PRINCIPLES OF ACCOUNTS

PART II

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PRINCIPLES OF ACCOUNTS

PART II

APPLICATION OF DOUBLE ENTRY TO THE WHOLESALE AND RETAIL TRADE

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PREFACE

THE aim of this work is to provide the student with a systematic treatment of the Principles of Accounts on the lines laid down in the Memorandum on Commercial Instruction issued by the Board of Education (Circular 1116).

In the author's opinion the study of accounts ought to be raised to one of the most important scientific subjects; by its combination of mathematical and economic data, it is admirably suited to the development of the thinking capacity of the student and of his powers of judgment, whilst its material is calculated not only to arouse interest but also to form an ideal preparation for practical life. It is with these objects in view that the examples and exercises in the following pages have been arranged, and it is hoped that the book will be welcomed by teachers in search of a suitable text for class use.

Consideration has also been paid to the needs of the private student—the examples having been chosen so as to enable the beginner, without previous knowledge of the subject, to use the book as an introductory guide. Part I which deals with the general principles of Double Entry, is designed to cover the requirements of the more elementary examinations; Part II, which deals with the application of those principles to the various types of undertakings engaged in the wholesale and retail trade, is intended to meet the needs of students preparing for the Intermediate and Advanced examinations of the various examining bodies.

As a work of reference the complete treatise should prove exceedingly useful to all engaged in the counting-house or the factory, as well as to those who are actively employed in the keeping of the accounts.

In conclusion, I should like to express my grateful thanks to my colleagues Messrs. H. M. Cattell, H. S. Colwill, and G. L. J. Hazell for furnishing me with a number of practical examples, and also to Messrs. L. H. L. Davies, B.A., and N. Branton who rendered me valuable assistance in revising the MS.

J. S.

CARDIFF

CONTENTS

APPENDICES

INSETS

PRINCIPLES OF ACCOUNTS

PART II

CHAPTER I

Introduction

DOUBLE ENTRY AND ITS APPLICATION. In Part I of this work we have shown that in at least two directions the system of double entry is an ingenious invention ; in the first place, in the surprising simplicity of its principles, and in the second place, in the astonishing elasticity and potentiality of development of the forms in which those principles can be clothed. There now remains a third and last task—the adaptation of double entry to the different branches of the wholesale and retail trade. If it be true, as we have already suggested, that accounting is a faithful and indispensable servant of the economic system, it must be able to render equally good service to every branch of industry. Hitherto in our illustration of the principles of double entry, we have confined ourselves to the sole trader engaged in the buying and selling of merchandise. These principles, however, will find practical application not only in the various branches of trade, but also in manufacture, banking, forwarding, and insurance, and in the administration of government ; in short, in every department of economic activity. Moreover, it is evident that the principles of double entry will be equally efficacious whether the undertaking be established and managed by a single individual or by a number of individuals.

From the conclusion that the principles of double entry can be applied, without exception, to every undertaking, there evolves this further fact : that the practical application of accounting is just as varied in its forms as is the whole revenue producing activity of mankind. It is, therefore, an impossibility, even in the most comprehensive treatise, to explain the adaptation of the principles of accounting to every kind of business or to illustrate them by examples. We must rather endeavour to find some other method of equipping the student for the demands of business life ; that is, by presenting from the infinite complexity of accounting material a few types which will, say, illustrate the fundamental principles and guiding motives of the subject.

TWO ESSENTIALS OF GOOD ACCOUNTING. Success in accounting calls for two things : a knowledge of the principles of accounting, and an insight into the working of the particular branch of business.

As the principles of double entry have already been dealt with, we may be allowed to postulate that those students who have conscientiously pursued the preceding course of instruction, will experience little difficulty in dealing with the application of those principles. As the cabinet maker's apprentice who has made good use of his apprenticeship is able to make a table—though it be larger or smaller or made from other woods or of a different shape from the model on which he practised in the workshop of his master—so the student of accounts, by the mental training already received, should be able without further assistance to apply the principles of double entry in whatever sort of business he may happen to be. The second requirement—an insight into the working of the particular branch of business—we intend to fulfil by a consideration of the principal forms of undertakings engaged in the wholesale and retail trade. We shall, therefore, consider the application of double entry to partnership and company concerns, and also to such businesses as the retail shop, the wholesale warehouse, and the factory.

CRITIQUE OF DOUBLE ENTRY. Before passing on to these spheres, it may not be inappropriate here to pass judgment on the value of accounts and to offer some criticism of their form.

We frequently hear very disparaging opinions of the value of *Double Entry*. The aim of accounting, as of every other subject, is to attain its purpose with ever increasing perfection, and with the least possible expenditure of time and energy. All unnecessary writing must, therefore, be avoided, and one and the same transaction may have to be entered in duplicate or triplicate to minimize the amount of work. Nevertheless, many business people are erroneously prejudiced against double entry because they think that by the application of this form of accounting they have to do much unnecessary and worthless work, and that their attention is taken away from their business. " Their principal aim is to *do* business," they say, " not to enter up business transactions." Such people, however, forget that punctuality and order are the basis of all success in economic affairs, and especially in a commercial undertaking. The business man whose wealth is in a state of continuous transformation can only make progress if he keeps good order in his business, if he exercises a proper control over his work and maintains an oversight over the course and result of every individual transaction. The business man who professes to be conscientious and systematic must be able to furnish a reply to all the questions on which we have already touched in Part I ; he must know his debtors and creditors at any given moment ; the state of his assets and liabilities ; and whether he is making a profit or a loss. Systematic accounting is in every direction the sole means of securing order, oversight, security, and connection in business ; an insight into the course and result of each transaction ; and into the state of the capital and its continual increase or decrease. The system of double entry alone can discover the mistakes of bad management ; it alone affords the means of exercising an efficient control over the ramifications of the business, and to guide the undertaking with a steady hand. Hence it gives the Principal that confidence and security which is indispensable for the success of his enterprise. To attain these advantages no amount of writing is superfluous. We must, therefore, reiterate that the system of double entry with its periodical balance sheets is a *sine qua non* in every business which is conducted on commercial lines.

EXERCISE I

1. In what respects may the system of double entry be regarded as an ingenious invention ?

2. To what branches of business may the principles of accounting be applied ?

3. Name the two essentials of successful accounting.

4. " Double entry is that system of book-keeping in which every item is entered twice in the books."

Comment on the above statement and state where, if at all, you consider it unsatisfactory or deficient.

5. What are the principles upon which the system of double entry is founded, and how are those principles carried out in practice ?

CHAPTER II

Relation of Single to Double Entry

THE UNIVERSALITY OF ACCOUNTS. The foundation principles of Double Entry having been explained, the next task which lies before us is the application of these principles to the various kinds of business undertakings. Teachers as well as students are compelled to adapt themselves to the requirements of practical life, and a course of instruction in accounts should enable us to render equal service to the various kinds of undertakings, irrespective of their size and stage of development. If we realize the thousandfold gradations in the various spheres of business activity, from the poor chestnut roaster in the gutter to the wealthy merchant in the city, from the cobbler in a poor basement shop to the magnificent large-scale manufacturing concern, we shall gain some idea of the manifold forms of enterprise to which accounting principles can be applied : for none of these concerns ought to dispense with accounts in some form or other. Hence it is that we have in some cases the merest beginnings of accounts, and in others the most highly developed forms. In other words, a graduated system of accounts is, in practice, found which ranges from the simplest to the most complicated system.

Owing to the fact that a large number of business concerns manage with a more or less complete system of accounts, or at least believe they can, and do not feel the need for a complete system of double entry, it is our duty to examine the system adopted by such undertakings—usually known as the *Single Entry System.*

ASCERTAINMENT OF PROFITS IN SINGLE ENTRY. Generally speaking, under the system of Single Entry, profits or losses are ascertained by a comparison of the value of the assets at two specified dates, after taking into account additions to, or withdrawals from, capital during the period. The difference between the two net values represents the profit or loss, according to whether there is an increase or decrease in the figures.

EXAMPLE. A. Draper had kept his books by single entry, his capital on

1st January, 19.., was £5,000; an examination and analysis of his trading affairs disclosed the following figures as on the 1st January following—

	£
Cash at Bank	**1,300**
Cash in Hand	**20**
Sundry Debtors	**1,440**
Sundry Creditors	**1,390**
Stock in Trade	**2,380**
Furniture and Fittings	**670**
Machinery and Plant	**900**
Additional Capital paid in during 19..	**200**
Personal Drawings during 19..	**650**

As the capital at the commencement of the period is known, it is necessary to draw up a Statement of Affairs in order to ascertain, as nearly as possible, the capital at the end of the period. This would appear as follows—

STATEMENT OF AFFAIRS OF A. DRAPER

on 1st January, 19..

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	1,390	-	-	Cash in Hand	20	-	-
Capital	5,320	-	-	Cash at Bank	1,300	-	-
				Sundry Debtors	1,440	-	-
				Stock	2,380	-	-
				Furniture and Fittings	670	-	-
				Machinery and Plant	900	-	-
	£6,710	-	-		£6,710	-	-

Allowance must be made for any money withdrawn from the business during the trading period, and also for any further capital introduced. This may be shown as follows—

		£
Capital on 1st January, 19..		**5,320**
Add withdrawals during the year		**650**
		5,970
Less Capital on 1st January, 19..	**£5,000**	
Less Capital paid in during the year	**200**	
		5,200
Trading Profit for the Year 19..		**£770**

Thus the difference shown as profit for the year is £770, but the method of its ascertainment is very unsatisfactory and inaccurate.

SINGLE ENTRY—THE LOWEST STAGE OF ACCOUNTING. The statement of affairs which shows the position of the trader's capital at a given date, resembles a flashlight photograph, since it is applicable only to the date of the inventory ; indeed, it does not apply even to a whole day, for immediately the inventory is taken, the business is resumed, and the various business activities are begun afresh. Thus, if the keeping of accounts ceases with the drawing up of the *Statement of Affairs*, and is only resumed at the conclusion of the trading period by the preparation of a new statement of affairs, it is obvious that the evidence is lacking which will provide us with the necessary information concerning the state of our wealth.

Those traders who thus content themselves with the preparation of an annual statement of affairs for the ascertainment of their wealth, without making any attempt to show how they arrived at it, may be compared with a journey through a dark tunnel in which, every mile or so, a light is seen to flicker for a moment revealing to the traveller the scene of his surroundings, and conveying to him some faint idea of his whereabouts. Of course, such lights as may be found every mile or so are undoubtedly better than complete darkness. In like manner a system of accounts based upon an annual inventory is better than no accounts at all. Although such a system is but a beginning, representing the lowest stage of accounts, it is at least a beginning and, therefore, a starting point to higher forms of development. Like the man whose need for more light has been awakened, so the business man who has made it a habit to get information about the state of his capital will of necessity be incited to further progress in accounting. Of course, there are still innumerable business people who have not yet progressed as far as the ascertainment of their capital by means of a *periodical inventory*. Such people are to be pitied, for it is not surprising that they make but little progress. Although this state of things may be attributed to different causes, it is nevertheless true that the systematic and economic management of a business may be greatly facilitated by a proper system of accounting. Hence every attempt to bring system into the accounts of a business, even though it be an imperfect beginning, implies economic progress. The system of accounts which is restricted to an annual inventory represents this incomplete beginning, and may be referred to as the *lowest stage* of accounting.

THE COMPOSITE SYSTEM OF ACCOUNTS. The trader who periodically tries to ascertain the state of his capital by the preparation of an annual statement of affairs will soon gain the conviction that his system of accounts is an incomplete one. His attention is drawn to the fact that it will be better if he had something more than a periodical survey of his accounts. For example, he will strive to gain control over his cash transactions by keeping careful records of the receipt and payment of ready money. The next step would, therefore, consist in keeping a Cash Book. Hence, the taking of an Inventory together with the keeping of a **Cash Book** constitute the *second stage* of accounting by Single Entry. In small businesses where there are no credit transactions, such a system may answer all requirements. In fact, it is well known that hundreds of concerns do not get beyond this stage.

As soon as *credit* transactions are introduced, this second stage is no longer sufficient. If the owner of the business is to safeguard himself against loss by theft, he must resort to the keeping of a Ledger. Even if he possessed an extraordinary memory and could keep in his head the whole of the credit transactions, this would serve him in poor stead for the legal justification of a claim or of a payment made. The end of such a business without a Ledger would be that with the failure of his memory the owner's negligence would be exploited and he would tend to lose all he had. The **Ledger** is, therefore, the indispensable component of the credit business; with the introduction of this book we come to the *third stage* of accounting, which adds to the inventory and cash book the keeping of personal accounts in the Ledger. It cannot be denied that this stage of accounting suffices to meet the needs of the small retailer. It not only furnishes an insight into the cash transactions, but it also gives information as to the debit and credit relations connected with the business. This form of single entry—better known as the composite system—is frequently met with in practice.

After having become acquainted with the importance and value of a record of purchases and sales, it is hardly necessary to direct attention to the incompleteness of a system of accounts which neglects this sphere of work. Any business man who has come to realize that the capital locked up in his goods forms a most important portion of his wealth, and that the success of his undertaking must depend upon the proper control of his purchases and sales, will naturally take account of these transactions in his system of accounts ; he will, therefore, add to the inventory, the cash book, and Ledger, the **Purchases** and **Sales Books**. This is the *fourth stage* of Single Entry. We now have a continuous record of every item of merchandise which enters or leaves the business as well as a statement of the existing stock, and it now becomes possible for the trader to ascertain his profit or loss from his book-keeping records.

The same desire which induces the business man to introduce purchases and sales books as part of his system of accounts, also leads in a similar manner to the systematic treatment of the Bills of Exchange, by adding to the already existing list of books kept—the **Bills Receivable** and **Bills Payable Books**—we arrive at the *fifth stage*.

Progress now takes place in a similar manner by gradually including the nominal items such as wages, expenses, and other profits and losses. *Finally*, we arrive at a complete representation of all the transactions of the business by opening **Real Accounts** for all the remaining assets, such as additions to machinery, etc. Such a form of book-keeping is known as Double Entry, which has the following advantages over a system of Single Entry—

1. The accuracy of the postings is proved by the Trial Balance.
2. The gross profit is shown by the Trading Account.
3. The net profit and loss is arrived at by preparing a Profit and Loss Account, showing the different gains and losses, or expenses in the concern.
4. The Balance Sheet may be prepared from the books, showing the position of the concern at a given date.

CONVERSION FROM SINGLE ENTRY TO DOUBLE ENTRY. The starting point for the conversion is the Statement of Affairs, which must be drawn up at the date of conversion. The items appearing in this statement are journalized in the manner given on the next page.

