per Contra)			500,000 0 0
Reserve Account for Insurance and Repairs			200,000 0 0
Sundry Creditors			327,794 15 7
Bills Payable—			
On Steamers building and delivered		412,967 10 0	
General		105,973 19 5	
Accepted for Correspondents against Security (as per Contra)		65,007 12 11	
			583,949 2 4
Profit and Loss			
Balance as per last Account	£160,712 17 2		
Less Appropriated as per Directors' Report of 5th July 1909	72,580 15 6		
		88,132 1 8	
Add Balance for year, as per Account		303,744 14 2	
		391,876 15 10	
Less Interim Dividend on Ordinary Shares for Six Months, at 5% per annum, paid 1st November 1909	£50,087 11 10		
Transferred for Depreciation	145,416 11 11		
		195,504 3 9	
			196,372 12 1
			£5,308,116 10 0

Property and Assets	£ s. d.	£ s. d.
Steamships, Investments in Engine and Iron Works, Shipping, Industrial and General Investments, Tugs, Coal and Cargo Barges (*Less* Depreciation written off), Stocks of Coal, &c., and Payments on Account of New Tonnage	2,845,583 13 11	
Freeholds, Plant, and other Property in the United Kingdom and abroad (including Dock Warehouses, Wharves, &c.), Associated Companies, and Investments in the Wingate Coal Co., Lim., Broomhill Collieries, Lim., Weardale Steel Coal and Coke Co., Lim., Easington Coal Co., Lim., and other Collieries	1,127,330 15 7	
Investment in Irvine's Shipbuilding & Dry Docks, Co., Lim., including the Harbour Dockyard and Middleton Shipyard and Dry Docks	295,000 0 0	
		4,267,914 9 6
Investments as per Contra Reserve Fund		500,000 0 0
£144,750 Cash Deposits		
£55,000 Loans at Interest		
£100,000 British Maritime Trust, Lim., Shares		
£50,000 Cargo Fleet Iron Co., Lim. Debentures		
£25,000 Broomhill Collieries, Lim. Preference Shares		
£25,000 Brush Electrical & Engineering Co., Lim., Prior Lien Bonds		
£20,000 Soria Mining Co., Lim. Debentures		
£8,280 Richardsons, Westgarth & Co., Lim., Debentures		
£18,424 Tyne Tees Steam Shipping Co., Lim., Debentures		
£8,500 Easington Coal Co., Lim., Debentures		
£7,500 Tees Side Bridge & Engineering Co., Lim., Debentures		
£7,100 Wouldham Cement Co., Lim., Debentures		
£5,500 London-Welsh Steamship Co., Lim., Debentures		
£3,000 Inkula Steamship Co., Lim. Debentures		
£3,000 Inkum Steamship Co., Lim. Debentures		
£2,000 Metropolitan Railway Stock		
£5,000 Grand Trunk Railway of Canada Stock		
£5,000 Caucasus Copper Co., Lim., Debentures		
£5,000 Tees Furnace Co., Lim., Debentures		
£3,000 Great Central Railway Co. Stock		
£3,000 London, Chatham and Dover Railway, Stock		
£500 Brazil North Eastern Railway, Bonds		
Sundry Debtors—		
For Acceptances of Correspondents' Drafts, against Security (as per Contra)	65,007 12 11	
On Open Accounts and Steamers' Uncompleted Voyages, including Unexpired Insurances and Pending Averages	169,901 4 1	
		234,908 17 0
Bankers' Balances on Current Accounts, Cash, and Bills of Exchange on hand		305,293 3 6
		£5,308,116 10 0

MESSRS. FURNESS, WITHY & CO., LIMITED—*continued*.

PROFIT AND LOSS ACCOUNT for the Twelve Months ended 30th April 1910.

	£ s d	£ s d		£ s d	£ s d
To Directors' Fees	..	5,550 0 0	By Profits—		
„ Income Tax	..	5,078 1 1	At Head Office and Branches	.	221,389 6 2
„ Preference Share Dividend to 31st October 1909, and Interest and Discount	..	29,247 15 2	„ Dividends on Investments	.	113,094 18 9
Balance, as per Balance Sheet ..	..	303,744 14 2	„ Subsidy for Postal Services	..	8,986 9 9
			„ Transfer Fees	.	149 16 0
		£343,620 10 8			£343,620 10 8

WEST HARTLEPOOL, *July 6th* 1910.

CHRISTOPHER FURNESS, *Chairman*.

STEPHEN W. FURNESS	JNO. E. FURNESS	*Directors.*
FREDERICK W. LEWIS	HARRY C. FURNESS	
ROBERT E. BURNETT	W. H. BECKINGHAM	
A. S. PURDON	WALTER H. FURNESS	
RICHARD W. VICK	A. V TURNBULL	
MARMADUKE FURNESS		

Report of the Auditors to the Shareholders of Furness, Withy & Co., Lim.

We have audited the Balance Sheet of Furness, Withy & Co., Lim., dated 30th April 1910, as above set forth, in which are incorporated the Statements relating to the American and Canadian Branches as certified by resident Accountants, and have obtained all the information and explanations we have required. In our opinion such Balance Sheet is, subject to the valuation of the Stocks and Investments, properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given us and as shown by the Books of the Company.

West Hartlepool, *July 2nd* 1910.

W. T. WALTON & SON, *Incorporated Accountant*

HARROD'S STORES, LIMITED.

No. 1.

Dr. PROFIT AND LOSS ACCOUNT for the 12 months ended January 31st, 1918. *Cr.*

	£	s	d	£	s	d
To Working Expenses—						
,, Insurance	12,204	4	1			
,, Do National Health and Unemployment	3,817	11	7			
,, Rent, Rates, Taxes, Water, and Lighting	72,922	13	8			
,, Salaries, Wages, Commissions, Bonuses, and Maintenance of Staff .. .	389,464	10	7			
,, Printing, Stationery, Advertising, and Stamps	112,422	18	5			
,, General Trade Expenses	35,562	8	5			
,, Directors' Fees	7,000	0	0			
,, Auditors' Fees	840	0	0			
,, Legal Expenses	1,287	7	9			
,, Barnes Property—Rates, Taxes, &c. ..	5,320	15	5			
,, Staff Dividend Fund (an amount equal to the dividend of 15 per cent. on 10,000 Ordinary Shares)	1,500	0	0			
				642,342	9	11
To Interest, Provision for Sinking Funds, &c.—						
,, Repairs and Renewals	31,178	12	6			
,, Sinking Funds and Interest for the year ·						
Leases, &c. .. . £5,770 5 0						
Fixtures 9,281 0 0						
Sundry Leases 2,750 0 0						
	17,801	5	0			
,, Interest on Deposit and Current Accounts, &c., *less* Interest received .	42,823	11	8			
				91,803	9	2
				734,145	19	1
Profit to Balance Sheet				282,292	19	2
				£1,016,438	18	3

	£	s	d
By Gross Profit on Trading, Manufacturing, and Miscellaneous Accounts	991,870	5	7
,, Rents Received and Receivable, *less* Rates, Taxes, and Expenses	4,235	15	9
,, Transfer Fee, Commission on Sales and Purchases of Stocks and Shares	666	16	10
,, Dividends on Investments (including Ordinary Shares of Dickins & Jones, Ltd.), *less* Tax	19,665	0	1
	£1,016,438	18	3

No. 2. PROPOSED APPROPRIATION OF PROFITS

	£	s	d
To Dividend paid on Preference Shares on 1st September 1917	30,000	0	0
,, Dividend payable on ditto on 6th March 1918	30,000	0	0
,, Interim Dividend of 5% paid on Ordinary Shares, 1st September 1917	30,000	0	0
,, Interim Dividend paid on Founders' Shares, 1st September 1917	8,000	0	0
,, Further Dividend on Ordinary Shares of 10%, being with the 5% Interim Dividend, 15% for the year ..	60,000	0	0
,, Reserve Fund as provided by the Memorandum of Association	16,022	15	10
,, Further Dividend on Founders' Shares	59,102	11	4
,, Amount carried to credit of Ordinary Shares	69,432	8	1
,, Do. Founders' Shares	12,000	0	0
	£314,557	15	3

	£	s	d	£	s	d
By Net Profit for year .. .				282,292	19	
Less—Allowance to Dependents of Staff serving with H.M. Forces .	5,883	8	2			
Buyers' Pension Fund	2,631	12	7			
Staff Benevolent Fund .. .	550	0	0			
	9,065	0	9			
Grant to "Richard Burbidge Staff Benefit Fund" . ..	5,000	0	0			
				14,065	0	9
				268,227	18	5
,,Balance from previous account :—						
To Credit of Ordinary Shares				34,329	16	10
Do. Founders' Shares				12,000	0	0
				£314,557	15	3

HARROD'S STORES, LIMITED—*continued.*

No. 3.

BALANCE SHEET, January 31st 1918.

Capital and Liabilities

		£ s d	£ s d
To Share Capital—			
Authorised, Issued, and fully paid—			
600,000 Ordinary Shares of £1 each		600,000 0 0	
100,000 5% Cumulative Preference Shares of £5 each		500,000 0 0	
700,000 5% Cumulative Preference Shares of £1 each		700,000 0 0	
1,400 Founders' Shares of £1 each		1,400 0 0	
			1,801,400 0 0
„ Reserve Fund			1,458,033 7 4
„ Amount of last year's Undivided Profit—			
Ordinary Shares			34,329 16 10
Founders' Shares			12,000 0 0
„ Deposit and Current Account Balances			741,812 19 8
„ Sundry Creditors			400,850 6 1
„ Loan from Bankers against Security			150,000 0 0
„ Sinking Funds—			
re Leases and Buildings, Brompton Road, Hans Crescent, and Hans Road (for amortisation in 80 years, from 1902)—			
As per last account	£56,609 8 2		
Amount for year and Interest	5,770 5 0		
		62,379 13 2	
re Plant, Fixtures, &c., calculated on a basis of 40 years—			
As per last account	£88,947 14 6		
Amount for year and Interest	9,281 0 0		
		98,228 14 6	
re Sundry Leaseholds—			
As per last Account	£7,811 7 4		
Amount for year and Interest	2,750 0 0		
		10,501 7 4	
			171,169 15 0
„ Pension Funds—			
Managers' and Buyers'—			
To which the Company subscribes annually a sum equal to the sum subscribed by the members, including interest at the rate of 4 per cent. per annum		48,200 15 3	
Staff—			
Which is being provided by the Company solely		12,139 7 3	
			60,340 2 6
„ Unclaimed Dividends			3,177 12 9
			4,893,114 0 2
„ Profit and Loss Account—			
Balance thereof		282,292 19 2	
Less—Allowance to Dependents of Staff serving with H.M. Forces	£5,883 8 2		
Buyers' Pension Fund	2,631 12 7		
Staff Benevolent Fund	550 0 0		
	£9,065 0 9		
Grant to "Richard Burbidge Staff Benefit Fund"	5,000 0 0		
	£14,065 0 9		
Interim Dividend	68,000 0 0		
		82,065 0 9	
			200,227 18 5
			£5,093,341 18 7

Assets and Expenditure.

		£ s d	£ s d
By Property, Leases, and Goodwill, as taken over at the formation of the Company			90,000 0 0
„ Leasehold—Brompton Road Block—			
As per last account		1,171,019 9	
Outlay during year		6,941 9 6	
			1,177,960 18 7
„ Sundry Leaseholds—			
As per last account		211,970 17 4	
Outlay during year		495 11 6	
			212,466 8 10
„ Freehold Properties—Basil Street, Pentagon Place, Barnes, &c.			764,814 4 8
„ Plant, Fixtures, &c.—			
As per last account		495,093 12 7	
Outlay during year		5,011 13 9	
		500,105 6 4	
Additional amount written off during year		7,729 7 4	
N.B.—Sinking Fund created for extinction in 40 years			492,375 19 0
„ Horses, Vans, Motors, &c., after allowing for Depreciation			19,768 1 0
„ Sundry Debtors, *less* Credit Balances, after providing for Doubtful Debts			511,286 13 10
„ Investments and Securities, as under:—			
*£126,198 0 0 5% War Loan	at cost		
*58,090 18 3 2¾% Guaranteed Stock (Irish Land)	*Less*		
*10,000 0 0 3½% London County Council	written off	926,081 2 9	
*5,500 0 0 3% Metropolitan Water Board	Stocks marked		
*5,500 0 0 3% Sheffield Corporation Stock	thus*		
*10,031 6 1 3% Local Loans	reducing		
*870 2 2 Bank of England Stock	them to		
54,000 Deferred Shares of 1/- each of Harrods (Buenos Aires), Ltd., fully paid	Market Value		
333,275 Ordinary Shares of £1 each of Dickins & Jones, Ltd., fully paid	as on 31st Jan., 1918.	48,686 0 0	
			877,395 2 9
Societe des Etablissements Harrods, Paris, 6,000 Deferred Shares of 1/- each of Harrods (Buenos Aires), Ltd., held for benefit of Staff			300 0 0
„ Stocks on hand—			
General		792,192 13 2	
Sundry Stocks		23,153 14 10	
			815,346 8 0
„ Unexpired value of Insurance			7,000 0 0
„ Cash at Bankers and in hand			124,628 1 11
			£5,093,341 18 7

ALFRED J. NEWTON, *Chairman.*
WOODMAN BURBIDGE, *Managing Director* } *Directors.*

ALLAN HEPWORTH, *Chief Accountant.*

AUDITORS' CERTIFICATE AND REPORT.

We have audited the above Balance Sheet of HARROD'S STORES, LIMITED, dated 31st January 1918. We have obtained all the information and explanations we have required, and in our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

1 QUEEN VICTORIA STREET, E.C.1.
20th *February* 1918.

HAYS, AKERS & HAYS,
Chartered Accountants.

HARROD'S STORES FOUNDERS' SHARES COMPANY, LIMITED.

Dr. REVENUE ACCOUNT for the Year ended 31st January 1918. *Cr.*

				£	s	d
To Administration Expenses				250	0	0
,, Directors' Fees				525	0	0
,, Stamps, Stationery, Printing, and part Expenses of Conversion Scheme, &c.				811	9	5
,, Audit Fee, including Audit of Share Registers				15	15	0
,, Balance, being Net Profit				48,877	16	11
				£50,480	1	4

			£	s	d
By Balance from last Account			91		2
,, Interim Dividend on Harrod's Stores (original) Founders' Shares, paid 1st September 1917	£8,000 0 0				
,, Final Dividend	59,102 11 4				
		£67,102 11 4			
,, Less Income Tax Deducted		16,775 12 10			
			50,326	18	6
,, Transfer Fees, &c			61	17	0
			£50,480	1	4

BALANCE SHEET, 31st January 1918.

	£ s d	£	s	d
To Capital Account—				
,, Authorised, Issued, and fully paid Shares of £1 each		140,000	0	0
,, Revenue Account	48,877 16 11			
Less Interim Dividend of 5 per cent paid on 1st September 1917, *less* Income Tax	5,250 0 0			
		43,627	16	11
,, Unclaimed Dividends		614	5	4
,, Sundry Creditors		119	3	8
		£184,361	5	11

ALFRED J. NEWTON, *Chairman*, } *Directors.*
EDGAR COHEN, }

		£	s	d
By Harrod's Stores, Ltd., Original Founders' Shares		140,000	0	0
,, Harrod's Stores, Ltd., balance of Dividend payable on 1,400 Founders' Shares, *less* Income Tax, for year ended 31st January 1918	£44,326 18 6			
,, Balance at the Bank, 31st January 1918	34 7 5			
		44,361	5	11
		£184,361	5	11

Proposed Appropriation.

By Revenue Account		£48,877 16 11
To Interim Dividend of 5%, less Income Tax, paid on 1st Sept. 1917	£5,250 0 0	
,, Further proposed Dividend of 38½%, less Income Tax, making 43½% for the year	40,425 0 0	
,, Balance carried forward	3,202 16 11	
		£48,877 16 11

AUDITORS' CERTIFICATE AND REPORT.

We have audited the above Balance Sheet of Harrod's Stores Founders' Shares Company, Limited, dated 31st January 1918. We have obtained all the information and explanations we have required, and in our opinion such Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

1 Queen Victoria Street, E.C.1.
20th February 1918.

HAYS, AKERS & HAYS, *Chartered Accountants*,
Auditors.

W. T. HAYCOCK & SONS, LIMITED.

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED FEBRUARY 28TH 1906.

PROFIT AND LOSS.

		£ s d	£ s d
1905			
Mar. 1	To Stock ..		2,020 8 11
1906			
Feb. 28	To Purchases ..	2,565 6 10	
	Less Plant	108 18 6	
			2,456 8 4
	„ Wages ..	4,332 16 2	
	„ Rent ..	131 3 0	
	„ Rates and Taxes	262 1 8	
	„ Gas ..	175 8 0	
	„ Insurance	129 3 9	
	„ Petty Cash	256 0 7	
	„ Trade Expenses	344 18 8	
	„ Discounts allowed	170 6 2	
		5,801 18 0	
	Less Items not accruing to the Year's Working Expenses— Paid .. .. £525 10 5; Received 177 11 3	347 19 2	
			5,453 18 10
	Balance carried down		109 5 2
			£10,040 1 3
	To Interest on 1st and 2nd Mortgage Debentures ..	121 16 0	
	„ Interest on 3rd Mortgage Debenture	570 [illegible] 5	
	„ Directors' Fees	296 1[illegible] 8	
			989 2 1
			£989 2 1

		£ s d
1906		
Feb. 28	By Sales ..	7,527 12 1
	„ Stock ..	2,467 17 4
	„ Discounts received	44 11 10
		£10,040 1 3
	By Balance brought down	109 5 2
	„ Balance (Loss)	879 16 11
		£989 2 1

CAPITAL ACCOUNT

Liabilities	£ s d	£ s d
To Capital, 10,000 Shares at £1 each ..	10,000 0 0	
„ 1st and 2nd Mortgage Debentures ..		1,250 0 0
„ 3rd „ „ ..		12,025 6 9
„ Sundry Creditors, including Debenture Interest, Directors' Fees, Rates, &c. ..		1,772 0 7
„ Balance ..		1,887 1 2
		£16,934 8 6

Assets	£ s d	£ s d
By Lease and Building ..		5,405 11 4
„ Machinery and Plant ..	7,532 12 10	
Less 5 per cent. Depreciation ..	376 12 10	
	7,156 0 0	
„ Ditto, Purchases for Year ending 28th February 1906 ..	108 18 6	
		7,264 18 6
„ Stock ..		2,467 17 4
„ Sundry Debtors ..		1,740 0 6
„ Balance at Bank ..		56 0 10
		£16,934 8 6

LOUIS H. HEALE, *Auditor*,

March 14th 1906.

HOME AND COLONIAL STORES.

BALANCE SHEET, 31st December 1904.

Dr.

	£ s d	£ s d	£ s d
To Capital—Authorised £1,275,000 Subscribed—			
120,000 6% Cumulative Preference Shares of £5 each, fully paid		600,000 0 0	
500,000 15% Cumulative Ordinary Shares of £1 each, fully paid		500,000 0 0	
10,000 A Ordinary Shares of £1 each, fully paid		100,000 0 0	
			1,200,000 0 0
Liabilities, including Prompts of Purchases not yet due, Contracts for future delivery, &c.			195,362 18 4
Share Premium Account			19,323 3 4
Reserve Funds			220,696 0 0
(1) Compulsory, invested separately under Article 120 as per last Balance Sheet	£109,862 0 0		
Added this year	15,853 0 0	125,715 0 0	
(2) Special "A" Reserve, reserved under Article 120A as per last Balance Sheet	35,000 0 0		
Added this year	15,000 0 0	50,000 0 0	
(3) Voluntary, reserved under Article 118 (Sec. 15), as per last Balance Sheet..	76,802 0 0		
Less Amount applied in meeting present depreciation on investments (chiefly in Consols) ..	31,821 0 0	44,981 0 0	
		£220,696 0 0	
,, Profit and Loss Account—Balance as below			23,760 1 8
			£1,659,142 3 4

Cr.

	£ s d	£ s d	£ s d
By Cash at Bankers and in hand ..			109,514 0 10
,, Stocks on hand, in Bond, at Wharves, Warehouses, &c., at cost, as per Inventories			423,027 11 4
,, Payments in Advance, and Interest and Dividends accrued			8,797 18 9
,, Plants, Fittings, Utensils, &c., at Head Office and Branches, including Premiums paid for Leases and Alterations and improvements to premises		237,511 14 1	
,, Leasehold Property, Paul Street ..		3,947 0 0	
,, ,, ,, Clifton Street..		27,011 7 4	
		268,470 1 5	
Less Reserved for Depreciation of Plant, Premises, &c., as per last Balance Sheet	£62,347 3 5		
Added this year	9,334 2 4	71,681 5 9	196,788 15 8
,, Investments in Consols, India Stock, and British Railway Debenture Stocks at market values ..		202,739 13 10	
,, Freehold Properties and Trading Investments		21,141 13 5	223,881 7 3
			962,009 13 10
,, Goodwill of Business and Leaseholds as per last Balance Sheet .			697,132 9 6
,, Investments in Shares of the Company for Account of the Employees under agreements with them, £19,887 9s 9d.			
			£1,659,142 3 4

Dr. PROFIT AND LOSS ACCOUNT for the period between the 2nd January 1904 and 31st December 1904. *Cr*

Dr.

	£ s d	£ s d
To Expenses of Management, including Salaries at Head Office, Stationery, Printing, &c .. .		28,621 10 2
,, Directors' and Auditors' Fees .		7,895 19 0
,, Reserve against Depreciation of Plant, Premises, &c., provided this year		9,334 2 4
,, Balance carried down .. .		158,532 1 6
		£204,383 13 0
,, Four Quarterly Dividends on Preference Shares for the year ended 31st December 1904 .. .	36,000 0 0	
,, Four Quarterly Dividends on Ordinary Shares for the year ended 31st December 1904	75,000 0 0	111,000 0 0
,, Reserve Funds—		
Compulsory, added this year under Article 120, as per Directors' Report	15,853 0 0	
Special "A" Reserve, added this year under Article 120A, as per Directors' Report	15,000 0 0	30,853 0 0
,, Balance carried to Balance Sheet ..		23,760 1 8
		£165,613 1 8

Cr

	£ s d	£ s d	£ s d
By Trading Account—Profit for the year			198,794 8 5
,, Interest on Investments—Consols, India Stock, and British Railway Debenture Stocks .. .			5,589 4 7
			£204,383 13 0
,, Balance being Net Profit for the year ended 31st December 1904 ..			158,532 1 6
,, Amount brought forward from last Account		12,581 0 2	
Less Dividend on A Ordinary Shares for 1903	£5,000 0 0		
Less Appropriated to Sick Fund ..	500 0 0	5,500 0 0	7,081 0 2
			£165,613 1 8

W. CAPEL SLAUGHTER, *Chairman*.
T. W. DAVIDSON, *Secretary*.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and we report to the Shareholders as follows:—

We have examined and compared this Balance Sheet and Profit and Loss Account with the Books and Vouchers of the Company, and in our opinion the Balance Sheet is a full and fair Balance Sheet, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the books of the Company.

LONDON, *30th January* 1905.

TURQUAND, YOUNGS & CO.

THE IMPERIAL TOBACCO COMPANY (OF GREAT BRITAIN AND IRELAND), LIMITED.

Dr. BALANCE SHEET, 31st October 1917. *Cr.*

	£	s	d	£	s	d	£	s	d
To Capital Authorised:									
6,000,000 "A" 5½% Cumulative Preference Shares				6,000,000	0	0			
6,000,000 "B" 6% Non-Cumulative Preference Shares				6,000,000	0	0			
3,000,000 "C" 10% Non-Cumulative Preference Shares				3,000,000	0	0			
6,000,000 Ordinary Shares ..				6,000,000	0	0			
				£21,000,000	0	0			
,, Capital Issued:									
4,959,249 "A" 5½% Cumulative Preference Shares							4,959,249	0	0
5,260,469 "B" 6% Non-Cumulative Preference Shares .. .							5,260,469	0	0
2,638,218 "C" 10% Non-Cumulative Preference Shares							2,638,218	0	0
5,573,248 Ordinary Shares ..							5,573,248	0	0
							18,431,184	0	0
,, Creditors (including provision for Income Tax and Excess Profits Duty), Employers' Liability, Marine, and other Funds							3,845,269	17	10
,, Bills Payable and Drafts in Transit							660,000	0	0
,, Provision for Pensions, &c.							786,520	7	11
,, General Reserve Account per last Balance Sheet				4,465,501	0	0			
Add Transfer from Profit and Loss Account				1,000,000	0	0			
							5,465,501	0	0
,, Profit and Loss Account—									
Balance for the year				2,488,539	3	3			
Balance at 31st October 1916, after deducting Customers' Bonuses to that date				22,023	11	0			
				2,510,562	14	3			
Deduct Interim Dividends paid:—									
on "A" 5½% Cumulative Preference Shares	£136,379	7	0						
on "B" 6% Non-Cumulative Preference Shares ..	157,814	1	5						
on "C" 10% Non-Cumulative Preference Shares ..	131,910	18	0						
on Ordinary Shares	278,662	8	0						
				704,766	14	5			
							1,805,795	19	10
							£30,994,271	5	7

MEMO.—(*a*) There are Contingent Liabilities of the nature of Guarantees of Dividends on Shares in two Associated Companies.
(*b*) There is an uncalled Liability on Investments held of £128,625 0s. od.

	£	s	d
By Land, Buildings, Plant, and Machinery—at cost, *less* amounts written off	1,258,579	18	0
,, Goodwill and Patent Rights—at cost, *less* Premiums received on Ordinary Shares and estimated Profit between date of taking over businesses and registration of Company	9,422,581	16	0
,, Investments in Associated Companies—at cost, *less* Reserves, including provision for estimated Capital liability under dividend guarantees	1,809,095	8	0
,, Stock-in-Trade—under cost	9,791,152	18	1
,, Debtors, *less* Reserve for Discounts and doubtful Debts	4,178,400	7	5
,, Payments on account of Leaf in transit, unexpired Insurances, &c.	794,298	3	2
,, Bills Receivable	1,871	15	7
,, Investments in Government Stocks including 5% War Loan), County Council and Corporation Stocks, Railway Debenture and Preference Stocks—valued at ruling prices at date	2,404,959	11	2
,, Corporation Loans not officially quoted	250,000	0	0
,, Cash at Bankers and in hand	1,083,331	8	2
	£30,994,271	5	7

F. H. THORPE (*Chartered Accountant*),
Chief Accountant.

GEO. A. WILLS, *Chairman.*
W. N. MITCHELL, *Deputy-Chairman.*
GEORGE A. FALK, *Secretary.*

AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE IMPERIAL TOBACCO COMPANY (OF GREAT BRITAIN AND IRELAND), LIMITED.

I have examined the above Balance Sheet dated 31st October 1917 with the books at the Head Office in Bristol, in which have been incorporated the Audited Accounts of the Branches, and have obtained all the information and explanations I have required. In my opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of my information and the explanations given me, and as shown by the books of the Company.

5 LONDON WALL BUILDINGS, E.C.2,
22nd January 1918.

WM. PLENDER, *Auditor*
(DELOITTE, PLENDER, GRIFFITHS & Co.),
Chartered Accountants.

THE IMPERIAL TOBACCO COMPANY (OF GREAT BRITAIN AND IRELAND), LIMITED—*continued*.

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st October 1917 *Cr.*

	£ s d		£ s d
To Provision for Pensions	50,000 0 0	By Net Trading Profit and Interest and Dividends on Investments (including Dividends from Companies operating outside the United Kingdom), Loans and Bank Deposits, after providing for Directors' Fees and Management Remuneration, Depreciation of Freehold Buildings, Plant, Machinery, and Investments, Sundry Reserves (including Reserves for Income Tax and Excess Profits Duty), Working Expenses, Head Office, and Registration Charges	3,538,120 5 9
„ Transfer to General Reserve Account	1,000,000 0 0	„ Transfer and other Fees	418 17 6
„ Balance carried to Balance Sheet	2,488,539 3 3		
	£3,538,539 3 3		£3,538,539 3 3

Dr. APPROPRIATION ACCOUNT *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Dividends on "A" 5½% Cumulative Preference Shares—			By Balance from last Account	219,571 9 3	
Interim Dividend to 30th April 1917, paid 1st August 1917	136,379 7 0		*Less* Bonuses to Customers paid thereout	197,547 18 3	
Final Dividend to 31st October 1917, payable 1st February 1918	136,379 7 0				22,023 11 0
		272,758 14 0	„ Balance from Profit and Loss Account for the year		2,488,539 3 3
„ Dividends on "B" 6% Non-Cumulative Shares—					
Interim Dividend to 30th April 1917, paid 1st September 1917	157,814 1 5				
Final Dividend to 31st October 1917, payable 1st March 1918	157,814 1 5				
		315,628 2 10			
„ Dividends on "C" 10% Non-Cumulative Preference Shares—					
Interim Dividend to 30th April 1917, paid 1st September 1917	131,910 18 0				
Final Dividend to 31st October 1917, payable 1st March 1918	131,910 18 0				
		263,821 16 0			
„ Dividends on Ordinary Shares—					
Interim Dividend of 5%, paid 1st September 1917 (free of Income Tax)	278,662 8 0				
Proposed Final Dividend of 5% (free of Income Tax)	278,662 8 0				
Proposed Bonus of 2s. 6d. per share (free of Income Tax)	696,656 0 0				
		1,253,980 16 0			
„ Bonus to Customers—Interim payment on account of the year ended 31st October 1917, paid 11th January 1918		133,348 0 6			
„ Balance to be carried to next Account (including Reserve for Bonus to Customers—final payment in respect of the year ended 31st October 1917)		271,025 4 11			
		£2,510,562 14 3			£2,510,562 14 3

IND, COOPE & COMPANY, LIMITED, ROMFORD AND BURTON-ON-TRENT.

BALANCE SHEET, 7th October 1905.

Dr.

	£	s	d
To Capital—			
Authorised—			
"A" 6 per cent. Cumulative Preference Shares..	500,000	0	0
"B" 4½ do. do. ..	750,000	0	0
Ordinary Shares	560,000	0	0
	£1,810,000	0	0
Issued—"A" 6 per cent. Cumulative Preference Shares, £500,000; "B" 4½ per cent. Cumulative Preference Shares, £500,000; Ordinary Shares, £448,000	1,448,000	0	0
"A" 4½ per cent. Mortgage Debenture Stock.	750,000	0	0
"B" 4 do. do.	500,000	0	0
Irredeemable 4½ do. do.	1,000,000	0	0
Interest accrued—"A" 4½ per cent. Mortgage Debenture Stock, £8,015 12s. 6d.; Irredeemable 4½ per cent. Mortgage Debenture Stock, £10,687 10s.	18,703	2	6
Depositors	243,151	14	1
Loans from Bankers (Secured)..	122,578	14	10
Sundry Creditors	295,540	8	5
NOTE.—Liability on Guarantees against Direct or collateral Securities and on Bills Receivable under discount, £170,162 0s. 2d.			
	£4,377,973	19	10

Cr.

	£	s	d
By Brewery Buildings, Freeholds, Leaseholds, Copyholds, Plant, and Utensils, &c., less Mortgages	2,929,334	11	11
Loans and Interest, Customers' Balances, Rents, &c., £615,142 6s. 2d.; Less reserved against contingent losses £46, 725, Provision for Discounts, &c. £42,753 4s. 4d.—£89,478 4s. 4d.	525,664	1	10
Irredeemable Mortgage Debenture Stock Trustees —Investments held by them, £139,981 11s.; Less Reserved against Depreciation, £12,750	127,231	11	0
Sundry Investments, £39,360 10s. 8d. Less Reserved against Depreciation, £6,500	32,860	10	8
Trade Investments at Cost	38,470	18	8
Cash in hands of Trustees for Debenture Stockholders	9,815	3	6
Cash Debtors	5,000	0	0
Cash at Bankers and in hand	28,743	6	1
Stock of Ale, Barley, Malt, Hops, Wines and Spirits, Casks, Horses, and Sundries	405,366	14	3
Suspense Account	272,249	0	6
Profit and Loss Account — Balance brought from last year's Accounts, *Cr.* £633 8s. 6d.; *Add* Balance as per Account ending 7th October 1905, without making any provision for Depreciation and items debited to Suspense Account, *Cr.* £3,628 10s. 1d.—*Cr.* £4,261 18s. 7d.; *Deduct* Dividend paid on "A" Preference Shares for quarter ending 5th January 1905, *Dr.* £7,500	3,238	1	5
	£4,377,973	19	10

PROFIT AND LOSS ACCOUNT, from 9th October 1904 to 7th October 1905.

	£	s	d
To Trade, Office and General Expenses (including Depôt and Export and Military Expenses) .	108,942	16	3
Carriage, Cartage, &c.	77,223	9	4
Cooperage	13,757	3	7
Rates, Taxes, and Insurance	18,150	13	8
Salaries and Wages of Staff (including Managing Directors' Salaries)	60,851	1	5
Repairs and Maintenance of Brewery Premises and Freeholds and Leaseholds	10,260	12	10
Bad Debts	7,128	19	9
Pensions	7,946	3	10
Loss on Houses under management	10,954	19	6
Directors', Trustees', and Auditors' Fees	4,022	10	0
Balance carried down	155,821	12	1
	£475,066	2	3
To Interest on Deposits, Mortgages, &c.	53,443	2	0
Interest on "A" Debenture Stock at 4½ per cent.	33,750	0	0
Interest on "B" Debenture Stock at 4 per cent. .	20,000	0	0
Interest on Irredeemable Mortgage Debenture Stock at 4½ per cent.	45,000	0	0
Balance, profit carried to Balance Sheet without making any provision for depreciation of Brewery Premises, Leaseholds, Plant, Casks, &c., and items debited to Suspense Account in Balance Sheet	3,628	10	1
	£155,821	12	1

	£	s	d
By Gross Profit on Brewing	397,574	18	5
Net Profit on Wines and Spirits, Distillery, Bottling, and Sundries	25,663	11	3
Interest on Loans	8,164	12	3
Sundry Interest and Dividends on Investments ..	18,477	6	2
Rents Receivable (less Rents Payable)	35,080	19	8
Transfer Fees	104	14	6
	£475,066	2	3
By Balance brought down	155,821	12	1
	£155,821	12	1

E. MURRAY IND, *Chairman*.

C. E. SHEFFIELD, *Secretary*.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and we have made a report on the Accounts in conformity with the said Act.

1 QUEEN VICTORIA STREET, LONDON, E.C.
26th February 1906.

CHATTERIS, NICHOLS & CO., *Chartered Accountants, Auditors.*

IND, COOPE & COMPANY (1912), LIMITED, BURTON-ON-TRENT AND ROMFORD.

BALANCE SHEET, 30th September 1919.

Dr.

	£ s d	£ s d
To Capital Authorised— 600,000 Ordinary Shares of £1 each	600,000 0 0	
" Capital Issued— 472,322 Ordinary Shares of £1 each, fully paid		472,322 0 0
" 5 per cent. Prior Lien Debenture Stock	500,000 0 0	
Interest accrued, *less* Tax	8,750 0 0	
		508,750 0 0
" 4 per cent. Mortgage Debenture Stock	700,000 0 0	
Interest accrued, *less* Tax	9,800 0 0	
		709,800 0 0
" 4 per cent. Income Debenture Stock ..	415,520 0 0	
Interest thereon, *less* Tax ..	11,634 11 3	
		427,154 11 3
" Sundry Creditors and Credit Balances		393,377 11 3
" Commissioners of Inland Revenue for Beer Duty		361,536 0 0
" Special Reserve for Contingent Liabilities		400,000 0 0
" General Reserve		100,000 0 0
" Debentures Redemption Fund ..		70,000 0 0
" Profit and Loss Account— Amount brought forward from last Account	125,686 9 7	
Less Ordinary Dividend year ended 30th September 1918 . ..	20,670 17 6	
	105,015 12 1	
Balance of Profit and Loss for the year ended 30th September 1919	48,450 0 11	
		153,465 13 0
		£3,596,405 15 6

Cr.

	£ s d	£ s d
By Purchase of Business, Freehold and Leasehold Breweries and Properties, Fixed Plant and Machinery, and Sinking Fund Policies, *less* Depreciation	1,803,414 8 2	
Less Mortgages thereon . ..	106,649 18 0	
		1,696,764 10 2
" Fittings and Fixtures on Licensed Premises, Casks, Moveable Plant, Horses, &c., *less* Depreciation ..		109,835 2 1
" Sundry Debtors, Loans and Bills Receivable, *less* Reserve for Discounts and Doubtful Debts		300,853 10 6
" Treasury Bills, Exchequer and National War Bonds at cost		627,595 16 8
" Trade Investments, *less* Reserve ..		296,283 18 2
" Cash at Bankers and in hand ..		235,571 5 2
" Cash in the hands of the Trustees for the Prior Lien Debenture Stockholders		753 7 5
" Stocks on hand as certified by the Managing Directors, at or under cost		325,875 14 4
" Insurance Premiums unexpired, &c.		2,872 11 0
		£3,596,405 15 6

LOUIS E. WALKER,
G. L. COURTHOPE, Major, } *Directors.*
E. M. WILKS, *Secretary.*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF IND, COOPE & CO. (1912), LTD.

In accordance with the provisions of Section 113, Subsection 2 of the Companies (Consolidation) Act, 1908, we report to the Shareholders as follows:—We have audited the above Balance Sheet, and have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Company.

4B, FREDERICK'S PLACE,
OLD JEWRY, LONDON, E.C.,
5th December 1919.

WHINNEY, SMITH & WHINNEY,
Chartered Accountants, Auditors.

PROFIT AND LOSS ACCOUNT for the year ended 30th September 1919.

Dr.

	£ s d	£ s d
To Depreciation of Leasehold Breweries and Properties, Plant, Machinery, Casks, &c.		39,372 16 7
" Interest (*less* Tax)— 5% Prior Lien Debenture Stock ..	17,500 0 0	
4% Mortgage Debenture Stock ..	19,600 0 0	
Income Debenture Stock	11,634 11 3	
Mortgages and Deposits	6,988 2 7	
		55,722 13 10
" Compensation Fund Charge and Income Tax		42,021 11 1
" Directors' Fees		1,600 0 0
" Trustees' and Auditors' Fees and Expenses		2,035 0 0
" Transferred to Special Reserve ..		200,000 0 0
" Transferred to Debentures Redemption Fund		10,000 0 0
" Transferred to General Reserve ..		75,000 0 0
" Balance carried to Balance Sheet ..		48,450 0 11
		£474,202 2 5

Cr.

	£ s d
By Trading Profit	430,362 6 0
" Interest on Treasury Bills, Exchequer Bonds, Loans to Customers, and other Securities, and Dividends on Trade Investments	43,839 16 5
	£474,202 2 5

KYNOCH, LIMITED.

BALANCE SHEET, 31st August 1904.

8th April 1903 £ s d	Liabilities	£ s d	£ s d
	CAPITAL AUTHORISED, viz. :—		
500,000 0 0	50,000 Preference Shares of £10 each	500,000 0 0	
500,000 0 0	50,000 Ordinary Shares of £10 each ..	500,000 0 0	
1,000,000 0 0		£1,000,000 0 0	
	CAPITAL ISSUED, viz. :—		
495,370 0 0	49,537 Preference Shares of £10 each fully paid	495,370 0 0	
375,000 0 0	37,500 Ordinary Shares of £10 each fully paid	375,000 0 0	
870,370 0 0			870,370 0 0
140,071 12 1	SUNDRY CREDITORS .. .. (Exclusive of a contingent liability of £35,089 2s. 8d. in respect of Forward Engineering Co.)		274,211 17 1
12,123 13 4	ADVANCE ON MORTGAGE OF LODGE ROAD MILLS and Interest accrued		12,125 13 4
109,026 17 6	RESERVE FUND		150,000 0 0
14,833 10 7	PENSION FUND		14,833 10 7
9,091 2 3	BAD DEBT AND OTHER RESERVES		7,891 10 0
	PROFIT AND LOSS ACCOUNT, viz. :—		
61,649 12 3	Amount brought forward from last year	53,660 4 2	
100,023 7 2	Profit for the year ended 31st March 1904	91,357 13 8	
161,672 19 5		145,017 17 11	
12,155 7 8	*Less* Interim Dividend paid on Preference Shares	12,384 5 0	
149,517 11 9			132,633 12 11
£1,305,034 7 6			£1,462,066 3 11

FRANK HUXHAM, A.C.A.,
Secretary.

8th April 1903 £ s d	Assets	£ s d	£ s d
	CAPITAL EXPENDITURE, viz. :—		
818,471 6 0	At Witton, Holford, Arklow, Kynochtown, Worsbro' Dale, Inchicore, Lodge Road, Eyre Street, and Stirchley, Birmingham, as on 8th April 1903	899,040 13 5	
80,569 7 5	Additions charged to Capital, as passed by the Directors	74,775 14 7	
899,040 13 5			973,816 8 0
	STOCK-IN-TRADE, as passed by the Directors, viz. :—		
57,694 13 11	Materials, consisting of Metal, Powder, Paper, &c.	68,402 7 4	
15,378	Orders in Progress	26,851 18 6	
158,161 18 5	Stock of Finished Work	216,552 0 0	
231,234 13 10			311,806 5 10
161,015 13 5	SUNDRY DEBTORS		164,852 15 10
13,743 6 10	INVESTMENTS AND CASH IN HAND		11,590 14 3
£1,305,034 7 6			£1,462,066 3 11

ARTHUR CHAMBERLAIN,
Chairman.

TO THE SHAREHOLDERS OF KYNOCH, LIMITED,

We have audited the Books and Accounts of the Company, and the above Balance Sheet, in our opinion, is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, as shown by the books of the Company.

We certify that all our requirements as Auditors have been complied with.

GIBSON & ASHFORD, *Chartered Accountants,*
Birmingham and London.

13th June 1904.

LAMSON PARAGON SUPPLY COMPANY, LIMITED.

BALANCE SHEET, 31st January 1914.

Dr.

Liabilities	£ s d	£ s d	£ s d
To Capital Account, viz.—			
200,000 5½ per cent. Cumulative Preference Shares of £1 each ..		200,000 0 0	
200,000 Ordinary Shares of £1 each		200,000 0 0	
		£400,000 0 0	
Of which have been issued—			
179,800 5½ per cent. Cumulative Preference Shares of £1 each fully paid of which 39,800 issued credited as fully paid		179,800 0 0	
196,459 Ordinary Shares of £1 each fully paid of which 35,000 issued credited as fully paid		196,459 0 0	
			376,259 0 0
„ Bank Loan			11,500 0 0
„ Creditors			23,611 10 5
„ Unclaimed Dividends			29 6 1
„ Reserve Accounts, viz.—			
Purchase Account		1,170 0 0	
General Account		22,000 0 0	
Investment and Loan Account		16,439 1 5	
			39,609 1 5
„ Profit and Loss Account—			
Balance unappropriated 31st January 1913 ..		3,693 4 11	
Add Profit 12 months to date		27,625 17 11	
		31,319 2 10	
Deduct Balance of Preference Dividend at 5½ per cent. per annum for one month to 1st March 1913	824 1 8		
Interim Preference Dividend at 5½ per cent. per annum for 6 months to 1st September 1913	4,944 10 0		
Interim Ordinary Dividend at 5 per cent. per annum for 6 months to 31st July 1913 ..	4,911 9 6		
		10,680 1 2	
			20,639 1 8
			£471,647 19 10

NOTE.—Contingent liabilities in respect of Guarantees to Banks for advances to and liability for uncalled capital in Auxiliary Companies, £5,440, not included above.

Cr

Assets	£ s d	£ s d
By Leasehold Properties, Buildings, Fixed and Loose Plant, Machinery, Fittings, &c., purchase price at valuation of Messrs. Fuller Horsey Sons and Cassell in 1902, and Additions (*less* Sales) since, at Cost	189,659 11 0	
Outlay during year	34,714 9 8	
	224,374 0 8	
Less Reserve for Depreciation of Leasehold Premises and Plant to 31st January 1914	43,927 1 10	
		180,446 18 10
„ Goodwill and Patents, Patent Rights and Trade Marks (*less* amounts written off) as per last Balance Sheet		50,000 0 0
„ Cash at Bankers and in hand		3,813 17 10
„ Investments in various Auxiliary and other Trading Companies at Cost to this Company .. .. (No Market Quotation).	131,344 7 5	
„ Loans to Ditto..	3,977 10 9	
		135,321 18 2
(Reserve see Contra).		
„ Book Debts and Dividends due (*less* Reserve for Band and Doubtful Debts and Discounts)		57,555 18 10
„ Bills Receivable		1,332 18 6
„ Stock-in-Trade, Stores and Work in progress as valued by Heads of Departments		42,241 10 2
„ Insurances, Rates, &c., in advance		934 17 6
		£471,647 19 10

ALAN McLEAN, } *Directors*
ROBERT CLARK, }
W. A. SANGER, *Secretary*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF THE LAMSON PARAGON SUPPLY COMPANY LIMITED.

We have examined the above Balance Sheet and the Profit and Loss Account with the Books of the Company, and beg to state that we have obtained all the information and explanations we have required, and that in our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Company.

EDWARD MOORE & SONS, *Chartered Accountants*.

7th April 1914.

PROFIT AND LOSS ACCOUNT for the Year ended 31st January 1914.

	£ s d
To Directors' Fees	1,066 13 4
„ Reserves for Depreciations of Leaseholds, Plant, Machinery and Furniture .	6,401 3 2
„ Removal Expenses	1,397 15 0
	8,865 11 6
„ Balance to Balance Sheet	27,625 17 11
	£36,491 9 5

	£ s d
By Profits upon Trading in the several Departments and other Receipts, including Interest and Dividends and after charging Trading, Office and Management Expenses, Insurances, Law Costs, Repairs to Buildings, Machinery and Plant, and Bad Debts	36,466 7 11
„ Transfer Fees	25 1 6
	£36,491 9 5

THE LAW GUARANTEE, TRUST

BALANCE SHEET

		£ s d	£ s d
Capital Authorised—			
200,000 Ordinary Shares of £10 each		2,000,000 0 0	
500,000 Cumulative Preference Shares of £1 each		500,000 0 0	
Capital Issued—			
200,000 Ordinary Shares of £10 each, of which £5 per share has been called up		£1,000,000 0 0	
Deduct Calls Outstanding	£76,037 14 10		
Less Amount anticipated to be received as per contra	35,000 0 0		
		41,037 14 10	
		958,962 5 2	
250,000 5 per cent. Cumulative Preference Shares of £1 each fully paid		250,000 0 0	
Total Capital paid up and estimated to be received in respect of Calls already made, the whole of which is deemed to be lost		£1,208,962 5 2	
The rights as between the Preference and Ordinary Shareholders remain to be adjusted.			
Mortgages and Secured Creditors, as per contra		£47,339 12 4	
Partly Secured Creditor		£36,400 0 0	
Estimated Value of Security		28,900 0 0	
			7,500 0 0
Sundry Creditors Sinking Fund Policies		78,055 8 8	
Sundry Creditors		61,263 0 10	
			139,318 9 6
Provision for Society's Unexpired Insurance Risks (not including Debenture and Guarantee Risks) and Uncalled Liability on partly paid Shares			31,378 8 0

Provision for Loss on Guarantees of Outstanding Mortgages and Debentures:—

Guaranteed Securities:—	Original Valuations	Total Outstanding Guarantees.		Society's Share after deducting Re-assurances.	
	£	£	£	£	£
(a) Under Management of Society—					
Mortgages	3,200,000	1,600,533		1,233,201	
Debentures	2,330,000	1,011,380		699,055	
Bank Overdrafts and Receivers Creditors in Debenture Cases		114,000		114,000	
	5,530,000		2,725,913		2,046,256
(b) Other Guarantees—					
Mortgages	not less than	4,039,778		3,573,834	
Debentures	13,000,000	5,070,327		3,983,044	
			9,110,105		7,556,878
	£18,530,000		£11,836,018		£9,603,134

	£	£ s d	£ s d
Estimated Loss to Society on Properties under Management:—			
Mortgages	£250,000		
Debentures	250,000		
		£500,000 0 0	
Provision for Unexpired Risk on other Guarantees:—			
Mortgages	175,000		
Debentures	125,000		
		300,000 0 0	
			800,000 0 0
			£978,196 17 6

AND ACCIDENT SOCIETY, LIMITED.

30th September 1909.

				Estimated Value.		
	£	s	d	£	s	d
Investments :—						
£5,000 Cape of Good Hope 3 per cent. Consolidated Stock	4,889	11	10			
£1,800 New Zealand 4 per cent. Debenture Bonds, 1912	1,851	16	0			
	£6,741	7	10	6,102	[illegible]	0
Investment of Premiums on Sinking Fund Policies received since 2nd June 1909 —						
£4,295 6s. 9d. Port of London 4 per cent. B Stock	4,400	0	0			
Child & Co. "C" Account	109	6	6			
				4,509	6	6
Debenture and Shares not officially quoted	56,307	4	3			
Debenture pledged as Security for Guaranteed Mortgage (possible loss covered by provision, see contra)	5,000	0	0			
	£61,307	4	3	41,307	4	3
Office Premises—49 Chancery Lane, and Quality Court, London				18,927	6	4
Sundry Debtors, including re-assuring Companies and consideration for Sale of Goodwill of Fidelity, and certain other classes of Insurance business				230,335	16	2
Outstanding Calls on Ordinary Shares	£70,037	14	10	35,000	0	0
Note.—Up to 26th November 1909 £18,838 had been received.						
Cash in Bank and in Hand —						
Bank of England—Debenture Trustees Account	285,324	17	3			
Less Balance of 4½ per cent. First Mortgage Debenture Stock outstanding with interest and premium thereon	274,701	9	4			
	10,623	7	11			
At Bankers and in hand	144,664	3	9	155,287	11	8
Society's Interest in Properties in respect of Mortgages and Debentures taken over and expenditure and advances in connection therewith —						
I (*a*) In respect of which Mortgages and Debentures have been entirely taken over by the Society	83,902	10	5			
(*b*) In respect of which Mortgages and Debentures have been entirely taken over by Society and Re-assuring Companies	224,794	0	10			
II (*a*) In respect of which parts of Mortgages and Debentures have been taken over by Society. *Note*—On these properties (*a*) there are outstanding Guaranteed Mortgages or Debentures amounting to £142,070.	104,962	8	4			
(*b*) In respect of which parts of Mortgages and Debentures have been taken over by Society and Re-assuring Companies. *Note.*—On these properties (*b*) there are outstanding Guaranteed Mortgages and Debentures amounting to £695,266 of which the Society has re-insured £299,678.	291,141	8	6			
III (*a*) In respect of which no part of Mortgage or Debenture has been taken over by Society. *Note.*—On these properties (*a*) there are outstanding Guaranteed Mortgages and Debentures amounting to £131,650.	15,700	14	4			
(*b*) In respect of which no part of Mortgage or Debenture has been taken over by the Society or Re-assuring Companies. *Note.*—On these properties (*b*) there are outstanding Guaranteed Mortgage Debentures amounting to £446,020, of which the Society has re-insured £181,519.	32,616	9	10			
	£753,117	12	3			
Estimated Value	239,117	12	3			
Less Amount of Mortgages and Secured Creditors as per contra	47,339	12	4			
Note.—Property of the estimated value of £2,600 included above has been lodged as Collateral Security for guaranteed Mortgage, estimated possible loss on which is covered by general provision per contra.				191,777	19	11
Society's Interests in Properties now represented by Share Capital of the London County Leasehold Property Company, Limited :—						
I Equities in Properties acquired in respect of Mortgages and Expenditure. Subject to outstanding Mortgage of £21,000.	11,922	0	0			
II Mortgages entirely taken over and Expenditure in connection therewith	72,887	18	0			
III Parts of Mortgages taken over and Expenditure in connection therewith. *Note.*—On these Properties (III) there are outstanding Guaranteed Mortgages of £468,890.	111,515	14	7			
	£196,325	12	7			
Estimated Value £40,000, being consideration received in Shares of £1 each, issued as fully paid up	40,000	0	0			
25,000 Shares of £1 each subscribed for and paid up in Cash	25,000	0	0			
Deposit in Joint Names to be applied in reduction of certain outstanding Guaranteed Mortgages	31,000	0	0			
				96,000	0	0
				779,247	6	10
Balance, being Estimated Deficiency, exclusive of paid-up Capital, as per contra. *Note.*—The uncalled Ordinary Share Capital available in liquidation to meet this deficiency and to adjust the rights as between the Preference and Ordinary Shares is £1,000,000.				198,949	10	8
				£978,190	17	6

LEVER BROTHERS, LIMITED.

BALANCE SHEET, 31st January 1911.

Dr.

	£ s d	£ s d
To SHARE CAPITAL—		
Authorised.		
200,000 5% First Preference Shares of £10 each	2,000,000 0 0	
200,000 5% "A" Preference Shares of £10 each	2,000,000 0 0	
100,000 6% "B" Preference Shares of £10 each	1,000,000 0 0	
5,000,000 6% "C" Preference Shares of £1 each	5,000,000 0 0	
2,000,000 15% Preferred Ordinary Shares of £1 each	2,000,000 0 0	
200,000 Ordinary Shares of £10 each	2,000,000 0 0	
	£14,000,000 0 0	
Issued.		
5% First Preference Shares—200,000 fully paid		2,000,000 0 0
5% "A" Preference Shares—150,000 fully paid ..		1,500,000 0 0
6% "B" Preference Shares—100,000 fully paid		1,000,000 0 0
6% "C" Preference Shares—1,242,500 fully paid ..		1,242,500 0 0
15% Preferred Ordinary Shares—750,000 fully paid	750,000 0 0	
250,000 8s. paid	100,000 0 0	
		850,000 0 0
Ordinary Shares—100,000 fully paid		1,000,000 0 0
		7,592,500 0 0
„ RESERVE FUND	429,206 12 10	
„ DEPRECIATION FUND	389,824 11 4	
„ INSURANCE RESERVE	55,263 8 4	
		874,294 12 6
„ CREDITORS—		
Bills payable	60,776 18 10	
Open Accounts	204,150 1 10	
		264,927 0 8
NOTE.—There are liabilities for Uncalled Capital and also upon Guarantees and other amounts on account of Associated Companies and on Bills discounted. No loss is anticipated upon any of these Accounts.		
„ PROFIT AND LOSS ACCOUNT—Balance carried down		720,748 16 6
		£9,452,470 9 8

Cr.

	£ s d
By CASH at Bankers and in hand	237,751 1 4
„ DEBENTURES, SHARES AND LOANS TO LESS DEPOSITS OF ASSOCIATED COMPANIES AND INVESTMENTS ..	4,725,797 15 6
„ DEBTORS	279,623 3 11
„ STOCK less Advertising Reserve	1,132,202 0 7
„ FREEHOLD WORKS, PREMISES AND PLANT	2,613,556 12 4
„ LEASEHOLD PREMISES AND PLANT	159,420 14 4
„ INTERIM DIVIDENDS paid and other amounts written off below	304,119 1 8
	£9,452,470 9 8

	£ s d
„ Repairs, Renewals and Alterations . ..	53,979 18 9
„ Depreciation Fund	57,685 15 4
„ Insurance Reserve	10,697 2 7
„ Prosperity-Sharing with Employees including Dividend on Co-Partnership Certificates	39,958 13 5
„ Dividend on 5% First Preference Shares . ..	100,000 0 0
„ „ 5% "A" „ „	75,000 0 0
„ „ 6% "B" „ „	59,001 19 6
„ „ 6% "C" „ „ .. .	42,020 10 5
„ „ 15% Preferred Ordinary Shares .. .	127,500 0 0
„ „ Ordinary Shares at the rate of 15% per annum	150,000 0 0
„ Balance carried to Reserve Fund	4,904 16 6
	£720,748 16 6

	£ s d
By Balance brought down	720,748 16 6
	£720,748 16 6

W. H. LEVER,
J. L. TILLOTSON, } *Directors.*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS.

We have audited the above Balance Sheet with the Books and Accounts relating thereto at Port Sunlight, London, and Liverpool and with Accounts received from the Branches. The Stock has been taken and certified by officials of the Company. We have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Company.

COOPER BROTHERS & CO.,
Chartered Accountants, } *Auditors.*

LONDON, 27*th February* 1912.

LIPTON, LIMITED.

BALANCE SHEET as at 10th March 1917.

Capital and Liabilities

		£ s d	£ s d
CAPITAL—			
(a) 1,000,000 Cumulative 5 per cent. Preference Shares of £1 each		1,000,000 0 0	
(b) 1,250,000 Ordinary Shares of £1 each		1,250,000 0 0	2,250,000 0 0
Debenture Stock bearing 4 per cent. Interest ..			500,000 0 0
Bills Payable			123,844 7 10
Bankers' Advance on Produce			143,236 12 7
Sundry Creditors			442,383 18 3
Savings Bank Deposits and Interest accrued thereon			92,690 9 0
Unclaimed Dividends			2,953 5 7
Interest on Debenture Stock accrued at date ..			8,904 2 3
Reserve Account as per last Account		145,000 0 0	
Added during year		30,000 0 0	175,000 0 0
PROFIT AND LOSS ACCOUNT—			
Balance brought forward from previous year	£82,125 3 6		
Add Profit for year as per Account	258,530 1 9		
		340,655 5 3	
Deduct—Debenture Interest for year	20,000 0 0		
Interim Dividend on Preference Shares paid 30th September 1916	25,000 0 0		
		45,000 0 0	
			295,655 5 3
			£4,034,668 0 9

Assets

		£ s d	£ s d
Goodwill of the Business, Freehold and Leasehold Properties, and Freehold Estates in Ceylon.			
Amount per Balance Sheet at 11th March 1916 at cost, less amount written off for Depreciation ..	£1,843,717 12 4		
Additional Capital Expenditure during year	5,423 7 11		
		1,849,141 0 3	
Less written off for Depreciation		5,110 15 0	
			1,844,030 5 3
Plant, Machinery, Fixtures, Fittings, Utensils, Motor Lorries, Carts, Horses, &c			
Amount per Balance Sheet at 11th March 1916	374,441 11 0		
Additions during year:—			
At Branches	13,629 8 10		
At Stores, Factories, &c.	21,895 11 5		
		409,966 11 3	
Less written off for Depreciation		38,946 5 1	
			371,020 6 2
Stocks in Trade at cost or under, as per inventories certified by Officials			1,250,236 4 7
Sundry Debtors, after allowing for Bad and Doubtful Debts ..			319,861 19 2
Insurances unexpired and items paid in advance			9,993 4 11
Investments and Interest accrued thereon (including £52,650 5 per cent. War Loan at 95)			72,153 13 4
Cash at Bank and on hand			167,372 7 4
			£4,034,668 0 9

PROFIT AND LOSS ACCOUNT for year ending 10th March 1917.

Dr.

	£ s d
To Expenses of Management, including Salaries, General Charges, Head Office Expenses, Income Tax, Auditors' Fees, Transfer Office Expenses, Savings Bank Expenses, and Advertising (also including War Service allowances to Employees, £6,287 14s.)	130,330 17 5
„ Bad Debts written off and doubtful Debts Reserve	3,470 3 5
„ Interest on Savings Bank Deposits	4,025 5 4
„ Depreciation on Plant, Fittings, Fixtures, Utensils, &c., at Stores, Head Office, and Branches, and in Ceylon, also Provision for Depreciation of Leaseholds	44,057 0 1
„ Loss on Revaluation of Investments	232 3 2
„ Directors' Fees	1,500 0 0
„ Fees to Trustees for Debenture Holders	630 0 0
„ Balance, being profit for year carried to Balance Sheet ..	258,530 1 9
	£442,775 11 2

Cr.

	£ s d
By Profit on Trading at Stores and Branches after deduction of Wages and Working Expenses, and Profits from Estates in Ceylon	441,184 9 10
„ Transfer Fees	249 5 10
„ Income from Investments	1,341 15 6
	£442,775 11 2

THOMAS J. LIPTON, *Chairman.*
H. L. PETERS, } *Managing Directors.*
J. FRANK GREGORY, }

AUDITORS' REPORT.

We report that we have obtained all the information and explanations we have required as Auditors.

We have examined and compared the foregoing Balance Sheet and Profit and Loss Account with the Books and Vouchers kept in London and the Returns received from Ceylon, Calcutta, Bombay, and Sydney, and find they are prepared in accordance therewith; and in our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and explanations given to us, and as shown by the Books of the Company.

TURQUAND, YOUNGS & CO., *Auditors.*

LONDON,
23rd May 1917.

LONDON AND GLOBE FINANCE CORPORATION, LIMITED.

BALANCE SHEET, 29th January 1897

Dr.

	£ s d	£ s d
To Capital	200,000 0 0	
In 195,000 Ordinary Shares of £1 each, and 100,000 Deferred Shares of 1s. each.		
Issued—		
165,000 Ordinary Shares upon which the full amount of £1 per Share has been called up	165,000 0 0	
30,000 Ordinary Shares issued fully paid	30,000 0 0	
100,000 Deferred Shares of 1s. each, upon which the full amount has been paid up	5,000 0 0	
295,000 Shares	200,000 0 0	
Less Calls in arrear	1,172 10 0	
		198,827 10 0
„ Sundry Creditors		232,247 0 8
„ Unclaimed Dividends		167 17 6
„ Profit and Loss Account	952,650 16 10	
Less Interim Dividend paid ..	15,000 0 0	
		937,650 16 10
		£1,368,893 5 0

Cr.

	£ s d	£ s d
By Shares held in various Companies, those purchased being taken at cost, and those otherwise acquired taken at their par value		818,022 18 3
(NOTE.—There is a liability in respect of calls not yet made, amounting to £47,845 0s. 7d. upon certain of the above Shares.)		
„ Sundry Debtors		209,537 18 1
„ Freehold Property in London .		16,250 0 0
„ Loans in Stock Exchange—from Account to Account		70,312 8 0
„ Cash at Bankers and in hand ..		254,770 0 8
		£1,368,893 5 0

We have examined the above Balance Sheet and Profit and Loss Account, with the Books, Accounts, and Vouchers relating thereto and certify the same to be in accordance therewith. We are of opinion that the Balance Sheet represents the position of the Company's affairs, subject to such sum being set aside as may be considered the necessary reserve in respect to Shares held in various Companies, the value of which we are unable to assess. We have verified the balance of cash at the Bankers and in hand.

FORD RHODES & FORD.
Chartered Accountants,
81 CANNON STREET, LONDON, E.C.

PROFIT AND LOSS ACCOUNT, from Incorporation to 29th January 1897.

Dr.

	£ s d	£ s d
To General Expenses	2,902 10 4	
„ Directors' Fees	1,898 0 2	
„ Salaries	2,892 14 7	
„ Postages	605 18 10	
„ Advertising	3,095 19 11	
„ Printing and Stationery	1,194 19 8	
„ Office Rent	566 16 4	
„ Law Costs	796 18 4	
„ Rates and Taxes	142 10 5	
		14,096 8 7
„ Balance		952,650 16 10
		£966,747 5 5

Cr.

	£ s d
By Profit on Mining Properties, purchased, developed and resold for considerations partly in Shares	482,146 5 5
„ Profits on Securities realised	463,889 17 7
„ Underwriting Commissions	13,937 10 0
„ Transfer Fees	673 12 6
„ Interest, &c.	6,099 19 11
	£966,747 5 5

PROPOSED APPROPRIATION OF PROFITS.

Dr.

	£ s d
To Interim Dividend of 10 per cent. or 2s. per Share on 150,000 Ordinary Shares	15,000 0 0
„ Further Dividend of 40 per cent. or 8s. per Share on 195,000 Ordinary Shares	78,000 0 0
„ Dividend of 15s. 7⅕d. per Share on 100,000 Deferred Shares, as per Memorandum of Association ..	78,000 0 0
* Carried forward	781,650 16 10
	£952,650 16 10

Cr.

	£ s d
By Balance brought down	952,650 16 10
	£952,650 16 10

* Subject to deduction for Income Tax upon Profits and Directors' percentage on Dividend.

LONDON TRADING BANK, LIMITED.

BALANCE SHEET for the Sixty-first Half-year, ending 31st December 1908.

Liabilities	£	s	d	£	s	d
Capital Subscribed—						
14,160 Shares of £5 each	£70,800	0	0			
Called up thereon	42,079	10	0			
Less Calls in arrear	497	2	6			
				41,582	7	6
Current, Deposit, Re-Discount, and other Accounts				64,954	10	8
Reserve against Depreciation of Securities and Doubtful Debts				8,500	0	0
Profit and Loss— Balance as per Account				1,708	10	0
				£116,745	8	2

Assets	£	s	d	£	s	d
Bills Discounted and Advances to Customers				82,593	9	10
Bank Premises, Furniture, &c.				1,300	0	0
Investments as follows—						
2½ per cent. Consols, at par	5,000	0	0			
2¾ per cent. Annuities, at par	4,000	0	0			
£15,100 London County Council 2½ per cent. Stock, at cost	14,270	3	6			
Foreign Government Bonds, British Railway Stocks, and other Investments, at cost	1,111	0	9			
				24,381	4	3
Cash in hand and at the National Bank, Lim.				7,912	14	1
Expenses of new formation of Company				558	0	0
				£116,745	8	2

PROFIT AND LOSS ACCOUNT for the Half-Year.

	£	s	d	£	s	d
Interest paid and accrued				698	9	7
Current Expenses				1,874	4	9
Depreciation, Lease of Premises				25	0	0
Reserve Account				250	0	0
Joint Stock Formation Expenses, Proportion written off				62	0	0
Dividend to be paid at rate of 5 per cent. per annum	1,023	0	8			
Balance carried to credit of next Account	685	9	4			
				1,708	10	0
				£4,618	4	4

	£	s	d
Balance from last Account	791	1	0
Gross Profits for half-year	3,827	3	4
	£4,618	4	4

JNO. PICKERING,
J. GREENWOOD,
J. ORLANDO LAW, } *Directors.*

FREDERICK A. TILLY, *Secretary.*

AUDITORS' REPORT.

We have examined the Balance Sheet of the London Trading Bank, Limited, dated 31st December 1908, as above set forth, and have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Company. The Assets are taken at Directors' valuation

F. H. KINGHAM, F.C.A.
GEORGE MORRISS, A.C.A. } *Auditors.*

13th January 1909.

J. LYONS & COMPANY, LIMITED.

PROFIT AND LOSS APPROPRIATION ACCOUNT for Year ending 31st March 1914.

	£	s	d		£	s	d
To Final Dividend on Ordinary Shares for half-year ending 31st March 1914, at the rate of £60 per cent. per annum	106,800	0	0	By Balance from last account	187,037	3	0
„ Proportion of Preference Share Dividend to 31st March 1914	8,333	6	8				
„ Proportion of Preferred Ordinary Share Dividend to 31st March 1914	12,000	0	0				
„ Balance carried to next account	59,903	16	4				
	£187,037	3	0		£187,037	3	0

PROFIT AND LOSS ACCOUNT for the Year ending 31st March 1915.

	£	s	d		£	s	d
To Salaries, Wages, Rents, Rates, Repairs, Maintenance, Horsekeep and other expenses	1,254,754	13	1	By Balance from Trading Account	1,520,998	3	9
„ Balance carried down	276,403	5	7	„ Interest and Transfer Fees, &c	10,159	14	11
	£1,531,157	18	8		£1,531,157	18	8
To Depreciation	109,482	0	10	By Balance from last year (as per Appropriation Account)	59,903	16	4
„ Debenture Stock Interest	21,235	13	9	„ Balance, being Profit for the year ending 31st March 1915	276,403	5	7
„ Balance carried to Balance Sheet .	205,589	7	4				
	£336,307	1	11		£336,307	1	11

J. LYONS & COMPANY, LIMITED—*continued.*

BALANCE SHEET, 31st March 1915.

Capital and Liabilities

	£	s	d	£	s	d
To Capital Authorised :—						
400,000 Ordinary Shares of £1 each	400,000	0	0			
500,000 £5 per cent. Cumulative Preference Shares of £1 each ..	500,000	0	0			
400,000 £6 per cent. Preferred Ordinary Shares of £1 each . .	400,000	0	0			
	1,300,000	0	0			
,, Capital Issued :—						
356,000 Ordinary Shares of £1 each fully paid				356,000	0	0
44,000 do. do. (issued June last)	44,000	0	0			
400,000						
Less Balance payable by 1st October next	13,302	4	0			
				30,697	16	0
500,000 £5 per cent. Cumulative Preference Shares of £1 each fully paid				500,000	0	0
400,000 £6 per cent. Preferred Ordinary Shares of £1 each fully paid ..				400,000	0	0
Premium Account	209,000	0	0			
Less Expenses of Issue .. .	715	4	7			
	208,284	15	5			
Less Balance payable by 1st October next	53,192	6	0			
Applied in reduction of Plant Account (see Contra)	155,092	9	5			
,, Liabilities :—						
First Mortgage Debenture Stock at £4 per cent.	300,000	0	0			
Accrued Interest on ditto, *less* tax ..	2,750	0	0			
				302,750	0	0
£4½ per cent. Debenture Stock .	125,000	0	0			
Accrued Interest on ditto, *less* tax ..	1,289	1	8			
				126,289	1	8
Provincial Debentures and Mortgage Taken over when acquiring the business of the Ceylon Café Co., Ltd.						
First Mortgage Debentures £4½% ..	48,905	9	2			
Second Mortgage Debentures £4½%	30,000	0	0			
Mortgage .	11,000	0	0			
Interest accrued	1,035	3	0			
				90,940	12	2
Bank Loan				100,000	0	0
Trade and other Creditors, and Credit Balances (including balances on stock in bond)				577,393	6	7
Dividends unclaimed				1,035	7	6
,, Reserve				500,000	0	0
,, Profit and Loss Account —						
,, [illegible] account .. .	205,589	7	4			
,, Leasehold Si[illegible]						
,, Debenture Interest .						
,, Net Profit carried down				[illegible]	6	10
				£55,712	15	5

Property and Assets

	£	s	d	£	s	d
By Freehold Land and Buildings and Leasehold Premises, Fixtures, &c., including Expenditure on Uncompleted Works	1,679,717	4	5			
Less Estimated Depreciation for the year	33,267	4	8			
				1,646,449	19	9
,, Goodwill (written off)				,,	,,	,,
,, Stock-in-Trade as per Inventories, &c., valued under cost to provide for fluctuation in market prices (including stock in bond)				925,425	16	10
,, Sundry Debtors (after providing for bad and doubtful debts) and other Debit Balances				68,536	0	10
,, Insurances, Rents, &c., paid in Advance				19,126	0	11
,, Plant, Machinery, Fittings, Ovens, &c., after Depreciation	431,987	16	5			
Less Estimated Depreciation for the year	76,214	16	2			
	355,773	0	3			
Less Balance of Premium on issue of Ordinary Shares (see Contra) ..	155,092	9	5			
				200,680	10	10
,, Sundry Investments, Loans, and Interest accrued after providing an Estimated Depreciation ..				31,394	1	1
,, Cash at Bankers and in hand				225,916	7	8
				£55,712	15	5

	£	s	d		£	s	d
To Balance from previous Account	21,149	11	10	By Net Profit brought down	30,380	6	10
,, Balance carried to Balance Sheet	9,230	15	0				
	£30,380	6	10		£30,380	6	10

WILLIAM HARRIS, } *Directors.*
WALTER J. MAPPIN, }

FREDERICK WAITE, F.C.I.S., } *Joint-Secretaries.*
B. J. J. TYLDESLEY, A.C.A., }

AUDITORS' REPORT.

In accordance with the provisions of the Companies (Consolidation) Act, 1908, we certify that we have obtained all the information and explanations we have required. We report that in our opinion the above Balance Sheet, dated 31st December 1916, in which are incorporated the Sheffield Accounts, certified by Mr. G. Colin Webster, and the Johannesburg Accounts, made up to the 30th September 1916, certified by Messrs. C. L. Andersson & Co., is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Company. The Book Debts at the Continental Branches have been certified by the Branch Managers.

22 QUEEN STREET, LONDON, E.C.
16th May 1917.

FREDK. B. SMART & CO.,
Chartered Accountants, Auditors.

MAPPIN & WEBB, LIMITED.

BALANCE SHEET, 31st December 1916.

Dr.

	£	s	d	£	s	d
To Capital Authorised						
300,000 Ordinary Shares of £1 each	300,000	0	0			
450,000 5½ per cent. Cumulative Preference Shares of £1 each	450,000	0	0			
	£750,000	0	0			
„ Capital Issued:						
200,000 Ordinary Shares of £1 each, fully paid	200,000	0	0			
450,000 5½ per cent. Cumulative Preference Shares of £1 each, fully called	450,000	0	0			
	650,000	0	0			
Less unpaid on Allotment and Calls	13	17	6			
				649,986	2	6
„ 4½ per cent. First Mortgage Debenture Stock	250,000	0	0			
Less Amount unpaid	9	0	0			
				249,991	0	0
„ Sinking Fund for the Redemption of Leaseholds				15,532	19	4
„ Sundry Creditors, including Loans				242,574	10	6
„ Profit and Loss Account. Balance as per Account				9,230	15	0
The French Treasury Bonds and certain Shares and Debentures in Subsidiary Companies are Deposited against Loans.						
The Company has guaranteed for a period the Dividend on the Preference Shares of Mappin & Webb (Brazil), Ltd.				£1,167,315	7	4

Cr.

	£	s	d	£	s	d
By Cash at Bankers and in Hand				25,729	4	11
„ French Treasury Bonds, Nominal Value Frs. 974,200				33,992	0	8
„ Investments in Subsidiary and Connected Companies, including Advances and Current Accounts as Valued by the Directors				241,003	5	2
„ Leasehold Sinking Fund Investment:—						
£17,800 Mappin & Webb, Ltd., 4½ per cent. Debenture Stock at cost	17,505	0	11			
Cash Deposited with Trustees for Debenture Holders for purposes of Investment	2,711	14	6			
				20,216	15	5
„ Sundry Debtors, Loans and Bills Receivable, *less* Reserve				75,682	6	
„ Stocks as certified by Managers				358,086	13	0
„ Plant, Machinery, Dies, Tools, Fixtures, and Fittings, Furniture, &c., as at 31st December 1915, *plus* additions during year	54,307	19	9			
Less Depreciation	2,815	0	5			
				51,492	19	4
„ Leasehold Premises at Cost	204,024	3	10			
Less Mortgages	38,000	0	0			
				166,024	3	10
„ Freehold Land and Buildings as at 31st December 1915	36,227	0	0			
Less Amount written off	450	0	0			
				35,777	0	0
„ Goodwill, Trade Marks, and Designs as at 31st December 1914				159,311	3	9
				£1,167,315	7	4

PROFIT AND LOSS ACCOUNT from the 1st January to the 31st December 1916.

	£	s	d	£	s	d	£	s	d
To Directors' Fees, Debenture Trustees' Remuneration, Audit Fees, Secretarial, and Sundry Expenses							6,311	15	4
„ Income Tax							4,537	4	11
...on							3,265	0	5
...ing Fund							2,500	0	0
Balance as p...							8,718	7	11
							28...		
Less—									
Preference Share Dividend from date of last Balance Sheet to 30th November 1914	16,666	13	4						
Preferred Ordinary Share Dividend to 30th September 1914	12,000	0	0						
Interim Dividend on Ordinary Shares for half-year ending September 30th 1914, at the rate of £25 per cent. per annum	44,500	0	0						
				73,166	13	4			
							132,422	14	0
							£3,117,528	17	11

	£	s	d
By Profits at Branches and from Subsidiary Companies	53,853	3	3
„ Rents receivable after payment of outgoings	1,816	9	8
„ Transfer Fees	43	2	6
	£3,117,528	17	11

(*Signed*) JOSEPH LYONS, ALFRED SALMON, } *Managing Directors.*

We have audited the above Balance Sheet, and beg to certify that all our requirements have been complied with, and that we have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given us, and as shown by the Books of the Company.

Signed) TURQUAND, YOUNGS & CO., *Auditors.*

27th May 1915.

MEASURES BROTHERS, LIMITED.