From this Journal entry the opening balances in the new books will be compiled. The Sales Ledger will be opened by debiting thereto the Sundry Debtors as shown by the Schedule prepared when compiling the Statement of Affairs. The Bought Ledger will be opened in a similar way, and the new totals of the Sundry Debtors and Creditors should agree with the figures shown in the opening Journal entry. Cash will be debited in the Cash Book. The remaining balances will be posted to the debit or credit of appropriate accounts in the General Ledger or in the Private and Impersonal Ledgers if these are kept separately.

To prove the accuracy of the postings it is advisable to extract a

JOURNAL

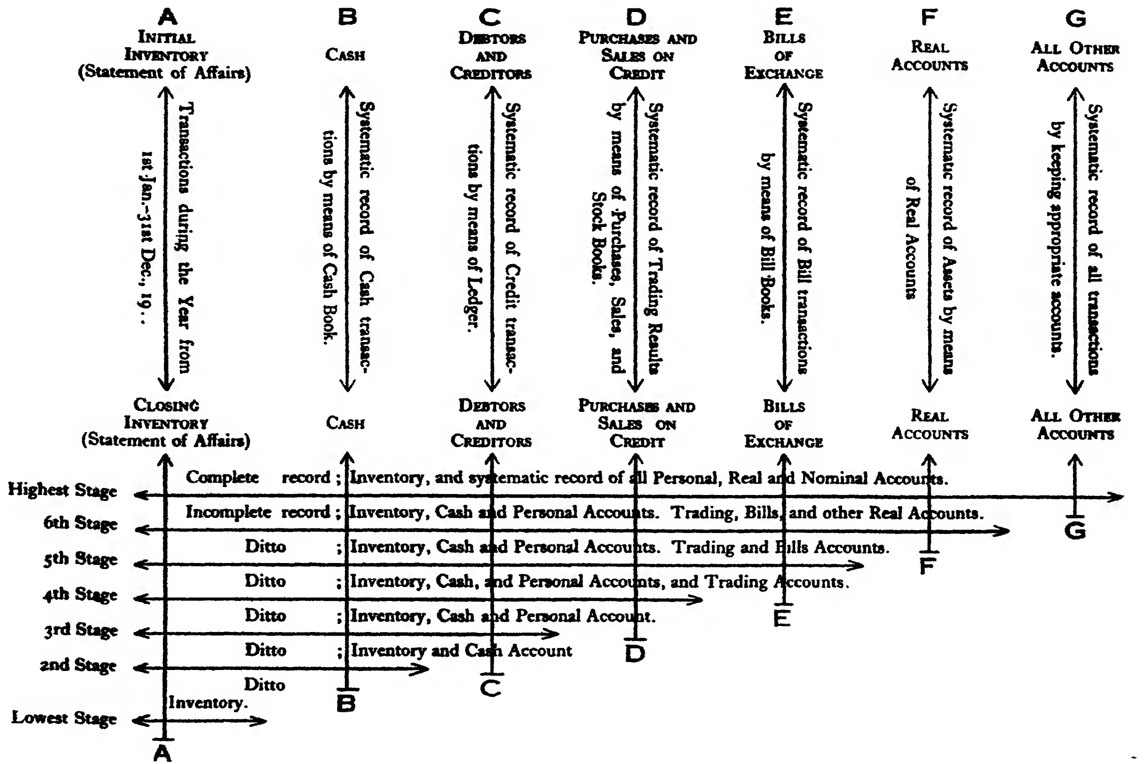
Date		Dr.	Cr.
		£	£
Jan. 1	Cash at Bank	1,300	
	Cash in Hand	20	
	Sundry Debtors	1,440	
	Stock in Trade	2,380	
	Furniture and Fittings	670	
	Machinery and Plant	900	
	To Sundry Creditors		1,390
	,, A. Draper (Capital A/c) . . .		5,320
	For Assets, Liabilities and Capital at the Commencement of business	£6,710	£6,710

Trial Balance, the agreement of which indicates that the Books are on an arithmetically correct double entry basis.

EVOLUTION FROM SINGLE TO DOUBLE ENTRY. A survey of the various stages of development of single entry book-keeping from the incomplete beginning as it is represented by a pure single entry to the complete form of double entry brings us to the conclusion that each succeeding stage is better than the preceding one. At the same time we also realize that the trader is at liberty to adapt the most suitable form to the peculiar circumstances of his own business, and there is thus no compelling reason for selecting the complete system of double entry. It must be admitted, however, that in many cases it is unwise for the trader to remain satisfied with a composite system of single entry when the complete form of double entry could be adopted without involving any additional work.

In the diagram on page 10 an attempt is made to illustrate the

DIAGRAM SHOWING THE EVOLUTION OF SINGLE ENTRY INTO THE COMPLETE SYSTEM OF DOUBLE ENTRY



various stages of single entry. Between the horizontal lines representing the items in the initial statement of affairs and the bottom line which represents the final statement of affairs, there is a space which represents the transactions carried on during the year. The various vertical lines which are drawn between the opening entries to those at the conclusion are intended to symbolize the corresponding accounts. The various horizontal lines drawn at the bottom of the table across the vertical lines show clearly the various stages of single entry.

CONCLUSIONS. We may summarize our conclusions as follows—

1. Since book-keeping must adapt itself to the exigencies of practical life, like life itself, it reveals the most varied gradations from the incomplete beginnings of pure single entry to the most highly developed form of double entry.

2. The absence of any sort of accounting in a great many businesses is a hindrance to success ; since accounts are a fundamental condition of good management, any beginning of accounting, however incomplete, is evidence of progress.

3. The systematic treatment of monetary transactions by the keeping of a Cash Book along with the initial inventory constitutes the second stage of single entry, and suffices in businesses in which there are no credit transactions.

4. The higher stages of single entry arise by adding to the inventory and the cash book, the ledger, purchases and sales books, bill books, and the keeping of Nominal and Real Accounts.

5. The complete representation of the whole transactions of the business is obtained by means of double entry in which accounts are kept for all debtors and creditors, real and nominal accounts. Thus a continuous record of all transactions is obtained from the opening of the books to their close at the end of the trading period.

EXERCISE II

1. "The system of accounts adopted by any business should be adapted to the particular stage of evolution attained by that business." Criticize and explain this statement and illustrate the necessity in practice for a graduated system of accounts to meet the requirements of different stages of economic activity.

2. Why is the first stage of single entry only applicable to the moment. What name is usually applied to other stages of single entry ?

3. To what state of affairs does the lowest form of single entry constitute an improvement.

4. Can a trader who keeps his books by single entry ascertain the position of his affairs at the end of the year and whether he has made a profit or a loss during the year ?

5. If you had occasion to prepare the Trading and Profit and Loss Account of a trader's business from books that had been kept by single entry, how would you proceed ?

6. "Double Entry is the climax of Single Entry." Explain and elucidate this statement in the light of the diagram on page 10.

7. What books should you recommend a shop-keeper, doing a cash business only, to keep ? What difference would it make in your recommendation should he decide to sell upon credit ?

8. Why is the third stage of composite book-keeping so frequently met with among small shop-keepers ?

9. What system of book-keeping would you recommend to a trader starting in business ? Explain the various books which should be kept so as to enable him to ascertain in the shortest time and most reliable manner the results of his business operations.

10. Describe the system of book-keeping most suitable to the following businesses : (*a*) a small shop-keeper doing a cash business, (*b*) a retailer whose business is partly cash and partly credit, (*c*) a wholesaler who pays for his goods by cheque at the end of each month, and occasionally hands over to his creditors a customer's acceptance.

11. Show the advantages of double entry over single entry (*a*) from the book-keeper's point of view, (*b*) from the trader's point of view.

12. A trader's warehouse is burnt down, and the following books, etc., which had not been placed in the safe are destroyed, viz., Bought Ledger, and Purchases Book. The list of the balances of the Bought Ledger made up to the end of the previous year and the Stock Sheets at the same date are preserved in the safe with the usual books. State in detail how you would proceed to restore sufficient records with a view to the current year's Trading Account and Balance Sheet.

13. What books would you advise a trader, who is starting in business, to keep, if he explained to you that his transactions would be of the following nature—

All his purchases and sales would be on credit.

All his payments for goods would be by cheque.

All cheques, money, etc., received by him from customers would be paid into the Bank.

All his expenses would be paid in cash. (R.S.A.)

14. A tradesman wishes to keep his accounts in a complete form as from 1st July next. At present he has a book containing particulars of goods sold on credit, and when the customer pays an account the entry in this book is crossed out. No other books are kept. He buys goods on credit, has a banking account, and files his invoices and receipted accounts. Describe the steps he should take to commence a proper system of book-keeping.

15. A Wholesale Dealer in a small way of business has kept his books by single entry. If he asks you to prepare the final accounts and the balance sheet for him how would you adjust the books and what additional ledger accounts would you open so that you could ascertain the correct position at the end of the period ? (N.C.C.)

EXERCISE III

1. A keeps his books by single entry. Make up his Balance Sheet at the end of a year—31st December, 19.., from the following figures—

	£
Capital, 1st January, 19..	7,000
Book debts, 31st December, 19..	5,750
Creditors	3,500
Bills payable	350
Stock	3,000
Cash at bankers	350
Cash in hand	10
Plant, etc.	2,200
Drawings during the year	800

EXERCISE IV

From the following particulars prepare the necessary journal entry in order to open the books of James Wright on 1st January, 19...

Premises, £1,000. Loan from A. Walters, £400. Sundry debtors—J. Brown, £50; R. Snow, £200. Sundry creditors—M. Munro, £30; R. Glass, £260. Office furniture, £150. Stock-in-trade, £2,000. James Wright's capital, £2,710.

(L. & C.)

EXERCISE V

Walter Robinson, who is a slate merchant, has recorded his transactions in the following books—

(*a*) SALES DAY BOOK, in which all sales to customers have been entered. The sales have been posted in detail to the debit of the customers' personal accounts in the "Sales Ledger."

(*b*) CASH BOOK. Only "Bank" items have been dealt with in this book, and all cash thus received and paid has been duly entered. Cash received from customers has been posted to their credit in the "Sales Ledger." Cash paid to creditors for goods purchased has been posted to their debit in the "Purchases Ledger." With these exceptions, no further posting has been done.

(*c*) PETTY CASH BOOK. This book, used for small cash payments, has been kept in funds by a weekly cheque passed through the "Cash Book."

(*d*) "SALES" and "PURCHASES" LEDGERS, as referred to above.

Statements from creditors and receipts have been kept on a file, but not otherwise dealt with. Except as detailed above, no further record of any kind has been kept by Robinson of his business transactions. Is Robinson's system of book-keeping an efficient one? If not, what alterations or additions will be necessary, in order that he may be in a position to prepare proper annual accounts. (R.S.A.)

EXERCISE VI

Up to 31st December, 19.., the only accounts kept by a wholesale grocer have been a cash book and a ledger containing personal accounts with debtors and creditors.

What additional books and accounts would be needed to commence a set of double entry books as from the date mentioned ? What steps would he have to take if he wanted to show the result of his trading for the year 19. . by double entry ? (L. & C.)

EXERCISE VII

A Trader keeps books of account, but not on the double entry system. The following information is obtained from the books—

	Year 1	Year 2
	£	£
Debtors	1,750	1,950
Creditors	2,500	3,300
Stock in trade	4,000	5,000
Balance in the bank	350	150
Cash in hand	15	25
Fixtures and fittings	250	225

During the year he draws £250 out of the business for living expenses. Prepare Balance Sheets at the end of year 1 and year 2, and state the amount of trading profit.

EXERCISE VIII

V. Gordon keeps his books by the single entry method His financial position on the 1st January, 19. ., was as follows—

	£	s.	d.		£
Cash in hand	23	10	–	Sundry creditors	610
Fixtures and fittings	75	–	–		
Stock-in-trade	590	10	–		
Cash at bank	210	–	–		
Sundry debtors	350	–			
Machinery and plant	851	–	–		

During the year he withdrew from the business for personal use the sum of £520, and on the 31st December, 19. ., his financial position was as follows—

	£	s.	d.		£
Machinery and plant	900	–		Bank overdraft	150
Fixtures and fittings	70			Sundry creditors	550
Sundry debtors	500				
Stock-in-trade	650	–	–		
Cash in hand	15	–			

From the above particulars prepare a statement showing the profit made by Gordon for the year ended 31st December, 19. . . (L. & C.)

CHAPTER III

THE RETAILER AND HIS ACCOUNTS

THE SMALL SHOP-KEEPER. Retail trade varies considerably both in nature and in extent; for this reason no generally applicable system of accounts can be prescribed. On the other hand, it is probably correct to conclude that the *third stage* of composite book-keeping described in the previous chapter finds most application among shopkeepers. This is due largely to the nature of the retail trade, which consists for the most part of the direct purchase by shopkeepers of relatively large quantities of goods from the wholesaler or manufacturer, and their re-sale (in small quantities) to the consumers. Purchase from the wholesaler, preparation of the goods for sale, and delivery of the goods in many small quantities constitutes the chief activity of the retail trade.

TRADE ON CREDIT. One of the first things the retailer must decide when opening a business is whether he will conduct the concern on a cash or on a credit basis. If the former is decided upon, his accounting will be greatly simplified; but, as a rule, he will be compelled to recognize that this happy era has not yet arrived. In most retail trades a certain amount of credit must be given or the turnover will be kept within very narrow limits, and while he may esteem the cash principle as the ideal, he must nevertheless make provision for at any rate a limited credit. This at once necessitates a knowledge of some system of accounts, which will enable him to record the different transactions of his business so as to secure himself against loss, to provide a means by which it will be easy for him to ascertain at any time the detailed particulars of the trade he has done, and to enable him to review the extent and position of his business in relation to suppliers, customers, and with his private household.

The method of keeping this record varies much in detail in various businesses, but the underlying principles are always the same. For the purpose of considering the system of accounts usually kept in the retail trade we will consider the subject under the following headings.

1. The Purchase of the Goods from the Suppliers.
2. The Preparation of the Goods for Sale.
3. Dealings with the Customers.

PURCHASE OF THE GOODS FROM THE SUPPLIERS. The retailer must endeavour to buy on the most favourable terms and to acquire his supplies in the best quality, and with a selection calculated to meet the wishes and tastes of his customers. He must also see that he renews his stocks at the right time in order that his supplies of the various articles may be kept in line with the sales. As his suppliers will generally allow him a shorter or longer term of credit, an account will be kept by him in his ledger for each creditor who supplies him with goods. At any time these accounts will show him the amount he owes to his suppliers. Thus his dealings with the suppliers will consist chiefly in the ordering of the goods, in the settlement of any claims or differences which may arise from the checking of the incoming goods, in the timely and punctual payment of his debts, and finally in the entry of these dealings into the ledger. Payment or, as the trader expresses it, cover of the suppliers may be effected in various ways: by sending cash, by means of a cheque, a bill of exchange, or by the payment of the amount to the suppliers' traveller on his periodical visits.

The postings into the Ledger should be kept up to date, so that every credit transaction is entered on the same day on which it is brought to the knowledge of the book-keeper. The postponement of the ledger postings until they have accumulated for a few weeks or months is incompatible with a proper system of accounting. The ledger should provide precise information concerning the relations between the trader and his suppliers.

For every delivery of goods the supplier gives to the receiver of the goods an invoice. This invoice is sent by post and usually reaches its destination before the goods, which cannot be forwarded as quickly as letters. The consignment of goods from a distance, therefore, gives rise to a two-fold entry in the books, viz., on arrival of the invoice and on arrival of the goods. As the goods are usually sent for the consignee's account and risk and, therefore, become his property as soon as they are handed over to the carrier, it follows that it is more systematic to credit the supplier as soon as the invoice arrives, and not to wait until the goods actually arrive. This method of procedure does not preclude the right to make subsequent claims if necessary. On the other hand, it is obviously the duty of the receiver to check the goods received with the order and the invoice to see that they correspond in regard to quality, quantity, number. and weight, and to notify the sender in case of any discrepancies.

The incoming invoices are filed away in a special case ; in many businesses they are also made to serve the purpose of a Bought Book. It is more systematic, however, to keep also a purchase book into which the invoices are entered.

The Purchases Book consists of entries giving a brief description of the incoming invoices, and is sometimes known as the **Invoice Book.**

The book is paged, with the date on the left-hand side, and the incoming invoices are entered in chronological order, their contents being summarized. A column is kept for the ledger folio into which it is posted. When the goods are paid for the entry will be made in the cash book, from which it is afterwards posted to the ledger. All items should first be entered into a subsidiary book prior to their being posted into the ledger. The price of the goods is entered in the money columns on the right-hand side of the Purchases Book as soon as it becomes known.

PREPARATION OF THE GOODS FOR SALE. The fixing of the prices of the goods involves a careful calculation of the expenses which have been incurred in effecting the purchases. To ascertain the selling price it is necessary to add to the invoice price any expenses for carriage, cartage, customs, or any other supplementary charges. The total amount of these items constitutes the cost price of the goods. An estimate is then made of the weight, measure, or number which may be lost in transport, warehousing, or in weighing out the goods in small quantities, and the corresponding deduction is made from the invoice weight. The cost price of the goods is then divided by the weight thus obtained, and the result shows the cost price per unit. For the retailer the estimation of the selling price is of the utmost significance. It is necessary to make two additions to the cost price, viz., the cost of selling, and the desired profit. The expenses of sale in the retail trade are relatively large, and are composed of various items, such as rent, wages, rates and taxes, lighting, heating and cleaning, advertising, packing materials, loss through unsaleable surpluses, etc. These selling expenses can only be determined by years of experience, and then only as an average. The trader who leaves the selling expenses out of consideration cannot arrive at a correct calculation of the selling price, and runs the risk of business failure. When the selling price only covers the cost price and the selling expenses, the owner of the business cannot continue to subsist ; he will be working without remuneration, and would soon be compelled to maintain himself out of his capital. He has, therefore, to make a further addition for *profit.* As a rule, the amount of the profit is not dependent upon the trader's own intentions but upon competition which the owner of the business has to take into consideration. By adding too much profit he will lose his customers, and by adding a small quota as profit he will attract them. As the ultimate profits will be larger with a small margin and a large turnover than with a high margin and a small turnover, the wise retailer will estimate his selling prices on the principle of "*Small profits and quick returns.*" The selling expenses and the margin for profit should be added to the cost price in the form of a percentage.

DEALINGS WITH THE CUSTOMERS. In the retail trade it is customary for the customers to pay in cash. The money flows into the till in innumerable small items ; it is, therefore, as a rule, impossible to enter every item. The takings are usually counted up after closing time and entered into the cash book. In practice it sometimes happens that these transfers into the cash book are made only once a week or only once a month—a practice which cannot be recommended. Another bad practice which is in vogue in many retail businesses is the withdrawal of cash from the till for private purposes without any proper check being kept of the amount withdrawn. Such a practice should be strictly avoided. It leads to disorder and induces the staff to dishonesty, and frequently leads to business failure. It is, therefore, advisable that a portion of the previous day's takings after being entered into the cash book, should be set apart and used as petty cash. For this purpose a small book should be kept in which to record all petty expenditure such as postages, telegrams, tips, fares, etc., and subsequently transferred to the cash book in a lump sum. The same procedure is recommended in the case of household expenses, which should be recorded in a *Household Expenses Book.*

Even in the retail trade not all sales are for cash. For manifold reasons many customers buy the goods on credit and settle their accounts weekly, monthly, or at longer intervals. It is in the nature of the retail business that no running account can be kept for these sales. It would be impossible to enter all these small items into a Purchases Book during business hours and then transfer them afterwards into a ledger ; moreover, the size of the book would have to be enormous. Amongst the many methods which are practised in such cases the following is perhaps the best. For each customer a small *shop book* is opened in duplicate. One remains in the shop, where it is kept in the rack in alphabetical order, and the other is handed to the customer, who must bring it to the shop every time he makes a purchase. The various items of his purchases are entered simultaneously into both books so that there is a dual control available at any time. When payments are made both books are compared with each other and receipted. The amounts taken go into the till and are lumped together with the day's takings. The circumspect business man will examine carefully these shop books from time to time and compare the goods bought with the payments received, and thus ascertain the amounts outstanding. In this way he can judge whether and which customers take too much credit or remain too long in arrears with their payments, and he is thus in a position to guard against loss by reminding any remiss customers of payment, and if necessary refusing further supplies. It can thus be seen how necessary is a proper system of accounts if a business is to be managed with success.

Another method in vogue where goods are purchased on credit may also be mentioned. Here the customers' purchases are entered in chronological order in the shop book ; if payment is made the items are crossed out. At regular intervals the shop book is examined and all amounts not marked as having been paid are posted to a ledger account, and a statement is sent to the customer. This method is suitable in those businesses where the customers do not purchase their goods with such regularity or frequency, as, for instance, in the drapery, millinery, or boot trade, and also by those tradesmen who work for their customers. In some cases it may be advisable to keep duplicate books as above described for some customers, and the latter method applied for others.

BOOKS REQUIRED IN THE RETAIL BUSINESS. From the foregoing considerations it may be concluded that the following books must be kept in a retail business—

1. The Journal for the opening and closing entries.
2. The Cash Book.
3. The Ledger.
4. The Purchases or Invoice Book.
5. The Customers' Shop Books in duplicate.

On the other hand, there is no need to keep a Stock Book, as the quantity of goods on hand would be ascertained by means of an inventory. The exigencies of trade will sometimes demand additions to the above list, but the books mentioned will be found quite sufficient for the ordinary needs of the retail business.

These books are divided into two classes—principal and subordinate, the latter being those in which entries are made prior to their transfer to the ledgers which are the principal books of account.

The **Cash Book** is one of the most important account books required in the retail business. This is the volume which must contain a record of all cash transactions, in which must be clearly set forth from day to day, in full detail, a correct account of all moneys received and expended. Before doing this, however, the trader must have some method of registering the various cash items which pass through his hands; this is most effectively done by duplicated *check books* and counterfoil *receipt books*. The former are used for sales over the counter. Each check, which is really a bill head, is numbered and duplicated; one is given to the customer and the other is passed to the desk with the cash, the assistant first making an entry of the amount and of the check number in his book for the daily reckoning. Receipt books with counterfoils are also kept for the moneys received.

From these counterfoils and duplicate checks the entries are made in a cash book. The left-hand side is reserved for copying up the checks, while other receipts and daily disbursements are recorded on the right-hand side.

The ruling of the cash book and the method of entry is given on page 21.

A simple record of one day's receipts and payments shows that three counter check books have been in use—No. 1 taking, £4 6s.;

No. 2, £5 16s. 10d.; and No. 3, £2 4s. 2d. In addition, three accounts have been paid in for which the Receipt Book has been used—A. George, £2 11s.; T. Armstrong, £1 14s. 6d.; William Franks, £3 6s. 4d.; making a total of £19 18s. 10d.

Against these items several amounts have been expended amounting collectively to £3 7s. 6d., thus leaving a balance on the day's

CHECK RECEIPTS

Jan. 10	No. of Check Book	1		2		3
	No. of Check	£ s. d.	No. of Check	£ s. d.	No. of Check	£ s. d.
	20	2 4 6	3	1 2 4	16	1 1 4
	21	5 8	4	3 5 6	17	2 8
	22	1 12 6	5	1 6	18	1 6
	23	3 4	6	15 -	19	18 8
			7	12 6		
		£4 6 -		£5 16 10		£2 4 2

Dr. CASH BOOK Cr.

	Cash			Contra	
		£ s. d.			£ s. d.
Jan. 10	To A. George .	2 11 -	Jan. 10	By Carriage .	5 6
	,, T. Armstrong .	1 14 6		,, Rates . .	2 2 6
	,, W. Franks .	3 6 4		,, Stamps . .	5 -
	,, Check Book 1	4 6 -		,, Brushes .	4 6
	,, Check Book 2	5 16 10		,, Drawings .	10 -
	,, Check Book 3	2 4 2		,, Balance c/d .	16 11 4
	£	19 18 10		£	19 18 10
Jan. 11	To Balance b/d .	16 11 4			

ANALYSIS

	£ s. d.
Paper	12 10 -
Gold	1 - -
Silver	2 2 6
Copper	18 10
	£16 11 4

transactions of £16 11s. 4d. With this sum the money in the till must correspond and should be made up and recorded in the way shown. At the close of the day's business the entries from the check books should be seen to agree with those in the cash book, the method being for the assistant or salesman to call his total to the book-keeper, and then, if there be any discrepancy, to go through the items seriatim, until the mistake has been discovered. By this means a complete and correct summary of the day's transactions will be obtained. To any tradesman this is invaluable as a record of account and a ready means of reference.

The Sales Ledger is a volume which contains a systematic record of a trader's dealings with his customers, and is consequently a book of the first importance. The following is the method of ruling an entry for this book—

Dr. W. SMART, "THE LAURELS," HAMPTON COURT Cr.

19..		D.B.	£	s.	d.	19..		C.B.	£	s.	d.
June 20	To Dress Suit .	326	6	10	-	July 4	By Cash .	28	6	6	9
							" Discount Allowed			3	3
			£6	10	-				£6	10	-

When the goods are sold the entry is passed through the Sales Day Book, and is then posted to the debit side of the ledger account. The page of the Day Book is given in the folio column. When the cash is paid it is first entered into the cash book and then posted to the credit of the customer's ledger account. Here again the page of the cash book is shown in the folio column on the credit side of the account.

The Bought Ledger. Up to this point each example given has been a record between the retailer and his clients, the retailer being the creditor and the client the debtor; but we must now turn our attention to the other side of the business—the retailer's account with his suppliers. It is equally important that a business man should register what he owes as that he should set down what others owe to him; and for this purpose the same principle of accounting obtains, the Invoice or Purchases Book taking the place of the Sales or Day Book, and the Bought Ledger taking the place of the Sales Ledger. For all goods bought an invoice is received, setting forth in detail each article which has been supplied, together with the price, and these invoices bearing a record of our indebtedness must naturally be dealt with in a business-like manner. The most effective method of dealing with them is to keep an invoice book into which all their particulars are regularly copied in their proper order, with the merchant's name, the date and particulars of the goods purchased, together with the terms of credit. In many firms, however, this book is dispensed with especially where it is customary to discharge liabilities by monthly or quarterly settlements. In such cases the method usually employed is to keep files for the safe keeping of the invoices, until such accounts have been discharged. Invoices kept in this way should be divided into three distinct classes, viz. ordinary, forward dated, and receipted.

Although it is usually less bulky than the Sales Ledger, the Bought Ledger is ruled in exactly the same way. The process of entry is also the same except that the order of the entries is reversed. The name of the supplier is written at the head of the account, the goods purchased are entered in the right-hand column and the cash paid in the left, thus—

Dr. THE CLOTH SUPPLY COMPANY, BRADFORD **Cr.**

19..			£ s. d.	19..			£ s. d.
April 3	To Cash .		43 15 6	Mar. 4	By Purchases		45 7 -
	,, Discount Received		1 11 6				
			£45 7 -				£45 7 -

These ledger accounts should be kept regularly and consistently. The most fatal enemy to business is procrastination. If a tradesman once allows himself to become the victim of a policy of drift, it invariably carries him among the breakers, and it is upon the rock of neglect that most businesses are wrecked.

Where the two ledgers are kept properly posted, it is comparatively easy at any time to produce a summary of accounts which will convey a clear indication of our financial position. This estimate of the solvency of a business is arrived at by making the Bought Ledger and the Sales Ledger the separate sides of one account, deducting their returns, and then striking a balance.

MULTIPLE SHOP SYSTEM. This is a system of retail shops the management of which is controlled from a central office, where the general policy is decided upon, and from which all purchases are made by the different branches. Goods are forwarded from the central office to the branch shops as requisitioned, and the necessity for stocking a large amount at any branch is thus obviated. Each branch shop is under the charge of a manager, whose sole concern is to sell the goods sent to him. The branch manager receives his instructions from the central office, and is required to furnish reports, daily or weekly, regarding turnover, stock, or any other matters pertinent to the business. He must keep his stock as low as is compatible with safety, any line which has run low being immediately replenished from the head office. The takings are paid into the bank daily and the expenses are paid either directly by the head office or by the use of the imprest system. Inspectors visit the different branches, confer with the managers and make reports to the central office.

No books are kept at the branch, but merely memoranda from which it makes its returns to the head office. The money received by the branch for cash sales and on ledger accounts is remitted daily to the head office or else paid into the head office account at some local bank. The branch expenses, such as rent, rates, taxes, and wages are usually paid by cheque direct from the head office. When goods are supplied to a branch by the head office they are usually invoiced to them at selling price. The object of this is to enable a check to be exercised upon the branch. What the branch cannot produce in money, it must have in stock (taken at selling price), and frequent stocktaking will reveal whether there is any leakage. When a percentage is added to the cost price, this must be taken into account at balancing time, that is to say, the opening and closing stocks at the branch must be reduced to cost price in order to arrive at the correct profit.