Dr. BALANCE SHEET. 31st December 1903. *Cr.*

Liabilities	£	s	d	£	s	d
To Nominal Capital—						
75,000 5½ per cent. Cumulative Preference Shares of £1 each	75,000	0	0			
240,000 Ordinary Shares of £1 each .	240,000	0	0			
	315,000	0	0			
" Issued Capital—						
75,000 5½ per cent. Cumulative Preference Shares of £1 each ..	75,000	0	0			
235,507 Ordinary Shares of £1 each	235,507	0	0	310,507	0	0
" 4½ per cent. 1st Mortgage Debenture Stock				75,000	0	0
" Sundry Creditors—						
On Open Accounts *less* Discount reserved	21,726	12	4			
Debenture Interest accrued due, *less* Tax	805	1	7	22,531	13	11
" Unclaimed Dividends and Debenture Interest				41	15	10
" Reserve Fund				20,000	0	0
" Contingency Fund—						
Amount transferred from Reserve Fund	20,000	0	0			
Add Stocks unvalued included in Purchase, per contra .. .	1,076					
	21,076	3	7			
Less Amalgamation Expenses ..	1,107	6	4	19,968	17	3
" Provision for Preference Dividend to 31st December 1903, less Tax .				983	19	8
" Profit and Loss Account, balance brought forward less Ordinary Dividend paid	377	5	1			
Add Profit this year	14,978	7	6			
	15,355	12	7			
Deduct—						
Ordinary Interim Dividend .. £5,250 0 0						
Preference Dividend paid to 30th Sept. 1903 3,093 15 0						
Preference Dividend to 31st Dec. 1903 .. 1,031 5 0	9,375	0	0	5,980	12	7
				£455,013	19	3

Assets	£	s	d	£	s	d
By Goodwill	203,581	10	9			
Add Croydon agreed Purchase Price ..	6,500	0	0	210,081	10	9
" Freehold and Leasehold Property, Fixed and Loose Plant and Machinery, Office Fittings and Fixtures, at cost, as per last account ..	49,294	18	4			
Additions during year	243	14	11			
	49,538	13	3			
Less Depreciation written off ..	750	2	10	48,788	10	5
" Croydon Leasehold Property, Fixed and Loose Plant and Machinery, Office Fittings and Fixtures, at cost	22,698	16	9			
Additions since 31st July 1903 ..	592	17	9			
	23,291	14	6			
Less Depreciation written off ..	333	6	7	22,958	7	11
" Tools, Stores, Section Sheets, and Stationery, at cost, as per last account	2,802	16	8			
Additions during year	47	15	7			
	2,850	12	3			
Less Depreciation written off Tools .. £72 2 8						
Reduction of Stationery Stock charged to Profit and Loss 106 13 10	178	16	6	2,671	15	9
" Croydon Tools, Stores, Patterns, Raw Materials	6,838	9	5			
Additions since 31st July 1903 . .. £682 5 0						
Stocks unvalued included in Purchase, per contra 1,076 3 7	1,758	8	7			
	8,596	18	0			
Less Depreciation written off ..	131	1	8	8,465	16	4
" Stock on Hand (certified by the Managing Director to be taken at average cost price)—						
London	82,026	8	11			
Croydon	11,887	0	7	93,913	9	6
" Sundry Debtors, less Discount and Bad Debt Reserves				32,188	8	9
" Bills Receivable				2,344	3	11
" Investments in Government and Corporation Stocks				19,428	0	2
" Cash at Bank				14,173	15	9
				£455,013	19	3

MEASURES BROTHERS, LIMITED—*continued*

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st December 1903. *Cr*

1903		£	s	d	1903		£	s	d
Dec. 31	To Directors' and Trustees' Remuneration..	3,826	13	4	Dec. 31	By Trading Account ..	39,870	11	2
	„ Rent, Rates, Gas, Coal, and Insurance ..	5,913	4	7		„ Dividends on Investments	923	16	7
	„ Salaries, Stationery, and General Charges	7,424	8	1		„ Transfer Fees	19	10	3
	„ Advertising..	1,302	0	6					
	„ Repairs and Renewals	389	8	3					
	„ Legal and Accountancy Charges..	167	18	1					
	„ Bad Debts ..	962	10	1					
	„ Depreciation	1,286	13	9					
	„ Debenture Interest	3,375	0	0					
	„ Interest and Discount	1,187	13	10					
	„ Balance	14,978	7	6					
		£40,813	18	0			£40,813	18	0

ROBERT H. MEASURES
R. T. MEASURES
H. J. T MEASURES } *Directors*
H A F MEASURES
G. E A MEASURES

2nd February 1904. T. W INWOOD, *Secretary.*

AUDITORS' CERTIFICATE AND REPORT.

In accordance with the Provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with and we report as follows:—

We have examined the foregoing Balance Sheet with the Books and Vouchers of the Company, and find it to be correct. Stocks on hand have been valued as in former years on the basis of the average cost, which is in excess of the actual market prices at 31st December 1903.

Investments have also been taken at cost price.

The Reserve for Bad and Doubtful Debts, which has been made by your Directors, is, in their opinion, sufficient.

The amount set aside for Depreciation is £1,286 13s. 9d., and includes a provision for the Croydon Property acquired, in addition to which Repairs and Renewals have been charged, amounting to £389 8s. 3d. The actual sum charged as Depreciation in respect of the original properties is less than the amount recommended by the Valuers by £177 14s. 6d.

Contingency Fund.—The sum of £20,000 has been transferred from the Reserve Fund to a Contingency Fund, to be used in accordance with the Resolution passed at the Extraordinary General Meeting.

Debenture Redemption Premium.—We would recommend that out of the Profits, and in future years, a sum be set aside to provide for the premium of 5 per cent. payable on the redemption of the First Mortgage Debenture Stock.

Subject to the above remarks, we certify that in our opinion the Balance Sheet is properly drawn so as to show a correct view of the Company's affairs as shown by the Books of the Company.

17 Coleman Street, London, E.C. CREWDSON, YOUATT & HOWARD,
30th January 1904. *Chartered Accountants.*

C. & E. MORTON, LIMITED.

Dr. PROFIT AND LOSS ACCOUNT for the Year ending 31st December 1919. *Cr.*

	£	s	d
To Managing Directors, Directors' and Auditors' Fees ..	2,117	10	0
„ Income Tax	26,000	0	0
„ Depreciation on Freehold Property and Plant, Machinery, &c.	10,774	5	2
„ Sinking Fund for Leasehold Redemption	500	0	0
„ Balance carried to Balance Sheet, being Net Profit for the year	158,687	11	11
	£198,079	7	1

	£	s	d
By Net Trading Profit after paying Working Expenses, Salaries and Wages, Repairs and Renewals, &c., and providing for Excess Profits Duty to date	184,394	19	6
„ Transfer Fees	10	0	0
„ Interest on Bank Deposits, Treasury Bills, and Dividends	12,660	7	0
„ Rents	1,014	0	7
	£198,079	7	1

BALANCE SHEET, 31st December 1919.

Share Capital and Liabilities

	£	s	d	£	s	d	£	s	d
SHARE CAPITAL :—									
Authorised							850,000	0	0
ISSUED :—									
300,000 6 per cent. Cumulative Participating Preference Shares of £1 each, fully paid .				300,000	0	0			
450,000 Ordinary Shares of £1 each, fully paid				450,000	0	0			
							750,000	0	0
SUNDRY CREDITORS AND CREDIT BALANCES, including half-year's Preference Dividend to date							289,116	9	7
GENERAL RESERVE ACCOUNT :—									
Amount as at 31st December 1918				141,185	9	10			
Added this Year				20,000	0	0			
							161,185	9	10
RESERVE FOR FIRE INSURANCE							25,904	3	2
SINKING FUND FOR LEASEHOLDS REDEMPTION							4,192	12	0
PROFIT AND LOSS ACCOUNT :—									
Net Profit for the Year .. .				158,687	11	11			
Add :—									
Balance of Profit from 1918 .. .				160,530	0	9			
				319,217	12	8			
Deduct :—									
Interim Dividend on Preference Shares paid 15th July 1919	£9,000	0	0						
Interim Dividend on Ordinary Shares paid 15th July 1919 ..	13,500	0	0						
Final Dividend on Preference Shares, payable 15th Jan 1920 ..	9,000	0	0						
Transfer to General Reserve Account	20,000	0	0						
				51,500	0	0			
							267,717	12	8
							£1,498,116	7	3

Assets

	£	s	d	£	s	d	£	s	d
GOODWILL :— (Not Valued.)									
FREEHOLD PROPERTY :—									
Amount as at 31st December 1918 ..				238,198	7	7			
Additions during the year				11,661	12	5			
				249,860	0	0			
Deduct :—									
Depreciation Account as at 31st December 1918	£20,349	17	6						
Added this Year	3,442	12	11						
				23,792	10	5			
							226,067	9	7
LEASEHOLD PROPERTY :—									
Amount as at 31st December 1918 ..							16,503	13	2
PLANT, MACHINERY, FIXTURES, &c. —									
Amount as at 31st December 1918 ..				67,882	5	1			
Additions during the Year				13,295	14	7			
				81,177	19	8			
Deduct :—									
Depreciation written off this year ..				7,331	12	3			
							73,846	7	5
SUNDRY DEBTORS, after providing for Bad and Doubtful Debts and Contingencies ..							409,004	4	11
BILLS RECEIVABLE							27,612	16	6
STOCK-IN-TRADE as per Inventories, at cost or under, certified by Managers ..							544,276	18	3
INVESTMENTS at cost or under				20,525	11	0			
Do. on Account of—									
Reserve for Fire Insurance ..				25,383	5	3			
Sinking Fund for Leasehold Redemption				4,170	15	5			
				50,079	11	8			
Less Reserve for Investments, reducing them to below Market value at 31st December 1919				8,728	16	0			
							41,350	15	8
CASH :—									
Cash in hand and at Bank on demand and at short call				59,790	4	0			
Treasury Bills and National War Bonds				99,663	17	9			
							159,454	1	9
							£1,498,116	7	3

E. D. MORTON, } *Directors.*
T. W. WATKINS, }

AUDITORS' REPORT.

We report to the Shareholders that we have obtained all the information and explanations we have required. We have examined the above Profit and Loss Account and Balance Sheet and compared them with the books and vouchers of the Company, and, in our opinion, the Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

41 COLEMAN STREET, LONDON, E.C. TURQUAND, YOUNGS & CO.,

2nd March 1920. *Auditors.*

MUNTZ'S METAL COMPANY, LIMITED.

BALANCE SHEET, 31st December 1903.

Dr.

Capital and Liabilities

	£	s	d	£	s	d
To Capital Authorised	300,000	0	0			
„ Capital Issued :—						
14,248 Preference Shares of £5 each, fully paid	71,240	0	0			
21,493 Ordinary Shares of £5 each, fully paid	107,465	0	0			
	178,705	0	0			
48 Fractional Certificates of 10s. each, still outstanding	24	0	0	178,729	0	0
„ Sundry Creditors				50,269	9	3
„ Loan from Bankers				38,011	1	4
„ Reserve Fund	5,000	0	0			
Less transferred to Profit and Loss Account	1,500	0	0	3,500	0	0
Capital Reserve Account				8,723	1	9
Note.—This is the increase in value of the Company's Land and Buildings, Plant and Machinery, as at 31st December 1903, arising from the adoption of the figures of Valuation made by Messrs. Bramwell & Harris.						
„ Profit and Loss Account :—						
Balance from last Account	3,755	0	7			
Add Profit for the year ended 31st December 1903	4,201	8	8			
Transferred from Reserve Fund ..	1,500	0	0			
See Dividend and Appropriation Account below	9,456	9	3			
Less Interim Dividend paid ..	5,810	18	9	3,645	10	6
				£282,878	2	10

Cr.

Property and Assets

	£	s	d	£	s	d
By Lands—						
„ Messrs. Grunley & Sons' Valuation of September 1899..				9,850	0	0
„ Old Side Works, Buildings and Machinery				31,774	1	5
Note.—The above is the figure of a complete new valuation by Messrs. Bramwell & Harris, of the Buildings and Machinery, as at 31st December, 1903, after practical completion of the alterations at the Old Side Works.						
„ New Side Works. Buildings and Machinery				69,590	12	0
Note.—This is the figure of Messrs. Bramwell & Harris's valuation of September 1899, depreciated to the 31st December 1903, but including the expenditure on the New Plant and Machinery of these Works to the same date.						
„ Loose Tools	£6,054	3	0			
„ Stores, Spares and Office Furniture ..	4,616	8	8	10,670	11	8
„ Stock, as per inventories prepared and certified by Messrs. Bramwell & Harris, taken as to 1,200 tons of Copper at £44 per ton, and other items at prices at, or under, market value of the raw material, plus manufacturing expenses				84,213	7	10
„ Sundry Debtors, after making allowance for discounts..				60,779	10	10
„ Cash at Bankers on current account, and in hand ..				15,999	19	1
				£282,878	2	10

DIVIDEND AND APPROPRIATION ACCOUNT.

	£	s	d	£	s	d
To Interim Dividend of 5% per annum on Preference Shares for the half-year to 30th June 1903	1,781	0	0			
„ Interim Dividend 7½% per annum on Ordinary Shares for the half-year to 30th June 1903	4,029	18	9	5,810	18	9
„ Proposed Dividend 5% per annum on Preference Shares for the half-year to 31st December 1903 .				1,781	0	0
„ Proposed Dividend 2½% per annum on Ordinary Shares for the half-year to 31st December 1903 ..				1,343	6	3
„ Balance carried forward..				521	4	3
				£9,456	9	3

	£	s	d
By Balance .	9,456	9	3
	£9,456	9	3

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and

We report to the Shareholders that we have examined and compared this Balance Sheet with the Books and Vouchers of the Company, and in our opinion it is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, as shown by the Books of the Company.

London,
14th March 1904.

TURQUAND, YOUNGS & CO.,
Auditors.

THE MUTUAL BANK, LIMITED, 13 Dumbarton Road, Glasgow.

AUDITORS' REPORT.

11 West Regent Street,
Glasgow, 21st *January* 1904

To the Shareholders *of the* Mutual Bank, Limited, 13 *Dumbarton Road, Glasgow*

Gentlemen,—There is again a very substantial increase in the volume of business conducted by the Bank during the year ending 31st December 1903; the total receipts, amounting to £27,058 9s. 9½d. as against £19,024 6s 10d in the previous year.

The Profit and Loss Account also shows satisfactory results. The interest payable to Shareholders and Depositors exceeds the amount of last year by £131 7s. 7d. Depreciation on Furniture and Fittings at the rate of 5 per cent. has been written off Bad Debts amounting to £21 3s. 1d. have been written off, and a further sum of £100 provided for Doubtful Debts, making £160 in all this sum being regarded by the Directors as sufficient to cover any losses which may arise.

About ten per cent. of the Pass Books, presented in the ordinary course of business, have been compared with the Ledger Accounts and found to agree.

The Securities over Heritable Property have been produced to us, and the Cash in hand and at Bank has been verified.

We are, Gentlemen,
Yours faithfully,
DAVID SPALDING, } *Auditors.*
GEO. A. COCKBURN, }

ABSTRACT OF CASH TRANSACTIONS for Year ending 31st December 1903.

1903—Jan. 1. *Income*	£	s	d	£	s	d
To Balance from last year				753	4	10½
Dec. 31.						
To Share Contributions	287	3	0			
,, Deposits	4,822	2	3			
,, Current Accounts	16,497	6	10			
,, Repayment of Advances	4,438	2	8			
				20,044	14	9
,, Premium on Shares	10	9	6			
,, Entrance Fees	2	1	0			
,, Proceeds from Sale of Cheque Books	9	16	0			
,, Refund of Commission	0	9	0			
,, Interest on Advances	706	19	6½			
,, Rents	24	0	0			
,, Interest on temporary Investments	260	0	0			
				1,013	15	0½
				£27,811	14	8

1903—Dec. 31 *Expenditure*	£	s	d	£	s	d
By Deposits Repaid	2,093	4	6½			
,, Current Accounts	17,593	19	2½			
,, Advances to Shareholders	6,753	3	6			
,, Share Contributions Transferred	59	14	5			
				26,500	1	8
,, Management Outlays—						
Rent and Taxes	101	10	10			
Printing and Stationery	32	0	11			
General Charges	66	6	6½			
Salaries	214	1	0			
Commission to Agents	17	0	7			
Travelling Expenses	11	2	8			
Legal Expenses	31	14	0			
Auditors' Fee	11	0	0			
				484	16	6½
,, Interest on Shares and Deposits	375	0	8			
,, Rebate of Interest on Advances	0	15	9			
				375	16	5
,, Furniture and Fittings				38	8	2½
,, Taxes and Insurance	6	7	1			
,, Repairs	12	1	10			
				18	8	11
,, Cash in hand				394	2	11
				£27,811	14	8

BALANCE SHEET as at 31st December 1903.

Liabilities	£	s	d	£	s	d
Share Capital—						
Paid up Capital, 78 shares at £5	390	0	0			
,, ,, 40 ,,	141	0	0			
,, ,, 53 ,,	131	10	0			
,, ,, 93 ,,	131	8	6			
,, ,, 350 ,,	350	0	0			
,, ,, 394 ,,	120	17	9½			
,, ,, 148 ,,	—	—	—			
				1,204	16	3½
Share Instalments due	421	2	2½			
Reserve Share Capital	4,094	1	6			
				4,515	3	8½
Sum due on Current Accounts	195	18	11			
,, ,, Deposits	8,463	9	1			
				8,659	8	0
Interest on Shares not withdrawn				131	10	10
Surplus carried forward				2	3	7½
				£14,573	2	5½

Assets	£	s	d	£	s	d
Advances to Shareholders	5,042	9	2			
Overdrafts on Current Accounts	4,185	8	8			
	9,227	17	10			
Less provision for doubtful debts	160	0	0			
				9,067	17	10
Secured on Heritable Property, £1,641 15 8						
Share Capital unpaid instalments	421	2	2½			
,, ,, Reserve	4,094	1	6			
				4,515	3	8½
Books, Stationery, &c				22	0	0
Furniture and Fittings as at 1st Jan. 1903	197	5	5			
Additions to date	38	8	2½			
	235	13	7½			
Less Depreciation written off	11	15	7½			
				223	18	0
East Calder Property				350	0	0
Cash in hand				394	2	11
				£14,573	2	5½

Glasgow, 21st *January* 1904.—We have examined the Books and Accounts of the Mutual Bank, Limited, for the year ending 31st December, 1903, and found them correct and duly vouched, and hereby certify the foregoing Accounts to be in accordance therewith.

DAVID SPALDING, *Accountant*, } *Auditors.*
GEO. COCKBURN, *Clerk*, }

THE NATAL LAND AND COLONIZATION COMPANY, LIMITED.

BALANCE SHEET, 31st December 1894

Dr.

Capital and Liabilities	£ s d	1894. £ s d	1893 £ s d
To Capital:—			
34,033 Ordinary Shares of £10 each	340,330 0 0		
9,906 Preference Shares of £5 each	49,530 0 0		
		389,860 0 0	389,860 0 0
Debenture Bonds—6 per cent.	350 0 0		
" " 5 "	7,650 0 0		
" " 4½ "	11,700 0 0		
" " 4 "	28,250 0 0		
		47,950 0 0	50,800 0 0
Sundry Accounts due by the Company including loan £2,500 from Bankers		4,399 6 5	2,565 5 5
" Interest on Debenture Bonds		769 18 4	851 14 7
" Fencing Reserve Account		1,298 13 8	1,351 13 8
" Reserve Account		4,479 18 2	4,479 18 2
" Balance of Profit and Loss Account from the year 1893 as per last Balance Sheet	11,056 2 8		
Dividend of 8s. a share on Preference Shares for 1893 .. .. .. £3,962 8 0			
Dividend of 4s. a share on Ordinary Shares for 1893 6,806 12 0	10,769 0 0		
	287 2 8		
" Profit and Loss Account for the year 1894	10,928 13 9		
	11,215 16 5		
Interim Dividend on Preference Shares paid 1st October last	1,981 4 0		
		9,234 12 5	
		£457,992 9 0	

Cr.

Assets	£ s d	1894. £ s d	1893. £ s d
By Landed Property:—			
397,224 Acres of Land, House and Town Properties, &c., including fixed Machinery thereon		430,218 1 11	430,276 4 3
" Fencing Expenditure	1,689 15 1		
" added in 1894	363 0 1		
		2,052 15 2	1,795 15 1
" Loans on Mortgage, and other Securities		425 17 5	718 13 4
" Balances payable by Purchasers of Properties		10,882 16 7	11,977 9 11
" Sundry Accounts due to the Company		658 15 0	689 18 5
" Furniture in Natal and London		269 1 4	276 19 10
" Agricultural Machinery and Diamond Drill .		134 1 1	145 1 1
" Bills Receivable *in transitu*		1,504 7 7	
" Cash at Bankers and in hand in London and Natal		3,247 0 7	6,485 0 3
" Mortgage Debenture Bonds of the Natal Plantations Company, Limited (£19,900)		8,599 12 4	8,599 12 4
		£457,992 9 0	

PROFIT AND LOSS, from 1st January to 31st December 1894

Dr

	1894. £ s d	1893. £ s d
To Interest on Debenture Bonds	2,113 10 0	2,279 3 1
" London Office Expenses	1,098 2 11	1,089 7 5
" Durban Office Expenses	1,577 13 6	1,876 10 7
" Debenture Bond, Law, and other Expenses	81 11 3	144 15 5
" Income Tax	274 10 8	149 0 9
" Land Department Charges:—		
Quit Rents, Rates, Repairs, Insurance, &c	2,220 3 11	2,260 15 9
" Loss on Cancelled Sales and Bad Debt	116 4 9	
" Directors' and Auditors' Fees	640 0 0	640 0 0
" Balance carried to Balance Sheet	10,928 13 9	10,801 9 4
	£19,050 10 9	

Cr.

	1894. £ s d	1893. £ s d
By Rents of Land and Town Properties	15,906 8 0	15,212 9 5
(Arrears considered good, £1,162 not included in this amount)		
" Sales of Firewood	56 18 1	53 3 4
" Interest, Commissions, and Transfer Fees	752 18 5	791 4 3
" Profit on Properties Sold	2,354 6 3	3,111 1 7
	£19,050 10 9	

We have examined the above Balance Sheet and Profit and Loss Account with the Statements transmitted from Durban, and with the Books and Vouchers in London, and certify they are in accordance therewith.

LONDON, 9th March 1895.

TURQUAND, YOUNGS, BISHOP & CLARKE, *Auditors*.

PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY.

STATEMENT OF ACCOUNTS for the Year ended 30th September 1904.

GENERAL WORKING ACCOUNT.

Dr. | Cr.

Expenditure

		£ s d	£ s d
Expense of Navigating Ships, &c.—			
Coal, including Freight and all Charges		618,271 17 6	
Lubricating and Lamp Oils and Water		34,935 5 8	
Port and Light Dues, Pilotage, Towage, and Miscellaneous Ships' Charges		178,398 3 2	
Pay of Commanders, Officers, and Crews		296,025 5 6	
			1,127,630 11 10
Provisioning of Passengers—Commanders, Officers, and Crews			284,451 19 2
Suez Canal Dues—On Ships and Passengers			322,091 3 10
General Administration at Home and Abroad, viz :—			
Directors' and Auditors' Fees		4,855 0 0	
Salaries and Wages of Employees at Home and Abroad, *all Stations*		110,089 3 10	
Rents, Taxes, Fire Insurance, and Repairs of Premises, *all Stations*		14,195 11 10	
Telegrams, Telephones, and Stamps .. *all Stations*		10,945 5 4	
Advertising .. .. *do.*		10,845 0 7	
Stationery and Printing .. .. *do.*		6,076 16 11	
Office and House Expenses, Travelling Charges, &c. *do.*		13,284 10 10	
			170,291 9 4
Reduction of Establishments—			
Payments during the year on this Account			370 0 0
Miscellaneous Expenses—			
Damages, Claims on Cargo, and Law Charges		11,979 7 0	
Life Assurances of Employees—Company's Contribution ..		4,414 17 4	
Expenses of Steamers laid up		2,525 2 10	
Quarantine Charges		2,946 10 8	
			21,865 17 10
Ships' Repairs, Stores, and General Maintenance Charges during present year			212,463 12 7
Income Tax on Profits (balance)			7,815 10 3
Stamp Duty on authorised issue of New Capital			2,950 0 0
Insurance Charges, viz.:—			
Fire Insurance in Port, and risks to and from Antwerp, &c.		6,077 18 10	
S.S. "Australia" lost. Book Value		50,444 8 4	
Sundry Claims, Damages through stress of weather, and other casualties		26,764 1 1	
			80,286 8 3
Stock in Ships—			
Amount carried to that Account for ordinary Depreciation on Fleet during the year, being 5 per cent. per annum on original cost		376,703 14 2	
Extra Amount		123,296 5 10	
			500,000 0 0
Interest on 3½ per cent. Debenture Stock			50,104 5 0
Surplus—			
Dividends due 1st June 1904, viz.—			
On Preferred Stock, 2½ per cent.	£29,000 0 0		
On Deferred do. 3½ „	40,600 0 0		
		69,600 0 0	
Dividends to be paid 20th December 1904—			
On Preferred Stock, 2½ per cent.	£29,000 0 0		
On Deferred do. 6½ „	75,400 0 0		
Bonus on do. do. 3 „	34,800 0 0		
	139,200 0 0		
Balance to be carried forward, 1904-1905	10,535 0 7		
		149,735 0 7	
			219,335 0 7
			£3,008,655 18 8

Receipts

	£ s d	£ s d
Amount brought forward from last Account	150,397 8 4	
Less Dividends, &c., due 18th December 1903	139,200 0 0	
		11,197 8 4
Passage Money	958,356 4 7	
Freight, Charters, and Miscellaneous Services	1,625,996 13 0	
		2,584,352 17 7
Government Contract Services—		
India, China, and Australia (net amount)	323,345 13 11	
Armed Cruisers, &c., Subvention	13,500 0 0	
		337,845 13 11
Interest and Discount—		
Balance of Account		68,099 1 9
Exchange		7,160 17 1
		£3,008,655 18 8

PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY—*continued.*

RESERVE ACCOUNT.

Dr.	£ s d	*Cr.*	£ s d
Balance carried forward to next year ..	1,250,000 0 0	Balance brought forward from last year ..	1,250,000 0 0

SUSPENSE ACCOUNT.

Dr.	£ s d	*Cr.*	£ s d
Balance carried forward to next year ..	250,000 0 0	Balance brought forward from last year	250,000 0 0

GENERAL BALANCE SHEET, 30th September 1904.

Dr.

Assets, &c.	£ s d	£ s d	£ s d
Stock in Ships, viz.—			
Reduced Book Value of Fleet at 30th September 1903 ..		2,453,363 8 0	
***Add*—**			
Cost of S.S. "Palmero," "Pera," "Moldavia," "Mongolia," "Palma," "Marmora," and "Macedonia" ..		1,681,954 9 9	
		4,135,317 17 9	
***Deduct*—**			
Proceeds of Ships Sold ..	£52,361 19 6		
S.S. "Australia" Lost, Book Value	56,444 8 4		
Amount written off Fleet, as per General Working Account ..	500,000 0 0		
		608,806 7 10	
			3,526,511 9 11
Payments on account of New Ships ..			107,467 11 3
Steam Tenders, Launches, and Lighters ..			88,606 19 10
Coal, Naval and Victualling Stores ..			42,210 10 8
Graving Docks, Workshops and Machinery, Wharves, Buildings and Land (Freehold and Leasehold), Moorings, &c., at all Stations ..			262,701 11 10
Bills Receivable, Cash at Bankers, in hands of Agents, and Investments (*less* Acceptances) ..			2,316,162 3 11
			£6,343,660 10 5

Cr.

Liabilities, &c.	£ s d	£ s d
Capital Authorised: £3,500,000.		
Issued in Cumulative 5 per cent. Preferred Stock ..	1,160,000 0 0	
Do. in Deferred Stock ..	1,160,000 0 0	
		2,320,000 0 0
Debenture Stock at 3½ per cent. ..		1,448,100 0 0
Reserve Account ..		1,250,000 0 0
Suspense Account ..		250,000 0 0
Provident Good Service Fund ..		50,000 0 0
Sundry Balances; and Accounts not closed ..		875,825 9 10
General Working Account—		
Surplus ..	219,335 0 7	
Less Dividends due 1st June 1904 ..	69,600 0 0	
		149,735 0 7
		£6,343,660 10 5

We have examined the foregoing Balance Sheet and Accounts, and find the same to be correct. We have also examined and verified the Company's Securities and Investments.

(Signed) W. F. COURTHOPE, F. A. WHITE, *Auditors.*

28th November 1904.

RAJAWELLA PRODUCE COMPANY, LIMITED.

Dr. BALANCE SHEET as at 30th June 1920. *Cr.*

	£	s	d	£	s	d
SHARE CAPITAL, AUTHORISED AND ISSUED:						
151,622 Cumulative 6% Preference Shares of £1 each	151,622	0	0			
262,088 Ordinary Shares of 10s. each	131,044	0	0			
				282,666	0	0
DEBENTURE STOCK—						
5% First Mortgage £176,700 0 0						
Less Amount Redeemed 350 0 0						
	176,350	0	0			
Interest for six months to date, *less* tax	3,086	2	6			
				179,436	2	6
CREDITORS				5,398	4	1
Do. INCOME TAX				11,413	6	6
RESERVE FOR UPKEEP in which is included £16,000 from Suspense Account, now used in lieu of Working Capital ..				34,197	5	5
REDEMPTION OF DEBENTURES and repayment of Loans from June 1916 to date ..				18,026	2	6
SUSPENSE ACCOUNT				3,886	0	0
SUPERINTENDENT'S WAR FUND				164	5	5
PROFIT AND LOSS ACCOUNT, Balance ..	5,376	15	10			
Add BALANCE from last Account ..	2,996	1	0			
				8,372	16	10
Second Mortgage Debenture Stock, issued in Ceylon .. Rupees 283,130						
Rupees 283,130				£543,560	3	3

*Since the date of this account there has been already realised £55,445 18s. 11d

	£	s	d	£	s	d
ESTATES, BUILDINGS, FACTORIES, AND MACHINERY, at Cost, including Expenditure thereon, as per last Account .				481,455	10	7
SUNDRY DEBTORS—						
London	19,231	19	1			
Colombo . .	22,421	6	3			
				41,653	5	4
STOCK—*						
Produced unsold on 30th June 1920, at valuation	62,871	9	5			
Less Drafts for Estate Expenses .	55,534	2	3			
				7,337	7	2
BALANCES AT BANK AND CASH IN HAND .				13,114	0	2
Expenditure in connection with New Development Scheme, including Balance at Bank .. Rupees 283,130						
Rupees 283,130				£543,560	3	3

Dr. TRADING AND PROFIT AND LOSS ACCOUNT for the Year ended 30th June 1920. *Cr.*

	£	s	d
To COST OF CULTIVATION, including CEYLON CHARGES	192,510	9	4
,, BALANCE, carried down to Profit and Loss Account	16,173	2	1
	£208,683	11	5
To ADMINISTRATION EXPENSES, included in which are Fees to Directors, Trustees, and Auditors, Legal and Office Expenses, Stationery and Printing, &c. .	5,836	4	6
,, INCOME TAX 11,255 9 6			
Less amount deducted from Interest and Dividends 10,092 0 8			
	1,163	8	10
,, BALANCE, carried down	9,786	4	0
	£16,785	17	4
To FIRST DEBENTURE INTEREST	8,817	10	0
,, AMOUNT AGREED TO BE SET ASIDE FOR SECOND DEBENTURE INTEREST	2,000	0	0
,, PREFERENCE DIVIDEND	4,548	13	2
,, BALANCE, carried to Balance Sheet	5,376	15	10
	£20,742	19	0

	£	s	d
By NET PROCEEDS OF SALES, LONDON AND COLOMBO, including Stock taken at valuation—			
Tea . . 2,072,283 lbs. .	96,329	14	6
Cocoa . . 7,702 cwts.	52,724	12	9
Rubber . 499,606 lbs.	45,503	0	3
Pepper .. 49,724 lbs.	2,514	18	7
Copra and Cocoanuts	7,566	6	2
Other Produce	278	6	7
Rebate on Freight	2,281	4	4
Rents &c.	1,485	8	3
	£208,683	11	5
By BALANCE from TRADING ACCOUNT	16,173	2	1
,, TRANSFER FEES	75	18	6
,, INTEREST	536	16	9
	£16,785	17	4
By Balance, brought down	9,786	4	0
,, ALLOWANCE FROM INLAND REVENUE AUTHORITIES, *re Stevens v. Boustead* decision	10,956	15	0
	£20,742	19	0

ROBERT A. GRAY, } *Directors.*
E. H. HANCOCK, }

T. PERCIVAL WEST, *Secretary*.

We report to the Shareholders of THE RAJAWELLA PRODUCE COMPANY, LIMITED, that we have examined the Books and Vouchers of the Company, and obtained all the information and explanations we have required, and have also had exhibited to us the Report of Messrs. Ford, Rhodes, Thornton & Co, Chartered Accountants in Colombo, who have examined the Ceylon Agents' Accounts.

We have seen the certified Return of the Agents in Ceylon with reference to the issue of Second Mortgage Debenture Stock and the expenditure and Bank Balance in connection therewith. Subject to the foregoing, in our opinion the above Balance Sheet is properly drawn up, so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Company.

JACKSON, PIXLEY, BROWNING, HUSEY & CO.,
Chartered Accountants, Auditors.

53 COLEMAN STREET, LONDON, E.C.,
9th December 1920.

RAYFIELD (NIGERIA) TIN FIELDS, LIMITED.

BALANCE SHEET, 30th September 1913

Dr.

		£ s d	£ s d
To SHARE CAPITAL—			
Authorised—			
400,007 Shares of £1 each		400,007 0 0	
Issued—			
400,000 Shares issued as fully paid under Agreement dated 10th May 1912, per contra		400,000 0 0	
7 Shares subscribed and fully paid		7 0 0	
			400,007 0 0
" CREDITORS ON LOAN, HOLDING SECURITY			33,780 12 8
" CREDITORS ON BILLS PAYABLE			7,118 16 11
" CREDITORS ON SUNDRY ACCOUNTS— London and Nigeria			21,510 16 5
" UNCLAIMED DIVIDENDS			2,747 0 0
" PROFIT AND LOSS—			
Balance as per Account		41,706 6 1	
Less Dividends paid—			
6d. per Share, 30th September 1912	£10,000 3 6		
6d. per Share, 1st January 1913	10,000 3 6		
6d. per Share, 11th April 1913	10,000 3 6		
6d. per Share, 30th July 1913	10,000 3 6		
		40,000 14 0	
			1,705 12 1
" CONTINGENT LIABILITY—			
For Uncalled Capital on Shares held		7,025 0 0	
			£466,869 18 1

OLIVER WETHERED, } *Directors*.
B. H. NICHOLSON, }

Cr.

	£ s d	£ s d
By PROPERTY ACCOUNT—		
Purchase price of the property and undertaking of the Rayfield Syndicate, Ltd., in liquidation, as per agreement dated 10th May 1912—		
400,000 Shares, fully paid, per contra	400,000 0 0	
Add Liabilities of the Syndicate taken over	7,457 14 1	
Stamp Duty, &c., on transfer of Leases	513 12 6	
	407,971 6 7	
Less Sundry Assets, transferred to separate accounts, and cash received from Liquidator	29,914 5 9	
		378,057 0 10
" MACHINERY, PLANT, AND EQUIPMENT, including cost of transport and erection	13,183 13 5	
Less Depreciation	659 3 5	
		12,524 10 0
" DEVELOPMENT, including dams, races, prospecting, &c.		25,698 10 9
" BUILDINGS	1,519 3 10	
Less Amount written off	329 3 4	
		1,190 0 6
" MOTORS AND LIVE STOCK	1,232 8 4	
Less Amount written off	232 8 4	
		1,000 0 0
" FURNITURE, &c.	355 2 6	
Less Amount written off	55 2 6	
		300 0 0
" STORES, &c.—		
On hand	2,923 14 9	
In transit	1,440 10 8	
		4,364 5 5
" INVESTMENTS—		
Shares in sundry companies at cost	20,009 12 4	
Interest in Zennor Mine, at cost	3,913 7 0	
		23,922 19 4
" SUNDRY DEBTORS, London and Nigeria		2,554 1 6
" LEASE RENTS PAID IN ADVANCE		175 5 9
" PRELIMINARY AND FORMATION EXPENSES	1,130 6 2	
Less Amount written off	430 6 2	
		700 0 0
" TIN IN TRANSIT—		
Since realised (29 tons 16 cwts. 0 qrs. 13 lbs.)	2,900 18 8	
Estimated value (105 tons 5 cwts. 2 qrs. 14 lbs.)	8,645 0 9	
		11,545 19 5
" TIN ON HAND ON PROPERTY— Estimated value		2,920 0 0
" CASH AT BANK AND IN HAND—		
At Bank, London	1,756 15 4	
" Liquidator of Rayfield Syndicate, Ltd., in Liquidation	35 2 9	
" Nigeria	7 5 11	
In hand, Nigeria	118 0 7	
		1,917 4 7
		£466,869 18 1

We report to the Shareholders that we have audited the London Books of the Company for the period from 9th May 1912 (the date of incorporation) to 30th September 1913, and have checked the incorporation therein of the accounts received from Nigeria. The Accounts received from Nigeria do not give sufficient information to allocate exactly the expenditure there as between Development, Construction and Revenue-producing work. Consequently such allocation has been made in London on the best information available, and, in our opinion, the apportionment has been made on a fair basis. The above Balance Sheet, in our opinion, is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given us and as shown by the Books of the Company. We have received all the information and explanations we have required.

SALISBURY HOUSE, LONDON WALL, E.C.
30th December 1913.

MONKHOUSE, STONEHAM & CO.
Chartered Accountants.

RAYFIELD (NIGERIA) TIN FIELDS, LIMITED—*continued*

Dr. PROFIT AND LOSS ACCOUNT for the period from 9th May 1912 (the date of Incorporation), to 30th September 1913. *Cr.*

	£ s d	£ s d
To Tin Winning—		
Tributors' Wages, &c.	3,746 6 3	
Salaries, Board, &c., of European Staff (proportion)	3,120 13 8	
Travelling Expenses "	499 4 7	
Stores, &c.	1,333 15 11	
General Charges at Mines	1,233 7 0	
		9,933 7 5
" Freight and Transport of Tin		8,336 5 10
" Royalties and Insurance		2,809 3 6
" General Expenditure in Nigeria—		
Bank Commission	498 12 8	
Cables, Postages, &c.	541 12 4	
Lease Rents	801 13 4	
		1,841 18 4
" General Expenditure in London—		
Directors' and Managing Directors' Fees	1,812 14 4	
Office Rent and Salaries	1,033 1 6	
Cables	279 13 3	
Remittance Charges	546 5 6	
Advertising	553 12 6	
Printing and Stationery	219 2 8	
Legal and Professional Charges	42 0 10	
Postages and Telegrams	58 10 2	
Miscellaneous Expenses	215 4 0	
		4,760 4 9
" Interest		1,002 5 3
" Prospecting other Properties		665 6 2
" Preliminary and Formation Expenses—		
Proportion written off		430 0 2
" Amounts Written Off—		
Machinery and Plant	659 3 5	
Buildings	329 3 4	
Motors	232 8 4	
Furniture, &c	55 2 6	
		1,275 17 7
" Income Tax		765 0 4
" Balance being Profit for period as per Balance Sheet		41,706 6 2
		£73,526 7 5

	£ s d
By Tin Sales (300 tons 10 cwts. 0 qrs. 23 lbs.)	45,175 0 4
" Tin in Transit (135 tons 1 cwt. 2 qrs. 27 lbs.)	11,545 19 5
" Tin on Hand (38 tons)	2,920 0 0
" Profits on Shares Sold	13,626 9 0
" Dividends on Investments	50 17 2
" Transfer Fees, &c.	208 1 6
	£73,526 7 5

RICHARDSONS, WESTGARTH & COMPANY, LIMITED.

BALANCE SHEET at 31st December 1919.

Capital and Liabilities

				£	s	d	£	s	d
Share Capital:—									
Nominal:									
350,000 Cumulative 6% Preference Shares at £1 each ..				350,000	0	0			
350,000 Ordinary Shares at £1 each ..				350,000	0	0			
				£700,000	0	0			
350,000 Cumulative 6% Preference Shares at £1 each, fully paid				350,000	0	0			
350,000 Ordinary Shares at £1 each, fully paid				350,000	0	0			
							700,000	0	0
NOTE.—The Dividend on the Preference Shares has been paid to 30th April 1914.									
4½% Perpetual Debenture Stock							350,000	0	0
Sundry Debts due by the Company, including provision for estimated Liabilities to the Government for Profits Tax, &c. ..							500,451	19	8
Profit & Loss Account:—									
Amount at 31st December 1918 as per Balance Sheet ..	23,817	11	3						
Less—One year's arrears of Preference Dividend, viz., to 30th April 1911, paid 17th June 1919	21,000	0	0						
				2,817	11	3			
Credit Balance for year to 31st December 1919 as per Profit and Loss Account below				46,024	15	1			
							48,8[illegible]		
							£1,608,294	6	0

D. B. MORRISON, }
TOM WESTGARTH. } *Directors.*

Assets

				£	s	d	£	s	d
Capital Expenditure:—									
Land, Buildings, Machinery, and Goodwill:									
Amount at 31st December 1918 as per Balance Sheet				640,484	1	0			
Expenditure during 1919	49,375	0	6						
Less—Written off	13,565	9	1						
				35,809	11	5			
				676,293	12	5			
Less—Provision for Depreciation for 1919				45,000	0	0			
							631,293	12	5
Work in Progress (*less* Instalments received)							268,521	9	4
Stock in Trade, Loose Plant, Tools, Patterns, &c.							256,795	16	4
Debts due to the Company . .							341,591	15	0
Investments:—									
Heavy Stampings, Ltd., at cost ..				57,500	0	0			
Sundry Investments				329	2	3			
							57,829	2	3
5% National War Bonds							13,000	0	0
Cash at Bankers and in hand							30,326	19	10
Rates, Insurance, &c., paid in advance .							8,935	10	10
							£1,608,294	6	0

PROFIT AND LOSS ACCOUNT for the Year to 31st December 1919.

				£	s	d
Interest on 4½% Perpetual Debenture Stock for year to 31st December 1919				15,750	0	0
Directors' Fees				1,700	0	0
One year's arrears of Preference Dividend, viz.:—to 30th April 1912, paid 17th June 1919 ..	21,000	0	0			
Two years' arrears of Preference Dividend, viz.:—to 30th April 1914, paid 28th November 1919	42,000	0	0			
				63,000	0	0
Depreciation written off for year 1919				45,000	0	0
Portion of Capital Expenditure in 1919, written off ..				13,565	9	1
Credit Balance, carried to Balance Sheet				46,024	15	1
				£185,040	4	2

	£	s	d
Profit on Manufacturing, &c., for year to 31st December 1919, after providing for estimated Liabilities to the Government	185,040	4	2
	£185,040	4	2

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF MESSRS. RICHARDSONS, WESTGARTH & Co., LTD.

We have audited the above Balance Sheet and Profit and Loss Account with the Books and Vouchers of the Company, and have obtained all the information and explanations we have required. The Stock-in-Trade has been taken and valued by the Officials of the Company, the Loose Plant, Tools, Patterns, &c., being entered on the basis of book value. Subject to the foregoing, in our opinion the above Balance Sheet and Profit and Loss Account are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Company.

ROYAL EXCHANGE, MIDDLESBROUGH,
18th May 1920.

W. B. PEAT & CO.,
Chartered Accountants, Auditors.

ROYAL ECONOMIC SOCIETY.

I.—REVENUE ACCOUNT from 1st January to 31st December 1915.

Dr.

Year 1914 £ s d	Expenditure	£ s d	£ s d
	To Journal Account—		
350 6 5	Printing and Distribution	356 3 1	
176 8 6	Contributors	199 12 0	555 15 1
35 0 0	„ Rent of Office, &c.		35 0 0
130 0 0	„ Salaries		125 0 0
14 12 2	„ Stationery and Printing		23 8 11
3 11 0	„ Annual Meeting Account		4 15 0
	„ Incidental Expenses—		
14 4 10	Postages	12 10 9	
9 17 1	Sundries	19 9 6	32 0 3
340 19 1	„ Balance, being surplus for the year		326 14 9
£1,074 19 1			£1,102 14 0

Cr.

Income	£ s d	£ s d	£ s d	Year 1914 £ s d
By Annual Subscriptions—				
Arrears	£10 10 0			28 7 0
For the year	574 18 2	585 8 2		533 3 5
Less unpaid (including enemy members)		45 0 0		17 17 0
			540 8 2	543 13 3
„ Library Subscriptions			31 10 0	20 9 0
„ Life Compositions received during the year			104 10 0	*63 0 0
„ Dividends and Interest			49 16 6	36 4 6
„ Advertisements in Journal			16 19 11	9 7 4
„ Sale of Journal and Publications			359 9 5	402 5 0
			£1,102 14 0	£1,074 19 1

*In previous years this item has been entered under Capital Account.

II.—CAPITAL ACCOUNT.

Year 1914 £ s d		£ s d
1,209 18 3	To Balance in favour of Society on 1st January 1915	1,548 0 8
340 19 1	„ Surplus on Revenue Account (*supra*)	326 14 9
£1,550 17 4		£1,874 15 5

	£ s d	Year 1914 £ s d
By Depreciation of Investments	73 15 2	2 10 8
„ Balance in favour of Society on 31st December 1915	1,801 0 3	1,548 0 8
	£1,874 15 5	£1,550 17 4

III.—BALANCE SHEET, 31st December 1915.

Year 1914 £ s d	Liabilities	£ s d
197 13 5	To Sundry Creditors	180 2 0
9 9 0	„ Subscriptions in advance (1910)	17 7 0
1,548 0 8	„ Balance in favour of the Society	1,801 0 3
£1,755 3 1		£1,998 9 3

Assets	£ s d	Year 1914 £ s d
By Cash at Bank	132 6 11	599 11 2
„ Metropolitan Consolidated 2½% Stock (£1,300 at 70)	910 0 0	955 10 0
„ War Stock 4½% (*£800 at 96)	768 0 0	—
„ Journals in Stock	50 0 0	50 0 0
„ Sundry Debtors	138 2 4	150 1 11
	£1,998 9 3	£1,755 3 1

*Purchased during year.

Audited and found correct

M. EPSTEIN,

J. C. STAMP.

7th July 1916.

JEREMIAH ROTHERHAM & CO., LIMITED.

BALANCE SHEET, 15th January 1907.

Liabilities

	£ s d	£ s d
Share Capital—		
Authorised and Issued:		
200,000 Preference Shares of £1 each fully paid	200,000 0 0	
300,000 Ordinary Shares of £1 each fully paid	300,000 0 0	
		500,000 0 0
Mortgage Debenture Stock		200,000 0 0
Bills Payable		11,896 0 9
Trade Liabilities	82,310 18 10	
Less—Discount 2½ per cent.	2,057 15 5	
		80,253 3 5
Deposits		40,271 19 5
Sundry Liabilities due or accrued		12,370 9 3
Dividend Warrants, &c., not presented ..		71 9 6
Reserve Accounts:—		
Reserve for Contingencies on Book Debts	4,000 0 0	
Capital Reserve Account	18,681 6 7	
General Reserve Account	47,318 13 5	
		70,000 0 0
Profit and Loss Account:—		
Balance brought forward from last year..	8,945 9 10	
Add—Profit for the year ending 15th January 1907, as per annexed account	41,406 15 11	
	50,352 5 9	
Deduct—Interim Dividends paid 1st Sept. 1906, viz.:— .. .. Preference Shares at 5% per annum .. .. .. £5,000; Ordinary Shares at 7% per annum 10,500	15,500 0 0	
		34,852 5 9
		£949,715 8 1

Assets

		£ s d
Freehold and Leasehold Premises and Goodwill—		
Amount at 15th January 1906		41,606 4 11
Deduct—Depreciation on Leasehold Premises, less additions to Freehold Premises		901 12 1
		340,704 12 10
Fixtures and Fittings		27,225 9 6
Movable Plant, Furniture, Horses, Vans, &c.		5,746 19 2
Stock at Cost or under		229,136 5 8
Stock of Stationery and Sundry Stores		954 3 10
Book Debts	£325,096 10 9	
Less—Discount 2½ per cent.	8,127 8 3	
		316,969 2 6
Sundry Debtors, including Advances on Security ..		8,829 11 11
Fire Insurance, &c., paid in advance		845 7 11
Bills Receivable, in hand		3,026 18 9
Cash at Bankers and in hand		16,276 16 0
		£949,715 8 1

NOTE.—Goods purchased for the Spring Trade and in course of delivery are not included in the Trade Liabilities not in the Stock.

Dr. PROFIT AND LOSS ACCOUNT, Year ending 15th January 1907. *Cr.*

	£ s d		£ s d
Interest on Debenture Stock	8,000 0 0	Profit on Trading for the Year, after providing for Bad and Doubtful Debts and deducting Depreciation on Leaseholds, Fixtures, and Movable Plant	51,596 19 11
Directors', Trustees', and Auditors' Fees	2,250 0 0	Transfer Fees	59 16 0
Balance, carried to Balance Sheet	41,406 15 11		
	£51,656 15 11		£51,656 15 11

HERBERT H. PIGGIN, *Secretary*

FREDERICK SNOWDEN,
GEORGE GOTBLEE, } *Directors.*

AUDITORS' REPORT.

To the Shareholders of JEREMIAH ROTHERHAM & CO., LIMITED.

We certify that we have examined the foregoing Balance Sheet and Profit and Loss Account with the Company's Books, and that they are in accordance therewith. The Cash and Bills in hand and the Bank Balances and Book Debts have been verified by us, and the Stocks of Goods on han have been valued and certified by the Managers of each Department.

We also report that in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the books of the Company, and we certify that all our requirements as Auditors have been complied with.

99 CHEAPSIDE, LONDON, E.C.
11th February 1907.

VINEY, PRICE & GOODYEAR,
Chartered Accountants.

RUSTON, PROCTOR & COMPANY, LIMITED.

BALANCE SHEET, 31st March 1901.

Capital and Liabilities			£ s d	£ s d
Nominal Capital—				
35,000 Ordinary Shares of £10 each			350,000 0 0	
Subscribed Capital—				
35,000 Ordinary Shares of £10 each fully paid (including 10,000 Shares issued during the past year)				350,000 0 0
Share Premium Account—				
Amount received on new issue of shares				10,000 0 0
Mortgage Debentures bearing interest at 4 per cent. per annum			250,000 0 0	
Accrued Interest thereon			2,500 0 0	
				252,500 0 0
Sundry Creditors				18,751 7 3
(Contingent Liability in respect of Bills discounted £28,756 17s. 2d.)				
Debenture Interest and Dividends outstanding				59 10 0
Equalisation of Dividends Account—				
Balance at 31st March 1900			5,000 0 0	
Add Further amount transferred to credit thereof per Resolution of Shareholders 30th May 1900			10,000 0 0	
				15,000 0 0
Profit and Loss Account—				
Balance at 31st March 1900			28,615 5 6	
Deduct Dividend of 14s. per Share paid on 25,000 Shares as per Resolution of 30th May 1900	£17,500 0 0			
Equalisation of Dividends Account, Transfer to credit thereof	10,000 0 0			
			27,500 0 0	
Leaving a Balance of			1,115 5 6	
Add Balance of Profit for the year ended 31st March 1901		£29,956 5 9		
Deduct—				
Depreciation of Buildings	£2,143 4 6			
" Plant and Machinery	6,335 3 6			
" Office Furniture ..	151 3 0			
Directors' Remuneration to 31st March 1901	1,300 0 0			
Interest on £250,000 Debentures ..	10,000 0 0			
		19,929 11 0		
			10,026 14 3	
				11,141 19 9
				£657,455 17 0

Property and Assets	£ s d	£ s d
Land and Buildings—		
Amount at 31st March 1900	141,116 9 9	
Deduct Depreciation on Buildings at 2½ per cent.	2,143 4 6	
	138,973 5 3	
Add Outlay during the Year	8,968 17 6	
		147,942 2 9
Plant, Machinery, &c.—		
Amount at 31st March 1900	84,468 19 10	
Deduct Depreciation at 7½ per cent.	6,335 3 6	
	78,133 16 4	
Add Outlay during the year	14,468 11 7	
		92,602 7 11
Office Furniture, &c.—		
Amount at 31st March 1900	1,511 13 5	
Deduct Depreciation at 10 per cent.	151 3 0	
	1,360 10 5	
Add Outlay during the year	273 13 6	
		1,634 3 11
Stock-in-Trade at Lincoln and abroad		263,534 14 6
Sundry Debtors, *less* reserved for Doubtful Debts		68,500 4 11
Cash at Bankers, and in hand, and Bills receivable in hand ..		83,242 3 0
Goodwill Account, Patents, Drawings, &c.—		
Amount at 31st March 1890	82,692 19 11	
Written off out of Profits by instalments to 31st March 1899 per resolutions of Shareholders ..		" " "
		£657,455 17 0

CERTIFICATE AND REPORT OF AUDITORS.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with.

We report to the Shareholders that we have examined the Books, Accounts, and Vouchers of the Company for the year ended 31st March last, and have found the same correct. In our opinion the foregoing Balance Sheet is properly drawn up, and exhibits a true and correct view of the state of the Company's affairs as shown by the books of the Company.

MANCHESTER, 16th *May* 1901.

ASHWORTH, MOSLEY & CO.,
Chartered Accountants.

JEREMIAH ROTHERHAM & CO., LIMITED.

BALANCE SHEET, 15th January 1907.

Liabilities

	£	s	d	£	s	d
Share Capital—						
Authorised and Issued:						
200,000 Preference Shares of £1 each fully paid	200,000	0	0			
300,000 Ordinary Shares of £1 each fully paid	300,000	0	0			
				500,000	0	0
Mortgage Debenture Stock				200,000	0	0
Bills Payable				11,896	0	9
Trade Liabilities	82,310	18	10			
Less—Discount 2½ per cent.	2,057	15	5			
				80,253	3	5
Deposits				40,271	19	5
Sundry Liabilities due or accrued				12,370	9	3
Dividend Warrants, &c., not presented ..				71	9	6
Reserve Accounts:—						
Reserve for Contingencies on Book Debts	4,000	0	0			
Capital Reserve Account	18,681	6	7			
General Reserve Account	47,318	13	5			
				70,000	0	0
Profit and Loss Account:—						
Balance brought forward from last year..	8,945	9	10			
Add—Profit for the year ending 15th January 1907, as per annexed account	41,406	15	11			
	50,352	5	9			
Deduct—Interim Dividends paid 1st Sept. 1906, viz.:—						
Preference Shares at 5% per annum £5,000						
Ordinary Shares at 7% per annum 10,500						
	15,500	0	0			
				34,852	5	9
				£949,715	8	1

Assets

				£	s	d
Freehold and Leasehold Premises and Goodwill—						
Amount at 15th January 1906				41,606	4	11
Deduct—Depreciation on Leasehold Premises, less additions to Freehold Premises				901	12	1
				340,704	12	10
Fixtures and Fittings				27,225	9	6
Movable Plant, Furniture, Horses, Vans, &c.				5,746	19	2
Stock at Cost or under				229,136	5	8
Stock of Stationery and Sundry Stores				954	3	10
Book Debts	£325,096	10	9			
Less—Discount 2½ per cent.	8,127	8	3			
				316,969	2	6
Sundry Debtors, including Advances on Security ..				8,829	11	11
Fire Insurance, &c., paid in advance				845	7	11
Bills Receivable, in hand				3,026	18	9
Cash at Bankers and in hand				16,276	16	0
				£949,715	8	1

NOTE.—Goods purchased for the Spring Trade and in course of delivery are not included in the Trade Liabilities not in the Stock.

Dr. PROFIT AND LOSS ACCOUNT, Year ending 15th January 1907. *Cr.*

	£	s	d
Interest on Debenture Stock	8,000	0	0
Directors', Trustees', and Auditors' Fees	2,250	0	0
Balance, carried to Balance Sheet	41,406	15	11
	£51,656	15	11

	£	s	d
Profit on Trading for the Year, after providing for Bad and Doubtful Debts and deducting Depreciation on Leaseholds, Fixtures, and Movable Plant	51,596	19	11
Transfer Fees	59	16	0
	£51,656	15	11

HERBERT H. PIGGIN, *Secretary*.

FREDERICK SNOWDEN, }
GEORGE GOTELEE, } *Directors*.

AUDITORS' REPORT.

To the Shareholders of JEREMIAH ROTHERHAM & CO., LIMITED.

We certify that we have examined the foregoing Balance Sheet and Profit and Loss Account with the Company's Books, and that they are in accordance therewith. The Cash and Bills on hand and the Bank Balances and Book Debts have been verified by us, and the Stocks of Goods on han have been valued and certified by the Managers of each Department.

We also report that in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the books of the Company, and we certify that all our requirements as Auditors have been complied with.

99 CHEAPSIDE, LONDON, E.C.
11th February 1907.

VINEY, PRICE & GOODYEAR,
Chartered Accountants.

RUSTON, PROCTOR & COMPANY, LIMITED.

BALANCE SHEET, 31st March 1901.

Capital and Liabilities		£ s d	£ s d
Nominal Capital—			
35,000 Ordinary Shares of £10 each		350,000 0 0	
Subscribed Capital—			
35,000 Ordinary Shares of £10 each fully paid (including 10,000 Shares issued during the past year)			350,000 0 0
Share Premium Account—			
Amount received on new issue of shares			10,000 0 0
Mortgage Debentures bearing interest at 4 per cent. per annum		250,000 0 0	
Accrued Interest thereon		2,500 0 0	
			252,500 0 0
Sundry Creditors			18,751 7 3
(Contingent Liability in respect of Bills discounted £28,756 17s. 2d.)			
Debenture Interest and Dividends outstanding			59 10 0
Equalisation of Dividends Account—			
Balance at 31st March 1900		5,000 0 0	
Add Further amount transferred to credit thereof per Resolution of Shareholders 30th May 1900		10,000 0 0	
			15,000 0 0
Profit and Loss Account—			
Balance at 31st March 1900		28,615 5 6	
Deduct Dividend of 14s. per Share paid on 25,000 Shares as per Resolution of 30th May 1900	£17,500 0 0		
Equalisation of Dividends Account, Transfer to credit thereof	10,000 0 0		
		27,500 0 0	
Leaving a Balance of ..		1,115 5 6	
Add Balance of Profit for the year ended 31st March 1901	£29,956 5 3		
Deduct—			
Depreciation of Buildings £2,143 4 6			
„ Plant and Machinery 6,335 3 6			
„ Office Furniture .. 151 3 0			
Directors' Remuneration to 31st March 1901 .. .. .. 1,300 0 0			
Interest on £250,000 Debentures .. 10,000 0 0			
	19,929 11 0		
		10,026 14 3	
			11,141 19 9
			£657,455 17 0

Property and Assets	£ s d	£ s d
Land and Buildings—		
Amount at 31st March 1900	141,116 9 9	
Deduct Depreciation on Buildings at 2½ per cent.	2,143 4 6	
	138,973 5 3	
Add Outlay during the Year	8,968 17 6	
		147,942 2 9
Plant, Machinery, &c.—		
Amount at 31st March 1900	84,468 19 10	
Deduct Depreciation at 7½ per cent.	6,335 3 6	
	78,133 16 4	
Add Outlay during the year	14,468 11 7	
		92,602 7 11
Office Furniture, &c.—		
Amount at 31st March 1900	1,511 13 5	
Deduct Depreciation at 10 per cent.	151 3 0	
	1,360 10 5	
Add Outlay during the year ..	273 13 6	
		1,634 3 11
Stock-in-Trade at Lincoln and abroad		263,534 14 6
Sundry Debtors, *less* reserved for Doubtful Debts		68,500 4 11
Cash at Bankers, and in hand, and Bills receivable in hand ..		83,242 3 0
Goodwill Account, Patents, Drawings, &c.—		
Amount at 31st March 1890	82,692 19 11	
Written off out of Profits by instalments to 31st March 1899 per resolutions of Shareholders		„ „ „
		£657,455 17 0

CERTIFICATE AND REPORT OF AUDITORS.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with.

We report to the Shareholders that we have examined the Books, Accounts, and Vouchers of the Company for the year ended 31st March last, and have found the same correct. In our opinion the foregoing Balance Sheet is properly drawn up, and exhibits a true and correct view of the state of the Company's affairs as shown by the books of the Company.

ASHWORTH, MOSLEY & CO.,
Chartered Accountants.

Manchester, 16th May 1901.

SELFRIDGE AND COMPANY, LIMITED.

BALANCE SHEET, 14th March 1910.

Liabilities

	£ s d	£ s d	£ s d
To Capital Authorised:—			
500,000 Ordinary Shares of £1 each ..	500,000 0 0		
400,000 Six per cent. Cumulative Preference Shares of £1 each	400,000 0 0		
	£900,000 0 0		
" Capital Issued:—			
500,000 Ordinary Shares of £1 each ..		500,000 0 0	
400,000 Six per cent. Cumulative Preference Shares of £1 each	400,000 0 0		
Less Calls in arrear	18 15 0		
		399,981 5 0	
			899,981 5 0
5 per cent. First Mortgage Debentures, specifically charged on the company's building in Oxford Street, and a first floating charge upon the company's undertaking and assets, present and future, redeemable by instalments commencing in 1912 by purchase, or by drawings at £105 per cent.		386,200 0 0	
Interest accrued to date		8,787 15 6	
			394,987 15 6
" Trade and other Creditors, Loans from Bankers, &c.			264,622 14 0
" Profit and Loss Account:—			
Balance after crediting Contribution by Mr. Selfridge of £28,500, and providing for Preference Share Dividend to 30th September 1909			12,175 15 1
			£1,571,767 10 1

Assets

	£ s d
By Purchase Considerations under Agreement of Sale, dated March 6th 1908, Leaseholds and Ancient Lights	773,804 11 10
" Cost of Buildings, Law and Survey Charges, Bank Interest and Commission, Ground Rents, and all other expenses relating to construction to date of opening (March 15th 1909)	320,706 10 8
" Fixtures, Fittings, Carpets, Rugs, Curtains, &c., at cost	61,320 12 6
" Furniture and Staff Utensils, Typewriters, &c., less depreciation ..	6,207 1 7
" Horses, Vans, Motors, &c., less depreciation	5,536 5 1
" Stock-in-Trade at cost or under, as certified by the Management taken at January 31st 1910, and adjusted to date	234,782 5 9
" Sundry Debtors, less Reserve for Doubtful Debts	31,876 1 1
" Payments in Advance	2,213 16 2
" Single Payment under Sinking Fund Policy	1,258 8 10
" Underwriting Commission on Debentures	20,000 0 0
" Preliminary Outlays incidental to the establishment of the business, including Advertising to date, less proportion calculated by way of percentage on the amount of the sales written off to Profit and Loss, per minute of the Board, Expenses in connection with issue of Prospectus, &c.	89,685 8 5
" Cash at Bankers and in hand	24,376 8 2
	£1,571,767 10 1

SHOWELL'S BREWERY COMPANY, LIMITED.

STATEMENT OF ACCOUNTS, October 4 1902—October 3 1903.

PROFIT AND LOSS ACCOUNT.

Debtor

	£	s	d	£	s	d
Properties:—						
Freehold, Copyhold, and Leasehold, Plant, Rolling Stock and Sundries, Maintenance and Depreciation				19,435	11	1
Rents, Rates, Taxes, and Insurance ..				4,064	7	4
General Expenses:—						
Directors' Fees	1,000	0	0			
Office Salaries and Expenses	7,997	2	3			
Travellers' Salaries, Commission, and Expenses	8,995	0	4			
Interest, Law Costs, and Auditors' Fees..	6,065	5	3			
Trade Gifts and Subscriptions, and Charitable Contributions	1,664	9	3			
Advertising, Stationery, Stamps, and Miscellaneous Disbursements	2,094	13	10			
				27,816	10	11
Balance				40,118	13	10
				£91,435	3	2

Creditor

	£	s	d
Profit, *less* Provision for Bad and Doubtful Debts ..	64,860	5	2
Rents and Interest	26,517	18	0
Transfer Fees	57	0	0
	£91,435	3	2

BALANCE SHEET.

Liabilities

		£	s	d	£	s	d
Capital		610,000	0	0			
Issued—							
11,000 Preference Shares of £10 each..		110,000	0	0			
40,000 Guaranteed Shares of £5 each		200,000	0	0			
30,000 Ordinary Shares of £10 each ..		300,000	0	0			
					610,000	0	0
Debentures 4½%, Issued					430,000	0	0
Reserve Fund					113,000	0	0
Loans on Security					5,000	0	0
Sundry Creditors and Reserves		57,553	10	6			
Bills Payable		11,077	0	4			
					68,630	10	10
Due to Bankers on Security, since repaid ..					15,000	0	0
Due to Bankers on Current Accounts, partly secured					25,251	15	6
Debenture Interest Warrants, &c., uncashed					4,294	1	3
Balance brought forward from 1901-1902 ..		14,521	0	7			
Profit as above, 1902-1903		40,118	13	10			
		54,639	14	5			
Less—							
Interest on Debentures	£19,350 0 0						
Interim Dividends—							
Guaranteed Shares at the rate of 6% per annum	6,000 0 0						
Preference Shares at the rate of 7% per annum	3,850 0 0						
Ordinary Shares at the rate of 5% per annum	7,500 0 0						
		36,700	0	0			
					17,9[illegible]9	14	5
					£1,289,116	2	0

Assets

	£	s	d	£	s	d
Freehold, Copyhold, and Leasehold Properties, Brewery, Maltings, and Fixed Plant, *less* Mortgages	949,498	4	9			
Rolling Stock, Loose Plant, and Sundries	97,615	10	5			
				1,047,113	15	2
Stock-in-Trade				110,151	15	9
Loans, Mortgages, and Investments .				52,984	12	6
Sundry Debtors and Reserves . ..				63,755	10	10
Lloyds Bank, Limited, Debenture Interest Warrants, &c, uncashed.. .				4,294	1	3
Cash in hand and Bills Receivable ..				10,816	6	6
				£1,289,116	2	0

AUDITORS' CERTIFICATE AND REPORT.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with. We report to the Shareholders that we have examined the Books of the Company to the 3rd October 1903, and that the above Balance Sheet is in accordance therewith. We are of opinion that the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the Company's affairs as shown by the books of the Company. The Deeds of the Properties and other Securities not mortgaged have been produced to us.

15 & 16 WATERLOO STREET, BIRMINGHAM.
15th December 1903.

C. A. HARRISON BARRATT, WEST & CO., *Chartered Accountants, Auditors.*

SPIERS AND POND, LIMITED.

Dr. PROFIT AND LOSS ACCOUNT for the Year ending 31st March 1910. *Cr.*

	£	s	d		£	s	d
To Wines, Spirits, Provisions, and other Goods consumed	698,691	14	8	By Business done	1,267,072	16	8
" Working Expenses, including Salaries, Managerial Bonuses, Wages, Rents, Rates and Taxes, Insurance, Maintenance, Depreciation of Plant and Furniture, &c.	502,713	3	0	" Transfer Fees	100	10	6
	1,201,404	17	8				
" Debenture Interest	46,340	0	0				
" Balance—Profit carried to Balance Sheet	19,428	9	6				
	£1,267,173	7	2		£1,267,173	7	2

BALANCE SHEET, 31st March 1910.

Liabilities	£	s	d	*Assets*	£	s	d
To Share Capital—				By Wines, Spirits, Provisions and other Goods	177,008	8	0
360,000 Ordinary Shares of £1 each, fully paid	360,000	0	0	" Ditto on Consignment	3,111	8	1
360,000 Preference Shares of £1 each, fully paid	360,000	0	0	" Plant, Furniture, &c.	459,580	4	2
" Debenture Capital— 2,500 Bonds of £100 each—Amount issued 2,200 Bonds of £100 each, fully paid	220,000	0	0	" Freehold and Leasehold Properties (*see Note*)	1,181,351	10	2
" "A" Mortgage Debenture Stock £200,000, amount issued	200,000	0	0	" Sundry Debtors, Unexpired Licences, &c.	62,554	6	10
" "B" Mortgage Debenture Stock £200,000, amount issued	190,000	0	0	" Cash at Bankers and on Hand	34,344	13	3
" "C" Mortgage Debenture Stock £100,000, amount issued	96,000	0	0	" Bills Receivable	323	10	10
" "D" Mortgage Debenture Stock £300,000, amount issued	300,000	0	0	" Investments at cost less amount written off under the Scheme for Reduction of Capital	35,767	6	6
" Mortgage on Blackpool Property	40,000	0	0				
" Unclaimed Interest and Dividends	1,465	6	4				
" Bills payable	3,988	14	4				
" Sundry Creditors, &c.	136,470	2	3				
" Ditto for Goods on Consignment	3,111	8	1				
" General Reserve	29,380	7	9				
" Profit and Loss — Balance from last Account .. £4,196 19 7							
Profit for the year .. 19,428 9 6	23,625	9	1				
	£1,964,041	7	10		£1,964,041	7	10

N.B.—In accordance with the Companies (Consolidation) Act, 1908, the Directors have to inform the Shareholders that this item is taken at cost to the Company, less amortisation and the amount written off under the Scheme for Reduction of Capital approved by the Court in December 1907. This item also comprises properties purchased from Mr. Spiers, which were taken at the value at which they stood in the books on the formation of the Company in 1882, and which included the sum of £117,555 15s. 9d. for goodwill, which was apportioned by the Directors in 1888 amongst the then existing properties on the basis of a valuation made by Messrs. F Vigers & Co. in 1886

NET REVENUE ACCOUNT.

	£	s	d		£	s	d
Directors' Fees	1,131	10	0	Balance of Profit brought down	23,625	9	1
Auditors' Fee	500	0	0				
Debenture Trustees' Remuneration	761	5	0				
Amortisation of Leases	4,546	10	0				
Income Tax	838	7	4				
Balance, undivided Net Profit	15,847	16	9				
	£23,625	9	1		£23,625	9	1

By and on behalf of the Board, PAUL CREMIEU-JAVAL, } *Directors.*
J. WHITE, }
E. F. BUGLER, *Secretary.*

AUDITORS' REPORT.

In accordance with Section 113 of the Companies (Consolidation) Act of 1908 we report to the shareholders that we have obtained all the information and explanations we have required. We further report that we have examined the above Balance Sheet with the Books and Vouchers, and that in our opinion it is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Company.

36 WALBROOK, E.C. *27th June* 1910. C. F. KEMP, SONS & CO., *Auditors.*

THE SPIES PETROLEUM COMPANY, LIMITED.

BALANCE SHEET as at 13th January 1914 (31st December 1913 O/S).

	£ s d	£ s d	£ s d
To CAPITAL AUTHORISED—			
3,000,000 Shares of 10s. each ..		1,500,000 0 0	
„ CAPITAL ISSUED—			
1,686,000 Shares of 10s. each, fully paid			843,000 0 0
„ SPECIAL RESERVE ACCOUNT		182,912 6 10	
Less—			
Amounts written off Buildings, &c. ..		6,266 17 2	176,645 9 8
„ SUNDRY CREDITORS—			
London ..		39,455 5 6	
Russia ..		69,682 17 2	109,138 2 8
„ BILLS PAYABLE ..			55,425 7 11
„ UNCLAIMED DIVIDENDS ..			20,323 8 8
„ INSURANCE FUND ..		217 4 5	
Less—			
Compensation to Workmen ..		129 5 10	87 18 7
„ PROFIT AND LOSS ACCOUNT—			
Balance of Account at 13th January 1913	£26,455 18 7		
Less—			
Russian Taxes, 1912 ..	17,676 2 2		
	8,779 16 5		
Profit for the Year to 13th January 1914 (subject to provision for Depreciation and Russian Imperial Taxes)	192,120 11 0	200,900 7 5	
Premium on issue of shares made during year less expenses, &c. ..		107,490 3 3	
		308,390 10 8	
Less—			
Interim dividend at the rate of 15 per cent per annum paid on account of 1913		56,250 0 0	252,140 10 8
			£1,456,760 18 2

J. ANNAN BRYCE, CHARLES J. PALMER, } *Directors*

H. G. TREW, *Secretary*.

	£ s d	£ s d
By LEASEHOLD PROPERTY IN RUSSIA ..	307,640 0 8	
Deduct Exploration Expenses transferred ..	208 9 1	307,431 17 7
„ CAPITAL EXPENDITURE ON BUILDINGS, PLANT, &c., to date:—		

	Amount to 31st Dec. 1912 o/s £ s d	Amount of Expenditure for year to date £ s d	Total £ s d	£ s d
Buildings ..	70,723 16 0	8,076 1 4	78,799 17 4	
Iron Reservoirs ..	49,037 16 7	3,275 5 0	52,313 1 7	
Earthen Reservoirs	4,279 17 11	1,329 6 2	5,609 4 1	
Pipe Lines ..	103,288 9 9	16,505 17 0	119,794 6 9	
Electric Installation	3,567 17 11	905 4 10	4,473 2 9	
Expenditure on Wells	405,674 4 2	115,344 15 9	521,018 19 11	
Boilers ..	16,741 16 1	232 16 1	16,974 12 2	
Engines ..	19,585 5 8	168 10 2	19,753 15 10	
Pumps	8,338 7 1	2,244 8 11	10,582 16 0	
Baling Drums ..	6,147 5 5	533 7 10	6,680 13 3	
Furniture and Sundries	6,431 18 1	2,185 7 11	8,617 6 0	
	£693,816 14 8	£150,801 1 0	£844,617 15 8	844,617 15 8
				1,152,049 13 3
Less—				
Depreciation as per last Account ..			£298,445 13 5	
„ „ Appropriation Account, 1912			130,000 0 0	428,445 13 5
				723,603 19 10

	£ s d	£ s d	£ s d
By ELECTRIC POWER STATION in course of construction			68,403 18 0
„ OFFICE FURNITURE, London ..			356 7 3
„ STOCK OF MATERIALS ON HAND ..			168,067 7 9
„ OIL STOCK—Crude Oil ..			1,210 8 8
„ SUNDRY DEBTORS—London		72,618 15 0	
Russia		141,932 2 7	
		214,550 17 7	
Less Reserve for Bad and Doubtful Debts, &c. ..		240 9 7	214,310 8 0
„ GROZNY OILFIELDS HOSPITAL ..			2,524 16 9
„ WATERLINE TO OILFIELDS (Company's participation) ..			4,761 18 1
„ DEPOSIT WITH COSSACK GOVERNMENT TO ENSURE PAYMENT OF ROYALTIES AND SURFACE RENTS (including Rs. 77,400 Russian Rentes) ..			7,535 7 8
„ MAIKOP SPIES CO. SHARE HOLDING ..			2,540 14 11
„ TEREK GENERAL OIL CO., LTD., 104,993 Shares of £1 each, 10s. paid ..			52,496 10 0
„ DEPOSIT WITH FRENCH AGENTS OF FRENCH RENTES, &c., at Cost ..			14,104 10 2
„ LOAN ON SECURITIES—London ..			87,700 0 0
„ CASH AT BANKERS AND IN HAND:—			
RUSSIA— At Bankers	£5,383 4 5		
In transit	15,873 0 4		
In hand	1,558 3 0	22,814 7 9	
LONDON— At Bankers	74,150 0 6		
In hand ..	0 10 11	74,150 11 5	
PARIS At Bankers		12,173 11 11	109,138 11 1
			£1,456,760 18 2

To the Shareholders of THE SPIES PETROLEUM COMPANY, LIMITED.

We have audited the above Balance Sheet dated 13th January 1914 (31st December, o/s, 1913) and have obtained all the information and explanations we have required.

In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company in London and Grozny.

5 LONDON WALL BUILDINGS, LONDON, E.C.
22nd June 1914.

DELOITTE, PLENDER, GRIFFITHS & CO., *Chartered Accountants.* } *Auditors.*

THE SPIES PETROLEUM COMPANY, LIMITED—*continued.*

PROFIT AND LOSS ACCOUNT for the Year ended 13th January 1914 (31st December 1913 O/S).

Dr.

RUSSIA.

	£ s d	£ s d
To Stock of Crude Oil at 1st January (o/s) 1913		933 13 3
" Wages and Materials used on Producing Wells	51,601 8 10	
Including Oil used as Fuel £13,913 7s 3d.		
" Oilfield Expenses, Manager's and Clerks' Salaries, Insurance, Repairs, &c.	61,106 0 8	
Including Oil used as Fuel £2,763 18s. 9d.		
" Grozny Office Expenses, Salaries, Travelling, &c.	18,741 15 10	131,449 5 4
" Extra Insurance against Strike Risks, &c.		1,683 10 4
" Expenses in connection with Fires, re-erection of Derricks and Landslips		857 6 7
" Expenditure on Wells— Deepening after reaching Oil		22,656 0 1
Including Oil used as Fuel £1,794 13s. 10d.		
" Pipe Line Selling and Delivery Charges		1,642 1 4
Including Oil used as Fuel £564 19s. 4d.		
Value of Oil used as Fuel, per contra, £19,036 19s. 2d.		
" Royalties		56,360 17 4
" Surface Rents		2,629 1 0
" Balance carried down		188,890 7 0
		£407,102 2 2

Cr.

RUSSIA.

	£ s d	£ s d
By Sales of Crude Oil		378,420 19 10
" Crude Oil used as Fuel, *as per contra*	19,036 19 2	
" " " " " for Drilling charged to Capital Account	5,216 18 5	24,253 17 7
" Interest		3,216 16 2
" Stock of Crude Oil 31st December (o/s) 1913		1,210 8 8
		£407,102 2 3

Dr.

LONDON.

	£ s d
To Legal and Professional Charges, Travelling Expenses, Salaries, Rent, Printing and Stationery, and General Office Expenses, &c.	6,871 7 1
" Directors' Fees, and Participation in 1912 Profits	6,500 0 0
" Income Tax	10,423 16 8
" French Fiscal Taxes	6,680 3 5
" Expenses in connection with experiments for Paraffin Wax	939 17 9
" Balance to Balance Sheet	192,120 11 0
	£223,535 15 11

Cr.

LONDON.

	£ s d
By Balance brought down	188,890 7 0
" Interest	6,899 0 3
" Transfer Fees, &c.	533 10 0
" Profit in connection with formation of the Terek General Oil Company	26,922 9 0
" Difference in Exchange	290 9 8
	£223,535 15 11

APPROPRIATION OF PROFIT.

	£ s d	£ s d
To Reserve for Depreciation of Buildings, Plant, &c.		130,000 0 0
" Special Reserve		30,000 0 0
" Interim Dividend at the rate of 15 per cent. per annum paid on account of 1913		56,250 0 0
" Payment of Balance Dividend of 1s. per share, making a total dividend for the year ending 13th January 1914, of 17½ per cent. per annum	£100,000 0 0	
Less 1s. per share included in premium paid by Subscribers for 500,000 shares of the new issue on account of Final Dividend	25,000 0 0	75,000 0 0
		291,250 0 0
Leaving a Balance of to be carried forward, out of which Russian Income Tax and Directors' additional remuneration under Article 88 will be paid.		17,140 10 8
As per Balance Sheet		£308,390 10 8

STEWARTS & LLOYDS, LIMITED.

BALANCE SHEET, 31st December 1903.

Dr.

	£	s	d	£	s	d
To SHARE CAPITAL Authorised and Subscribed :—						
55,000 6% Cumulative Preference Shares of £10 each, fully paid	£550,000	0	0			
85,000 Ordinary Shares of £10 each, fully paid	850,000	0	0			
140,000				1,400,000	0	0
To 3½% DEBENTURES :— 3,500 of £100 each, secured upon certain Heritable, Freehold, and Leasehold Property of the Company				350,000	0	0
To RESERVE FUND				220,000	0	0
To UNCLAIMED DIVIDENDS				150	11	6
To DEBTS due by Company				167,801	17	11
To PROFIT AND LOSS ACCOUNT :—						
Balance brought forward from last year	£50,314	8	4			
Add— Balance from Account, 31st Dec. 1903, being profit for year 1903 ..	175,824	9	9			
	226,138	18	1			
Deduct— Interim Dividend for half-year to 30th June 1903, paid on 30th September 1903, at the rate of 6% per annum on Preference and 9% per annum on Ordinary Shares	54,750	0	0			
				171,388	18	1
				£2,309,341	7	6

Cr.

	£	s	d	£	s	d
By CASH at Bankers and in hand				83,634	4	0
By INVESTMENTS :— Consols, British Railway Debenture and Lien Stocks at cost, £116,090 14s., *less* £9,560 14s. written off to bring down to market price at 31st December 1903				106,530	0	0
By BILLS RECEIVABLE				45,549	3	0
By DEBTS due to Company				411,404	1	4
By STOCKS OF GOODS, WORK IN PROGRESS, STORES, AND LOOSE TOOLS				593,310	15	1
By EXPENDITURE ON CAPITAL ACCOUNT, VIZ. :— As per last Balance Sheet	£986,930	14	10			
Add— Amount paid for the Undertaking and Goodwill of Lloyd & Lloyd, Ltd. (including the Undertaking of the Clydeside Tube Company, Ltd.), on amalgamation with that Company, as at 1st January 1903, after transferring to the respective Accounts above the other assets taken over from them (subject to adjustments), and amount paid for New Plant and Buildings during the year 1903, *less* amount written off Old Plant	271,982	8	9			
	1,258,913	3	7			
Deduct— DEPRECIATION ACCOUNT	190,000	0	0			
				1,068,913	3	7
				£2,309,341	7	6

Note.—The whole of the Capital of the Company having been provided by Stewarts & Lloyds, Ltd., the Assets and Liabilities of Stewarts & Lloyds (South Africa), Ltd., as shown by the audited Accounts of that Company at 30th September 1903, are incorporated in the above Balance Sheet, and the result of the trading for the nine months ending 30th September 1903 is included in the Profit and Loss Account below.

PROFIT AND LOSS ACCOUNT for Year ending 31st December 1903.

Dr.

	£	s	d
To GENERAL CHARGES, for Management, Salaries of Managing Directors, Local Board and Works and Office Staffs, Advertising, Law, and other Expenses ..	53,531	17	4
To INCOME TAX	7,276	3	1
To FEU-DUTIES, RENTS, TAXES, &c.	11,356	13	2
To DIRECTORS' AND AUDITORS' FEES	4,500	0	0
To EXPENSES in connection with the Amalgamation with Lloyd & Lloyd, Ltd.	6,239	15	8
To INTEREST ON DEBENTURES for year ending 31st December 1903	12,250	0	0
To BALANCE carried to Balance Sheet, being Profit for year 1903	175,824	9	9
	£270,978	19	0

Cr.

	£	s	d
By PROFIT of the various Works and Warehouses, after provision for Bad and Doubtful Debts, Depreciation on Investments, and amount written off Old Plant, including Profit of Stewarts & Lloyds (South Africa), Ltd., for the nine months ending 30th September 1903	265,216	2	2
By RENTS OF WORKMEN'S HOUSES	1,939	16	9
By TRANSFER FEES, &c.	141	17	0
By INTEREST ON INVESTMENTS, &c.	3,681	3	1
	£270,978	19	0

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and we report to the Shareholders that we have Audited the above Balance Sheet with the Books and Accounts of the Company in Glasgow, and with the Audited Accounts of the Birmingham Office, the English and Colonial Branches, and the South African Company. The Stock in Glasgow, Birmingham, and at the Branches has been certified by Officers of the Company, and that of the South African Company by the Managers in South Africa of that Company. The Stock in the Colonies has been taken at 30th September 1903, and adjusted to 31st December 1903. The Accounts of the Birmingham Office and of the English Branches have been Audited by Messrs. Wenham, Angus & Co., those of the Colonial Branches by local Auditors, and those of the South African Company by local Auditors and by us. In our opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, as shown by the Books of the Company.

LONDON, *16th March* 1904.

COOPER BROTHERS & CO., *Chartered Accountants*, } *Auditors*.

THE TANDJONG RUBBER COMPANY, LIMITED.

BALANCE SHEET, 30th June 1908.

	£	s	d	£	s	d
To Share Capital.—						
Authorised—						
100,000 Shares of £1 each	10,000	0	0			
Issued—						
70,000 Shares of £1 each, 10s. paid .	35,000	0	0			
Less Unpaid Calls	1,876	10	0			
				33,123	10	0
,, Sundry Creditors				6,899	3	10
				£40,022	13	10

ARTHUR LAMPARD, } *Directors.*
K. F. ARBUTHNOT, }

	£	s	d	£	s	d
By Purchase Price of Estate as per Prospectus	3,881	6	8			
Less Transferred to Buildings, &c., being value thereof included in above purchase price	437	10	0			
				3,443	17	8
,, Development Expenditure to date over 16 months on felling, clearing, planting, and up-keep of immature cultivation ..	25,327	19	0			
,, London Expenses	367	14	3			
	25,695	13	3			
Less Profit on Coffee and Cocoanuts ..	634	4	0			
				25,061	9	3
,, Buildings, at Cost				2,065	1	0
,, Machinery and Plant, at Cost .				1,041	7	0
,, Furniture, at Cost . .				20	10	0
,, Coast and General Advances (recoverable)				3,012	10	0
,, Stores, &c., on hand—						
Materials, &c.	1,218	2	0			
Coffee and Rice	98	16	0			
				1,316	18	0
,, Sundry Debtors and Deposits				192	4	0
,, Cash in hand and at Bank				3,305	1	7
,, Preliminary Expenses				503	16	4
				£40,022	13	10

We have audited the foregoing Balance Sheet, and in our opinion the same is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs at June 30th 1908, according to the best of our information and the explanations given us, and as shown by the books of the Company.

We have obtained all the information and explanations which we have required.

THREADNEEDLE HOUSE,
28–31 BISHOPSGATE STREET WITHIN, LONDON, E.C.
October 17th 1908.

McAULIFFE, DAVIS & HOPE,
Chartered Accountants, Auditors.

THEATRE ROYAL, DRURY LANE, LIMITED.

BALANCE SHEET, 30th June 1912.

Dr. Liabilities	£ s d	£ s d
To Nominal Capital—		
125,000 Shares of £1 each		125,000 0 0
„ Subscribed Capital—		
1,000 Shares issued as fully paid	1,000 0 0	
7 Shares fully paid	7 0 0	
123,993 Shares 15s. per Share paid	92,994 15 0	
125,000		94,001 15 0
„ Sundry Creditors		6,923 5 6
„ Reserve Account		20,000 0 0
„ Repairs and Renewals Account—		
From Reserve Account	5,000 0 0	
Less Expenditure during the year, after charging £500 to Profit and Loss Account	2,245 19 4	
		2,754 0 8
„ Profit and Loss Account		9,680 18 6
		£133,359 19 8

Assets *Cr.*	£ s d
By Letters Patent, Leases, Fixtures, Fittings, Heating and Ventilating Apparatus, Stage Properties and Machinery, Additions and Alterations to Buildings, Workshops, Flats, Shops, &c., Furniture, Tools, Chattels and Effects, Estimated Value of Costumes, Scenery, Properties, &c., on Company's Productions	100,429 15 7
NOTE.—Leasehold Redemption Policies for £100,000 have been effected with the Alliance and Norwich Union Insurance Offices, upon which Premiums have been paid since 1901 inclusive.	
„ Deposit on Account of Rent	6,550 0 0
NOTE.—This amount has, under the terms of the Lease, been invested by the Lessor in £6,057 15s. 2d. New South Wales 3½% Stock.	
„ Cash at Bankers and in Hand (including £19,000 on deposit)	20,224 1 8
„ Sundry Debtors	1,375 2 10
„ Expenditure on Prospective Plays	3,182 18 0
„ Stock of Wines, Spirits, Cigars, &c.	154 1 4
„ Payments in Advance for Insurance, &c., unexpired	1,444 0 3
	£133,359 19 8

PROFIT AND LOSS ACCOUNT for the Year ending 30th June 1912

Dr.	£ s d	£ s d
To Rent, Rates, Taxes, Insurance, and Guarantee Premiums		9,742 5 6
„ Depreciations and Provision for Repairs and Renewals		1,743 19 0
„ Sundry Charges and Expenses—		
Lease Redemption Premiums	345 16 8	
Legal Charges	80 19 6	
Donations and Subscriptions	193 8 5	
Income Tax, Schedule D	1,260 15 11	
Auditors' Fees	125 0 0	
		2,006 0 6
„ Directors' Fees (excluding fees of Managing Director and Business Manager)		635 17 4
„ Balance, carried down		7,340 4 9
		£21,468 7 1
To Balance, carried to Balance Sheet		9,680 18 6
		£9,680 18 6

Cr.	£ s d	£ s d	£ s d
By Profit on Productions and Refreshments, Sundry Receipts, Interest and Rents (after deducting Working Expenses, Managing Director's and Business Manager's Remuneration)			21,468 7 1
			£21,468 7 1
„ Balance brought forward from last Account		£17,640 19 0	
Less—Dividend paid October 1911	9,400 3 6		
Bonus paid October 1911	4,700 1 9		
Directors' extra remuneration for year ending 30th June 1911	1,200 0 0		
		15,300 5 3	
			2,340 13 9
„ Balance brought down, being Profit for year			7,340 4 9
			£9,680 18 6

T. H. BIRCH,
A. R. STEPHENSON, } *Directors*
R. H. LINDO, *Secretary*

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF THEATRE ROYAL, DRURY LANE, LIMITED.

We have audited the Company's Balance Sheet, dated the 30th day of June 1912, above set forth.
We have obtained all the information and explanations we have required.
In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given us, and as shown by the Books of the Company.

7th October 1912

PANNELL & CO.,
Chartered Accountants, } *Auditors.*

VICKERS, LIMITED.

BALANCE SHEET at 31st December 1913.

	£	s	d	£	s	d
CAPITAL ACCOUNT.—						
Shares—4,440,000 Ordinary Shares of £1 each, all paid ..	4,440,000	0	0			
750,000 Five per cent. Preference Shares of £1 each, all paid .. £750,000 0 0						
Stock— Preferred 5% Stock .. 750,000 0 0	1,500,000	0	0			
				5,940,000	0	0
4% FIRST MORTGAGE DEBENTURE STOCK ..	1,250,000	0	0			
4½% SECOND MORTGAGE DEBENTURES	460,000	0	0			
5% THIRD MORTGAGE DEBENTURES ..	830,200	0	0			
Interest accrued ..	8,985	4	11			
				2,549,185	4	11
BILLS PAYABLE ..	43,293	14	3			
CREDITORS INCLUDING DEPOSITS AND LOANS ..	2,137,657	19	11			
				2,180,951	14	2
PREMIUMS ON 740,000 ORDINARY SHARES ISSUED AT £1 10s. PER SHARE ..	370,000	0	0			
RESERVE FOR WORKS EXTENSIONS ..	200,000	0	0			
GENERAL RESERVE ACCOUNT ..	500,000	0	0			
				1,070,000	0	0
PROFIT AND LOSS ACCOUNT (Including £236,439 8s. 9d. brought forward from the preceding year)	1,148,435	17	8			
Less— Interim Dividend for First Half-Year, 1s per Share (free of Income Tax) on the Ordinary Shares, and 2½% (less Income Tax) on the 5% Preference Shares and Preferred 5% Stock .. £257,312 10 0						
Amount transferred to General Reserve Account .. 300,000 0 0	557,312	10	0			
				591,123	7	8
				£12,331,260	6	9

	£	s	d	£	s	d
LAND, BUILDINGS, MACHINERY, TOOLS, PLANT, &c., at 31st December 1912 ..	3,757,020	4	0			
Additions *less* Depreciation, &c., to date ..	339,461	2	0			
				4,096,481	6	0
INTERESTS IN SUBSIDIARY AND CONNECTED COMPANIES ..				4,025,473	5	10
MARKETABLE SECURITIES ..				450,060	5	3
STOCK OF STEEL, IRON, TIMBER AND OTHER MATERIALS, and work in Progress *less* instalments received				1,656,701	0	3
SUNDRY BOOK DEBTS OWING TO THE COMPANY ..				1,832,855	14	1
CASH AND BILLS IN HAND				269,688	11	4
				£12,331,260	6	9

ALBERT VICKERS, } *Directors.*
V. CAILLARD, }

AUDITORS' REPORT

We have audited the above Balance Sheet and have obtained all the information and explanations we have required

The Stock-in-Trade has been certified by responsible officials of the Company to be valued at or under cost, and not exceeding Market prices. The additions to Buildings, Machinery and Plant have been approved by the Board, and details thereof have been laid before us

The Investments in Subsidiary and Connected Companies are taken at their book values, in no case exceeding cost; and the Investments in Marketable Securities are in the aggregate below their Market value.

In our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Company.

18th March 1914.

ALFRED TONGUE & CO., } *Joint Auditors.*
W. B. PEAT & CO., }

WALKER, MAYNARD & COMPANY, LIMITED.

Dr. PROFIT AND LOSS ACCOUNT, Year ending 30th June 1906. *Cr.*

Dr.	£ s d
To Materials, Stores, Wages, Charges, &c.	101,557 3 9
„ Balance carried down	43,814 19 0
	£445,372 2 9

Cr.	£ s d	£ s d
By Pig Iron and Ironstone Sales, &c ..		441,979 8 4
„ Royalties, Rents, Haulage, Shunting, Shipping, Stowing, &c.		2,323 15 0
„ Profits from Sale of Exchequer Bonds .		432 3 6
„ Interest from Investments ..		627 15 5
„ Transfer Fees		9 2 6
		£445,372 2 9

Dr.	£ s d
To Special Reserve Account for Reinstating Preference Capital	£2,346 16 6
„ Directors' and Managing Directors' Remuneration	3,100 0 0
„ Special Expenditure on Locomotives, Stoves, Kilns and New Water Main	2,010 14 3
„ Amount written off for Relining and Repairing Nos. 1, 3 & 4 Furnaces	5,000 0 0
„ Balance carried to Balance Sheet	31,652 6 3
	£44,109 17 0

Cr.	£ s d
By Balance brought down .. .	£43,814 19 0
„ Income Tax paid in 1904 recovered from the Commissioners of Inland Revenue	294 18 0
	£44,109 17 0

BALANCE SHEET at 30th June 1906.

Capital and Liabilities

		£ s d	£ s d
Share Capital—			
Authorised and Subscribed—			
160,000 Six per cent Cumulative Preference Shares of £1 each, fully paid		100,000 0 0	
80,000 Ordinary Shares of £1 each, fully paid		80,000 0 0	
			240,000 0 0
Debts due by the Company			32,172 14 4
Special Reserve Account—for Reinstating Preference Capital . . .			13,018 5 10
Profit and Loss Account –			
Balance brought from last year		27,026 5 2	
Balance brought from Profit and Loss Account above		31,652 6 3	
		58,678 11 5	
Deduct—			
Dividends paid on Preference Shares—			
For half-year to 30th June 1905	£4,800 0 0		
For half-year to 31st December 1905	4,800 0 0		
Dividend paid on Ordinary Shares—			
For year ending 30th June 1905	4,000 0 0		
		13,600 0 0	
			45,078 11 5
			£330,269 11 7

Property and Assets

	£ s d	£ s d
Freehold and Leasehold Land, Blast Furnaces, Mines, Cottages, Fixed and Loose Plant, Machinery, Tools, Rolling Stock, &c.—		
Amount as per last Account	245,771 0 8	
Additions to Plant at Mines and Furnaces during year to 30th June 1906	1,861 6 0	
		247,632 6 8
Relining and Repairing Nos. 1, 3 and 4 Furnaces (which will be written off out of profits over a period of years)	12,065 15 8	
Less amount written off this year ..	5,000 0 0	
		7,065 15 8
Stock of Pig Iron, Minerals, Sundry Stores and Materials		21,417 10 1
Debts due to the Company		8,732 4 9
Investments—£20,000 2¾ per cent. Irish Land Guaranteed Stock & £5,000 India 3 per cent. Stock		22,889 11 0
Cash at Bankers and in Hand—		
National Provincial Bank of England, Lim.	22,443 15 5	
Cash in Hand	88 1 0	
		22,531 16 5
		£330,269 11 7

J. H. LINTON, *Secretary.*

W. EDEN WALKER, C. ARTHUR HEAD, } *Directors.*

AUDITORS' CERTIFICATE AND REPORT.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with, and we report as follows :—

We have examined the foregoing Account and Balance Sheet with the Books and Vouchers relating thereto, and find them to be accurately stated and properly vouched. The Balance Sheet is a full and fair one, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the Books. The Stocks have been taken and valued by the Company's Officials, and are certified by the Managing Directors and the Secretary. The Investments appear in the Balance Sheet at their book value which is slightly above the market value of the day.

No Depreciation has been written off during the year ending 30th June 1906.

W. B. PEAT & CO.,
Chartered Accountants, Auditors.

MIDDLESBROUGH, *24th July* 1900.

THE WALL PAPER MANUFACTURERS, LIMITED.

PROFIT AND LOSS ACCOUNT, Year ending 31st August 1905

	£	s	d
Debenture Interest for the year ending 31st August 1905 ..	39,711	3	8
Interim Dividend on Preference Shares for the half-year to 28th February 1905, paid 29th April 1905	24,652	16	6
Income Tax	3,649	14	7
Balance for appropriation as appearing in the Balance Sheet	290,727	12	2
	£358,741	6	11

	£	s	d	£	s	d	£	s	d
Balance from last year's Account—									
Balance for appropriation at 31st August 1904				256,936	12	8			
Less Final Dividend on Preference Shares paid 31st October 1904 ..	24,652	16	6						
Dividend on Ordinary Shares paid 30th November 1904	86,769	13	7						
Reserve Fund . ..	30,000	0	0						
				141,422	10	1			
							115,514	2	7
Profit for the year on Trading, after making provision for Depreciation and Bad and Doubtful Debts, Dividends on Investments, and Interest				242,887	14	9			
Transfer Fees				339	9	7			
							243,227	4	4
							£358,741	6	11

BALANCE SHEET, 31st August 1905.

Liabilities

	£	s	d
Capital Issued and Subscribed—			
986,113 Preference Shares of £1 each, fully paid ..	986,113	0	0
1,084,621 Ordinary Shares of £1 each, fully paid ..	1,084,621	0	0
1,084,621 Deferred Shares of £1 each, fully paid ..	1,084,621	0	0
	3,155,355	0	0
Four per cent. First Mortgage Debenture Stock ..	986,113	0	0
Creditors, *less* Discounts	92,653	18	1
Rent and Taxes accrued	1,907	8	4
Reserve Fund	130,000	0	0
Profit and Loss Account—Balance for appropriation ..	290,727	12	2
	£4,656,756	18	7

Assets

	£	s	d	£	s	d
Capital Expenditure on Land, Buildings, Plant, Machinery and Goodwill, as per last Balance Sheet	3,221,861	8	6			
Additions during the Year . ..	89,578	1	9			
	3,311,439	10	3			
Less Depreciation for the Year ..	30,000	0	0			
				3,281,439	10	3
Investments :—						
Local Loans Stock £110,000 at 95 per cent.	104,500	0	0			
Loans to Municipal Authorities ..	100,000	0	0			
Other Securities	136,828	3	10			
				341,328	3	10
Stock-in-Trade				512,237	18	2
Debtors, *less* Reserve for Bad and Doubtful Debts				300,685	8	9
Insurance, &c., paid in advance				5,405	9	2
Bills receivable at Bankers and in hand				132,747	12	5
Cash at Bankers and in hand				82,912	16	0
				£4,656,756	18	7

W. B. HUNTINGTON, *Chairman*
JOHN COCKSHUT, } *Directors.*
G. W. OSBORN, }
JOHN E. ENTWISLE, *Secretary.*

To the Shareholders of THE WALL PAPER MANUFACTURERS, LIMITED:
We hereby Certify that all our requirements as Auditors have been complied with. We have to report that in our opinion the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the Books of the Company.

EDWIN GUTHRIE & CO., Chartered Accountants,
Auditors.

MANCHESTER, 23rd October 1905.

AUX CLASSES LABORIEUSES LIMITED.

BALANCE SHEET, at 31st January 1910.

Liabilities

	£	s	d	£	s	d
Authorised Capital—						
75,000 Cumulative 7 per cent. Preference Shares of £5 each	375,000	0	0			
150,000 Cumulative 7 per cent. "B" Preference Shares of £1 each .	150,000	0	0			
250,000 Ordinary Shares of £1 each ..	250,000	0	0			
	£775,000	0	0			
Capital Subscribed and Issued—						
75,000 Cumulative 7 per cent. Preference Shares of £5 each .. .	375,000	0	0			
74,786 Cumulative 7 per cent. "B" Preference Shares of £1 each .	74,786	0	0			
250,000 Ordinary Shares of £1 each, issued to the vendors fully paid ..	250,000	0	0			
	699,786	0	0			
Less calls in arrear	282	6	8			
				699,503	13	4
5 per cent. First Mortgage Debenture Stock	185,000	0	0			
Deduct Amount drawn for Redemption	57,140	0	0			
				127,860	0	0
Capital Reserve Fund				10,174	4	5
Reserve Fund—						
Amount as per last Balance Sheet ..	30,120	2	1			
Deduct Written off for cost of underwriting 74,786 "B" Preference Shares	7,478	12	0			
	22,641	10	1			
Add Amount transferred from Profit and Loss Account .	4,382	2	5			
				27,023	12	6
Sundry Creditors—						
Paris	43,165	2	1			
London	24,529	14	3			
				67,694	16	4
Debenture Stock Redemption Fund—						
Amount as per last Balance Sheet ..	57,619	10	0			
Deduct 5 per cent. premium on £9,530 drawn for Redemption on 14th March 1909	476	10	0			
	57,143	0	0			
Add Amount set aside 31st January 1910	10,000	0	0			
				67,143	0	0
Profit and Loss Account—Balance ..				32,863	10	11
				£1,032,262	17	6

Assets

	£	s	d	£	s	d	£	s	d
Freehold Purchase Account, as per last Balance Sheet				48,145	9	6			
Building Account—									
As per last Balance Sheet	77,414	19	1						
Additions during the year	1,715	5	1						
				79,130	4	2			
							127,275	13	8
Leasehold Premises and Goodwill							306,953	11	4
New Leaseholds as per last Balance Sheet				268	1	10			
Less Amount written off . .				17	2	2			
							250	19	8
Rents Paid in Advance .							2,298	16	0
Furniture, Fittings and Fixtures .				7,872	19	0			
Less Amount written off for Depreciation				704	18	0			
							7,168	1	0
Sundry Debtors—									
Trade Debtors (after making full provision for debts considered doubtful) as shown in General Ledger ..				371,173	14	7			
Less difference between the above and the Amount shown by the Lists of Debtors written off to Profit and Loss Account ..				12	4	5			
				371,161	10	2			
Other Debtors				1,598	10	4			
				372,760	0	6			
Less Additional Reserve for contingencies				7,455	4	0			
							365,304	16	6
Stock on Hand at cost or under .. .							46,012	7	1
Cash at Bankers and in Hand—									
Paris				3,063	3	9			
London				27,016	18	9			
							30,080	2	6
Loans and Accrued Interest .. .							7,477	8	3
Sundry Investments at Cost .. .							46,603	13	7
"B" Preference Shares Issue Expenses				3,546	14	11			
Less One-fifth written off .				709	7	0			
							2,837	7	11
							£1,032,262	17	6

AUX CLASSES LABORIEUSES, LIMITED—*continued.*

PROFIT AND LOSS ACCOUNT for the Year ending 31st January 1910.

	£ s d	£ s d
To London Expenses—		
Rent of Offices and Secretarial Services	700 0 0	
Printing and Stationery	495 2 7	
General Charges	494 13 10	
Advertising	236 14 9	
Travelling Expenses	18 14 10	
		1,945 6 0
„ Paris Transfer Office—Rent and Salaries		392 14 2
„ Directors' and Trustees' Fees		1,166 3 5
„ Auditors' Fee and Expenses		735 0 0
„ Legal Expenses		37 19 8
„ Interest on Debenture Stock, paid and accrued ..		6,452 13 8
„ Income Tax		1,055 17 9
„ Furniture, Fittings and Fixtures, amount written off for Depreciation		704 18 0
„ Reserve for Contingencies		504 15 10
„ New Leaseholds, amount written off		17 2 2
„ Difference in Balancing Accounts, viz. Excess of Amount shown by the General Ledger to be due from debtors over the actual amount found to be due on taking out lists of Debtors		12 4 5
„ "B" Preference Shares Issue Expenses—One-fifth written off		709 7 0
„ Balance carried down		81,005 11 7
		£94,739 13 8

	£ s d	£ s d
By Net Profit on Trading Account, after paying Paris Rent, Salaries of General Expenses, and making provisions for Bad and Doubtful Debts	90,628 11 2	
Less Exchange, being difference in remitting rates and par value at which the figures in these Accounts are taken	417 12 0	
		90,210 19 2
„ Transfer Fees		95 1 0
„ Dividends on Investments		3,043 9 3
„ Interest Account—Balance		1,271 10 1
„ Bad Debt Recovered—P. Macfadyen & Co. (in Liquidation)		118 14 2
		£94,739 13 8

	£ s d
To Dividends Paid on Preference Shares at 7 % per annum	29,522 0 2
„ Interim Dividend Paid on Ordinary Shares at 4% ..	10,000 0 0
„ Amount set aside in accordance with the Trust Deed dated 29th May 1903 for Redemption of Debenture Stock	10,000 0 0
„ Reserve Account amount transferred being 10% on Balance of Profit after payment of Dividend on Preference Shares	4,382 2 5
„ Management Commission	7,662 6 11
„ Balance carried to Balance Sheet (subject to Preference Dividends accrued from 15th November last £6,642 0s. 11d.)	32,863 10 11
	£94,430 0 5

	£ s d	£ s d
By Balance brought down, being Net Profit for the year		81,005 11 7
„ Balance brought forward from last Balance Sheet	25,924 8 10	
Less Final Dividend on Ordinary Shares for the year ended January 31st 1909 at 5%, making 9% paid for the year	12,500 0 0	
		13,424 8 10
		£94,430 0 5

On behalf of the Board, D. DALZIEL, JAMES LEE, } *Directors.*

AUDITORS' REPORT.

We have examined the above Balance Sheet and Profit and Loss Account, and compared them with the Books and Vouchers in London and Paris, and find them in accordance therewith.

The system of keeping the Debtors' Accounts which was sanctioned by the General Meeting in July 1900, and which, having regard to the nature and magnitude of the Company's business, extending to about 250,000 accounts, we do not think could be improved upon, except at a heavy annual expense, prevents us from actually verifying the total amount of the Sales and the correctness of the list of Debtors. The difference of £12 4s. 5d. between the balance shown by the General Ledger and the total of the lists has been written off to Profit and Loss.

We have obtained all the information and explanations we have required, and subject to these remarks the Balance Sheet is in our opinion properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company.

41 Coleman Street, London, E.C.
23rd June 1910.

TURQUAND, YOUNGS & CO., *Auditors.*

CREDIT LYONNAIS.

RÉSUMÉ DU BILAN GÉNÉRAL DÉFINITIF au 31 Décembre 1907.

Actif	Fr.	*Passif*	Fr.
Espèces en Caisse et dans les Banques	150.060.798 98	Dépôts et Bons à vue	682.082.403 06
Portefeuille	1.094.966.467 70	Comptes courants	871.953.524 01
Avances sur Garanties et Reports	297.155.630 58	Acceptations	132.203.529 05
Comptes courants	568.448.897 90	Bons à échéance	50.115.293 43
Portefeuille Titres (Actions, Bons, Obligations et Rente)	8.280.206 97	Comptes d'ordre et Divers	7.319.983 81
Comptes d'ordre et Divers	1.342.578 84	Profits et Pertes (Bénéfices de l'Exercice 1907)	34.110.630 05
Immeubles	35.000.000 „	Solde du compte (Profits et Pertes) des Exercices antérieurs	2.469.217 56
		Réserves diverses	125.000.000 „
		Capital entièrement versé	250.000.000 „
Total .. .. Fr.	2.155.254.580 97	Total .... Fr.	2.155.254.580 97

RÉSUMÉ DU L'INVENTAIRE.

	Fr.		Fr.
Solde créancier	34.110.630 05	Bénéfices de l'Exercice 1907	34.110.630 05

BILANZ DER DEUTSCHEN BANK.

AM 31 DEZEMBER 1906.

Aktiva				
Kasse	86,953,464	49		
Sorten, Coupons und zur Rückzahlung gekündigte Effekten	23,562,035	65	110,515,500	14
Guthaben bei Banken und Bankiers	79,072,875	83		
Wechsel und kurzfristige Reichsschatzanweisungen	540,409,798	37		
Report und Darlehen	209,342,100	38		
Lombard-Vorschüsse	17,979,535	40	846,804,309	98
Eigene Effekten (darunter für M. 58 Millionen Deutsche Staatsanleihen und Reichsschatzscheine)			72,421,074	90
Eigene Beteiligungen an Konsortial-Geschäften			45,341,544	86
Kommanditen			992,800	—
Dauernde Beteiligungen bei fremden Unternehmungen			78,996,914	20
Debitoren in laufender Rechnung, gedeckte	443,566,352	31		
Debitoren in laufender Rechnung, ungedeckte	132,035,123	17	575,601,475	51
ausserdem Bürgschaft-Debitoren M. 63,534,089 89				
Vorschüsse auf Waren und Rembours-Konto (Berlin)			57,823,308	62
Anlagen des Dr. Georg von Siemens'-schen Pension- und Unterstützung-Fonds			4,313,500	—
Immobilien			20,051,680	24
Mobilien			405	—
		Mark	1,812,862,513	45

Passiva				
Aktien.Kapital			200,000,000	-
Reserven · Ordentliche Reserve A	66,388,031	30		
„ „ B	24,710,528	82		
Kontokorrent-Reserve	6,000,000		97,098,560	12
Depositen-Gelder			380,926,001	11
Kreditoren in laufender Rechnung			869,818,127	97
Erlös nicht eingetauschter Aktien II Serie			2,414	10
Accepte im Umlauf			226,110,088	61
ausserdem Bürgschaften M. 63,534,089 89				
Dividende, unerhoben			33,048	—
Dr. Georg von Siemens'schen Pension- und Unterstützung Fonds			5,099,378	-
Uebergangposten der Zentrale und der Filialen untereinander			1,627,019	50
Gewinn- und Verlust-Konto			29,147,876	04
		Mark	1,812,862,513	45

GEWINN- UND VERLUST-KONTO.

Debet.		
An Handlungs-Unkosten-Konto (worunter M. 2,165,157. 25 für Steuern und Abgaben)	18,212,847	49
„ Abschreibungen auf Immobilien	2,216,873	21
„ „ „ Mobilien	375,440	01
„ Saldo, zur Verteilung verbleibender Ueberschuss	29,147,876	04
Mark	49,553,037	15

Kredit				
Per saldo aus 1905			1,040,718	42
„ Gewinn auf Wechsel- und Zinsen-Konto	22,001,921	71		
„ Gewinn auf Sorten, Coupons und zur Rückzahlung gekündigte Effekten	398,184	91		
„ Gewinn auf Effekten	2,142,640	09		
„ „ „ Konsortial - Geschäfte	5,671,896	95		
„ „ „ Provisions - Konto	12,764,382	32		
„ „ aus dauernden Beteiligungen bei fremden Unternehmungen und Kommanditen	5,923,292	75	48,912,318	73
		Mark	49,953,037	15

Vorstehende Bilanz, sowie das Gewinn- und Verlust-Konto haben wir geprüft und mit den Büchern der Deutschen Bank übereinstimmend gefunden

Berlin, den 8. Marz 1907.

Die Revisions-Kommission des Aufsichtsrates.

BÜSING, JONAS, WALLICH, ZWILGMEYER.

Der Vorstand der Deutschen Bank.

A. GWINNER. E. HEINEMANN. C KLÖNNE. R. KOCH.

P. MANKIEWITZ. L. ROLAND-LUCKE. G. SCHRÖTER.

SOUTH MANCHURIA RAILWAY COMPANY.

ACCOUNTS FOR THE FISCAL YEAR ENDED 31ST MARCH 1919

GENERAL BALANCE SHEET on 31st March 1919.

Assets.

	Yen	Yen.
Capital Unpaid		26,000,000.000
Stores		43,395,684.408
Coal and other Mineral Products in Stock		1,288,491.704
Shares in other Companies and other negotiable documents		5,226,433.550
Capital Expenditure		
Railway . .	106,164,945.465	
Steamship	2,523,867.073	
Electricity	6,281,864.726	
Gas .. .	2,040,344.247	
Anzan Steel Works	9,348,332.625	
Fushun Colliery Industrial Enterprises	6,853,011.222	
Harbour and Wharves .	26,672,847.795	
Mines	70,283,930.139	
Workshops ..	8,101,693.074	
Hotels .. .	2,136,950.185	
Public Institutions	7,922,115.826	
Land	17,907,695.735	
Buildings . .	21,119,902.889	
		287,357,507.326
Sundry Debtors		8,782,798.714
Payments on Suspense Account		15,192,498.066
Loans		11,693,233.630
Payments on account of uncompleted works (Workshops)		5,412,357.872
Do. (Construction)		23,122,171.868
Collateral Securities		703,881.600
Deposits		11,828.706
Agencies		72,315.900
Postal and Revenue Stamps		15,268.806
Cash in hand		573,368.408
		428,847,839.957

Liabilities

	Yen.	Yen.
Capital Authorised	200,000,000.000	
Capital subscribed		180,000,000.000
Reserve prescribed by Law . ..		3,523,994.680
Special Reserve		23,400,000.000
Debentures		137,156,000.000
Suspense Capital Account (of Chosen Lines)		10,792,822.000
Operation Capital and Stock (of Chosen Lines)		721,513.219
Sundry Creditors		32,570,513.888
Receipts on Suspense Account .		2,865,954.493
Employees' Savings Deposits ..		6,197,619.880
Guarantee Money		616,306.190
Mutual Relief Society Fund . ..		278,555.600
Mutual Relief Society Fund (exclusively of Chosen Lines) . .		381,091.230
Bank Overdrafts		244,569.670
Balance brought forward from last Term	7,905,727.953	
Balance for the Term . ..	22,193,171.416	
		30,098,899.369
		428,847,839.957

SOUTH MANCHURIA RAILWAY COMPANY—*continued.*

Dr. PROFIT AND LOSS ACCOUNT for the Fiscal Year ended 31st March 1919. *Cr.*

	Yen.		Yen.
To Railway Expenditure	17,038,156.840	By Railway Receipts	44,992,871.670
„ Steamer „	2,007,503.980	„ Steamer „	2,293,574.220
„ Mining „	25,514,820.340	„ Mining „	32,597,229.880
„ Harbour „	4,494,169.930	„ Harbour „	4,532,914.410
„ Land „	4,952,579.810	„ Land „	2,545,486.080
„ Hotels „	638,985.480	„ Hotels „	737,355.430
„ Electricity „	1,267,447.580	„ Electricity „	2,062,061.280
„ Gas „	295,777.630	„ Gas „	496,455.600
„ Colliery Industrial Expenditure	3,167,772.840	„ Fushun Colliery Industrial Receipts	3,222,640.890
„ Sundry Losses	1,288,407.0	„ Sundry Receipts	1,632,618.317
„ General Management Expenditure	5,090,666.4[illegible]	„ Interest on Invested Funds	1,144,669.850
„ Interest on Debentures	6,553,622.5[illegible]		
„ Writing off Discount on Debenture Issue	518,093.940		
„ Interest on Loans Borrowed	1,236,701.210		
„ Balance for the Term	22,193,171.416		
	96,257,877.007		96,257,877.007

	Yen.		Yen.
To Reserve prescribed by Law	1,109,658.580	By Balance brought forward from the preceding Term	7,905,727.953
„ Dividend on Government Shares	3,500,000.000	„ Balance for the Term	22,193,171.416
„ Dividend to Shareholders other than the Government, at the rate of 6% per annum	3,120,000.000		
„ Supplementary Dividend to Shareholders other than the Government, at the rate of 4% per annum ..	2,080,000.000		
„ Special Reserve	5,000,000.000		
„ Debentures Redemption Fund	7,000,000.000		
„ Bonuses and Social Expenses to Officers	300,000.000		
„ Retirement Allowance	170,000.000		
„ Balance carried forward to the next Term	7,819,240.789		
	30,098,899.369		30,098,899.369

THE NIPPON YUSEN KAISHA.

(JAPAN MAIL STEAMSHIP COMPANY, LIMITED)

BALANCE SHEET, 30th September 1904

Liabilities	*Yen*
Share Capital	22,000,000.^{000}
Debentures	800,000.^{000}
Insurance Fund	2,532,069.^{686}
Ships' Structural Repair Fund	2,885,911.^{119}
Reserve Fund	1,987,515.^{656}
Dividend Equalisation Fund	3,300,000.^{000}
Fund for the Extension of Services and Improvement of the Fleet	3,500,000.^{000}
Pension Fund for Employees	283,002.^{630}
Sundry Creditors	4,680,974.^{238}
Amount brought forward from last account	1,006,357.^{611}
Net Profit for the half-year	1,430,804.^{598}
	Yen 44,406,635.^{538}

Assets	*Yen*
Reduced Book Value of Fleet	24,588,132.^{935}
Reduced Book Value of Launches, Barges, &c.	179,394.^{981}
Payment on account of New Ships	619,527.^{206}
Buildings and Land	3,891,764.^{374}
Yangtse-Kiang Line Account	1,531,528.^{180}
Yokohama Stores Department, &c	1,007,546.^{997}
Public Loans and other Securities	4,622,869.^{890}
Cash at Bankers and in Hand	6,438,556.^{610}
Coal in Stock	12,067.^{965}
Sundry Debtors	1,515,247.^{110}
	Yen 44,406,635.^{538}

PROFIT AND LOSS ACCOUNT

	Yen
To Depreciation of Fleet and Property	751,037.^{980}
„ Insurance Fund	348,661.^{390}
„ Ships' Structural Repair Fund	450,640.^{810}
„ Reserve Fund	71,540.^{230}
„ Directors and Auditors' Fee	71,358.^{110}
„ Dividend (10%)	1,100,000.^{000}
„ Special Dividend (2%)	220,000.^{000}
„ Balance carried forward to next Account	974,263.^{869}
	Yen 3,987,502.^{389}

	Yen
By Balance brought forward, 31st March 1904	1,006,357.^{611}
„ Amount of Gross Profits for the half-year ended 30th September 1904	2,981,144.^{778}
	Yen 3,987,502.^{389}

We have examined the above Accounts with the Books and Vouchers of the Company and find them to be correct.

TAKESHI ARISHIMA,
TOKUJIRO OBATA,
TATSUMI IIDA, } *Auditors.*

TOKIO, 26*th November* 1904.

THE SWADESHI LIFE ASSURANCE COMPANY, LIMITED, BOMBAY.

REVENUE ACCOUNT for the Year ending 31st December 1909.

	Rs.	a.	p.		Rs.	a.	p.
Premiums for the year less paid for Re-assurances ..	17,729	7	0	Claims Paid	2,500	0	0
Interest, Fines and Fees	455	12	10	Agents' Commission, Advertising, and Travelling Charges	6,688	2	7
Balance carried down	4,645	13	4	Establishment	6,060	4	9
				Directors' and Auditors' Fees .	1,400	0	0
				Medical Fees and Policy Stamps . .	2,281	6	0
				Rent and Taxes	1,750	15	10
				Postages and Telegrams .. .	332	7	6
				Printing and Stationery	1,567	6	3
				Miscellaneous Charges .. .	250	6	3
	Rs. 22,831	1	2		Rs. 22,831	1	2
Amount of Funds at the beginning of the year ..	29,972	0	11	Balance brought down from above .	4,645	13	4
Application Deposits and Allotment Money on Shares	7,625	0	0	Amount of Funds at the end of the year	32,951	3	7
	Rs. 37,597	0	11		Rs 37,597	0	11

BALANCE SHEET as on the 31st December 1909.

Capital and Liabilities	Rs.	a.	p.	Rs	a.	p.
Capital—						
Subscribed, 2,672 Shares of Rs. 100 each, called up at Rs 15 per Share	40,080	0	0			
Add Calls in advance	40	0	0			
	40,120	0	0			
Less Calls Unpaid	1,980	0	0			
Paid-up Capital				38,140	0	0
Investment Reserve Fund				388	12	0
Adjusting Account				1,043	2	0
				Rs. 39,571	14	0

Property and Assets	Rs	a.	p.	Rs.	a.	p
Cash and Investments .						
Cash on Hand and with Bankers .	1,989	12	11			
4% Bombay Port Trust Debentures	17,000	0	0			
				18,989	12	11
Agents' Balances and Outstanding Premiums ..				3,684	15	5
Furniture and Fittings				2,207	8	0
Preliminary Expenses				9,[illegible]00	13	3
Balance of Revenue Account up to date .				5,188	12	5
				Rs. 39,571	14	0

K. SUBRAMANI AIYAR, B.A., F.S.A.A. (Lond.), *Manager.*

LALUBHAI SAMALDAS, *Chairman.*

FRAMROZE R. JOSHI,
MANECKJEE H. DAWUR,
CHUNILAL V. NEHTA,
CHOONILAL D. SARAIYA,
R. ROW, } *Directors.*

I have examined the foregoing Accounts with the Books and Vouchers of the Company, and verified the Cash and Securities on hand and I hereby certify that, in my opinion, the above Balance Sheet exhibits the true position of the Company on 31st December 1909, and is in conformity with the law.

N. R. MISTRI, C.A., F.S.A.A. (*Incorporated Accountant*). *Auditor.*

BOMBAY, 31*st January* 1910,

THE PUNJAB AND SIND BANK, LIMITED, AMRITSAR.

BALANCE SHEET for the Half-year ending 30th June 1909.

Liabilities	Amount	Total
Capital :—		
Authorised Rs. 10,00,000 in Shares of 50 each.		
Subscribed Rs. 7,30,250 in 14,605 Shares.		
Paid up 10,000 Shares at 12-8 each ..	125,000 0 0	
„ 4,292 „ 7-8 „ ..	32,190 0 0	
„ 313 „ 5-0 „ ..	1,565 0 0	
	158,755 0 0	
Less Arrears	14,632 8 0	
	144,122 8 0	
Received in Advance of Calls ..	2,424 13 4	146,547 5 4
Reserved Fund (invested in Government paper) . . .	..	1,000 0 0
Deposits :—		
Fixed	392,637 0 0	
Saving . . .	46,711 13 0	
Floating .. .	104,625 15 3	
Widows and Orphans	9,262 2 7	
Prudential (just opened) .	40 2 7	553,277 1 5
Bills for Collection . .		25,441 3 8
Unpaid Dividend		466 11 9
Balance between Head Office and Branches		1,908 6 6
Profit and Loss Account (by balance at credit)	..	5,970 0 9
		734,610 13 5

Assets	Amount	Total
Cash Credits, Loans Bills discounted, Promissory Notes and temporary Overdrafts :—		
(*a*) Debts considered good for which the Bank holds Bills or other Securities	603,902 5 7	
(*b*) Debts considered good for which the Bank holds no Securities	Nil	
(*c*) Debts considered Doubtful or Bad	Nil	603,902 5 7
Furniture (including Safes and Fixtures)	3,339 7 9	
Stationery in stock	1,479 13 11	
Reference Books and Calculators in stock	31 8 0	
Stamps in stock	283 10 0	5,134 7 8
Preliminary Expenses ..	..	1,000 0 0
Drafts in hand	..	2,509 7 8
Bills for collection as per contra ..		25,441 3 8
Cash in hand with Bankers and Agencies		95,682 0 10
Government Promissory Note of Rs. 1,000 (cost price)		941 4 0
		734,610 13 5

PROFIT AND LOSS STATEMENT for the Half-year ending 30th June 1909.

Expenditure	Amount	Total
Depositors' Interest	..	9,174 4 6
General Charges .	980 7 10	
Postage ..	196 9 8	
Establishment .	5,635 6 5	
Rent and Taxes	494 5 0	7,306 12 11
		16,481 1 5
Balance at Credit . ..	..	5,970 0 9
		22,451 2 2

Income	Amount	Total
By Balance from last half-year .		821 12 3
Interest and Discount ..	19,789 13 4	
Commission and Hundiana ..	954 15 3	
Safe Custody Fee . ..	66 2 0	
Miscellaneous	35 15 4	20,846 13 11
Premium on Shares	.	782 8 0
		22,451 2 2

We hereby certify that we have examined the above Balance Sheet and Revenue Accounts of the PUNJAB & SIND BANK, LIM., with the Books at the Head Office, Amritsar, together with the Returns from the various Branches, for the half-year ending 30th June 1909, and have found these correct, as shown by the Books and Returns on that day.

We also certify that the above Balance Sheet has been drawn, as near as circumstances permit, in accordance with the law.

Profit and Loss Statement. Examined and found correct.

AMRITSAR, 10*th July* 1909.

LEHNA SINGH,
HUKAM SINGH, B.A., LL.B., } *Hon. Auditors.*

SUNDAR SINGH, Majithia, *Chairman.*
MAHINDAR SINGH,
MEHR SINGH, Chawia, } *Directors*
VIR SINGH,
TRILOCHAN SINGH, M.A., LL.B., *Managing Director.*
SURJAN SINGH, *Secretary.*

SURJAN SINGH, *Manager.*
LAL SINGH, *Accountant.*

The following Directors, being not in station, have not signed the Balance Sheet :—Sirdars Dharm Singh, Baghel Singh, Shivdev Singh, and Hon'ble L. Harkishen Lal.

TREACHER & CO., LIMITED.

BALANCE SHEET OF TREACHER & CO., LIM.

Made up to the 31st March 1912.

Dr. *Cr.*

Capital and Liabilities

		Rs a p	Rs a p
I—Capital.	**Capital** consisting of— 2,000 Shares of Rs. 500 each, fully paid up		10,00,000 0 0
II—Debts and Liabilities of the Company.	**National Bank of India**	20,572 8 8	
	Foreign Agencies for Goods bought and shipped and Local Claims	63,744 1 2	
	Unpaid Establishments for March	7,281 14 7	
	Unclaimed Dividends	7,600 0 0	
			99,198 8 5
VI—Reserve Fund.	**General Reserve Fund**— Total Funds as per last Account	6,14,326 5 4	
	Less—Transferred to Profit and Loss Account in accordance with Resolution passed at last General Meeting ..	1,06,970 5 0	
		5,07,356 0 4	
	Add—Increase in value ..	748 2 0	
			5,08,104 2 4
	Balance brought from Profit and Loss Account..		28,770 9 9
	Total Rupees ..		16,36,073 4 6

Property and Assets

		Rs a p	Rs a p	Rs a p	Rs a p
III—Property held by the Company.	**Fort Premises** original cost ..	2,49,469 10 10			
	Additions from March 1870 to March 1907	82,398 8 6			
			3,31,868 3 4		
	Less—Depreciation already written off		37,307 8 10		
				2,94,560 10 6	
	Poona Premises, original cost	75,000 0 0			
	Additions from October 1863 to March 1901	19,647 10 0			
			94,647 10 0		
	Less—Depreciation already written off		64,162 13 2		
				30,484 12 10	
	British Hotel Lane Property, last Account ..		1,60,347 1 9		
	Additions this year		234 2 11		
				1,60,581 4 8	
					4,85,626 12 0
	Plant—Fixtures and Fittings. Actual Cost from October 1863 to March 1911		2,23,068 4 8		
	Additions this year		1,890 9 9		
				2,24,958 15 5	
	Less—Depreciation written off to 31st March 1911.. ..			1,56,292 12 0	
					68,666 3 5
	Stock-in-Trade per Certified Inventory— Bombay and Poona Stocks at Invoice Cost, *plus* charges ..			6,82,433 14 0	
	Goods at Sea at Invoice Value			24,616 14 0	
					7,07,050 12 0
IV—Debts owing to the Company.	**Book Debts**			1,73,805 8 11	
	Less—Bad and Doubtful Debts written off			608 4 9	
					1,73,197 4 2
	Insurance Premia applicable to next year			..	2,328 3 3
	Bombay Port Trust Bonds value at 31st March 1912 .			1,71,827 8 0	
	Government Paper do. do.			8,685 0 0	
					1,80,512 8 0
V—Cash and Investments	Deposit on Arms			..	9,891 0 0
	Cash in Hand, Bombay and Poona			5,336 9 8	
	Deposit with Government, &c , for Contracts			3,464 0 0	
					8,800 9 8
	Total Rupees			..	16,36,073 4 6

We have examined the above Balance Sheet and compared it with the Books and Vouchers of the Company, and with the certified Stock Books and Banker's Balances, and certify that, to the best of our knowledge and belief, it is correct and in conformity with the Law

A. F. FERGUSON & CO.,
Chartered Accountants.
CORNFORTH & MISTRI.
Incorporated Accountants,
} *Auditors.*

BOMBAY, *19th July 1912.*

F. W. HOCKERDAY,
General Manager.

ROBERT BARLOW,
K. N. SAHIAR,
R. PATERSON BROWN,
W. A. M. LATTEY,
} *Directors.*

TREACHER & CO., LIMITED—*continued.*

PROFIT AND LOSS ACCOUNT for the Year ending 31st March 1912.

	Rs a p	Rs a p		Rs a p	Rs a p
To Balance as per last Balance Sheet..	46,970 5 0		By Amount transferred from General Reserve Fund	71,970 5 0	
" Dividend at 6% for the year 1910-11	60,000 0 0		" Amount transferred from Reserve Fund for equalisation of Dividends	35,000 0 0	1,06,970 5 0
		1,06,970 5 0			
		1,06,970 5 0			1,06,970 5 0
" Salaries and Wages	87,451 14 7		" Balance of Stock Account, 1911-12	..	1,54,758 14 3
" Directors' Fees..	5,400 0 0				
" Medical and Auditors' Fees .	1,332 0 0		" Interest	5,839 8 10	
" Miscellaneous Expenses, including Telephone, Ground Rent, &c. ..	6,443 11 1		" Transfer Fees, Certificate Renewal Fees	139 3 0	
" Travelling Expenses	947 7 0				
" Advertising	7,713 15 9		" Unclaimed Dividends forfeited ..	1,085 0 0	
" Printing and Stationery and Postages	9,346 9 4				
" Law Charges	940 6 6		" Amount recovered on Erased Accounts	2,495 13 2	9,559 9 0
" Taxes, Licenses, Lighting and Power for Lifts	8,920 4 9				
" Repairs to Buildings and Lift and Plant	2,948 3 9				
" Insurance Premia on Properties and Stock	3,495 0 0				
" Bad and Doubtful Debts written off	608 4 9	1,35,547 13 6			
" Balance carried to Balance Sheet ..		28,770 9 9			
	Total . . Rs	1,64,318 7 3		Total.. .Rs.	1,64,318 7 3

Examined and found correct,

A. F. FERGUSON & CO., *Chartered Accountants*
CORNFORTH & MISTRI, *Incorporated Accountants*, } *Auditors.*

F. W. HOCKERDAY, *General Manager*

ROBERT BARLOW,
K. N. SAHIAR,
R. PATERSON BROWN,
W. A. M. LATTEY, } *Directors*

BOMBAY, *19th July* 1912.

CHAPTER XXII.

THE CRITICISM OF ACCOUNTS.

A CRITICISM of accounts in detail—such as involves an inquiry into the detailed record of individual transactions, or even such as involves an inquiry into the summarised effect of such transactions with a view to verifying the periodical summaries (as exemplified by Balance Sheets and by various forms of Revenue Accounts)—comes properly under the heading of Auditing, and can therefore only be dealt with superficially in the course of the present work. For the same obvious reason it is unnecessary to discuss at length the importance of such an inquiry being conducted only by those who—by their previous training—are properly qualified to undertake the discharge of duties which, it must be admitted, are of a highly technical and responsible nature. At the same time, this work would not be complete without some brief reference to the subject, if only for the reason that those who do not pose as being expert Auditors may require some guidance as to the circumstances under which it is expedient that they should seek professional aid.

In approaching this subject, it is perhaps desirable to draw attention to the exact nature of those accounts that would, under ordinary circumstances, fall into the hands of a layman, upon which he might require to exercise his critical faculties, with or without professional assistance. Shortly stated, such a position of affairs may arise (1) when the proprietor (or proprietors) of an existing business contemplate a sale of the whole or a portion thereof, to a purchaser or to an incoming partner; (2) when a proposed partner is contemplating joining an existing undertaking; (3) when those interested in the formation of a new company (or when those contemplating the purchase of an existing business) are desirous of acquiring a specified undertaking; (4) when a shareholder in an existing company is desirous of forming a reliable opinion as to its position, with a view (*a*) to increasing, or (*b*) to reducing his present holding; (5) when a creditor, or a prospective creditor, desires to be informed as to the position of affairs. Under any of the above circumstances it is obvious that there is legitimate ground for a critical inquiry into the position of affairs, and in certain other cases there may, for various reasons, be a desire to become intimately acquainted with the position, and (according to the point of view) other special questions may possibly have a bearing upon such an inquiry; but the circumstances recited above comprise, it is thought, the legitimate grounds of *bona fide* inquiry into the position and prospects of an existing undertaking, and for the purposes of this work attention may therefore be usefully confined within these limits.

NATURE AND LIMITATIONS OF ACCOUNTS.

Having thus, for the sake of convenience, to some extent limited the possible extent of inquiry, it may be pointed out that a criticism of the position and prospects of an undertaking based upon any of the objects above mentioned must of necessity to a very large extent be confined to a more or less detailed—and in almost all cases (if it is to be useful) expert—inquiry into the accounts, which are the record of the transactions engaged upon and a summary of their result.

In cases where the accounts relate to business ventures that have been entirely completed, the record can, as a rule, very conveniently be summarised in the form of a simple Cash statement of receipts and payments. This, as has already been mentioned, is the form of accounts almost exclusively required by the Courts from accounting parties; and, inasmuch as accounting parties are not as a rule then called upon to furnish interim accounts, the requirements in this respect are perhaps less inadequate than might at first sight appear to be the case. Every completed venture of a business nature is capable of being recorded with something approaching completeness in the form of a Cash statement; and, being in that form, it is capable of the nearest approach to verification that is ever possible in connection with matters relating to accounts. That being so, the conservatism of the Courts in adhering to the Cash Account may readily be understood, for although the Cash Account, unsupported by other accounts, is rarely capable of completely disclosing the whole position of affairs, it does at least possess the merit of being capable of being verified absolutely—a quality which is not possessed by Balance Sheets, and only to a limited extent by Revenue, Profit and Loss, or Income and Expenditure Accounts.

Very little reflection as to the nature of business transactions and accounts will, however, suffice to show that, while a business venture is still being continued, a Cash Account is insufficient to enable any definite opinion to be formed either as to its position or prospects, in that the Cash Account only records transactions that have actually been completed. At any given moment while the venture as a whole remains a going concern, numerous uncompleted transactions must be pending which will materially affect, and may entirely alter, the position of affairs as disclosed by the simple Cash Account. The general scheme of the science of accounting is such that when a business venture as a whole has been completed, all the Ledger Accounts will of necessity be closed, and therefore show no balance, for the function of the various Ledger Accounts is to weigh the various transactions of different classes *pro* and *con.*, and to show, in the form of Ledger balances under different headings, the nature and money value of those transactions which at any given moment may remain uncompleted. These uncompleted transactions are recorded by means of Ledger balances on Real or Personal Accounts; and as such may, at any time when the books have been completely written up and balanced, be marshalled together into a Balance Sheet, which will then summarise the position of affairs at that date. But because the undertaking is a going concern, and because the various Ledger balances that comprise the Balance Sheet do represent the position of a series of uncompleted business transactions, it must necessarily follow that in the vast majority of cases absolute accuracy is hardly to be looked for; and the best which can under any normal circumstances be expected is that the figures comprised in a Balance Sheet may represent a fair estimation of the financial effect of the various transactions remaining uncompleted, as regarded by capable and reasonably prudent business men. As has already been stated, it is customary for going concerns to prepare at regular intervals (generally annually) Balance Sheets for the information of interested parties; and these Balance Sheets, if properly compiled, should enable competent persons to form a reliable idea as to the position of affairs. It cannot, however, be insisted upon too strongly that under no circumstances can they be regarded as statements of fact, or statements that it is possible for the most skilful or impartial person to *verify*, in the strict sense of the term. They are but estimates, which (according to the nature of the circumstances) may sometimes be expected to be borne out very closely by actual results in the future, but which, on the other hand, in some cases cannot reasonably be expected to afford more than a rough indication of the possible course of subsequent events. This is a point that it is important should be borne in mind by all who take upon themselves the task of criticising the published Balance Sheets of going concerns.

On the other hand, Revenue Accounts (the term being used in its generic sense, as comprising Trading Accounts, Profit and Loss Accounts, Manufacturing Accounts, Income and Expenditure Accounts, &c.) are summaries of Nominal Accounts which record under convenient headings transactions that have taken place during the period under review. In so far as these transactions are completed, the figures in the Revenue Account may be relied upon (so far as they go) as absolute statements of fact; but in so far as they comprise uncompleted transactions —and the Revenue Account of any going concern will to a large extent be made up of such—they suffer of necessity from the limitations already referred to in connection with Balance Sheets. Here it will perhaps not be amiss to remind the reader that (as described on page 26) a Revenue Account is in fact a combination of a Cash Account and of the Balance Sheets at the commencement and close of the period covered by that account. It therefore possesses in a measure the advantages and drawbacks of both the sources from which it is compiled.

GOODWILL.

In criticising the accounts from any of the points of view enumerated at the commencement of this chapter, it is well to bear in mind that any inaccuracies that may be discovered in the record (including under this heading any differences of opinion between the critic and the compiler of the accounts) affect not merely the estimate of the profitable nature of the business and the value of its net tangible assets, but also—and to the uninitiated to an unexpectedly large extent—the value of the Goodwill. The question of Goodwill lies somewhat outside the scope of the present work, and no attempt can therefore be made to deal exhaustively with the subject in these pages. It may be pointed out, however, that whenever a business changes hands, if it be of such a nature as to produce a profit in excess of a reasonable rate of interest on the capital invested and reasonable remuneration for the proprietor's time in managing it, it possesses a Goodwill of some value, varying from one to perhaps five years' purchase of the surplus profits so indicated. In special cases the valuation might possibly range even higher. It must thus be obvious that it would be worth the while of a dishonest vendor (or proposed vendor) to pay necessary expenses out of his own pocket, in order to increase business profits fictitiously, if by so doing he could secure a purchaser for the undertaking who would pay him from one to five times the amount by which he had falsified the accounts in question. From the point of view of an intending purchaser it is, therefore, especially important that accounts should be criticised carefully ; and the same remark, it need hardly be pointed out, applies to the intending investor in a company formed to take over an existing undertaking.

SECRET RESERVES.

Another point to be borne in mind is that, in the ordinary course of events, those charged with the production of the accounts of business concerns do not as a rule attempt to show the exact position of affairs. Quite apart from the inherent difficulty of so doing, their aim is, as a rule, rather to show a position which shall at all events not *exaggerate* the prosperity of the undertaking : hence the common employment of Secret Reserves, which represent a partial concealment of the known facts.

COMPENSATION CASES.

Another occasion upon which careful criticism of accounts is called for is when some public body—as, for example, a local authority or a railway—has obtained the sanction of the Legislature to acquire compulsorily the premises occupied by a business, upon condition of compensating those whom it displaces or disturbs. The amount of compensation to be paid in these cases is (in default of mutual arrangement, fixed by arbitration, and not infrequently a difficulty arises, in that the accounts kept in the past are incomplete, and therefore fail fully and clearly to disclose the actual position of affairs. Such data as is available under these circumstances may naturally, like most other things, be regarded from two points of view, and the following account of a *pro forma* arbitration, organised by the Edinburgh Chartered Accountants Students' Society will, it is thought, be instructive to the reader, as indicating the normal procedure under such cases, and the manner in which such incomplete accounts may be approached by the parties upon both sides, with a view to ascertaining the true value of the business comprised in the reference.

NOTE OF ARBITRATION PROCEEDINGS, carried out at a Meeting of the Chartered Accountants Students' Society of Edinburgh, held in the HALL OF THE SOCIETY OF ACCOUNTANTS, 27 Queen Street, Edinburgh, on THURSDAY, 12th MARCH 1903, at 8 p.m.

Claimant—A. BLACK, Wine and Spirit Merchant, North Bridge, Edinburgh.

Respondents—THE NORTHERN RAILWAY CO.

Arbiter—FRANCIS MORE, ESQ., C.A.

Counsel for Claimant—W. ROSS TAYLOR, ESQ., Advocate.

Counsel for Respondents—J. HOSSELL HENDERSON, ESQ., Advocate.

Accountant for Claimant—J. MILNE HENDERSON, ESQ., C.A.

Accountant for Respondents—W. D. STEWART, ESQ., C.A.

Under powers contained in a special Act of Parliament, the Northern Railway Company, by notice dated 11th November 1902, took over the property in North Bridge, Edinburgh, consisting ***inter alia*** of a Shop in which A. Black had carried on the business of Wine and Spirit Merchant since 1890. The respondents offered the Claimant £3,000 as compensation, but this was declined, and accordingly the amount fell to be ascertained by Arbitration.

The parties, by a Joint Minute dated 1st December 1902, appointed Mr. Francis More, C.A., to be sole Arbiter. Mr. More accepted the Office of Arbiter on 2nd December, and on that date issued an Order calling upon the Claimant to lodge a written statement of his Claim within 14 days, and allowing the respondents to see and answer the same within 14 days thereafter.

In response to the Order the Claimant lodged the following claim, viz. :—

1. For the Goodwill of the said business, which cost the Claimant £5,000 in 1890, and which has increased in value owing to the successful business carried on by the Claimant, and is now lost through the compulsory removal of the Claimant from the premises	£9,000	0	0
2. Loss arising through the compulsory realisation of Stock ..	500	0	0
3. Loss on realisation of Fittings and Utensils	500	0	0
Total	£10,000	0	0

Answers were lodged for the respondents to the effect that the Claim was excessive.

The Arbiter, on the motion of parties, fixed Thursday, 12th March, at 8 p.m., for the commencement of the Proof.

The Accountant Witnesses for the parties had respectively prepared the Profit and Loss Accounts shown on the next page—

I.—PROFIT AND LOSS ACCOUNT for the Five Years ended 11th November 1902, prepared for the Claimant.

	Year 1897-8	Year 1898-9	Year 1899-1900	Year 1900-1	Year 1901-2	Total
By Shop Drawings	£6,240 1 6	£6,500 2 10	£7,176 1 9	£7,280 11 4	£7,020 6 8	£34,217 4 1
To Purchases	£3,975 6 2	£4,191 19 6	£4,326 1 5	£4,642 18 2	£4,510 5 3	£21,646 10 6
,, Wages	431 10 6	428 9 0	442 7 9	447 0 1	460 1 8	2,209 9 0
,, Rent	300 0 0	300 0 0	350 0 0	350 0 0	350 0 0	1,650 0 0
,, Taxes, Rates, Licence, and Insurance ..	94 10 0	95 1 6	96 1 9	97 2 9	98 10 0	481 6 0
,, Coals and Gas ..	33 5 6	34 15 9	35 0 7	37 1 6	31 2 9	171 6 1
,, Repairs	13 6 7	20 7 6	14 19 1	35 1 2	14 1 5	97 15 9
,, Petty Expenses ..	70 3 5	62 17 4	80 2 9	71 4 3	82 6 2	366 13 11
,, Balance, Net Profits ..	1,321 19 4	1,366 12 3	1,831 8 5	1,600 3 5	1,473 19 5	7,594 2 10
	£6,240 1 6	£6,500 2 10	£7,176 1 9	£7,280 11 4	£7,020 6 8	£34,217 4 1

Average Profits of Five Years, £1,518 16s. 7d.

Note.—The Stock is assumed to be the same at the beginning and end of each year.

J. MILNE HENDERSON, C.A.

II.—PROFIT AND LOSS ACCOUNT for the Three Years ended 11th November 1902, on the basis of percentage on Cash Drawings prepared for the Respondents.

	Year 1899 1900	Year 1900-1	Year 1901-2	Total
Shop Drawings	£7,176 1 9	£7,280 11 4	£7,020 6 8	£21,476 19 9
By Estimated Gross Profits, 33⅓ per cent. on above Drawings	£2,392 0 7	£2,426 17 1	£2,340 2 3	£7,158 19 11
To Wages (including £4 per week paid to Proprietor)	£650 7 9	£655 0 1	£668 1 8	£1,973 9 6
,, Rent	350 0 0	350 0 0	350 0 0	1,050 0 0
,, Rates, Taxes, and Insurance	56 1 9	57 2 9	58 10 0	171 14 6
,, Excise Duty	40 0 0	40 0 0	40 0 0	120 0 0
,, Business Expenses	130 2 5	143 6 11	127 10 4	400 19 8
,, Interest on Capital .. .. 5 per cent on £7,000 (being price of Goodwill £5,000, and Stock and Fittings, &c., *less* Liabilities, £2,000).	350 0 0	350 0 0	350 0 0	1,050 0 0
To Balance, being Estimated Net Profits ..	815 8 8	831 7 4	746 0 3	2,392 16 3
	£2,392 0 7	£2,426 17 1	£2,340 2 3	£7,158 19 11

Average Profits of Three Years, £797 12s. 1d.

W. D. STEWART, C.A.

The books kept were :—

1. Excise Stock Book, kept according to law, to record the quantities and particulars of all Spirits received into Stock.
2. Shop Drawings Books, in which were entered at the end of each day the cash received in cash payments.
3. Bank Pass Books.
4. Cheque Counterfoil Books.

The Invoices and Receipted Accounts were kept and bundled each year.

The Cash Book was never balanced. It did not contain entries of :—(1) Bank Cheques and payments made by same ; (2) Payments into Bank ; (3) Cash drawn by Proprietor other than £4 entered in name of Salary weekly.

No Stock Sheets were ever made up by Claimant.

The Premises were held under lease expiring on 11th November 1906, rent £350 per annum.

The following is a copy of the Precognition Report by J. MILNE HENDERSON, C.A., Edinburgh :—

I have examined the Books of A. B., Wine and Spirit Merchants, North Bridge, Edinburgh.

The books consisted of Excise Stock Books, Shop Drawings Books, Bank Pass Books, and Cheque Counterfoil Books. There were also produced to me the Invoices and receipted Accounts for the whole period of A. B.'s occupancy. From these sources I have prepared the following Statements—

(1) *List of Shop Drawings* from March 1890 when A. B. took over the business. The Drawings are as follows, viz. :—

			£				£
1.	For year to 11th November	1891	5,200	8.	For year to 11th November	1898	6,240
2.	" " "	1892	5,354	9.	" " "	1899	6,500
3.	" " "	1893	5,491	10.	" " "	1900	7,176
4.	" " "	1894	5,891	11.	" " "	1901	7,280
5.	" " "	1895	5,710	12.	" " "	1902	7,020
6.	" " "	1896	5,994				
7.	" " "	1897	6,080				£34,216

Average of five years 1898-1902, £6,843.

The daily Drawings were arrived at by taking the amount in the till at the close of business, and allowing for cash payments and money put in for change in the morning. The Drawings have increased from £100 per week in the year 1890-91 to £140 per week in the year 1900-01, an increase of 40 per cent. The Drawings show a remarkably steady increase, the only decreases being in 1894-5 and 1901-2. I cannot account for the former year's decrease, but I understand the great increase in Working-men's Clubs, and the war, have something to do with the fall in 1901-2. As these Clubs are sure to be reduced in the near future, I do not attribute any importance to the decrease in the year 1901-2. I think that in fixing the Compensation in this case the Profits for that year should not be made the basis, but that the average Profits of the five years to 11th November 1902 should be taken.

(2) *Purchases.*—These were made up from the Invoices and Receipted Accounts. The amounts shown in the Profit and Loss Account are the payments for Stock made in each of the five years ending 11th November 1902.

The difference between the Purchases and the Drawings shows a Gross Profit of 36·74 per cent, and the accuracy of this I have tested in the following way :—

I ascertained from the Excise Book and from the Brewers' and other invoices the total quantity of liquor brought into the business during the five years and the cost of same.

Against this I put what the liquor yielded at so many glasses to the gallon, and so much per glass of Spirits and Beer respectively.

The total cost was (agreeing with the Profit and Loss Account)	£21,646
And the estimated yield on this basis was	33,500
	£11,854

Equal to a gross profit of 35·38 per cent.

Over a period of five years I consider this a satisfactory test of the correctness of the Gross Profit brought out in the Profit and Loss Account.

I have assumed the Stock at the beginning and end of the period to be the same Stock was taken on A. B.'s entry in 1890 and amounted to £2,000, but I understand this was too small a Stock to work the business, and it had to be increased by £200 or £300. Stock was not taken again, but last week it was sold off and realised only £1,700. I consider, therefore, that by leaving the Stock out of account in the Profit and Loss Account that the Profits are under rather than over-stated, moreover, the State which I prepared to test the accuracy of the Drawings proves that the Stock could not have increased.

(3) *Business Expenses.*—The Wages are those shown in the Cash Book with the exception of £208 per annum (£4 per week) drawn by the Proprietor in respect of salary. I consider that the Proprietor's salary does not form a charge against the Profits in estimating the amount payable for the Goodwill of a Business to be fixed under an Arbitration. The Rent, Taxes, and other expenses are the actual sums paid as shown by the Cash and Cheque Counterfoil Books, and in numerous cases vouched by receipted Accounts. I have found from the receipts that the claimant paid for Fittings at his entry £600, and that he has kept them in full repair since. These fittings are practically of no value if removed.

The result shown by the Profit and Loss Account is as follows :—

	£	s	d
Net Profit for year 1897-8	1,321	19	4
" " 1898-9	1,366	12	3
" " 1899-0	1,831	8	5
" " 1900-1	1,600	3	5
" " 1901-2	1,473	19	5
	£7,594	2	10

Average of five years £1,518 16s. 7d.

	£	s	d
I consider that a fair sum to be allowed to the Claimant for Compensation is six years' profits on the above average, say	9,000	0	0
I also consider that Claimant is entitled to Compensation for loss on Fittings	500	0	0
And for loss on forced realisation of Stock	500	0	0
	£10,000	0	0

The Precognition of William Daniel Stewart, C.A. (Accountant for the Respondents), was as follows :—

I am a Chartered Accountant in Edinburgh, and have been in practice for the past six years. I have examined the Books kept by the Claimant, Mr. A. Black, Wine and Spirit Merchant, North Bridge, Edinburgh. These were as follows :—

(1) The Excise Stock Book, commonly called the Permit Book, showing the quantities of Spirits received in Stock

(2) The Shop Cash Book, showing the daily Cash Drawings and Cash Payments.

(3) The Bank Pass Books, and

(4) The Cheque Counterfoil Books.

The Bookkeeping was of a very elementary nature, the Cash Book never being balanced, while it did not show any Bank transactions In my opinion the Claimant ought to have kept the following books :—

(1) Cash Book, incorporating the Bank transactions, balanced weekly.

(2) Invoice Book, recording the Goods purchased.

(3) Ledger, to which the Cash and Invoice Books would fall to be posted.

The Stock ought to have been taken at regular intervals, so as to show the Gross Profit on the business.

I have prepared a statement from the Cash Book showing the Drawings and Expenses from 1899 to 1902.

In regard to the Drawings, I find, on the assumption that the Cash Book is correct, that they are as follows :—

	£	s	d
Year 1899-1900	7,176	1	9
„ 1900-1901	7,280	11	4
„ 1901-1902	7,020	6	8

Or average weekly Drawings of £137 13s. 1d.

It will be observed that the Drawings for the year 1901-2 are less than those of the previous year by £160 4s. 8d. The business would appear, therefore, to be a declining one.

As before stated, no Invoice Book was kept. The Claimant's Accountant has prepared his Statement of Purchases from the Invoices only. As one Stock was taken either at the beginning or the end of the period, a proper Profit and Loss Account cannot be made up The Stock cannot possibly be the same at all times In a case of this kind, the Gross Profit can only be arrived at by taking a percentage on the Cash Drawings I have had a great deal of experience in regard to Wine and Spirit Merchants' businesses both in Edinburgh and Glasgow, my connection being partly as Trustee on Estates having Interests in such businesses, and partly owing to my being connected with people in the trade. In my opinion 33⅓ per cent. on the Drawings would be a fair Gross Profit in a business of this kind. It would be a more exact method of arriving at the Gross Profit than by Invoices where some might be wanting. In this connection, I have made special inquiry regarding the Gross Profits of Public Houses, apart from those I have to do with professionally. The inquiries made confirm my views, for instance :—

A shop in the neighbourhood of Nicolson Street earns a Gross Profit of 6s. 6d. per £; a shop near Leith Street earns a Gross Profit of 6s. 6d. per £. and so on.

I believe that 33⅓ per cent. is the usual Gross Profit earned In my knowledge the Inland Revenue authorities look upon 33⅓ per cent. as the usual Gross Profit earned in a Public House. They would be surprised if the Publican admitted he earned more. A great many Public Houses earn only from 25 per cent. to 30 per cent., especially where a very large carrying-out trade is done In the average business 33⅓ per cent. is a fair Gross Profit. On this basis the Gross Profit would be as follows —

	£	s	d
Year 1899-1900	2,392	0	7
„ 1900-1901	2,426	17	1
„ 1901-1902	2,340	2	3

Out of these Gross Profits have to be paid the Expenses. These Expenses are the same as those made up by the Claimant's Accountant with the exception of (1) Wages (which include £4 per week paid to the Proprietor), and (2) Interest on Capital.

In regard to Wages, in my experience, a business drawing £138 weekly cannot be worked under £13 weekly.

	£	s	d
Barman	4	0	0
4 Barmen	6	0	0
1 Cook	1	5	0
3 Boys	1	10	0
	£12	15	0

This business was worked by the Proprietor. It is proper, therefore, that his wages should be charged, as, if he did not work, an experienced barman would have to be employed. I am aware that the Inland Revenue would not pass this sum as a charge on the business. In Limited Companies, however, it is usual to charge against the Profits a sum for management to the Managing Director

I have charged interest on Capital against the Profit

This must be done before arriving at the Net Profit The Capital involved is £5,000, the price of the Goodwill in 1890, and £2,000, the difference between the Assets consisting of Stock and Fittings and Liabilities Interest on this sum of £7,000 is £350 per annum, at 5 per cent. It is the practice of Accountants to debit Profit and Loss with Interest on Capital before arriving at the Net Profit. This is done in the audit of the books of private firms In view of the short Lease the Claimant ought to have charged Profit and Loss with such a sum each year as would give him back his whole capital at its expiry. I have charged an exact sum of £350 as interest on the assumption that the Capital involved always remained the same, viz. £7,000.

I consider that the rent paid by the claimant for his premises (£350) as too high A fair rent, in my opinion, would be £300 This would tell against the sale of the Goodwill in the open market. The Rents of Public Houses have been taken in cases of this kind at 2¼ times the week's drawings. This is also my experience of Public House Rents. In this case, with Drawings of £138, the Rent should be £310.

A most important point in connection with a Public House Business is the Lease. In this case there are only four years to run. A business with this short lease is not of much value to a purchaser unless the landlord agrees to a renewal.

There is no difficulty in selling the Goodwill of a Public House with a ten or fifteen years' lease. The rent has already been raised from £300 to £350, and would have probably been raised again at the expiry of the lease in Martinmas 1906. Landlords have a nasty habit of doing this. The Claimant would have been in a much stronger position if he had owned the property. In my opinion, the Goodwill of this business is of comparatively little value.

Magistrates have for some time had in view the reduction of licences, and might possibly have done away with this one.

In Glasgow at the present time they are considering the reduction of licences in a certain district. This shows the precariousness of licences.

Again, many publicans insure their licences with an Insurance Company of this kind. In a recent case, where a publican lost his licence, which was insured, the Insurance Company denied liability without giving any reason for so doing. After charging all expenses as detailed, the Net Profits would be:—

	£	s	d
Year 1899-1900	815	8	8
„ 1900-1901	831	7	4
„ 1901-1902	746	0	3

Or an average Profit of £797 12s. 1d.

In regard to the amount of Compensation, I am of opinion that three years' purchase of the Net Profits would be ample:—

	£	s	d
That would amount to	2,392	16	3
To which add Loss on realisation of Fittings	200	0	0
Total Compensation	£2,592	16	3

I consider this a fair sum, looking to the fact that only four years of the lease have to run.