EXAMPLE. **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 each day. In the invoices for 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, draw up the ledger accounts in the head office books and prepare accounts showing the gross profit of each branch—

	Cardiff	Swansea	Barry
	£	£	£
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
Cash received on Ledger Accounts .	2,250	1,850	1,250
Debtors at Commencement . .	1,555	1,665	1,350
Debtors at Close	1,755	1,865	1,550
Stock at Commencement . . .	750	650	450
Stock at Close	1,060	960	760

Dr. CARDIFF BRANCH ACCOUNT Cr.

	Invoice Price			Invoice Price	
	£	£		£	£
To Balance—			By Cash Sales .		2,750
Stock .	750	600	,, Ledger A/cs .		2,250
Debtors		1,555	,, Debtors } c/d .		1,755
,, Goods from H.O. .	5,500	4,400	,, Stock } c/d .	1,060	848
,, Balance from Trading A/c		1,048			
		£7,603			£7,603

Dr. SWANSEA BRANCH ACCOUNT Cr.

	Invoice Price			Invoice Price	
	£	£		£	£
To Balance—			By Cash Sales .		2,250
Stock .	650	520	,, Ledger A/cs .		1,850
Debtors .		1,665	,, Debtors } c/d .		1,865
,, Goods from H.O. .	4,500	3,600	,, Stock } c/d .	960	768
,, Balance from Trading A/c		948			
		£6,733			£6,733

Dr. **BARRY BRANCH ACCOUNT** Cr.

	Invoice Price			Invoice Price	
	£	£		£	£
To Balance—			By Cash Sales .		1,650
Stock .	450	360	,, Ledger A/cs .		1,250
Debtors .		1,350	,, Debtors } c/d .		1,550
,, Goods from H.O. . .	3,500	2,800	,, Stock } c/d .	760	608
,, Balance from Trading A/c		548			
		£5,058			£5,058

Dr. **BRANCH TRADING ACCOUNT** Cr.

	Cardiff	Swansea	Barry		Cardiff	Swansea	Barry
	£	£	£		£	£	£
To Stock .	600	520	360	By Sales .	5,200	4,300	3,100
,, Goods from H.O. .	4,400	3,600	2,800	,, Stock .	848	768	608
,, Gross Profit.	1,048	948	548				
	£6,048	£5,068	£3,708		£6,048	£5,068	£3,708

EXERCISE IX

1. What system of book-keeping finds most general application amongst small retailers ? Give reasons for your answer.
2. Enumerate the three main functions of modern retail trade.
3. What considerations must be borne in mind by the retailer when effecting his purchases ?
4. Why do dealings with the suppliers necessitate the keeping of a ledger ? What is the nature of these dealings ?
5. What is understood by the expression " The ledger must be kept up to date " ?
6. What is the precise moment when a supplier should be credited with the dispatch of goods to the retailer ?
7. What is the duty of the retailer (*a*) on the arrival of goods from the supplier ; (*b*) on receipt of the incoming invoice ?
8. Explain the arrangement of the retailer's purchase book. Why may the various items of purchase be recorded in abbreviated form in this book ?
9. What are the various items which constitute the cost price of the goods ?

10. How is the selling price of the goods ascertained ? Why must the retailer make an addition for profit ?

11. What are the chief factors which determine the rate of profit charged by the retailer ?

12. How should the retailer deal with (*a*) his cash receipts ; (*b*) his petty expenses ; and (*c*) his household expenses ?

13. How should the retailer keep a record of his dealings with his credit customers ? Explain the use of (*a*) customers' books in duplicate ; and (*b*) the shop book.

14. What is the method of ascertaining the stock in the retail trade ?

15. What system of accounts would you recommend to a retail trader starting in business ? Explain the various books which should be kept so as to enable him to ascertain in the shortest time and most reliable manner the results of his business operations.

16. What do you consider the best method of keeping the accounts of a Retail Grocer doing a cash business of £100 per week and a credit business of £70 per week ?

17. You are asked to take charge of the Sales Day Book for a firm of retailers. State clearly your conception of the duties you would be called upon to perform.

18. What steps, in your opinion, would it be necessary to take in order to prepare a Trading and Profit and Loss Account and Balance Sheet of a retail trader, assuming the proper books have been kept and written up, but not balanced ?

19. In the event of the proprietors of a retail business wishing to extend operations and deciding to acquire an additional shop, what principle would you suggest should be adopted as to invoicing goods from Head Office to the branch and the method of book-keeping to be employed to show separately the result of the trading at that branch ?

20. A firm of drapers, whose Head Office is in London, has three retail branches in the provinces. State what weekly returns you would expect from the branches, and how you would deal with such returns in the books of the Head Office.

21. The Universal Supply Co., whose Head Office is in Cardiff, have branch retail shops in Penarth, Barry, and Newport. All goods are purchased by the Head Office and are invoiced to the branches at selling prices. Briefly describe the system of accounts you would recommend for use at the branches and at the Head Office.

EXERCISE X

John Miller commenced business, as a draper, on 3rd July, 19.., with £250 at the Bank, £3 cash in hand, and stock £300. The stock had not yet been paid for, having been obtained on credit as follows—

J. Beale & Co., £110 ; F. Hall & Sons, £60 ; Thomas Fisher, £90 ; and Hugh Jones, Ltd., £40. J. Miller also possessed furniture, fixtures and fittings valued at £70.

Open John Miller's Ledger with these items, and post to it, *through* *the subsidiary books*, his transactions during the first week of July (as follows)—

19..
July 3. Paid cash for stamps 5s., and stationery 6s. 8d.
Purchased from J. Beale & Co., 120 yd. of flannelette at 4s. 3d. per dozen yards, on credit.
4. Purchased from F. Hall & Sons, 600 yd. of shirting (240 yd. at 8s. 3d. per dozen yards, and 360 yd. at 10s. 9d. per dozen yards), on credit.
5. Bought, for cash, brown paper and string, 15s.
Banked cash sales for the 3rd and 4th July, £27 10s.
6. " " 5th July, £16 5s.
Paid by cheque, J. Beale & Co., £30 on account.
" Hugh Jones's account *less* 2½ per cent discount.
7. Paid by cash, carriage 13s. 6d.
8. Sold to Miss H. Hayman, on credit, 10 yd. of sheeting at 1s. 5d. per yard ; 1 doz. reels of assorted cottons for 2s. 3d. ; 2 pairs of lace curtains at 16s. 11d. per pair.
Received credit note from F. Hall & Sons for 8 yd. of shirting at 10s. 9d. per dozen yards, which were damaged in transit and returned to Hall on the 8th inst.
Banked cash sales for 6th and 7th July, £32 15s.
Drew and cashed cheque for £10, and paid wages, £7 5s.

Balance the ledger accounts, bring down the balances, and extract a "Trial Balance" as on 8th July, 19... (R.S.A.)

EXERCISE XI

A. Pillar is in business as a furniture dealer. On 1st March, 19.., his position was as follows—

Cash at Bank, £1,285 ; Shop Fittings, £200 ; Bill Receivable, £150 (L. Pirrie, due 9th March) ; Horse and Van, £180 ; Debtors : L. Pain, £260 ; C. Pernet, £124 ; Stock on hand, £1,986 ; Creditor : W. R. Smith, £321 ; Cash in hand, £92 ; Loan from S. Cranford, £500.

You are required to open the necessary ledger accounts to record the above particulars and to post thereto, through the proper subsidiary books, the following transactions—

19..
Mar. 3. Purchased, on credit, from C. Hall, 100 art square carpets, at 22s. 6d. each, less 10 per cent trade discount.
4. Sold, for cash, and paid into office cash, 12 iron bedsteads, at 47s. 6d. each.
5. Paid, in cash : wages, £24 ; railway carriage, £12 7s. 6d. ; and rates, £38.
7. Sold, on credit, to C. Pernet, 56 hair mattresses, at £2 19s. 8d. each ; ½ gross mattress covers, at 10s. each ; and 5 doz. feather bolsters, at 9s. 6d. each.
9. Bill receivable, due this day, was duly paid to bank.
10. Drew, and cashed, cheque for office cash, £50.
12. Purchased, at auction, and paid for by cheque, second-hand furniture, £128 10s. 6d.
14. Purchased, for cash, hay and corn for horse, £12 7s. 2d.
C. Pernet returned six feather bolsters, sold to him on the 7th instant, as damaged.
17 Paid, in cash, wages, £27 10s., and postages and stationery, £2 18s. 4d.
19. L. Pain paid, by cheque, the amount due from him, less 5 per cent cash discount.
20. Purchased, by cheque, new shelving for use in the shop, £62.
22. Paid by cheque, W. R. Smith, the amount due to him, less 5 per cent cash discount.

Balance the Ledger and Cash Book, as on 22nd March, 19.., and extract a Trial Balance.

(R.S.A.)

EXERCISE XII

Mr. Malcolm Keeling commenced business as a draper on 1st January, 19.., with £400 in the Bank, and Stock worth £200 (for which he owed H. Nuttall £50 and F. Chambers £150), and Fixtures and Fittings of his shop £90.

Open the accounts necessary to record the above particulars in his Ledger; and post thereto, through the proper books of original entry, the following transactions—

19..

Jan. 1. Drew cash from bank to meet incidental expenses, £10.
Purchased on credit from Mr. W. Thackeray, 60 yd. of flannelette at 4s. 6d. per dozen yards.
Sold on credit to Mrs. Jane Eyre, 12 yd. of calico at 6¾d. per yard; 6 pairs of lace curtains at 15s. per pair; 12 reels of cotton at 3d. per reel; 1 packet of needles 3d.
Cash sales, £5 7s. 6d.

2. Paid carriage by cash, 3s. 6d.
Sold Miss B. Sharpe on credit, 6 yd. of flannelette at 6½d. per yard; 2 hats at 9s. 11d. each.
Paid wages, by cash, £1 5s.
Cash sales, £7 12s. 6d.

4. Purchased on credit from Mr. F. Chambers, 6 doz. straw hats at 12s. 6d. per dozen.
Paid cash for stamps, 5s.; and stationery, 8s. 6d.
Paid by cheque the amount of Mr. H. Nuttall's account, *less* 5 per cent discount.
Cash sales, £7.

5. Paid into the bank the amount of the cash sales received since the beginning of the year.
Miss B. Sharpe returned one of the hats sold to her on 2nd January.
Received cheque (which was paid into bank) from Mrs. Jane Eyre for the amount of her account, less 2½ per cent discount.

Balance the Cash Book and the Ledger Accounts as on 5th January, 19.., extract a Trial Balance, and prepare the final accounts.

(R.S.A.)

EXERCISE XIII

A retail trader commences business with stock value £260 and cash £400. He pays during the first year, three-quarters of his rent of £140 per annum, and for wages and expenses £450. He purchases goods to the value of £1,112 and pays £925 on account of same. He receives on account of his credit sales £1,087 and for ready money sales £504. At the end of the year he has stock £407, book debts £270, and cash balance as will appear by the cash account. He owes one quarter's rent and £187 for other debts. Prepare a Cash Account, Profit and Loss Account, and Balance Sheet. No other accounts need be shown.

EXERCISE XIV

J. H. Dyer commenced business as a Retail Bookseller on 1st April, 19... At the end of 12 months the following Trial Balance was prepared from his books—

TRIAL BALANCE, 31ST MARCH, 19.

	Debit £	Credit £
J. H. Dyer, Capital Account . .		4,000
,, Drawing Account.	850	
Purchases	8,450	
Sales		9,500
Purchases returns .		180
Sales returns.	100	
Rent, rates, and taxes	400	
Salaries . .	520	
General expenses .	480	
Furniture and fittings .	1,000	
Bad debts . .	85	
Sundry debtors . .	2,400	
Sundry creditors .		1,200
Discounts . . .		120
Bank	715	
	£15,000	£15,000

The value of his stock on 31st March, 19.., was £1,350. Prepare his Trading Account, Profit and Loss Account and Balance Sheet, after allowing £100 for Depreciation of Furniture and Fittings. State the percentage of Net Profit upon the Capital.

EXERCISE XV

The Retail Trading Co., Ltd., has a branch shop at Newport, which is supplied from the Depot. The branch keeps its own Sales Ledger, and receives cash against Ledger Accounts, such receipts being banked daily to the credit of Head Office. The expenses of the branch are paid by Head Office weekly. From the particulars below show the Newport Branch Account and the Newport Profit and Loss Account in the Head Office Ledger for the six months ended 30th June, 19..—

	£		£
Wages and sundry expenses .	**426**	**Returns inwards . . . .**	**32**
Rates and taxes paid . .	**74**	**Credit sales . . . . .**	**3,029**
Goods from depot . .	**2,960**	**Cash received on Ledger A/cs .**	**2,965**
Stock 1st January . .	**556**	**Cash sales . . . . .**	**1,428**
Stock 30th June, 19.. .	**693**	**Sundry debtors, 1st January, 19..**	**1,396**

CHAPTER IV

Partnership

NATURE OF PARTNERSHIP. Two or more persons may combine on the basis of a contract of partnership with a view to carrying on a commercial or industrial undertaking by their mutual work and with their common capital.

Instead of one principal, as in the sole trading concern, which has already been discussed, the partnership undertaking has two or more co-owners; indeed, as many as there are partners; and instead of one capital account, two or more such accounts must be kept. The same remark applies to the keeping of private or household accounts. The novelty presented by partnership accounts is, therefore, the opening and keeping of a separate capital and private or drawings account for each partner. We have, therefore, to investigate how these new accounts are opened, kept, and closed. For this purpose rules are laid down on the one hand by the partnership agreement, and on the other hand by the *Partnership Act*, 1890, which deals with the relations of the partners to each other. According to this Act—

1. All partners must share equally in capital and profits, and contribute equally to losses (i.e. in the absence of any special agreement).
2. The firm must indemnify any partner in respect of payments made by him
   (*a*) in the ordinary course of business;
   (*b*) for the preservation of the firm's property or business.
3. A partner is entitled to 5 per cent interest for loans made by him to the business.
4. He is not entitled to interest on his capital.
5. He is not entitled to any salary for his services.

These general conditions are usually altered and varied in the *articles of partnership*, which usually provide for the payment of partners' salaries, drawings, and interest on capital.