In recent cases the Claimant has been awarded about four years' purchase of the net Profits. In the case of *Taylor and the North British Railway Co.* the Claimant was awarded four years' purchase. Then, again, in the case of *Maclennan and the North British Railway Co.* the Claimant was awarded six years' purchase, but he owned the property. This puts a different complexion on the matter.

The main points on which the witnesses differed were as follows:—

(1) *Manager's Salary* (£4 per week) which had been drawn by the publican. It was argued for the Claimant that this should be looked on as drawings to account of Profit, and should not be charged in ascertaining the Net Profit which was to be the basis of compensation. It was argued for the Respondents that this salary could be earned elsewhere, and that it was drawn for work done, as otherwise a paid Manager would have been necessary. It was also argued that, had the Profits only been sufficient to meet this salary, no compensation in respect of Profit would have been payable.

(2) *Interest on Capital.*—The Claimant's witness held that this was not a proper charge in ascertaining Profits in a case of this kind. On the side of the Respondents it was argued that such Interest must be charged before arriving at the Profit.

Other points which were discussed were, how far should the expiry of the lease in four years affect the compensation, the falling off in the Profits, the defective system of bookkeeping, and whether this should tell against the Claimant. Many other points were brought out on which there is usually difference of opinion.

ARBITER'S AWARD.

The Claimant claims the sum of £10,000 in respect of compulsory removal from licensed premises of which he holds a lease expiring Martinmas 1906. The Respondents have tendered the sum of £3,000.

The Claimant has occupied the premises since 1890, and I am informed that he is now well up in years, which I take to mean that he is rather old to take kindly to a new venture.

It is admitted that he paid £5,000 in 1890 for the lease, and that since then the volume of business, as well as the Profits, have considerably increased. I do not think I am called upon to inquire what value attached to the premises in 1890. The Claimant may have made a good bargain, or he may have made a bad bargain; that has, to my mind, little to do with the present question, which is, What value now attaches to the lease of the licensed premises which the Claimant, through the action of the Respondents, is forced to give up?

Both parties seem to think that the sum to be awarded under the head of what is called in the claim "Goodwill" should represent so many years' purchase of the Net Profits. The Claimant asks six years' purchase of an average yearly Profit of £1,500, being £9,000: the respondents say that three years' purchase of an average annual Profit of £797, being £2,391, would be ample.

The Accountant for the Respondents stated that the Claimant's bookkeeping was faulty, and that the rent of the premises was too high. Provided the Profits are correctly stated, the mode of bookkeeping adopted is of no moment, and if the rent had been smaller the Profits would have been larger, which would have been better for the Claimant.

Subject to what I have to say as to the average Profits brought out by the Claimant and Respondents respectively, I adopt the Profit and Loss statement submitted for the Claimant.

The Claimant states his average annual Profit at £1,518; the Respondents state it at only £798, being a difference of £720. To the extent of £170 this difference arises from the different modes adopted in arriving at the *Gross* Profits. In bringing out the Gross Profits the Claimant deals with what I must hold to be actual figures, notwithstanding all that was said at the proof on behalf of the Respondents. The Respondents, on the other hand, assume 33⅓ per cent. of the Drawings to have been the Gross Profit. I prefer the Claimant's mode of arriving at the Gross Profits.

The remaining £550 of the difference arises from the Respondents charging against Profits interest on Capital and £4 per week which the Claimant paid to himself in name of wages.

I agree with the Respondents that interest on Capital and all expenses of management ought to be deducted before arriving at Net Profits. That is, I think, necessary when dealing with a Claim like the present, just as I think it would be necessary in dealing with a case of Goodwill pure and simple.

Suppose in the present case the business—notwithstanding its being well organised and managed—had only paid expenses and 4 or 5 per cent. on the Capital employed, no one, I think, would have said that there was any marketable Goodwill attaching to the business. I hold that it is only the *excess* earned, beyond fair interest on the Capital employed, that ought to count in any question as to the value of Goodwill.

In the case of a sale of the Business and Goodwill of a firm to, say, a limited liability company, it is a convenient and suitable mode of valuing the Goodwill to take it as worth so many years' purchase of the Net Profits. But I do not think the present case is one of Goodwill at all; it is simply a case for determining the Compensation to be paid to the Claimant for having his lease cut short by nearly four years. But I think it was quite essential to find out what Profit the Claimant had been deriving from his business, and therefore the evidence led on that point was very necessary.

The really important point to keep in view is, that the Claimant is to be deprived of a business from which he could confidently count on getting, not only fair interest on his Capital, but also something like £900 to £1,000 a year of clear Profit during the next three or four years.

The Claimant was no doubt liable to be turned out of the premises without Compensation at the expiry of his lease; but the chances are that if the Respondents had not appeared he would have got a renewal. The Respondents might have acquired the premises under burden of the lease, and by waiting until 1906 could have entered free, but by that time the Claimant would have pocketed between three and four years' Profits.

It has also, however, to be kept in view that the Claimant is free to carry on his business elsewhere if he can secure licensed premises; and as he is in the position of a licensed holder who has been ejected from his premises under the powers conferred by an Act of Parliament, the licensing authorities would no doubt look favourably on any application he might make for leave to carry on business in new premises, especially as he has always conducted his business creditably. As, however, the Claimant is up in years, he may not care to start on a new venture; in that case he may be able to arrange a transfer of the licence to another name and receive a valuable consideration for the transfer.

Taking all the circumstances into account, I think a sum of £3,500 would be suitable Compensation to allow under this head of the Claim.

As regards the other two items of Claim, in respect of compulsory realisation of Stock, Fittings, and Utensils, I should have liked to have seen an Inventory and Valuation of the Stock, &c. A publican's Stock ought to be comparatively easy to realise at prices not much below cost; but the fittings and utensils would probably not yield much.

It was stated at the proof that the total sum realised for the Stock, Fittings, and Utensils, which were sold last week, was £1,700. I think if I allow £500 in place of the two sums of £500 claimed, I will be doing substantial justice to the Claimant.

My award, which I shall write out in due course, will, therefore, be for a lump sum of £4,000. As this is more than the Respondents tendered, they must pay the whole expenses of the Arbitration.

In order to add to the completeness of this chapter, the author has been in communication with the Honorary Secretaries of the various Chartered Accountants Students' Societies, and through their courtesy and that of their respective Committees, he is enabled to reproduce various *pro forma* accounts which have engaged the attention of their respective Societies at meetings specially convened to instruct students in the art of criticising accounts. The *pro forma* Balance Sheets,&c., appended have in all cases been compiled with a view to illustrating certain specific weak points that call for careful attention upon the part of critics. It is thought, therefore, that their careful study will be found instructive to those who may desire to follow the subject further. It may, however, be added that the only real basis upon which accounts may be criticised usefully is a complete audit, and that therefore those who may desire to go into the subject fully must of necessity master the subject of Auditing in all its manifold aspects.

THE LEEDS AND DISTRICT

Chartered Accountants Students' Association.

HIDES, LIMITED

(A Company registered without Articles of Association)

Directors:

H. GASKELL BLACKBURN (Chairman)

J. DAVIS.

C. A. WOOLSTONE.

Secretary: F. CLEMONS.

Auditor J. W. BURRELL

DIRECTORS' REPORT.

To be submitted to the first Annual Meeting of Shareholders, to be held at the Board Room, Albion Place, Leeds, on Thursday, the 3rd day of March 1898. The Directors have pleasure in presenting the Accounts of the Company to the Shareholders.

Full and satisfactory explanations of the Accounts and position of the Company will be given at the Meeting, which the Directors hope will be well attended.

Mr. C. A. Woolstone is the retiring Director, and offers himself for re-election.

The Auditor, Mr. Burrell, also retires and offers himself for re-election.

H. GASKELL BLACKBURN,
Chairman.

THE LEEDS AND DISTRICT CHARTERED ACCOUNTANTS STUDENTS' ASSOCIATION

HIDES, LIMITED.

BALANCE SHEET, December 31st 1897.

Capital and Liabilities

	£ s d	£ s d
To Nominal Capital— 20,000 Shares of £5	100,000 0 0	
„ Capital Account—		
"A" 10,000 Ordinary Shares, £2 10s. paid	25,000 0 0	
"B" 10,000 Ordinary Shares, £5 paid	50,000 0 0	
	75,000 0 0	
Less Calls in arrear	30 0 0	
	74,970 0 0	
Less Forfeited Shares ..	270 0 0	
		74,700 0 0
„ Loan on Debenture Bonds, 4 per cent.		10,000 0 0
„ Loan by Directors		5,000 0 0
„ Sundry Creditors		1,000 0 0
„ Bills Payable		448 10 8
„ Directors' Fees		1,000 0 0
„ Reserve Fund		2,000 0 0
„ Balance of Profit and Loss Account		289 0 0
		£94,437 10 8

Property and Assets

	£ s d	£ s d
By Plant, Machinery, Fixtures, and Tools, &c., at Cost ..		14,982 15 11
„ Goodwill		11,231 4 7
„ Stock-in-Trade		36,589 17 6
„ Sundry Debtors		8,756 5 3
„ Preliminary Expenses		73 4 0
„ Bills Receivable		422 10 6
„ Cash in Bank on Current Account .	£8,221 4 8	
Less Cheques not presented	301 4 8	
		7,920 0 0
„ Cash and Bills in hand		855 12 11
„ Cash in Bank on Deposit Account		5,000 0 0
„ Mr. Burrell, Auditor, in respect of future charges ..		300 0 0
„ Deposit on Purchase of B. Ankrupt & Co.'s Tannery ..		4,700 0 0
		£94,437 10 8

PROFIT AND LOSS ACCOUNT for the Year ending December 31st 1897.

	£ s d	£ s d
To Stock-in-Trade, January 1st 1897 ..		28,621 8 4
„ Purchases	48,234 1 7	
Less Discount	1,963 1 6	
		46,271 0 1
„ Wages and Salaries		25,211 5 5
„ Balance, Gross Profit		15,175 8 0
		£115,278 19 8
To Commission		8,231 3 1
„ Carriage and Freight		416 0 0
„ Rent		500 0 0
„ Rates, Taxes, and Insurance		478 0 2
„ Maintenance and Repairs		256 15 2
„ Rope, Paper, and Stationery		109 2 6
„ Coal and Oil, &c.		165 10 9
„ Bad Debts		325 1 7
„ Depreciation of Machinery		496 16 5
„ Interest and Bank Charges	£1,924 4 3	
„ General Expenses, Auditor's Fee, Postages, and Petty Cash, &c.	204 11 8	
„ Interest on Debentures	400 0 0	
„ Balance carried to Balance Sheet	1,682 4 1	
„ Profit carried down		4,211 0 0
		£15,189 10 6
June 30th. To Interim Dividend—		
Ordinary Shares "A" £2 10s. od. paid 6 per cent. per annum ..	1,500 0 0	
Ordinary Shares "B" £5 paid 6 per cent. per annum ..	3,000 0 0	
		4,500 0 0
		£4,500 0 0

	£ s d	£ s d
By Sales	80,091 12 4	
Less Discount	1,902 10 2	
		78,189 2 2
„ Sale of Old Machines, &c.		509 11 3
„ Stock-in-Trade, December 31st 1897 ..		36,080 6 3
„ Rent		500 0 0
		£115,278 19 8
By Gross Profit		15,175 8 0
„ Transfer Fees		14 2 6
		£15,189 10 6
By Balance Profit		4,211 0 0
„ Loss on Year's Working		289 0 0
		£4,500 0 0

MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

THE HOLDFAST IRONWORKS COMPANY, LIMITED,

Holdfast, near Barrow-in-Furness.

(A Company Registered without Articles of Association.)

Directors :

THOS. PLUMPTON, *Chairman.*	C. H. WILLIAMS.
A. S. BREWIS.	W. C. BARRETT, JUNR.
S. LORD.	ROGER N. CARTER.

Solicitors :

TAXED COSTS & CO.

Auditors.

GREGORY BLUNDERITT. | FRITZ CATCHEM.

Bankers :

WILD THYME BANK, LIMITED.

Secretary :

CHARLES JORDAN.

Registered Offices :—STANDARD CHAMBERS, 65 KING STREET, MANCHESTER.

REPORT OF THE DIRECTORS.

To be submitted to the Eighth Annual Meeting of Shareholders.

Your Directors, in submitting herewith the Annual Balance Sheet, &c , at 30th June 1897, regret to report a loss of £12,346 2s. 9d., which increases the adverse balance to £18,331 0s. 2d. Under the circumstances, they advise that the Company be wound up voluntarily, and, at the Extraordinary Meeting to be held at the conclusion of the Annual Meeting, a resolution to that effect will be proposed.

The amount of £29,521 18s. 11d. added to Capital during the year includes all Renewals, but ordinary Repairs have been charged to Revenue. The amount of £10,467 3s. 5d. includes interest on the Debentures raised—to reinstate the Mine after the inburst of water—from the date of the receipt of the money up to the time when the damage was repaired, and this your Directors consider a proper charge to Capital.

T. PLUMPTON, Chairman.

MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

THE HOLDFAST IRONWORKS COMPANY, LIMITED.

Dr. TRADING ACCOUNT for Year ending 30th June 1897. *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Purchases	408,619 5 3		By Sales	725,915 18 3	
„ Wages	250,397 14 11		*Less* Stock at 30th June 1896	65,382 7 1	
„ Discounts, Allowances, &c. .	30,451 8 4			660,533 11 2	
		689,468 8 6	*Add* Stock at 30th June 1897	70,241 9 5	
„ Balance carried to Profit and Loss Account, being Gross Profit ..	..	41,306 12 1			730,775 0 7
		£730,775 0 7			£730,775 0 7

PROFIT AND LOSS ACCOUNT.

	£ s d	£ s d		£ s d
To Royalties	9,022 6 11		By Gross Profit, as per Trading Account ..	41,306 12 1
„ Carriage, Freight, &c.	5,114 3 2		„ Cottage Rents	227 14 11
„ Repairs, &c.	7,465 11 11		„ Interest on Unpaid Calls	45 19 3
„ Salaries, &c.	4,821 12 6		„ Suspense Account .	269 7 10
„ Directors and Auditors	4,120 5 6		„ Loss during the Year	12,346 2 9
„ Travelling Expenses	2,610 7 2			
„ Rents, Rates, & Taxes	1,570 8 3			
„ Horses, Wagons, &c.	1,005 14 2			
„ Provision for Bad Debts	6,285 16 7			
„ Sundry Trade Expenses	4,026 7 5			
		46,042 13 7		
„ Interest on Debentures	4,500 0 0			
„ Provision for Income Tax ..	500 0 0			
„ Interest on Calls paid in advance ..	4 7 6			
„ Bank Interest	3,148 15 9			
		8,153 3 3		
		£54,195 16 10		£54,195 16 10

BALANCE SHEET, at 30th June 1897.

CAPITAL AND LIABILITIES		£ s d	£ s d
Nominal Capital—			
20,000 Shares at £50 each ..		1,000,000 0 0	
Shares Issued—			
20,000 Shares at £35 called ..		700,000 0 0	
Less 1,000 Shares forfeited	£35,000		
Deduct Calls paid thereon	5,000		
	30,000		
Less Calls in Arrear ..	2,500		
		27,500 0 0	
		672,500 0 0	
Add Calls paid in Advance ..		100 0 0	
			672,600 0 0
Debentures—			
1st Issue at 5 per cent.		50,000 0 0	
2nd „ 6 „		50,000 0 0	
			100,000 0 0
Bank Overdraft		80,000 0 0	
Less 2nd Issue Debentures ..		50,000 0 0	
			30,000 0 0
Sundry Creditors—			
On Open Accounts		40,564 2 1	
„ Bills Payable		20,725 9 6	
„ Provision for Income Tax ..		500 0 0	
„ „ Wages, Rent, Taxes, &c.		1,784 4 9	
			63,573 16 4
			£866,173 16 4

PROPERTY AND ASSETS	£ s d	£ s d
Land, Buildings, Mines, Furnaces, Mills, Machinery, Cottages, &c., on 30th June 1896	568,092 19 9	
Add—Additions during the Year	29,521 18 11	
Cost arising through Inburst of Water ..	10,467 3 5	
		608,082 2 1
Stocks on hand, 30th June 1897	..	70,241 9 5
Goodwill	.	40,000 0 0
Formation Expenses . ..		1,600 0 0
Sundry Debtors—		
On Open Accounts	85,425 7 3	
„ Bills Receivable	40,291 6 4	
	125,716 13 7	
Less Provision for Bad Debts ..	6,285 16 7	
		119,430 17 0
Royalties paid in advance ..	..	5,640 18 6
Loss arising through late Secretary's Defalcation, with Interest added	..	2,811 15 1
Profit and Loss Account—		
Loss at 30th June 1896 .	5,984 17 5	
„ this Year	12,346 2 9	
		18,331 0 2
Cash in hand .		135 14 1
		£866,173 16 4

Audited and found correct, subject to Report.

G. BLUNDERITT.
FRITZ CATCHEM.

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON.

THE FAIRWEATHER ENGINEERING COMPANY, LIMITED.

(Table "A" was adopted instead of drawing up special Articles of Association.)

Directors.

HORATIO BLUFFE, Esq., *Chairman* (HERBERT LANHAM)
DAVID QUERY, Esq. (SYDNEY G. COLE)
F. G. GINNY-PIGGE, Esq. (JAMES SAWERS).

Solicitor.
FOLEY O. DEED, Esq. (R. F. W. FINCHAM).

Auditor.
A. B. TICKEM, Esq. (E. C. PEGLER).

Secretary.
JAMES ROUTEIN (G. P. CARTER)

Bankers.
BULLION & CO., LIMITED

Registered Offices.
FAIRWEATHER BLANKSHIRE.

REPORT OF DIRECTORS

To be submitted to First Annual General Meeting.

GENTLEMEN,—

Your Directors regret to have to report that the results of the Company's operations for the first year have been far from satisfactory. The great depression in trade, combined with the high prices of raw material, more especially coal and iron, have been the principal causes of this unlooked-for result. Further, we have been greatly hampered by the fact that the Cash Working Capital provided by the first issue of Shares has proved totally inadequate. However, your Directors feel confident that a far better result will be shown in the current year, provided that Shareholders will subscribe for more Preference Shares—it being the intention of the Board to issue 20,000 of these at once—and thus provide sufficient cash to enable us to complete the orders we have in hand, and enable us to buy on more favourable terms. The Company has a splendid stock of raw material on hand, and orders are coming in well; the price of coal is dropping daily, and everything points to a prosperous future. Your Directors therefore confidently recommend the Preference Shares as a sound investment, and it only remains for the Shareholders to subscribe liberally to the issue, full particulars of which will be sent you shortly.

The Auditor, Mr. A. B. TICKEM, retires, but offers himself for re-election.

HORATIO BLUFFE, *Chairman.*

MEMORANDA.

Extracts from original Prospectus.—

(1) All expenses incidental to the formation and registration of the Company, up to and including allotment, will be paid by the Vendor.
(2) The business will be taken over as a going concern as and from January 1st 1899.

The Company was registered on March 31st 1899, and went to allotment on April 21st 1899.

Table "A" was adopted instead of drawing up special Articles of Association.

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON.

THE FAIRWEATHER ENGINEERING COMPANY, LIMITED.

BALANCE SHEET, 31st December 1899.

Liabilities	£	s	d	£	s	d
To Share Capital—						
Nominal—						
150,000 Shares (Ordinary) of £1 each	150,000	0	0			
100,000 Shares (Preference) of £1 each	100,000	0	0			
	£250,000	0	0			
Issued—						
80,000 Ordinary Shares of £1 each (fully called up)	80,000	0	0			
40,000 Preference Shares (5%) of £1 each (fully called up) .	40,000	0	0	120,000	0	0
„ Sundry Creditors—						
Trade	6,000	6	3			
Rent and Sundries	375	0	0	6,375	6	3
Loan at 5% secured on Lease ..				500	0	0
				£126,875	6	3

Assets	£	s	d	£	s	d
By Sundry Debtors—						
Trade Loans and Calls	24,630	1	6			
Bills Receivable	4,010	0	0	28,640	1	6
„ Suspense Account				856	4	8
„ Cash at Bank	240	8	6			
„ „ in hand	724	9	8	964	18	2
„ Leasehold Premises				20,000	0	0
„ Plants and Machinery..	12,480	3	6			
„ Stock, &c.—						
Work in Progress	8,100	5	2			
Completed Work in Store	18,021	0	4			
Stores and Materials	14,981	1	2			
Stationery, &c.	500	1	4	41,602	8	0
„ Investments at par				5,000	0	0
„ Goodwill and Patent Rights, &c. ..				13,728	0	0
„ Preliminary Expenses				642	8	3
„ Profit and Loss Account				2,961	2	2
				£126,875	6	3

I have examined the above Balance Sheet with the Books and Vouchers of the Company and certify them to be in accordance therewith. No Depreciation has been written off Leaseholds, Plants, and Machinery, and the correctness of the Balance Sheet is subject to this, and the value of the investments being as stated above.

A. B. TICKEM, *Auditor.*

February 23rd 1900.

PROFIT AND LOSS ACCOUNT for the Year ended December 31st 1899.

	£	s	d
To Wages and Materials on Jobs completed	32,932	4	7
„ Royalties	1,704	6	8
„ Gross Profit	9,863	15	1
	£44,500	6	4
To Rent, Taxes, Gas, Accident Claims, &c.	2,906	1	1
„ Directors' and Auditors' Fees, Bad Debts, and Salary of Managing Director, &c.	3,001	6	8
„ Office Salaries and Expenses, Travellers', Postages, and General Expenses, &c.	3,606	0	9
„ Repairs	100	0	0
„ Allowances off Sales	1,964	2	1
„ Bank Charges	147	6	8
„ Donation to War Fund	100	0	0
	£11,824	17	3
To Balance, Net Loss	1,961	2	2
Add Preference Dividend paid for the six months to June 30th	1,000	0	0
	£2,961	2	2

	£	s	d	£	s	d
By Sales—						
General	39,000	6	4			
Patent Rights	5,000	0	0	44,000	0	0
„ Profit on Uncompleted Contracts (proportion)				500	0	0
				£44,500	6	4
By Gross Profit				9,863	15	1
„ Balance, being Net Loss..				1,961	2	2
				£11,824	17	3

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON

THE FAIRWEATHER ENGINEERING COMPANY, LIMITED.

BALANCE SHEET, December 31st 1899

Liabilities	£ s d	Revaluations, &c., made by Committee of Investigation £ s d
To Share Capital—		
Nominal—		
150,000 Shares (Ordinary) of £1 each	150,000 0 0	
100,000 „ (Preference) „ „	100,000 0 0	
	£250,000 0 0	
Issued—		
80,000 Ordinary Shares of £1 each (fully called up)	80,000 0 0	80,000 0 0
40,000 Preference Shares (5%) of £1 each fully called up	40,000 0 0	40,000 0 0
„ Sundry Creditors—		
Trade	6,000 6 3	6,000 6 3
Rent and Sundries ..	375 0 0	375 0 0
„ Loan at 5% secured on Lease	500 0 0	500 0 0
„ Reserve for Bad Debts	.	1,000 0 0
„ Reserve for Depreciation of Investments	..	2,500 0 0
	£126,875 6 3	£130,375 6 3

Assets	£ s d	Revaluations, &c., made by Committee of Investigation £ s d
By Sundry Debtors—		
Trade, Loans, and Calls	24,630 1 6	24,630 1 6
Bills Receivable .	4,010 0 0	4,010 0 0
„ Suspense Account .	856 4 8	
„ Cash at Bank	240 8 6	240 8 6
„ „ in hand . .	724 9 8	724 9 8
„ Leasehold Premises . . .	20,000 0 0	19,500 0 0
„ Plant and Machinery .. .	12,480 3 6	12,180 0 0
„ Stocks, &c.—		
Work in Progress . .	8,100 5 2	8,100 5 2
Completed Work in Store .	18,021 0 4	17,001 0 0
Stores and Materials .	14,981 1 2	13,860 0 0
Stationery, &c. .. .	500 1 4	400 0 0
„ Investments at par .	5,000 0 0	5,000 0 0
„ Goodwill and Patent Rights, &c	13,728 0 0	9,728 0 0
„ Preliminary Expenses	642 8 3	642 8 3
„ Profit and Loss Account .. .	2,961 2 2	14,358 13 2
	£126,875 6 3	£130,375 6 3

I have examined the above Balance Sheet with the Books and Vouchers of the Company and certify them to be in accordance therewith. No Depreciation has been written off Leaseholds, Plant, and Machinery, and the correctness of the Balance Sheet is subject to this, and the value of the Investments being as stated above.

A. B. TICKEM,
Auditor

February 23rd 1900.

PROFIT AND LOSS ACCOUNT for the Year ended December 31st 1899

	£ s d	£ s d
To Wages and Materials on Jobs completed	32,932 4 7	32,932 4 7
„ Royalties	1,704 6 8	1,704 6 8
„ Gross Profit	9,863 15 1	758 11 6
„ Amount written off Stock of Materials	.	1,121 1 2
„ Amount written off Completed Stock .	.	1,020 0 4
	£44,500 6 4	£37,536 4 3
To Rent, Taxes, Gas, Accident Claims, &c	2,906 1 1	2,906 1 1
„ Directors' and Auditors' Fees, Bad Debts, and Salary of Managing Director, &c.	3,001 6 8	4,001 6 8
„ Office Salaries, and Expenses, Travellers', Postages, and General Expenses, &c.	3,606 0 9	3,706 2 1
„ Repairs	100 0 0	100 0 0
„ Allowances off Sales	1,964 2 1	
„ Bank Charges	147 6 8	147 6 8
„ Donation to War Fund . ..	100 0 0	100 0 0
„ Suspense Account written off	..	856 4 8
„ Depreciation off Lease	..	500 0 0
„ „ „ Plant	..	300 3 6
„ „ „ Investments	..	2,500 0 0
	£11,824 17 3	£15,117 4 8
To Balance, Net Loss	1,961 2 2	13,358 13 2
Add, Preference Dividend paid for the six months to June 30th ..	1,000 0 0	1,000 0 0
	£2,961 2 2	£14,358 13 2

	£ s d	£ s d
By Sales—		
General	39,000 6 4	37,036 4 3
Patent Rights	5,000 0 0	
„ Profits on Uncompleted Contracts (proportion)	500 0 0	500 0 0
	£44,500 6 4	£37,536 4 3
By Gross Profit	9,863 15 1	758 11 6
„ Balance, being Net Loss ..	1,961 2 2	13,358 13 2
„ Sale of Patent Rights (*less* £4,000, cost of same estimated) ..	..	1,000 0 0
	£11,824 17 3	£15,117 4 8

THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF KINGSTON-UPON-HULL.

PRIVATE AND CONFIDENTIAL.

THE PHASTANLUCE ENGINEERING COMPANY, LIMITED,

PHASTANLUCE near GOOLE.

(A Company Registered without Articles of Association.)

Directors.
W. R LOCKING, *Chairman.*
J. A. CARLILL. W. SMAILES.

Solicitor.
J. J. T. FERENS.

Auditor.
PASS BARNEYS.

Bankers.
THE DOGGER BANK, LIMITED

Secretary.
W. P VICKERMAN.

Registered Offices—BOWLALLEY LANE, HULL.

REPORT OF THE DIRECTORS.

To be submitted to the Second Annual Meeting of Shareholders.

In submitting herewith the Balance Sheet and Relative Accounts as at 30th September last, your Directors desire to point out that, as anticipated when estimating the ensuing year's operations at the last General Meeting, the consistent advance in the prices of labour and material have had the effect of minimising to a considerable extent the profit on finished contracts which would otherwise have been realised. This advance in material still continues, but will be in part compensated for during the coming year by the increased prices obtainable for every description of the Company's output.

An interim dividend of 5s. per share on the Ordinary Shares was distributed in March last, and the Board regrets that the available Balance of Profit as shown by the accompanying statements will not suffice after paying the Preference Dividend to increase the dividend on the Ordinary Shares beyond the 5s. already received by the Shareholders. This 5s. was not distributed in cash, but was credited to the Capital Account in satisfaction of calls then due.

The Board recommend the declaration of a dividend of 6 per cent. on the Preference Shares and of 5s. per share on the Ordinary Shares, the latter to take effect as from March last.

Considerable Capital expenditure has been incurred during the twelve months, with the result of improving the Company's Assets in every way, and the Directors congratulate the members of the Company on the splendid property they now possess and the complete efficiency of every department of the works.

The prospects for the ensuing year are very good, but it must be inadvisable to give further details here of the orders in hand on account of the keen rivalry of similar establishments and the necessity for secrecy.

Mr. J. A. CARLILL retires from the Board, but is eligible and offers himself for re-election.

Mr. PASS BARNEYS, the Auditor, retires from office and does *not* offer himself for re-election on account of great pressure of professional work, which will cause prolonged absence abroad.

W. R. LOCKING
Chairman.

CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF KINGSTON-UPON-HULL

THE PHASTANLUCE ENGINEERING COMPANY, LIMITED.

Dr. TRADING ACCOUNT for the Twelve Months ended 30th September 1899. *Cr.*

	£ s d	£ s d		£ s d	£ s d
To Purchases	196,780 2 1		By Sales and Work done	438,966 11 3	
Less:			*Less:*		
Stock on hand at 30th Sept. 1899	44,603 10 9		Stock on hand at 30th Sept. 1898	21,306 11 4	
	152,176 11 4			417,659 19 11	
Less: Discounts	4,309 2 3		*Less:* Discounts	10,518 4 2	
		147,867 9 1			407,141 15 9
„ Wages		190,840 10 4			
„ Balance carried down, being Gross Profit for twelve months		68,433 16 4			
		£407,141 15 9			£407,141 15 9

Dr PROFIT AND LOSS ACCOUNT *Cr.*

	£ s d		£ s d
To Rents, Rates, and Taxes	3,280 9 4	By Gross Profit brought down	68,433 16 4
„ Carriage and Freight	5,698 14 8	„ Rents, &c.	460 2 6
„ Maintenance and Repairs, viz.: Buildings, &c. ..	460 9 8	„ Interest on Unpaid Calls	175 0 0
„ Do. do. Machinery and Plant	1,510 3 1		
„ General Expenses, including Stamps and Stationery ..	6,980 8 11		
„ Office Salaries	1,560 6 4		
„ Directors' Fees	5,000 0 0		
„ Audit Fee	5 5 0		
„ Travelling Expenses	1,860 6 9		
„ Stable Expenses	983 15 4		
„ Bank Interest and Charges	1,784 6 5		
„ Interest on Loans and Calls paid in advance	3,980 6 2		
„ Debenture Interest	2,100 0 0		
„ Income Tax	450 0 0		
„ Bad Debts	14,283 14 8		
„ Reserve	10,000 0 0		
„ Balance, being Profit for the year carried down ..	9,100 12 6		
	£69,068 18 10		£69,068 18 10

	£ s d	£ s d
By Net Profit brought down	9,100 12 6	
„ Balance carried to next Account	199 7 6	
		9,300 0 0
Deduct:		
Interim Dividend on Ordinary Shares paid in March (5s. per Share ..	7,500 0 0	
Preference Dividend at 6 per cent. ..	1,800 0 0	
		9,300 0 0

CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF KINGSTON-UPON-HULL.

THE PHASTANLUCE ENGINEERING COMPANY, LIMITED.

BALANCE SHEET on the 30th September 1899.

Property and Assets.

	£	s	d	£	s	d
Land and Buildings: including Foundry Machine and Fitting Shops, Furnaces, Boiler Shops, &c.—						
As at 30th September 1898	102,809	10	8			
Additions since	25,603	4	9			
Cost of Accident through Works Locomotive over-running Buffer Stops	2,709	11	2			
				131,122	6	7
Fixed Plant and Machinery, including Works Railway—						
As at 30th September 1898	93,706	6	10			
Additions since	8,509	1	11			
				102,215	8	9
Loose Plant and Tools—						
As at 30th September 1898	15,980	10	6			
Additions since	3,507	11	2			
				19,488	1	8
Patterns, Models, and Templates—						
As at 30th September 1898	4,200	0	0			
Additions since	950	10	2			
				5,150	10	2
Patents and Patent Rights—						
As at 30th September 1898	790	0	0			
Additions since	4,000	0	0			
				4,790	0	0
Goodwill				30,000	0	0
Formation Expenses				2,920	0	0
Investments in other Companies, viz.—						
The Watho Hæmatite Steel Co., Ltd. ..	4,200	0	0			
The Goitblynde Boring & Exploration Co. (limited and reduced)	5,775	0	0			
The Hallatcee Steam Ship Co., Ltd. ..	6,480	0	0			
The San Sanguinario and Vamoosino Sugar Crushing Co. (limited and reduced)	7,983	0	0			
The Pretoria (Transvaal) Baths and Washhouses Co., Ltd.	5,562	0	0			
				30,000	0	0
Sundry Debtors—						
On Open Accounts	62,340	4	11			
Bills Receivable	93,583	4	9			
				155,923	9	8
Stocks on Hand				44,603	10	9
Unexpired Values of Rents, Insurance, Rates, &c. ..				789	10	11
Cash in Secretary's hands				1,990	10	6
				£528,993	9	0

Capital and Liabilities.

	£	s	d	£	s	d	£	s	d
Capital—									
Authorised—									
30,000 6 per cent. Preference Shares of £5 each				150,000	0	0			
30,000 Ordinary Shares of £5 each ..				150,000	0	0			
				£300,000	0	0			
Issued—									
30,000 6 per cent. Preference Shares, £5 each fully paid				150,000	0	0			
30,000 Ordinary Shares £5 each, £3 10s. called				105,000	0	0			
				255,000	0	0			
Less 3,000 Shares forfeited	10,500	0	0						
Deduct Cash received thereon ..	3,000	0	0						
	7,500	0	0						
Less. Calls in arrear ..	2,500	0	0						
				5,000	0	0			
				250,000	0	0			
Add. Calls paid in advance				5,000	0	0			
							255,000	0	0
Debentures—First Issue at 4 per cent. ..				25,000	0	0			
Second Issue at 6 per cent. ..				30,000	0	0			
							55,000	0	0
Loans							15,000	0	0
Balance at Bank							21,486	18	9
Sundry Creditors—									
On Open Accounts				90,600	2	4			
Bills Payable				43,406	7	11			
							134,006	10	3
Reserve—									
As at 30th September 1898				20,000	0	0			
Since added				10,000	0	0			
							30,000	0	0
Vendors' Account at 30th September 1899							18,500	0	0
							£528,993	9	0

Mislfd Mansions,

London, *5th February* 1900.

E. & O. E.

Audited and left correct,

PASS BARNBYS, *Auditor.*

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

THE RANMOOR COLLIERY COMPANY, LIMITED,

FULLWOOD near TINSLEY.

(A Company Registered without Articles of Association.)

Directors.

H. COOPER, *Chairman.*

J. T. BARR. P. BEARD. F. A. EYRE. A. PLATT. W. SILVESTER.

Trustee for Debenture Holders.

A. E. MERCER.

Solicitors.

CHEETHAM, FLEECEM & CO.

Auditors.

E. Y. BAUM & CO.

Bankers.

SHALESMOOR BANKING COMPANY, LIMITED.

Secretary.

M. WEBSTER JENKINSON.

Registered Office—HOOLE'S CHAMBERS, BANK STREET, SHEFFIELD.

REPORT OF THE DIRECTORS

To be submitted to the Eighth Annual Meeting of Shareholders.

Your Directors, in submitting their Eighth Annual Report and Accounts, regret that, notwithstanding the recent high market price of Coal, they have to report a loss on the year's working of £2,846 16s. 8d., which, added to the Debenture Interest (as yet unpaid) and last year's balance, makes a total adverse balance of £29,528 3s. 1d. An amount of £16,100 has been added to Capital during the year. This includes all Renewals except ordinary repairs; also a sum of £8,985 13s. 4d., which was expended in putting the Mine into working order after the disastrous fire in October last, an expense which your Directors consider a proper charge to capital.

The Company's affairs have been fully considered by your Directors, and they now advise that the Company be wound up voluntarily, and at the Extraordinary Meeting to be held at the conclusion of the Annual Meeting a resolution to that effect will be proposed.

H. COOPER, *Chairman.*

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

THE RANMOOR COLLIERY COMPANY, LIMITED.

Dr TRADING ACCOUNT for the Year ending 30th June 1900 Cr

Date		£ s d	£ s d	Date		£ s d	£ s d
1899 July 1	To Stock ..		25,000 0 0	1900 June 30	By Sales of Coal, Coke, &c. ..		209,021 13 9
1900 June 30	" Wages of Colliers, Top and Bottom Daymen, Coke Burners, &c ..		130,982 9 9		" Wagon Hire Account Surplus ..		600 0 10
	" Coal Rents ..		14,854 10 2		" Stock of Coal, Coke, Material and Stores, &c.		12,000 0 0
	Materials, Stores, &c. ..		31,422 12 3				
	" Gross Profit carried down		19,362 2 5				
			£221,621 14 7				£221,621 14 7
	To Salaries	9,760 9 8			By Gross Profit ..		19,362 2 5
	" Do. (Special)	20 0 0			" Profit and Loss Account Loss for the year ..		2,846 16 8
	" Rates and Taxes	2,754 2 4					
	" Accident Claims	1,340 10 3					
	" Travelling Expenses	967 6 5					
	" Manager's Commission	1,150 0 0					
	" Insurance ..	534 3 7					
	" Electric Light ..	678 4 11					
	" Discounts, Allowances, &c	289 7 7					
	" Bank Charges ..	736 8 1					
	" General Charges, Postage, Stationery, Luncheons, Pit Clothes, &c., *less* Cottage Rents ..	1,018 6 3					
			19,248 19 1				
	" Directors' and Auditor's Fees ..	2,460 0 0					
	" Special Donations ..	500 0 0					
			2,960 0 0				
			£22,208 19 1				£22,208 19 1

Dr PROFIT AND LOSS ACCOUNT, 30th June 1900 Cr

Date		£ s d	Date		£ s d
1899 July 1	To Balance ..	24,181 6 5	1900 June 30	By Balance forward..	29,528 3 1
1900 June 30	" Further Loss to date	2,846 16 8			
"	" Debenture Interest ..	2,500 0 0			
		£29,528 3 1			£29,528 3 1
	To Balance ..	29,528 3 1			

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

THE RANMOOR COLLIERY COMPANY, LIMITED.

CAPITAL ACCOUNT.

	Expenditure to 30th June 1899	Expended this year	Total to 30th June 1900		Receipts to 30th June 1899	Received this year	Total to 30th June 1900
	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d
To Freehold Land	30,000 0 0	..	30,000 0 0	By Ordinary Shares	250,000 0 0	..	250,000 0 0
" Sinking Shaft and Opening-up Pit	285,000 0 0	10,000 0 0	295,000 0 0	" Preference Shares	125,000 0 0	..	125,000 0 0
" Plant and Machinery	63,000 0 0	5,000 0 0	68,000 0 0	" Debenture Stock	50,000 0 0		50,000 0 0
" Wagons	7,000 0 0	1,000 0 0	8,000 0 0				
" Office Buildings, Cottages, &c	2,500 0 0	100 0 0	2,600 0 0				
£	387,500 0 0	16,100 0 0	403,600 0 0				
" Balance		..	21,400 0 0				
		£	425,000 0 0				£425,000 0 0
				By Balance			21,400 0 0

BALANCE SHEET, 30th June 1900.

Liabilities	£ s d	£ s d	*Assets*	£ s d	£ s d
To Capital Accounts, balance ..		21,400 0 0	*By Coal Rents Overpaid*		29,624 3 11
Loans		10,970 3 6	" *Stock, viz.* —		
Debenture Interest ..		2,500 0 0	Coal and Coke	170 0 0	
			Materials, Stores, &c ..	11,830 0 0	
					12,000 0 0
" *Sundry Creditors, viz.*			" *Book Debts* ..		12,681 11 4
Open Accounts, including Bills payable	23,759 8 10		" *Preliminary Expenses* ..		1,800 0 0
Coal Rents and Royalties	16,622 16 11		" *Suspense Account, Amount of late Cashier's defalcations* ..		2,600 0 0
Bank Overdraft ..	10,000 0 0				
		50,382 5 9			
" *Provision Account, viz.*			" *Cash in hand*		18 10 11
Sundries.. ..	2,000 0 0		" *Profit and Loss Account*		29,528 3 1
Bad Debts	1,000 0 0				
		3,000 0 0			
		£88,252 9 3			£88,252 9 3

We have examined the above Balance Sheet with the Accounts and Vouchers relating thereto, and are of opinion that it is full and fair, and that it is properly drawn up so as to show a true and correct view of the state of the Company's affairs

E. Y. BAUM & CO., *Auditors*

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES (JOINT MEETING).

THE WESSEX ENGINEERING COMPANY, LIMITED.

Incorporated 31st August 1897.

Directors.

Mr. R. N. CARTER, Manchester, *Chairman.* Mr. A. F. DODD, Liverpool, *Deputy-Chairman.*
Mr. JOS. BELL, Junr., Manchester. Mr. H. W. BOWLER, Liverpool Mr. H. L. RAWLINGS, Liverpool.
Mr. W. R. SHARP, Manchester. Mr. S. S. DAWSON, Liverpool, *Managing Director.*

Secretary.

Mr. S. W. REDFEARN, Manchester.

REPORT OF THE DIRECTORS

To be submitted to the Fourth General Meeting of Shareholders.

Your Directors have pleasure in presenting the Accounts for the past year, which show an available profit (after payment of interest on Debentures and Interim Dividends on Ordinary and Preference Shares) of		£64,000 0 0
which they propose should be disposed of as follows :—		
To Reserve Fund	£10,000 0 0	
Half-Year's Dividend on Preference Shares	25,000 0 0	
Final Dividend at the rate of 5 per cent. per annum on Ordinary Shares, making 5 per cent. for the year ..	25,000 0 0	
		60,000 0 0
Leaving a balance to carry forward of		£4,000 0 0

ROGER N. CARTER, *Chairman*

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES.

THE WESSEX ENGINEERING COMPANY, LIMITED.

TRADING AND PROFIT AND LOSS ACCOUNT for the Year ended 31st August 1900.

	£	s	d	£	s	d
To Purchases of Pig Iron, &c., net	550,000	0	0			
Add Stock, 31st August 1899	50,000	0	0			
	600,000	0	0			
Less Stock, 31st August 1900	60,000	0	0	540,000	0	0
,, Wages				160,000	0	0
,, Carriage of Raw Materials				1,000	0	0
,, Provision for Repairs, Renewals, and Depreciation of Machinery				50,000	0	0
,, Royalties				1,000	0	0
,, Balance, Manufacturing Profit				158,000	0	0
				£910,000	0	0

	£	s	d	£	s	d
By Sales	900,000	0	0			
Add Stock of Finished Goods, at 31st August 1900	30,000	0	0			
	930,000	0	0			
Less Stock of Finished Goods, at 31st August 1899	20,000	0	0	910,000	0	0
				£910,000	0	0

	£	s	d	£	s	d
To Sundry Expenses	2,000	0	0			
Add Sundry Stock, 31st August 1899	500	0	0			
	2,500	0	0			
Less Sundry Stock, 31st August 1900	1,500	0	0	1,000	0	0
,, Travelling Expenses, Office Rent, Salaries, Audit Fees, &c.				12,500	0	0
,, Workmen's Compensation Account, Amount set aside				300	0	0
,, Amount paid to date in respect of Loss by Explosion				1,000	0	0
,, Discount on Sales				20,000	0	0
,, Bad Debts and Reserve for Doubtful Debts				700	0	0
,, Interest on Debentures				2,500	0	0
,, Managing Director's Commission on Net Profit at 5 per cent.				6,000	0	0
,, Balance Profit	120,000	0	0			
Less Managing Director's Commission	6,000	0	0	114,000	0	0
				£158,000	0	0

	£	s	d
By Balance, Manufacturing Profit	158,000	0	0
	£158,000	0	0

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES.

THE WESSEX ENGINEERING COMPANY, LIMITED.

BALANCE SHEET at 31st August 1900.

Capital and Liabilities.

	£ s d	£ s d	£ s d
***Nominal Capital*—**			
100,000 Ordinary Shares of £10 each ..		1,000,000 0 0	
100,000 Five per cent. Preference Shares of £10 each		1,000,000 0 0	
		£2,000,000 0 0	
***Subscribed Capital*—**			
50,000 Ordinary A Shares of £10 each, fully paid		500,000 0 0	
50,000 Ordinary B Shares of £10 each, £5 paid		250,000 0 0	
100,000 Preference Shares, fully paid		1,000,000 0 0	
			1,750,000 0 0
***Debentures*—**			
1,000 Five per cent. Debentures of £100 each, issued 28th February 1900 at £95 per cent. and redeemable at par in ten years			95,000 0 0
Trade Creditors			70,600 0 0
Commission due to Managing Director			6,000 0 0
Reserve Fund			10,000 0 0
***Profit and Loss Account*—**			
Profit for year		114,000 0 0	
Less Half-year's Dividend paid at 5 per cent. on Preference Shares ..	£25,000 0 0		
„ Half-year's Dividend paid at 5 per cent. on A Ordinary Shares..	12,500 0 0		
„ Half-year's Dividend paid at 5 per cent. on B Ordinary Shares.	12,500 0 0		
		50,000 0 0	
			64,000 0 0
			£1,995,600 0 0

Property and Assets.

	£ s d		£ s d
Mining Concession, Land and Buildings, at Cost			1,000,000 0 0
Goodwill			280,000 0 0
Machinery and Plant as at 31st August 1899		£500,000 0 0	
Add Repairs and Renewals during the year		50,000 0 0	
		550,000 0 0	
Less Sale of old Steam-power Fittings (cost £25,000)		10,000 0 0	
		540,000 0 0	
Reserve for Depreciation set aside in year ended 31st August 1898 ..	£50,000 0 0		
Reserve for Depreciation set aside in year ended 31st August 1898 ..	50,000 0 0		
Reserve for Depreciation set aside this year ..	50,000 0 0		
		150,000 0 0	
			390,000 0 0
Cost of installation of Electric motive power, instead of Steam			30,000 0 0
Stock of Raw Materials at market price (cost £50,000)		60,000 0 0	
Stock of finished Goods at Market price *less* allowance to cover selling expenses		30,000 0 0	
Stock of Sundries		1,500 0 0	
			91,500 0 0
Trade Debtors, *less* Reserve for Doubtful Debts and Discounts			50,000 0 0
Unworked Dead Rents			10,000 0 0
Workmen's Compensation Account, claims paid this year		3,000 0 0	
Less amount set aside to date at £300 per annum		900 0 0	
			2,100 0 0
Cash at the Bank		40,000 0 0	
Cash and Bills in hand		2,000 0 0	
			42,000 0 0
Loss for year ended 31st August 1899			100,000 0 0
			£1,995,600 0 0

Subject to our report of even date the above Balance Sheet is, in our opinion, a full and fair Balance Sheet, containing the particulars required by the Company's regulations, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs.

L. H. HARDMAN, Liverpool.
H. S. FERGUSON, Manchester.
Chartered Accountants, Auditors.

Manchester
1st October 1900.

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES (JOINT MEETING).

THE WESSEX ENGINEERING COMPANY, LIMITED AND REDUCED.

NOTICE is hereby given that an Extraordinary General Meeting of the Company will be held on the 31st day of October 1901, at the CITY HALL, EBERLE STREET, LIVERPOOL, at the conclusion of the Ordinary General Meeting to be held at the same place on the same day, but not earlier than 7.30 P.M., for the purpose of considering and—if thought fit—passing the following resolutions, that is to say:—

1.—That this Company be wound up voluntarily.

2.—That Mr. O. B. JUST, of Liverpool, Chartered Accountant, be and is hereby appointed Liquidator for the purposes of such winding-up.

3.—That the Liquidator be and he is hereby authorised to sell the whole of the Company's undertaking, property, and assets (exclusive of uncalled capital) to the X Syndicate for the sum of £1,141,600 payable as follows:—as to £1,074,250 in cash payable to the Liquidator within two months from the confirmation of these resolutions, and as to the balance of £67,350 by paying, satisfying, discharging, and fulfilling all the debts, liabilities, expenses, and engagements of this Company as disclosed in a Schedule which for the purpose of identification has been signed by representatives of the Syndicate and this Company.

4. That the sum of £500 be and it is hereby voted for the remuneration of the Liquidator, and all other expenses of the winding-up.

Should the above resolutions be passed by the requisite majority they will be submitted for confirmation as a Special Resolution to a Second Extraordinary General Meeting, which will be subsequently convened.

THE CITY HALL,
EBERLE STREET,
LIVERPOOL.
16th October 1901.

BY ORDER OF THE BOARD

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES.

THE WESSEX ENGINEERING COMPANY, LIMITED.

BALANCE SHEET, as at 28th February 1901.

Capital and Liabilities	£ s d	£ s d
NOMINAL CAPITAL—		
100,000 Ordinary Shares of £10 each	1,000,000 0 0	
100,000 5 per cent. Preference Shares of £10 each	1,000,000 0 0	
	£2,000,000 0 0	
SUBSCRIBED CAPITAL—		
50,000 Ordinary A Shares of £10 each, fully paid	500,000 0 0	
50,000 Ordinary B Shares of £10 each, £5 paid	250,000 0 0	
100,000 Preference Shares fully paid	1,000,000 0 0	
		1,750,000 0 0
DEBENTURES—		
1,000 5 per cent. Debentures, of £100 each, issued 28th February 1900, at £95 per cent. and redeemable at par in 10 years		95,000 0 0
Trade Creditors		53,500 0 0
Reserve Fund as at 31st August 1900	10,000 0 0	
Added per Resolution of 29th October 1900	10,000 0 0	
		20,000 0 0
		£1,918,500 0 0

Property and Assets	£ s d	£ s d
Mining Concession, Land and Buildings at Cost		1,000,000 0 0
Goodwill		280,000 0 0
Machinery as at 31st August 1900 ..	£390,000 0 0	
Depreciation, half-year	25,000 0 0	
		365,000 0 0
Cost of Installation of Electric Motive Power, instead of Steam		30,000 0 0
Stocks on hand—		
Raw Materials and Finished Goods		76,650 0 0
Trade Debtors, less Provision against Loss		43,700 0 0
Cash in hand, and at Bank		12,300 0 0
Profit and Loss Account—		
Balance, 31st August 1899	100,000 0 0	
Less Amount carried forward per Resolution of 29th October 1900..	4,000 0 0	
	96,000 0 0	
Loss for six months ending 28th February 1901	14,850 0 0	
		110,850 0 0
		£1,918,500 0 0

The above Account is supposed to have been laid before a Meeting of the Members in April 1901, when a Committee of Shareholders was appointed to investigate and report upon the Company's affairs.

RECONSTRUCTION SCHEME AS RECOMMENDED BY COMMITTEE OF SHAREHOLDERS.

Floating Assets having fallen below £150,000, Debentures are redeemable at 96 per cent. under terms of Trust Deed, and pressure is exercised by Trustee for Debenture Holders.

PROPOSALS.

Endeavour to settle with Debenture Holders at 96 per cent. free of accruing interest and expenses.

Reduce existing Capital of Company thus :—

A	Shares to	£7 each	fully paid.
B	" "	£7 "	£3 10s. paid.
Preference	" "	£9 "	fully paid.

Issue further Capital by way of First Preference Shares, viz. :—30,000 Shares of £5 each, and call the whole amount—*pro rata* allotment to all existing Members.

Write off the values of the fixed Assets and the adverse balance on Revenue Account to the extent of the reduction in the existing Capital.

Re-assess the value of the Machinery and Plant at £350,000.

Continue trading.

It is assumed that all these proposals were adopted and carried through ; the consent of the Court obtained to the reduction of the Capital ; the consent of the Debenture Holders and Shareholders obtained as regards their respective matters, and the issue of the First Preference Shares to existing Shareholders duly effected. The position of affairs would then be as annexed, dating the Accounts as 28th February 1901.

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES.

THE WESSEX ENGINEERING COMPANY, LIMITED.

EFFECT OF RECONSTRUCTION SCHEME ON BALANCE SHEET. 28th February 1901.

Capital and Liabilities

	£	s	d	£	s	d
NOMINAL CAPITAL—						
50,000 A Ordinary Shares of £7 each	350,000	0	0			
50,000 B Ordinary Shares of £7 each	350,000	0	0			
100,000 Five per Cent. Preference Shares of £9 each	900,000	0	0			
30,000 First Preference Shares of £5 each	150,000	0	0			
	£1,750,000	0	0			
SUBSCRIBED CAPITAL—						
50,000 A Shares £7 each, fully paid	350,000	0	0			
50,000 B Shares, £7 each, £3 10s. paid	175,000	0	0			
100,000 Preference Shares, £9 each, fully paid	900,000	0	0			
30,000 First Preference Shares, £5 each, fully paid (new issue) ..	150,000	0	0			
				1,575,000	0	0
Trade Creditors				53,500	0	0
				£1,628,500	0	0

Property and Assets

		£	s	d	£	s	d
Mining Rights, &c.		1,000,000	0	0			
Goodwill		280,000	0	0			
Machinery and Plant		395,000	0	0			
Profit and Loss Account .. .		110,850	0	0			
Debentures, 1 per cent. on Redemption		1,000	0	0			
		1,786,850	0	0			
Less Reserve Fund		20,000	0	0			
		1,766,850	0	0			
Less Reduction of Capital		325,000	0	0			
		£1,441,850	0	0			
Mining Rights and Goodwill					1,091,850	0	0
Machinery and Plant .. .					350,000	0	0
Stocks					76,650	0	0
Trade Debtors					43,700	0	0
Cash in Hand and at Bank ..		12,300	0	0			
Add Cash for First Preference Shares	£150,000 0 0						
Less Debentures redeemed	96,000 0 0						
		54,000	0	0			
					66,300	0	0
					£1,628,500	0	0

BALANCE SHEET as at 31st August 1901.

Capital and Liabilities

	£	s	d	£	s	d
NOMINAL CAPITAL—						
50,000 A Ordinary Shares of £7 each	350,000	0	0			
50,000 B Ordinary Shares of £7 each	350,000	0	0			
100,000 Five per Cent. Preference Shares of £9 each	900,000	0	0			
30,000 First Preference Shares of £5 each	150,000	0	0			
	£1,750,000	0	0			
SUBSCRIBED CAPITAL—						
50,000 A Shares, £7 each, fully paid	350,000	0	0			
50,000 B Shares, £7 each, £3 10s. paid	175,000	0	0			
100,000 Preference Shares, £9 each, fully paid	900,000	0	0			
30,000 First Preference Shares, £5 each fully paid (new issue) ..	150,000	0	0			
				1,575,000	0	0
Trade Creditors				67,350	0	0
				£1,642,350	0	0

Property and Assets

	£	s	d	£	s	d
Mining Concession, Land, and Buildings at Cost				1,091,850	0	0
Machinery and Plant..	£350,000	0	0			
Depreciation, half-year . ..	25,000	0	0			
				325,000	0	0
Stocks				87,500	0	0
Trade Debts				58,300	0	0
Cash in Hand and at Bank				3,600	0	0
PROFIT AND LOSS ACCOUNT—						
Loss 6 months to date	73,100	0	0			
Reconstruction Expenses	3,000	0	0			
				76,100	0	0
				£1,642,350	0	0

AUDITORS' CERTIFICATE.

Pursuant to Section 23 of the Companies Act, 1900, we hereby certify that all our requirements as Auditors have NOT been complied with.

A. B.
C. D. } *Chartered Accountants.*

Auditors.

Liverpool, 9th October 1901.

AUDITORS' REPORT.

We have examined the above Balance Sheet with the Accounts and Vouchers relating thereto, and we have to report that subject to our Certificate annexed hereto, and to a further report which we have made to the Shareholders, the Balance Sheet is properly drawn up so as to show a true and correct view of the state of the Company's affairs on 31st August 1901, as shown by the books of the Company.

A. B.
C. D. } *Chartered Accountants.*

Auditors.

Liverpool, 9th October 1901.

MANCHESTER AND LIVERPOOL CHARTERED ACCOUNTANTS STUDENTS' SOCIETIES.

THE WESSEX ENGINEERING COMPANY, LIMITED.

The Auditors' Report and Certificate will be read and discussed at the Ordinary Meeting of Shareholders, but the hopelessness of the Company is now generally admitted, and it is decided that steps be taken to wind up the Company voluntarily. A Syndicate has offered to take over the whole undertaking on the following terms—the Capital to be repaid to the Shareholders in Cash.

Capital and Liabilities	Balance Sheet £ s d	Syndicate's Offer £ s d	*Property and Assets*	Balance Sheet £ s d	Syndicate's Offer £ s d
Capital	1,575,000 0 0	1,073,750 0 0	Mining Rights, &c	1,091,850 0 0	750,000 0 0
Trade Creditors	67,350 0 0	67,350 0 0	Machinery and Plant	325,000 0 0	250,000 0 0
Expenses of Liquidation		500 0 0	Stocks	87,500 0 0	84,000 0 0
			Trade Debts	58,300 0 0	54,000 0 0
			Cash	3,600 0 0	3,600 0 0
			Profit and Loss Account	76,100 0 0	
	£1,642,350 0 0	£1,141,600 0 0		£1,642,350 0 0	£1,141,600 0 0

This offer has been accepted by the Directors subject to confirmation by the Shareholders.

PROPOSED DISTRIBUTION OF CAPITAL.

Both Classes of Preference Shares to be paid in full leaving £23,750.

But—

(1) If A and B Shares take proportionally to the Amounts paid up respectively then—

A Shares receive 6s. 4d. per Share,
and B Shares receive 3s. 2d. per Share.

Whereas—

(2)—If B Shareholders are asked to pay up their calls, and then rank with the A Shareholders *pari passu*—

A Shares receive £1 19s. 9d. per Share.
and B Shares pay £1 10s. 3d. per Share.

These Methods will be discussed at the Extraordinary Meeting of Shareholders, the Directors and several of the largest Ordinary Shareholders holding different views upon the method of division.

NOTE.—The general rule upon the point may be controlled by the regulations of a Company.

THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF EDINBURGH.

THE NEW GUINEA GOLD MINING COMPANY, LIMITED.

NOTICE IS HEREBY GIVEN, that the SECOND ANNUAL GENERAL MEETING OF SHAREHOLDERS will be held within No. 27 QUEEN STREET, EDINBURGH, on THURSDAY, 23rd JANUARY 1902, at 8.30 P.M.

And Notice is hereby also given, that at the same place and on the same day, at 8.45 P.M., or as soon thereafter as the business of the above-mentioned Meeting is concluded, an EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS will be held for the purpose of considering, and, if approved of, passing the following resolutions :—

1. That an Agreement dated 9th January 1902, entered into between this Company and the Chartered Company of British New Guinea, relating to the transference of the business, property, and undertaking of this Company to the said Chartered Company, in exchange for Shares in the Chartered Company and Cash, is hereby approved and confirmed

2. That in order to the carrying out of this Agreement, this Company is hereby required to be wound up voluntarily

3. That this Company be wound up voluntarily.

4. That T. Quest, C.A., be appointed, and is hereby appointed, Liquidator of this Company, for the purpose of winding up the affairs and distributing the Assets thereof, and that with the powers conferred upon Liquidators by the Companies Act, 1862, and Acts amending and extending the same.

5. That the Liquidator may make such modification in the terms of the Agreement mentioned in Resolution 1 as he may deem expedient, and do all things as he may find convenient or necessary for carrying the said Agreement into effect.

6. That the Liquidator may and shall receive the Ordinary Shares in the Chartered Company of British New Guinea, to be allotted in terms of the Agreement mentioned in Resolution 1, and may and shall distribute the same among the members of this Company as follows, namely :—Every holder of Eight Ordinary Shares in this Company shall receive Nine Shares of the Chartered Company of British New Guinea, and the Liquidator shall, out of moneys to be received from the said Chartered Company, purchase all rights of the Shareholders of this Company to fractional holdings in the Chartered Company ; every holder of Founders' Shares in this Company shall receive Five Ordinary Shares in the Chartered Company for every Founders' Share held by him in this Company. Further, that the Liquidator shall receive in cash from the Chartered Company of British New Guinea, and shall distribute amongst the Shareholders of this Company according to their rights, the sum at the credit of Profit and Loss Account in this Company's Balance Sheet as at 30th June 1901.

By Order,

W. H. GRAY,

Secretary.

REGISTERED OFFICE,
EDINBURGH, *15th January* 1902.

THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF EDINBURGH.

THE NEW GUINEA GOLD MINING COMPANY, LIMITED.

Directors.

H. P. MACMILLAN, Esq., Advocate, *Chairman.*

Admiral FLEET. | Hon. ANTHONY NOBLE.
Colonel CHARLES. | JEREMY SMART, Esq.

WILLIAM ANNAN, Esq., *Managing Director.*

Secretary—W. H. GRAY.

Law Agents—Messrs. MUCH-MALEIND BROTHERS.

Auditor—T. QUEST, C.A.

REPORT BY THE DIRECTORS

To the Second Annual General Meeting of Shareholders.

to be held within No. 27 QUEEN STREET, EDINBURGH, on THURSDAY, 23rd JANUARY 1902.

The Directors have pleasure in reporting that the operations of the Company during the past year have been highly successful, and that the realised net profit for the year is £10,000. Out of this sum a dividend at the rate of 5 per cent. falls to be paid to the Ordinary Shareholders. This will absorb £4,500, and the Directors recommend that the balance (£5,500), together with interest on calls in arrear (£80), in all £5,580, be divided amongst the Shareholders, in accordance with the Memorandum of Association of the Company.

Notwithstanding the large profit on the past year's working, the Directors have had under their grave consideration the very serious outlay incurred for management in New Guinea. As a result of inquiries they have made, the Directors are satisfied that the Company cannot be continued in its present methods of work without heavy expenditure for management in New Guinea.

They have, therefore, opened negotiations with the Chartered Company of British New Guinea, which has large interests among the Owen Stanley Mountains, where the Company's mine is situated, and whose engineering and management staff will be able to control the working of the mine in a satisfactory and efficient fashion at a very great saving. After much correspondence and many meetings, the Chartered Company of British New Guinea has offered to purchase this Company's whole property, plant, and other assets, on the footing of the annexed Balance Sheet as at 30th June 1901, to assume liability for the Debentures, and to pay in cash to the Liquidator for distribution amongst the Shareholders, according to their respective rights, the balance of £10,000 appearing at the credit of Profit and Loss Account in that Balance Sheet.

The offer made by the Chartered Company is that for every Ordinary Share of this Company there should be given 1¼ Share in the Chartered Company, and for every Founder's Share there should be given five Shares in the Chartered Company. Such portions of Shareholders' holdings in this Company as will result in fractional holdings in the Chartered Company will be paid off in cash at the rate of £1 1s. 3d. per Share of the Chartered Company to which the Shareholder is entitled. The present market value of the Shares of the Chartered Company is £1 1s. 3d., at which price they have stood for some months.

Arrangements have been made whereby all officials of the Company will be taken over by the Chartered Company at their present remuneration, and an understanding has been come to, that two Directors of this Company will be invited to join the Board of the Chartered Company.

In view of the strong position of the purchasing Company, and of the confidence of the public therein, as evidenced by the premium which its Shares command on the market, it has not been thought necessary to consult the Debenture-holders as to their wishes in connection with the proposed sale.

Provision has been made in the Agreement with the purchasing Company whereby it will issue, free of charge, Debenture Stock Securities for sums equal to the amounts of the principal moneys due on the present documents of debt, upon these being surrendered by the Debenture-holders. The Directors presume that the Debenture-holders will take advantage of this provision.

The Shareholders will, no doubt, be pleased to know that the Directors have succeeded in completing the purchase of the patent hydraulic extracting machine referred to in last Report. The price has, meantime, been entered in the Balance Sheet, partly under the heading Mining Rights and Plants, and partly under the heading Subsidiary Patent Rights.

In accordance with the provision of the new Companies Act, the Auditor's Report on the Accounts will be read to the Meeting. At the suggestion of the Auditor, the Report has not been printed, as in former years, at the foot of the Balance Sheet.

In terms of the Articles, two of the Directors, Admiral Fleet and Colonel Charles, retire at this time, but, being eligible, offer themselves for re-election.

The Auditor also retires, but is eligible for re-election.

By order of the Directors.

W. H. GRAY

Secretary.

EDINBURGH, 15*th January* 1902.

THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF EDINBURGH

THE NEW GUINEA GOLD MINING COMPANY, LIMITED.

BALANCE SHEET, as at 30th June 1901.

Liabilities

CAPITAL AUTHORISED AND ISSUED.			
Authorised—			
90,000 Ordinary Shares of £1 each.			
10,000 Founders' Shares of £1 each.			
The free surplus profits in each year, after 5 per cent has been paid on the Ordinary Shares, is divisible, one-half among the holders of Ordinary Shares, and one-half among the holders of Founders' Shares.			
Issued—			
90,000 Ordinary Shares of £1 each			£90,000
Less calls in Arrear			1,000
			89,000
10,000 Founders' Shares of £1 each, fully paid			10,000
			99,000
RESERVE—			
Premium received on issue of £50,000 5 per cent. Debentures		£5,000	
Premium received on 30,000 Ordinary Shares issued during year		3,000	
Calls received and Premium obtained on re-issue of 1,000 Ordinary Shares, 10s. paid forfeited during the year		600	
			8,600
DEBENTURES—			
Debentures bearing interest at 6 per cent. per annum, and repayable at par in 1910			50,000
SINKING FUND FOR REDEMPTION OF DEBENTURES—			
Amount provided from out of profits last year ..		£1,000	
Do. this year		1,000	
			2,000
PROFIT AND LOSS ACCOUNT—			
Thus, profit on working for year		21,000	
Less Expenses of Management in New Guinea	£9,000		
Expenses in Great Britain ..	1,000		
Sum set aside toward Sinking Fund for Redemption of Debentures	1,000		
		11,000	
			10,000
			£169,600

Assets

MINING RIGHTS AND PLANT—			
Amount paid to Vendor			£50,000
Added during previous year	£25,000		
Do. do. this year	80,000		
			105,000
			155,000
Subsidiary Patent Rights			4,900
Preliminary Expenses			2,000
Office Furniture, Fittings, &c			100
Sums in hands of Officials in New Guinea			7,000
Cash at Bankers and in hand			600
			£169,600

EDINBURGH, *14th January* 1902.—In accordance with the Companies Act, 1900, I hereby certify that all my requirements as Auditor have been complied with.

T QUEST, C.A., *Auditor*.

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON.

MOCK SHAREHOLDERS' MEETING.

THE EMPIRE SUGAR ESTATES (1900), LIMITED.

Directors :

LORD SMOOTHEMDOWN, *Chairman* (MR. W. C. NORTHCOTT, A.C.A.).

SIR TIMOROUS TRUSTFUL, *Deputy-Chairman.* A. CYPHER-BLANK, ESQ., *Director*

WRIGGLE WIDEAWAKE, ESQ., *Managing Director* (MR. F. G. BOWERS, A.C.A.).

Solicitor :

REDDE SEALE, ESQ. (MR. R. F. W. FINCHAM, A.C.A.).

Auditors :

TRANSFER, TICKEM & CO. (MR. J. MYERS).

Secretary :

O. GELATINOUS-PLIABLE, ESQ. (MR. S. G. COLE, F.C.A.).

Registered Offices :—ETHEREAL HOUSE, FAIRYLAND

REPORT OF THE DIRECTORS

For the year ending 30th September 1905.

GENTLEMEN,—

Your Directors have pleasure in presenting their Fifth Annual Report.

The conditions of trade during the past year have been generally unfavourable, and this circumstance has adversely affected the Company's operations both at home and abroad.

		£ s d
After making, in the opinion of your Directors, ample provision for all contingencies, and expenses incidental to the conduct of the business, the balance of profits for the year amounts to		4,450 0 0
To which must be added the undistributed profits brought forward from 1904		5,300 0 0
		9,750 0 0
One year's dividend on the Preference Shares has been paid		4,750 0 0
Leaving an available profit of		5,000 0 0
The Directors recommend a dividend of 3 per cent. on the Ordinary Shares	£2,250 0 0	
A Transfer to Bonus and Benevolent Fund of	750 0 0	
		3,000 0 0
And that there be carried forward to next Account a balance of		£2,000 0 0

Lord Smoothemdown retires by rotation and offers himself for re-election.

The Auditors also retire, and, being eligible, offer themselves for re-election.

SMOOTHEMDOWN,
Chairman.

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON.

THE EMPIRE SUGAR ESTATES (1900), LIMITED.

BALANCE SHEET, September 30th 1905.

Liabilities

		£ s d	£ s d
To Nominal Capital—			
100,000 Ordinary Shares of £1 each		100,000 0 0	
100,000 Five per cent. Preference Shares of £1 each		100,000 0 0	
		£200,000 0 0	
" Issued Capital—			
100,000 Ordinary Shares of £1 each		100,000 0 0	
100,000 Five per cent. Preference Shares of £1 each		100,000 0 0	200,000 0 0
" First Mortgage Debentures— Five per cent. Debentures Redeemable at par 30th September 1915, issued at 95			46,250 0 0
" Creditors for Loans, Interest, and Dividends		11,250 0 0	
" Do. on open Trade Accounts and Bills		77,625 0 0	
" Do. fully secured		15,000 0 0	
" Acceptances under Discount		25,000 0 0	
" Income Tax and other Commitments		3,125 0 0	132,000 0 0
" Reserves—			
For General Contingencies .		29,250 0 0	
For Bad and Doubtful Debts ..		2,500 0 0	
For Amortisation of Leaseholds ..		3,000 0 0	
			34,750 0 0
" Debenture Redemption and Depreciation Fund			25,000 0 0
" Profit and Loss—			
Profit for the year		4,450 0 0	
Add Balance of Undivided Profits at 30th Sept. 1904	8,550 0 0		
Less Dividend on Ordinary Shares for the Year to 30th September 1904, at 3½ % per annum ..	2,500 0 0		
	6,050 0 0		
Less Amount allocated to Bonus and Benevolent Fund	750 0 0		
		5,300 0 0	
		9,750 0 0	
Less Dividend on 5 per cent. Preference Shares for the year ended 30th September 1905 ..		4,750 0 0	
			5,000 0 0
			£443,000 0 0

Assets

		£ s d	£ s d
By Properties comprising Freehold and Leasehold Land, Buildings, Machinery, Factories, and Goodwill, at cost, as per last Balance Sheet		260,000 0 0	
Add Additions to Properties during the year, *less* realisations		7,500 0 0	
		267,500 0 0	
Less Improvement and Extension Fund. Balance at 30th September 1904	23,500 0 0		
Add Amount set aside from Profits to 30th September 1905	2,750 0 0		
	26,250 0 0		
Deduct Outlay on Renewal of Properties, &c., during the year, other than ordinary repairs charged to Revenue	8,750 0 0		
		17,500 0 0	
			250,000 0 0
" Sundry Investments, Loans and Shares in affiliated undertakings, including accrued dividends			15,000 0 0
" Furniture, Fixtures and Head Office Premises at cost, *less* Premises Redemption Fund			2,000 0 0
" Stock in Trade—			
Manufactured Sugar in Store and afloat		17,000 0 0	
Raw Materials, Growing Crops, and Stores on hand .. .		38,000 0 0	
			55,000 0 0
" Trade Debtors (*less* discount, including customers' unmatured acceptances)		75,000 0 0	
" Rates, Taxes, Insurances, and Discount prepaid		500 0 0	
			75,500 0 0
" Uncalled Capital—			
10s. per Share on 50,000 Ordinary Shares of £1 each		25,000 0 0	
Calls in arrear on 10,000 Preference Shares issued with 10s. paid thereon in respect of purchase-money ..		3,500 0 0	
			28,500 0 0
" Cash in Bank at home and abroad ..		1,000 0 0	
" Cash, Bills, &c., in hand		6,250 0 0	
			7,250 0 0
" Expenditure carried forward—			
Preliminary Expenses, including Discount on Debentures		5,750 0 0	
Loss brought forward from 30th September 1903		4,000 0 0	
			9,750 0 0
			£443,000 0 0

Issued and approved by SMOOTHEMDOWN (*Chairman*). A. CYPHER-BLANK, *Director*. O. GELATINOUS-PLIABLE, *Secretary*.

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with In our opinion, however, the Uncalled and Unpaid Capital should be deducted from the Issued Capital.

October 8th 1905. TRANSFER, TICKEM & CO., *Auditors*.

CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON.

THE EMPIRE SUGAR ESTATES (1900), LIMITED.

PROFIT AND LOSS ACCOUNT, for the Year ended 30th September 1905.

	£ s d	£ s d		£ s d	£ s d
To Head Office and General Maintenance Expenses in England..		12,250 0 0	By Profits for the Year, including accrued Profits in Affiliated Undertakings and Guarantee by Vendors ..		41,170 0 0
„ Professional Charges (Accountants) ..		525 0 0	*Add* Proceeds of option to Purchase Sugar Properties in Cienfuegos relinquished by this Company, namely: —In Cash .. .	750 0 0	
„ Directors' Fees— Paid in Cash	2,200 0 0		In Shares . .	1,050 0 0	
Paid in Shares	300 0 0	2,500 0 0			1,800 0 0
„ Estimated Office Expenses at Cienfuegos and Villa Clara, not yet advised		2,725 0 0	„ Transfer Fees		250 0 0
„ Balance carried down		25,225 0 0			
		£43,225 0 0			£43,225 0 0
To Amounts Allocated— Improvements and Extension Fund	2,750 0 0		By Balance brought down . .		25,225 0 0
General Contingencies Fund ..	5,500 0 0				
Amortisation of Leaseholds	560 0 0				
Head Office Premises Redemption Fund	540 0 0	9,350 0 0			
„ Preliminary Expenses, Proportion written off		2,000 0 0			
„ Interest on Loans and Debentures, *less* Tax		2,750 0 0			
„ Debenture Redemption and Depreciation Reserve		5,000 0 0			
„ Income Tax payable		1,675 0 0			
„ Balance carried down		4,450 0 0			
		£25,225 0 0			£25,225 0 0
			By Balance brought down		4,450 0 0

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE.

MOCK SHAREHOLDERS' MEETING.

Given the accounts reproduced below, the question for consideration and discussion was as to what should be done? Should the capital of the Company be reduced? And, if so, what form should the Scheme for Reduction of capital take?

THE MIDLAND TRADING COMPANY, LIMITED.

BALANCE SHEET, 31st December 1913

Liabilities	£	s	d	£	s	d
Nominal Capital—						
100,000 6 per cent. Preference Shares	100,000	0	0			
150,000 Ordinary Shares	150,000	0	0			
	£250,000	0	0			
Subscribed Capital—						
100,000 6 per cent. Preference Shares (fully paid)..	100,000	0	0			
150,000 Ordinary Shares (10s. paid)..	75,000	0	0			
				175,000	0	0
Bank Loan (secured)				50,000	0	0
Sundry Creditors				38,750	0	0
Bills Payable				19,500	0	0
				£283,250	0	0

Assets	£	s	d
Goodwill	40,000	0	0
Business Premises	58,700	0	0
Plant and Machinery	72,950	0	0
Stock-in-Trade	17,563	0	0
Sundry Debtors	75,218	0	0
Cash at Bank and in Hand ..	12,564	0	0
Profit and Loss Account: Balance to debit	6,255	0	0
	£283,250	0	0

The Auditor's Report mentions (1) that nothing has been written off Goodwill or Business Premises since the Company started in January 1904; (2) that an independent valuation of Plant and Machinery places that item at £48,000; (3) that prior to 1912 the Stock-in-Trade averaged £40,000; (4) that Book Debts amounting to £4,250 are overdue and doubtful.

The Bankers, who hold a Mortgage of the Company's Business Premises and Fixed Plant, require their loan to be reduced to £35,000.

Cash Discounts at 2½ per cent. on £18,000 have been lost by failure to pay Trade Creditors' Accounts promptly.

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE.

THE MIDLAND TRADING COMPANY, LIMITED.

Dr. PROFIT AND LOSS ACCOUNTS for the three years ended 31st December 1913. *Cr.*

	1911			1912			1913				1911			1912			1913		
	£	s	d	£	s	d	£	s	d		£	s	d	£	s	d	£	s	d
To General Expenses ..	18,000	0	0	16,000	0	0	17,500	0	0	By Gross Profits	18,000	0	0	28,000	0	0	39,000	0	0
" Depreciation . ..	6,000	0	0	6,000	0	0	.			" Sundry Receipts ..	1,200	0	0	1,500	0	0	1,600	0	0
" Bad and Doubtful Debts	1,200	0	0	1,500	0	0	1,850	0	0	" Balance, being Loss ..							6,230	0	0
" Interest	.			2,000	0	0	2,500	0	0										
" Defalcations	..						24,980	0	0										
" Balance, being Net Profit	24,000	0	0	4,000	0	0	.												
	£49,200	0	0	£29,500	0	0	£46,830	0	0		£49,200	0	0	£29,500	0	0	£46,830	0	0
To Loss for the Year .	..			..			6,230	0	0	By Balance from last Year	1,475	0	0	3,975	0	0	475	0	0
" Transfer to Reserve Fund	6,000	0	0				.			" Net Profit for Year ..	24,000	0	0	4,000	0	0			
" Directors' Fees	2,000	0	0	2,000	0	0	2,000	0	0	" Transfer from Reserve Fund	.			8,000	0	0	4,500	0	0
" Preference Dividend ..	6,000	0	0	6,000	0	0	3,000	0	0	" Balance forward .							6,255	0	0
" Ordinary Dividend	7,500	0	0	7,500	0	0													
" Balance forward .	3,975	0	0	475	0	0													
	£25,475	0	0	£15,975	0	0	£11,230	0	0		£25,475	0	0	£15,975	0	0	£11,230	0	0

CHAPTER XXIII.

ACCOUNTS FOR LITIGATION.

IN the course of the present work the subject of accounting has hitherto been considered chiefly, if not entirely, from the point of view of the requirements of business undertakings in this connection, with a view to showing how a full and complete record of the transactions may be kept, so as to provide at all times such information as may be necessary, or as may properly or reasonably be looked for as a result of keeping accounts. It remains, however, to be added that when disputes arise as to matters of account—whether or not such disputes lead to actual litigation—it often becomes necessary to deal with those accounts in a somewhat different manner, in order clearly to set forth the view taken by one, or other, of the disputants with regard to the matters at issue.

DISPUTES ON COMPLETED MATTERS.

When the dispute arises out of accounts relating to a concern that has been brought to an end by the discharge of all current liabilities, and the conversion of all outstanding assets into Cash, the dispute can, it is thought, only arise in one of three ways :—

(*a*) As to whether the account submitted is a correct and complete record of *all* receipts and payments ;

(*b*) As to whether certain receipts ought not to have been larger, or certain payments ought not to be smaller ;

(*c*) As to who is entitled to the balance of Cash in hand ;

In the first case, the matter is one of simple vouching of an ordinary Cash Account, accompanied perhaps by an inquiry into facts which cannot raise any real dispute on accounts *per se*. The second form of dispute would be analogous to an allegation against an executor or administrator of *devastavit* or abusive or improper administration, which might perhaps involve an inquiry into values, but not into accounts ; while the third would be a matter of law pure and simple. It will thus be seen that such disputes as may arise in connection with the accounts of a completed venture, or other business undertaking, are not likely to raise any complicated questions of account at all, and therefore do not call for detailed consideration here.

DISPUTES ON UNCOMPLETED MATTERS.

When, however, the venture—so far from being completed—is still pending (that is to say, when the dispute arises out of the accounts of a going concern) complicated questions of account properly so-called may, and frequently do, arise ; and it will probably be admitted that these are the questions which are, as a rule, least satisfactorily adjudicated upon in a Court of Law. For that reason they are in practice frequently referred to Arbitration ; and if the Arbitrator be a qualified accountant, such a tribunal is undoubtedly likely to be more satisfactory—assuming, of course, that the dispute on matters of account is not complicated by other disputes on important matters of law or fact. But whether recourse be had to the Courts of Law or to Arbitration, each of the parties to the dispute has to set out his own case, and it is as a rule thought desirable (even in arbitration cases) that this task should be entrusted to Counsel, who upon the whole are, in even the most technical cases, likely to handle the matter much better than the litigant himself could do.

To enable Counsel to do their clients justice, however, it becomes necessary that the whole position should be laid before them clearly and concisely; the strong points being drawn attention to, so that the case may be stated to the best advantage, and the weak points also enumerated, so that they may not be taken by surprise. In complicated cases of account it is often considered that the employment of Counsel places the client at a disadvantage, in that Counsel is under such circumstances called upon to argue upon technical matters with which he cannot reasonably be expected to be quite familiar. This is a view that is very generally entertained by business men, who often make no secret of their opinion that it is no use trying to get lawyers to understand accounts. It is thought, however, that—so far as there is any foundation at all for this grievance—it rests, not upon any lack of ability on the part of the Bar to grasp technical matters that may be laid before them clearly, but rather upon the inadequate manner in which those responsible for Counsels' briefs often discharge their duties. Where complicated questions of account are raised, that call for detailed inquiry in the course of the hearing of a dispute, it is thought that solicitors should seek professional advice as to the drafting of that portion at least of their brief; and, if necessary, a professional accountant should be retained to confer with Counsel upon this portion of the matter, and to attend with him at Court, with a view to keeping him posted from time to time as to the real effect of the points made by the other side, so far as they affect the accounts. When this course is pursued, it will usually be found that it is as easy for Counsel to handle questions of accounts effectively as it is for them to handle any of the other numerous questions outside the immediate scope of their daily experience that they have occasion to deal with in the course of a general practice.

It is important, however, that, when proceeding upon these lines, accountants should remember that matters which seem fairly obvious to *them* will by no means necessarily be regarded as axioms by trained jurists. In particular is it desirable that the questions in dispute should be confined to the simplest and clearest issues possible, and especially is this the case if a jury is concerned. Accountants are, of course, aware that in the case of most business undertakings the Cash Book is not so much the backbone of the whole structure of accounts as many lawyers seem to think. They should bear in mind, however, that all completed transactions are capable of being verified, or refuted, by being reduced to a Cash basis; and whenever possible, therefore, this principle of reduction to the Cash basis should be employed. It is not merely more convincing to both the trained legal mind and the mind of the ordinary juror, but also more reliable to all who are prepared to approach the matter without any professional bias. Uncompleted transactions cannot, of course, always be verified by having recourse to the Cash Book standard; but they are often capable of being explained far more clearly and distinctly than by a mere pedantic reference to some particular book of account, and a few of the ordinary academic rules of double-entry bookkeeping. Accountants would do well to bear in mind that what they have to prove is not that such and such a transaction has (or has not) been recorded correctly according to the accepted rules of accounting, but rather what are the actual facts in connection with the matter.

METHODS OF PROCEDURE.

It is quite impossible here to describe in detail the *modus operandi* that professional accountants should pursue in order to discharge to the best advantage their duty of assisting Counsel upon issues involving disputes in connection with accounts. The subject is far too wide a one to be dealt with adequately in a short compass, and indeed it may be questioned whether it is really practicable to deal with it at all in a text-book. It may be mentioned, however, that one of the most common cases in which disputes arise in connection with accounts is when it is sought to establish a charge of misrepresentation or fraud in connection with accounts, or a charge of falsification of accounts. In these cases the matter is as a rule complicated by the number of the items challenged, and further by the fact that, even if the alleged offence has been committed, it has probably been committed by someone sufficiently experienced in accounts to do all that lay in his power to cover up his tracks. If, therefore, the allegation is to be proved beyond reach of doubt, it is absolutely essential that the issue—which has been purposely obscured—be cleared not merely of all irrelevant, but also of all comparatively unimportant, items.

In criminal cases it will often be found that, whereas the accused has received money from a customer without debiting Cash (*i.e.* himself) with the amount so received, the customer's cheque for the amount in question has actually been cleared through the prosecutor's banking account. *Prima facie*, and without due consideration, anyone approaching the matter from the point of view of accounts might be tempted to charge the delinquent with stealing that specific sum of money received from the customer in question; but proof that the customer's cheque has been paid into the prosecutor's banking account would be a complete refutation of this charge. What has actually happened, in this hypothetical case, is that certain moneys have been paid into the bank without being entered in the Cash Book: if, therefore, no moneys have been improperly abstracted, the bank balance should be " over " to a corresponding extent. The fact that the balance at bank exactly agrees with the balance shown by the Cash Book may suggest that a corresponding sum has deliberately and improperly been abstracted by the cashier; but a suspicion such as this is an entirely different thing from *proof* that such money has deliberately and feloniously been abstracted, and what at first sight appeared to be a perfectly straightforward case becomes at once a doubtful and an extremely complicated one.

The case of *Rex v. Oliphant* ([1905] 2 K.B. 67) is in point. There the defendant was the branch manager in Paris of a London firm. It was his daily duty to enter his daily receipts upon slips which he transmitted to London to enable the amounts to be entered up in the London Cash Book. On a certain date the defendant received three sums, and omitted to enter the receipt upon the slips, knowing and intending that the sums would be omitted (as the case was) from the Cash Book. The defendant was charged under Section 1 of the Falsification of Accounts Act, 1875, as a clerk or servant, with omitting, and concurring in omitting, material particulars from a book belonging to his employers with intent to defraud. It was contended for the defendant, first, that there was no evidence that the defendant had committed the offence with which he was charged, and which related, not to the slips drawn up by the defendant in Paris, but to the Cash Book kept in London; and, secondly, that there was no jurisdiction in the Court to try the case, as the offence was not committed in England. Lord Alverstone, C.J., considered that the real point in the case was "What was the duty the defendant had to perform, and what was the act done by him which is alleged to be the omitting, or the concurring in omitting, to make an entry?" Considering these points, it was held, by the Court for Crown Cases Reserved, that the Court which tried the case had jurisdiction, and that the defendant was rightly convicted. But both Mr. Justice Channell and Mr. Justice Kennedy doubted whether defendant had any duty as to keeping the London Cash Book. "I do not think that a clerk or servant who makes a false return to his employer, knowing that the employer keeps books which will accordingly be rendered incorrect, necessarily falsifies those books, or concurs in the omission of an entry from the books which they would have contained if the return had been correctly made." It is important also to notice that a prisoner cannot be convicted under Section 1 of the Falsification of Accounts Act, 1875, on an indictment charging him with making a false entry in an account, if it is proved that the account in question did not belong to, and was not in the possession of, his employer. The intention of the Legislature was to punish the falsification by clerks, officers, servants, or others, of their employers' accounts.

Another class of dispute in which the aid of professional accountants is often, and advisedly, sought is when the plaintiff seeks to recover money that he has invested in a business, on account of misrepresentations alleged to have been made by the defendant as to the state of that business. Here all that the accountant is concerned with is to show that the representations made by the defendant were false in material particulars, such as would naturally affect the decision of a reasonable business man. In such a case it is usually desirable for him to confine his attack to a comparatively small number of items that can readily and clearly be shown to be wrong. Other items, which in his opinion may be entirely incorrect, should as a rule be left alone, if there is any likelihood of the defendant being able to produce rebutting evidence showing that the matter at issue is one upon which the opinions of competent experts are divided. In such cases, the alleged misrepresentations will probably have taken the form of a Balance Sheet and Trading and Profit & Loss Accounts submitted by the defendant to the plaintiff, and it will become the duty of the accountant acting in the matter to point out certain specific items in these accounts where misrepresentations have occurred. Very probably the most convenient means of establishing these points will be by cross-examination of the defendant or one of his witnesses. To enable such cross-examination to be conducted by the plaintiff's Counsel conveniently, it is usually desirable to place in his hands a statement containing an exact copy of the accounts submitted to the plaintiff by the defendant, to which are appended—in such a manner as to be readily distinguishable from the accounts themselves—notes upon all points likely to arise at the hearing, their effect upon the ultimate result, along with references to the books or other records which must be produced to enable a detailed inquiry to be conducted. It is a great convenience to Counsel to have all this information upon the same sheet as the copy of the account, but it must, of course, be so supplied as to make it absolutely impossible for him to confuse the accountant's comments with the document as originally submitted. This separation can, however, readily be effected by placing a copy of the account in the inside of an open sheet, the various notes and memoranda being placed in margins outside and written (or typed) in red ink. That it may be quite clear to which item the various marginal notes refer, the copy account should (if necessary) be spaced out, upon the lines shown in the following—

EXAMPLE:

Dr. PROFIT AND LOSS ACCOUNT,

	Add £ s d	Deduct £ s d		£ s d	£ s d
(*A*) *This item should include* ALL *expenses under these headings properly chargeable against the year's accounts. Nothing is included for liabilities outstanding under Prize Competition schemes* (*estimated at*) ..	4,000 0 0		To Rent, Rates, Taxes, Advertising, Printing, Stationery, Wages, Salaries, Postages, Legal Expenses, Commissions, Discount, Lighting and General Expenses (*A*)		6,000 0 0
On 29th December, 1900, Mr. A. paid B. C. & Co. £500 for advertising the Company's goods, this should be included to debit of Profit and Loss Account	500 0 0				
(*B*) *This is a debt due by Mr. A. to the Company* (*Sold Ledger K, fo. 69*), *and should be accounted for by him*		10 0 0	" Bad Debts (*B*) ..		20 0 0
(*C*) *The Directors are entitled, under Article 69, to £500 per annum, no portion of this has been validly abandoned*	450 0 0		" Directors' Fees (*C*) . .		50 0 0
(*D*) *This item is quite debateable: inquire on what basis it was arrived at* ..	..		" Depreciation (*D*)		2,000 0 0
			" Balance carried to Balance Sheet, being Profit for Year	..	3,991 0 0
					£12,061 0 0

for the year ending June 30th 1920. *Cr.*

	£ s d	£ s d		Add £ s d	Deduct £ s d
By Gross Trading Profits for year (*E*)		12,000 0 0	(*E*) *Refer Nominal Ledger, fo 261. See also Returns Book, fo. 79. On 1st July 1920 Goods returned amount to £1,267 10s. od.; should be deducted from Sales of current year (gross profit at 10 per cent., say)* .. .		126 15 0
„ Transfer Fees (*F*) .. .		1 0 0	(*F*) *Refer Register of Transfers, fo. 67-9. 72 transfers recorded. 72 × 2/6 = £9. Difference to be accoun* [illegible]*d for*	8 0 0	
„ Interest on Bank Account		50 0 0			
„ Profit on Investments Sold		10 0 0			
		£12,061 0 0			

BALANCE SHEET.

	Add £ s d	Deduct £ s d	*Liabilities.*	£ s d	£ s d
			NOMINAL CAPITAL—		
			50,000 6 per cent. Cumulative Preference Shares of £1 each	50,000 0 0	
			50,000 Ordinary Shares of £1 each ..	50,000 0 0	
			ISSUED CAPITAL—		
			50,000 6 per cent. Cumulative Preference Shares of £1 each	50,000 0 0	
			25,000 Ordinary Shares of £1 each ..	25,000 0 0	75,000 0 0
			Sundry Creditors	..	1,000 0 0
			Unclaimed Dividends	..	1 0 0
(G) *There is no means of verifying this amount, which seems a pure guess inquire how it is made up.*			Customers' Deposits (G)		200 0 0
(H) *This item is, of course, subject to alteration as affected by items A-F.*			Profit and Loss Account (H)	3,991 0 0	
(I) *This deficiency included interim dividend of 10 per cent. paid on Ordinary Share in January 1920. Get this admitted; also that there was a loss of £792 on the trading for year ended 30th June 1920.*			Less Debit Balance from last Account (I)	3,292 0 0	699 0 0
					£76,900 0 0

June 30th 1920.

Assets	£ s d	£ s d		*Add* £ s d	*Deduct* £ s d
Cash at Bank (*K*)		5,000 0 0	(*K*) *This includes a cheque for £7,500 paid to Company on 30th June 1920 by Mr. A.; on following day a corrective entry was passed in books, and cheque not presented. The facts were—(1) Bank overdrawn, £2,500; (2) Due to Company from Mr. A., £9,500. Inquire as to how this arose: refer Private Ledger, fos. 11-13*		
Sundry Debtors		100 0 0			
Stock-in-Trade		4,800 0 0			
Leases, Goodwill, &c., as per Valuation of December 31st 1917, less Stock, and with subsequent additions at cost ..	82,000 0 0				
Written off to 30th June 1919 (*L*) £13,000 0 0			(*L*) *This was never really written off out of Profits, but it is a book entry correcting over-valuation of the item £82,000, which never really cost more than £69,000. Refer Private Ledger, fo. 120: get this admitted.*		
Written off to date (*M*) .. 2,000 0 0	15,000 0 0	67,000 0 0	(*M*) *Only £2,000 really written off per Depreciation in 3½ years, lease now only 8 years to run. Get this admitted*		
		£76,900 0 0			

The foregoing example, it must be understood, is only intended to give some idea of the manner in which an accountant's notes may conveniently be placed in Counsel's hands. The *pro forma* memoranda appearing in the margin are suggestive of matters that might possibly call for elucidation, with a view to establishing the allegation that the accounts, as submitted, were misleading in material particulars. They must not, however, of course, be regarded as exhausting all possibilities of misrepresentation in connection with statements of account. Practically any item in a Balance Sheet, Trading Account, or Profit and Loss Account may, under some circumstances, be seriously misleading. The foregoing example is merely intended to indicate the lines upon which accounts might usefully be framed for the convenience of Counsel at the hearing of a dispute.

It is to be remembered that an affidavit verifying an account is the subject of cross-examination, but the accounting party is entitled to notice of the points on which it is proposed to cross-examine him (see *Lord v. Lord*, L.R. 2 Eq. 605; *Meacham v. Cooper*, L.R. 16 Eq. 102). Moreover, where the accounting party is served with notice of cross-examination on his accounts, it is not sufficient to inform him that all the items except one are objected to. He is entitled to know the points on which the cross-examination is to proceed, and the notice of cross-examination must specify these points (*McArthur v. Dudgeon*, L.R., 15 Eq. 102; see also *Glover v. Ellison*, 20 W.R. 408). The accounting party cannot, however, refuse to be sworn in the absence of such notice, though after being sworn he may on that ground refuse to answer (*Meyrick v. James*, 46 L.J., Ch. 38). It is to be noted that the Court may refuse to act on affidavit where the deponent cannot be cross-examined (*Shea v. Green*, 2 *Times* Rep., 533, and Order 37, rule 20). This rule also applies in Bankruptcy (*Re Bottomley*, 84 L.T. K.B., 10, 20.)

By Order XXXIII, rule 3, it is provided that a Court or Judge may, either by the judgment or order directing an account to be taken, or by any subsequent order, give special directions with regard to the mode in which the account is to be taken or vouched, and in particular may direct that in taking the account the books of account in which the accounts in question have been kept shall be taken as *prima facie* evidence of the truth of the matters therein contained, with liberty to the parties interested to take such objections thereto as they may be advised. The case then passes to Chambers.

By Order LV, rule 37, of the Supreme Court the course of proceedings in Chambers in the Chancery Division is ordinarily the same as the course of proceedings in Court upon motions, so that evidence may be by affidavit. (See Order 38, rule 1, and Order 52, rules 1-10.) Every account, of course, must be verified by affidavit. (Order 33, rule 4.) Copies, abstracts, or extracts of or from accounts and other documents must, if directed, be supplied for the use of the Judge and his Chief Clerks, and, where so directed, copies must be handed over to the other parties. But copies cannot take the place of originals unless the Judge so directs. Where copies are supplied to the Judge, Counsel of the parties supplying the copies should also have them. As has been said, every care should be taken to give Counsel the fullest information possible as to the accounts which he has to support or attack, whether in Chambers or in Court, and it is generally desirable for the solicitor to confer (with or without the assistance of an accountant) with Counsel on the subject of the accounts before the hearing, in order that every possible point may be taken and all difficulties cleared up. Great confusion may occur through entirely new points being taken in Court, and this should be guarded against as much as possible. Of course, new points will very often arise in the course of cross-examination (hence the desirability of having a professional accountant in Court), but it ought to be made certain that they will not arise in the course of examination-in-chief through the previous reticence of the client, or carelessness of the solicitor. The practice in Chambers is dealt with under Heading viii, " Summonses to Proceed," of Order LV, rules 32-37, and other orders referred to in the Appendix hereto.

CHAPTER XXIV.

MISCELLANEOUS PROBLEMS IN ACCOUNTS.

IN the preceding chapters the more usual problems arising in connection with general business undertakings have been considered at length in due sequence. It is proposed to devote the present chapter to the elucidation of certain matters which it has not been necessary to hitherto discuss in order to make clear the best treatment in connection with other problems afterwards described, but which on account of their intrinsic importance call for description in these pages, if the present work is to put forward any claim towards approaching completeness. The various matters that now remain to be described have been postponed, because they form no part of the sequence upon which the preceding pages are based; none the less are they matters which merit the careful attention of the student of accounting.

EMPTIES.

In the case of a number of industries the most convenient treatment of Empties is a matter of very considerable importance. If an inadequate system be provided, the result will in all probability be that whereas the matter engages a considerable portion of the time of the bookkeeping staff, serious losses are yet experienced from this source, dissatisfaction given to customers, and perhaps in addition a misleading view of the position is shown by the books. When the Empties are of considerable value a reliable system is, of course, especially important; but, where Empties are charged for at all, it is essential that the method of accounting employed in connection with them should be one that works smoothly in practice, shows reliable results, and at the same time does not make excessive demands on the time of the staff.

This being a general work, it is proposed to describe the various alternative systems of accounting for Empties in general terms, indicating the principles upon which they are founded, and their relative advantages. In applying these principles to individual cases, it is, of course, important in the first instance to become fully acquainted with the practical requirements of those cases, and the systems described may require modification in detail in order that these requirements may be met to the best advantage. It is thought, however, that this task of adaptation may readily be accomplished so long as the general principles are made clear; whereas, had the alternative course been pursued of explaining in detail systems suitable to one or two specific industries, the formulation of a scheme suitable for other undertakings would not have been so obvious.

First Method.—

When Empties are charged to customers at a price which is allowed in full upon their return in good condition, and the almost invariable practice is for them to be returned promptly (so that in point of fact customers never pay for Empties, except such as may be lost), the question arises as to whether it is worth while to make *any* record in the financial books until it becomes necessary to call upon a customer to pay. This postponing of entries has the advantage of saving a considerable amount of clerical labour, but the extra trouble involved when it becomes necessary to make a charge militates against this system if such charges are likely to be numerous. When, however, circumstances render its adoption suitable, the system may readily be worked in practice by treating the Empties on exactly the same lines as goods sent out on approval—the transactions being, indeed, for all practical purposes, identical. In the Nominal Ledger Accounts should be opened to record transactions in each class of Empties, and these from time to time should show, as a debit balance, the value of the Empties in hand, or in the hands of customers pending return. Such accounts should be debited with the cost of further purchases and repairs (if any), and credited with the total sum charged for Empties not returned, the difference on the account, from time to time showing the profit, or loss, as shown by the following

EXAMPLE:

Dr. CASES ACCOUNT *Cr.*

			£ s d				£ s d
1920 Jan. 1	To Stock	2,000	200 0 0	1920 Dec. 31	By Customers—(for Cases not returned)	500	100 0 0
Dec. 31	" Purchases	500	100 0 0		" Stock (carried down)	1,600	160 0 0
	" Repairs		20 0 0		" Loss transferred to Profit and Loss Account	100	60 0 0
		2,500	£320 0 0			2,500	£320 0 0
1921 Jan. 1	To Stock	1,600	160 0 0				

Second Method.—

When the conditions are the same as under Method 1, save that the necessity for charging customers is comparatively frequent, the balance of advantage is generally in favour of the Empties being at once charged up to customers. The total charges for Empties must, however, of course, be kept separate from the Day Book totals, in order that the nominal accounts may be posted correctly, and in the same way allowances for Empties Returned must be kept separate from Sales Returns. This separation is as a rule most readily performed by the addition of a special money column to the Day Book and the Sales Return Book; but in some cases it may be found to answer all practical requirements if the weekly, or monthly, totals be analysed before any postings are made to the nominal accounts. The entries in respect of Empties may either be posted in the ordinary way to the Sold Ledger Accounts, or in some cases it may be found convenient to employ a separate money column in the Sold Ledger for these transactions. One advantage of such additional money columns is that the Empties have probably been charged to customers at a profit, which, of course, will not be realised (or only partially realised) if they are returned and allowed for in due course; at balancing time, therefore, it is generally necessary to make some Reserve against the amount charged to customers for Empties in their hands, in order to avoid undue inflation of profits. If the aggregate amount of outstanding debits in respect of Empties be ascertained (as is readily possible with the two-column Ledger), the amount of this Reserve may at once be arrived at. When, however, the introduction of a double column is considered undesirable, the amount of the Reserve can as a rule readily be gauged, if a statistical column be provided in the Ledger showing (in quantities only) the number of Empties in customers' hands from time to time. This latter plan, however, is only suitable where the Empties are all of the same description (*e.g.* the bottles of a mineral water company, the sacks of a miller, &c.); in a general business, where several different classes of Empties have to be accounted for, the statistical column would be impracticable, as no reliable valuation could be placed upon Empties generally, and a separate column in the Ledger for the quantities of each class of Empty would probably be out of the question.

Third Method.—

Another plan that is often adopted in practice, and which is to some extent a variation of Method I, is to keep an "Empties Ledger," showing the amount of Empties in the hands of each customer in an account opened in his name. When there are numerous different kinds of Empties it will often be found that, in the long run, the keeping of a Statistical Ledger upon these lines is a saving, rather than an expenditure of additional labour. It may be kept in quantities only, and should provide a distinctive column for each description of Empty.

Fourth Method.—

The system of accounts described in Chapter XVIII is one that readily lends itself to the record of transactions in Empties, and may usefully be applied when the Empties are of sufficient value to make it really desirable that a careful record should be kept—as, for example, when they consist of specially constructed packing cases, casks, or mineral-water syphons. The plan adopted is somewhat upon the lines of the Card Ledger already described on page 250; but in reality it is practically identical with the "Chaldean" system, which (as stated upon page 239) is the basis upon which all classes of bookkeeping "without books" are founded. A certain number of cards, or tallies, are prepared, each of which has a distinctive number, corresponding with the number given to an Empty. While these Empties remain in the warehouse, the tallies corresponding to them remain in a corresponding division, or framework, so arranged that any desired number can be at once taken out as required. As Empties are issued to customers, the corresponding tallies are taken out of the "warehouse" frame and placed in a division, or compartment, set aside to record the Empties in the hands of that particular customer. The tally remains in the customer's division until the Empty is either returned or charged for as missing. In the former case, the tally is returned to the Warehouse frame, in the latter case it is handed over to the clerk in charge of the department to be cancelled. The great advantage of this system is that it is just as simple to keep a record of a number of different classes of Empties as it would be if all were of the same description. When, however, the system is applied to the record of several different classes of entries, it is convenient that the tallies in respect of each class should be differently coloured, so that the distinctions may be readily discernible at a glance. An effective control over the record may be retained, provided the man responsible for Empties cannot obtain access to the warehouse frame.

GOODS ON SALE OR RETURN.

If it be quite unusual for the business to send out goods on approval, no necessity arises for making any special provision in the books for the record of these transactions, any more than one would ordinarily provide special books for the record of any other transactions of a quite unusual nature. In such cases it will meet all practical requirements sufficiently well if the original entry on the forwarding of the goods be passed through the Day Book and posted to the Sold Ledger in the ordinary way, a note being appended to the Day Book entry (if necessary) to indicate that the customer has a right to return these goods if not approved of. In the event of the goods, or any portion of them, being returned, the record would be passed in the usual way through the Sales Returns Book, and credited to the customer's account in the Sold Ledger.

When, however, transactions of this description are numerous, it becomes necessary to provide a special means of recording them in order (1) to save time, (2) to enable the goods out on "appro." to be watched, (3) to avoid the total of *bona fide* Sales being over-stated at balancing time by the inclusion of purely speculative transactions. In the case of a general business, the most convenient plan is to provide a separate Day Book for "appro." transactions, ruled as shown in the following

EXAMPLE:

"APPRO." BOOK.

Goods Forwarded				Goods Returned			Goods Charged	
Date	Particulars	Details	Amount	Date	Particulars	Amount	Fo	Amount
		£ s d	£ s d			£ s d		£ s d

All goods sent out on approval are entered in this Day Book in the ordinary way, the columns on the right of the thick lines being, however, left blank. Goods returned are entered in the space provided for that purpose between the thick lines, and the difference between the two entries (*i.e.* the value of the goods retained) is extended into the extreme right-hand column and posted to the Sold Ledger. Only the extreme right-hand column, therefore, forms part of the financial system of accounts, and that column is treated as a Day Book. The rest of the "Appro." Book is for statistical purposes only. At balancing time the items representing goods remaining in the hands of customers may be brought forward to a new section of the book, so that the old section may be added up and the cross-totals agreed. The value of the goods remaining in the hands of customers, but not charged up, may be added to the inventory of Stock-in-trade, subject, of course, to deduction of the "loading" that represents the Gross Profit. In cases where Slip Ledgers are employed, appro. transactions may readily be recorded by the aid of slips coloured differently to those used for the record of sales or sales returns.

In the case of special industries—dealing perhaps with a single article which it may be necessary to send out on sale or return—it is often desirable to keep special tally of each such article. Under these circumstances, the tally system already described in connection with Empties may sometimes be found to meet the case. With others an adaptation of the Tabular System seems more convenient, a special book being kept, which combines the functions of a Stock Ledger and "Appro." Day Book, as shown in the following

EXAMPLE:

"APPRO." (AND STOCK) BOOK.

No. of Article	Sent to	No. of Appro Note	Amount	Returned			Charged up	
				Date	No. of Credit Note	Amount	S. L. Fo.	Amount
			£ s d			£ s d		£ s d

ROYALTY ACCOUNTS.

Certain considerations arise in connection with the proper treatment of Royalties in accounts that call for attention here, by reason of the fact that a failure to understand the nature of these transactions may very easily cause an entire misapprehension as to the position of the undertaking. Royalties are paid to the owners of copyrights, and patent or mineral rights, in consideration of certain rights of user ceded by the owner. Thus publishers pay Royalties to authors for the right to produce and sell copyright works; manufacturers pay inventors Royalties for the right to embody patented inventions in their manufactures; and colliery, mine, and quarry owners pay Royalties for the right to extract from another's land the mineral of which they are in search.

Almost the only thing in common with these various classes of Royalties is that, as a rule, the amount payable, instead of being a fixed sum, varies with the extent to which the right is utilised—that is to say, with the *quantity* of business done of that particular description. When the Royalty paid is a fixed sum there is, from the point of view of accounting, no occasion to distinguish between Royalties and ordinary fixed expenses (*e.g.* Rent, &c.), save that in a manufacturing business Royalties must always be regarded as an expense chargeable against Trading Account rather than Profit and Loss Account, forming (as they do) an essential item in the cost of production of the commodities dealt in. When, on the other hand, the amount of Royalty varies with the amount of business done, or with the output, the accounts must be so arranged as to lend themselves to a right calculation of the amount of such Royalty from time to time. Thus, in the case of a publisher, it is essential that detailed Stock Books should be kept, which will enable the number of copies sold of each work to be ascertained and readily verified ; and in the case of a manufacturer holding a licence from a patentee, the accounts must be designed to show the number of articles upon which the benefit contained in the licence has been employed, so that the holder of the patent-rights may receive the amount to which he is entitled. It is unnecessary to explain in detail how these ends may be achieved in practice in individual cases, as the precise method adopted will naturally vary greatly according to the general system of accounts in use. It may be mentioned, however, that as in all probability these records will be liable to be produced to the owner of the rights, to enable him to verify the correctness of the amount of Royalties payable, it is important to arrange the books so as to prevent the necessity of disclosing at the same time other information in connection with the business which it may be thought desirable to keep private.

Occasionally the arrangement with regard to the payment of Royalties is such that no payment is due until the happening of a certain event—as, for example, until after the output has reached a certain figure ; or *per contra* a fixed Minimum may be payable in any event, with a right to recover the excess of the Minimum over the Royalties out of future workings. In the first-named case it is important to bear in mind that the Royalties on the business actually done are at all times a charge against the profits of that business, even if (by special arrangement) they be not payable immediately. Such Royalties should accordingly be credited to a " Royalty Suspense Account " and debited to Revenue as incurred : upon the happening of the event under which they become actually payable the Royalty Suspense Account may be closed, and the balance transferred to the credit of the owner's Personal Account. In the second-named case the record is upon the lines that ordinarily obtain in connection with Royalties payable on mineral rights, which will now be discussed in detail.

ROYALTIES ON MINERALS.

As already stated shortly, the usual arrangement between the owner of mineral rights and the owner of the colliery, mine, or quarry engaged in exploiting those rights is upon the following lines :—

(1) A Royalty, based on the quantity of minerals raised, is payable to the owner.

(2) In any event a fixed minimum sum is payable to the owner annually.

(3) In the event of the Minimum Rent exceeding the Royalty on the output for the year, the excess of Royalties overpaid may be "redeemed" out of future workings in later years, when the amount of the Royalty exceeds the Minimum, or " Dead " Rent. In some localities, however, it is usual to qualify this right of recovery by limiting such a right to a period of three or five years ; in other localities the right may be exercised at any time during the continuance of the arrangement.

The agreement between owner and worker takes the form of a lease, and it will therefore be convenient to speak of those parties respectively as the lessor and the lessee.

The exact mode of assessing the Royalty payable depends partly upon the nature of the mineral and partly upon local custom, but in nearly all cases it is a fixed rate per ton, per cubic yard, or per acre of the mineral-bearing region worked. It is invariably based upon the quantity of the output. If it be at the rate of so much per ton, the amount of the Royalty may readily be computed from an inspection of the books, which will in all cases show the weight of mineral raised from day to day, if, however, the basis be by measure, it is usual for surveyors, appointed by the lessor and lessee respectively, from time to time to examine the workings, and agree as to the quantity of mineral extracted during the period under review.

These being the conditions obtaining, it will readily be perceived—

(*a*) That the Royalty upon the actual output is in all cases a proper charge against Revenue ;

(*b*) That under no circumstances must the amount paid to the lessor fall below the prescribed Minimum (or Dead) Rent ;

(*c*) That so long as the total actual payments to the lessor exceed the aggregate Royalties on the output up to that date, the excess is—from an accounting point of view—Royalties paid in advance, which may properly be carried to a Suspense Account and treated as an asset, ***so long as the lessee retains the right to recover them out of future workings, and there is a reasonable probability that such future workings will enable the excess to be recovered.***

(*d*) In no year must the actual payment to the lessor exceed the Minimum Rent, so long as any balance remains on the the Royalties Suspense Account referred to above.

With this preliminary explanation, it is thought that the reader will experience no difficulty in following the working out of the problem given below, which fully illustrates the principles already described.

PROBLEM.—A Colliery is worked under a lease granted by Lord X., at a royalty of 8d. per ton, with a minimum yearly rent of £1,000, with power to recoup short workings. In the first year 25,000 tons are worked; in the second, 26,500, in the third, 24,600; in the fourth, 31,000, and in the fifth, 30,500 tons.

How would you deal with the respective years' royalties, both in Profit and Loss, and in the Balance Sheet?

Dr. ROYALTIES ACCOUNT *Cr.*

I	To Lord X	£833 6 8	I	By Profit and Loss Account	£833 6 8
II	To Lord X.	£883 6 8	II	By Profit and Loss Account	£883 6 8
III	To Lord X	£820 0 0	III	By Profit and Loss Account	£820 0 0
IV	To Lord X.	1,000 0 0	IV	By Profit and Loss Account	1,033 6 8
	„ Short-Workings Account	33 6 8			
		£1,033 6 8			£1,033 6 8
V	To Lord X	1,000 0 0	V	By Profit and Loss Account	1,016 13 4
	„ Short Workings Account	16 13 4			
		£1,016 13 4			£1,016 13 4

Dr. LORD X *Cr.*

I	To Cash*	£1,000 0 0	I	By Royalties Account	£833 6 8
				„ Short-Workings Account	166 13 4
		£1,000 0 0			£1,000 0 0
II	To Cash*	1,000 0 0	II	By Royalties Account	883 6 8
				„ Short-Workings Account	116 13 4
		£1,000 0 0			£1,000 0 0
III	To Cash*	1,000 0 0	III	By Royalties Account	820 0 0
				„ Short-Workings Account	180 0 0
		£1,000 0 0			£1,000 0 0
IV	To Cash*	£1,000 0 0	IV	By Royalties Account	£1,000 0 0
V	To Cash*	£1,000 0 0	V	By Royalties Account	£1,000 0 0

* In practice, Income Tax, at the current rate, would be deducted from all payments.

SHORT-WORKINGS ACCOUNT.

I	To Lord X.	£166 13 4	I	By Balance	£166 13 4
II	To Balance	166 13 4	II	By Balance	283 6 8
	" Lord X	116 13 4			
		£283 6 8			£283 6 8
III	To Balance	283 6 8	III	By Balance	463 6 8
	" Lord X.	180 0 0			
		£463 6 8			£463 6 8
IV	To Balance	463 6 8	IV	By Royalties Account	33 6 8
				" Balance	430 0 0
		£463 6 8			£463 6 8
V	To Balance	430 0 0	V	By Royalties Account	16 13 4
				" Balance	413 6 8
		£430 0 0			£430 0 0
VI	To Balance	£413 6 8			

NOTES.—Other names for "Short-Workings Account" are "Redeemable Dead Rent Account," "Overpaid Royalties Account," "Royalties Suspense Account," &c. The balance standing to the debit of this account is shown as an asset in each annual Balance Sheet; but it can only be so stated properly if there is good reason to suppose that it will be redeemed out of future workings, which in the above example seems somewhat doubtful.

ACTUARIAL VALUATIONS AND ACCOUNTS.

In the case of the vast majority of undertakings the only satisfactory system of accounting is by double-entry, under which it is possible to compile from time to time (*a*) a Revenue Account, showing the income and expenditure for the period under review, and the net profit (or loss) on the operations engaged upon; (*b*) a Balance Sheet, showing (as nearly as may be ascertained in the case of a going concern, *i.e.* an uncompleted venture) the position of affairs to date, which by its nature automatically checks the arithmetical accuracy of the Revenue Account. As has already been explained, single-entry—which does not provide this automatical check—is defective, because it lacks the useful information that a Revenue Account affords, and also because of the risk that errors in the compilation of the statement of assets and liabilities may. remain undetected. For these reasons, double-entry bookkeeping is to be found in connection with the accounts of nearly every undertaking of importance, but in the case of some industries the system cannot be applied in its entirety, on account of the enormous labour that such a course would involve.

In particular is the application of a really complete system of double-entry impossible in connection with the accounts of Life Assurance Companies. In these concerns, the transactions may be roughly divided into two classes :—

(1) The earning of income by the investment of moneys (this branch of the transaction can readily be, and is invariably, recorded by double-entry);

(2) The incurring of expenditure as the liabilities undertaken towards policy-holders increase from year to year, as the lives of those policy-holders become shorter with the lapse of time.

It would be practically impossible for a Life Assurance Company to determine annually the exact increase in its liability in respect of each policy, and to keep accounts in respect of each such policy, crediting the Policy Account and debiting Revenue with every such increase at the close of the year. Apart from the enormous amount of bookkeeping involved, to very little purpose, the cost of accurately ascertaining the " present value " of the liability in each case would, with these undertakings, be absolutely prohibitive, and would, moreover, involve great delay in the preparation of the annual accounts. These undertakings (which, it may be mentioned, are regulated by the Life Assurance Companies Act, 1909, which prescribes the form in which their accounts are to be kept) are worked upon the lines that their annual accounts are *interim* accounts only, and do not attempt to estimate the profits of the year under review. The calculation of profits only takes place when what is called a " Valuation " Balance Sheet is prepared—once every three or five years, according to the constitution of the particular company concerned. The Valuation Balance Sheet is based upon an actuarial valuation of the liabilities of the undertaking in respect of all the policies then in force, the value of such liability in each case being arrived at as follows :—

Taking it that the policy may be expected to mature in *n* years, the gross liability is the present value of the amount of the policy, due *n* years hence.

From this must be deducted the present value of an annuity, payable for *n* years, of the net premium payable under the policy (*i.e.* the actual premiums, *minus* the " loading " that has been added to cover expenses of management).

Upon the above basis the actuaries arrive at the total present value of the net liabilities of the undertaking to date, and the profits earned during the period are computed by single entry, as being the difference between the present value of the aggregate net liabilities and the net assets available to meet those liabilities. It has been suggested that this method of accounting is no more " single-entry " than is the customary method of arriving at the gross profit of a Trading Account by including opening and closing stocks. Perhaps it is not; but it certainly cannot be described as double-entry proper.

The profits of FRIENDLY SOCIETIES having a benefit branch are computed upon the same lines, the actuarial valuation in their case being undertaken every five years.

A similar method of arriving at profits is frequently employed by BUILDING SOCIETIES, to enable them to discover the gross profit earned from the lending of money on mortgages repayable over a term of years by equalised payments, and the liabilities incurred by agreeing to pay subscribing investors a fixed sum at the end of a term of years in return for a monthly (or other periodical) payment. As has already been explained in Chapter XX, however, no difficulty need arise in the formation of Building Societies'—and other similar—accounts upon a complete double-entry basis. The actual interest to be debited to each Mortgage Account, and credited to each Investment Account, may readily be ascertained from properly-designed tables. The essential advantage of keeping these accounts by double-entry arises from the fact that a complete and effective audit may by that means be accomplished far more readily; while the experience of the past has shown that, in connection with these particular undertakings, such an audit is absolutely essential for the security of all interested parties. In the same way, of course, the accounts of a Life Assurance Company *could* be kept by a complete system of double-entry; but there is this important difference, that whereas in the case of a Building Society the exact balance on each Ledger Account can be accurately calculated, in the case of a Life Office the actuarial calculations are obviously not exact as applied to each individual account, although, upon the principle of the average, they *are* correct *en bloc*.

CHAPTER XXV.

PERIODICAL RETURNS.

UNDER this heading are included those records of business transactions which are made, either (1) for the purpose of supplying a branch (or the head office) with information as to what is taking place, to enable it to make the necessary records in its financial books; or (2) those records of transactions which are compiled from time to time, with a view to enabling interested parties readily to gauge the position of affairs without themselves performing any detailed or lengthy examination of the books of account. These two classes of Returns have in common the feature that they are independent of—but supplemental to—the financial books of account, and the system of bookkeeping comprised therein. They differ, however, in that while the first class forms the basis of records that have to be made in the financial books, Returns of the second class are but summaries in a convenient form of records that have already been made.

ACCOUNTING RETURNS.

Dealing first with those Returns designed to convey information which is to form the basis of accounting records, some of the most rudimentary examples of these Returns are the ordinary Invoice forwarded by the vendor to the purchaser of goods, and the Account Sales forwarded by a consignee to his principal the consignor. Other examples that frequently occur in practice are the daily, weekly, or monthly Reports of business done which are submitted by a Branch to its Head Office. When, however, the transactions of the Branch are completely recorded there, these Returns more properly come under the second class named above, as their object is not to form the basis of bookkeeping entries, but to supply managers and principals with accurate information as to what is taking place.

When a business undertaking is of such small dimensions that its operations are entirely carried out by a single person, it is clear that that person must become cognisant of all transactions as they occur, and that Returns are not necessary to keep him informed upon the matter. If the exigencies of business would allow him to record these various transactions in the proper books of account at once, no records outside (or supplemental to) those books would be necessary; but in practice it is not always convenient—and perhaps not even always possible—to make such a record at once. Consequently, in even the very smallest businesses, something in the nature of Returns generally becomes necessary, to record transactions temporarily, pending their permanent record in the books.

Formerly the Waste Book (in which a narrative of every transaction was entered as it took place) supplied this purpose, and in some businesses a memorandum book closely corresponding to the old-fashioned Waste Book is still employed; but in most concerns the Waste Book has shared the fate of the Journal—that is to say, it has been separated into a number of distinct sections, each of which records *pro tem.* transactions of a certain specified class. This separation of even the preliminary record is, of course, essential where business operations are conducted upon an extensive scale, and a number of persons are simultaneously engaged upon separate business transactions. In such cases it usually follows—to a greater or less extent according to circumstances—that those persons actually engaged upon the business transactions are *not* employed to keep the books in which the transactions are eventually recorded; hence arises the necessity of some form of Return, which will enable the Counting-House (where the books of account are kept) to be promptly advised from time to time of what has taken place, and what therefore has to be recorded.

A very little consideration will show that the most convenient mode of arriving at this result—of promptly and accurately advising the Counting-House of all transactions as they occur—must necessarily vary according to the nature of the business, and also according to the peculiar circumstances and conditions under which it is carried on. No one system would be equally suitable under all imaginable varying circumstances; consequently, in a general work of this description, the subject cannot be dealt with in full detail. It may be mentioned, however, that—here, as elsewhere in connection with accounts—there are certain fundamental rules which may usefully be borne in mind, if a maximum of efficiency is to be produced with a minimum of effort. Foremost may be mentioned the desirability of, so far as possible, obviating the necessity of these records being recopied by hand. Any manual copy possesses the disadvantages of loss of time and liability to error. So far as possible, therefore, the original records should be utilised, rather than copied. This is a point that has already been mentioned at some length in Chapter XVIII, and it need only be added here that the Slip System is at least as applicable to this class of Returns, and other statistical records, as it is to pure "bookkeeping" records, and that it may often be applied to this purpose, even in cases where its adoption—or partial adoption—seems undesirable for the accounts themselves.

In the case of Returns received from distant Branches it is particularly convenient that the Return forwarded should be a mechanical, rather than a manual, copy of the record retained. All risk of any discrepancy between the two is thus avoided (save in the case of deliberate falsification), and consequently much discussion over differences in accounts may be saved. Moreover, if a duplicate of the original record be forwarded by the Branch to the Head Office, the latter is supplied with *first-hand evidence* of the actual nature of the transaction concerned, and is thus in a better position to detect errors of treatment on the part of the distant Branch than would be possible by any other means.

From the point of view of accounting, perhaps the most important Returns coming under this heading are the periodical Trial Balances remitted to the Head Office by a distant Branch, with a view to enabling the former to close its books embodying therein the effect of the Branch transactions. This, however, is a matter that has already been dealt with in Chapter V, where the treatment of Branch Accounts generally was very fully discussed.

STATISTICAL RETURNS.

Passing on to the second class of Returns it will be convenient, perhaps, to consider in the first instance the exact circumstances under which these are called for, with a view to obtaining an insight into the special requirements of the position. In the case of a concern of any magnitude it may safely be stated that even those engaged in keeping the books would not be able, without subsequent reference to these books, to give any reliable idea as to the progress of the business and the position of affairs. Whenever information under these headings is sought for it becomes necessary to refer to the books, and to extract therefrom such information as may be required. At regular stated intervals this information is habitually extracted in the form of Balance Sheets, Trading and Profit and Loss Accounts, Cost Accounts, &c., but—with the possible exception of the last-named—these are not as a rule compiled at sufficiently frequent intervals to answer all the purposes of practical business. A manufacturer or merchant who never refers to his accounts, save annually or half-yearly when the usual balance is struck, will, it may safely be said, be obtaining a very small fraction of the benefit that may fairly be expected from the keeping of accurate accounts upon a convenient and workable system. In the expressive phraseology of the American, he will become a "back number." If the accounts are to be utilised to the fullest possible extent, the record that they build up must be examined, and carefully studied in all its bearings, at very frequent intervals. In the case of principals it is hardly to be expected that they will have either the time—or, in many cases, the skill—to pore over books of account from day to day with a view to discovering all that those books may have to tell; while, in the case of departmental managers, there might in addition be many objections to allowing them access to information that does not immediately and directly concern their respective departments. Hence arises the necessity of compiling periodical Returns, which will enable principals and managers to obtain such information as they may require from day to day, from week to week, or from month to month, with a minimum expenditure of time, while yet ensuring that such information shall be both reliable and sufficient for their several purposes.

Periodical Returns being thus eminently of a practical nature, it necessarily follows that, here again, the exact requirements of one concern will vary very greatly from the requirements of another, and it is thus only possible in the present work to refer to the matter in quite general terms. Speaking thus, it may be pointed out that, as a rule, those records that require to be most continually watched are—

(1) The finances of the business, with a view to seeing that Book Debts do not get unduly into arrear, and that sufficient moneys are got in to enable all current liabilities to be duly discharged.

(2) That the Turnover, or Output, of the business is kept up.

(3) That the Capital invested in each department of the business is not increased without a corresponding increase of profits.

(4) That Standing Expenses are kept down.

In the case of large concerns, it is usually convenient that each of these matters should be dealt with in the form of a separate Return.

(1) Finances.

The information required under this heading will usually be provided by the Sold Ledger Adjustment Accounts, which show the total Book Debts outstanding; the Bought Ledger Adjustment Accounts, which show the total current liabilities (occasionally, however, special liabilities recorded in the Private Ledger must be added), and the Bank Balance. Often, however, it is convenient to add to these a summary of Cash receipts and payments during the current period, which may readily be compiled from the General Cash Book. When transactions in Bills are extensive, the Return should also show the balances of Bills Receivable and Bills Payable respectively outstanding, the totals of Bills received, issued, and renewed during the past period, and the totals of Bills Receivable and Payable accruing due during the next ensuing period. A summarised statement of Floating Assets and Liabilities is also often most useful.

(2) Turnover.

The record under this heading may, as a rule, be readily arrived at from the Day Books, or whatever may be their equivalent in the case of a manufacturing business. The total Sales, or Output, of each department for the current period should be separately shown, and for purposes of comparison it is usually desirable to add (in parallel columns) the total from the date of the last stocktaking up to date, and also the same two sets of figures in the preceding one, two, or three years. Such information may be compiled very readily from any ordinary set of books, and is of considerable value, more especially in connection with Return (3).

(3) Interim Stock Accounts.

These have already been dealt with in detail in Chapter VII, and *pro forma* rulings will be found upon page 61. It only remains to be added that in most classes of business, and especially in connection with purely trading concerns, a definite percentage of Gross Profit is expected, not merely upon the Turnover of the business, but also upon the capital from time to time invested in Stock-in-trade. The information supplied by this Return enables those in authority to test (so far as is possible at interim periods, when no actual stocktaking is possible) the manner in which each department is being conducted, and the rate of Profit that is being earned, not merely upon the business done, but also upon the capital invested.

(4) Expenses.

The Return under this heading should show the Expenses for the current period in sufficient detail, and also the percentage that such Expenses bear to the Turnover of the business. The corresponding figures of the past two or three years should also be added in parallel columns. Especial care should be taken to see that this Return is really exhaustive, as in the nature of things accruing expenses are often not recorded in the books of account, save at balancing time. With care, however, no difficulty should arise in arriving at the total expenses of each month or week. Most of the more important Standing Expenses can be accurately estimated in advance; while such items as Discounts, Salaries, Incidental Expenses &c., can be readily arrived at from the Cash Book, due allowance being made for outstandings at the commencement and close of the current period. That the Return may be readily checked from time to time, however, it is often desirable to frame it upon the same lines as the Sales Return, providing additional columns for the total from the date of the last stocktaking to date. At the end of each financial period the Expenses Return can then be compared with the actual figures available, and discrepancies noted with a view (*a*) to discovering who is responsible for the error; (*b*) to, as far as possible, preventing its recurrence in the future.

SMALLER CONCERNS.

For small businesses separate Returns upon the above lines are often unnecessary, all material information being capable of being readily focussed upon a single statement. Inasmuch as conciseness is an object to be sought in these Returns almost as much as reliability, this focussing of results is in all cases desirable; and even where the business is of such a magnitude as to call for several detailed Returns, a Summary, combining the results upon some such lines as those shown in the following examples, may usefully be appended. These examples show forms of Monthly Returns which, with varying modifications of detail, may be usefully applied to most trading, and many manufacturing, businesses.

EXAMPLE:

RETURN FOR THE MONTH OF.................................19.... Messrs.........................& Company, Lim.			*Corresponding Figures for the same period in the previous year.*	
RETURN No. 1. TRADING STATEMENT.	Month of	........Months to	*Month of*	..........*Months* *to*.............
Sales				
Purchases				
Wages				
Stock-in-Trade, estimated				
Gross Profit, estimated at % on Sales				
Do. do. % do.				
Working and Management Expenses				
Estimated Profit				
Estimated Loss				
RETURN No. 2. CASH STATEMENT.	Receipts	Payments	*Receipts*	*Payments*
Cash at Bankers, 1st				
Bank Balance Overdrawn, 1st				
General Receipts.—				
Trade Accounts				
Bills Receivable				
Loans				
Directors' Current Accounts				
Sundries				
General Payments:—				
Trade Accounts				
Bills Payable				
Wages				
Dividends				
Working and Management Expenses				
Sundries				
Cash at Bankers				
Bank Balance Overdrawn				
Reconciliation Account £				
As per Pass Book.				
.. ..*not credited*				
.....*not presented*				
As per Cash Statement				
Totals				
RETURN No. 3. FINANCIAL STATEMENT.				
Assets. Cash at Bankers				
Amount not credited at Bankers				
Trade Debtors				
Sundry Debtors				
Bills Receivable				
Total Assets				
Liabilities. Trade Creditors				
Sundry Creditors				
Bills Payable				
Loans				
Cheques unpresented at Bankers				
Bank Balance Overdrawn				
Total Liabilities				
Excess of Floating Assets	£		£	
Excess of Current Liabilities	£		£	

EXAMPLE:

& CO., LIMITED,

SUMMARY OF CONTRACTS OUTSTANDING.

Date	Job No.	Particulars of Contract	Contract Price	Payments on Account	Amount due	Wages paid	Material used	Other Expenses	Value of Work completed	Estimated Cost to complete		Remarks
										Wages	Material	
			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	

COMPARATIVE STATEMENT OF CONTRACTS, &c., for the month of..................19....

	Contract Price	Payments on Account	Amount due	Wages paid	Material used	Other Expenses	Value of Work completed	Estimated Cost to complete		Remarks
								Wages	Material	
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	
Month of										
Same Month last year										
.... Months to										
Same period last Year										

EXAMPLE:

SUNDRY RETURNS FOR THE MONTH OF ....192.. Messrs.......... & Company, Lim.			Months to 192	Months to 192
RETURN No. 1. TRADING STATEMENT.	Month of 192	Month of 192		
Estimates Tendered				
Estimates Accepted				
Purchases				
Stock (estimated at)				
Wages				
Materials Used				
Other Expenses				
Total Costs incurred				
Value of Work executed				
Estimated Profit				
Estimated Loss				
RETURN No. 2 CASH STATEMENT.	Receipts	Receipts	*Payments*	*Payments*
Cash at Bankers, 1st				
Bank Balance Overdrawn, 1st				
General Receipts:—				
On Account of Work in Progress				
Bills Receivable				
Loans				
Directors' Current Accounts				
Sundries				
General Payments:—				
Trade Accounts				
Bills Payable				
Wages				
Dividends				
Working and Management Expenses				
Sundries				
Reconciliation Account. £				
As per Pass Book.				
.....*not credited*				
.....*not presented*				
As per Cash Statement				
Cash at Bankers				
Bank Balance Overdrawn				
Totals				
RETURN No. 3. FINANCIAL STATEMENT.			Total 1st Col.	Total 2nd Col.
Assets. Cash at Bankers				
Amount not credited at Bankers				
Trade Debtors (Completed Works)				
Trade Debtors (Due on Account Work in Progress)				
Bills Receivable				
Other Debtors				
Total Liquid Assets				
Liabilities. Trade Creditors				
Sundry Creditors				
Bills Payable				
Short Loans				
Cheques unpresented at Bankers				
Bank Balance Overdrawn				
Total Current Liabilities				
Excess of Liquid Assets			£	£
Excess of Current Liabilities			£	£

EXAMPLE:

RETURN for 9 Months ending 30th September 1920.

	1920 %	1920 Amount £ s d	1919 %	1919 Amount £ s d	Compared with previous year: Increase £ s d	Compared with previous year: Decrease £ s d
Purchases for the Month ..	66 66	2,000 0 0	60 00	1,500 0 0	500 0 0	
Wages do.	30·00	900 0 0	26 00	650 0 0	250 0 0	
Sales do. . ..	100·00	3,000 0 0	100·00	2,500 0 0	500 0 0	
Estimated Stock on 30th September	116 66	3,500 0 0	106 00	2,650 0 0	850 0 0	
Purchases from Stocktaking to date	60 00	12,000 0 0	60 00	9,000 0 0	3,000 0 0	
Wages do. do.	25 00	5,000 0 0	25 00	3,750 0 0	1,250 0 0	
Sales do do	100 00	20,000 0 0	100 00	15,000 0 0	5,000 0 0	

APPROXIMATE PROFIT AND LOSS ACCOUNT for the 9 Months to Date.

	%	%	1920 £ s d	1920 £ s d	%	%	1919 £ s d	1919 £ s d
Assumed Gross Profit @ 15% upon Sales		15 000		3,000 0 0		15 000		2,250 0 0
Salaries	5 000		1,000 0 0	..	6 334		950 0 0	
Rent, Rates, &c.	2·000		400 0 0	.	2 667		400 0 0	
Gas and Electric Light	500		100 0 0	..	567		85 0 0	
Repairs	025		5 0 0	..	014		2 0 0	
Housekeeping	010		2 0 0	..	·013		2 0 0	
Discounts	1 750		350 0 0	..	1 734		260 0 0	
Fares and Carriage	·450		90 0 0		400		60 0 0	
Advertising	015		3 0 0	..	·013		2 0 0	
Postages	100		20 0 0		·100		15 0 0	
General Expenses	·500		100 0 0		532		80 0 0	
Commission	300		60 0 0	.	·267		40 0 0	
Travelling Expenses	·250	10·900	50 0 0	2,180 0 0	167	12 810	25 0 0	1,921 0 0
Estimated Net Profit		4 100	..	820 0 0		2 190	..	329 0 0

FINANCIAL STATEMENT, 30th September 1920.

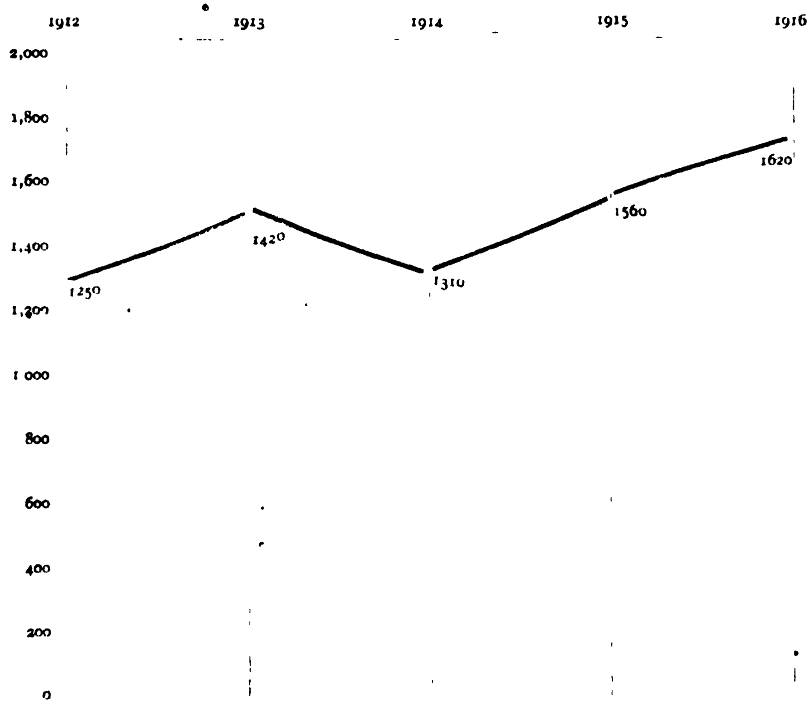
	£ s d		£ s d
Liabilities on Bought Ledger Account	3,000 0 0	Book Debts Outstanding	2,700 0 0
" " Bills Payable	1,500 0 0	Bills Receivable on Hand	1,200 0 0
		Cash at Bank and in Hand	1,825 0 0
	£4,500 0 0		£5,725 0 0

GRAPHS.

In connection with many Returns the actual figures involved are less of absolute than of relative importance—that is to say, their value is chiefly as an index of the upward or downward *tendency* of the business in its several departments. Under these circumstances it is often thought that a Chart, or Graph, gives a better idea of the progress or retrogression of the business than any tabulated statement of mere figures. Unquestionably it requires a considerable amount of experience to utilise to the best advantage a tabulated statement, whereas the general effect shown by a Graph is obvious at a glance. Minute differences are, however, imperceptible upon a Graph, unless it is prepared upon so large a scale as to be extremely cumbersome for purposes of reference. But where the *exact* figure is of relatively small importance, while the upward or downward tendency is of great importance, Graphs may be used freely so long as their limitations are clearly understood.

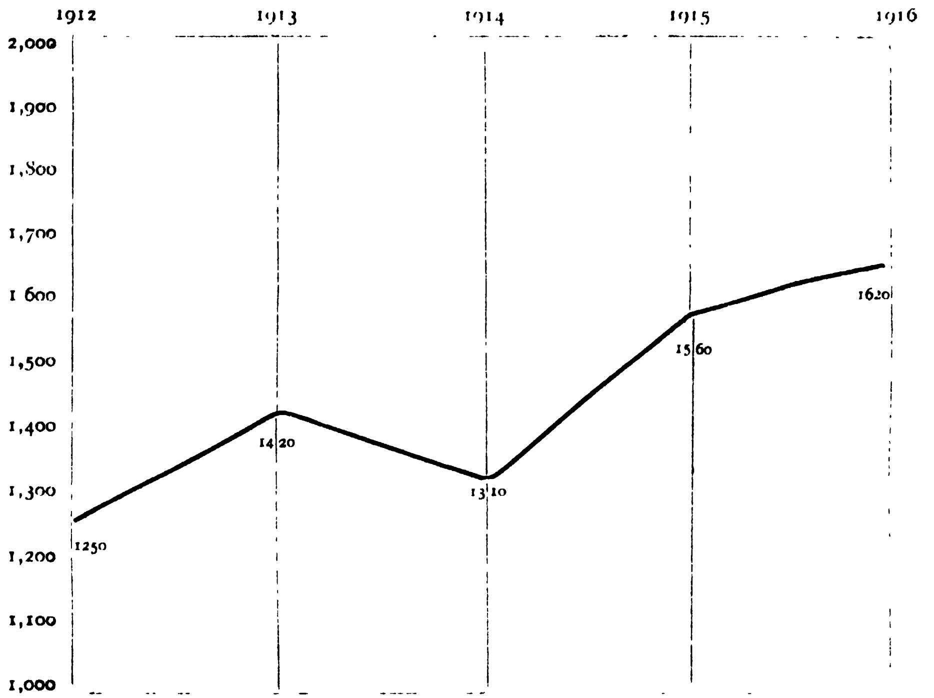
The great drawback to a Graph of any description is that, while it cannot absolutely reverse the tendencies shown by the facts, it may be made to exaggerate, or belittle, those tendencies very greatly by adjusting the scale upon which it is planned. Thus, allowing it to be supposed that the following example indicates the volume of business transacted by an undertaking in each of the five years 1912 to 1916: with the exception of a slight set-back in 1914 it will be seen that the progress during those five years is fairly steady, and that the sales in 1916 are approximately one-third more than in 1912.

EXAMPLE:



It is often thought, however, that the lower half of such a diagram is wasted space, in that no figure below £1,000 is ever likely to be reached. Occasionally, therefore, such a record would be framed as shown in the following

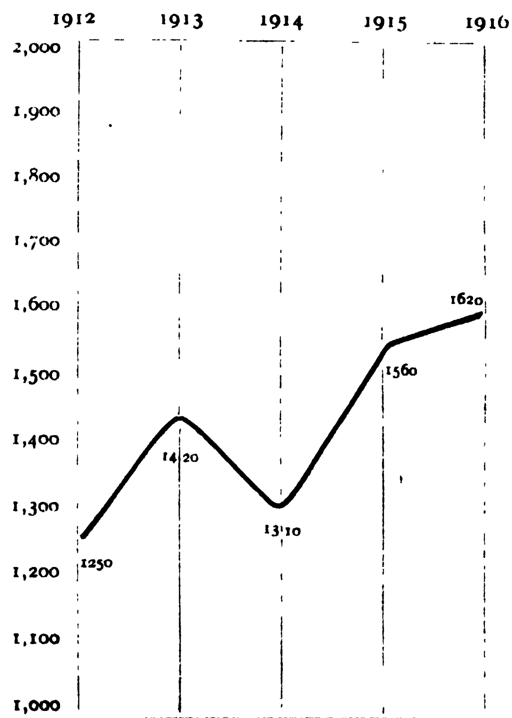
EXAMPLE :



By halving the scale of the vertical lines the fluctuations appear to be much more marked than in the first example, but the essentially misleading effect of the above diagram becomes especially apparent when the height of the Curve at the year 1912 is compared with its height for 1916. Although the actual volume of business is only one-third greater, it appears on the diagram as though it were two and a-half times as much in 1916 as in 1912, and as a result the general effect produced by this diagram is most misleading.

Again, if the distance between the vertical lines be contracted, the fluctuations as between one year and another appear to be very much more marked. By halving the distance between the vertical lines the preceding diagram will be found to assume an entirely different Curve, as shown by the following

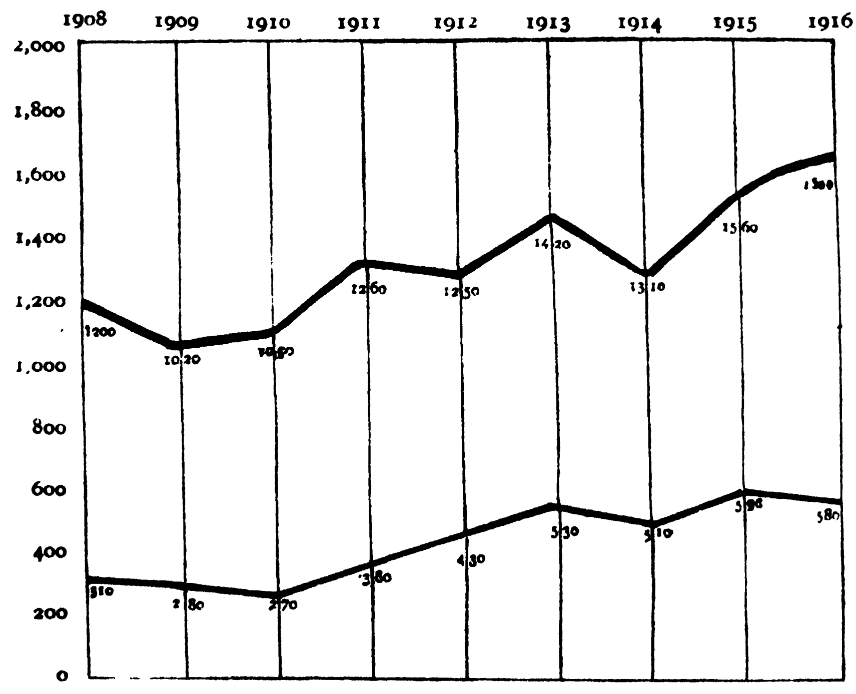
EXAMPLE :



The Curve in the last example over-page, it will be seen, suggests *prima facie* a highly fluctuating volume of business, although it records exactly the same results as those given in the earlier example on the same page. In examining results recorded in Graphs it is thus extremely important to take into consideration (*a*) the relative scale of the horizontal and vertical lines; (*b*) whether the diagram starts at zero, or at some other point—*i.e.* whether the base-line is present, or whether it has been suppressed under the erroneous supposition that a judicious saving of space may by that means be effected. Unfortunately there are grounds for believing that in some cases, in contentious matters, the base-line has been deliberately omitted in order to obscure the issue.

It is thought that, for the reasons already stated, Graphs cannot be regarded as of much use for the mere purpose of comparing the results of one period with another, unless they be invariably prepared to the same scale, as—consciously or unconsciously—the effect can be so very materially influenced by the scale selected. When, however, it is desired to institute a comparison between *two* (or more) different sets of figures extending over a series of years, the Graph becomes much more reliable, as whatever scale be employed must apply to each Curve on the Graph.

EXAMPLE:



The above diagram is supposed to contrast the Sales of a business during the period 1908 to 1916 (inclusive) with the Gross Profit earned in each of those years. It will be observed that the relationship between these two sets of figures is, upon the whole, more clearly (if more roughly) shown in the form of a Graph than by the tabulated statement appearing on the next page, even although a column for percentages has been added to the latter.

EXAMPLE:

Year	Sales	Gross Profit	%
	£	£	
1908	1,200	310	25·81
1909	1,020	280	27·45
1910	1,090	270	24·77
1911	1,260	380	30·16
1912	1,250	430	34·40
1913	1,420	530	37·32
1914	1,310	510	38·17
1915	1,560	590	37·82
1916	1,620	580	35·80

AREAS AND CUBES.

Occasionally—although rarely in connection with matters of accounting—comparisons between different sets of figures are pictorially illustrated in the form of contrasted areas or contrasted cubes. These methods of comparison may be suitable for some purposes, but it must not be forgotten that they tend to belittle the differences between the figures. Thus the ratio of 9 to 16 would be expressed by two squares, of which the larger possessed a side only one-third longer than the smaller, while the ratio of 8 to 27 would be expressed by two cubes, of which the side of the larger was only half as long again as the side of the smaller. If the figures which it is sought to compare are really more readily comparable as squares or cubes the method may, of course, be advantageous as tending to avoid exaggeration; but for most business purposes the lineal measure is best calculated to give a clear idea of the actual position.

CONCLUSION.

In the present chapter attention has been concentrated upon periodical Returns forming the basis for entries in, or extracted from, books of account. It must not, however, be supposed that these are the only Returns that are required for business purposes. In most undertakings reliable information is required, for comparative purposes, upon many matters which are incapable of being expressed in the form of £ s d. For example, a railway company will require information as to the number of passengers under each class, the number of train-miles run, the amount of freight carried, &c., &c., all of which information is absolutely essential for the proper and economical management of the undertaking. To indicate even approximately, however, the desirable scope of non-financial Returns would involve a detailed inquiry into the practical working of each separate business considered, and is accordingly quite outside the scope of a work on accounting.

CHAPTER XXVI.

MECHANICAL AIDS TO ACCOUNTING.

FORMERLY, all accounting records were made by hand; hence a not unnatural desire upon the part of the business man to keep them within the smallest possible limits. Latterly, the introduction of typewriters, and the use of carbon-manifolds, have rendered many things practicable which, years ago, would have been scouted on the score of expense; but it is manifest that, so long as accounting records are made by hand, so long will they of necessity have to be kept concise, no matter how badly paid the accounting staff may be. Like all other hand workers, "bookkeepers" are scandalously underpaid; but, even so, the money spent upon them is grudged, as being "unproductive" expenditure. Of course, this is all very absurd, for that which is really "productive" is that which increases Net Profits, not Gross Profits merely; but it is significant, as showing that, under practical conditions, accounting could never take its right place in the scheme of things while it remained a "craft" or "mystery," and religiously eschewed the use of machinery.

It is not considered necessary, in the present work, to discuss at length the various uses that can be made by persons of real imagination of such devices as Typewriters, Slide-Rules, Calculating Machines, Addressing Machines, Multigraphs, Photostats, Dictaphones, Telephones, and the like*; but it does appear desirable to describe at some length the Hollerith Machines, which seem destined to revolutionise the Accounts Departments of large business undertakings, and to render really practicable the preparation of Statistical Returns and Cost Records upon a scale, and with an amplitude of detail, hitherto only dreamt of.

The essence of the Hollerith System is the preparation of a slip, or card, to represent each transaction (or essential part of a transaction) in such a form that these slips can afterwards be sorted out upon any desired basis of classification, and that each group—having been so sorted—may be added, so as to show the total effect of this group of transactions under any desired number of headings. On the Manifold System (*vide* Chapter XVIII) each slip can only take part in an "assembly" leading to one particular kind of total; consequently there must be as many slip copies of the original entry as there are kinds of purposes that it may be called upon to serve, and each series has to be sorted by hand and separately added—although, of

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* Upon these matters reference should be made to the Author's "Office Machinery and Appliances."

course, the adding may be done by machinery. Under the Hollerith System, the same slips are mechanically sorted into as many different kinds of groupings as may be desired, and the aggregate effect of each group can be shown, tabulated under any desired number of headings. The vista of possibilities thus opened up is well nigh endless. The cost of highly-detailed information is reduced to a minimum, the record is essentially "self-balancing," and—best of all—it can be served up "red hot," while it is still "NEWS." Let there be no mistake about the facts. This is not the untried idea of some enthusiast, which may (and probably will) prove unworkable in practice, it is a tried machine—or rather series of machines, which have been tested under actual everyday working conditions, by a number of business houses in different parts of the country, and always with satisfactory results.

The "System" consists of three machines, the Key Punch (Fig. 1), the Sorter (Fig. 7), and the Tabulator (Fig. 8), to which it is very desirable to add two more, viz. the Gang Punch (Fig. 2) and the Verification Key Punch (Fig. 5).

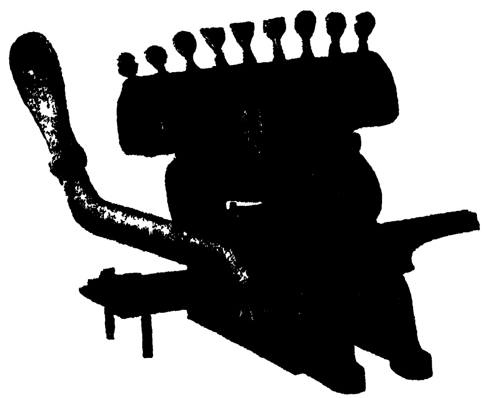
The Key Punch (Fig. 1) is operated somewhat like an ordinary typewriter, but, being simpler, can be worked more rapidly. Its purpose is to cut perforations in cards (Fig. 3), so as to enable the other machines to "take hold of" them. When the perforations in a number of cards have a good deal in common (which is generally the case), much time may be saved by punching the uniform portions of the cards in batches by means of the "Quick Set Head Gang Punch" (Fig. 2).

The card shown on page 464 (Fig. 3) is used in one of the departments of the Gas Light and Coke Co. All cards

Fig. 1.

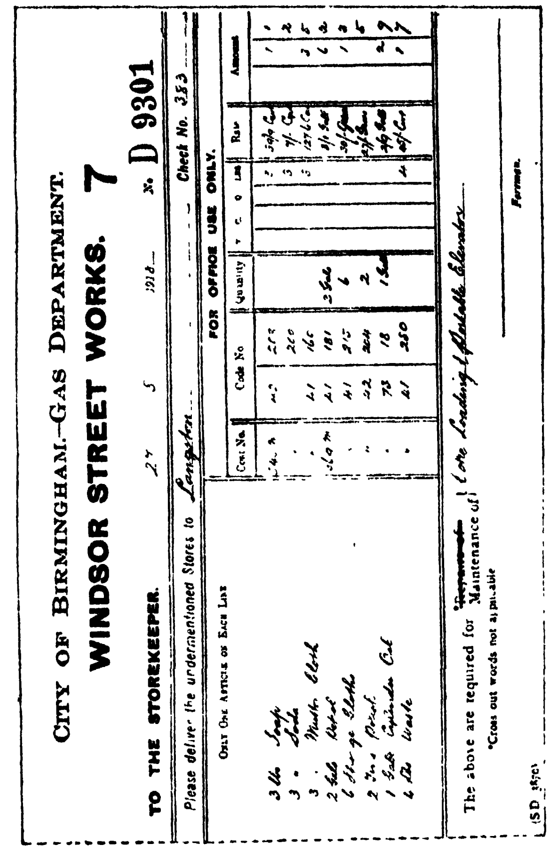
for use in the standard machines must naturally be uniform in size ($7\frac{3}{8}'' \times 3\frac{1}{4}''$); but the headings given to the various columns may, of course, be varied to suit particular requirements. The top right-hand corner of the card is cut off, to ensure that all cards are placed in the machines the right way up (*vide* Fig. 4).

Fig. 2.



The Punch operates by cutting circular holes in the cards, the (horizontal)* position of the hole being determined by the key depressed. Fig. 4 shows a (reduced) example of a card, cut to record the information given upon the Stores Requisition Sheet illustrated by Fig. 6.

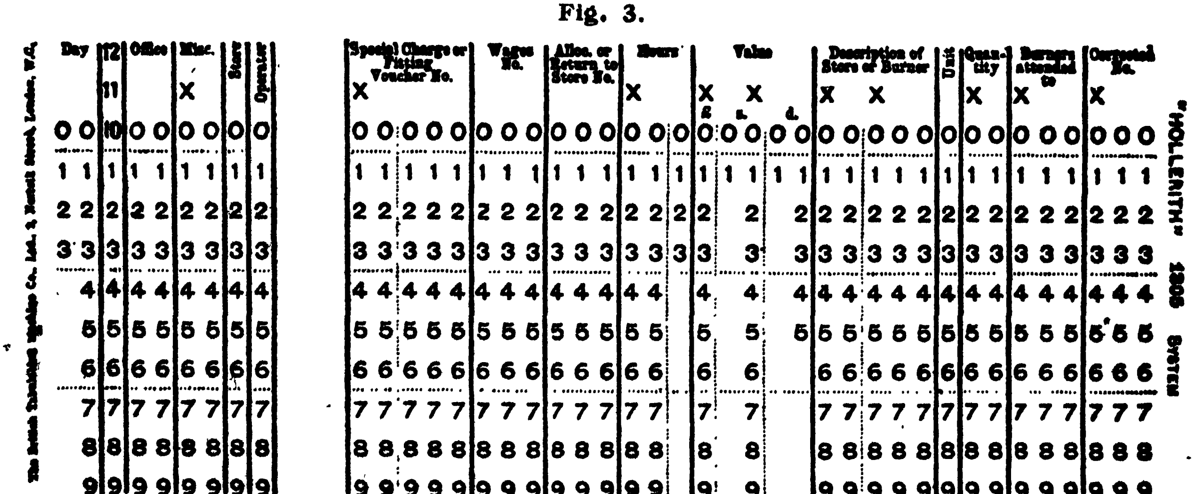
Fig. 6.



The small figures shown at the foot of Fig. 3 indicate that the standard card consists of 45 vertical columns. These, as

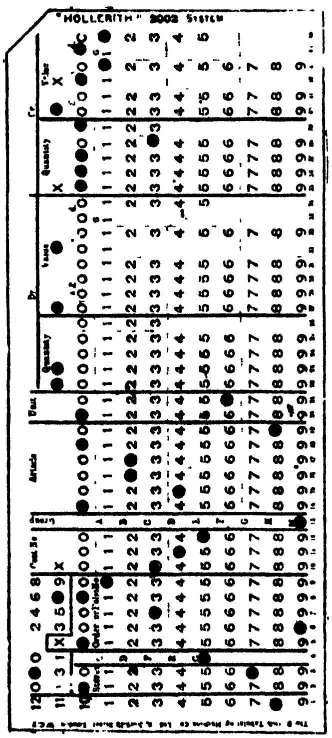
* As Fig. 4 is placed sideways on the page for convenience of spacing, what is normally the horizontal here becomes the vertical.