PARTNERSHIP ACCOUNTS. The capital account of every partner, like that of a sole trader, is credited with the amount of the partner's capital invested, which may consist of money or money's worth. If, in addition to his assets, the partnership firm also takes over the liabilities of a partner, his capital account is credited only with the excess of the assets over the liabilities. Any further investments arranged for in the partnership contract and payable after the formation of the business will be entered to the credit of the partner's capital account together with any share of profit to which he is entitled. To the debit of the partner's capital account will be entered any diminution of capital which may arise through business losses or withdrawal of capital.

The private or *drawings account* of every partner resembles the household account of the sole trader, and is conducted on the same lines as any other debtor's or creditor's account. To the debit side of this account must be entered the amount paid to the partner as salary, the interest actually paid on his capital investment, and his share in the net profit withdrawn. In other words, all values in money or money's worth which the partner receives from the business are booked to the debit side of the partner's drawings account as well as any losses which, by the terms of the partnership agreement, fall to the debit of the partner; and finally, his share in any business loss which may be shown by the profit and loss account. A *debit* balance on the partner's drawings account represents a debt due to the firm by the partner. Such a debit balance must be transferred to the partner's capital account. In this way his capital investment is diminished or may be eaten up altogether and converted into a capital liability owing by the partner to the firm. A *credit* balance on partner's drawings account may be regarded as the private property of the partner. Where the partnership agreement does not stipulate otherwise, it should be transferred periodically to the partner in question, in which case his capital investment is increased. As a rule, however, the partnership contract will determine whether this credit balance has to be carried forward for the partner's private use.

In this case the drawings account must be balanced periodically in the same manner as the account of the ordinary creditor of a business. Thus, the partner is a creditor of the firm and may freely dispose of the balance standing to the credit of his drawings account, and in the case of his bankruptcy his private creditors have a right to claim the amount. The capital investment, however, is the property of the firm, and in the case of the firm's bankruptcy it would be distributed among the creditors of the firm.

ADJUSTMENT OF PROFITS BETWEEN PARTNERS. The proportion in which the profits of the business are divided amongst the partners is usually stated in the Articles of Partnership, but in the absence of any agreement the profits are divided equally.

The net profit may be ascertained from Profit and Loss Account by debiting this account with Interest on Loan, Interest on Capital, and Salaries, etc., and crediting it with the Gross Profit. This net profit may then be divided between the partners in the same account in the agreed proportion as shown in the following example, viz.—

EXAMPLE. The firm of Bell & Co., consists of three partners, Roger Bell, Stephen Bell, and Walter Cox, and their capitals were, at the 1st of January, 19.., £5,000, £3,000, and £2,000 respectively. Cox has also lent to the firm £2,400 at 6 per cent interest on 1st April, 19... Interest was to be allowed on all capital at 5 per cent per annum, and before the profits were divided Cox was to be paid a yearly salary of £250. Profits were shared equally. The profit for the year 19.., before making any of the above adjustments, was £1,821. Prepare the three Capital Accounts and the Profit and Loss Account showing how the latter would be closed.

BELL AND COMPANY—PROFIT AND LOSS ACCOUNT

Dr. for year ended 31st December, 19.. Cr.

	£	£		£	£
To Interest on Loan .		108	By Gross Profit carried forward .		1,821
" Salary (Cox) .		250			
" Interest on Capital:					
Roger Bell .	250				
Stephen Bell .	150				
Walter Cox	100				
		500			
" Balance being net profit £963:					
Roger Bell, ⅓rd .	321				
Stephen Bell, ⅓rd	321				
Walter Cox, ⅓rd	321				
		963			
		£1,821			£1,821

Dr. **ROGER BELL—CAPITAL ACCOUNT** Cr.

19..			£	19..			£
Dec. 31	To Balance .	c/d	5,571	Jan. 1	By Balance .	b/d	5,000
				Dec. 31	" Interest on Capital		250
				" 31	" Share of Profit		321
			£5,571				£5,571
				19..			
				Jan. 1	By Balance .	b/d	5,571

Dr. **STEPHEN BELL—CAPITAL ACCOUNT** Cr.

19..			£	19..			£
Dec. 31	To Balance .	c/d	3,471	Jan. 1	By Balance .	b/d	3,000
				Dec. 31	" Interest on Capital		150
				" 31	" Share of Profit		321
			£3,471				£3,471
				19..			
				Jan. 1	By Balance .	b/d	3,471

Dr. **WALTER COX—CAPITAL ACCOUNT** Cr.

19..			£	19..			£
Dec. 31	To Balance .	c/d	2,779	Jan. 1	By Balance .	b/d	2,000
				Dec. 31	" Interest on Capital .		100
				" 31	" Interest on Loan .		108
				" 31	" Salary . .		250
				" 31	" Share of Profit		321
			£2,779				£2,779
				19..			
				Jan. 1	By Balance .	b/d	2,779

From the foregoing example it will be seen that the capital account must be opened for each partner and credited with the amount which he has put into the business. The items which are recorded to the debit of this account consist of the partners' drawings and interest on drawings, whilst it is credited with interest on the partner's capital, interest on loans made to the business by the partner, and with the amount of his salary.

Where the articles of partnership require the capitals of the partners to be maintained at a fixed sum, it is necessary to open a *Current Account*, which is debited with the partner's drawings and interest on drawings and credited with interest on capital, interest on loan, profit and salary (unless paid by cash). The balance of this account is carried down at each period. Another method is to credit the partner's capital account with interest on capital and loans and share of profit, and to open a separate "Drawings Account." This is debited with the sums drawn out and the interest thereon. The balance is then transferred to the "Capital Account."

If one partner makes a loan to the firm, as in the example, a special loan account should be opened; the amount of the loan should not be entered in the partner's "Capital Account."

GOODWILL. Goodwill means the value attaching to the reputation of the business, and to the possibility that the customers of the old firm will resort to the new firm despite the change of ownership. The value of the Goodwill may depend upon any or all of the following—

1. The position of the business premises.
2. The personal reputation of the proprietor.
3. The articles in which the business deals.

When a new partner enters a firm he acquires by virtue of his position two rights, namely, the right to share in the assets of the partnership, and the right to participate in the division of the profits. For the right to share in the assets of the partnership the new partner pays a sum of money representing his capital, and this amount is, in fact, credited to his Capital Account, being debited, of course, to Cash.

The consideration payable to the old partners for the right to participate in the division of profits (i.e. the purchase of a share of the goodwill) may be satisfied in three ways, viz.—

(*a*) By a cash payment to the old partners individually.

(*b*) By a cash payment to the firm as a whole, the cash being retained in business; and

(*c*) By an adjustment of the old partners' Capital Accounts.

Case I. The incoming partner pays to the old partners an agreed sum as his share of the goodwill which is divided among the old partners in the same proportion as they are entitled to share profits and losses. In order to keep a record of the transactions it is advisable that the payment be passed through the books of the firm, the entries being as follows, viz.—

1. Debit cash and credit the old partners' Drawings Accounts with the agreed proportions.

2. Credit cash and debit partners' Drawings Accounts with the amount due to and drawn by each partner.

Case II. When the premium for goodwill is retained in the business, the incoming partner pays the agreed sum, a portion of which is credited to his capital account and the remainder, representing his share of goodwill, is credited to the old partners' Capital Accounts in the proportion to which they are entitled to share profits and losses.

EXAMPLE. W. Roberts and A. Martin are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit C. Spedding as a partner on condition that he brings in £2,300, £300 of which is to be regarded as a premium for goodwill; the money, however, is to remain in the business.

We, therefore, have the following entries, viz.—

Dr. CASH BOOK Cr.

		£	s.	d.			£	s.	d.
	To C. Spedding Capital A/c .	2,000	-	-					
	" W. Roberts Capital A/c .	200	-	-					
	" A. Martin Capital A/c .	100	-	-					

Dr. CAPITAL ACCOUNT OF C. SPEDDING Cr.

		£	s.	d.			£	s.	d.
						By Cash . .	2,000	-	-

Dr. CAPITAL ACCOUNT OF W. ROBERTS Cr.

		£	s.	d.			£	s.	d.
						By Balance . b/d	-	-	-
						" Cash . .	200	-	-

Dr. **CAPITAL ACCOUNT OF A. MARTIN** Cr.

							£	s.	d.
						By Balance . b/d	-	-	-
						„ Cash . .	100	-	-

Case III. When the old partners' Capital Accounts are adjusted, the incoming partner pays a fixed amount into the firm as capital. The old partners' Capital Accounts are increased by the agreed value of the goodwill, an account being created for goodwill. The book entries are: debit Goodwill Account and credit the old partners' Capital Accounts in the proportion to which they are entitled to share profits and losses.

EXAMPLE. John Smith and William Brown each with a capital of £1,000 carry on a business under the firm name of The Excelsior Trading Company. They decide to admit Thomas Smart as a partner as on 1st January; the latter is to bring in £500 as cash capital, and a Goodwill Account is to be raised for £2,000 which is to be credited equally to the former partners.
The following are the Ledger entries, viz.—

Dr. **JOHN SMITH—CAPITAL ACCOUNT** Cr.

							£	s.	d.
					Jan. 1	By Balance b/d	1,000	-	-
					„ „	„ Half share of Goodwill .	1,000	-	-

Dr. **WILLIAM BROWN—CAPITAL ACCOUNT** Cr.

							£	s.	d.
					Jan. 1	By Balance b/d	1,000	-	-
					„ „	„ Half share of Goodwill .	1,000	-	-

Dr. **THOMAS SMART—CAPITAL ACCOUNT** Cr.

							£	s.	d.
					Jan. 1	By Cash . .	500	-	-

Dr. **GOODWILL ACCOUNT** Cr.

		£	s.	d.					
Jan. 1	To John Smith .	1,000	-	-					
	„ Wm. Brown .	1,000	-	-					

Dr. CASH ACCOUNT Cr.

		£	s.	d.					
Jan. 1	To Thomas Smart	500	-	-					

ADMISSION OF A NEW PARTNER. Upon the admission of a new partner to a firm, it is usual for the new partner to pay each of the old partners a sum of money as a premium. Since the incoming partner will have a right to a proportionate share of the existing goodwill created by the old partners, the premium is a compensation to the old partners for surrendering a portion of these benefits. This payment is usually a personal matter between the old partners and the new one, and unless there is an agreement that any sum so paid must remain in the business, the amount paid does not appear in the books of the firm.

EXAMPLE. D, E, and F were partners with capitals of £6,000, £3,000, and £3,000, and shared profits and losses one-half, one-quarter, and one-quarter; they agreed to admit G, as new partner on his payment to them of £500, £250, and £250 respectively, as goodwill consideration, and into the firm's banking account £2,500 as his capital. It was agreed to write down various assets to the extent of £600 chargeable against original partners in usual proportions; and for goodwill to be valued at £5,000 in the books and credited two-fifths to D and one-fifth each to E, F, and G, future profits and losses to be shared likewise.

Dr. D—CAPITAL ACCOUNT Cr.

	£		£
To Re-valuation of Assets A/c	300	By Balance . . b/d	6,000
„ Balance . . c/d	7,700	„ Goodwill A/c . .	2,000
	£8,000		£8,000
		By Balance . . b/d	7,700

Dr. E—CAPITAL ACCOUNT Cr.

	£		£
To Re-valuation of Assets A/c	150	By Balance . . b/d	3,000
„ Balance . . c/d	3,850	„ Goodwill A/c . .	1,000
	£4,000		£4,000
		By Balance . . b/d	3,850

Dr. F—CAPITAL ACCOUNT Cr.

	£		£
To Re-valuation of Assets A/c	150	By Balance . . b/d	3,000
,, Balance . . c/d	3,850	,, Goodwill A/c . .	1,000
	£4,000		£4,000
		By Balance . . b/d	3,850

Dr. G—CAPITAL ACCOUNT Cr.

			£
		By Cash	2,500
		,, Goodwill A/c . .	1,000
			£3,500

Dr RE-VALUATION OF ASSETS ACCOUNT Cr.

	£		£
To Amount written off Book Value of Sundry Debts .	600	By Transfer to Capital A/cs—	
		D	300
		E	150
		F	150
	£600		£600

Dr. GOODWILL ACCOUNT Cr.

	£		
To Capitals A/cs—			
D	2,000		
E	1,000		
F	1,000		
G	1,000		
Agreed Valuation of Goodwill	£5,000		

From the above example it will be seen that the £1,000 paid by G as goodwill consideration is not recorded in the accounts. If no money is paid in respect of goodwill, it is usual to open a " Goodwill Account " for an agreed amount, and to credit this to the old partner's capital accounts in certain proportions. In this way the old partners' capital accounts show a bigger balance without any additional payment of cash, and they will in consequence receive a larger sum as interest and to this extent the incoming partner will be penalized. In the above example a Goodwill Account has been opened, but the new partner has in this case received a share which has been credited to his Capital Account.

Before the new partner G was admitted, the assets of the firm were re-valued and written down to the extent of £600. This sum has been debited to the old partners' capital accounts in the same proportions as they used to share profits and losses. This adjustment does not, of course, affect the new partner's "Capital Account."

The Capital Account of each partner is balanced and the balances carried down represent the capital of each partner in the business at the commencement of the new partnership. The amount of cash brought into the business by the new partner G is debited in the Cash Book and credited to G's Capital Account.

DISSOLUTION OF PARTNERSHIP. When a dissolution of partnership takes place the assets are realized, and the following rules are 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 are 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 following 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.

The following procedure is required to record the realization of the assets and the adjustment of the partners' accounts on a dissolution of the business, viz.—

1. Transfer all the assets, other than cash, to a *Realization Account*, by debiting this account with the book value, and crediting the respective Asset Accounts.

2. Credit Realization Account and debit cash with the value received.

3. Debit Realization Account with all expenses and credit Cash.

4. The balance of Realization Account will give the profit or loss on realization.

5. Divide the profit or loss on realization between the partners as they share profits or losses.

6. If any partner's account then shows a debit balance, the partner concerned must introduce cash to the amount of the deficiency, the entries being a debit to cash and a credit to the partner's Capital Account.

7. Pay off the creditors, credit cash, and debit sundry Creditors' Accounts.

8. Pay off Partners' Loan Accounts, credit cash, debit Loan Accounts.

9. The balances now outstanding will be Partners' Capital Accounts and Cash. Pay the partners what is owing to them, i.e. close the books, credit cash, and debit the respective partners' Capital Accounts with the amounts paid to them.

The procedure necessary to record the realization of the assets and the adjustment of the partners' accounts on the dissolution of a partnership is illustrated by the following example—

EXAMPLE. X and Y dissolved their partnership and liquidated the business, as on 31st December, 19.., the proportions in which profits and losses were shared was three-fifths X and two-fifths Y.

The firm's position on that date was as follows—

BALANCE SHEET

as at 31st December 19..