Fig. 3.



already stated, can be headed in any desired way. The printed headings are a convenient aid to checking, when the punched cards are "called back" against the original records; but it is obvious that the cards, when once punched, would be readily legible to a blind person: this is important, because both the Sorting and the Tabulating Machines are "blind," and work by a sense of touch only.

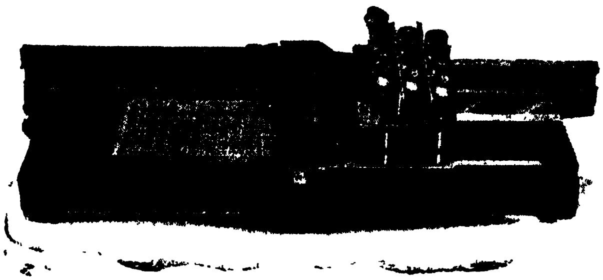
Fig. 4.



Of course the punching, like every other human operation, must be checked before it can be relied upon. One mode of checking is "calling back," as in the case of Ledger postings; but, as every accountant knows, calling back is a lengthy and wearisome process, and is *not* infallible. A far better plan is to put the punched cards through the Verification Key Punch (Fig. 5) as though one were re-punching them. The Verification Punch works with blunt plungers and therefore cannot alter the card, but if the punching already on the card does not accord with the keys depressed by the Verification Punch operator, the card refuses to travel along the bed of the machine and therefore necessarily calls attention to itself. The operation is as rapid as the original punching, and is an incomparably better check than ordinary calling over.

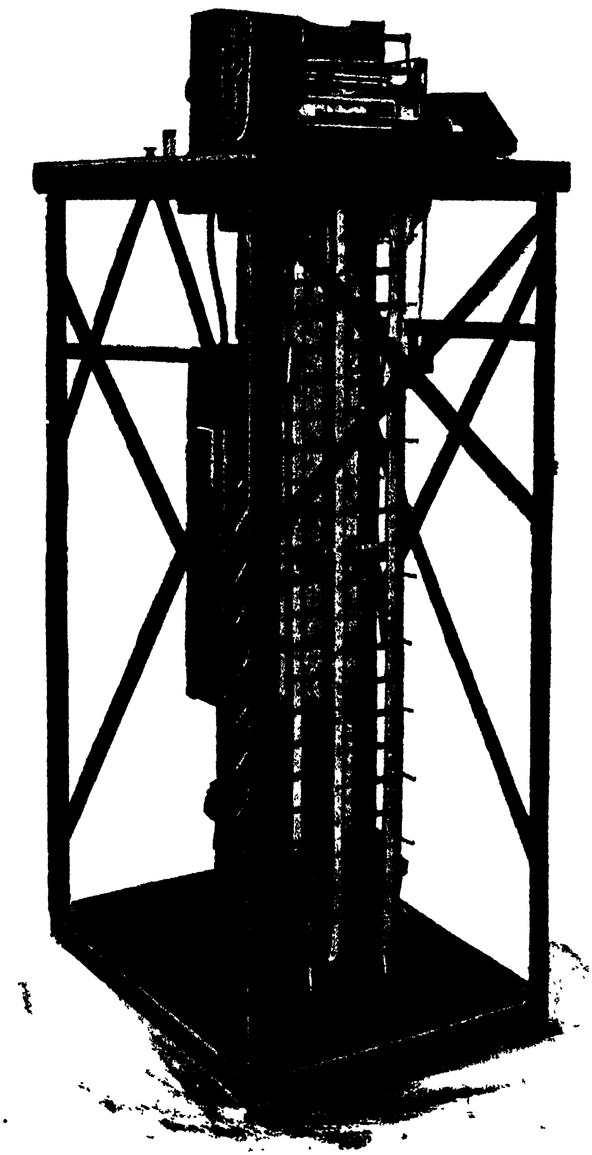
Punching is not at all highly skilled work: boys or girls fresh from school will soon learn to punch cards *accurately* at the

Fig. 5.



rate of 250 per hour! Each card represents a "transaction."

Fig. 7.



The Sorting Machine (Fig. 7) is worked by electricity from an ordinary lighting socket. By its aid anyone can sort cards at the rate of about 15,000 per hour! The operator sets the pointer of the machine against the column representing the basis upon which the sorting is to proceed, and the machine does the rest. The cards are placed vertically in position on the table of the machine in batches, and in due course find their way into one or another of the receptacles shown one above the other in the lower part of the machine. Cards not perforated at all, which may have been included by mistake, are also sorted out automatically. If the sorting basis consists of more than one column of figures (*e.g.* in Fig. 3 there are three columns for "Wages No."), the cards must first be sorted for the hundreds column (No. 18), then each "hundred" group must be sorted according to the tens column (No. 19), and subsequently according to the units column (No. 20). This sounds complicated; but, operating at a speed of 15,000 per hour, it is not a lengthy process.

The Tabulating Machine (Fig. 8) is also worked by electricity. It takes the cards sorted out into groups by the preceding process, a group at a time, and shows—in as many columns as may be required—the totals of any desired columns thereof in tabulated form. Fig. 8 model shows five tabulated divisions. Applying this to the card illustrated in Fig. 4, and assuming that card already to have been "sorted" according to the "Cost No.," the Tabulator would readily give us, in five columns, the aggregate amount of debits and credits to that Ledger Account, both in quantities and in money values. The Tabulating Machine will classify about 9,000 cards per hour.

Fig. 8.

The sectional totals must of course be taken off the Tabulating Machine by hand, and built up into daily totals. An effective check is secured by agreeing the "daily" totals arrived at upon one basis of sorting with the "daily" totals arrived at by another basis of sorting; but, unlike "double-entry," there is no limit to the number of different ways in which the same series of cards may be built up into daily totals—each, of course, showing a different basis of classification. Let one illustration suffice. The daily total of "Sales" may (if desired) be built in many different ways —all perhaps equally useful, although not all equally usual—*e.g.* Customers, Departments, Code Numbers of Goods sold, Salesmen's Numbers, Districts (Customers' addresses), Customers' occupations, &c. &c.

To sum up, a few of the advantages that may, quite fairly, be claimed for the Hollerith System are :—

(1) Increased facilities for exhaustive distribution, thus providing a much greater wealth of useful and detailed information from day to day.

(2) A reduction in the number of actual postings to books of account to one per day for each class of transaction, thus greatly facilitating the balancing of the "books."

(3) The organisation of labour in the Accounts Department upon businesslike lines, thus enabling skilled workers to be employed exclusively upon work that requires skill.

As a rule the "bookkeeper" is so cumbered with detail that, by the time his routine work is done, he has little leisure (and less inclination) to look around, and take an intelligent survey of things. The result—as everybody knows—is, of course, that accounting records (as at present usually kept) are of but little use as an aid to scientific management, and are but little used for that purpose. With the advent of suitable machinery, to assist the head as well as the hand, it should not be difficult, now, to place Business Accounting upon an altogether different plane.

APPENDIX "A."

THE LAW RELATING TO ACCOUNTS.

BY

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Quain Professor of Comparative Law in the University of London.

APPENDIX A.

ACCOUNTS IN JUDICIAL PROCEEDINGS.

Before dealing with the question of Accounts in specific branches of law, it will be convenient to refer generally to the taking of accounts by order in judicial proceedings.

All causes and matters dealing with the taking of Partnership or other Accounts are assigned to the Chancery Division of the High Court of Justice (Judicature Act, 1873, s. 34 (3)) if the accounts are complicated. If, however, they are simple, they may be dealt with in the King's Bench Division. (*Re Taylor*, 44 C.D. 128, in which case the judicial taking of accounts is very fully considered.) It should be noted that very elaborate accounts may be referred to a special or official referee. (See Arbitration Act, 1899, s. 14, and *Rochefoucauld v. Boustead* [1897] 1 Ch. 196, and see *In re Gallard* [1897] 2 Q.B. 8); or may be ordered to be taken in the office of a District Registrar (Judicature Act, 1873, s. 66; *Re Bowen*, 20 C.D. 538). " In all cases in which the plaintiff, " in the first instance, desires to have an account taken, " the writ of summons shall be endorsed with a claim " that such account be taken." (Order III, rule 8, of the Supreme Court, and see *Re Gyhon*, 29 C.D. 834, and *Re Bowen*, 20 C.D. 538.)

" Where a writ of summons has been indorsed for an " account, under Ord. III, r. 8, or where the indorsement " on a writ of summons involves taking an account, if " the defendant either fails to appear, or does not after " appearance, by affidavit or other sufficient means (see " *Shelford v. Louth, &c.*, 4 Ex.D. at p. 319), satisfy the " Court or a Judge that there is some preliminary question " to be tried, an order for proper accounts, with all " necessary inquiries and directions now usual (see " *infra*) in the Chancery Division in similar cases, shall " be forthwith made." (Order XV, r. 1.) As to the practice of treating a summons for directions before the Master as a summons for an account under Order XV, see *Ochs v. Ochs Brothers* ([1900] 2 Ch. 121.) An application for such order as mentioned in Order XV, r. 1, must be made by summons, and be supported by an affidavit, when necessary, filed on behalf of the plaintiff, stating concisely the grounds of his client to an account. The application may be made at any time after the time for entering an appearance has expired. (Order XV, r. 2.)

It is usual in the prayer of the Statement of Claim in an action involving accounts and assigned to the Chancery Division under s. 34 (3) of the Judicature Act, 1873, to pray in the following or similar forms, according to the particular case, thus:—Action for dissolution of partnership—" The plaintiff claims: (1) Dissolution of partner- " ship, (2) Accounts and inquiries, (3) A receiver and " manager"; Action for accounts against an agent— " The plaintiff claims: (1) Account of all sums received " and paid by the defendant as agent of the plaintiff, " (2) payment of amount found due"; Action for the carrying of trusts into execution—" The plaintiff claims: " (1) Execution of the trusts of the settlement, (2) All " necessary accounts and inquiries, (3) A receiver."

The equitable principles that underlay the old suit and the modern action for an account are set forth in the following passage from the judgment of Lindley, L.J., in *L.C.D. Railway Co. v. S.E. Railway Co.* (1892, 1 Ch. at p. 140): " Before the Judicature Acts a suit for an " account could be maintained in equity in the following " cases:—(1) Where the plaintiff had a legal right to have " money payable to him ascertained and paid, but which " right, owing to defective legal machinery, he could not " practically enforce at law. Suits for an account between " principal and agent, and between partners, are familiar " instances of this class of case. (2) Where the plaintiff " would have had a legal right to have money ascertained " and paid to him by the defendant, if the defendant had " not wrongfully prevented such right from accruing to " the plaintiff. In such a case, a Court of law could only " give unliquidated damages for the defendant's wrongful " act; and there was often no machinery for satisfactorily " ascertaining what would have been due and payable if "the defendant had acted properly. In such a case, "however, a Court of equity decreed an account, ascertained what would have been payable if the defendant "had acted as he ought to have done and ordered him to "pay the amount: *M'Intosh v. Great Western Railway Co.* "(4 Giff. 683) is the leading authority in this class of case. "(3) Where the plaintiff had no legal but only equitable "rights against the defendant, and where an account "was necessary to give effect to those equitable rights. "Ordinary suits by *cestuis que trustent* against their trustee "and suits for equitable waste fell within this class. "(4) Combination of the above cases." (See also *Seton*, 1313.) This division is still good if we bear in mind that the old distinction between equity and law has disappeared, and relief can be had in any division of the High Court, though in practice the Chancery Division alone has the machinery to deal with complicated cases of account: *Leslie v. Clifford*, 50 L.T. 590. An unfortunate practice seems, however, to be growing up of attempting to deal with complex cases in King's Bench Chambers. We may note here that a judgment or order for an account of what is due under a contract does not involve an inquiry as to damages in taking the account (*Manners v. Pearson & Son* [1898] 1 Ch. at p. 589), and also that an action for account in equity is an action for the balance due on the taking of the account, and not for the several items to be included in it (*ibid*, p. 591, *per* Lindley, L J.) It must be noticed that an order for an account under Order XV, rule 2, against an executor reserving further consideration but not ordering administration does not destroy the executor's power of preference, nor does it prevent other creditors from suing (See *Re Barrett*, 43 C.D. p. 70.) Nothing short of an order for administration can prevent this. (*Re Mills*, W.N [1884] 21, and Order LV, r. 10A (*b*).) An action for an account is "an action to recover money" within the Trustee Act, 1888, s. 8 (1) (*b*). (*In re Blow* [1914] 1 Ch. 233.) A defence by executors and trustees under the Trustee Act, 1888, s. 8, must be made at the time of the order and not in chambers while accounts are being vouched or on further consideration. (*Re Williams* [1916] 2 Ch. 38; *Re Richardson* [1919] 2 Ch. 50.) As to an order for accounts, see *Flanagan v. Flanagan* [1915] 49 L.T. 95.

Order XV, r. 1, applies to the case of accounts claimed in an Admiralty action, and notice of objection to the Registrar's report must be given under Order LVI, r. 11. (See *Gowan v. Sprott*, 51 L.T. 266; Order LVI; and Admiralty Court Act, 1861, s. 8.)

An Order under Order XV, r. 1, would, in the case of the administration of an intestate's or a testator's personalty, include the following: An account of the intestate's (*or* testator's) personal estate, come to the hands of the defendants, B., C., and D., the administrators of his effects (*or* executors of his will), or of any (*or if two only*, either) of them; or to the hands of any other person or persons by the order or for the use of the said defendants or any (*or* either) of them; an account of intestate's (*or* testator's) debts; an account of the intestate's (*or* testator's) funeral expenses; an inquiry what parts, if any, of the intestate's (*or* testator's) personal estate are outstanding or not disposed of (*or* an account of the legacies and annuities given by the testator's will). (See Seton's "Judgments and Orders," 7th ed. [1912] pp. 1347 and 1411.) Forms of orders dealing with the administration of a testator's personalty at the suit of a person interested, or of personalty and realty in action by a person interested, or by trustees and executors, and other similar orders, will be found set forth in Seton, pp. 1411-13. Judgments or orders for account generally will be found in Seton, cap. 43, pp. 1309-1346.

"The Court or a Judge may, at any stage of the proceedings in a cause or matter, direct any necessary "inquiries or accounts to be made or taken, notwithstanding that it may appear that there is some special or "further relief sought for or some special issue to be tried, "as to which it may be proper that the cause or matter "should proceed in the ordinary manner." (Order XXXIII, r. 2.) This rule only authorises the directing of such accounts and inquiries as are subsidiary to determining the rights of the parties, and which otherwise would be directed at the trial, and does not authorise the sending of the whole case to Chambers. (*Garnham v. Skipper*, 29 C.D. 566.) As a rule an order for an account cannot be made against a plaintiff. (*Toulmin v. Reid*, 14 Beav. 505.) As to account against a solicitor, see *Chambers v. Tabrum* [1920] 1 K.B. 840. As we shall see, questions of very complicated accounts may be referred to a referee. (Arbitration Act, 1889, s. 14; *Rochefoucauld v. Boustead*, [1897] 1 Ch. 196.) Accounts on the footing of wilful default cannot be directed on an originating summons, even though the parties to be charged are plaintiffs submitting to account. (*Re Hengler*, W.N. (93) 37.) The rule that wilful default must be expressly pleaded is not so strict now as it was before the Judicature Act. (*Re Barclay*, [1899] 1 Ch. 681, and *Smith v. Armitage*, 24 C.D. 727.) It would seem to be the better opinion that administration accounts and inquiries should not be directed in a creditor's action until the plaintiff has established his debt. (*Batthyany v. Walford*, 36 C.D. p. 277.) The rate of exchange is taken as at the date of the breach of contract, and not that prevailing at the date of the judgment. (*Di Ferdinando v. Simon, Smits & Co., Ltd.* [1920] 2 K.B. 704.)

"The Court or a Judge may, either by the judgment or "order directing an account to be taken or by any subsequent order, give special directions with regard to the "mode in which the account is to be taken or vouched, "and in particular may direct that in taking the account, "the books of account in which the accounts in question "have been kept shall be taken as *prima facie* evidence "of the truth of the matters therein contained, with "liberty to the parties interested to take such objections "thereto as they may be advised." (Order XXXIII, r. 3.) According to *Gething v. Keighley* (9 C.D. at p. 551), no special direction by the Court is necessary to secure in partnership cases the admission of books of account as *prima facie* evidence, but in all other cases a special direction is necessary. (*Cookes v. Cookes*, 3 N.R. 97 See also *Lambert v. Still*, [1894] 1 Ch. at p. 84, and *Daniell v. Sinclair*, 6 App. Cas. 181.) Where vouchers have been lost, or the account cannot be taken in the ordinary way, the Court may give special directions, but such directions will not be given merely to save expense, nor unless it appears that the ordinary evidence cannot be had. (*Lodge v. Prichard*, 3 De G. M. & G. 906; *Ewart v. Williams*, 7 De G. M. & G. 68.) Audited accounts may be impeached for fraud, even though liberty to do so is not given in the order of the Court. (*Holgate v. Shutt*, 27 C.D. 111, 115, and 28 C.D. 111.) "Where any account is directed to be "taken, the accounting party, unless the Court or a Judge "shall otherwise direct, shall make out his account and "verify the same by affidavit. The items on each side of "the account shall be numbered consecutively, and the "account shall be referred to by the affidavit as an "exhibit to be left in the Judge's Chambers, or with the "official or other referee, as the case may be." (Order XXXIII, r. 4.) Accounts for the Judge's Chambers (including receivers' and executors' accounts), when required, may be charged at 8d. lower scale, 1s. higher scale per folio for copying, when costs are taxed on this scale or the scale is allowed. (See App. N. [100] to the Annual Practice, 1921, and see Order LV, r. 37.) Where, however, the preparation of the accounts involves extraordinary skill and labour there may be an increased allowance in respect thereof (see Order LXV, r. 27 (12).) "Every alteration in an account verified by affidavit to "be left at Chambers shall be marked with the initials of "the Commissioner or officer before whom the affidavit is "sworn, and such alterations shall not be made by "erasure." (Order XXXVIII, r. 22, and see r. 12.) Accounts shall be referred to as exhibits to affidavits. (Order XXXVIII, r. 23.) "Upon the taking of any "account the Court or a Judge may direct that the "vouchers shall be produced at the office of the solicitor "of the accounting party, or at any other convenient "place, and that only such items as may be contested or "surcharged shall be brought before the Judge in "Chambers." (Order XXXIII, r. 4A.) This rule is intended to prevent the enormous expense and delay which were continually incurred by directing the general accounts to be taken in the Chambers of a Chancery Judge. (Kay, L.J., in *Re Fish; Bennett v. Bennett*, [1893] 2 Ch. p. 427.) In this connection we may also refer to Ord. LV, r. 10A (*a*), which provides that "Upon "an application for administration or execution of trusts "by a creditor or beneficiary under a will, intestacy, or "deed of trust, where no accounts or insufficient accounts "have been rendered, the Court or a Judge may, in "addition to the powers already existing, order that the "application shall stand over for a certain time, and "that the executors, administrators, or trustees in the "meantime shall render to the applicant a proper statement of their accounts, with an intimation that if this "is not done they may be made to pay the costs of the "proceedings." In the case (*supra*) of *Re Fish* the Court gave the plaintiffs, at their own risk as to costs, "the "power, if they like to examine those accounts, to contest "any items in them, including, of course, those pay sheets "or day sheets (whichever they are called), which show the "charges made by *Mr. Herbert Clifford Gosnell* against "the estate, and also, if they think fit, entirely at their "own risk as to costs, to surcharge any item which may "be omitted in the accounts, and then if the contested "items are not arranged with the trustees, or if the surcharges are not arranged, liberty to bring any contested "items before the Judge in Chambers, who is to be at "liberty to refer any disputed items in the bills of costs "to the Taxing Master to be taxed. And I beg to say "that I understand that to mean that in those pay sheets "of *Mr. Herbert Gosnell* every item which is contained "in them, whether it be a charge for trustee's work, or a "charge for costs properly so called, is a charge which "may, if contested, be moderated by the Chief Clerk, or "by the Taxing Master before whom it goes . . . If "in the investigation of the accounts little or no change "shall be made, then the Judge will have to consider how "far the Plaintiff's next friend and the adult Plaintiffs "should pay the costs of that part of the action. If, on "the other hand, considerable alteration is made, the "Judge will have to consider whether the Defendants, or "some of them, ought not to bear those costs or some part "of them." (Pp. 427-8.) This important judgment by Lord Justice Kay has been quoted at length, as it throws considerable light on the practice of the Courts, both with respect to accounts, and the costs—an important matter—incurred in the preparation and investigation of accounts. (See also as to solicitor's accounts and charges *In re*

Chalinder and Herrington, [1907] 1 Ch. 58.) The "Annual Practice" (1921) states with respect to Order LV, r. 10A (*a*) that the practice of directing accounts to be furnished under this rule is now largely followed. Trustees, moreover, "are entitled, on being required to furnish accounts "in respect of their trust estate, to be guaranteed against "the expense of complying with the requisition." (*Re Bosworth*, 58 L.J. Ch. 432; "Annual Practice," 1921, O. 55, r. 3, p. 985. As to neglect or delay of trustees to account resulting in costs or loss, see *Re Skinner*, [1904] 1 Ch. 289, and *Re Holton's Settlement Trusts*, W.N. [1918] 78.

It is necessary to note that "any party seeking to "charge any accounting party beyond what he has by his "account admitted to have received shall give notice "thereof to the accounting party, stating, so far as he is "able, the amount sought to be charged and the particu- "lars thereof in a short and succinct manner." (Order XXXIII, r. 5.) The remaining rules of this order are all of importance. Rule 6 provides that "every judgment or "order for a general account of the personal estate of "a testator or intestate shall contain a direction for an "inquiry what parts (if any) of such personal estate are "outstanding or undisposed of, unless the Court or a "Judge shall otherwise direct." It is obvious that such an inquiry is essential for the completion of a general account. Rule 7 provides that "where by any judgment "or order, whether made in Court or in Chambers, any "accounts are directed to be taken or inquiries to be "made, each such direction shall be numbered so that, as "far as may be, each distinct account and inquiry may "be designated by a number, and such judgment or order "shall be in the Form No. 28, in Appendix L, [to the "Rules of the Supreme Court] with such variations as "the nature of the case may require." Form No. 28 is a general form ordering accounts and inquiries to be taken. Form No. 11 in Appendix L is also of importance, as it gives the form of an affidavit verifying accounts and answering usual inquiries as to real and personal estate. (See Order LV, r. 75, and also Daniel's "Chancery Forms," 6th Ed. [1914], pp. 605-624, and Daniel's "Chancery Practice" [1914], 8th ed., pp. 914-930, which supply the most valuable information on the question of accounts in judicial proceedings.) The form of account of personal estate verified by this affidavit and called "Account A," is given in Form No. 12, which contains a numbered list of dated receipts and disbursements, while Form No. 13 is a similar account of rents and profits referred to in Form 11 as "Account B." Form 14 is an important form of Receiver's Account, to which we shall have occasion to refer directly in connection with the Rules of the Supreme Court dealing with Receivers.

Before doing so we must complete the reference to accounts generally:—"Where an account is directed, the "certificate shall state the result of such account, and "not set the same out by way of schedule, but shall refer "to the account verified by the affidavit filed, and shall "specify by the numbers attached to the items in the "account which, if any, of such items have been dis- "allowed or varied, and shall state what additions, if "any, have been made by way of surcharge or otherwise, "and where the account verified by the affidavit has been "so altered that it is necessary to have a fair transcript "of the account as altered, such transcript may be "required to be made by the party prosecuting the "judgment or order, and shall then be referred to by the "certificate. The accounts and the transcripts (if any) "referred to by certificates shall be filed therewith, or "retained in Chambers and subsequently filed, as the "Judge in Chambers may direct. No copy of any such "account shall be required to be taken by any party." (Order LV, r. 68.) It may be noted in connection with this rule that no question can be raised by the certificate of the Master on matters with respect to which there is no direction in the order under which the certificate is made. (*In re Tillett*, 32 C.D. 639.) Also we may note that, in a question of Partnership Accounts arising in an action of administration of the estate of a deceased partner, the certificate must distinguish between private and partnership debts. (*Re Hodgson*, 31 C.D. 177, but see *Re France*, W.N. (86) 167.) In connection with the certificate, it is necessary further to note that every certificate, with the accounts, if any, to be filed therewith, shall be transmitted by the Master to the Central Office to be filed, and shall thenceforth be binding on all the parties to the proceedings, unless discharged or varied upon application by summons within eight clear days after the filing: provided that the time for applying to discharge or vary certificates, to be acted upon by the Paymaster-General without further order, or certificates on passing receivers' accounts, shall be two clear days after the filing thereof. (Order LV, r. 70.) The Court alone can admit further evidence after the Master has made his certificate. (*In re Wood Green and Hornsey Steam Laundry, Ltd.*, [1918] 1 Ch. 423.) The Judge may, however, if the special circumstances of the case require it, upon an application by motion or summons for the purpose, direct a certificate to be discharged or varied at any time after the same has become binding on the parties. (Order LV, r. 71, and see *Re Dove*, 27 C.D. 687.)

We have still three remaining rules in Order XXXIII that require notice:—"In taking any account directed by "any judgment or order, all just allowances shall be made "without any direction for that purpose." (Order XXXIII, r. 8.) Thus, in the case of an order dealing with the management of a business carried on by an executor, though the executor cannot charge for time and work, he is entitled to all just allowances in the taking of an account of profits, even though he is a partner. (*Re Norrington*, 13 C.D. 654; *Stocken v. Dawson*, 6 Beav. 371; *Burden v. Burden*, 1 V. & B. 170.) What are just allowances in particular cases may be gathered from the cases of the *Union Bank of London v. Ingram* (16 C.D. 53), *Bolingbroke v. Hinde* (25 C.D. 795), *Wales v. Carr* ([1902] 1 Ch. 860), *Rees v. Metropolitan Board of Works* (14 C.D. 372), *Vyse v. Foster* (L.R. 7 H.L. 318). Order XXXIII, r. 8A, directs that each Master at the beginning of each sittings shall report to the Judge to whose Chambers he is attached all the cases in which he considers that there has been any undue delay in the proceedings before him. If (Order XXXIII, r. 9) it appears to the Court or Judge that there is any undue delay in the prosecution of any accounts or inquiries, the Court or Judge may require any party in the case to explain the delay, and may thereupon make such order with regard to expediting the proceedings as the circumstances of the case may require. (See *In re Cornish Tin Sands, Ltd.*, [1918] W.N. 377, and also Order LV, r. 32.)

We may note generally with respect to the practice as to accounts in judicial proceedings that, if the Judge so directs, his Masters shall take such accounts and make such inquiries as have usually been taken and made by the Masters, and the Judge shall give such aid and directions in every such account or inquiry as he may think fit, but subject to the right of the parties in certain cases to bring any particular point before the Judge. (Order LV, r. 15.) Of course, it must be remembered that in *all* cases the parties have a right to see the Judge personally, but where such an adjournment into Court is unnecessary, the party so adjourning the case may have to pay the costs. It is important, moreover, to remember that in certain large classes of cases the Judge must deal personally with the matter. No order for accounts or inquiries concerning the property of a deceased person or other property held upon any trust or concerning the parties entitled thereto must be made, except by the Judge in person. (Order LV, r. 15A.) Moreover, where accounts are being taken in Chambers before the Master, either party has a right to have an item which has been found against him adjourned before the Judge without taking out a summons for that purpose. (Order LV, r. 69.) And where a question of principle is involved in a particular item it may be necessary to do this. But the ordinary practice is to wait till the account is completed, and then an adjournment once for all to the Judge. If a solicitor were so unreasonable as to insist on the adjournment of every item in an account to which he might object, the Judge could punish the solicitor by making him pay the costs personally. (*Upton v. Brown*, 20 C.D. 731, *per* Jessel, M.R.) An adjournment to the Judge is not in the nature of an appeal, since there exists a right to have a point heard by the Judge personally. (*Smith v. Watts*, 22 C.D. 5.) It is further important to remember that the Judge in Chambers may, in such way as he thinks fit, obtain the assistance of accountants, merchants, engineers, actuaries, and other scientific persons the better to enable any matter at once to be determined, and he may act upon the certificate of any such person. (Order LV, r. 19.) The Judge cannot, however, delegate this power of calling in expert assistance to his Chief Clerks (*Mildmay v. Lord Methuen*, 1 Drew. 216); and when such an expert is called in by the Judge his evidence is merely material to guide the Judge, and he cannot call witnesses to support his evidence (see "Annual Practice," 1921 [Order LV, r. 19]: *Morris v. Llanelly Railway Co.*, W.N. (1868) 46; *Ford v. Tynte*, 2 De G. J. & S. 127). An accountant so called in need not be employed in the presence of the parties (*Re London and Birmingham, &c., Railway Co.*, 6 W.R. 141), while the fact of such employment is additional to and not in substitution for the taking of accounts in Chambers. The allowance to such an accountant is in addition to the Court fee. (*Hutchinson v. Norwood*, 32 W.R. 392.) His report should not be filed as part of the certificate. (*Hill v. King*, 9 Jur. N.S. 527.) The fees to be paid to such expert accountants and other experts called in by the Judge are to be regulated by the taxing officers, subject to appeal to the Court or Judge, whose decision shall be final. (Order LXV, r. 27 (36).) In the case of *Meymott v. Meymott* (33 Beav. 590), with respect to the general question of the payment of accountants, Sir John Romilly, M.R., said: "When the Chief Clerk [the Master "since 10th February 1897] appoints an accountant, he "always previously makes an arrangement with him as "to the amount of his remuneration; but when the "accountant is employed by the parties themselves, the "Chief Clerk never interferes, but allows them to make "their own terms." This is still, there can be little doubt, the rule, and the further decision that the rule as to remuneration of accountants followed in Bankruptcy proceedings is also followed in Chancery proceedings has never been overruled. The charges allowed in bankruptcy, when the employment of an accountant is sanctioned, and there is no special arrangement with the Official Receiver or trustee for a less sum are: For preparing Balance Sheet, &c., principal's time, exclusively so employed, per day of seven hours, including the necessary affidavit, one to five guineas (this sum may be varied by the Court); chief clerk's time, half-a-guinea to a guinea and a-half; and other clerks, 7s. 6d. to 16s. per day. These charges include stationery other than the forms used. (See Williams on "The Law and Practice in Bankruptcy," 11th Ed., 1915, pp. 688-9.) Sir John Romilly, however, expressly declined to apply this rule in the case of official managers and liquidators employed in winding up companies. In *Meymott v. Meymott* two guineas a day to the accountant for work done (13 days), one guinea a day to his chief clerk (134 days), and fifteen shillings a day to his junior clerk (428 days) were allowed, as proper remuneration, by the Court. In this case the accountant was nominated by the parties and appointed by the Chief Clerk. It should be noted that an accountant employed as a skilled witness to give evidence in support of a claim, though entitled to a reasonable allowance for his time and expenses in preparing his evidence by an examination of the books, is not entitled upon party and party taxation to his charges for balancing and putting the books into shape for the purpose of supporting the claim. (*In re Charles Lafitte & Co.*, L.R. 20 Eq. 650; see also *Re Hutchinson*, 50 L.T. 486.)

Finally, the Judge may order in proper cases accounts and inquiries to be referred to District Registrars. (Judicature Act, 1873, s. 66.) It must always be remembered in beginning legal proceedings for account that all actions for account must be brought within six years after the settlement of the account, or the time when the cause of action arose, or the last acknowledgment or part payment. See Statutes, 21 Jac. 1, c. 16 (the Limitation Act, 1623), s. 3, and 19 & 20 Vict. c. 97 (the Mercantile Law Amendment Act, 1856), s. 9, and Seton, pp. 1326-7 and 1385-6).

Receivers' Accounts.

We turn now to the question of Receivers Accounts. Where a receiver is appointed for the purpose of equitable execution "with a direction that he shall pass accounts, "the Court or Judge shall fix the days upon which he shall "(annually or at longer or shorter periods) leave and pass "such accounts, and also the days upon which he shall pay "the balances appearing due on the accounts so left, or "such part thereof as shall be certified as proper to be "paid by him. And with respect to any such receiver as "shall neglect to leave and pass his accounts and pay the "balances thereof at the times so to be fixed for that "purpose as aforesaid, the Judge before whom any such "receiver is to account may from time to time, when his "subsequent accounts are produced to be examined and "passed, disallow the salary therein claimed by such "receiver, and may also, if he shall think fit, charge him "with interest at the rate of 5 per cent. per annum upon "the balances so neglected to be paid by him during the "time the same shall appear to have remained in the "hands of any such receiver." (Order L, r. 18.) If the question of Receivers' Accounts arises in the King's Bench Division, the practice of the Chancery Division is followed, as the receivers are appointed for an equitable purpose. (See *Walmsley v. Mundy*, 13 Q.B.D. 807, under Order L, r. 16.) It is to be noted that the jurisdiction over the receiver continues even after the accounts have been settled or the receiver discharged; even at this late hour the penalties of the rule can be enforced. (*Hicks v. Hicks*, 3 Atk. 274-5; *Harrison v. Boydell*, 6 Sim. 211; and see "Annual Practice," 1921, p. 876.)

Receivers' Accounts have to be in the form No. 14 in Appendix L, with such variations as circumstances may require. (Order L, r. 19.) This form deals separately with receipts and payments and allowances on account of real estate and personal estate. Rule 20 directs that "every receiver shall leave in the Chambers of the Judge "to whom the cause or matter is assigned his account, "together with an affidavit verifying the same in the Form "No. 22 in Appendix L, with such variations as circum-"stances may require. An appointment shall thereupon "be obtained by the plaintiff or person having the con-"duct of the cause for the purpose of passing such "account." It is further provided that "in case of any "receiver failing to leave any account or affidavit, or to "pass such account, or to make any payment, or other-"wise, the receiver or the parties, or any of them, may be "required to attend at Chambers to show cause why "such account or affidavit has not been left, or such "account passed, or such payment made, or any other "proper proceeding taken, and thereupon such directions "as shall be proper may be given at Chambers or by "adjournment into Court, including the discharge of "any receiver and appointment of another, and payment "of costs." (Order L, r. 21.) It is necessary to note finally that a certificate of the Master, stating the result of the receiver's account, is to be taken from time to time. (Order L, r. 22.) It should be noted that a receiver will not be discharged merely on the application of the party at whose instance he was appointed. (*Bainbridge v. Blair*, 3 Beav. 421.) In administration suits a receiver may be discharged on his passing his accounts, and may be paid his remuneration and costs without waiting to see whether the estate is sufficient to pay all costs. (*Batten v. Wedgwood, &c., Co.*, 28 C.D. 317.) The accounts of liquidators and guardians are passed and verified in the same manner as Receivers' Accounts. (Order L, r. 23, 24.)

As between a mortgagor and a mortgagee, it was a common practice, before there was any statutory regulation of the rights and remedies of mortgagors and mortgagees, to provide in a mortgage deed for the appointment of a receiver by the mortgagee as the agent of the mortgagor for the purpose of protecting the mortgagee " He was appointed in order that the money should not " go to the mortgagor, who might or might not pay the " interest to the mortgagee, but should be stopped in the " hands of a third person, who would have to pay the rates " and taxes and other outgoings affecting the mortgaged " property, but subject to that would be directed to pay " the interest to the mortgagee, handing the net balance " to the mortgagor. That was the notion of the appoint- " ment of a receiver by the consent of the parties either " by the mortgage deed or under the mortgage deed. To " my mind there can be no question that a receiver " appointed in that way could not possibly execute " repairs and charge them against the mortgagee." (Kekewich, J., in *White v. Metcalf*, [1903] 2 Ch., at p. 570.)

The question arises as to the extent that Section 24 of the Conveyancing Act, 1881, has affected this practice. This section provides for the appointment by the mortgagee under certain circumstances of a receiver as the agent of the mortgagor. Under the Act this receiver has power to receive rents, to insure out of the rents any property that the mortgagee directs him to insure, and, having paid those particular outgoings, to apply the money received by him in discharge of the rents, rates, and taxes, and other outgoings affecting the mortgaged property, and then, if there are any prior charges, to keep down all interest on those charges. He has also power *inter alia* to pay " the cost of executing necessary or proper repairs directed in writing by the mortgagee." The case of *White v. Metcalf*, referred to above, was an action for foreclosure by the first mortgagees against the second mortgagees and the mortgagors. The receiver, under Section 24 of the Conveyancing Act, 1881, in that case executed certain repairs without any written direction from the mortgagees. Kekewich, J., held that in taking the account of what was due to the first mortgagees under their security the cost of these repairs, even assuming them to be " necessary or proper " repairs, ought not to be allowed, whether such cost was to be treated as a payment by the receiver or by the first mortgagees themselves. " I direct the Master in taking the account " not to allow the first mortgagees any expenditure on " repairs except on necessary or proper repairs paid for " out of rents and profits on direction in writing by the " mortgagees." As to what are just allowances on taking accounts between mortgagor and mortgagee, see also *Union Bank of London v. Ingram* (16 C.D. 53) and *Wales v. Carr* ([1902] 1 Ch. 860).

It may here be noticed that it is not the ordinary practice in taking accounts against a mortgagee in possession to direct a " rest " at the date of the sale of the mortgaged property merely on the ground of such sale (*per* Warrington, J., in *Wrigley v. Gill*, [1905] 1 Ch. 241), though in a very exceptional case something analogous to a " rest " has been directed. (*Thompson v. Hudson*, [1870] L.R. 10 Eq. 497.) Under a proviso in a mortgage for the capitalisation of interest in arrear for twenty-one days a mortgagee in possession, through the default of the mortgagor, is not entitled, on the accounts being taken, to charge the mortgagor with compound interest, unless he can prove that after crediting the rents received each half-year the interest was actually in arrear at the times specified in the proviso. (*Wrigley v. Gill*, [1905] 1 Ch. 241). The decision of Warrington, J., in *Wrigley v. Gill* was affirmed by the Court of Appeal ([1906] 1 Ch. 166), who decided that if the mortgagee in possession had in his hands (after payment of all proper outgoings) an amount arising from the rents received by him sufficient for the payment of interest, though not actually appropriated for that purpose, the interest could not be said within the meaning of the proviso to be in arrear, and the mortgagee was therefore not entitled to have it capitalised. The cases of *Union Bank of London v. Ingram* (16 C.D 53) and *Bright v. Campbell* (41 C.D. 388) were distinguished. The Court also preferred the *dictum* of Cotton, L.J., in *Cockburn v. Edwards* (18 C.D. 463) to that of Jessel, M.R., in the same case (p. 456). In the case of *Ainsworth v. Wilding*, ([1905] 1 Ch. 435) it was held, following *Wrigley v. Gill*, that in a redemption action against a mortgagee in possession, who has from time to time sold parts of the mortgaged property, where a decree has been made directing the usual accounts and inquiries, but giving no direction as to rests, the mortgagor is not entitled to have rests made in the accounts of rents and profits, even though there may have been sales from time to time.

The above rules as to Receivers' Accounts have an importance that extends beyond such accounts, for it is especially provided by the Rules of the Supreme Court that the accounts of liquidators and of guardians shall be passed and verified in the same manner as is by Order L directed in the case of Receivers' Accounts. (Order L, r. 23, 24.) As to vouching the particulars of expenditure by a guardian of an infant, see *In re Evans* (26 C.D. 58) and Order XVI, rr. 16, 18, 21.

It is necessary to make a brief reference as to the accounts of a committee or receiver of the estate of a lunatic. This officer of the Court is appointed by summons before a Master in Lunacy under the Lunacy Act, 1890 (Rules in Lunacy, 1892, r. 19), as receiver and committee of the lunatic's estate, and he undertakes by bond to apply all such moneys as he receives belonging to the lunatic or his estate as the Master in Lunacy shall direct (as to practice see *Re Jane and Mary Morris* [1912] 1 Ch. 730). The bond, after the appointment, goes on to say that if the receiver "shall yearly or oftener if he "be thereunto required make a just and true account "of all and singular the rents issues and profits of the "real estate of the said [the *lunatic*] and also of his "personal estate and the profits thereof as now are or "hereafter shall come to his hands custody or possession "or which he may receive out of or concerning the said "estate and shall carefully observe and perform and "keep the orders and directions of the Judge named in "the said Acts or of the said Master for the time being "made or hereafter to be made touching or concerning "the said [the *lunatic*] or his estate and touching all "such moneys as shall yearly remain due upon the foot "of the accounts duly taken by the said Masters . . . "and shall in all things demean himself as a careful and "faithful receiver of the estate of the said [the *lunatic*] "that then the said obligation to be void." In the case of *In re Walker* ([1907] 2 Ch., p. 120), Cozens-Hardy, M.R., said with respect to this bond (which is set out in the case), "it seems to me that every word of that is "satisfied by holding that it applies simply to acts done "in discharge of his duty as committee and to amounts "coming to his hands, custody, or possession as receiver "of the estate. Those cease with the death, not in the "sense that he is not bound to account for receipts during "the life, but in the sense that he has no right to receive "anything after the death of the lunatic." Hence the Court of Appeal held that the committee or receiver of the estate of a lunatic is not accountable in the lunacy, in his character of committee or receiver, for rents and profits received by him after the lunatic's death; and consequently, where the committee or receiver has made default, his surety is not liable in respect of any such receipts. The effect of payments by a committee after the death of a lunatic is considered in *Jones v Noyes* [(1858] 7 W.R. 21). Rule 81 of the Rules in Lunacy, 1892, directs the account to be passed on the discharge or death of the committee of the estate, or upon the issue of a *supersedeas* or the death of the lunatic. As to preparation of the schedule of assets of deceased lunatic, and generally as to accounts in lunacy, see *Chadwick v. Grange* ([1907] 1 Ch. 313, and 2 Ch. 20), Chandler's "Guide to Trust Accounts," p. 36, and Heywood and Massey's "Lunacy Practice" (5th Ed.), 1920, p. 88, and pp. 74-104, 208, 310-315, 343.

Accounts under the Arbitration Act, 1889.

Some reference must be made as to accounts in relation to the Arbitration Act, 1889 (52 & 53 Vict., c. 49). Section 14 provides that in any cause or matter (other than a criminal proceeding by the Crown) if (*inter alia*) the question in dispute consists wholly or in part of matters of account, the Court or a Judge may at any time order the whole cause or matter, or any question or issue of fact arising therein, to be tried before a special referee or arbitrator respectively agreed on by the parties, or before an Official Referee or officer of the Court. We must note in passing that a Master of the Supreme Court may exercise all the jurisdiction and powers conferred upon the Court or a Judge by the Arbitration Act, 1889. (Order LIV, r. 12A.) The case cannot, however, be referred without the consent of the parties where the result depends partly on questions of law and fact, and partly on questions of account and scientific evidence. (*Case v. Willis*, 8 *Times* Reports, 610.) The expression "matters of account" is largely construed (*Re Leigh*, 3 C.D. 292) and "if the Court can see that part of the "dispute between the parties is matter of account, that "gives jurisdiction to refer the whole case" (*Hurlbatt v. Barnett & Co.*, [1893] 1 Q.B. 79), except where there is a preliminary question as to the liability of the defendant. (*Clow v. Harper*, 3 Ex.D., 198; *Ward v. Pilley*, 5 Q.B.D. 427; and see also *Case v. Willis* and the "Annual Practice," 1921, *under* Arbitration Act, 1889, p. 2214.) In such a case the Judge at the trial, if the accounts require prolonged investigation, may order a reference for inquiry and report under Section 13. As to the practice on trial as to accounts before a referee, reference must be made to Rules of the Supreme Court. (Order XXXVI, part 8, rr. 43-55 (*d*).) The referee (subject to the order of the Court or a Judge) may hold the trial at or adjourn it to any place which he may deem most convenient, and have any inspection or view either by himself or with his assessors (if any) which he may deem expedient for the better disposal of the controversy before him. He must, moreover, unless otherwise directed by the Court or a Judge, proceed with the trial *de die in diem*, in a similar manner as in actions tried with a jury. (Order XXXVI, r. 48.) See *A.-G. v. Birmingham, Tame, and Rea Drainage Board* [1912] A.C., p. 803. The Official Referees are to sit at least from 10 a.m. to 1 p.m. on Saturdays, and from 10 a.m. to 4 p.m. on other days during the sittings of the High Court. (Order LXIII, r. 16.) Subject to any order to be made by the Court or a Judge ordering the same, evidence shall be taken at any trial before a referee, and the attendance of witnesses may be enforced by *subpœna*, and every such trial shall be conducted in the same manner, as nearly as circumstances will permit, as trials are conducted before a Judge. (Order XXXVI, r. 49.) See *In re Enoch & Zaretsky, Bock & Co.* [1910] 1 K.B. 327. Subject also to any such order, the referee is to have the same authority with respect to discovery and production of document and in the conduct of any reference or trial, and the same power to direct that judgment be entered for any or either party, as a Judge of the High Court (Order XXXVI, r. 50); but the referee cannot commit any person to prison or enforce any order by attachment or otherwise. (Order XXXVI, r. 51.) Moreover, before the conclusion of any trial before a referee, or by his report under the reference made to him, he may submit any question arising therein for the decision of the Court, or may state any facts specially for the Court to draw inferences therefrom, and in any such case the order to be made on such submission or statement shall be entered as the Court shall direct; and the Court shall have power to require any explanations or reasons from the referee, and to remit the cause or matter, or any part thereof, for retrial or further consideration to the same or any other referee; or the Court may decide the question referred to any referee on the evidence taken before him, either with or without additional evidence as the Court may direct. (Order XXXVI, r. 52.)

There is in the Chancery Division an appeal to the Judge by whom the order of reference was made, and thence to the Court of Appeal, from a referee to whom a case is referred for trial, either by motion to set aside or vary the report or award and the judgment entered thereon, or by motion for a new trial. (See Order XXXVI, r. 52; Order XL, r. 6; the Arbitration Act, 1889, ss. 14-15; and the important case (heard before the full Court of Appeal of six Judges) of *Wynne-Finch v. Chaytor*, [1903 2 Ch. 475.) In the King's Bench Division the appeal from a referee is to a Divisional Court. (Order XL, r. 6; *Proudfoot v. Hart*, 25 Q.B.D. 42.) There is no Divisional Court in the Chancery Division, and the Judge takes its place. The report or award of any official or special referee or arbitrator on any such reference shall, unless set aside by the Court or a Judge, be equivalent to the verdict of the jury. (Arbitration Act, 1889, s. 15 (2).)

The remuneration to be paid to any special referee or arbitrator to whom any matter is referred under order of the Court or a Judge, shall be determined by the Court or a Judge (*ibid*, s. 15 (3)); but an arbitrator under submission may fix his own fees as part of his award, unless a contrary intention is expressed in the submission, and the costs of reference and of the award are in his discretion. (Arbitration Act, 1889, s. 2 (i); *Re Walker and Brown*, 9 Q.B.D. 434; "Annual Practice," 1921.) Questions of account may arise in arbitrations under the Small Holdings Act, 1910.

Compelling Accounts.

It will be convenient here to notice certain cases where accounts can be compelled. An agent (but not apparently a principal) is liable to account where the course of dealing presumes the keeping of regular accounts. Where copyright is infringed, the right to account follows the obtaining of an injunction. (*Baily v. Taylor*, 1 Russ. & M. 73.) The right to account (if the case involves account) generally follows the right to an injunction, but of course it also arises otherwise. (See *Parrott v. Palmer*, 3 Myl. & K. 632.) An action for account will lie against a banker by his customers (*Bowles v. Orr*, 1 Y. & C. 464), and between tradesmen and their customers (*Courtenay v. Godschall*, 9 Ves. 473), and between merchants and commercial travellers to a certain extent (*Hunter v. Belcher*, 9 L.T. 501); also in the case of mines and tithes (*Pulleney v. Warren*, 6 Ves. 88; *Glyn v. Howell*, [1909] 1 Ch. 666), and between landlord and tenant (*O'Connor v. Spaight*, 1 Schoales & Lefroy, Ch. Ir. 305); also in the case of rents and profits arising from property alleged to be wrongly occupied (*Hicks v. Gallitt*, 3 De G. M. & G. 782). It is perhaps hardly necessary to state that merchants' accounts, after six years' total discontinuance, are barred (*Martin v. Heathcote*, 2 Eden, 169), and it should be kept in mind that in the absence of evidence to the contrary each item in an ordinary tradesman's account is a separate contract (*Auster* [1914] *Lim. v. London Motor Coach Wo ks, Lim.*, 112 L.T. 99 C.A.). On this point see also as to mines, *Glyn v. Howell* (*supra*); but, of course, if open accounts are continued by subsequent acts, they are not barred by length of time unless a settled balance can be presumed. As to what amounts to a settled and stated account depends upon the circumstances of the case. No precise form is necessary (*Sim v. Sim*, 11 Ir. Ch. Rep. 310), but it may be said generally that a clear statement of accounts signed by the parties may be regarded as a settled account, since it creates a single issue. (See *Attorney-General v. Brooksbank*, 2 Y. & J. 37.) But signature is not absolutely necessary (*Willis v. Jernegan*, 2 Atk. 252), nor need there be a minute settlement of items (see *Sewell v. Bridge*, 1 Ves. 297), and a merchant's account unchallenged for two years is regarded as stated. (See *Tickel v. Short*, 2 Ves. 239.) Settled accounts can only be reopened on very strong grounds. (*Chambers v. Goldwin*, 5 Ves. 837.) The important case of *Cheese v. Keen* ([1908] 1 Ch. 244) deals with the very practical question of opening settled solicitors' accounts. In that case Keen was a builder financed by Cheese, his solicitor, from 1883 to 1904. No bills of costs were delivered, but from time to time accounts were stated between them, the amount due for loans, interest, and costs agreed, and mortgages given by Keen to Cheese for the agreed amounts. By 1904 all the mortgages except two had been paid and on each payment off the amount due was agreed. In 1906 the executors of Cheese (who died in 1905) sought to enforce by action the remaining mortgages. Keen counterclaimed without alleging fraud for an account of all dealing between himself and Cheese from 1883, alleging (as the fact was) that he had had no independent advice, proving errors in some of the settled accounts in respect of interest, and also proving that Cheese had before the passing of the Mortgagees' Legal Costs Act, 1895 (58 & 59 Vict. c. 25), habitually charged profit costs in respect of the mortgages to himself. Since the Act of 1895 this is allowed, but before that date it was forbidden by a rule of Court Neville, J., held that Keen was entitled to open all the accounts and to tax, surcharge, and falsify, and that his right was not barred by the Statute of Limitations, although all the settled accounts had been agreed more than six years before the date of his counterclaim; but the Judge considered that an arrangement giving something in respect of costs before 1905 would be fair. The principles on which such accounts are reopened are dealt with in the cases of *Coleman v. Mellersh* (2 Mac. & G. 309), *Buckeridge v. Whalley* (33 L.J. Ch. 649), *Newen v. Wellen* (31 L.J. Ch. 792), *Williamson v. Barbour* (9 C.D. 529), *Wier v. Tucker* (L.R. 14 Eq. 25), *Hickson v. Aylward* (3 Moll 14), *Lewis v. Morgan* (5 Price 42; 3 Anst. 269; 3 Cl. & F. 159 (*sub nom. Morgan v. Evans*), *Lawless v. Mansfield* (1 D. & War. 557), *M'Kellar v. Wallace* (8 Moore, P.C. 378). It will be convenient here to notice a further recent case on settled accounts. Where a purchaser reasonably for his own protection takes an objection purporting to go to the root of title, and the Courts eventually after long litigation hold that the title offered by the vendor was in fact good, the purchaser has committed a breach of duty towards the vendor in repudiating the contract, and that under these circumstances to plead a "settled account" is no defence to a claim for interest at 5 per cent. on the purchase-money under a clause in the conditions of sale. (*In re Bayley-Worthington and Cohen's Contract* [1909] 1 Ch. 648.) The question of bankers' accounts is dealt with fully by Dr. Heber L. Hart, K.C., in "The Law of Banking," Part II, pp. 145-258 (3rd Ed. 1914).

Partnership Accounts.

Section 28 of the Partnership Act, 1890 (53 & 54 Vict. c. 39), declares that "Partners are bound to render true "accounts and full information of all things affecting the "partnership to any partner or his legal representatives." This clause is usually inserted in partnership deeds, and it, apart from statute, represents a principle and an obligation—the obligation of *uberrima fides*—inherent in any partnership contract. As to this duty, see *Law v. Law* [1905], 1 Ch. 140; see also generally Pollock's "Digest of the Law of Partnership," 11th Ed. (1920), pp. 94-5, 133, 141. The right to an account as between partners, or between a partner and the personal representatives, or the trustee in bankruptcy of a partner, is undoubted. When a partner mortgages his share in a partnership and the mortgagee brings an action to realise his mortgage, the proper order is to direct an account of what the mortgagor's interest in the partnership was at the date when the mortgagee proceeded to take possession under his mortgage, that is, at the date of the writ; but if a dissolution of the partnership has previously taken place, the date of the dissolution is the date at which the account is to be taken. (*Whetham v. Davey*, 30 C.D. 574.) Again, if the partnership share is assigned with the consent of the other partners, the assignee is entitled to an account. (*Redmayne v. Forster*, 2 Eq. 467.) The right of a mortgagee of a partner's share to an account is an independent right given by the Partnership Act, 1890, s. 31 (2), and not depending upon the partnership deed (*Bonnin v. Neame*, [1910] 1 Ch. 732.) In certain cases the beneficiaries under the will of a deceased partner can have an account against the surviving partners (*Travis v. Milne*, 9 Hare, 141), but, as a rule, their remedy is against the personal representatives of the deceased partner. (See also *Stainton v. Carron Co.*, 18 Beav. 146, and, generally, "Williams on Executors," 11th Ed. (1921), p. 1633.)

"The account which a partner may seek to have taken "may be either a general account of the dealings and "transactions of the firm, with a view to a winding-up of "the partnership; or a more limited account, directed to "some particular transaction as to which a dispute has "risen." (Lindley, p. 571, 8th Ed. (1912).) There is no longer any iron rule that accounts can only be taken by the Court in partnership with a view to a dissolution, but the rule will be followed unless there is a good reason for departing from it. Lord Justice Lindley gives "three "classes of cases in which actions for an account, with"out a dissolution, are more particularly common" (p. 572).

"1. Where one partner has sought to withhold from his co-partner the profit arising from some secret transaction.

"2. Where the partnership is for a term of years still unexpired, and one partner has sought to exclude or expel his co-partner or to drive him to a dissolution.

"3. Where the partnership has proved a failure, and the partners are too numerous to be made parties to the action, and a limited account will result in ustice to them all." As to this case it is remarked in a footnote: "Such a case cannot often arise now; see Companies (Consolidation) Act, 1908, s. 1, re-enacting Companies Act, 1862, s. 4."

Where the partnerships of the various partners in one concern began at different dates, the Court will order, upon the bankruptcy of all the partners, the making of separate accounts, and that each estate shall first bear its own debts. (*Ex parte Marlin*, 2 Bro. C.C. 15) In an action to take accounts of a partnership where the partnership is admitted, and no other question is in issue except the accounts, accounts of the partnership dealings may be ordered to be taken before the trial of the action (*Turquand v. Wilson*, 1 C.D. 85.) If a partner's private transactions are mixed up with the Partnership Accounts the whole accounts must be produced, unless they can be satisfactorily severed. (*Pickering v. Pickering*, 25 C.D. 247.) It must, however, be noticed that a person cannot be compelled to produce books which belong jointly to himself and other persons who are not before the Court (see *Murray v. Walter*, Cr. & Ph. 114); but the doctrine laid down in this case "does not apply to cases in which "the absent parties interested in the books are in fact "represented by the defendants on the record, and have "no interest in conflict with theirs (*Glyn v. Caulfield*, "3 Mac & G. 463); nor, it is said, to an action by a *cestui* "*que trust* against a trustee who is charged with trading "with trust moneys in partnership with other persons "not before the Court" (Lindley, p. 581; see *Vyse v. Foster*, 13 Eq. 602, and *Boulton v. Houlder Brothers & Co.* [1904] 1 K.B. 784); nor apparently to cases where books are kept jointly for an underwriter at Lloyd's and the "names" for whom he acts. (See *In re Burnand*, [1904] 2 K.B. 68.) We may note also that "the common order "does not entitle the person in whose favour it is made to "inspect by a professed accountant specially appointed "for the purpose; but if there is any necessity for so "doing, a special order for inspection by such a person "will be made." (*Bonnardet v. Taylor*, 1 J. & H. 383.) "Books in use for daily business are ordered to be pro- "duced at the place where they are usually kept; and "they will not be ordered to be deposited in Court unless "there is some special reason for so doing (*Mertens v.* "*Haigh*, Johns, 735)," (Lindley, 582). We also note that accounts kept by a clerk who was the agent of all the members of the partnership were received in evidence without his being called as a witness. (*Brierley v. Cripps*, 7 C. & P. 709.) This is also the place in which to notice the fact that "the partnership books are to be kept at "the place of business of the partnership (or the principal "place, if there is more than one), and every partner "may, when he thinks fit, have access to and inspect "and copy any of them" (Partnership Act, 1890, s. 24 (9)); and that "Partners are bound to render true "accounts and full information of all things affecting "the partnership to any partner or his legal representa- "tive" (s. 28). A solvent partner is entitled to retain the partnership books when the other has become bankrupt. (*Ex parte Finch*, 1 Deac. & C. 274.) "Where a "partnership has expired by efflux of time, and in a suit "for an account, &c., a receiver has been appointed before "decree, the Court will not compel defendant (the former "managing partner) to deliver up to receiver, for the "purpose of making out bills of costs, partnership books "and accounts which have remained in his hands, and "title deeds belonging to a third person which came into "the possession of the co-partners as solicitors, such "defendant offering the receiver free access thereto, "and to assist in making out such bills." "Digest of English Case Law," Vol. 10, cols. 494-5. (*Dacie v. John*, 13 Price, 446.) The Limited Partnerships Act, 1907 (7 Edw. VII, c. 24), and the Limited Partnership (Winding-up) Rules, 1909, will in time introduce considerable modification into the law, principles, and practice of Partnership Accounts. Thus in the case of *In re Hughes & Co.* [1911] 1 Ch. 342, it was held that where a limited partnership was being carried on at a loss, and the general partner, who had made several drawings on account of profits, refused, without any sufficient reason, to sign the annual general account, under which drawings in excess of profits would be repayable, and otherwise acted in a way calculated prejudicially to affect the carrying on of the business, the limited partner was entitled to a winding-up order under the Companies (Consolidation) Act, 1908, s. 268, subsec. 1, cl. vii. (See also Pollock's "Digest," [1920], pp. 211-244.) It is of interest to note that the County Courts of Cornwall now have exclusive jurisdiction to wind up a partnership of two persons formed to work Cornish mines where such partnership is a "company" within the meaning of ss. 2 and 28 of the Stanneries Act, 1887, but is nevertheless excluded from the provisions of the Act of 1887 by s. 1 (2) (c) of the Partnership Act, 1890.

With respect to the defences to an action for an account and discovery between partners, Lord Justice Lindley, in his book (p. 584), deals with six defences, in addition to "the defence on the ground of illegality, of fraud, of "laches on the part of the plaintiff, and of want of proper "parties to the action." These six are :—(1) Denial of partnership; (2) Statute of Limitations; (3) Account stated; (4) Arbitrator's award already given on the matters of difference between the parties; (5) Payment and accord and satisfaction—*i.e.* "payment of a sum of money, and acceptance of it in lieu of all demands"; (6) A release of all claims under seal. A release can, of course, be set aside on certain well-known grounds, and, if set aside, it ceases to be a defence. Forms of decrees relating to Partnership Accounts are to be found in Seton's "Judgments and Orders" (7th Ed., 1912), pp. 2090-2135.

The question of Partnership Accounts is materially affected by Section 29 and 30 of the Partnership Act, 1890.

Section 29 provides that "(1) Every partner must "account to the firm for any benefit derived by him "without the consent of the other partners from any "transaction concerning the partnership, or from any "use by him of the partnership property, name, or business "connection. (2) This section applies also to transac-"tions undertaken after a partnership has been dissolved "by the death of a partner, and before the affairs thereof "have been completely wound up, either by any surviving "partner or by the representatives of the deceased "partner." (See the case of *Hill v. Fearis* ([1905] 1 Ch. 466), which decided that the goodwill of a stockbroker's business is an asset of the firm and a matter of account.) Section 30 provides that "if a partner, without the "consent of the other partners, carries on any business "of the same nature as and competing with that of the "firm, he must account for and pay over to the firm all "profits made by him in that business." This does not, however, apply to profits made by a partner in a business that he carries on in breach of a covenant not to carry on any other business, but which is not in competition with the partnership business. (*Aas v. Benham* [1891] 2 Ch. 244.)

The principles on which the accounts of a trading company should be kept, and the profits ascertained, are laid down in *Lubbock v. British Bank of South America* (1892, 2 Ch. 198) and *Bolton v. Natal Land and Colonisation Company* (1892, 2 Ch. 124). In the first case, a banking company, with a paid-up capital of £500,000, sold part of its undertaking for £875,000; after deducting the paid-up capital and other incidental expenses there remained a net balance of £205,000. This sum was held to be profit on capital and not part of the capital itself, and might be carried to Profit and Loss Account, and, after such an appropriation to the Reserve Fund as the directors thought proper, be distributed as dividends. Mr. Justice Chitty in this case dealt at length with the general principles on which the accounts of a trading company should be kept. On these questions of accounts the case of *Lee v. Neuchâtel Asphalte Company* (41 C.D. 1) should also be referred to, and "Lindley on Companies," pp. 544 *et seq.* 598, 600, 805 (Ed. 6: 1902), together with "Lindley on Partnership," p. 459 *et seq.* (Ed. 8).

The following decision in an action for account decided on appeal from South Africa by the Privy Council (*Trimble v. Goldberg*, [1906] A.C. 494) is important. The respondent and the two appellants bought as partners part of certain properties offered for sale. Subsequently the residue of those properties was purchased by the appellants without the knowledge of the respondent, who brought a suit for an account of the property so purchased. The Supreme Court of the Transvaal held that the purchase was secret and injurious to the common interest of the partners, and that the respondent was entitled to share in the benefit of the purchase, despite the fact that it did not come within the scope of the partnership. The Privy Council reversed this decision, stating that it could not be supported on authority and was opposed to the decisions in *Dean v. MacDowell* (8 C.D. 345) and *Cassels v. Stewart* (6 App. Cas. 64); and that it could not be supported on any recognised equity. The purchase, not being within the scope of the partnership, was not shown to have been in rivalry or any other connection therewith, nor in any way injurious thereto.

The method of dealing with accounts on a dissolution of partnership is set forth in Section 44 of the Partnership Act, 1890. "In settling accounts between the partners "after a dissolution of partnership, the following rules "shall, subject to any agreement, be observed :—(*a*) "Losses, including losses and deficiencies of capital, "shall be paid first out of profits, next out of capital, "and lastly, if necessary, by the partners individually "in the proportion in which they were entitled to share "profits; (*b*) the assets of the firm, including the sums "if any, contributed by the partners to make up losses "or deficiencies of capital, shall be applied in the follow-"ing manner and order :—(1) In paying the debts and "liabilities of the firm to persons who are not partners "therein; (2) In paying to each partner rateably what is "due from the firm to him for advances as distinguished "from capital; (3) In paying to each partner rateably "what is due from the firm to him in respect of capital; "(4) The ultimate residue, if any, shall be divided among "the partners in the proportion in which profits are "divisible." (See "Lindley on Partnership," 8th Ed., pp. 685-7; Pollock's "Digest" (1920), pp. 133-144; and see also ss. 24 (1) and (3) and 39 of the Act.)

Section 44 has been considered in the case of *Garner v. Murray* (1904, 1 Ch. 57). In that case the plaintiff entered into partnership with the defendants Murray and Wilkins under a parol agreement that the capital of the business should be contributed in certain unequal shares, and that each partner should be entitled to one-third share of the net profits. The partnership was dissolved by order of the Court as from 30th June 1900. After payment of all debts due from the firm it was found that the assets would be insufficient to repay the capital by the sum of £897 3s. 8d. The deficit was due to the default of Wilkins, who failed to contribute his share of the deficiency of the assets to make good the capital. Each partner ought to have contributed one-third of the sum of £897 3s. 8d., and then the capital should have been distributed rateably among the partners. But as Wilkins could contribute nothing, how was the ultimate deficit to be borne by Garner and Murray? It was argued that each partner ought to bear an equal loss, but Joyce, J., rejected this contention. "When the Act "says losses are to be borne equally it means losses "sustained by the firm It cannot mean that the "individual loss sustained by each person is to be "of equal amount. There is no rule that the ultimate "personal loss of each partner, after he has performed "his obligations to the firm, shall be the same as or "in any given proportion to that of any other "partner. I have to follow the Act, and I see no "difficulty in doing so in this case. The assets must "be applied in paying to each partner rateably what "is due from the firm to him in respect of capital, "account being taken of the equal contributions to "be made by him towards the deficiency of capital. "There is not, in my opinion, anything in the authorities "cited or in the passage in Lindley on Partnership [6th "Ed., p. 601; 8th Ed., p. 687], to which reference has "been made, that is inconsistent with the result which "I have stated." The true principle of the division of assets is therefore for each partner to be treated as liable to contribute such a share of a capital deficiency as he would take in profits (in this case one-third), and then for the assets to be paid to each partner rateably in respect of capital.

The following form of judgment exhibits the process followed in the case of a dissolution caused by the death of a partner. "Order that the following, &c.: (1) An "account of all dealings and transactions between W., "deceased, the testator in the pleadings named, and the "defendant, as bankers and co-partners; and it is "ordered that what, upon taking the said account, shall "be certified due from the testator be answered by the "plaintiffs, as the executors of his will, out of his assets; "(2) And in case the plaintiffs shall not admit assets of "the testator come to their hands"—Account against them of his personalty and inquiry as to realty—Settled accounts not to be disturbed. (Seton, 7th Ed. (1912), p. 2114.)

The usual accounts of a deceased partner's personal estate in an action by beneficiaries are ascertained by "an "inquiry what was the amount of the testator's capital, "stock-in-trade, credits, debts, and liabilities in the "partnership trade or business of, &c., in the pleadings "mentioned, on the footing of the deed of, &c. An "inquiry whether any, and which, of the debts due to, "the said partnership at the date of the said deed remained "unpaid, and under what circumstances, and whether "any, and what, steps ought to be taken for recovering "the same; an account of the business, and of the profits "and losses thereof, in each year since the testator's "death; an inquiry what is the present amount of the "capital, and of the credits, debts, and liabilities of the "said business, and how much capital has been derived." (Seton, p. 2130.) It may finally be noted that to an action by beneficiaries against the representatives of a deceased partner for a general partnership account, all the surviving partners must be made parties. (*Vyse v. Foster*, L.R. 7, H.L. 318; and see Pollock's "Digest" (1920), pp. 133-140.)

The question as to the right of a partner to inspect accounts through an agent was decided in the case of *Bevan v. Webb* ([1901] 2 Ch. 59). "That was a case "relating to the construction of articles of partnership, "and also incidentally to Section 24, Subsection 9, of the "Partnership Act, 1890, which confers on partners the "right to inspect the partnership books. The question "raised was whether the right was a personal one, or "whether it could be exercised on behalf of a partner by "an agent appointed by him for the purpose, and it was "held that the right was one which might be exercised not "only personally, but by an agent under proper con-"ditions." Mr. Justice Parker makes this statement as to that case in *Norey v. Keep* ([1909] 1 Ch. 561), in which the learned Judge followed *Bevan v. Webb*. In the case of *Norey v. Keep* certain members of a registered trade union and of the council of the union claimed against other members of the council that each of the plaintiffs was entitled to inspect, by his accountant or firm of accountants, such books and accounts and list of the members as he was entitled under the Trade Union Acts to inspect. By the Trade Union Act, 1871, Section 14, and Schedule I, Clause 6, the rules of a registered trade union must contain provisions in respect of "the inspec-"tion of the books and names of members of the trade "union by every person having an interest in the funds of

" the trade union." Consequently the rules of the union in question provided that its books and accounts and list of members should be " open to the inspection of all the " members thereof, and of all persons having an interest " in the funds, in accordance with the Trade Union Acts." In deciding the case, Parker, J., said: " When one " considers that members of a society of this kind are not " by reason for their training, any more than I am, really " competent to examine the accounts, or to obtain proper " information from them, it is plain that the object with " which the right of inspection is conferred by the Legis- " lature and by rules would be almost, if not entirely, " defeated if the right were held to be a personal right " only. How are persons who are dissatisfied and suspect " the accuracy of the accounts to satisfy themselves by a " personal inspection? Large sums pass through the " hands of this society, and dealings with these sums are " necessarily of a somewhat complicated nature and " involve numerous small payments, and probably the " books of a society of this kind are in consequence " voluminous. How an untrained man can from such " books find out whether what he suspects is true, or " whether he is mistaken, without resorting to some " person of training, who is able, because of his training, " to examine the accounts and draw inferences from " them, and trace payments, I confess that I fail to see, " and it appears to me that if I were to hold that the " right of inspection was only a personal right I should be " practically defeating the object with which the right " was given. It is also obviously more convenient for a " purpose of this kind that one person should examine " the books than that a number of persons should do so." The learned Judge, therefore, held that members of the society were entitled to inspect the books and accounts by means of an accountant employed by them for the purpose, the accountant undertaking that the information obtained would only be used for informing his clients of the result of his examination. It is obvious that the principles laid down by Mr. Justice Parker extend to many other cases besides the case of trade unions.

Accounts in the Winding-up of Estates.

One of the first duties of an executor is to be prepared with his accounts of the estate of the deceased, and to neglect this duty is a ground for charging him with interest. (*Pearse v. Green*, 1 J. & W. 140.) The accounts must be kept clear and distinct, and if the executor allows these accounts to become mixed with his own trading accounts he cannot refuse to produce such account books. (*Freeman v. Fairlie*, 3 Mer. 44; but see *Taylor v. Rundell*, C.R. & Ph. 111.) It must further be remembered that a legatee, though he has no right to a copy of the estate accounts at the expense of the estate, has a right to inspect such accounts and to have a satisfactory explanation of the position of the estate assets. (*Ottley v. Gilby*, 8 Beav. 602.)

It would seem in view of the provisions of the Land Transfer Act, 1897 (Sections 1 (1) and 2 (2) and 2 (3), that this rule also applies to an heir and devisee of real estate. See also on this point " Lewin's Law of Trusts " (12th Ed., 1911), pp. 877-8. These sections must be set out here, as it would certainly appear that this Act has cast further duties as to accounts upon the personal representatives of a deceased person:—

> Section 1 (1) " Where real estate is vested in any person without a right in any other person to take by survivorship it shall, on his death, notwithstanding any testamentary disposition, devolve to and become vested in his personal representatives or representative from time to time as if it were a chattel real vesting in them or him."

> Section 2 (2) " All enactments and rules of law relating to the effect of probate or letters of administration as respects chattels real, and as respects the dealing with chattels real before probate or administration, and as respects the payment of costs of administration and other matters in relation to the administration of personal estate, and the powers, rights, duties, and liabilities of personal representatives in respect of personal estate, shall apply to real estate so far as the same are applicable, as if that real estate were a chattel real vesting in them or him, save that it shall not be lawful for some or one only of several joint personal representatives, without the authority of the Court, to sell or transfer real estate."

> Section 2 (3) " In the administration of the assets of a person dying after the commencement of this Act, his real estate shall be administered in the same manner, subject to the same liabilities for debts, costs, and expenses, and with the same incidents, as if it were personal estate; provided that nothing herein contained shall alter or affect the order in which real and personal assets respectively are now applicable in or towards the payment of funeral and testamentary expenses, debts, or legacies, or the liability of real estate to be charged with the payment of legacies."

It is therefore conceived that until the real estate (as defined in the Act) is vested in the heir or devisee the personal representatives have the same duty to account for rents and profits as in the case of leaseholds. This will frequently involve a considerable increase of responsibility in the matter of accounts on the part of the personal representatives. It may be noted here that "trustees can, where they are required to furnish accounts "in respect of their trust estate, demand to be paid or "to be guaranteed the costs of doing so before complying: "it makes no difference that one of the trustees is a "solicitor." (*Re Bosworth*, 58 L.J. Ch. 432; and see "Williams' Law of Executors and Administrators," 11th Ed. (1921), p. 1607.) An executor "must account for "all profits which have accrued in his own time, either "spontaneously, or by his acts, out of the estate of the "deceased." (Williams, p. 1465.) Thus profits may accrue after the death of the testator by contract, by remainder, by increase, and by condition ("as where a "lease for years, or cattle, plate, or other chattel, was "granted by the testator, upon condition that if the "grantee did not pay such a sum of money, or do other "acts, &c., and this condition is broken or not performed "after the testator's death, the chattel will be brought "back to the executor, and be assets." Williams, p. 1274.) Moreover, all profits derived by the executor from his office, as where he abandoned it in favour of another for a valuable consideration, must be brought into account. (Williams, p. 1465, note (m).) All profits derived from the carrying on of the testator's business or trade must be brought into account. Moreover, "if a partner in a trading firm dies, and if he constitutes "one or more of his co-partners his executors, and if "there is nothing special in the contract of co-partnership, "and if the assets of the testator are not withdrawn from "the co-partnership, but are left in it, and no liquidation "is arrived at, no settlement of accounts come to, it is a "trite and familiar rule in the Court of Chancery to hold "that the estate of that testator is to all intents and "purposes entitled to the benefit of a share of the profits "which are made in the trade after his death." (Lord Cairns, L.C., *Vyse v. Foster*, 7 H.L. 318; and see s. 42 (1) of the Partnership Act, 1890; and Williams, 11th Ed. [1921], pp. 1467-8.)

The general principle is that accrued profits in the hands of an executor must be accounted for, while any losses due to the laying out of the assets on private securities cannot be recouped out of the assets. A Court of equity "will compel an executor or administrator in "the same manner as it does an express trustee, to discover "and set forth an account of the assets, and of his applica- "tion of them: and, even in a case where the testator "directed that the executor should not be compelled "by law to declare the amount of a residue bequeathed "to him, the Court directed an account against him," (*Gibbons v. Dawley*, 2 Ch. Cas. 198; Williams, 1590.) In order to secure the assets, the Chancery Court will, before probate or letters of administration have been granted, in exceptional circumstances appoint a manager or receiver or both. Moreover, if "in the case of an "executor or administrator, any misconduct, waste, or "improper disposition of the assets is shown, or if he is "out of the jurisdiction, the Chancery Division will "instantly interfere and appoint a receiver. So the "bankruptcy of a sole executor and trustee is a ground "for such an appointment." (Williams, p. 1596.) The Court will not appoint a receiver merely to deprive an executor of his right of preference (*Re Stevens*, [1898] 1 Ch., at pp. 173-4), nor because the executor may, and probably will, exercise his right of retainer to the prejudice of the general body of creditors, unless, indeed, the assets are being wasted (*Re Wells*, 45 C.D. 569), and the administration is not to be taken from the executor upon slight grounds. An executor who is a surety for an unpaid debt of the deceased cannot exercise his right of retainer in respect of his liability as surety until he pays the debt, and then only to the extent of the assets in his hands at the time of payment. (*In re Bevan* [1913] 2 Ch. 595.) An executor can set off a legacy against a debt owing to the estate by the legatee, but not when the debt is owed by a partnership of which the legatee is a member. (*Turner v. Turner* [1911] 1 Ch. 716.) "The Court has "no jurisdiction to order, in a summary way, the executor "of a deceased receiver to bring in and pass his testator's "accounts, and pay the balance to be found due out of "the assets." (*Jenkins v. Briant*, 7 Sim. 171; Williams, 1596.) As to the protection afforded to executors carrying on a testator's business under the provisions of the will and with the assent of the creditors, see the decision of the House of Lords in *Dowse v. Gorton* ([1891] A.C. 190), *Brooke v. Brooke* ([1894] 2 Ch. 600), and *Newton v. Rolfe* ([1902] 1 Ch. 342.)