Liabilities		£	Assets	£
Creditors		1,500	Cash	750
Capital Accounts—			Debtors	1,900
X . .	£2,010		Stock-in-trade . . .	850
Y . .	1,340		Fixtures	200
		3,350	Plant	650
			Goodwill	500
		£4,850		£4,850

The assets, excluding cash, realized £3,680, and the creditors settled for £1,460. Expenses of liquidation amounted to £70.

REALIZATION OF ASSETS ACCOUNT

Dr.		£	Cr.	£
To Transfer from accounts, book values as follows—			By Cash received for Sundry Assets . . .	3,680
Debtors . .	£1,900		,, Balance c/d to Profit and Loss on Realization A/c	420
Stock-in-trade .	850			
Fixtures . .	200			
Plant . .	650			
Goodwill . .	500			
		4,100		
		£4,100		£4,100

PROFIT AND LOSS ON REALIZATION ACCOUNT

Dr.	£	Cr.		£
To Balance b/d from Realization of Assets A/c .	420	By Discounts from Creditors		40
,, Expenses of Liquidation .	70	,, Balance being— Loss on Realization	£450	
		Carried to Capital A/cs—		
		X, three-fifths . .		270
		Y, two-fifths . .		180
	£490			£490

CASH ACCOUNT

Dr.	£	Cr.	£
To Balance b/d	750	By Sundry Creditors . .	1,460
,, Amount received for Sundry Assets, Book Debts, Stock, Fixtures, Plant, and Goodwill, per Realization of Assets A/c .	3,680	,, Liquidation Expenses .	70
		,, Repayment of Capital, as per Capital A/cs—	
		X . . .	1,740
		Y . . .	1,160
	£4,430		£4,430

X—CAPITAL ACCOUNT

Dr.	£	Cr.	£
To Share of Loss as per Realization A/c . . .	270	By Balance b/d . . .	2,010
,, Repayment of Balance of Capital to close Accounts	1,740		
	£2,010		£2,010

Dr. Y—CAPITAL ACCOUNT Cr.

	£		£
To Share of Loss as per Realization A/c . . .	180	By Balance b/d . . .	1,340
„ Repayment of Balance of Capital to close Accounts	1,160		
	£1,340		£1,340

From the above it will be seen that on dissolution, all asset accounts must be closed with the exception of Cash. This is done by transferring the balances of all such items, representing the book values of the assets, to the debit of a " Realization of Assets Account." Upon realization of the assets " Cash " is debited and " Realization Account " is credited with the amount received. If a partner personally takes over part of the assets, the partner's capital account is debited with the agreed valuation of the asset or assets taken over and the " Realization Account " is credited.

The balance of the " Realization Account," whether profit or loss, is transferred to a " Profit and Loss on Realization Account." All expenses incurred, such as expenses of liquidation, are debited to this account and " Cash " is credited. When the liabilities are discharged the creditor's accounts are debited and " Cash " is credited, whilst Discounts received from creditors and allowances made by them are credited to the " Profit and Loss on Realization Account." The balance of this account is divided amongst the partners in the same proportion as profits and losses are shared.

If any partner's capital account then shows a debit balance, he must pay cash into the business to the extent of his deficiency. In this case " Cash " is debited and the partners' capital account is credited. The cash balance will now agree exactly with the totals standing to the credit of the partners' accounts, and these are closed upon payment first of the partners' loan accounts and finally of the partners' capital accounts.

EXERCISE XVI

1. In what respects do the accounts of a partnership firm differ from those of a sole trader ?

2. What does the Partnership Act, 1890, provide as to remuneration to partners for their services ?

3. Enumerate the chief provisions of the Partnership Act, 1890, and show their importance in the keeping of accounts.

4. What useful purpose is served by Articles of Partnership? How are disputes between partners settled where there are no Articles of Partnership?

5. What is the meaning of goodwill? Enumerate the chief factors which determine the value of the goodwill of a Partnership business.

6. What rights are acquired by a person who is admitted as a partner in a business?

7. In what three ways may an incoming partner give consideration to the old partners for the right to participate in the profits of the concern?

8. A with a capital of £700, and B with a capital of £500, are in partnership without any articles. A profit of £360 is made. How should this be divided?

9. Draft three specimen clauses relating to items affecting the accounts, which, in your opinion, should be included in a partnership agreement.

10. In a certain partnership business where profits were shared equally after allowing interest at 5 per cent on capital, and charging interest on drawings A had a capital of £10,000 on 1st January, 19.., and had drawn £200 on the last day of each month during the year; and B had a capital of £7,500 and had similarly drawn £100 on the last day of each month. Assuming a profit of £5,000 before charging interest, show their respective capital accounts for the year.

EXERCISE XVII

A and B entered into partnership as wholesale clothiers, A bringing in £4,000 capital, and B £2,000. It was agreed that each should receive interest on his capital at the rate of 5 per cent per annum, and that thereafter profits were to be divided as follows—

A two-thirds;
B one-third.

At the end of the first year it was ascertained that their gross earnings had amounted to £3,500, and their business expenses to £1,600. £400 was reserved to cover doubtful debts, and £120 written off as depreciation of leasehold premises. During the year each partner had drawn £500. You are asked to show the Profit and Loss Account of the partnership and the Personal Accounts of the two partners.

EXERCISE XVIII

A and B are in partnership; A has contributed £20,000 capital and B £10,000. After crediting each with interest on his capital at the rate of 5 per cent per annum, the profits of the business are divided equally. For the half-year ended 31st March, 19.., the gross profit of the partnership business was £10,000. Salaries absorbed £2,000, Rent, rates and taxes £500, and general expenses £2,500. A and B had each drawn £1,000 on account of profits. Show the Profit and Loss Account and the Personal Accounts of the two partners.

EXERCISE XIX

On the 1st January of this year, A purchased the business of B as a going concern for £2,450, the purchase price being made up as follows—

	£
Lease of business premises . . .	500
Stock in trade	1,200
Furniture and fittings . . .	250
Goodwill	500
	£2,450

The purchase price was paid out of a sum of £3,000 capital, with which A opened an account with Lloyds Bank, Ltd., on the same day. You are asked to show (*a*) entries, in journal form, recording the above transactions; (*b*) the balance sheet of A as it would appear after the transactions had been completed.

EXERCISE XX

F. Jones and S. Martin were partners, their capitals were £6,000 and £4,000 respectively, and profits were divided in the same proportion.

They agreed to admit P. Wilson as a partner on 1st January, 19.., and he brought £3,600 cash into the business as his capital. Goodwill was valued at £2,000, and this amount was to be credited to the old partners in proportion to their original capitals. Future profits were to be divided in proportion to capital as at 1st January, 19...

Make journal entries *only* to record all the above transactions, and state what proportion of the profits each partner will be entitled to at the end of 19... (L. &. C.)

EXERCISE XXI

Explain what is meant by goodwill. On January 1st, 19.., John Smith and Sam Jones—equal partners—decided to purchase the ready made business of T. Munro, Draper, agreeing to take over all the assets and liabilities at their values as shown in the balance sheet on 31st December of the previous year. The purchase consideration was £1,800. Show by means of a journal entry the amount of goodwill.

The assets and liabilities were as follows—

Premises, £1,000; Stock, £500; Sundry Debtors, £350; Bills Receivable, £200; Bills Payable, £150; Sundry Creditors, £250; Reserve for Bad Debts, £20.

EXERCISE XXII

The following is the Balance Sheet of A and B, who share profits in the proportions of three-fourths to A and one-fourth to B—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	3,000	Machinery	2,000
Bank—overdraft	2,000	Stock	2,500
A capital	4,000	Debtors	5,100
B ,,	1,000	Cash	400
	£10,000		£10,000

They agree to admit C into partnership on the following terms: C is to bring in £1,000 altogether, of which £200 is to stand as his capital, and the remaining £800 is to be the premium paid by him as his share of the goodwill on entering the firm. This sum is to be left in the business, and the whole sum brought in by C is to be used in reducing the bank overdraft. State the Balance Sheet of the new firm A B & C.

EXERCISE XXIII

On 31st December, 19.., the Balance Sheet of Black & White stood as follows—

BALANCE SHEET, 31st December, 19..

Liabilities	£	*Assets*	£
Sundry creditors	750	Cash	1,825
Black—capital	4,250	Sundry debtors	3,000
White ,,	2,500	Premises	1,375
		Stock	1,300
	£7,500		£7,500

Black buys out White agreeing to pay him £3,200 for his share of the assets and goodwill of the business as it stands, £600 being paid at once and the balance to be paid in three months time. You are required to show the Balance Sheet as on 1st January, 19.. (after the transaction has been completed) and also the Capital Accounts of Black and White.

EXERCISE XXIV

Chatenay and Richardson are in partnership; but no partnership deeds have been entered into; and no agreement has been arrived at as to interest on partnership capital and loan, or as to the proportion in which profits are to be shared. Chatenay contributed all the capital (£3,000) and also advanced a further £1,000 to the firm as a loan. Prior to charging any interest which may be due to Chatenay, the profits of the partnership for the year amounted to £840. Show the division of the profit as between the two partners. (R.S.A.—Stage III.)

EXERCISE XXV

A and B are equal partners in a business with capitals of £3,000 and £2,600 respectively. They agree to admit C as a partner on condition that he brings into the business £4,000 in cash. £2,500 only of this is to be credited to his capital account. The assets are to be written down to £5,000 before C is admitted, and after this has been done, and C has paid in the cash, the capital accounts of A and B are to be made equal to that of C.

Make Journal and Ledger entries to record this fully in the books of the firm, and prepare a Balance Sheet on completion. (L. & C)

EXERCISE XXVI

Alfred and John Sweeney were equal partners in a business. They closed the business and dissolved the partnership as at 31st December, 19... Their Balance Sheet at that date was as shown below—

	£		£
Creditors	1,700	Cash in hand	170
Bank overdraft	612	Debtors	3,600
A. Sweeney, capital	2,000	Stock	1,896
J. Sweeney, capital	2,500	Fixtures	250
		Bills receivable	896
	£6,812		£6,812

Assets realized—Stock, £1,600. Fixtures, £200.
Bills, full amount. Debtors, 90 per cent of book value.

An item of rates owing, £50, had been omitted from the Balance Sheet, and £36 was allowed as discount when creditors were paid.

Show, by means of cash account, realization account and capital accounts, how the books would be closed. (L. & C.)

EXERCISE XXVII

Allen, Boyle and Carey were partners sharing profits and losses in the ratio 3 : 2 : 1.

They decided to dissolve partnership as on 31st December, 19... The Balance Sheet at that date being as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital accounts—		Freehold premises	8,000
Allen	7,000	Fixtures and fittings	450
Boyle	4,000	Stock	3,500
Sundry creditors	6,060	Sundry debtors	2,700
		Bills receivable	450
		Cash at bank	1,480
		Carey (overdrawn capital)	480
	£17,060		£17,060

The ASSETS realized as follows—

Freehold premises, £7,700; fixtures, £400; stock, £3,350; on the sundry debtors £250 was lost in bad debts, and discount allowed was £50. Bills receivable were discounted at the Bank, the charges being £3.

The sundry creditors were paid in full. Liquidation expenses were £277. Make out the necessary accounts.

EXERCISE XXVIII

The following balances were extracted from the books of Messrs. Hartley, Pass & Brunt, trading as the Excelsior Clothing Company, on the 31st December, 19..—

Dr.	£	*s.*	*d.*	*Cr.*	£	*s.*	*d.*
Drawing accounts—				Capital accounts—			
Hartley	500	–	–	Hartley	4,114	–	–
Pass	500	–	–	Pass	3,850	–	–
Brunt	500	–	–	Brunt	3,357	–	–
Leasehold premises	4,812	11	10				
Fixtures and fittings	1,067	16	8				
Bills receivable	40	–	–	Bills payable	230	–	–
Stock, 1st Jan., 19..	2,815	9	7				
Salaries	540	12	–				
Purchases	8,410	12	4				
Sales returns	144	3	6				
Rent, rates, and taxes	1,265	9	3	Purchase returns	305	6	2
Insurance	142	17	4				
Advertising	1,063	15	6	Sales	15,777	17	–
Repairs	1,134	9	7				
Wages	2,833	9	–	Discount	16	9	9
Trade expenses	97	2	4	Bank	62	18	10
General expenses	135	5	5				
Carriage	166	3	5	Sundry creditors	831	13	3
Bank charges	26	9	4				
Cash in hand	238	19	9				
Sundry debtors	2,109	18	2				

From the above particulars you are required to prepare the final accounts and a balance sheet as on 31st December, 19... The following information and adjustments must be taken into account—

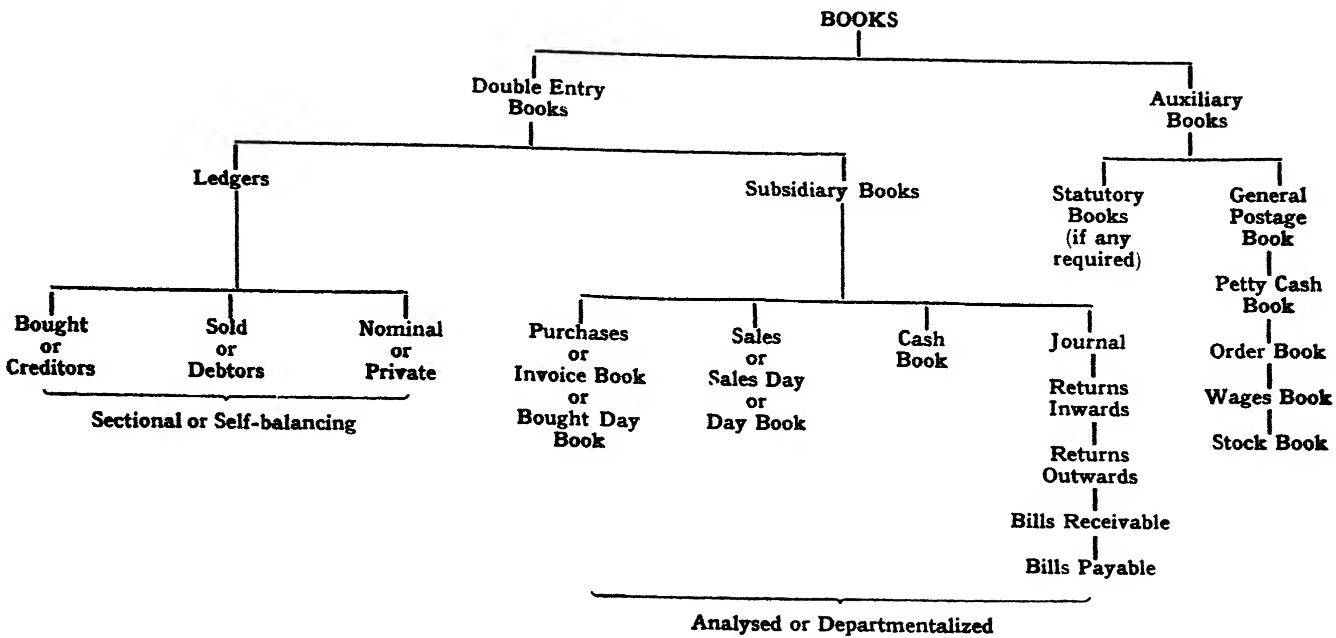
Stock in hand, 31st December, 19.., £3,013. Each partner to be credited with 5 per cent interest on the balance of his capital account as on 1st January, 19.. ; no interest to be calculated on drawings. Reserve 5 per cent on sundry debtors for doubtful debts. Depreciate the leasehold premises 5 per cent, and the fixtures and fittings 15 per cent. There is £22 unexpired insurance to carry forward. The repairs account includes £1,000 for special repairs to shops, and it is proposed to write the amount off over a period of four years. The partners share profits and losses equally. (N.C.C.)