One of several executors may settle an account with any person accountable to the testator's estate, and in the absence of fraud this settlement will bind the other (even though dissenting) executors (*Smith v. Everitt*, 27 Beav. 446; Williams, p. 709); but this does not seem to be the case where the executor personally gains by the settlement. (*Stott v. Lord*, 8 Jur. N.S. 249.) One of two executors may sue the other for an account and payment of moneys owing to the testator. (*Peake v. Ledger*, 8 Hare, 213; "Walker on Executors," 5th Ed. [1920], p. 202.) It is further pointed out that, "where a "residuary legatee brought an action to have executors' "accounts taken, in consequence of their insisting on the "correctness of the accounts rendered by them in spite "of specific objections raised to them by the legatee, and "such objections were sustained, the Court ordered the "executors to pay the costs of the action." (*Pearce v. Radclyffe*, 29 W.R. 420; "Walker on Executors," [1920], p. 210; and see *Cattley v. West* [1904] 2 Ch. 785.) "A residuary legatee who asks the executor for "her share of the residue is like a person who brings an "action for money had and received on her account. It "is no more than that. Being an executor he has a "right to have the account taken. He is in no better "position than if he were only a defendant to an action "for money had and received." (*Pearce v. Radclyffe*, 29 W.R. 421, per Bacon, V.-C.) "Where an accounting "party destroys the accounts before the matters have "been finally adjusted, and, still more, pending a litiga-"tion, the Court will presume everything most unfavour-"able to him consistent with the established facts." (*Gray v. Haig*, 20 Beav. 219; and see *White v. Lady Lincoln*, 8 Ves. 363; Walker, p. 210.) Where a judgment or order is made directing an account of legacies, interest is computed on such legacies after the rate of 4 per cent. per annum, from the end of one year after the testator's death, unless otherwise ordered, or unless any other time of payment or rate of interest is directed by the will, and in that case according to the will. (Order LV, r. 64.) Interest on a legacy charged on real estate runs from the date of death (*Turner v. Buck*, L.R. 18 Eq. 301; and see *Re Waters*, 42 C.D. 517), but where the legacy is payable at a future date interest only runs from that date (*Lord v. Lord*, L.R. 2 Ch. 782; see, however, *In re West* [1913] 2 Ch. 345); but when the legacy is directed to be paid *before* a future date, the usual rule applies. (*Re Olive*, 53 L.J. Ch. 525; and see *Re Blackford*, 27 C.D. 676, and *Re Bignold*, 45 C.D. 496.) The rule of practice stated in *Earl of Mansfield v. Ogle* ([1859] 4 De G. & J. 38) that as a general rule no interest will be allowed on arrears of an annuity, though applicable in the case of a foreclosure or a redemption action as between incumbrancers and as against the property charged, does not apply to the working out of a judgment in an action for the administration of the estate of the grantor of an annuity. (*In re Salvin* [1912] 1 Ch. 332.) There is no rule that where a legacy is payable out of a reversionary fund interest does not run until the reversion falls in, and such a legacy, apart from express directions, carries interest from the expiration of a year from the testator's death. (*Walford v. Walford* [1912] A.C. 658; and see the rule in *Lord v. Lord*.) Advancements to children bear interest as from date of death only, or even later. (*Stewart v. Stewart*, 15 C.D. 539; *In re Willoughby* [1911] 2 Ch. 581.) Generally in the case of debts to an estate where an account is ordered, the debts that carry interest shall carry their own rate of interest, and all others the rate of 4 per cent. per annum from the date of the judgment or order. (Order LV, r. 62.)

We now turn to the question of accounts for probate, which must be referred to here, though it cannot be dealt with fully. Reference should in cases of difficulty be made to practice books—such as "Tristram and Coote's Probate Practice" (15th Ed.), or "Bennett's Practitioner's Guide" (3rd Ed.)—on the subject.

In the executor's oath (swearing to the will) the executors pledge themselves to "exhibit a true and "perfect inventory of the said estate, and render a just "and true account thereof whenever required by law so "to do." Where probate is granted, but power is reserved for other executors to come in and prove, a copy of the account of the estate identical with that to be attached to the Inland Revenue affidavit must be brought in and annexed to the oath. This affidavit varies in form to meet the special circumstances of the case. Thus, in cases where the deceased died after 1st August 1894, and only personal property passes on the death, the form used is the one known as Form A-4. This form, in paragraph 3, runs as follows:—"The account marked 'A' "hereto annexed, is a true account of the particulars and "value, as at the date of the deceased's death, so far as "I ——— have been able to ascertain the same, of all "the personal property of the deceased, whether in "possession or reversion, within the United Kingdom, "exclusive of what the deceased may have been possessed "of or entitled to as a trustee and not beneficially, but "including personal property over which the deceased "had and exercised an absolute power of appointment." The Finance (1909-10) Act, 1910, and the Finance Act, 1914, have amended the rates of Legacy Duty and Succession Duty. It is to be noted that in pursuance of the Finance Act, 1894, Section 8 (3), executors must set forth in the accounts annexed to the affidavit *all* the property liable to duty, though they are only responsible for estate duty in respect of the personal property (whereever situate) that the deceased could dispose of at his death. As we have noted above, the Land Transfer Act, 1897, affects the question of executors' accounts, but it throws no new responsibility for duty on the executors. The affidavits referred to above apply equally in the case of a will or an intestacy. The special account forms issued by the Inland Revenue under the Finance Acts (as amended and extended by the Finance (1909-10) Act, 1910, and the Finance Act, 1914) should be referred to if it is desired to appreciate a method of accounts designed to secure a return of all kinds of property liable to duty. The Acts of 1910 and 1914 have amended the rates of Estate Duty and Settlement Estate Duty and has imposed a new burden on land on the occasion of the death of any person interested in it, namely, increment value duty, which is, under Section 5, collected as if it were Estate Duty. The third part of the Act of 1910 (Sections 54-64) and the third part of the Act of 1914 (Sections 12-16) deal fully with the question of death duties. The one mercy vouchsafed to the rich by Sir William Harcourt, D2, is what is ominously known as a Corrective Account. The Death Duties (Killed in War) Act, 1914, afforded some necessary temporary ameliorations. The question of the carrying in of residuary accounts cannot be dealt with here; it is a special art, and is a peculiar branch of solicitors' work, turning rather upon questions of arrangement than questions of form. (See generally "Hanson's Death Duties," 6th Ed., 1911.)

Under certain circumstances executors and trustees may be allowed to employ accountants. Thus, in the case of *Henderson v. M'Iver* (3 Madd. 275), the Vice-Chancellor held "that from the nature of the accounts "the Executor was justified in employing an Accomptant, "and that the Expense ought to be allowed in his "Accounts." (See also *New v. Jones*, cited in "Lewin's Law of Trusts" (12th Ed. [1911], p. 786.) It must be remembered, however, that executors are only allowed to charge for the employment of an agent under very special circumstances. (*Weiss v. Dill*, 3 Myl. & K. 26.) In an administration action, the taking of elaborate accounts requiring the intervention of an accountant may be unavoidable. This class of action is provided for by Order LV, r. 3, of the rules of the Supreme Court. Rule 3 declares that "the executors or administrators of "a deceased person or any of them, and the trustees "under any deed or instrument or any of them, and any "person claiming to be interested in the relief sought as "creditor, devisee, legatee, next-of-kin, or heir at law, "or customary heir of a deceased person, or as *cestui que* "*trust* under the trust of any deed or instrument, or as "claiming by assignment or otherwise under any such "creditor or other person as aforesaid, may take out, as "of course, an originating summons returnable in the "Chambers of a Judge of the Chancery Division for such "relief of the nature or kind following, as may by the "summons be specified, and as the circumstances of the "case may require, (that is to say), the determination "without any administration of the estate or trust, of "any of the following questions or matters:—

"(*c*) The furnishing of any particular accounts by the "executors or administrators or trustees, and the vouching "(when necessary) of such accounts."

It was held in the case of *Re Dartnell* (1895, 1 Ch. 474) that a beneficiary under a will expectant on the death of a tenant-for-life had a right to particulars of the trust estate, and the investment thereof. Under this order (LV), Mr. Justice Kekewich has held that it is not necessary under an ordinary order for accounts in an administration action to vouch every item before the Master, as any items can be waived by the parties taking the accounts. (*In re Brown; Benson v. Grant*, [1895] W.N. 115 (9).)

Finally, three cases relating to accounts in administration actions may here be referred to. In the case of *Jones v. Morgan* (1893, 1 Ch. 304), where a trustee, defendant to an administration summons, alleged that he had expended the whole of the residue in educating and maintaining A., the residuary legatee, during his minority, which expired in 1880, the Court held that the residuary legatee's right to an account was barred by Section 8 of the Trustee Act, 1888. Compare with this case the decision in *Pole v. Pattenden* [1920] 1 Ch. 423 (C.A.) The third case, *Ellis v. Roberts* (1898, 2 Ch. 142), gives the form of order for account by trustees entitled to the protection given by Section 8 of the Trustee Act, 1888, against liability to render accounts extending beyond six years from the commencement of the action. The form was the form settled in the action of *Howe v. Earl Winterton* (1896, 2 Ch. 626), and approved by the Court of Appeal. It runs as follows:—

"And the defendant by his counsel admitting that on "the 9th August 1889"—six years before the issue of the writ—"there were moneys in his hands liable to the "trust for accumulation by the will of the testatrix "directed. This Court doth order that the following "account be taken, that is to say (1) an account of the "moneys in the hands of the defendant on the 9th August "1889, liable to the trusts for accumulation under the "will of the testatrix, Mary Rabett, and of the rents and "profits of the testatrix's estate subsequently received "by him in respect of the said term of fourteen years; "but in ascertaining the actual amount of the moneys in "the hands of the defendant on the date aforesaid, any "payments made before that date are to be allowed to "the defendant." This order was applied in the case of *Ellis v. Roberts* in view of the decision of the Court that the trustees' account should be limited to six years prior to the date of the summons. In the case of *In re Alsop* ([1914] 1 Ch. 1), trustees were relieved under Section 8 from a liability for the breach of trust arising from paying income to the widow instead of investing and accumulating. See also *In re Blow* ([1914] 1 Ch. 233), in which Section 8 of the Trustee Act, 1888, was a good defence by an executor to a creditor's administration action. An executor can plead the Act against a creditor in like manner as an express trustee can plead it against his *cestui que trust*.

LIABILITY TO ACCOUNT IN SPECIFIC CASES.

It will be convenient briefly to summarise here the more salient rules as to liability to account in specific cases, and as to the enforcement of such liability in the event of non-compliance.

(1) Executors and Administrators.

An executor or administrator must keep clear and distinct accounts of the property which it is his duty to administer, and of all profits which, *in any way*, have accrued during his period of office. Executors and administrators are charged with interest on the assets in their hands at the rate of 4 per cent., if they have been negligent in laying out the money for the benefit of the estate, or the profits can be claimed or 5 per cent. charged (in certain cases at compound interest, or with " rests " giving double compound interest), if they have used the money or estate to their own interest The right to an account is enforceable by an action brought in the High Court. (See generally Williams (11th Ed., 1921), pp. 1271, 1465-79.

A curious case of account (*Lawford v. Bruce* [1908] 1 Ch. 850) should be kept in mind by trustees and executors. A person (A.) entitled to a share in the residuary estate of a testator was also the sole residuary legatee of a debtor to the testator's estate. No payment or acknowledgment on account of either principal or interest had been made for over twenty years. The trustees of the testator's will refused to pay A. his share of the estate unless he brought into account against his share the money (with interest) owing to the testator's estate by the estate of which he was sole residuary legatee. Neville, J., held that the Statute of Limitations obviously did not apply to such a state of things, and that the trustees were entitled to say, as in the case of *Courtenay v. Williams* (1844, 3 Hare 539; 15 L.J. Ch. 204)," To the " extent of the debt and interest in your hands you must " pay yourself on account of your share in the residue of " the testator's estate." The Judge therefore ordered the debt to be brought into account, with interest thereon at 5 per cent. (the rate originally arranged) from the date of the last interest paid eighteen years before. This decision was reversed by the Court of Appeal, [1908] 2 Ch. 682, who distinguished the case of *Courtenay v. Williams* on the ground that there never was a legal liability, and that the debt and interest need not be brought into account as against A.'s share in his father's residuary estate. (See also Williams, p 1050.)

(2) Trustees under Wills, Settlements, and Trust Deeds.

Trustees (including agents and receivers, but see *Shields v. Bank of Ireland*, [1901] 1 I.R. 222) must render accounts when called upon to do so by beneficiaries, and must be always ready to do so. (*Catley v. West*, [1904] 2 Ch. 785.) If an action is rendered necessary by the neglect to keep accounts, the trustees will be liable in costs, at any rate up to the moment in the action when the accounts are produced. A solicitor trustee to whom the management of the trust has been left as the acting trustee is liable to indemnify his co-trustee against the costs of an action caused by his negligent conduct of the trust business, even where no actual loss has been thereby occasioned to the trust estate. (*Catley v. West*, [1904] 2 Ch. 785; *The Millwall*, [1905] p. 176. See also *Lockhart v. Reilly*, 25 L.J. Ch. 697; *Bahin v. Hughes*, [1886] 31 C.D. 390; *In re Turner*, [1897] 1 Ch. 536; *In re Mackay*, [1911] 1 Ch. 300; and *In re Alsop*, [1914] 1 Ch. 1.) The beneficiaries are entitled to inspect the accounts and vouchers, but not to a copy of them, at the expense of the trust estate. Trustees must, moreover, account unconditionally, and not upon terms, as to expenses not legally chargeable by trustees, though in some cases they are entitled to a guarantee against the expenses of rendering accounts. A disclaiming trustee or executor must account for any money that may have come into his hands. New trustees have the same liability as the old trustees in so far as liability is disclosed by the trust document and papers (*Hallows v. Lloyd*, 39 C.D. 686), and therefore it is essential for a person about to be appointed a trustee to see that the deed of appointment sets out fully all dealings with the estate previous to his appointment, in order that his liability shall in fact only run from his appointment. New trustees are not, however, liable to account with respect to matters of which they have no notice, actual or constructive. (See *Phipps v. Lovegrove*, L.R. 16, Eq. 80.) A retiring trustee is, of course, not liable to account in respect of matters occurring after his retirement. A trustee who acquiesces in the mode in which accounts are kept by his co-trustee, and allows beneficiaries to believe that he has sanctioned the mode, is responsible for the truth of the accounts, and, if the accounts are false, the Court can order him to make good the defalcations. If trustees can establish that a deceased trustee took an active part in the trust, an account may be ordered against his personal representatives. It must be remembered that concurrence by beneficiaries in breaches of trust is not a sufficent ground for a refusal to account on the part of the trustees. As to when Solicitors' Accounts are not admissible evidence against innocent trustees, and generally as to the responsibility of trustees where there has been an innocent breach of trust, see *Fountaine v. Lord Amherst* ([1909] 2 Ch. 382.)

It is necessary to distinguish between the accounts to be rendered by trustees respectively guilty of " wilful default " and of " breach of trust."

"In a case of wilful default, which is quite distinct "from active breach of trust, if wilful default is pleaded "and if a case is established, then the accounts are "directed on that footing. But why is that? It is "because there are two perfectly distinct classes of "accounts which are directed in cases of this kind—one "is the common account, and the other is the account "on the footing of wilful default; and if it is shown that "a trustee has been guilty of wilful default, then the "second of those forms of account is adopted, and not "the first . . . But in the case of a breach of trust "there is no general form of account which is substituted "for the common account." This statement of Mr. Justice Warrington in *Wrightson v. Cooke* ([1908] 1 Ch. 789) leads to the proposition that the rule which directs an "account on the footing of wilful default does not apply "to the case of breach of trust. The following cases deal with accounts on the footing of wilful default:—*Job v. Job.* (6 C.D. 562), *Mayer v. Murray* (8 C.D. 424), *In re Symons* (21 C.D. 757), *Smith v. Armitage* (24 C.D. 727).

Where a fund is settled upon a tenant-for-life and remaindermen, and is invested in accordance with the powers of the settlement upon a mortgage which proves to be insufficient for the payment of principal and interest in full, the sum realised by the security ought to be apportioned between the tenant-for-life and the remaindermen in the proportion which the amount due for arrears of interest bears to the amount due in respect of the capital debt. (*Barber's Company v. Grose-Smith*, [1904] 2 Ch. 160. See also *Broadwood v. Broadwood*, [1908] 1 Ch. 115; *Coaks v. Bayley*, [1911] 1 Ch. 171; *In re Pennington*, [1914] 1 Ch. 203; and "Godefroi on the Law of Trusts and Trustees," 4th Ed. 1915.)

Accounts must be rendered by trustees appointed under the Judicial Trustees Act, 1896. (See Section 1 (6), and Rule 14 of the Judicial Trustee Rules, 1897; and Seton, pp. 1278-82.) Provision is made under Section 13 of the Public Trustee Act, 1906 (6 Edw. VII, c. 55), for the investigation and audit of trust accounts not more often than once in twelve months by such solicitor or public accountant (other than a trustee or a beneficiary) as may be agreed on by the applicant and the trustees, or in default of agreement by the Public Trustee or some person appointed by him. The accounts can be inspected and copied by beneficiaries.

Where money is transmitted by a principal to an agent for investment in a specified manner, the agent must account as an express trustee of money so transmitted, and the Statute of Limitations is not a bar to an action. (*North American Land and Timber Co. v. Watkins*, [1904] 2 Ch. 233.) In this place it is proper to mention the case of *In re Finlay*, ([1913] 1 Ch. 565), in which it was held that where there is an open account between a broker and his client the broker is entitled on the death of the client to close the account at once and to sell all shares in respect of which he has entered into contracts on behalf of the client. In certain circumstances he can take over the shares himself at a valuation based on current prices, if the estate is not prejudiced.

The principle contained in the old case, decided in 1726, of *Keech v. Sandford* (Select Cases in Chancery, 61; 2 White and Tudor, 7th Ed., p. 693) is of importance. In that case A. bequeathed a lease to B. in trust for an infant. B., before the expiration of the term, applied to the lessor for a renewal for the benefit of the infant. The lessor refused to grant such renewal, but granted a lease to B. himself. The Court held that B. was a trustee of the lease for the infant, and must assign the same to him and account for the profits, but that he was entitled to be indemnified from the covenants contained in the lease. The principle of *Keech v. Sandford* has been extended to purchases of reversions on leasehold property when the leaseholds are renewable by custom (see *Phillips v. Phillips*, 29 C D. 673), but it has been held not to apply to the purchase of reversions on leaseholds where there is no right or custom of renewal. (See *Randall v. Russell*, 3 Mer. 190; *Longton v. Wilsby*, 76 L.T. 770.) In the case of *Griffith v. Owen* ([1907] 1 Ch. 195), Parker, J., extended the principle "to the purchase by a trustee or tenant-for-"life from a mortgagee exercising his power of sale of "property the equity of redemption in which is the "subject of the action." Where the purchase is for a sum that makes the equity of redemption valueless the case comes within the principle of *Keech v. Sandford* as applied to purchases of reversions.

(3) Liquidator of Company Wound up by the Court.

A liquidator appointed under the Companies (Consolidation) Act, 1908 (8 Edw. vii, c. 69), Sections 149-162, must account to the Committee of Inspection. Accounts must be kept in the prescribed form, and the Cash Book must be in the form approved by the Board of Trade. An account of receipts and payments (in a prescribed form) must be sent to the Board of Trade at least twice a year. (Section 155.) Such vouchers and information as the Board require must be furnished, and the Board may at any time require the production for inspection of any books and accounts kept by the liquidator. The Board causes the accounts sent to be audited. The accounts are also certified by the Committee of Inspection, and, with the certificate of audit, are filed in the High Court. A summary of such accounts is sent to all creditors and contributories. The inspection of books and papers of the company by creditors or contributories is regulated by Sections 156, 220, and 221 of the Companies (Consolidation) Act 1908. It should be noted that the directors of a company are agents and must keep full accounts. Provision for such accounts is usually made in the articles of association.

The Companies (Consolidation) Act, 1908, also provides (Section 112) for the appointment and remuneration of auditors; sets forth (Section 113) the powers and duties of auditors; makes provision (as shown above) for the appointment of liquidators, and for the audit of Liquidators' Accounts, and for the keeping of accounts by the Board of Trade in the winding-up of English companies, and for the audit of the same (Sections 231-6). See also the Companies (Winding-up) Rules, 1909, Rules 169 to 176, which deal with the accounts and audit in a winding-up by the Court.

(4) Accounts in Bankruptcy.

Until a trustee in bankruptcy is appointed the Official Receiver must keep a record of receipts and payments in a Cash Book in the form directed by the Board of Trade. "Every Official Receiver shall account to the Board of "Trade and pay over all moneys and deal with all "securities in such manner as the Board from time to 'time direct." (Bankruptcy Act, 1914, Section 74 (3).)

The following case (*In re Jones; ex parte Official Receiver*, [1908] 1 K.B. 205) is important, as it decides an unsettled point in the law of accounts in bankruptcy during the period preceding the appointment of the trustee. A receiving order against the debtor was made on 5th February 1907, and the next day the Official Receiver (under Section 12 of the Bankruptcy Act, 1883) appointed a special manager of the debtor's business until the trustee was appointed, an event that was delayed until 13th April 1907. The special manager, though frequently requested by the Official Receiver to render an account of his receipts and payments, neglected to do so, and at last, on 9th December 1907, the Official Receiver and trustee applied that the special manager might be ordered to file his accounts within four days. It was admittedly the duty of the special manager under Rule 344 of the Bankruptcy Rules, 1886, to account to the Official Receiver, and Subsection 5 of Section 102 of the Act of 1883 provides that when default is made by a trustee, debtor, "or other person," in obeying any order or direction given by the Board of Trade, or by an Official Receiver under any power conferred by the Act, the Court may order such defaulting trustee, debtor, "or other person" to comply with the order or direction so given. No such case as that of a special manager had, however, ever arisen under the section. Mr. Justice Phillimore held that the Court had jurisdiction under the section to make a four-day order for accounts against the special manager. The practice in the period preceding the appointment of a trustee is now governed by Part III (Sections 70-5) of the Bankruptcy Act, 1914. In the case of small estates not likely to exceed £300 in value the official shall be the trustee in the bankruptcy, and may, with the consent of the Board of Trade, act as if he had the permission of a Committee of Inspection (Section 129). Part IV of the Act of 1914 (Sections 84-95) deals fully with the questions of receipts, payments, accounts, and audit by the trustee.

The Court of Appeal has decided that a debtor has no right under any circumstances to inspect the trustee's Record Book in the bankruptcy, and the Court has no power to give him leave to do so. (*In re Solomons*, [1904] 2 K.B. 917.) Where a receiving order has been made against debtors in partnership, distinct accounts shall be kept of the joint estate, and of the separate estate or estates, and no transfer of a surplus from a separate estate to the joint estate on the ground that there are no creditors under such separate estate shall be made until notice of the intention to make such transfer has been gazetted. (Bankruptcy Rules, 1886 to 1914, 293.) In a more recent case where a client, a year after agreeing his solicitor's account, became bankrupt, and the solicitor claimed to prove for the principal and interest due under the covenant in the mortgage given by the client to secure the account less the value of the security, and also claimed to prove for the same principal sum on an account stated, it was held that, as between the trustee in bankruptcy and the solicitor, the trustee represented the general body of creditors, and was entitled to go behind the covenant in the mortgage and the stated account, and to require satisfactory evidence, before admitting the proof, that the claim for costs represented a genuine debt. It was, however, also held that as between the debtor and the solicitor the carrying of the agreed sum for costs into the Cash Account, and the subsequent statement of account between them, was equivalent to payment of the costs within the meaning of Section 41 of the Solicitors Act, 1843, and that there were no special circumstances which entitled the debtor to require delivery of a detailed bill for taxation. (*In re Van Laun*, [1907] 1 K.B. 155.) As to revesting of surplus assets in a debtor, see *Flower v. Lyme Regis Corporation*, ([1920] 65 S.J. 133; 37 T.L.R. 145 C.A.)

An underwriter at Lloyd's carried on an underwriting business on behalf of himself, and also on behalf of five other persons, called his "names." An agreement existed between him and each of his "names" stipulating that proper underwriting and account books should be provided and kept in the usual manner, and should at all times be open to the inspection of the " name." The " name " paid the underwriter a fixed annual sum for his services in respect of the business, the office, and the bookkeeping. The underwriter kept books of account relating to the transactions in which he was jointly interested with the " names," or any of them, there being in the books six parallel columns, one for each " name," and one for the underwriter himself. On the underwriter becoming bankrupt (the books at the time being in the possession of accountants), it was held by the Court of Appeal that the " names " had a joint property in the books with the bankrupt, and that the trustee in bankruptcy was not entitled to have the books delivered up to him, but that the " names " must undertake to give the trustee reasonable facilities for inspecting the books. (*In re Burnand*, [1904] 2 K.B. 68.)

(5) Trustee under Deed of Arrangement.

Deeds of arrangement must be registered under the Deeds of Arrangement Act, 1914, with the Registrar of Bills of Sale, in the Central Office of the Supreme Court. (See also " Williams' Bankruptcy Practice," pp. 772 *et seq.*, 11th Ed., 1915, which deals fully with the Consolidation Act of 1914.) They include—

(*a*) An assignment of property.

(*b*) A deed of or agreement for a composition.

(*c*) A deed of inspectorship by creditors, entered into for the purpose of carrying on or winding-up a business.

(*d*) A letter of licence from the creditors authorising the debtor, or any other person, to manage, carry on, realise, or dispose of a business, with a view to the payment of debts.

(*e*) Any agreement or instrument entered into by the creditors for the purpose of carrying on or winding up the debtor's business, or authorising the debtor, or any other person to manage, carry on, realise, or dispose of the debtor's business, with a view to the payment of debts.

Deeds under (*c*), (*d*), and (*e*) apply only to cases where creditors of the debtor obtain any control over his property or business. In a deed under (*c*)—an " inspectorship deed "—a special power is sometimes given to employ a professional accountant to assist in carrying on or winding-up the business. Such accountants are agents of the debtor and not of the creditors, who are not liable for the misfeasance of the accountant. (*Hobson v. Jones*, L.R. 9 Eq. 456.) But the inspectors (*i.e.* chief creditors) are, as a rule, liable to pay for the services of the person they employ, including, of course, such accountants. (*Wardell v. Jackson*, 1 F. & F. 452.) Inspectors must account properly. (*Chaplin v. Young*, 33 Beav. 330; and see Lawrence on " Deeds of Arrangement," 7th Ed. (1914).)

By Section 13 of the Deeds of Arrangement Act, 1914, every trustee under a deed of arrangement shall within thirty days of 1st January in each year transmit to the Board of Trade (or as they shall direct) an account of his receipts and payments as such trustee, in the prescribed form, and verified in the prescribed manner. This provision, on the application of the Board of Trade, may be enforced by the Judge of the High Court to whom bankruptcy business has been assigned. The term " trustee " includes any person appointed to distribute a composition, or act in any fiduciary capacity under any deed of arrangement. The accounts submitted to the Board of Trade in pursuance of this section shall be open to the inspection of the debtor or any creditor or other person interested on payment of the prescribed fee. The method of keeping the accounts by the trustee, with forms, is prescribed by rules issued under Sections 14 and 15 of the Deeds of Arrangement Act, 1914, and the Bankruptcy Act, 1914.

(6) Accounts between Mortgagor and Mortgagee.

A mortgagee is entitled to an immediate account of his principal, interest, and costs, and to have a day fixed for payment or foreclosure. The case of *Bonnin v. Neame* ([1910] 1 Ch. 733) raised an important question as to the right of mortgagees of a share in a partnership to an account. The partnership deed included a power for any two partners to determine by notice the partnership as far as the third partner was concerned, if he did not keep up his capital. In this case the third partner mortgaged his share, and subsequently due notice of dissolution was given him, and the partnership was determined so far as he was concerned. Questions arose as to the right of the continuing partners to purchase the share of the outgoing partner, and as to the amount of his interest in the goodwill, which depended on the construction of the partnership deed. The deed contained a clause for arbitration " if any difference shall arise between the said partners " or between one or more of them and the executors or " administrators of the others or other of them or between " their respective executors or administrators." The two partners appointed an arbitrator and required the third to do the same. He did so, and an umpire was appointed. The mortgagees brought an action against all three partners for (*inter alia*) an account of the mortgagor's share and interest as from the date of dissolution, and payment of what should be found on taking such account to represent or be payable in respect of such share and interest. Mr. Justice Swinfen Eady refused to grant a stay of proceedings under Section 4 of the Arbitration Act, 1889. He held that the mortgagees of the share would not be bound by the result of any account taken in the arbitration, since the arbitration clause did not in terms provide (as the Arbitration Act provides) for any person claiming through or under the partners; that they could not be compelled to come into the arbitration; that they were independently entitled to an account under Section 31 (2) of the Partnership Act, 1890. "If I were to determine that they were bound by an account taken as "between the partners, it would be not to allow them the "right which the statute confers upon them. They are "entitled to an account, and to hold that they are to be "bound by an account taken in their absence and that "unless they can show some fraud or some manifest error "they are not to be entitled to come to the Court for an "account, would be to ignore the language of the statute "altogether" (p. 738).

Until the legal mortgagee takes possession, neither the mortgagor remaining in possession, nor his assignees in bankruptcy, nor a person holding under a mere voluntary trust for the mortgagor, need account to the mortgagee for the rents and profits. A mortgagee in possession must be diligent in realising the amount due on the mortgage. He is liable to account for the rents and other profits during his possession (and in taking such an account the State of Limitations is no bar) unless he can enter into possession under such an agreement with the mortgagor for possession at a fixed rent as the Court will uphold. The mortgagee must account to those who are interested in the equity of redemption, and he cannot by any dealing with the estate relieve himself from this liability. A mortgagee in possession is liable to account to a second mortgagee for so much of the surplus rent as he has paid to the mortgagor; but this is only from notice given of the subsequent mortgage. In the case of *Noyes v. Pollock* (30 C.D. 336) the Court of Appeal held that an account against a mortgagee in possession must show not only what a mortgagee receives from his agent, but what the agent himself received from the tenants, since without the knowledge derived from such an account the plaintiff would be unable to proceed with an inquiry as to wilful default, which is a matter of surcharge. The Court of Appeal also held that the death of the agent could not excuse a mortgagee from this liability. Any incumbrancer can, of course, ask for accounts against the mortgagor. An assignee or subsequent incumbrancer of the equity of redemption stands in the position of the mortgagor in the matter of accounts.

The purchaser in good faith of a mortgage debt is entitled to the entire debt, and not merely what he gave for it, and there is no right against him for an account of what he has paid for his purchase. So if the reversioner in fee purchases the first of several mortgages for less than is due on it, he may hold it for all that is due on it, and the puisné incumbrancers have no account against him (see "Fisher on Mortgages, 6th Ed. (1910), pp. 879-80), save where the purchaser is in a fiduciary capacity. An assignee of a mortgage is bound by the state of accounts between mortgagee and mortgagor. (See also "Lewin's Law of Trusts, 12th Ed. (1911), p. 311), and "Coote's Law of Mortgages," 8th Ed. (1912), p. 851.)

(7) Patentees' Accounts.

A patentee should keep exact accounts, showing in detail the profits he has derived from the patent, if he purposes applying for a prolongation of his patent. Lord Cairns, in *Saxby's Patent* (L.R. 3 P.C. 292), said, on this subject: "It is the duty of every Patentee who comes "for the prolongation of his Patent to take upon himself "the *onus* of satisfying this Committee in a manner which "admits of no controversy of what has been the amount "of remuneration which, in every point of view, the "invention has brought to him, in order that their Lord-"ships may be able to come to a conclusion, whether that "remuneration may fairly be considered a sufficient reward "for his invention or not. It is not for this Committee "to send back the accounts for further particulars, nor "to dissect the accounts for the purpose of surmising what "might be their real outcome if they were differently "cast; it is for the Applicant to bring his accounts before "the Committee in a shape which will leave no doubt as "to what the remuneration has been that he has received." The importance of employing an accountant in connection with such an application is clear. It is not only the matter, but the form, of the accounts that is essential before the Privy Council. In the case of *In re Henderson's Patent* (1901, A.C. 616), Lord Davey said: "It is sufficient "for the present purpose to say that the accounts are "not before their Lordships in a shape which enables "them to form any clear opinion on the subject" of the petitioner's remuneration. In the still more recent case of *In re Wuterich's Patent* (1903, A.C. 206), Lord Macnaghten said: "Their Lordships do not doubt that the accounts "of the petitioner have been honestly kept, and that the "accounts presented to their Lordships have been honestly "made out by the accountant, nor do they doubt that the "accountant has done his best to present the accounts "in an intelligible form. Still, the fact remains that their "Lordships are unable to discover from the accounts put "before them what remuneration the patentee has actually "received. . . . It seems clear to their Lordships "that the petitioner in this case has not done what he "ought to have done. The accounts submitted to the "Attorney-General and presented to this Committee "must be intelligible and complete. It is not competent "for an applicant for the extension of his patent, except "perhaps in very special circumstances, to recast or "supplement the accounts which he has lodged by oral "evidence at the hearing." In other words, if an extension of the patent is desired the entire accounts of profits received must be submitted in an absolutely lucid form, showing exactly the remuneration earned, to the Attorney-General, and presented to the Judicial Committee of the Privy Council. As to accounts of profits see further *Bowden Brake Co. v. Bowden Wire Co.*, 32 R.P.C. 30. The decision in *Re Newton's Patent* ([1884] 9 App. Cas. 592), and Lord Chelmsford's judgment in *Betts' Patent* (1 Moo. P.C. (N.S.) 49) and the decision in *Hughes' Patent* (1898, 15 Rep. Pat. Cas. 370) should also be consulted in connection with the presentation of Patentees' Accounts. As to these accounts see the Patents and Designs Act, 1907 (7 Edw. VII, c. 29, s. 18 (4), (5), and the use of the terms "Profits" and "Remuneration" in this section.

(8) MONEY-LENDERS' ACCOUNTS.

Under Section 1 of the Money-lenders' Act, 1900, the Court has power, when re-opening an existing money lending transaction, to re-open also one that is past and closed, provided it is relevant to, or in some way connected with, the existing transactions. (*Saunders v. Newbold*, [1905], 1 Ch. 260; see also H.L. 1906 A.C., 461.) The following is the form of judgment under the Act applicable to the re-opening of a loan transaction and the directing of an account (1905, 1 Ch. 263):—"This Court doth declare that all the transactions and "accounts whatsoever between the plaintiffs Braham "Samuel and Philip Samuel (carrying on business as "money-lenders and suing herein under the registered "name of 'P. Saunders') and Hepworth Tropolet Alton, "deceased, ought to be re-opened and set aside, and that "the defendant, as executor of the will of the said H. T. "Alton, deceased, ought to be relieved from payment of "any sum in excess of the sums actually advanced by the "plaintiffs to the said H. T. Alton, deceased, and interest "thereon at the rate of £10 per cent. per annum; and "that if any such excess had been paid by the said H. T. "Alton, deceased, or by the said defendant as the executor "of his will, the plaintiffs ought to repay the same to the "said defendant: And this Court doth order and adjudge "the same accordingly. And it is ordered that the follow-"ing account be taken, that is to say, an account of all "sums actually advanced by the plaintiffs B. Samuel "and P. Samuel, or either of them, or anyone on their "behalf, to or for the use of the said H. T. Alton, deceased, "and of all sums received by the plaintiffs, or either of "them, or anyone on their behalf, from the said H. T. "Alton, or from the defendant as his executor, in respect "of any such advance; and that in taking such account "the defendant be charged with interest at the rate of "£10 per cent. per annum on the sums from time to time "owing to the plaintiffs, and that the balance due from "either of the parties to the other be certified. And it "is ordered that the plaintiffs do pay to the defendant his "costs of this action up to and including this judgment "in any event. And this Court doth specially reserve "the question by whom the costs of the said account are "to be borne. And it is ordered that the further considera-"tion of this action be adjourned." (See also Matthews and Spears on the Money-Lenders Act, 1900: 1908-10.) The following recent cases are of importance to accountants: *Kerman v. Wainewright* ([1916] 60 S.T. 336; 32 T.L.R. 295 C.A.), *Stone v. Hamilton*, ([1918] 2 Ir. R. 193)—cases relating to the opening of closed transactions: *Velchard v. A. Merton* (33 T.L.R. 232 C.A.)—repayment by instalments; *Levy v. Dott* ([1919] 35 T.L.R. 518 C.A.—relief in equity; *Shafer v. Blyth* (36 T.L.R. 689)—harsh and unconscionable transaction.

(9) ACCOUNTS OF LOCAL AUTHORITIES.

Mr. Arthur O. Hobbs, writing in the "Encyclopædia of Local Government Law" (1905) on "Accounts and Audit of Local Authorities," brings home the importance of this subject when he tells us that: "Excluding Boards of "Guardians and Local Authorities in the Metropolis, "there are some 25,000 Local Authorities in England and "Wales, all of whom have financial transactions to record "There are about twenty different kinds of Local Authori-"ties, ranging from a Parish Meeting, with an annual "expenditure of a few shillings, to a County Council, or "a Council of a county borough, with an annual expendi-"ture of more than a million pounds." All Local Authorities, as defined by the District Auditors Act, 1879, must make returns of their expenditure to the Local Government Board, which annually publishes "The Annual Local Taxation Returns." The Board can prescribe the form of all accounts of a Local Authority subject to the District Auditors Act 1870 (Section 5). The form of the accounts of Urban and Rural District Councils is also dictated by the Local Government Board (Public Health Act, 1875, Section 245; Local Government Act, 1894, Section 58). There is no uniformity as to the accounts of County and Borough Councils, and other bodies which are not subject to a Government audit. The public have, however, some right of inspection of the accounts of such bodies. (See *Williams v. Manchester Corporation*, [1897] 13 T.L.R. 299.) The right of ratepayers of an urban district to inspect accounts is limited to the period of audit, with certain additional rights under Section 219 of the Public Health Act, 1875. (Hobbs, p. 6).

The publication of an abstract of accounts is necessary in the case of Borough Councils (Municipal Corporations Act, 1882, Section 27 (2)), County Councils (Local Government Act, 1888, Section 71 (2)), Urban District Councils (Public Health Act, 1875, Section 247 (10)), and Rural District Councils (Local Government Act, 1894, Section 58 (2)); but Parish Councils need not publish an abstract of their accounts (Local Government Board Order, 20th May 1895); they must, however, lay before the Parish Meeting annually a copy of the financial statement, as certified by the district auditor. Parish Meetings need publish no accounts. "The finance of all Local Authorities is based on the principle of estimating the receipts and expenditure for the next ensuing financial year and making provision in some way or other, generally by levying rates, to meet during that year the estimated excess of expenditure over receipts. Hence all Local Authorities estimate the amount they will require to be raised to enable them to carry on their work for the succeeding year or half-year as the case may be. Overdrafts by Local Authorities on their treasurer's bankers are generally illegal, and not only are such overdrafts liable to be disallowed, but also any interest charged or paid in respect of them. Section 74 of the Local Government Act, 1888, requires every County Council to cause to be submitted to them at the beginning of each financial year an estimate of the receipts and expenses of the Council during the year, whether on account of property, contributions, rates, loans, or otherwise. Other Local Authorities do not appear to be subject to a similar statutory requirement." (Hobbs, p. 8) though certain estimates have to be made by every urban authority under Section 218 of the Public Health Act, 1875. Mr. Hobbs points out that "proper supervision is absolutely necessary in all cases where officers are accountable for money or stores. No matter how long the officer may have served, or how high his position, it is essential that a systematic supervision should be exercised at periodical intervals. An efficient examination should be made of all Cash Accounts; and a thorough examination of all Rate Receipts Check Books with the Collecting and Deposit Book and Rate Book, during the currency of a rate, should be an effective check upon a collector's accounts."

Full details as to the system of accounts adopted by Local Authorities will be found in Mr. Hobbs' monograph, including the "Double-account System," usually adopted by a Local Authority "in accounts of undertakings of a commercial nature," with separate Balance Sheets for "fixed" assets and liabilities on the one hand, and working capital on the other.

County Council Accounts are grouped under four headings: (a) County Fund Account, (b) Exchequer Contribution Account, (c) Education Accounts, (d) Police Pension Fund Accounts. Town Council Accounts fall into two divisions: (a) The Municipal Authority Accounts, (b) Urban Sanitary Authority Accounts. "In the case of a County Borough an Exchequer Contribution Account and a Police Pension Fund Account are also kept which are quite distinct from the other accounts." In certain non-county boroughs similar accounts are kept. These accounts follow the forms used by County Councils. The accounts of Urban District Councils in the main follow those of Town Councils. The accounts of Local Education Authorities form a special subject, governed in the main by the Education Acts, 1902-3. They are kept quite separate from the other accounts of the authority. The authority "cannot delegate to the Education Committee the power of making orders upon the county treasurer for the payment of money." Funds, however, can be placed at the disposal of the Committee. (Circular letter of Local Government Board. 24th April 1903.) The Education (Administrative Provisions) Act, 1909 (9 Edw. VII, c. 29), provides that the account of receipts and payments entrusted to managers of a school by a Council having powers under Part II of the Education Act, 1902, are accounts of the Council, "but the auditor of those accounts shall have the same power with respect to the managers as he would have if the managers were officers of the Council." The system of accounts in public education was severely criticised by a Parliamentary Committee at the end of 1920. Rural District Council Accounts are governed by the Local Government Act, 1884, and follow the form used by Urban District Councils. The form of the accounts of Overseers of the Poor are prescribed by the Local Government Board's General Order for Accounts of 14th January 1867. They must make up and balance all their books and accounts to 31st March and 30th September in each year. (General Order, 8th September 1903.) See also the Poor Rate Act, 1743.

The form of financial statement of Parish Councils is prescribed by an Order of the Local Government Board of 20th April 1900. A form prescribed by Order of the Local Government Board dated 22nd March 1898 is used by Parish Meetings. The Local Government Board has also prescribed the forms of accounts of other Local Authorities, such as Joint Water Boards and Sewer and Drainage Authorities. The principal books kept by a Local Authority are (1) Minute Book; (2) Treasurer's Account; (3) Ledger; (4) Balance Sheet; (5) Cash Account; (6) Petty Cash Account; (7) Collectors' Accounts; (8) Stores Accounts; (9) Wages Accounts; (10) Cost Accounts; (11) Register of Mortgages and Transfers of Mortgages.

The audit of local accounts is made either by district auditors appointed by the Local Government Board or by locally-elected auditors. The second class of auditors usually audit the accounts (other than Education Accounts) of Town Councils (apart from special local Acts). The Government audit—the first class named above—is made by auditors appointed under the District Auditors Act, 1879, and the Local Government Board have power to regulate the audit.

The Local Authorities (Expenses) Act, 1887, enacts that expenses sanctioned by the Local Government Board shall not be disallowed by the auditor. This has avoided many technical disallowances. The vast bulk of Local (other than Municipal) Authorities are subject to a Government audit Municipal audit is on the whole considered unsatisfactory. Under the Municipal Corporations Act, 1882, the audit is undertaken by three borough auditors—" two " elected by the burgesses, called elective auditors, and " one appointed by the mayor, called mayor's auditor." The borough treasurer, by Section 27, has to print a full abstract of his accounts for the year, but the auditor's report need not be printed. It is sometimes made a condition of a local Act that the accounts of the borough should be subject to audit by a Government auditor. (See the Plymouth Corporation Act, 1904.) Some local Acts provide for the appointment of a professional auditor, while most municipalities of importance employ professional accountants to audit their accounts. It is now a growing practice to have an " internal audit " that keeps a daily and continuous check on all expenditure and receipts.

In the case of *The Attorney-General v. De Winton* ([1906] 2 Ch. 106), Farwell, J., stated that " the audit provided by the Municipal Corporations Act is quite ineffective." The auditors have no power to surcharge, and there is nothing to compel them to make illegal payments public. On the other hand, he stated that the Public Health Act, 1875, provides an efficient method of audit. This case should be carefully studied by all those who are interested in the question of municipal audits. We may particularly note the statement that " the treasurer is not a mere servant of " the Council; he owes a duty and stands in a fiduciary " relationship to the burgesses as a body." In this place should be noted the important decision of the Court of Appeal (*The King v. Carson Roberts*, [1908] 1 K.B. 407), affirming the decision of the Divisional Court, ([1907] 2 K.B. 878). In this case it was held that on an application for a *certiorari* under Section 247, Subsection 8, of the Public Health Act, 1875 (38 & 39 Vict. c. 55), to remove and quash disallowances and surcharges made by an auditor acting in pursuance of that section, the jurisdiction of the Court is not confined to error in point of law, but extends to error in point of fact, the words in the section being, " if it appears to the Court that the decision of the said auditor was *erroneous*." (See also on this point *R. v. Haslehurst*, 51 J.P. 645; and *R. v. More O'Ferrall*, [1903] 2 I.R. 141.) A further question of great importance in the question of public accounts, the personal responsibility of members or officers of the public body in question, found the Judges of the Court of Appeal divided. Cozens-Hardy, M.R., and Farwell, L.J., held that " an auditor appointed by the Local Government " Board under Section 247 of the Public Health Act, 1875, " to audit the accounts of a Metropolitan Borough Council " is authorised and required by Subsection 7 to decide " whether any member or officer of the Council has been " guilty of negligence or misconduct in relation to the " accounts whereby loss has been occasioned to the " Council, and to assess the amount of the loss." Lord Moulton, then Moulton, L.J., did not accept this position, but held that the powers and duties of the auditor under Subsection 7 are strictly confined to auditing, and that the " person accounting," in the latter part of the subsection (which requires the auditor to " charge against any person " accounting the amount of any deficiency or loss incurred " by the negligence or misconduct of that person "), is the person who brings in the accounts for audit, and that that person is the Council itself, and that therefore the auditor has no power to inquire into the negligence or misconduct of the individual members or servants of the Council. The case should be considered in connection with that of *Attorney-General v. De Winton*. Certainly, if the views of Fletcher Moulton, L.J., are correct, the audit under the Public Health Act, 1875, is far less effective than has been imagined. An audit under the Municipal Corporations Act, 1882, is not " finally binding and con- " clusive on the borough and the burgesses thereof. . . " I certainly see no reason for holding that such an audit " as has been put in evidence in the present case, which " does not even state that the books and vouchers are " correct, but merely that 'there is a total overdraft of " £4,510 3s. 11d. on the 31st March 1904,' is a bar to " proceedings against the treasurer to disallow some of " the items which go to make up that overdraft." It is to be remembered that " all overdrafts are in effect borrowings." (*Cunliffe Brooks & Co. v. Blackburn and District Benefit Building Society*, 9 App. Cas. 857; *Attorney-General v. De Winton*, [1906] 2 Ch. 106; see also *R. v. Locke* [1911] 1 K.B. 680.) It is important also to notice the principle laid down by Channell, J., in the case of

Smith v. Southampton Corporation, ([1902] 2 K.B. 244): He declared that bodies such as the corporation could only charge present expenditure upon future ratepayers so far as they have statutory borrowing powers, and such borrowing powers "are granted upon the understanding "that the capital expenditure benefits the future rate-"payers." But, subject to their borrowing powers, "corporations and bodies of this character have no right "to charge future ratepayers with present expenditure." It should be noticed here that, under the Small Holdings and Allotments Act, 1907 (7 Edw. VII, c. 54, s. 19), it is provided that there shall be opened at the Bank of England a "Small Holdings Account," to be audited annually by the Comptroller and Auditor-General. See also the Small Holdings and Allotments Act, 1908 8) Edw. VII, c. 36, s. 51). It should also be noticed that, by the Port of London Act, 1908 (8 Edw. VII, c. 68) full provision is made for the auditing of the accounts of the Port Authority after the end of each financial year (Section 24); that the accounts of the electrical undertaking of a local authority are dealt with by 45 & 46 Vict., c. 56, and 9 Edw. VII, c. 34, s. 12 (Electric Lighting Act, 1909); and that the accounts of life assurance companies are controlled by the Assurance Companies Act, 1909 (9 Edw VII, c. 49, s. 4), the form being determined by the four schedules to the Act. It should perhaps be mentioned in this place that the law with respect to the accounts and returns of railway companies was amended by the Railway Companies (Accounts and Returns) Act, 1911, which came into force on 1st January 1913. The first Schedule gives in full detail the form both of accounts and statistical returns. Accounts under the National Insurance Act, 1911, are dealt with in detail by Sections 35-41 of the Act. We may also note that an annual audit is provided for under the Telephone Transfer Act, 1911, and the Housing (No. 2) Act, 1914 As to Trade Union Accounts, see, on a difficult point, Section 6 of the Trade Union Act. 1913. The Industrial and Provident Societies (Amendment) Act, 1913, provides (Section 2) for the audit of accounts of every registered society.

(10) Accounts between Vendor and Purchaser of Land.

If a purchase is not completed at the contemplated date "the purchaser is entitled to the rents and profits, "and is bound to pay interest on the purchase-money, if "he has bought under an open contract, from the time "when a good title was shown and verified; if he bought "under a contract fixing a day for completion, but not "expressly providing for payment of interest from that "day, where the delay is attributable to his own fault, "and otherwise from the time when he took or might "safely have taken possession; and if he bought under a "contract to pay interest on failure *from any cause whatever* "to complete on the appointed day, as from that day." (Cyprian Williams, 2nd Ed. (1910) on Vendor and Purchaser, Vol. I, p. 515.) The vendor must account to the purchaser for the rents and profits received by him during the interval between the date when the purchaser became entitled to the rents and profits to the date when completion is made. "The amount so received must be "deducted from the amount of purchase-money and "interest payable" by the purchaser. "In taking such "account the vendor is, as a rule, chargeable only with the "amount of the rents actually received by him or for his "use: (See *Sherwin v. Shakspear*, 5 de G. M. & G. 517; "Seton, 6th Ed., p. 2,237; *Bennett v. Stone*, [1901] 1 Ch. "509). But he may in a special case be chargeable with "the amount which, but for his wilful default, he might "have received, as where he has allowed the rents to fall "into arrear (*Wilson v. Clapham*, 1 J. & W., 36), or neglected "to let the land (*Bennett v. Stone*) or has wantonly aban-"doned the property sold." In the case of *Bennett v. Stone* ([1902] 1 Ch. 226) we have a valuable discussion by Buckley, J., as to accounts of rents and profits where completion has been delayed (but not through the vendor's wilful default), and an action for specific performance has been commenced, and after the commencement of the action part of the property fell vacant and was occupied by the vendors, who paid the valuation of the outgoing tenant and farmed the land. Buckley, J., in these circumstances, said: "It will be noticed from what I have "said that this decree contains no account upon the "footing of wilful neglect or default; it is simply an "account of rents and profits received by them or for their "use. It seems to me that in taking that account they "are to be charged, of course, with the rents they have "received; but I find no machinery there for charging "them with an occupation rent of the land which they "did not let. That would be chargeable under a decree on "the footing of wilful default; but that is not in the decree. "They are chargeable, therefore, only with the rents they "received. Then what are they to be allowed as against "that? It seems to me they must be allowed the "£469 11s. 9d. which they had to pay to the outgoing "tenant upon his leaving the premises; that was a "necessary disbursement in connection with the taking "over of that property from that tenant. But they ask "for something more than that; they ask for losses "incurred by carrying on the business after they had "taken it over and when they did not let it. Evidence "has been filed in which it is disputed whether they could "have let the farm or not. That would have been material "if there had been an account on the footing of wilful "neglect and default, but I do not think it is material on "this account. It seems to me that as a result of this I "cannot say, and I do not mean to say, that the defendants "are not entitled to get from the plaintiff anything in "respect of this expenditure, but I do say that they are "not entitled to it under this decree. I do not see how "in a decree directing an account of rent and profits they "can have an account of business carried on by them upon "the premises which has resulted in a loss. Whether it "was necessary or not I do not know; it is not in the "decree. The plaintiff is entitled to an account of the "rent and profits, and amongst that will come into the "account the proceeds of the crops upon the land; the "plaintiff will be charged with the £469 11s. 9d. which "was paid for the crops to the outgoing tenant, and he "will be able to charge the defendants, I apprehend, with "the proceeds of the sale of those crops, and the defendants "will be able to charge the plaintiff with the necessary "expenses of realising those crops."

This decision of Buckley, J., was upheld by the Court of Appeal ([1903] 1 Ch. 509.) The question of adjustment of accounts on completion of a purchase is important. If completion takes place at the proper time it is only necessary to consider the apportionment of the rents and profits and the outgoings. Apart from express stipulation, the adjustment of rent cannot be made until the rent is due and payable, when the purchaser can recover the entire rent from the tenant and the vendor his apportioned part from the purchaser. It is usually, however, stipulated that the purchaser shall pay the apportioned part on completion. Adjustment of accounts as to outgoings offers some difficulty. Rates and taxes, being payable in advance, should be apportioned and recouped on completion; while outgoings not payable in advance, such as ground rent and tithe rent charge, should, it is thought, also be apportioned on completion. (See *Lawes v. Gibson*, L.R. 1 Eq. 135, and, generally, Williams on Vendor and Purchaser, p. 627.) Where the liability for outgoings is uncertain, probably the purchaser can refuse to complete without adequate guarantee as to the payment of the part for which the vendor is responsible. Where the purchase is not completed on the agreed date, questions as to interest arise under the contract, and these must be considered in the adjustment of accounts and also the various items for and against the vendor, such as were considered above in the case of *Bennett v. Stone*. (See also *In re Bayley-Worthington & Cohen's Contract*, [1909] 1 Ch. 648, referred to above in "Compelling Accounts.") Again, compensations for errors of description have to be brought into account. Of course (apart from express contract) claims for compensation in respect of innocent misdescription must be made before completion. Compensation is only payable for latent defects of which the purchaser had no notice. Then, again, in the adjustment of accounts where specific performance of a contract has been decreed, it has to be seen whether compensation for deficiency in the subject-matter has been ordered, and, if so, this sum has to be brought into account. Finally, in the adjustment of accounts, the costs of the sale must be considered, for part of these costs are, as a rule, borne by each party. The vendor bears the expense of preparing the abstract of title, producing evidence of title in his own possession, and his own execution of the conveyance (including all solicitor's charges for perusing and settling the conveyance on his behalf); while the purchaser pays the expense of obtaining evidence of title not in the vendor's possession, and the total cost (save as above) of the conveyance to himself. Particular circumstances and contracts may vary those responsibilities. In making out the accounts the exact facts and responsibilities as to the costs of the transaction have to be ascertained. Full details of the various questions as to the adjustment of accounts between vendor and purchaser will be found in Williams on Vendor and Purchaser pp. 624-648. In the case of *Stephen and Scott-Miller's Contract* [1920] 1 Ch. 472, it was held that moneys paid by a lessee in respect of dilapidations do not belong to a purchaser of the fee simple if the sum was paid between contract and completion the lease expiring on the day fixed for completion.

(11) Falsification of Accounts.

Falsification of accounts is hardly a subject that comes within the scope of this appendix, but some notes on various recent cases should perhaps be given. By an Act of 1875, usually known as Lopes' Act, which was introduced into the House of Commons by Sir John Lubbock (Lord Avebury) it was made a misdemeanour, punishable with seven years' penal servitude, for a clerk or servant "wilfully, and with intent to defraud, to alter, "or make a false entry in, or omit a material particular "from, any account of his master's." (38 Vict., c. 24; see Dr. C. S. Kenny's invaluable "Outlines of Criminal Law," 9th Ed., p. 234, Cambridge University Press, 1920.) "An indictment for this offence of false accounting is often "useful where a clerk to whom a customer has paid money "is suspected of stealing it, but no more can be actually "proved than that he has never credited the customer with "the amount. If, however, his books do show correctly "the sum which he ought to have in hand, the fact of his "not really having that amount, ready to hand over, "does not render the entry a 'false' one within this 'statute." (Kenny, p. 234.) As to appropriation by agents, see the Larceny Act, 1916, s. 20 (*l*) iv. In the case of *The King v. Oliphant*, ([1905] 2 K.B. 67) the defendant was employed by a firm, carrying on business in London, to manage their branch establishment in Paris. It was his daily duty to enter on slips an account of all sums received by him in Paris for his employers, and to transmit those slips to them in London, in order that the amounts might be entered up in a Cash Book kept in London. On a certain date the defendant received three sums in Paris, which he fraudulently appropriated to his own use, and omitted to enter the receipt thereof on the slips sent by him on that day to London, knowing and intending that the same would in consequence be omitted from the Cash Book, as was the case. The defendant was indicted at the Central Criminal Court under Section 1 of the Falsification of Accounts Act, 1875, for omitting, or concurring in omitting, material particulars from the Cash Book, and convicted. The questions were raised in the Court of Crown Cases Reserved whether the defendant could rightly be convicted on such grounds, and whether there was jurisdiction to try the case, since the offence was not committed in England. A Court of five Judges affirmed the conviction and the jurisdiction. But Kennedy, L., and Channell, J., both felt a doubt whether it could be said that the mere fact that the defendant's incorrect communication resulted in an omission from the Cash Book brought him within the language of the statute. The question of intention, however, came in, and the defendant undoubtedly intended to cause the omission to be made, and in fact caused the omission. Therefore the Court unanimously affirmed the conviction. The extent to which the Forgery Act, 1913, affects the question of accounts is not clear. The Act did not repeal the Falsification of Accounts Act, 1875.

In the case of *The King v. Palin* ([1906] 1 K.B. 7) the prisoner, a servant, was convicted under Section 1 of the Falsification of Accounts Act, 1875, on an indictment which charged him with making a false entry in an account. The evidence at the trial showed that the account in question did not belong to and was not in the possession of the prisoner's employer. The Court of Crown Cases Reserved held that the conviction must be quashed, since the intention of the Legislature, as manifested in the preamble to the Act of 1875, was to punish the falsification by clerks, officers, servants, or others, of their employers' accounts. This decision altered what was supposed to be the law, that the document or account in which the false entry was made need not belong to or be in the possession of the employer. This statement is now no longer law. (See Archbold's Criminal Pleading Evidence and Practice, 25th Ed. (1918), p. 709.) But it must be noticed that Section 83 of the Larceny Act 1861 (24 & 25 Vict., c. 96), which deals with the destruction, alteration, mutilation, or falsification of the books, &c., belonging to a body corporate or public company, make it an offence to " make, or concur in the making, of any " false entry, or omit or concur in omitting any material " particular, in any book of account or other document." In the case of *The King v. Palin* (*ubi sup.*) the question was raised whether this provision was general in its application, or only applied to the special case the subject of the section. It was clear that the section did not apply to *Palin's* case, and Lord Alverstone, C.J., said: " I express no opinion as to the wording of Section 83 of " the Larceny Act, or whether that section requires that " the documents therein mentioned should be the property " of the company or not." In the case of the *King v. Solomons* ([1909] 2 K.B. 980) it was held that, under Section 1 of the Falsification of Accounts Act, 1875, a servant (in this case a taxi-cab driver, who is, however, not usually a servant—see *Doggett's* case [1910] 2 K.B. 336, and *R. v. Messer* [1913] 2 K.B. 421) could be convicted who wilfully and with intent to defraud tampers with a mechanical instrument (in this case a taximeter) used by his employer for registering figures from which an account is subsequently prepared as between the parties. The driver was therefore held by the Court of Criminal Appeal to have been properly convicted of falsifying an account, within the meaning of Section 1 of the Act of 1875, when he put the taximeter out of action and made it incapable of registering figures. In the case where a taxi-cab driver fails to account to the proprietor for the proprietor's agreed percentage of the takings, the jury can find that such takings are received by the driver for or on account of the proprietor within the meaning of Section 1 of the Larceny Act, 1901 (*R. v. Messer* [1913] 2 K.B. 421). See also Archbold, 25th Ed., p. 611 [1918].

The Prevention of Corruption Act, 1906 (6 Edw. VII, c. 34), deals with the question of falsification of accounts. It enacts (Section 1) that " if any person knowingly gives " to any agent, or if any agent knowingly uses with intent " to deceive his principal, any receipt, *account*, or other " document in respect of which the principal is interested " and which contains any statement which is false or " erroneous or defective in any material particular, and " which to his knowledge is intended to mislead the " principal; he shall be guilty of a misdemeanour, and " shall be liable on conviction on indictment to imprison " ment, with or without hard labour, for a term not " exceeding two years, or to a fine not exceeding five " hundred pounds, or to both such imprisonment and such " fine, or on summary conviction to imprisonment, with " or without hard labour, for a term not exceeding four " months, or to a fine not exceeding fifty pounds, or to " both such imprisonment and such fine." It will be observed that this enactment exactly meets the doubt expressed by Kennedy and Channell, JJ. in the case of

The King v. Oliphant (*supra*) as to whether an incorrect communication from an agent resulting in an omission from a book of accounts brings the agent within the mischief dealt with by the Falsification of Accounts Act, 1875. The Prevention of Corruption Act, 1906, certainly meets this case and supplies very adequate penalties. The Act, in fact, makes the law for the detection and punishment of falsification of accounts practically complete. It would be difficult to find any loophole by which a guilty person could escape.

The case of *King v. Drewett* (21 *Times* Reports, [1905] 164) must finally be noticed. In this case "the manageress "of an hotel, which was owned by a limited company, "was charged with omitting to enter in the Cash Book a "certain sum received from a customer for the company "with intent to defraud, and also with making a false "entry in the book. The manageress alleged that she "had, unknown to her employers, introduced into the "business private moneys of her own, and, in order to "repay herself without their knowledge, she had omitted "to enter the sum. The Judge told the jury (*inter alia*) "that even if they believed the story told by the prisoner "it would be no defence." The Court of Crown Cases Reserved, on a case stated, held that this was a wrong direction upon the question of intent to defraud, as the prisoner might have acted honestly, though ignorantly, and the question of fraud was for the jury. The Lord Chief Justice in his judgment stated that under the Falsification of Accounts Act, 1875, it was necessary to show not only false entries in the book, but that they were made with intent to defraud. Mr. Justice Wills added that the question of honesty was one for the jury, and they must say whether there was a question of fraud or not. Consequently the conviction was quashed, on the ground of wrong direction upon the question of intent to defraud, which was one for the jury to decide. This case, it should be noted, was decided before the Prevention of Corruption Act, 1906, came into operation.

(12) Church Accounts.

Questions of account in matters relating to the Church of England may become of importance under the provisions of the Church of England Assembly (Powers) Act, 1919. The law of accounts as to churchwardens is fully dealt with in Cripps' "Law relating to Church and Clergy" (1921), 7th Ed., p. 193.

(13) Prize Law Accounts.

We should notice that captures at sea in war-time create a duty to account. In the case of *Pearse v. Green* ([1819] 1 Jacob and Walker's Rep., p. 135), it was held that owners of a privateer, in this case *The Snapdragon*, out of Plymouth, acting for themselves and the crew, in the sale of the prizes, having neglected to render accounts and delayed the distribution of the proceeds, were chargeable with interest on the balances, and costs. The cruise of *The Snapdragon* took place in 1807, so that the payment of interest was a substantial matter. *Good v Blewitt* ([1806-7] 13 Vesey, 397; Cooper, 197; 19 Vesey, 336; and J. & W. 141) was a similar case. Privateering was abolished for all practical purposes by the Declaration of Paris in 1856, but questions of prize by other vessels may involve the same principle As to rights of captors and joint captors in prizes, see the Prize Court Rules, 1914, Orders 30-4. Under these Prize Court Rules, 1914 (made under Section 3 of the Prize Courts Act, 1894, but subject to the provisions of the Naval Prize Act, 1804), a number of cases arise in which difficult questions of account have to be decided. Under Order 11 of the Rules, dealing with the "sale, appraisement, safe custody, and inspection of prize," sales are effected by the Marshall of the Prize Court under the authority of a Commission. This Commission must, as soon as possible after its execution, be filed in the Registry of the Court by the Marshall, with a return setting forth the manner in which it has been executed. The Marshall must, with the Commission, file his accounts and the vouchers in support thereof (Rule 5). Forms of the Marshall's certificates and accounts are given in Appendix A to the Rules Nos. 24 and 27. The Registrar must, on the application of any party, review the Marshall's accounts and report the amount which he considers should be allowed; and any party to the cause may be heard upon the Registrar on the review (r. 6). The Judge, on the application of any party by summons, may review the Registrar's decision (r. 7), and the amount due to the Marshall shall be paid out to him on an order signed by the Judge. As to payments in and out of Court see Order 36 and Order 37.

(14) Accountancy.

In this place it will be convenient to notice the fact that Warrington, J., held in the important case of *The Society of Accountants and Auditors v. Goodway and the London Association of Accountants, Lim.* ([1907] 1 Ch. 489), that the description "Incorporated Accountant" is a fancy and not a descriptive term, and has come to denote membership of the Society, and therefore that the unauthorised use of it inflicts an injury on the plaintiff Society in respect of which it is entitled to maintain an action. See also *The Society of Architects v. Kendrick*, ([1910] W.N. 113). We may also note here that if a plaintiff claims a general account he need not give particulars of the sums which it is alleged that the defendant has received to his use. But this is not the case if a specific sum be claimed. (*Blackie v. Osmaston*, 28 C.D. 123; *Augustinus v.Nerinckx*, 16 C.D. 17; *Carr v. Anderson*, C.A., 18 *Times* Rep. 206.) If the Court sees that an account must be taken it will not order particulars, but the mere asking for an account will not prevent the Court from ordering particulars. (*Kemp v. Goldberg*, 36 C.D. 505; Order XIX, r. 6, "Annual Practice," 1921.)

Two recent cases relating to accountants should be noticed here. In the case of *Institute of Chartered Accountants v. Hardwick* ([1918] 62 S.J. 702; 34 T.L.R. 584; 35 T.L.R. 42) it was held by Mr. Justice Eve, whose decision was affirmed by the Court of Appeal, that while a person who had taken honours at the Final Examination for membership of the Institute but was subsequently excluded under the provisions of the Charter, was entitled to state that he had taken honours he was not entitled to state it in such a way as to lead to the belief that he was a member of the Institute or connected with it, and was subject to an injunction against a statement leading to such a belief. In the case of *Fox & Son v. Morrish Grant & Co.*, ([1918] 35 T.L.R. 126) Mr. Justice A. T. Lawrence held that an accountant retained to check books of account commits a breach of duty if he checks the books without verifying the correctness of the cash and bank balances stated in the book (there being no arrangement that he need not do this), and without informing his clients of the omission to verify.

In conclusion, I may say that the Rules of the Supreme Court referred to at length above are intended to apply generally to all cases of account, whether they arise in the particular classes of cases with which I have dealt, or in other classes—such as questions of copyright (where the account is limited to net profits made and received: see "Copinger's Law of Copyright" (1915), 5th Ed., pp. 200-1, 556, 816, and *Muddock v. Blackwood*, ([1898] 1 Ch. 58, and E. J. Macgillivray's Copyright Act, 1911), designs, bankruptcy, winding-up of companies (see as to company accounts the case of *Newton v. Birmingham Small Arms Co., Lim.* [1906] 2 Ch. 378), or other matters. It should be noticed here that the County Court has jurisdiction to deal with a claim for accounts against a solicitor, and the plaintiff is not limited to the summary remedy by originating summonses in the High Court under section 37 of the Solicitors' Act, 1843 (*Chambers v. Tabrum* [1920] 1 K.B. 840). The rules and orders (which may be traced, under various changing forms, back to the days of Lord Verulam, sometime Lord Chancellor of England), and the statutes and cases above quoted, contain the general principles of equity which the English Courts apply to the solution of the many difficult questions of account that almost daily arise for consideration.

J. E. G. DE MONTMORENCY.

APPENDIX "B."

MISCELLANEOUS QUESTIONS ON ACCOUNTING.

APPENDIX B.

MISCELLANEOUS QUESTIONS ON ACCOUNTING.

1.—From the following Trial Balance prepare Balance Sheet and Trading and Profit and Loss Accounts, as on 30th June 1921, of the business of W. Walker, silversmith and manufacturer :—

	£	£
Bills Payable		2,600
Rents from sub-Lettings		190
Incidental Expenses	500	
Drawings	1,650	
Wages	17,540	
Salaries	3,005	
Travelling Expenses	1,430	
Rent, Rates, and Taxes	1,850	
Insurance	90	
Advertising	650	
Commission	245	
Discounts and Allowances	700	
Bank Interest and charges	150	
Silverton Bank overdraft		950
Packing, &c.	350	
Sales		70,395
Goods Purchases	10,540	
Plating and Sundry Manufacturing Expenses	7,650	
Bad Debts	260	
Cash in hand	105	
Sundry Debtors	20,250	
,, Creditors		2,300
Stock, 30th June 1920	9,560	
Bills Receivable	5,570	
Plant, Machinery, and Tools	4,250	
Capital		9,910
	£86,345	£86,345

Stock at 30th June 1921, £8,350.

Depreciation of Plant, &c., 10 per cent.

2.—Prepare Trading and Profit and Loss Accounts and Balance Sheet from the following Trial Balance at 30th June 1921 of the Pottery Company, Lim. Nominal Capital £10,000 in £10 Shares

	£	£
Subscribed Capital 900 Shares fully called		9,000
Calls in arrear	200	
Land and Buildings	2,000	
Machinery and Plant	2,500	
Loose Tools, &c.	500	
Horses, Carts, &c.	300	
Carried forward	5,500	9,000

2.—(*continued*)

		£	£
Brought forward		5,500	9,000
Stock-in-Trade, 30th June 1920:—			
Earthenware	£1,000		
Cratewood, Packing, &c.	250		
Clay	1,000		
Coal and Sundries	250		
		2,500	
Profit and Loss Account			200
Debtors		3,000	
Creditors			1,000
Sales			12,000
Packing, &c.			1,000
Straw, Cratewood, &c.		600	
Coal, Coke, &c.		300	
Clay		2,500	
Wages		6,500	
Horse and Cart Expenses		300	
Carriage, &c.		500	
Repairing and Replacing Plant		150	
,, ,, Loose Tools		50	
,, ,, Buildings		100	
Rates and Taxes		50	
Gas and Water		50	
Bills Payable			800
,, Receivable		1,200	
Incidental Expenses		200	
Bank		450	
Cash in hand		50	
		£24,000	£24,000

Stock-in-Trade, 30th June 1921 was—Earthenware, £800; Cratewood, &c., £200; Clay, £800; Coal, &c., £200.

Write off Depreciations—Machinery and Plant, 5 per cent.; Land and Buildings, 2½ per cent.; Tools, &c., 5 per cent.; provision for Bad Debts and Discounts, 5 per cent. off Debtors.

3.—Prepare Trading Account, Profit and Loss Account, and Balance Sheet for the year ended 31st December 1920 from the following Trial Balance of the Books of Messrs. John Williamson & Company, Lim., manufacturers:—

	£	£
Nominal Capital, 100,000 Shares of £1 each		
Issued Capital (fully paid)		70,000
Freehold Land and Buildings	35,000	
Debentures		20,000
Machinery and Plant	27,000	
Loose Tools	1,000	
Stock at 1st January 1920	17,500	
Material Bought	23,750	
Wages	9,000	
Office Salaries and Travellers	2,500	
Coal and Coke	1,300	
Rates and Taxes	430	
Discounts	820	
Blankshire Banking Co., Ltd.	3,500	
Sundry Debtors	6,800	
,, Creditors		2,070
Cash in hand	90	
Bad Debts	125	
Sales		53,000
Returns	1,880	
Repairs	405	
Interest on Debentures	800	
Patents (Cost)	13,170	
	£145,070	£145,070

Write off Depreciation on Patents and Machinery at 5 per cent. per annum, and on Loose Tools at 12½ per cent. per annum. Provide 5 per cent. on the Book Debts to cover Bad Debts. The Stock at 31st December 1920 amounted to £16,350.

4.—From the following Trial Balance of a Manufacturing Company prepare a Trading Account, Profit and Loss Account, and Balance Sheet at 31st December 1920:—

	£	s	d	£	s	d
Capital Paid up—10,000 Shares of £10				100,000	0	0
Stock, 1st January 1920	32,400	12	6			
Cash in hand	120	6	0			
Bank	4,208	14	0			
Purchases and Sales	52,365	17	0	136,590	10	0
Manufacturing Charges	11,575	0	0			
Wages	28,555	4	0			
Salaries	1,525	0	0			
Sale Expenses	6,860	0	0			
Rates and Taxes	222	0	0			
Insurance	190	0	0			
General Expenses	2,640	10	0			
Discount	2,473	0	0	579	0	0
Bad Debts	575	0	0			
Interest and Bank Charges	387	17	6			
Land and Buildings	22,300	0	0			
Machinery and Plant	37,960	0	0			
Debtors and Creditors	52,640	0	0	20,862	4	6
Patents	7,700	0	0			
Bad Debts Reserve				888	0	0
Profit and Loss—Balance, 31st December 1919				779	6	6
Reserve Fund				5,000	0	0
	£264,699	1	0	£264,699	1	0

Charge Depreciation on Buildings at 3 per cent. per annum, on Machinery at 6 per cent.; credit to Bad Debts Reserve ½ per cent. on Sales, £136,600; write down Patents by 10 per cent.; carry forward £90 of Insurance; reserve 1½ per cent. Discount on Debtors. The value of Stock at 31st December 1920 is £22,600 18s. Charge 10 per cent. on Net Profits as remuneration to Managing Director, £500 as Directors' Fees.

5.—What is the use of keeping separate Trading Accounts for different departments (*a*) in a Merchant's or Dealer's business, (*b*) in a Manufacturer's business? How should expenses be dealt with which cannot be specifically allocated to any particular department?

6.—A small retail tradesman tries to reckon the profits he makes in a year by comparing his position at the end of the year with what it was at the beginning of the year, and he finds that in his business banking account the balance is larger by £100 at the end of the year than at the beginning. If from this he imagines that he has made £100 profit in the year, what important items has he omitted which should be taken into account in order to get at the correct profits in this way? Explain how each item affects the result.

7.—From the following Trial Balance prepare departmental Trading Accounts, General Profit and Loss Account, and Balance Sheet :—

TRIAL BALANCE, 30th September, 1920.

	£	£
William Blackley, Capital Account		15,000
„ Drawing Account	3,000	
Sundry Debtors	1,200	
„ Creditors		3,000
Business Premises	5,000	
Furniture and Fittings	4,000	
Bank		1,700
Cash	300	
Stock-in-Trade, 31st March 1920—		
Department A	2,000	
„ B	4,000	
„ C	3,000	
Purchases—		
Department A	5,800	
„ B	4,000	
„ C	5,000	
Wages, Department A	1,000	
Sales—		
Department A		8,000
„ B		5,000
„ C		7,000
Salaries	700	
Trade Expenses	300	
Rent, Rates, &c.	500	
Discounts		300
Bad Debts	200	
	£40,000	£40,000

The Stock on 30th September 1920 was—Department A, £2,000; Department B, £6,000; Department C, £2,000. Provide for depreciation of Furniture, £100; Doubtful Debts, £100; outstanding Rent, £150.

8.—What constitutes Capital Expenditure? Would you be justified in certifying to the accuracy of Accounts where such expenditure appeared without making inquiry into the real character of such expenditure? Give your reasons.

9.—What do you mean by "Fixed Assets" and "Floating Assets" in a Balance Sheet? Give two or three examples. Without any instructions being given by the Articles of Association of a Company, is there any legal difference between them as to providing a Depreciation Fund for known waste prior to striking a credit balance of the Profit and Loss Account and paying a dividend?

10.—You find in your annual audit of an Investment Company that Debentures of another Company are included amongst the Assets at their face value, though purchased at a discount; that such discount has been considered as commission earned and so credited to the Profit and Loss Account, and included in a larger sum carried to Reserve from the credit balance of the Profit and Loss Account. What is your opinion of this transaction? What does it suggest? If it does not meet with your approval, how would you have recorded the transaction? What steps would you take to satisfy yourself as to the value placed upon the Debentures so purchased?

11.—A set of double-entry books includes a Sales Day Book, the separate items in which are posted direct to accounts in a Customers' Ledger, and the monthly totals of Sales are posted direct to a Sales Account in the Nominal Ledger, no Journal being used. Under these conditions state which of the following errors would throw out a Trial Balance of the books, and say whether the Debit or Credit total of the Balances would be made too much, or too little, by the error :—

(*a*) The Sales Day Book under-added.

(*b*) A sale to a customer entered in the Day Book and included in the Day Book additions but omitted to be posted to the customer's account.

(*c*) A sale made to a customer omitted from the Sales Day Book, and so not posted to the customer's account.

12.—Define (*a*) Capital Expenditure, (*b*) Revenue Expenditure, (*c*) Fixed Assets, (*d*) Floating Assets. Give one typical example of each in connection with any business with which you are acquainted.

13.—Which of the following are "Capital" items ?

(*a*) Interest paid on Debentures during Construction of works.

(*b*) Amount received from a Fire Insurance Company to cover loss arising from (1) damage to business premises, (2) damage to stock, (3) loss of rent.

(*c*) Proceeds of the sale of a branch business as a going concern.

(*d*) Profit on Foreign Exchanges.

Give reasons for your answer.

14.—Are there, in your opinion, any circumstances which would justify the addition to actual cost of any anticipated Profit, in the case of partially Manufactured Goods, or of an uncompleted Engineering Contract, or in similar cases ?

15.—Give four examples of assets that are Fixed Assets in connection with some particular class of business, but generally Floating Assets. Give four examples of assets that are Floating Assets in connection with some particular class of business, but generally Fixed Assets. What is the proper basis of valuation for Fixed and Floating Assets respectively in a Balance Sheet ?

16.—At a Meeting of Shareholders of a Company you, as Auditor, are asked to explain why you had signed the Balance Sheet when the items on the credit side were not saleable at the amounts placed against them. What would be the nature of your reply ?

17.—An English Manufacturing Company, holding the whole of the Ordinary Stock of an American Company, bought up the Shares of another American Company, and re-sold them to the first-named American Company at a profit of £60,000. How should this amount be treated in the Balance Sheet of the English Company ?

18.—A Manufacturer analyses his purchases under several different heads, such as Coal, Iron, Timber, &c., and wishes to know each year the actual amount *consumed in manufacture* under each head, instead of merely the amount *purchased*. How can he obtain this information ? Why is it of more use to know what material has been consumed in manufacture than to know what has been purchased in any period ?

19.—A Finance Company which has paid £90,000 for six Patents of equal value sold one of these Patents during the first year of its existence, and received as consideration for the sale 55,000 fully-paid Shares of £1 each in a subsidiary Company formed for the purpose of working the Patent.

In the second year the Finance Company sold the 55,000 Shares in the subsidiary Company for £30,000.

How would you, as Auditor, expect the 55,000 Shares or the proceeds of them to be treated in the Accounts of the Finance Company at the end of the first and second years respectively ?

20.—Do you consider that interest paid on Capital during the construction of the works of a Dock or Railway Company should be charged to Capital, or how otherwise ; and what are the views generally held to be sound on this subject ?

21.—Explain shortly the difference between a system of Internal Check and a Professional Audit.