CHAPTER V

Wholesale Warehouse Accounts

COMPARISON OF WHOLESALE AND RETAIL TRADE. In practice there is no clear line of demarcation between the wholesale and the retail trade. It may be said that the wholesale warehouseman buys his goods on a large scale from the manufacturer or primary producer, warehouses the goods and re-sells them in smaller quantities to the retailer, who, in turn, sells the goods direct to the consumer in still smaller quantities. Whereas retailers usually deal in a large variety of goods, it is customary for the wholesale warehouseman to restrict his operations to a limited number of articles. On this account many wholesale houses divide their businesses into departments among which the articles dealt in are distributed in the manner best calculated to facilitate good buying and selling. Where this is the case it is usually desired to ascertain the results achieved by each department, especially when the departments are under separate managers. When the accounts are prepared to show the profit or loss resulting from each department, they are known as *departmental accounts.* Such results are obtained by extending the rulings in the books of account so that the transactions of the business can be analysed and divided amongst the various departments. With this modification the principal books used will be much the same as those employed by a retailer who keeps a proper set of books (see diagram, page 50), and there will be no difference in the application of the principles of double entry. The wholesaler may find it necessary to have a larger number of books ; for instance, his sales may be so numerous that the Sales Ledger may have to be divided into two or more sections to enable more than one clerk to be engaged in recording them at the same time. Of course, the retailer may also do this if his business is large enough and he will frequently divide his business into departments, and keep departmental accounts. This system, however, is characteristic of the wholesale business. It will also be necessary for the wholesaler to keep a stock-book for the control of the incoming and outgoing goods

BOOKS OF A WHOLESALE WAREHOUSE



as well as special books for Bills Receivable and Bills Payable. and perhaps a special book for Commission, but here much depends upon the size of the business. It is not possible to draw up a system of accounts which can be used exclusively by wholesalers, but it can be said that, as a rule, the accounts of the wholesaler are more complex than those of the average retailer, hence in connection with the accounts of a wholesale warehouse it is convenient to consider the keeping of departmental accounts, the system of sectional balancing and certain auxiliary books which are usually found in this type of business.

DEPARTMENTAL ACCOUNTS. For the keeping of Departmental Accounts it is necessary that all purchases and sales should be recorded against the department making them, and for this purpose the books of first entry must be specially ruled. The example on page 52 shows the ruling of a Purchases Book of a Wholesale Warehouse with three separate departments. Into this book all incoming invoices are entered, and the items of each invoice are analysed and allocated to the respective departments. It is also customary for invoices for other purchases to be entered into this book and special columns are therefore provided for such items as stationery, carriage, and packing materials. Each item is then posted to the credit of the appropriate creditor's personal account in the Bought Ledger. At the end of the month the column for each department is totalled and the amount posted to the purchases account of the particular department, e.g. A Department Purchases Account, and the other analysis columns are treated in the same way. The column headed " Sundry Accounts " is reserved for expenditure which occurs at only infrequent intervals. Such items are credited to the respective personal accounts in the ledger, and at the same time a nominal account is debited. Thus, in the example on page 52 the *Paper Trade Review* will be credited with £10, and the Advertising Account debited with £10. The total of this column is not posted to any other account, since double entry has now been obtained for these items.

The amount of the total column will be posted to a Bought Ledger Account in the General Ledger, if the books are required to be self-balancing. This, however, will be explained later.

In the same way the sales require to be analysed, and for this

PURCHASES BOOK

Date	Inv. No.	Name	Particulars	Led Fo.	Total	Dept A £ s d	Dept. B £ s d	Dept C £ s. d.	Car-riage £ s d	Cases and Packing Material £ s. d	Sundry Accounts Name	Fo.	Amount £ s d.
Jan. 7	1	John Sender . .	Envelopes, etc.	7	50 – –	50 – –							
8	2	Imperial Supply Co. .	100 rms Paper	30	95 – –		95 – –						
10	3	White & Co . .	Paper, etc .	10	70 – –		60 – –	10 – –					
11	4	*Paper Trade Review* .	Advertising .	17	10 – –						Advertising . .	9	10 – –
15	5	United Printers, Ltd.	Stationery .	21	5 – –						Stationery . .	5	5 – –
20	6	White & Co. . .	Strawboards .	6	50 – –			50 – –					
21	7	Wm. Sellers & Son .	Envelopes .	11	50 – –	50 – –							
					£330 – –	£100 – –	£155 – –	£60 – –					£15 – –
					(a)	(b)	(c)	(d)	(e)	(f)			(g)

Each item to be posted to the Personal Ledger Account concerned.

(a) Total of this column to be posted to the Bought Ledger Account for purposes of sectional balancing.

(b), (c), (d) Total posted to Dept. A, B, or C, Purchases A/c

(e) Total posted to Carriage A/c.

(f) Total posted to Cases and Packing Materials A/c

(g) Items posted to the various nominal a/cs concerned. Total is not posted to any a/c.

SALES BOOK

Date	Inv. No.	Name	Particulars	Led Fo	Total £	s	d	Dept. A £	s	d	Dept. B £	s.	d.	Dept. C £	s.	d.
Jan. 2	1	Burrows & Co.	10 reams Paper ; 10,000 Envelopes	30	20	–	–	6	–	–	14	–	–			
3	2	A. Byers & Son	15 reams Art Paper	21	16	–	–				16	-	–			
4	3	Jones & Co.	Strawboards	19	5	–	–							5	–	–
6	4	Brown & Co.	15,000 Envelopes	6	10	10	–	10	10	–						
7	5	Morgan & Rees	50 reams Paper	10	70	–	–				70	–	–			
9	6	J. Smith, Ltd	20 reams Paper ; 10,000 Envelopes	13	35	10	–	20	–	–	15	10	–			
11	7	Excelsior Book-binding Co	Strawboards	17	10	–	–							10	–	–
					£167	–	–	£36	10	–	£115	10	–	£15	–	–
					(a)			(b)			(c)			(d)		

Each item to be posted to the Personal Ledger Account concerned.

Total of this column to be posted to the Sales Ledger A/c for purposes of sectional balancing

Total to be posted to credit of Dept. A, B, or C Sales A/c.

purpose the Sales Books must be ruled in a suitable manner. An Invoice is made out by each department for its sales to each of its customers, and these are collected and entered into the sales day book, the sales of each department being recorded in its appropriate analysis column. Each item is posted to the ledger, and the totals of the analysis columns to the respective departmental sales accounts.

As already mentioned, in a large business, separate ledgers may be devoted to Sales, Purchases, and Nominal Accounts, and also to accounts of a private nature; frequently the transactions are so numerous that there may be two or more Sales and Purchases Ledgers. No matter how many ledgers are in use, the whole of the debit balances in the various books must equal the whole of the credit balances, and the Trial Balance of the set of books should give an exact agreement of the debit and credit totals. When the system adopted involves the balancing of the ledgers as a whole, and the totals of the Trial Balance disagree, it indicates that there are errors in one or more of the ledgers, but no indication is given as to which ledger is affected. It is obvious, therefore, that if each ledger could be balanced separately, there would be a great saving of time. Moreover, the Sales and Purchases Ledgers should be balanced at frequent intervals so that any mistakes may be easily rectified, and it is very inconvenient if the only method of doing this is by means of a Trial Balance.

PREPARATION OF FINAL ACCOUNTS. One of the chief differences between the Retail and the Wholesale Trade seems to lie in the fact that a business engaged in the former distributes a wide variety of goods in small quantities, while a business engaged in the latter specializes in a limited group of articles more or less related to one another and deals in large quantities. When such specialization takes place it is highly desirable that the proprietors should know the results of their trading in each line of goods in which they are dealing, so that the accounting system has to be modified in order that this information may be obtained. The reason for this is that while a general profit and loss account might show that the whole business was being conducted at a profit, it would not disclose what might be the fact—that this was due to one or two departments making good profits, while others were being conducted at a loss.

To achieve this result, it is necessary to prepare a separate Trading Account for each department. This might be done by keeping a set of books for each department, but since customers of one department are very likely to be customers of all departments, while each department will very possibly purchase goods from the same supplier, it will be very undesirable to keep separate personal accounts in respect of each department. With regard to nominal accounts, however, this is not the case, and all sources of income and expenditure must be analysed so as to obtain separate Trading Accounts for each department. The purchases and sales of each department must be kept separately, while the stocks will be taken for each section instead of in one total. Any expense that can be clearly charged to a particular department, such as repairs, will be passed through the books belonging to that department. Other expenses which cannot be allocated directly in this way must be apportioned on some other basis, such as the area of the department or according to turnover. One of two methods can be adopted. Separate Day Books, etc., can be kept for each department, or one set of books can be provided with analysis columns, a column being allotted to each department.

Consider the case of a wholesaler who divides his business into three departments—(*a*) Blouses, (*b*) Vests, and (*c*) Mufflers. He receives the following Invoice—

MANCHESTER,
31st December, 19..

A. BIGHAM, Esq.,
Frederick Street,
CARDIFF.

Dr. to THE EXCELSIOR MANUFACTURING CO., LTD.

		£	s.	d.	£	s.	d.
84 doz.	Blouses at £60 per gross	420	-	-			
6 gross	Vests at 60s. per dozen	216	-	-			
		636	-	-			
	Less 5 per cent Trade Discount . .	31	16	-	604	4	-

After the Invoice has been checked it will be entered in the Purchases Book as follows—

PURCHASES BOOK

Date	Inv. Fo.	Name	Led. Fo.	Total of Invoice			A Dept.			B Dept.			C Dept.		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d
19.. Dec. 31	912	Excelsior Manfg. Co., Ltd. .	16	604	4	-	399	-	-	205	4	-			

The total of the Invoice is entered in the "total" column of the Purchases Book, and is then dissected in the departmental analysis columns. Full details of the invoice need not be recorded, but each invoice is numbered and filed for reference, the number being quoted in the appropriate column in the Purchases Book. The total of the invoice will be posted to the credit of the account of the Excelsior Manufacturing Co., Ltd., in the Purchases Ledger, while the totals of the columns relating to the three departments will be posted to the debit of an account opened in the General Ledger for each department.

In like manner, the sales of each department must be kept separate. As regards credit sales, these may be dealt with through the Sales Book, which is ruled in the same way as the Purchases Book shown above. Methods of dealing with cash sales vary according to the needs of the business. Each salesman may be given a counter book containing bill forms in duplicate, one of which must be made out for every cash transaction. The top portion is receipted and handed to the customer, while the duplicate is sent, with the money, to the cashier. Each salesman should be given a number by which he can be identified, and this number, together with the name of his department (A, B, or C in our example), should be quoted on this counter slip. In this way each sale can be assigned to the correct department, while the assistant who has made the sale can also be identified. The duplicates are entered by the cashier in a Cash Sales Book, being analysed departmentally, and at the end of each day the total sales as shown by the counter slips should equal the total of the cash in the possession of the cashier. The Cash Sales Book is totalled periodically, and the amounts are posted to the various departmental sales accounts in the general ledger.

Sometimes it happens that a transfer of stock is made from one department to another. In such a case, the department which transfers the goods treats the other as an ordinary customer (except that the goods are charged at cost price), while the department receiving the goods treats the Invoice as one dealing with goods purchased in the ordinary way. At the end of every month the total goods transferred by each department is ascertained and the Sales Account is debited and Purchases Account credited with that amount. The reason for treating such 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 realized upon actual sales.

EXAMPLE OF DEPARTMENTAL ACCOUNTS. Let us now consider an actual example. Take the case of Brown, Jones, and Robinson who are equal partners in a business trading under the name of The Ideal Warehousing Co. They are each entitled to interest at 5 per cent per annum on their respective capitals. From the books of the partnership we obtain the following data, viz.—

	£
Cash at Bank	2,000
Cash in Hand	620
Cash Creditors	1,500
Horses, Carts, Vans	650
Fixtures, Fittings, etc.—	
A Department	4,700
B Department	3,900
Capital Accounts—	
Brown	25,900
Jones	18,400
Robinson	15,700
Drawings Accounts—	
Brown	2,500
Jones	1,750
Robinson	1,540

The position of the departments stands as follows—

	A Dept.	B Dept.
	£	£
Stock (1st January)	37,400	7,700
Purchases	65,200	38,500
Sales	89,500	47,700
Trade Expenses	12,100	5,500
Discounts Allowed	2,500	1,800
Discounts Received	2,160	1,200
Housekeeping Expenses	2,000	1,200
Sundry Creditors	6,200	4,500
Sundry Debtors	16,700	4,500
Stock (31st December)	35,500	9,900

BALANCE SHEET OF THE IDEAL WAREHOUSING COMPANY

as on 31st December, 19..

Liabilities and Capital	£	£	Assets	£	£
Sundry Creditors—					
A Dept.	6,200		Cash at Bank	2,000	
B Dept.	4,500		Cash in Hand	620	
		10,700			2,620
Cash Creditor		1,500	Sundry Debtors—		
Capital Accounts—			A Dept.	16,700	
Brown, 1st Jan.	25,900		B Dept.	4,500	
Add Interest	1,295				21,200
„ Share of Profit	3,020		Stock—		
			A Dept.	35,500	
	30,215		B Dept.	9,900	
Less Drawings	2,500				45,400
		27,715	Fixtures and Fittings—		
Jones, 1st Jan.	18,400				
Add Interest	920		A Dept.	4,700	
„ Share of Profit	3,020		B Dept.	3,900	
					8,600
	22,340		Horses, Carts, and Vans		650
Less Drawings	1,750				
		20,590			
Robinson, 1st Jan.	15,700				
Add Interest	785				
„ Share of Profit	3,020				
	19,505				
Less Drawings	1,540				
		17,965			
	£	78,470		£	78,470

TRADING AND PROFIT AND LOSS ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 19..