22.—Give six typical examples of Fraud, of which only four involve the abstraction of actual money, and explain shortly what means you would suggest to reduce the risk of loss under each of these headings to a minimum.

23.—Give a list of the principal points that have to be considered in devising a system of Internal Check, and show what particular class of error each of these precautions is designed to avoid or detect.

24.—A. Kinet received from W. Leaf, of Montreal, 550 barrels of fine Flour at 18s. per barrel. A. Kinet paid Freight, £22 ; Insurance, £5 ; Storage, £6. He sold 300 barrels at 26s., and 250 barrels at 25s. Write out the records of the transactions as they would appear in A. Kinet's books.

25.—On 1st July 1920, A.—a merchant carrying on business in London—consigns to his agent at Havre 1,000 tons of Iron, which he invoices *pro forma* at 55s. per ton. On 1st September he received from the consignees, B. & Co., an Account Sales, showing that the whole of the consignment had been sold, and realised 55,400 francs. B. & Co.'s disbursements amounted to 1,250 francs, and their Commission was 2½ per cent. on the gross proceeds. Along with the Account Sales they remitted their Bill (at two months) for the amount due.

Show the necessary entries in A.'s books, assuming that the expenses paid by him in connection with the venture amounted to £100. Assume the average rate of exchange to be 55.00, but that on the date when the Bill became payable the exchange was 56.50.

26.—Walters & Co. consign a shipment of Goods to Roy & Co., their agents in Dublin, on 30th January 1920, and draw upon them at six months for £1,000. They discount the acceptance with their Bankers on 15th February, paying £13 15s. for discounting. On 28th February Roy & Co. advise that they have paid £33 for freight and landing charges on the consignment. On 30th April Roy & Co. remit £500 on account of proceeds, and on the 28th July they intimate that the Gross Sales have amounted to £1,340, and enclose debit note for Commission at 2½ per cent. on that amount.

Walters & Co. take up Roy & Co.'s Acceptance at maturity.

Show, by means of Ledger Accounts, how the foregoing transactions should be recorded in Walter & Co.'s books.

27.—Define an " Account Current," and make out such an account for North & Co. in respect of the following transactions with East & Co. :—

1920.	Sept.	16th.	Goods sold to E. & Co., £100, due October 1st.
	Oct.	1st.	Received Cash from E. & Co., £45.
	"	21st.	Goods bought of E. & Co., £250, due December 1st.
	Nov.	1st.	Paid to E. & Co., cash £165.
	Dec.	1st.	" " £150.
	"	5th.	Goods bought of E. & Co., £250, due January 1st.
	"	10th.	" " £110, "
1921.	Jan.	1st.	Paid cash to E. & Co., £300.
	"	9th.	Goods sold to E. & Co., £80, due February 1st.

The account to be made up to 1st February 1921. Interest to be at 6 per cent. per annum.

28.—On 20th January 1921 Henry Brown forwarded to Thos. White & Co. on consignment 20 chests of Indigo at £60, paying £10 10s. for freight. On 15th April he receives an Account Sales, dated 18th March, showing that the Goods realised £1,381 5s., and that the following expenses had been incurred :—

Dock Dues and Insurance	£6	4	5
Cartage	2	10	0
Storage	2	5	0
Del Credere at 1½ per cent.			
Commission at 2 per cent.			

and enclosing a Bill at three months on the Commercial Bank of Australia, Lim., for the balance.

(1) Show the entries in Brown's books.

(2) Do. do. White & Co.'s books.

(3) Do. Account Sales, and the form of the Bill.

29.—Messrs. A. B. & Co. have three Sales Ledgers (A—L, M—Z, and Country), one Bought Ledger, and one Impersonal Ledger. The Debits and Credits to these Ledgers are posted from one Cash Book, one Sales Day Book, and one Bought Day Book with single column rulings. You are asked to suggest to A. B. & Co. a method of keeping their books by which mistakes can be readily located to one or other of these Ledgers. Give the necessary rulings for the three last-mentioned books to effect this end.

30.—On the 1st January 1921 a Firm possessed the following assets :—

Buildings	£3,000
Plant and Machinery	2,000
Stock-in-Trade	1,000
Book Debts	2,500
Cash	500
	£9,000

The Book Debts were made up as follows :—

A.	£300
B.	400
C.	100
D.	500
E.	200
F.	300
G.	200
H.	500
	£2,500

30.—(*continued*)

The Creditors were made up as follows:—

I.	£1,000
J.	500
K.	200
L.	800
M.	500
	£3,000

The Capital of the firm belonged in equal shares to the partners X. and Y. During the month of January the following transactions occurred:—

Sales		*Purchases.*	
A.	£800	I.	£200
B.	750	J.	700
C.	200	K.	100
D	300	L.	500
E.	200	M.	200
F.	650		
G.	100		
H.	300		
	£3,300		£1,700

Cash Received.		*Cash Paid.*	
A.	£500	I.	£500
B.	600	J.	500
D.	800	K.	200
F.	200	L.	300
G.	350	M.	300
H.	500		
	£2,950		1,800
		General Expenses	300
		X., Drawings	100
		Y., do.	100
			£2,300

You are required to record these transactions in Sold Ledger, Bought Ledger, and General Ledger, making each self-balancing. Take out a Trial Balance of each Ledger, and close the books as on 31st January 1921, taking the Stock-in-Trade at that date at £2,000, reserving £200 for outstanding General Expenses, and £100 for possible loss on Doubtful Debts. Provide for Depreciation of Plant and Machinery at 12 per cent. per annum.

31.—In the Trial Balance of a merchant's books, which are so arranged that the Bought and Sold Ledgers can be balanced separately, the debits exceed the credits by the sum of £2 3s. 6d. What would you suggest as the most likely explanation of the difference, and what steps would you take to find it?

32.—Does the fact that books are balanced indicate their absolute correctness? Give your views on the following Ledger Balances, each consisting of one item as stated below:—

		£	s	d
E. White Account, "To Cash in full"	*Dr.*	74	0	0
P. Bull Account, "To Remittances"	,,	63	0	0
O. Brown Account, "By Cash"	*Cr.*	91	3	6
Great Western Railway Account, "By Freight overcharged"	,,	24	10	0

33.—The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on 31st December 1920.

		£	s	d
1920.				
June 30th.	Debtors' Balances	28,394	12	6
Dec. 31st.	Transactions for the half-year to date—			
	Sales to Debtors	58,421	10	8
	Returns from Debtors	691	12	0
	Cash Received from Debtors	41,344	8	6
	Discounts allowed to Debtors	1,504	9	3
	Acceptances received from Debtors	4,210	1	2
	Acceptances returned dishonoured	550	0	0
	Bad Debts written off	942	10	0
	Sundry Charges debited to Debtors	29	4	6

34.—A. applies Sectional Balancing to his accounts. Upon closing his books at the end of the year, he desires to make the following adjustments :—(*a*) A balance of £73 4s. 8d. standing to A.'s debit in the Sold Ledger to be transferred to his Drawings Account in the General Ledger; (*b*) The following debit balances in the Sold Ledger to be written off as Bad Debts : X., £32 6s. 8d., Y., £13 1s. 5d., Z., £93 7s. 4d. ; (*c*) A credit balance of £92 17s. 1d. on the account of K. in the Bought Ledger to be transferred to the credit of K.'s account in the Sold Ledger ; (*d*) The credit balance on Reserve for Bad and Doubtful Debts in the General Ledger, which at the beginning of the year stood at £214 6s. 9d., to be reduced at the end of the year to £131 10s. Make the required entries.

35.—From books kept by Single-entry you extract the following as at 30th June 1921 :—

	£	s	d
Capital	3,850	0	0
Due from Customers	6,970	0	0
Cash in hand	54	0	0
Stocks (as per Stock Sheets)	2,790	0	0
Fixtures, Fittings, and Utensils	570	0	0
Creditors	2,760	0	0
Bank Overdraft	970	0	0
Bills Payable	340	0	0
Goods supplied to Private Residence	260	0	0

The amount of the Capital above-mentioned you find to be the balance after the sums of £300 for Drawings and £250 for Salary have been debited.

Prepare an Account showing the Profit earned during the year ended 30th June 1921.

36.—In the case of a large Manufacturing Company, with a Factory and numerous Branches for the sale of its products, the Head Office is at the Factory, whence goods (at cost) are issued and delivered to the Branches. In the Balance Sheet of the Company you find that, after due adjustment of the sales and working expenses of each Branch, the debit balances then remaining against such Branches are included in the item "Sundry Debtors." Is this correct ? State your reasons.

37.—A Manufacturing business which has several Branches through which it sells its productions keeps the books and accounts of the Branches at a Head Office, instead of keeping them at the Branches themselves. Give reasons for and against this arrangement.

38.—The "A" Company, Lim., carries on business in Birmingham and London, the former being its headquarters. On 31st December 1920 the London Branch submits the following Trial Balance to headquarters :—

LONDON TRIAL BALANCE, 31st December 1920.

	Dr.	Cr.
Head Office		£5,000
Remittance Account	£2,000	
Sold Ledger Account	2,000	
Stock, 31st December 1920	2,500	
Gross Profit		4,000
Rent	300	
General Expenses	500	
Cash at Bank	1,200	
Office Furniture	300	
Bad Debts	200	
	£9,000	£9,000

On the same date the Head Office books showed the following position :—

HEAD OFFICE TRIAL BALANCE, 31st December 1920.

	Dr.	Cr.
Branch Account	£5,000	
Remittance Account		£2,000
Sales		12,000
Stock, 1st January 1920	4,000	
Wages	4,500	
Materials	2,500	
General Expenses	1,000	
Business Premises	1,200	
Plant and Machinery	1,800	
Cash at Bank	500	
Reserve Fund		1,500
Capital Account		5,000
	£20,500	£20,500

The Stock on 31st December 1920 was £3,600.

You are required to incorporate the Branch transactions in the Head Office books, and close the latter as on 31st December 1920. Provide for Depreciation of Plant and Machinery at 10 per cent. per annum.

39.—The Anglo-French Bottle Company, Lim., sells in this country glass-ware exclusively purchased from manufacturers abroad, who invoice their goods to the Company in their own currency. Explain fully how you would deal in the Company's books with the record of Purchases, and the subsequent payment of trade creditors' claims.

40.—In the case of a trading concern having numerous retail Branches, each supplied with goods from the Head Office, which are invoiced to the Branches at selling price, state how you would close the books of the Branches at balancing time, and how you would incorporate the Branch transactions in the Head Office books so that the latter might show completely and in sufficient detail the results of the undertaking as a whole. What special adjustments would be necessary in the Head Office books under the circumstances stated ?

41.—On the 31st December 1920 the Trial Balance of the books kept at the Head Office of the Commercial Colliery Company, Lim., was as follows :—

41.—(*continued*)

TRIAL BALANCE, 31st December 1920.

	Dr.	Cr.
Subscribed Capital, 160,000 Shares of £1 each		£160,000
Colliery Account	£160,000	
Remittance Account		8,000
Sundry Debtors	5,000	
Reserve Fund		2,000
Transfer Fees		100
Office Expenses	500	
Directors' Fees	300	
Cash at Bank	3,500	
Profit and Loss Account		700
Interest		75
Sundry Creditors		425
Consols	2,000	
	£171,300	£171,300

The books at the Colliery are balanced up to the same date, and the following Trial Balance is in due course despatched to the Head Office :—

TRIAL BALANCE, 31st December 1920.

	Dr.	Cr.
Head Office Account		£160,000
Remittance Account	£8,000	
Capital Expenditure to 31st December 1919	150,000	
Additional Capital Expenditure during 1920	20,000	
Reserve for Depreciation		15,000
Wages	35,000	
Stores Consumed	5,000	
Stocks and Stores on hand, 31st December 1920	2,500	
Trade Creditors		1,500
Creditors for Rents, Royalties, &c.		500
Redeemable Dead Rents	400	
Miscellaneous Colliery Expenses	2,000	
Royalties	1,500	
Cash in hand	100	
Depreciation	2,500	
Coal Sales		50,000
	£227,000	£227,000

You are required to show (*a*) Journal entries incorporating the Branch figures in the Head Office books; (*b*) the Accounts of the Company for the year ended 31st December 1920, as they would be submitted to the Shareholders, assuming them to be framed on the Double-Account System.

42.—A South Wales provision merchant has several Branches which are supplied from the Head Office. Each Branch has its own Sales Ledger, and hands over the total amount of the cash received to the Head Office every day. In the invoices for the Goods supplied by the Head Office to the Branches, 25 per cent. is added to the cost. All expenses are paid from the Head Office.

From the following particulars of the transactions of the Branches, raise the Ledger Accounts in the Head Office books, and prepare Accounts showing the Gross Profit of each Branch :—

	Cardiff	Newport	Bridgend
Goods received from Head Office	£5,500	£4,500	£3,500
Total Sales	5,200	4,300	3,100
Cash Sales	2,750	2,250	1,650
„ Received on Ledger Accounts	2,250	1,850	1,250
Debtors at commencement	1,555	1,665	1,350
„ close	1,755	1,865	1,550
Stock at commencement	750	650	450
„ close	1,060	960	760

43.—The following is the Trial Balance of the West African Mining Company, Lim., to 31st December 1920 :—

TRIAL BALANCE, 31st December 1920.

Share Capital (99,200 Shares of £1 each)		£99,200
Mining Property Account	£70,000	
Remittances to Mine	27,000	
Office Expenses	2,000	
Sundry Creditors		1,800
Bank	2,400	
Forfeited Shares Account		200
Transfer Fees		200
	£101,400	£101,400

The Trial Balance received from the Manager at the Mine, made up to the same date, is as follows :—

TRIAL BALANCE, 31st December 1920.

Head Office Account		£27,000
Stores	£1,500	
Bank	800	
Sales		12,000
Working Expenses	14,200	
Development Account	22,500	
	£39,000	£39,000

You are asked to show (*a*) the Journal Entries necessary to close the books at the Mine ; (*b*) the Head Office Account in the Mine Books , (*c*) the Balance Sheet and Profit and Loss Account of the Company.

44.—The following is the Trial Balance of the Calcutta Branch of the Anglo-Indian Trading Co., Lim :—

TRIAL BALANCE, 31st December 1920.

	Rs.	Rs.
Head Office		84,000
Premises	50,000	
Fixtures	2,500	
Stock	25,000	
Debtors	75,000	
Bills Receivable	5,000	
Cash	12,500	
Creditors		64,000
Remittance Account	50,000	
Rent	2,000	
Bad Debts	5,000	
Salaries	12,000	
General Expenses	10,000	
Discounts		5,000
Sales		300,000
Purchases	200,000	
	449,000	449,000

Stock on 31st December 1920, 20,000 Rs.

Depreciation of Premises at 5 per cent.

Taking the above Trial Balance you are required—

(*a*) To close the Branch books and compile the usual Balance Sheet, Trading, and Profit and Loss Accounts in rupees.

(*b*) To incorporate the Branch Trial Balance in the Head Office Books, and close the latter, the Head Office Trial Balance being as follows :—

44.—*(continued)*

TRIAL BALANCE, 31st December 1920.

Capital		£5,000
Branch Account	£6,100	
Remittance Account		3,300
Debentures		2,500
Cash	3,900	
Office Expenses	1,000	
Profit and Loss Account		200
	£11,000	£11,000

		s	d
Average Rate of Exchange	..	2	0
Rate 31st December 1919	..	2	1½
" " 1920	..	1	10½

(*c*) To show the Balance Sheet and Profit and Loss Accounts in the Head Office books, assuming that the rupee is to be converted at the uniform rate of 1s 4d. for all Personal and Nominal Accounts.

45.—During the year 1920 the New York Branch of the British Motor Co., Lim., remitted to the Head Office in London as follows :—

1st April	$1,000	realising	£206	3	8
1st October	1,000	"	203	5	0
27th December	1,000	"	204	19	2
	$3,000		£614	7	10

The last-named remittance did not reach London until January 1921. The books of the Company were closed on 31st December 1920. How should the Remittance Account appear in the books of (*a*) the New York Branch, (*b*) the London Head Office.

46.—State how you would deal with a foreign currency when recording Consignment transactions (*a*) in the books of the Consignor, (*b*) in the books of the Consignee.

47.—Illustrate, by means of a short example, how you would record in the books of an English house the purchase of Goods from abroad in a foreign currency, and their subsequent payment in sterling.

48.—Illustrate how you would record, in the books of an English house, the sale of Goods to customers abroad, and the payment for such goods by them in a foreign currency.

49.—What, in your opinion, would be the best method of dealing with Profit or Loss on exchange in the case of a London Company having its trading centre in South America ? Illustrate your method, and state whether it would apply alike to Capital and Revenue items.

50.—Explain quite shortly the effect of a fall in the exchange value of the Rupee on each of the following :—

(*a*) An English Company carrying on a general trading business in India.
(*b*) An English Company owning a Railway in India.
(*c*) An Anglo-Indian Bank.

Confine your answer to the effect that the variation in exchange should have on the published Accounts.

51.—Explain shortly what you understand by the Tabular System of Bookkeeping, and show, by means of *pro forma* rulings, the application of this system (*a*) to a Ledger, (*b*) to a book of first entry.

52.—For what purposes does a Manufacturer require to keep a Stores Account? Describe a simple system upon which such Accounts may be kept.

53.—How may a Trader approximately arrive at his Net Profit without taking Stock?

54.—J. L. and W. D. enter into what may be termed a Limited Partnership for the purpose of buying at sales any railway rolling-stock or machinery which could be obtained at a price cheap enough for a speculation, and sharing the risk—this being quite apart from their own proper businesses, in which they have no connection with each other. Sometimes one buys, sometimes the other, but Disbursements and Sales are made indifferently, including the receipt of money, on account of the Sales. There is no joint fund or Bank Account, and each works the individual transaction through his own business. The following transactions are recorded, and you are required to raise accounts for both parties, and show the completion and agreement of same, including the equal division of profit and loss, and the balance carried to a general account. Five per cent. per annum on all cash received or paid.

1920			
Jan.	1	J.L.	buys Locomotive for £500.
,,	12	,,	pays cost of Transit, £10.
Mar.	16	W. D.	,, Rent for same, £1 6s. 8d.
,,	18	,,	,, Insurance, 10s.
June	1	,,	,, Repairs, £10.
,,	30	,,	sells Locomotive for £560.
July	2	,,	buys 500 tons rails at £3 per ton.
,,	30	J. L.	pays Freight and Landing Charges, £25.
Aug.	30	,,	,, Rent, £2 5s.
Sept.	1	W. D.	sells 500 tons Rails at £3 5s. per ton.
,,	6	J. L.	buys two Cranes, £50 each.
,,	12	,,	sells same for £108.

Show how affairs stand on 1st October 1920.

55.—A., B., and C. agree to purchase a business in New York and carry it on for a stated period. A. invested 4,000 dollars, B. 25,000 dollars, and C. 20,000 dollars. The Partnership Agreement provided that they should share profits and losses in the proportion of A. 5, B. 3, C. 1. At the end of the term the Balance Sheet was as follows:—

Liabilities			*Assets*	
Creditors—			Cash	$500.00
Trade Accounts		$69,000.00	Debts Receivable	68,000.00
Loan		16,000.00	Stock of Goods, as per Inventory	47,000.00
Partners' Capital—			Machinery and Plant	35,000.00
A.	$47,000.00		Share and Bonds, at market price	22,000.00
B.	30,000.00			
C.	10,000.00			
		87,500.00		
		$172,500.00		$172,500.00

The business was sold and the Assets realised 140,000 dollars gross. The Costs and Expenses of the sale amounted to 5,000 dollars. Show the final accounts of the Partners, and convert the balance of each account into sterling, the rate of exchange being 3.85.

56.—A., B., and C. were in partnership under a contract which expired on 30th June 1920. They were unable to come to terms for a renewal of the contract, and agreed to dissolve the Partnership as on that date. The business was put up for sale as a going concern by private tender among the partners. A. and B. made a joint offer and became the purchasers at the price of £14,000. By the conditions of sale the purchasers took over the whole assets and liabilities of the firm. The amount due to the retiring Partner was to be paid as to one-third in cash and as to two-thirds in equal instalments by bills at three and six months from 1st July 1920; interest was to be allowed on the three instalments from 1st July till date of payment at 6 per cent. per annum. Settlement took place on 1st August.

The books of the firm were kept by single entry, and after examination and adjustment the following figures were brought out as at 30th June 1920:—

Factory Buildings	£3,500	
Machinery and Plant	7,000	
Designs and Cards	1,000	
Sundry Debtors	8,500	
Bills Receivable	1,000	
Cash	900	
A.'s Drawings	450	
B.'s "	350	
C.'s "	275	
Sundry Creditors		£7,600

The capital of the partners, as shown by the Balance Sheet of 30th June 1919, was respectively, A. £7,200, B. £4,700, and C. £3,200.

The stock on hand at 30th June 1920 amounted to £2,000.

Under the contract of co-partnery the partners were entitled to interest on capital at the rate of 6 per cent. per annum, and to the following salaries: A. £500; B. £400; and C. £300, and these are to be allowed for. Profit and loss was shared in the proportions of A. $\frac{5}{10}$ths, B. $\frac{3}{10}$ths; and C. $\frac{2}{10}$ths.

Prepare:—

(1) Statement showing the amount divisible among the Partners on the year's working.

(2) Balance Sheet at 30th June 1920, giving effect to the sale.

(3) Statement of C.'s account, showing the settlement with him.

57.—A., B., and C. were Partners, and advanced the following Capital:—A. £4,000, B. £3,000, C. £2,000. Profits and losses were to be borne equally. At the end of the first twelve months each Partner had drawn £500. The Assets were then disposed of for £1,500, the purchaser discharging all the liabilities of the firm. How should this sum be apportioned among the Partners, and would any Partner or Partners have to advance any further sum? If so, state which Partner and how much, and prepare the necessary accounts showing the results.

58.—On the 1st July 1920 A. took B. into partnership. A. had the following assets:—

Leasehold Premises	£500
Stock-in-Trade	800
Book Debts	700
Cash at Bank	100

His liabilities (including £200 on Bills Payable) amounted in all to £800. B. brings in £1,500 in cash, and it is agreed that £500 of this shall be credited to A. as representing the price to be paid by B. for a half-share of Profits.

Open the books of the new firm by means of Journal entries, and show the Balance Sheet at the commencement of the Partnership.

59.—A., who is about to retire, is desirous of selling his business as a going concern. B. is willing to purchase the outstanding Assets at a fair valuation, but A. requires in addition the sum of £2,000 for the Goodwill of the business.

State, as fully as you can, the inquiries that B. ought to make before agreeing to purchase the Goodwill at this price.

60.—On the 1st January 1920, A., B. and C. entered into partnership, each bringing in £2,000 Capital. It was agreed that the profits should be divided as follows: A. one-half, B. one-third, C. one-sixth. During the year each Partner withdrew on account of profits the sum of £600. On 31st December 1920 the Partnership was dissolved. After payment of the liabilities of the partnership, which amounted to £3,000, there remained at the Bank a balance of £2,000, as a result of the sale of the partnership assets. Before any return had been made to the partners B. was adjudicated Bankrupt, and his assets were quite insufficient to pay his liabilities in full. Prepare accounts showing the adjustment of the rights of partners *inter se*.

61.—The London Engineering Company, Lim., acquires on 1st April 1921, from William Brown, the following property:—

Stock-in-Trade	£10,000
Machinery	20,000
Freehold Buildings	47,500
Goodwill	22,500
	£100,000

Payment is made on the same day as follows:—

Cash	£20,000
Debentures	50,000
Preference Shares	10,000
Ordinary Shares	20,000
	£100,000

You are required to explain how the above arrangement may be carried into effect, and what entries should be made in the books of the Company.

62.—A Railway Company divides its Ordinary Stock into Preferred Stock (with a fixed percentage of interest) and Deferred Stock, giving to each holder of £100 Ordinary Stock £100 Preferred Stock and £100 Deferred Stock. The operation not involving any cash receipts, how would you expect to find the conversion dealt with in the accounts of the Company? What authority would the Company require for the operation? What are the advantages and disadvantages of such procedure?

63.—On the 31st December 1920 the Assets of Arthur Jones appear in his books as follows:—

Freehold Premises	£2,000
Goodwill	1,500
Plant, Fixtures, &c.	750
Bills Receivable	550
Stock-in-Trade	2,500
Book Debts	2,000
Cash at Bank	700

His Creditors amount to £1,500. Jones decides to convert his business into a small Limited Company, with a nominal Capital of £12,000, divided into 12,000 Shares of £1 each, of which he agrees to accept 10,000 Shares, issued as fully-paid, as purchase consideration for his business, the Company taking over his liabilities. The remaining 2,000 Shares are issued to friends of Jones for cash, payable 5s. on Application, 5s. on Allotment, and the balance one month after Allotment. The purchase is completed, and the allotment takes place on the 8th January 1921.

Show the opening entries in the Journal of the new Company.

64.—On the 1st January 1921 a Company was registered under the name of Jones Bros., Lim., with a nominal capital of £25,000, to take over as a going concern the business formerly carried on by John and James Jones in partnership. The books of the firm had been balanced up to the 30th September 1920, when the position was as follows:—

BALANCE SHEET, 30th September 1920.

Liabilities		*Assets*	
John Jones—		Business Premises	£3,000
Capital Account	£12,000	Stock	10,000
James Jones—		Debtors	10,000
Capital Account	10,000	Cash	2,000
Trade Creditors	3,000		
	£25,000		£25,000

It was arranged that the purchase-price should be fixed at £25,000, payable £7 in Cash and the balance in fully-paid Shares. Only 7 Shares were issued for Cash—namely, to the signatories to the Memorandum of Association, and these were duly paid for on the 1st January 1921, when the completion took place.

You are required to show, in the form of Journal entries, how these transactions should be recorded in the books of the Company.

65.—John and James Jones, who are referred to in the preceding question, were equal Partners in the firm of Jones Bros.

You are required to show how the books of the firm would be closed on the sale of the business to a Limited Company, and how much each Partner is then entitled to receive.

66.—In April 1921 it is ascertained that the profits of Jones Bros., Lim. (*vide* Question 64), for the six months ended the 31st March have amounted to not less than £3,000.

State what interim dividend you consider the Directors would be justified in declaring, giving reasons for your reply.

67.—The Nominal Capital of the X. Y. Z. Company, Lim., is £250,000, divided into 250,000 Shares of £1 each. Of these, 200,000 Shares have been issued at a premium of 2s. 6d. per Share. 15s. per share has been called up, and the sum actually received from Shareholders (irrespective of premiums) amounts to £149,950. 100 Shares have, however, been forfeited for non-payment of Calls after 5s. per Share had been received thereon. State how the Capital Account of the Company should be shown on its Balance Sheet.

68.—On the 31st December 1920 the Accounts of a Limited Company showed a credit balance on Profit and Loss Account of £5,500. It was decided not to declare any dividend, but to apply these profits in the redemption of an issue of £5,000 worth of Debentures, which the Company was then empowered to pay off at 105.

You are required to show the Ledger Accounts affected by the carrying through of this transaction.

69.—The A. Company, Lim., invited applications for 100 7 per cent. Debenture Bonds of £100 each, issued at a discount of 5 per cent., payable £10 on application, £40 on allotment, and the balance one month after allotment. On the 12th April 1921 applications, accompanied by the prescribed deposit, are received as follows:—

B.	30 Debentures.
C.	20 ,,
D.	10 ,,
E.	2 ,,
F.	50 ,,

On the following day Debentures were duly allotted to B., C., and F., in accordance with their applications. The further moneys due on allotment were received by the Company on the 15th April. D.'s and E.'s applications were declined and the deposits returned by the 14th April. On the 13th May the whole of the moneys then payable were received by the Company.

Show the Applications and Allotments Book recording the above transactions.

70.—Taking the facts as stated in the preceding question, make the necessary entries in the Journal and Cash Book, and post to the Ledger.

71.—The X. Company, Lim., had a Nominal Capital of £50,000, in Shares of £1 each, all issued and fully called-up, but 100 of these Shares had been forfeited for non-payment of a Final Call of 5s. per Share. On the 1st June 1920 these Shares were re-issued credited with 10s. per Share paid up, the balance being due on allotment and received by the Company on that day.

You are required to show the necessary Journal entries in connection with both forfeiture and re-issue, and the Ledger Accounts affected by these transactions.

72.—In the case of a Company having a large number of Shareholders and frequent dealings in the Shares, what means would you suggest for readily enabling errors in the posting of such transfers to be localised?

73.—A Company purchased a business as a going concern on 1st January 1921, with a right to the Profits from 1st October 1920.

Its Capital is:—

7 per cent. Preference Shares	£50,000
8 per cent. Preference Shares	50,000
Ordinary Shares	24,800

The year's Profits to 30th September 1921 are found to have been £7,664. What appropriation of such Profits would you consider to be correct?

74.—The London Engineering Company, Lim., invite subscriptions for 40,000 Preference Shares, being part of an issue of 50,000 such Shares of £1 each. The Subscription List closed on 25th March 1921, when it was found that the following applications had been received, and the deposit of 2s. 6d. per Share thereon paid to the Company's bankers:—

	Shares.
A.	5,000
B.	10,000
C.	5,000
D.	2,000
E.	10,000
F.	10,000
G.	10,000

74.—(*continued*)

On the 1st April the Board allotted Shares as follows :—

A.	5,000
B.	10,000
C.	5,000
E.	10,000
F.	5,000
G.	5,000

and intimated that a further 7s. 6d. per Share was payable on allotment.

You are required to show how the above would appear in the Applications and Allotments Book, and to explain what entries would be necessary in the financial books of the Company up to the point of sending out Allotment Letters and Letters of Regret.

75.—In the case of a Company which has issued Preference Shares carrying a cumulative dividend of 6 per cent., but which has not made any Profits for some years, how would you deal (if at all) with the arrears in a Balance Sheet of the Company ?

76.—Journalise the following transactions of a Limited Company.

The Company was registered on the 1st January 1921, with a Nominal Capital of £40,000, divided into 40,000 Shares of £1 each, of which 20,000 were issued as fully-paid to the Vendor as part of the purchase consideration, 10,000 offered for subscription to provide Working Capital, 5s. per Share payable on Application, 5s. per Share on Allotment, and the remainder in two Calls of 5s. each. 10,000 Shares to be held in reserve for future issue. The Vendor also received £5,000 in 5 per cent. Debentures, the balance of the purchase consideration.

January	5.	Applications, accompanied by 5s. per Share, were received for 5,000 Shares.
,,	6.	Allotment made of 5,000 Shares.
,,	10.	Amount due on Allotment of 5,000 Shares received.
February	10.	First Call of 5s. per Share, made payable 24th inst.
,,	,,	20,000 fully-paid Shares, allotted to Vendor.
,,	,,	5 per cent. Debentures issued to Vendor for £5,000, balance of purchase-money.
,,	24.	Received on Account of First Call, £625.
,,	26.	Received Balance of First Call, £625.
March	10.	Second and Final Call of 5s. per Share, made payable on 24th inst.
,,	24.	Received on Account of Second and Final Call, £1,000.

77.—A private business, as carried on by John Smith, is converted on 1st January 1920 into a Limited Company under the title of "Smiths, Lim.," on the following terms :—The Company takes over the Cash and Bills in hand, but collects the Book Debts and discharges the Liabilities on behalf of the old firm ; it also purchases the Stock for £1,500, the Plant for £3,000, and the Goodwill for £5,000.

The purchase-money is payable as to £5,000 in 5 per cent. Debentures, as to £5,000 in fully-paid Shares, and the balance in cash. The Balance Sheet of the business on 31st December 1919 was as under :—

JOHN SMITH.

Balance Sheet, 31st December 1919.

	£	s	d			£	s	d
To Sundry Creditors	3,000	0	0	By Cash in hand		650	0	0
,, John Smith—Capital Account	11,150	0	0	,, Bills Receivable in hand		900	0	0
				,, Sundry Debtors, as per list	£10,500			
				Less Reserve for Bad Debts	1,500			
						9,000	0	0
				,, Stock-in-Trade		1,600	0	0
				,, Plant		2,000	0	0
	£14,150	0	0			£14,150	0	0

77.—(*continued*)

The sums paid over by the Company in respect of Book Debts collected, over and above the amount used to pay off the Creditors, are as follows :—On 31st January, £2,000 ; 28th February, £2,000 ; on the 30th April an agreed sum of £1,350 in settlement of the balance and as purchase-money for the Book Debts then outstanding.

Show the Cash Book and Journal entries necessary to record the above transactions in the books of the new Company, open and post the Ledger Accounts, and take out a Trial Balance on the 30th April 1920.

78.—Write up the books of John Smith (*vidè* preceding question) from 1st January to 30th April 1920, and close them at the latter date, and prepare a Balance Sheet.

79.—M. stands in the books of the X. Co., Lim., as the holder of 100 fully-paid Shares of £1 each. M. dies, and probate of his will is granted to N. What must N. do before he can deal with the Shares, and what record should appear in the books of the X. Co., Lim. ?

80.—In what way would you advise that Premiums on the issue of new Shares in a Limited Company should be dealt with ? Give your reasons.

81.—On the 1st January 1921 a Company offers for subscription its Capital of £100,000, divided into 100,000 Shares of £1 each. The Shares are offered at a premium of 2s. 6d. per Share, the whole being payable 5s. on Application, 7s. 6d. on Allotment, and the remaining 10s. one month after allotment.

The whole of the Issue is applied for on the 2nd January, and the Company goes to allotment on 8th January.

Show the necessary entries in the financial books of the Company, assuming that all instalments of Capital are duly received.

82.—In the case of a prosperous undertaking (whose shares stand at considerably above par) having occasion to issue further Capital for purposes of development, state whether you consider the most prudent course in the permanent interests of the Company to (*a*) offer the new shares *pro rata* to the old shareholders at par ; or (*b*) issue them to the public at the highest premium obtainable.

83.—(*a*) What do you understand by apportionment ? When does apportionment take place, and why ? Where an apportionment is necessary, when would the amount apportioned be the income for the whole year, and when the income for some shorter period, and why ?

(*b*) When making apportionments, how would you deal with (*a*) Income Tax and (*b*) Landlord's Property Tax ?

84.—Acting under powers conferred by the will, the executors of a deceased merchant are carrying on his business. State shortly what accounts you would advise the executors to keep, and what special precautions it is desirable that they should observe.

85.—A. died on the 1st February 1904, leaving Cash in the House, £20 ; Balance at Bank £500 ; 2½ per cent. Consols, £10,000 Stock at 87⅛-87⅜ ; Great Western Railway 4 per cent. Debentures, £10,000 Stock at 124-7 ; Freehold Property, valued at £4,000, producing £160 per annum, Rent paid to 25th December 1903. A.'s liabilities amounted to £650 ; the Funeral Expenses were £60. A. bequeathed a legacy of £50 to each of his Executors, B., his brother, and C., his wife's

85.—(*continued*)

brother, and the residue in equal shares to his wife and his nephew D. Estate Duty was paid on the 1st May 1904, on which date the Funeral Expenses and the Debts Due at Death were also paid, as well as the Legacies to the Executors. The Consols were sold on the 30th May at 90⅛, the Great Western Railway Debentures on the same day at 130, the Freehold Property was sold for £4,100, and the completion took place on the 15th June, when £4,250 was received, which allowed for outstanding rents, &c. On the 30th June the residue was divided.

You are required to show the Accounts in the books of the Executorship recording the above transactions.

86.—A. died on 31st January 1907, leaving behind him the following property :—

£2,000 Consols, at 88¾-⅞.
£1,000 Bank of Ireland Stock, at 337-342 x.d. (at 5¾ per cent. for the half-year).
£1,000 New South Wales 4 per cent. Stock, at 105½-106½.
£1,000 Caledonian 4 per cent. Guaranteed Annuities, at 120-122 x.d.

You are required to state the amount at which each of these investments should be valued for purposes of Estate Duty.

87.—Taking the investments named in the preceding question, you are required to state exactly how you would deal in the Executorship Books with the first dividend received on each after the death of the Testator. A quarter's dividend on Consols is paid on 5th April. A half-year's dividend on the Bank of Ireland Stock is paid on 1st February, a half-year's dividend on the New South Wales Stock on 1st July, a half-year's dividend on the Caledonian Stock on 1st February. All dividends are subject to income-tax at 1s. in the £1.

88.—A Testator died 31st December 1906, leaving :—

Cash in the House, £30.
Consols, 2½ per cent., £12,000, valued at 87¾ x.d.
Midland Railway Company's 4 per cent. Debentures, £16,000, valued at 101 x.d. Dividend due 1st January.
Iron and Steel Company, 100 Ordinary Shares of £10 each, valued at £5, but paying no dividend.
Balance at the Bankers, £650.

There was due to Testator £4,000 on mortgage at 4 per cent. interest, due yearly on 31st March. His debts to Tradesmen amounted to £500. The residue of the Estate is bequeathed half to his Widow and half to a Brother. He bequeathed to his two Executors (strangers in blood) £100 each. The Funeral Expenses were £75. The Stocks were realised at the valuation prices, and the Mortgage was called in on 31st March, on which day Probate was applied for

Draw a statement showing the residue on which Legacy Duty is chargeable.

89.—A., who was in partnership with B. and C. on equal terms, both as to Capital and share of Profits, died, leaving the following Estate :—

	£	s	d
Cash in the House	5	0	0
Cash at the Bank	500	0	0
Freehold Property	6,000	0	0
Household Furniture, valued at	700	0	0
Shares in various Companies, valued at	4,000	0	0

His liabilities were £150.

The partnership Assets and Liabilities were as follows :—

Stock-in-Trade	10,000	0	0
Debts (Good)	3,000	0	0
Cash at Bankers and in Hand	1,450	0	0
Bills Receivable	300	0	0
Liabilities	4,500	0	0

89.—*(continued)*

Make up a Statement of the personal estate of which A. died possessed, showing the amount on which Estate Duty would have to be paid.

90.—The estate of George Washington, deceased, was left in trust equally to his two sons, but the elder, having arrived at his majority, has received his share, the moiety being still carried on in trust for the younger. The Trustees did not, however, convert the whole Estate into cash, but have taken over some of the Stocks at cost price, instead of the prices then current, and this has now to be rectified. From the following particulars draw up six months' accounts, and show what further sum is due to elder, and how younger's position is altered.

On 1st January younger's Account is:—

	Cost Price.	*Present Price.*
Pernambuco Water Works	£1,126 5 0	£1,220 0 0
Submarine Railway Co.	626 12 6	825 0 0
Arctic Railway Co.	500 0 0	579 10 0
British Funds	100 0 0	108 0 0
Mortgage	1,750 0 0	
Cash at Bank	2,847 8 6	

The following items are younger's Income and Expenditure Account to 30th June:—

Sundry Dividends	£59 5 1	
Interest on Loan	53 6 0	
Purchase of Corporation Stock		£2,700 0 0
Maintenance		47 5 3
Cash Allowance		40 0 0

91.—Testator left the income of his Estate to his widow for life, and the capital to A. at her death.

Part of the estate consisted of Shares in the Prosperous Iron Company, Lim. At a date during the continuance of the trust, the Company, with a Capital of 51,000 Shares of £10 each, £7 10s. per Share paid up, had a Reserve of £100,000, and an undistributed balance of Profit of £40,000. It was resolved to apply the whole of the Reserve and £27,500 of the Profit and Loss Account balance to the payment of a bonus of £2 10s. per Share, and to issue 17,000 new Shares to the Shareholders, being one new Share for every three old Shares, of which £7 10s. per Share was to be paid up.

Show how the widow and A. are respectively interested, and make the entries in the Trust Books.

92.—A. died on 31st December 1919, leaving behind him the following property:—Cash at Bank, £500; Cash in House, £50; £20,000 5 per cent. Stock in the Great Southern Railway Company, valued for probate at 110 (*ex div.*); Debts due at death, £240; Funeral Expenses, £45; Freehold Property (let at £400 per annum, payable quarterly, on which the Christmas rents were unpaid) valued for probate at £7,500.

The Will was proved on 31st March 1920, when the whole of the Estate Duty was paid. Open the Accounts in the Executorship Books, showing the proper distinction between Realty and Personalty, Capital and Income.

93.—Taking the facts as stated in the preceding question, show the Estate Account in the Ledger, up to the final closing of the Estate on 30th September 1920, by the aid of the following additional information:—The Real Estate was specifically bequeathed to the widow. The following legacies were payable out of Personalty: £1,000 to widow, £50 each to X. and Y. (respectively

93.—(*continued*)

the brothers of A. and of Mrs. A.). The residue of the personalty went to Mrs. A. and Z. (a niece of the deceased) in equal shares. Half-yearly dividends on the Stock were received on 1st January and 1st July 1920. The Stock was sold on 15th September 1920 at 105. The tenant of the freehold property paid all rents due from him fourteen days after each quarter day. The Executorship expenses amounted to £120. Disregard Income Tax and brokerage.

94.—How would you distinguish between Capital and Income in connection with Executorship Accounts ?

95.—A Testator left his Estate, after payment of debts, costs, and legacies, in trust to his Executors to pay to his wife the net annual income produced by the trust, including the income partly accrued due at his death.

He died on 25th December 1919 and left :—

Preference Shares in Public Companies producing an annual income of £3,000, payable half-yearly on 30th June and 31st December.

Ordinary Shares in Public Companies producing £1,000 a year, payable half-yearly on 1st March and 1st September in respect of financial years ending 30th June

Ground Rents producing £600 a year, due 25th March and 29th September.

Leasehold Premises producing £400 a year, due on 24th June and 25th December.

A Mill, sold within five months of Testator's death, and which earned in that period a net profit of £300.

Show the transactions in the Trust Books up to 29th September 1920, and the amount to which the widow is entitled. Take no notice of Income Tax.

96.—A Testator died on 31st May 1916, possessed of £2,000 2½ per cent. Consols, the quarterly dividend on which was paid on 5th July 1916, and £4,000 Midland Railway 2½ per cent. Preferred Stock, the half-yearly dividend on which was paid on 1st July 1916. For purposes of probate Consols were valued at 60, and the Midland Railway Stock at 42. Show the Ledger Accounts of the two investments in the books of the Executors.

97.—State fully the difference between the Double-Account System and the Single-Account System, and the general principles governing the valuation of Assets and Liabilities under each.

To what classes of undertakings is the Double-Account System specially applicable, and why ? Describe fully the correct method under both the Single and Double-Account Systems of dealing with (*a*) Repairs, (*b*) Renewals, (*c*) Extensions.

98.—In the case of a Company keeping its accounts on the Double-Account System, how would you divide (as between Capital and Revenue) the cost of—

(*a*) Replacing a 6-in. Gas Main by a 9-in. Main.

(*b*) Enlarging a Railway Station.

(*c*) Successfully opposing a Bill promoted in Parliament by a rival Company.

99.—Prepare a Statement of Affairs and Deficiency Account, as on 10th October 1920, of William Corby, trading as William Corby & Son, from the following particulars :—

Cash in hand, £85 ; Book Debts, £3,472, estimated to produce £2,869 ; Unfinished Contract in hand, estimated to produce £3,000 over and above the cost of completing it ; Plant, Tools, &c., cost £1,880, estimated to realise £500 ; Office Furniture, estimated to realise £25 ; Stock-in-Trade, £1,900 ; Investments valued at £6,200, of which are deposited with Bankers as security for Loan £5,460 ; Life Policies for £2,000 of the estimated Surrender Value of £1,470, subject to advances made by the Insurance Company amounting to £1,420 ; Unsecured Creditors on Trade Accounts, £4,140 ; Unsecured Creditors for Cash advanced, £5,308 ; W. Smith for two months' wages due to him, £30 ; A. Compton, six months' salary due to him at £15 a month ; Rent recoverable by distress, £45 ; Bankers for Loans partly secured, £10,134 (estimated value of Securities held by Bankers, £7,460, viz. :—Investments, £5,460 and Lease £2,000); Capital Account on 1st January 1920 as shown by the books, £189 ; Loss on Trading from 1st January to 10th October 1920, £374 ; Loss on Sale of Investments made on 13th June 1920, £200 ; Drawings, £750.

100.—Johnson & Caley, merchants, are unable to meet their obligations. From their books, papers, and information supplied by them, the following particulars relative to their affairs are ascertained :—

Cash in hand	£250	0	0
Debtors—Good, £1,250 ; Doubtful, £600 ; estimated to produce £200 ; Bad, £1,000	2,850	0	0
Shares in the Straights Shipping Company, Lim., of par value	5,000	0	0
Property, estimated to produce £9,000	14,000	0	0
Bills Receivable (Good)	4,250	0	0
Other Securities—£3,000 pledged with partly secured Creditors, and the remainder with fully secured Creditors	28,000	0	0
Johnson's Drawings	9,000	0	0
Caley's do.	8,400	0	0
Sundry Losses	13,500	0	0
Trade Expenses	7,400	0	0
Creditors—Unsecured	25,000	0	0
„ Partly Secured	23,900	0	0
„ Fully Secured	17,000	0	0
Preferential Claims—Wages, Salaries, and Taxes	750	0	0
Johnson—Capital	10,000	0	0
Caley do.	16,000	0	0

Prepare a Statement of Affairs showing the Assets, with respect to their realisation ; also a Deficiency Account in respect of the deficiency shown by the Statement of Affairs.

101.—The assets of the Eastern Produce Company, Lim. (in liquidation), realised £4,800. The expenses of the Liquidation, exclusive of the Liquidator's remuneration, are £400, and the Liquidator is entitled to 5 per cent. upon his receipts as remuneration for his services. Creditors' claims absorb £2,500. The subscribed capital of the Company is 5,000 Shares of £1 each, of which 3,000 Shares are fully paid up, and the remainder 15s. per Share paid. Show, in proper form, the Account to be submitted by the Liquidator at the final meeting of the Company, after first adjusting the rights of contributories *inter se*.

102.—The A. B. Company, Lim., went into voluntary liquidation on 1st October 1920, having an issued capital of 5,000 Preference Shares of £1 each, 15s. per share paid ; 5,000 Ordinary Shares of £1 each, 10s. per share paid, and 5,000 Ordinary Shares of £1 each, fully paid up. The Preference Shares were preferential as to capital as well as dividend. The Assets realised £12,500 ; the expenses of Liquidation exclusive of Liquidator's remuneration were £750, and the claims of Creditors amounted to £4,200. The Liquidator was entitled to a commission of 5 per cent. on the Assets realised, and 3 per cent. on the amount distributed by him among the shareholders. Prepare the Liquidator's final account in the liquidation, showing how the balance should be distributed.

103.—The following is the Trial Balance of the A. B. Co., Lim., on 31st December 1920, after closing the books :—

TRIAL BALANCE, 31st December 1920.

Ordinary Share Capital (100,000 Shares of £1 each fully paid)..		£100,000
Ordinary Share Capital (100,000 Shares of £1 each, 10s. paid)..		50,000
6% Preference Shares Capital (100,000 Shares of £1 each, fully paid)		100,000
Capital Expenditure	£253,500	
Profit and Loss Appropriation Account	34,000	
Creditors		75,000
Debtors	50,000	
Stock	12,400	
Bank Overdraft		25,000
Cash	100	
	£350,000	£350,000

A scheme for reduction of Capital is carried, under which £12,000 7 per cent. Income Bonds are to be issued *pro rata* to Preference Shareholders, as representing arrears of Preference dividend ; the uncalled Capital is to be called up ; the Ordinary Shares are to be reduced to 10s. each, and the Preference Shares converted into 12s. shares, carrying a preferential dividend of 10 per cent. per annum.

Make the necessary Journal entries to give effect to this scheme.

104.—A Limited Company went into voluntary liquidation with liabilities amounting to £30,000 and assets which eventually realised £178,000. The Capital of the Company consisted of 10,000 Preference Shares of £10 each, of which £7 per Share was called and paid up. The holders of 8,000 Shares had, however, paid up the full £10 in advance of calls. There were also 10,000 Ordinary Shares of £10 each, on which £9 per Share had been called. Holders of 2,000 Shares had, however, only paid up £8 per Share, while holders of 4,000 Shares had paid up the full £10 in advance of calls. Assuming that the Preference Shares have no prior rights as to Capital, show, in the form of a Liquidator's Account of Receipts and Payments, how you would divide the available balance among the Shareholders, assuming that the costs of the winding-up amount to £2,000, and that the calls in arrear are duly collected.

105.—The A. B. Co., Lim., went into voluntary liquidation on 1st August 1920. The issued Capital of the Company was 2,500 shares of £1 each, 10s. paid up.

The liquidator called up the remaining 10s. per share on 1st September 1920. One thousand shares stood in the name of the X. Y. Co., Lim., which was also in liquidation. There was therefore due from the liquidator of the X. Y. Co., Lim., the sum of £500 for calls, and he admitted a claim for that amount, and paid to the liquidator of the A. B. Co., Lim., a first and final dividend thereon of 5s. in the £, on 1st February 1921.

The X. Y. Co., Lim., were creditors of the A. B. Co., Lim., for goods supplied to the extent of £800, this amount being admitted as correct.

The assets of the A. B. Co., Lim., realised £1,500, and the costs of the liquidation amounted to £300. The claims admitted amounted to £5,000, including the £800 due to the X. Y. Co., Lim.

Prepare a statement as at 1st March 1921, for presentation to the final meeting of the A. B. Co., Lim., showing what dividend would be payable to the creditors.

106.—The necessary resolutions are passed to reconstruct the Californian Mining Company, Lim., on the footing that the assets are to be conveyed to a Company about to be formed under the title of the New Californian Mining Company, Lim., with an authorised Capital of £500,000 in

106.—(*continued*)

Shares of £1 each. The " new " Company is to pay the liabilities of the " old " Company, together with all costs of the reconstruction. At the date of the liquidation the Balance Sheet of the " old " Company was as follows :—

BALANCE SHEET, 30th June 1920.

Liabilities		*Assets*	
To Paid-up Capital, £500,000 in Shares of £1 each	£500,000	By Mining Property, at cost ..	£400,000
„ Sundry Creditors	25,000	„ Plant, Machinery, &c., at cost ..	100,000
		„ Profit and Loss Account, balance to debit	25,000
	£525,000		£525,000

The reconstruction is to be carried out on the footing that each shareholder in the " old " Company is entitled to an equal number of shares in the " new " Company, credited with 17s. per Share paid-up. Holders of 450,000 Shares in the " old " Company apply for Shares in the " new " Company under the reconstruction scheme; holders of 2,000 Shares dissent from the scheme, and on arbitration are awarded 2s. per Share.

You are required to show the Balance Sheet of the " new " Company as it would appear on the completion of the scheme, assuming that all claims in the liquidation of the " old " Company (including costs amounting to £500) have been paid, and that the Shares issued by the " new " Company are all fully paid-up.

107.—A limited Company, having carried out its business objects, went into voluntary Liquidation with the following Liabilities:—

Trade Creditors				£12,000	0	0
Bank Overdraft				20,000	0	0
Capital—						
10,000 Preference Shares of £10, £7 called				70,000	0	0
10,000 Ordinary Shares of £10, £9 called ..	£90,000	0	0			
Less Calls in arrear	2,000	0	0			
				88,000	0	0
Cash received from certain Shareholders in anticipation of Calls—						
On Preference Shares	£24,000	0	0			
On Ordinary Shares	4,000	0	0			
				28,000	0	0

The Assets realised £200,000. Describe the Liquidator's process of winding-up, and prepare a General Liquidation Account, allowing £2,000 as the expenses of the Liquidation.

Note.—No Interest need be brought into account. The Preference Shares have no prior Capital rights.

108.—An Insurance Company, having a paid-up Capital of £80,000 in 80,000 fully-paid £1 Shares, and a Reserve of equal amount, invested in Securities to the amount of £150,000, and outstanding Balances and Cash £10,000 is absorbed by another Company, the consideration being £65,000 in Cash and the allotment of one Share of £25 (£2 10s. paid, and standing in the market at £19 per Share in the Purchasing Company) for every 16 Shares of their own Company.

Close the books of the Vendor Company, and show how the transactions will appear in those of the Purchasing Company.

109.—A. & Co., Lim., and B. & Co., Lim., being pressed by their bankers and others, and obliged to pay off their loans, agree to amalgamate. Their position as to Share Capital and earnings is thus :—

109.—*(continued)*

	A. & Co., Lim.	B. & Co., Lim.
Ordinary Shares of £10 each	£300,000	£100,000
Four per cent. Debentures, authorised £300,000 issued ..	200,000	Nil
Five per cent. Loans	20,000	60,000
Reserve Account invested in the Business	20,000	Nil.
	£540,000	£160,000
Together		£700,000
Earnings—		
6 % on Shares	£18,000	£6,000
4 % on Debentures	8,000	
5 % on Loans	1,000	3,000
	£27,000	£9,000
Together		£36,000

A. & Co. will create further £100,000 Ordinary Shares and issue its £100,000 Debentures, buying up B., which will be liquidated. The whole of the expenses, including placing the £100,000 Debentures, are fixed at £10,000, and the working capital will be increased by £10,000. No increased profits are anticipated therefrom, but the £36,000 is considered maintainable. The Capital will then be £400,000 Shares showing 6 per cent. dividend, and £300,000 Debentures at 4 per cent.

You are requested to say how the further £100,000 Ordinary Shares should be apportioned and allotted as fully paid to the holders of the Shares in A. & B. respectively in such manner that the A. Shareholders will receive an advantage of £1,200 per annum over the B. Shareholders in respect thereof.

What Journal entries would be required to record the above arrangement in the books of A. & Co., Lim.?

110.—Describe the applications of the Slip System to Day Books, Return Books, Cash Books &c. Instance a few of the applications of the Slip System which have been in general use for a number of years past. Indicate shortly what you think to be a few of the advantages and disadvantages of the Slip System.

111.—Describe fully the nature and method of keeping Card Ledgers. Discuss the advantages and disadvantages of Card Ledgers as compared with Book Ledgers.

112.—Explain how slips of original entry may be employed as Ledgers, and mention any cases in which you think this form of accounting suitable.

113.—It has been stated, as an objection to Card and Loose-Leaf Ledgers, that they would not be admissible as evidence in a Court of law. Discuss this statement in so far as it has any bearing upon the desirability, or otherwise, of introducing such Ledgers into the books of a business undertaking.

114.—If you were asked to verify the Bank balance of a Cash Book, and agree it with the balance shown by the Pass Book, how would you proceed, assuming that the entries upon both sides were extremely numerous, and that it was desired not merely to agree the balance, but also to thoroughly check the various entries in detail?

115.—The Trading and Profit and Loss Accounts of A. B. & Co. are as follows:—

Jan. 1	Stock	£4,000	Dec. 31	Sales	£30,000
Dec. 31	Purchases	10,000		Stock	2,000
	Wages	12,000			
	G. Profit	6,000			
		£32,000			£32,000

General Expenses	£2,200	Gross Profit	£6,000
Depreciation	500		
Directors' Remuneration	300		
Net Profit	3,000		
	£6,000		£6,000

The Goods manufactured are Machines sold at £100 each net. Prepare a Cost Sheet showing cost of production on a percentage basis.

116.—State the extent to which you think the Card System and the Loose-Leaf System might usefully be employed in connection with Cost Accounts.

117.—The manufacturing operations of a Limited Company, which is engaged entirely upon a contract for the repair of army boots, resolve themselves into five distinct processes. Each process involves Direct Expenditure under the headings, Wages, Materials, and Machine Running Expenses. Other expenditure may be regarded as grouped under the headings Indirect Manufacturing Cost and Oncost.

The cost has been ascertained per saleable completed unit (one pair of boots) from Weekly Cost Sheets, in which the expenditure has been summarised as a whole under the headings given.

The cost per unit shows great fluctuations. On looking into this, it is found that *finished* output bears no fixed relation to work done; that (in any one week) one process may be fully occupied, while another is slack; that there may be considerable expenditure upon partially finished output, with a comparatively small total of completed units, and so on. In addition, in arriving at saleable output, deduction has to be made of units completed, but not saleable, upon which expense has necessarily been incurred.

You are requested to advise upon any improvement of method that would increase the value of the Cost Sheets. Draft a report embodying your recommendations, together with a suitable form of Cost Sheet.

118.—You are Auditor to a Limited Company which manufactures and repairs motor cycles. The Directors have instructed you to extend your audit to the costing records.

Upon attending at the Stores Department you find:—

(*a*) That invoices representing goods purchased are handed to the storekeeper when the goods arrive.

(*b*) That particulars of goods received and issued are entered by the storekeeper in a "Stores Book," no other records being kept.

(*c*) That stores are issued to foremen upon verbal request.

(*d*) That the storekeeper is allowed to order goods direct if under £10 in value.

(*e*) That stores "left over" from jobs are replaced in the storeroom bins by the foremen concerned.

If you do not approve of the system of storekeeping described above, make suggestions for its improvement.

119.—In the Costs Accounts of a Building Contractor should there be a separate Account showing the cost of each thing made, or is it sufficient to separate the cost of each contract or job? Give your reasons.

120.—It is usual for the Trading Accounts of Tramway Undertakings to show the average per mile run of each item of income and expenditure. What is the use of showing these averages? Why do Tramways take a mile run as a basis for averages?

121.—What do you consider should be taken as the basis of the averages in each of the following undertakings:—

(1) Railways;
(2) Gas Works;
(3) Collieries?

What description of undertakings are suitable for showing such averages?

122.—How would you deal with "spoils" in Cost Accounts?

123.—In what way is the Trading Account of an Engineering Firm used in a system of Cost Accounts?

124.—A farmer breeds sheep for (*a*) meat, (*b*) wool. How would you frame his Cost Accounts?

125.—Should an Engineering Firm, in estimating the cost of making a machine, reckon the percentages of Works and General Charges on Wages and Material employed on the machine, or should they be percentages on the Wages only? Give your reasons for your answer. Also explain why percentages are taken, instead of the actual charges spent on each machine.

126.—What are the arguments for and against charging out Stores at (*a*) cost price, (*b*) current market price?

127.—What is the advantage of expressing cost figures in the form of a percentage, and what are the dangers of so doing?

128.—State the different methods in use of arriving at the total of Wages to be debited to Cost Accounts, and discuss their relative advantages.

129.—From the following particulars make out monthly Cost Sheets of a Coke and Bye-product Company:—

	April.	May.	June.
Coal	6,900 tons.	7,200 tons.	7,300 tons.
Coke made	4,700 ,,	4,725 ,,	4,775 ,,
Tar made	325 ,,	340 ,,	325 ,,
Sulphate of Ammonia made	90 ,,	100 ,,	95 ,,
Sulphuric Acid used	75 ,,	95 ,,	90 ,,
Benzole made	12,300 galls.	13,900 galls.	14,000 galls.
Creosote Oil used	7 tons.	8 tons.	8 tons.
Wages	£550	£560	£565
Stores, &c.	55	75	75

The prices of the above materials and products were:—Coal, 8s. per ton; Coke, 14s. 6d. per ton; Tar, 13s. 3d. per ton; Sulphate, £10 15s. per ton; Sulphuric Acid, 45s. per ton; Benzole, 3½d. per gallon; Creosote Oil, 3½d. per gallon (1 ton equals 220 gallons).

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of Ammonia made to the weight of coal used.

130.—The Welsh Colliery Co., Lim., raised during the four weeks ended 28th September 1920 16,000 tons of coal, of which 14,400 was saleable. 13,500 tons were sold during the period for £4,500, and the remaining 900 tons of saleable coal were taken into stock at 5s. per ton.

The expenses for the four weeks were as follows:—

Wages—Colliers'	£1,125	0	0
„ Underground	630	0	0
„ Surface	450	0	0
Timber, Rails, and Stores	360	0	0
Horse Keep and Stables	135	0	0
Repairs and Renewals	90	0	0
Royalty	337	10	0
Depreciation	225	0	0
Rent, Rates, and Insurance	108	0	0
Salaries	63	0	0
Travelling	45	0	0
Office Expenses	54	0	0
Management	120	0	0
Discounts and Bad Debts	72	0	0

From these particulars draw up a Cost Sheet for the four weeks, showing cost per ton on amount of saleable coal raised.

131.—The following system with regard to the receipts and issues of wines, spirits, beer, and minerals is in vogue at a certain hotel, the proprietors of which are satisfied that the return of gross profit is inadequate:—

The manager signs all orders for stock and certifies all invoices both as regards quantities and prices.

From one cellar stock is issued upon proper requisition forms (showing quantities only) to the hotel dining room, to the billiard room and lounge, and to a bar open to the public, respectively, and is sold (quantities only being accounted for) at a scale of charges differing in the three places.

A Cellar Stock Book is kept in which quantities only of the various descriptions of stock received and issued are recorded, and the balances in this book agree with the Stocktaking Sheets, which are certified by the manager.

State what alterations or additions to this system are necessary to provide an adequate check on the proceeds of sale of stock and to show the gross profit on each class of stock in each of the three departments.

132.—State the objects of keeping Stores Accounts, and explain how they are used in a system of Cost Accounts.

133.—What is meant by the term "Depreciation"; is it the same as ordinary wear and tear? Explain the object of charging Depreciation in the Profit and Loss Account as an expense.

134.—It is claimed by some Local Authorities that a Sinking Fund for the redemption of Assets renders a provision for Depreciation unnecessary. What do you think? Give your reasons.

135.—The Gas Department of a Local Authority which has issued its loans repayable in 25 years finds that at the end of ten years certain of the Capital Assets require to be renewed. The Local Government Board will not allow a further loan to be issued to cover the cost of renewal on the ground that the original loan has not been paid off. It is argued that in consequence the Gas

135.—(*continued*)

Department has to charge against Revenue (*a*) the cost of the new assets, (*b*) the proportion of the cost of the old assets not covered by Sinking Fund instalments, and (*c*) has still for the next 15 years to charge Revenue with Sinking Fund instalments in respect of these assets, which are non-existent and have been written off out of Revenue.

Discuss this statement

136.—State fully and exactly the consequences of omitting to provide duly for Depreciation

137.—An Engineering Company decides to institute a Plant Ledger, in which a separate account shall be kept for each machine, and to this end the Company has had a valuation of the plant and machinery made showing the value of each machine on 30th June 1920. The Plant Ledger is to form an integral part of the Company's system of accounts, and is to show, *inter alia*, the cost or value of each machine, the amounts spent each year on alterations and additions and on renewals and repairs, and also the amount written off for depreciation.

Rule a suitable form of book for the purpose, and make *pro forma* entries in respect of some one machine.

Explain the method of working the book, and state what you consider the advantages or disadvantages of this system as compared with that of simply showing the total value of the machinery and plant in one account in the Private Ledger.

138.—State in general terms what you consider to be Profits properly available for distribution. Under what circumstances (if any) could the following be included under that heading :—

(*a*) An amount received as compensation on the compulsory acquisition of business premises by a Local Authority.

(*b*) Premiums received on the issue of Debentures.

(*c*) The amount received on the sale of a Foreign Branch as a going concern.

139.—To what extent (if at all) is it (*a*) legally necessary, (*b*) financially desirable, that Depreciation should be taken into account when preparing the accounts of a Trading Department of a Municipal Corporation ?

140.—A Company having purchased a ten years' lease of certain premises for £1,000 decides to write off such lease by charging £100 annually against Profits. State exactly what will be the position of affairs at the end of the ten years.

141.—On 1st January 1920 a Company has a Reserve Fund amounting to £5,000 invested in Consols, and a balance to the credit of Profit and Loss Account amounting to £7,500. At the close of the year it is ascertained that the Company's operations have resulted in a loss of £10,000. You are required to show the effect of this result upon the Accounts named.

142.—Explain the nature and operations of the Insurance Fund of a Company owning a fleet of Vessels. Is such a Fund applicable to all sorts of ship-owning, and, if not, for what reasons ?

143.—Give your views as to the respective advantages under differing circumstances of providing for the expiration of Leasehold interests by a Company owning such property—

(*a*) by the investment by the Company itself of a Sinking Fund ;

(*b*) by taking out a policy of Leasehold Assurance ;

(*c*) by writing down the value in successive Profit and Loss Accounts.

144.—What is the difference between a Reserve and a Reserve Fund? What is the object of creating the latter?

145.—The A. Company, Lim., possessed a Reserve Fund of £100,000 on the 31st December 1919, which was invested in Government Securities. During 1920 the business expanded considerably, and it became necessary to lay down additional Plant. Accordingly on the 1st July 1920 a contract was entered into with X., for him to supply the necessary additions for a sum of £50,000, payable £20,000 on the signing thereof and £30,000 on the completion of the work. The work was duly completed and the balance paid on the 31st August 1920. The moneys paid to X. were provided by the sale of Government Securities held against the Reserve Fund at a total loss of £5,000. You are required to show the Ledger Accounts in the Books of the Company affected by the above transactions.

146.—A fire partially destroys a Factory, and damages a quantity of Stock. The Insurance Company settles the claims thus:—By a lump sum in lieu of rebuilding, by a further sum in respect of the beneficial interest of the Insurers in the property during rebuilding, by selling the damaged Stock to the Insurers at an agreed sum, and deducting such sum from the gross claim for loss of Stock. The rebuilding was effected at a lower cost than was anticipated, and a surplus remains. The damaged Stock is disposed of at a profit. How would you deal with the results of these transactions if you were certifying as to Trading Profits?

147.—What do you understand by the term "Sinking Fund"? How is it initiated and what is its operation from year to year?

148.—It has been stated that the Plant, &c., of a business cannot in a given year be depreciated unless sufficient profits have been made in that year wherewith to depreciate it. Show the fallacy of this statement, and the false issues involved.

149.—Under what circumstances is it desirable that a Reserve Fund should specially be invested? What class of securities should it be invested in?

150.—What do you understand by a Secret Reserve? State in what different ways such a Reserve may be created, and the extent to which you consider it permissible.

151.—A. acquires for the sum of £200 the seven years' lease of certain Premises, which are let to B. for £40 per annum. The Ground Rent payable by A. is £4 3s. 4d. per annum. Show how the Leases Account should appear in A.'s Ledger during the remainder of the term.

152.—The facts being as stated in the preceding question, with the exception of the circumstances that the premises are kept by A. himself, instead of being sublet to B., show the Leases Account, indicating clearly the proper amount to be charged annually against Revenue.

153.—A., a manufacturer, lets to B. 10 Wagons on a Hire-purchase Agreement, under which he is to receive half-yearly instalments of £100 for five years. Show the necessary Accounts in A.'s books, reckoning interest at the rate of 6 per cent. per annum, calculated with half-yearly rests, assuming that the Wagons each cost A. £65 to make. Show also the Accounts necessary in B.'s Ledger to record the transaction during the currency of the Hire-purchase Agreement.

154.—A certain Motor Car can be bought for £800 cash down. The purchaser, however, not finding it convenient to pay the whole amount at once, agrees with the maker to pay in the following manner:—

154.—(*continued*)

£100 Cash down as Interest.
200 in three months.
200 in six months.
200 in nine months.
200 in twelve months.

£900

What actual rate of interest per annum does the purchaser thus have to pay by adopting this system of instalments instead of paying cash?

155.—Under a Hire-Purchase Agreement the value of the Assets in question would increase year by year. What method would you suggest should be adopted to set them forth correctly in the various Balance Sheets? Take a term of seven years.

156.—Give a short example of an Account of Receipts and Payments, also of an Account of Income and Expenditure, and explain the difference between these two Accounts.

157.—Define what you understand by a Balance Sheet, state the sources and method of its preparation, and explain how a Balance Sheet differs from a Statement of Affairs.

158.—Define Trade Discount and Cash Discount, and give your views as to the manner in which they should be dealt with in the books.

159.—Would you defend, and if so on what grounds, the non-presentation by a Manufacturing Company of its Trading and Profit and Loss Accounts at its Annual Meetings?

160.—From the following figures prepare a Trading Account upon the usual lines:—

Stock on 1st January 1920	£3,000
Purchases	8,000
Wages (Productive)	2,000
Sales	12,000
Stock on hand, 31st December 1920	5,500

161.—Taking the figures given in the previous question, prepare separate Manufacturing and Trading Accounts with the aid of the following additional information:—

Of the Stock on the 1st January £1,750 represents manufactured Goods; £250 Goods unfinished, and £1,000 Materials.

Of the Stock on the 31st December £1,250 represents manufactured Goods; £2,750 Goods unfinished; and £1,500 Materials.

The Purchases consist of £6,000 Materials, and £2,000 manufactured Goods.

The trade price of the Goods manufactured during the year was £7,700.

162.—What is the advantage of arranging the Accounts so as to show a Gross Profit as well as the Net Profit?

163.—Explain fully why it is that the Balance Sheet and Accounts of a business prepared from time to time are of necessity of a tentative character. When is it possible to prepare Accounts that are really final?

164.—What special points in the Balance Sheet of a Company—apart from the correctness of figures—do you consider need careful consideration to afford due protection to Directors and Auditors ?

165.—What is " Goodwill," upon what is it based, and how should it be dealt with in a Trading Firm's books at the yearly closing ?

166.—The books of a Company close on the 30th June. How would you deal with the following items, and how would your method of dealing with them affect the Balance Sheet and Profit and Loss Account of the Company :—

(*a*) Premiums of Insurance on Ship paid yearly on 31st March.
(*b*) Income Tax deducted from Interest on Debentures, paid on 30th June—date of closing.
(*c*) Wages accrued, but unpaid.
(*d*) Allowance of 1 per cent. on outstanding Book Debts to cover Discount allowances and Bad Debts.
(*e*) Stock in hand, and on what principle should it be valued as regards (1) Manufactured Goods, (2) Goods in process of manufacture, (3) Raw Material.
(*f*) Goods consigned in the hands of an Agent abroad.
(*g*) Wagons held on purchase lease.
(*h*) Patent rights purchased from Patentee.
(*i*) In the case of a colliery, " shorts " redeemable within three years.

167.—State fully your views as to the correctness or otherwise of the following Balance Sheet and draw a new Balance Sheet in conformity with those views :—

THE LAND EXPLORATION, &c., COMPANY.

BALANCE SHEET, 31st December 1920.

Capital, &c.	£	*Assets.*	£	£
Share Capital	5,000	Land Account :—		
Profit and Loss Account	5,000	Purchase Money, viz., 100 acres at £50	5,000	
		Add Increase in Value ..	5,000	
			10,000	
		Deduct Sales of 25 acres at £200	5,000	5,000
		Development Account, viz. :— Cost of Street Making, &c., on the whole Estate ..		1,000
		Cash in hand		4,000
	£10,000			£10,000

168.—A Limited Company having purchased Shares in another Company with the object of securing business connection, and there being no transactions or market quotations by which the value of the Shares may be fixed from year to year, state your opinion of the method which should be adopted by the Company holding the Shares for valuing them and stating this asset in its Accounts, first in the case of the benefits arising therefrom improving from year to year, and secondly on the assumption that the connection is becoming less profitable from year to year.

169.—**Distinguish between Depreciation and Fluctuation of Assets.**

170.—**The British Finance Co., Lim., had the following dealings in shares of the Provincial Finance Co., Lim., a subsidiary concern :—**

1st	Aug.	1920,	bought	1,000	Shares at	35s.
12th	„	„	„	1,000	„	17s.
31st	„	„	„	2,000	„	21s.
19th	Sept.	„	sold	500	„	24s.
27th	„	„	„	500	„	27s.
15th	Nov.	„	„	1,000	„	25s.
20th	Dec.	„	bought	500	„	22s.

On 31st December 1920 the market price of the Shares was 20s. 6d. to 21s. Show the Investment Account in the British Finance Company's books, and state what (if any) balance you would transfer to Profit and Loss Account on balancing the books at the end of the year.

171.—A number of Companies issuing Balance Sheets at the present time are valuing Investments acquired prior to 1st January 1914 at their market value on 31st December 1913. Do you consider this a sound policy in all cases ? Give reasons for your answer.

172.—A Company formed for promoting other Companies receives Cash and Shares in such Companies to cover its Disbursements and Profits. In auditing the Accounts of the Company, when it is proposed to pay a dividend, how would you satisfy yourself as to whether this dividend had been earned ? Give your reasons fully.

173.—In examining a number of Debtor Balances when making up the Accounts of a firm at the end of the year, what indications in the Ledger Accounts would you make use of to put you upon inquiry as to whether any of the Debts were Bad or Doubtful ? In drawing up the Accounts of a Trading Company what is the best method to adopt in making a provision against Bad and Doubtful Debts ?

174.—If you found the Stock of a Manufacturing Company much larger at the end of the year than at the beginning, and also the percentage of Gross Profit larger than in previous years, and on referring to a previous year's accounts (when the Stock at the end was much less than the Stock at the beginning) you found the percentage of Gross Profit less than in other years when there was not a similar difference in the Stocks, what inference would you draw from the facts, and why ?

175.—The Trading Account of a Merchant shows the following figures :—

Stock, 1st January 1920	£4,500	Sales	£20,000
Purchases	15,000	Stock, 31st December 1920	5,000
Gross Profit	5,500		
	£25,000		£25,000

How many times was the Stock turned over in 1920 ? Give your reasons for the method of calculation you employ.

176.—**The Trial Balance and Schedules of Debtors and Creditors in a Trading Company's books disclose :—**

(a) **Debts owing to and by the same firms among the Debtors and Creditors.**

(b) **Money owing by the Company to a Debtor for Calls unpaid and in arrear.**

176.—(*continued*)

(*c*) Money owing by the Company to the acceptor of a Bill Receivable discounted by the Company's Bank.

(*d*) Money owing to the Company by the drawer of a Bill Payable accepted by the Company.

What considerations would guide you in deciding in each case whether these sums should respectively be set off and excluded from the Balance Sheet or not ? Assume for the purpose that they are all equal in amount.

177.—A Company brought out a new Machine, and, for the purpose of getting it upon the market, sent to a large number of their customers Machines on sale or return. These Machines were debited in the Ledger Accounts of the several customers and included in the Ledger Balances at the end of the year. How would you deal with these Accounts in preparing a Profit and Loss Account and Balance Sheet ?

178.—Explain the method you would recommend for recording the transactions involved in supplying customers with Goods on sale or return as stated in the above question. Illustrate your answer by an example in which six Machines are sent out, four are sold, and two are returned. If you prefer a special form of book give a specimen of the ruling.

179.—The Coal Mine Company, Lim., took a lease of a Colliery from G. Risch for 99 years from 29th September 1912 at a Ground Rent of £50 a year, payable half-yearly, and a Royalty of 6d. per ton with a minimum Royalty of £80 a year payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended 29th September 1914 4,000 tons. The several amounts due to G. Risch were paid twenty-one days after becoming due.

Write up both Personal and Nominal Accounts, and balance them at the end of each year.

180.—How would you deal in a Life Insurance Company's Accounts with Premiums received, bearing in mind the fact that Premiums are always paid in advance ? Should you apportion them ? If not, why not ?

181.—How would you deal in the books, and on compiling the Balance Sheet, with the Sacks sent out and returned by the customers of a firm of millers, having regard to the following facts :—

Sacks are debited when sent out at 1s.

An allowance is made for Sacks returned in good condition 6d., the estimated actual value of Sacks returned is 4d.

New Sacks purchased cost 7d.

The debit balances against customers may include the Sacks, which will either be paid for in full, or returned to claim the allowance ; or, again, customers may, having perhaps mislaid the Sacks, refuse to pay more than the estimated value of the Sacks missing.

182.—A Mineral Water Company sends out cases of water to Chemists in various parts of the country "on sale or return." In auditing the accounts you find each Chemist is charged with the stock at the value he is to obtain for it when sold, and he is allowed to deduct 20 per cent. from this value when accounting for his sales. In the Profit and Loss Account of the Company credit is taken for the total value of the water as charged to the Chemists during the period embraced by the account. Would you, as Auditor, object to this method of treatment ? If so, state fully how, in your opinion, these consignments should be treated.

183.—A. & B., colliery proprietors, take a Lease for 21 years at a Dead Rent of £600 a year, merging into a Royalty of 1s. a ton. The Dead Rents are recoverable out of Royalties paid within five years; 800 tons were raised the first year, 4,600 tons the second year, and 75,000 tons the third year. 100 Colliery Wagons were purchased by the firm on the hire-purchase system, by which the wagons, at the end of ten years, became their absolute property in consideration of their paying 15s. a month for each wagon. It was assumed by the firm that each wagon would be worth £40 at the end of ten years. Show the Ledger Accounts for "Dead Rents," "Royalties," "Purchase of Wagons," for the first three years, the Accounts being balanced at the end of each year.

184.—A Mining Company, having its registered office in London, remitted to its Manager in South Africa during the year 1920 two sums of £3,000 each. The following were the payments during the year at the Mine :—

Wages, Development	£1,000
Do. Mining and Milling	1,000
Salaries	800
Stores	2,000
N.B.—The Stores used during the year were £800 in Development and £700 in Mining and Milling.	
Sundry Expenses	300

Bullion to the value of £3,600 was produced, and sent to the Standard Bank of South Africa, who advanced £3,500 on it, which they remitted direct to London.

Give the form in which the Manager's Accounts should be sent to London, and show how they should be entered in the London books.

185.—What do you understand by the term "Periodical Returns"? By whom are such Returns prepared, and for what purposes? Taking any concern with which you are acquainted, state what you consider such Returns should comprise.

186.—It is a common practice for monthly statements of transactions to be submitted to the Boards of Directors of Limited Companies. Why do these statements as a rule fail to give accurate trading results? Can you suggest any way in which dealers (not manufacturers) in valuable goods, such as jewellery, could overcome this difficulty?

187.—State how the amount of Stock-in-hand of a trader from time to time may be estimated when it is not practicable actually to take stock more than once a year. Give an example of such an estimated Stock Account, and state briefly its uses and its limitations.

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