THE IDEAL WAREHOUSING CO

Dr. *Cr.*

	A Dept	B Dept.	Total		A Dept	B Dept.	Total
	£	£	£		£	£	£
To Stock, 1st January	37,400	7,700	45,100	By Sales	89,500	47,700	137,200
,, Purchases	65,200	38,500	103,700	,, Stock, 31st December	35,500	9,900	45,400
,, Balance (Gross Profit) c d	22,400	11,400	33,800				
	125,000	57,600	182,600		125,000	57,600	182,600
To Trade Expenses	12,100	5,500	17,600	By Gross Profit b/d	22,400	11,400	33,800
,, Housekeeping Expenses	2,000	1,200	3,200	,, Discounts Received	2,160	1,200	3,360
,, Discounts Allowed	2,500	1,800	4,300				
,, Balance (Departmental Profits)	7,960	4,100	12,060				
	24,560	12,600	37,160		24,560	12,600	37,160

GENERAL PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 19. .

Dr.	£	s.	d.	£	s.	d.	*Cr.*	£	s.	d	£	s.	d.
To Interest on Capital—							By Departmental Profits—						
Brown . . 5% £25,900	1,295	–	–				A Department . . .	7,960	–	–			
Jones . . 5% £18,400	920	–	–				B Department . . .	4,100	–	–			
Robinson . 5% £15,700	785	–	–										
				3,000	–	–					12,060	–	–
To Balance to Capital A/c—													
Brown one-third .	3,020	–	–										
Jones one-third .	3,020	–	–										
Robinson one-third .	3,020	–	–										
				9,060	–	–							
				£12,060	–	–					£12,060	–	–

SECTIONAL OR SELF-BALANCING LEDGERS. In a wholesale business in which the number of customers and of book entries is very large, necessitating the use of several ledgers, the great object to be aimed at is to provide a means of separately balancing each ledger, so that any errors which occur may be localized. The method to adopt is to make each ledger self-balancing by means of Adjustment Accounts.

In order to make each ledger self-balancing it must be made to contain within itself a two-fold record of every transaction that it covers. This, of course, involves the posting to each separate ledger numerous items which, although necessary to complete the double entry, would not be included in that ledger unless it were desired to render it self-balancing. All these additional items are condensed into totals and the amounts are posted to one general " Control " or " Adjustment " Account. Where, however, there are several 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 or the General Ledger. In this ledger, instead of having only *one* Adjustment Account to complete the double entry of that ledger, a separate Adjustment Account is opened in respect of *every* other ledger. For example, assuming that the Private 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 total of the purchases is posted to the credit of an adjustment account, and the " Purchases Ledger Adjustment Account " is selected for that purpose because the contra entry to the purchases is posted in detail to the credit of the Purchases Ledger. If there are two or more Purchases Ledgers, a separate Adjustment Account would be opened in the Private 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 purchase ledger adjustment account, as each would have its own purchases book, or at all events, separate columns in the Purchases Book would be appropriated to each. Suppose, for example, it is desired to balance the Sales Ledger separately, and no Sales Ledger Adjustment Account exists, the procedure would be upon the following lines: An account would be opened in the Private Ledger entitled " Sales Ledger Adjustment Account " and would contain a summary of each class of transaction debited or credited in detail to the individual personal accounts in the Sales Ledger. These would include—

ON THE DEBIT SIDE	ON THE CREDIT SIDE
Goods Sold. Dishonoured Bills. Interest Charges. Transfers from other Ledgers. Other Charges (if any).	Cash Received. Discounts Allowed. Returns Inwards. Bills Received. Transfers to other Ledgers. Bad Debts. Other Credits (if any).

These particulars are recorded in the Adjustment Account in summarized form, that is, one total for each form of transaction, so that the account would appear as follows—

SALES LEDGER ADJUSTMENT ACCOUNT

Dr. (in the Private Ledger) Cr.

	£ s. d.		£ s. d.
To Outstanding Balances, at the beginning of the current period, as per Schedule . . .		By Cash Received, as per analysis of Cash Book	
,, Sales, as per Day Book .		,, Discounts Allowed, as per Cash Book . .	
,, Bills Returned, as per Analysis of Bills Receivable Account .		,, Returns, as per Returns Books . . .	
,, Interest as per Interest Account . . .		,, Bills Receivable, as per Bills Receivable Book	
,, Transfers from other Ledgers . . .		,, Transfers to other Ledgers . . .	
		,, Bad Debts, as per Bad Debts Account . .	
		,, Balances outstanding at the close of the current period, as per Schedule	
	£		£

The opening balances shown in the above account 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 beginning of the current period. The total sales can be readily arrived at from the Sales Day Book and the sales returned from the Returns Book. The cash will be found upon the debit side of the Cash Book; if there is a separate column for Sales Ledger items in the general Cash Book, this total can be readily 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 other items that remain to be considered are Bad Debts and Interest. These can be best arrived at by referring to the corresponding account in the Nominal or Private Ledger, which will readily show the amount of bad debts written off and the amount of interest charged to customers during the current period. The balance shown by the Adjustment Account should, of course, agree with the total of the Sales Ledger Balances at the close of the period.

The Sales Ledger may also contain a similar account (with the sides reversed) headed "Private Ledger Adjustment Account," thus maintaining the principles of double entry.

EXAMPLE. Dallas & Sons, wholesale warehousemen, keep their "Sales Ledger" upon the self-balancing principle. Prepare the necessary "Adjustment Account" as on 1st March from the following particulars—

		£
Mar. 1.	**Total debtors' balances at this date were**	**6,270**
31.	**Total goods sold for the month**	**10,829**
31.	**Total goods returned by customers for the month**	**470**
31.	**Total cash received from customers for the month**	**7,810**
31.	**Total discount allowed to customers for the month**	**484**
31.	**Total acceptances received from customers during the month**	**1,735**
31.	**Total acceptances dishonoured by customers during the month**	**270**

AUXILIARY BOOKS. The books of the wholesale warehouseman must record the transactions both in the warehouse and in the office. The warehouse records may be regarded as the equivalent of the cost accounts of a manufacturer; they represent the administrative side of the book-keeping and, as with the cost accounts,

GENERAL LEDGER ADJUSTMENT ACCOUNT

(in Sales Ledger)

Dr.		£		Cr.	£
19.. Mar. 31	To Returns Inwards	470	19.. Mar. 1	By Total Debtor's Balances	6,270
	,, Cash Received from Customers	7,810		,, Sales	10,829
	,, Discounts Allowed	484		,, Acceptances Returned Dishonoured	270
	,, Acceptances from Customers	1,735			
	,, Balance c/d	6,870			
		£17,369			£17,369
			Mar. 31	,, Balance b/d	6,870

SALES LEDGER ADJUSTMENT ACCOUNT

(in General Ledger)

Dr.		£		Cr.	£
19.. Mar. 1	To Total Debtor's Balances	6,270	19.. Mar. 31	By Returns Inwards	470
	,, Sales	10,829		,, Cash Received from Customers	7,810
	,, Acceptances Returned Dishonoured	270		,, Discounts Allowed	484
				,, Acceptances from Customers	1,735
				,, Balance c/d	6,870
		£17,369			£17,369
Mar. 31	To Balance b/d	6,870			

the warehouse books should be compared periodically with those of the counting house. Such accounts should be kept in the warehouse as will enable the wholesale warehouseman to maintain a record of the goods he receives into his warehouse and those he issues; and also to keep a proper control of the goods while they remain in stock. This is effected by means of a **Stock Book,** the object of which is to supply information of every individual kind of goods which enter or leave the warehouse. The ruling of the book will naturally vary according to the nature of the goods to be entered therein and according to the completeness of the particulars required.

When goods are received into the warehouse particulars of them are entered into the Stock Book. These particulars are obtained from the advice note which accompanies the goods. The goods are then checked and the results entered upon the debit side of the Stock Book. A record should be made in the book of any discrepancy disclosed in the checking, and a note of such discrepancy sent to the office, so that the necessary debit note can be forwarded to the supplier. In like manner, when goods are dispatched the particulars are entered on the credit side of the Stock Book, the balance representing the quantity of goods in the warehouse. An example of a Stock Book suitable for a wholesale business will be found in *Principles of Accounts* (*Part I*) page 100.

The wholesale warehouseman should also keep a careful record of all *orders received* from his customers, and also those which he gives to his suppliers; and in both cases they should be followed up systematically to ensure their prompt execution. He should also keep a **Petty Cash Book** on the Imprest system, a **Wages Book,** and any other auxiliary book which will help to relieve the financial books from unnecessary detail.

EXERCISE XXIX

1. In what respects does the wholesale differ from the retail trade?

2. Explain what is meant by "Departmental Accounts." Submit rulings of a sales book suitable for a business having four departments.

3. Give a list of the principal books of first entry that a wholesale merchant would ordinarily require to keep, and a separate list of any auxiliary or memorandum books forming no part of the accounting system proper that you would expect to find in use.

4. The cashier of a wholesale firm appointed one of the junior clerks to make small cash payments. At the end of each week he requires the expenses to be presented to him in such a form that he can enter the amount disbursed under each head in one total in the general cash book. The account is to be kept on the imprest system and the junior cashier is handed £20 on 18th January, and instructed that the information will be required under the following headings, viz. Wages, Stamps and Stationery, Carriage, Travelling Expenses, Sundries. Rule the form of book you would recommend; enter therein the

following transactions and show the book in the form that it should be presented to the cashier on the 25th January—

19..		
Jan.	19.	A. B. expenses, Durham, 10s. ; parcel to Bolton, 1s. 6d ; stamps, £2.
	21.	Office cleaner, £1 5s. ; typewriter oil, 1s. ; W. H. tram fares, 9d.
	23.	Goods from York, 6s. ; stationery, 18s. 6d. ; window cleaner, 6s.
	24.	String, 1s. 6d. ; C. D. expenses, Middleton, 8s. ; cleaning boiler, 15s.

(N.C.C.)

5. What transactions are usually recorded in a Petty Cash Book ? How is it checked, and how does it link up with a system of book-keeping by double entry ?

6. A. Brown & Co., Wholesale Provision Warehousemen, keep their books on the Columnar System. You are required to give the ruling of a Purchase Book suitable for such a system, and to enter therein six items in order to show the uses of such a book.

EXERCISE XXX

1. In a wholesale business where three sales ledgers are kept it is desired to balance each ledger separately. How can this be done ?

2. Submit a *pro forma* Debtor's Ledger Adjustment Account, and explain the method of its construction and the advantage you claim for it. Apply the following figures to an example of an account of this nature—

	£
Sundry debtors, 1st January, 19..	10,000
Credit sales	30,000
Discount allowed to debtors	2,000
Cash received from debtors	21,000
Bills accepted by debtors	5,000
Bills dishonoured by debtors	500
Bad debts written off	1,000
Credit sales returns	1,500

EXERCISE XXXI

From the following information prepare an adjustment account of the Sales Ledger *as it would appear in the General Ledger* of the Snowhill Company, Limited, as at 31st December, 19...

	£	s.	d.
Debtors, 1st January, 19..	8,964	13	7
Bills receivable	4,500	–	–
Sales	36,341	6	9
Cash paid	67	19	6
Cash received	30,549	11	11
Discount allowed	1,318	12	2
Returns	181	17	9
Credit transfers to bought ledgers	86	9	–

The balances abstracted from the sales ledger at 31st December, 19.., amounted to £8,738 19., and the company's trial balance at that date showed a difference of £1 10s. What conclusion would you draw ?

(L. &.C.)

EXERCISE XXXII

From the following particulars prepare the Sales Ledger Adjustment Account as it will appear in the General Ledger for the month ended 31st May, 19..—

	£
1st May, balances	5,000
Sales	38,000
Returns inwards	150
Cash received	36,850
Bills receivable	2,000
Bad debts	60
Allowances made to customers	10
Bills receivable, dishonoured	140
Contra accounts in Bought Ledger transferred	370

(I.O.B.)

EXERCISE XXXIII

From the information given below, prepare the General Ledger Adjustment Account as it would appear in the bought ledger of Messrs. Shaw & Sons, as at 31st December, 19...

	£	s.	d.
Credit balances, 1st January, 19	6,328	1	7
Cash paid	10,129	3	8
Discount received	809	1	6
Purchases	18,327	11	9
Returns	429	17	7
Bills payable	5,817	12	3
Cash received	21	6	3
Credit balances transferred to Sales Ledger	61	3	9

(L. & C.)

EXERCISE XXXIV

The petty cash clerk in a firm of umbrella makers commences each month with a balance of £40. Prepare a Petty Cash Book in columnar form and enter therein the following items of expenditure in the month of February, 19... Week ended 7th February: postage, 25s.; telegrams, 9s. 6d.; housekeeper, for cleaning and fuel, 30s. 6d.; cash purchases, 20s. 3d.; advertisements, 35s.; G.E. Railway, 8s. 3d.; small fares, 3s. 9d. Week ended 14th February: postage, 31s. 4d., electrician, for repairs, 31s. 1d.; G.W. Railway, 6s. 4d.; telegrams, 5s. 9d; housekeeper, 33s.; cash purchases, 9s. 2d.; advertisements, 35s.; small fares, 4s. 6d. Week ended 21st February: postages 22s. 6d.; telegrams, 15s. 4d.; housekeeper, 32s. 3d.; advertisements, 35s.; small fares, 6s. 6d. Week ended 28th February: cash purchases, 18s. 8d.; G.W. Railway, 11s. 5d.; postages, 24s.; telegrams, 4s. 4d.; advertisements, 35s.; small fares, 5s. 8d.; G.N. Railway, 17s. 1d.; housekeeper, 28s. 9d.; advances to principals, £7 10s.

What was the amount of the cheque to be drawn on March 1st in order to reinstate the initial balance? By what term is this system of keeping the Petty Cash Account known? (L.C.C.)

EXERCISE XXXV

S. Gold commenced business, as a wholesale draper, on 1st January, 19... His financial position on that date was as follows—

Cash at bank, £512; Cash in hand, £82; furniture and fittings, £372; stock on hand, £985; debtor: D. Perkins, £78; creditor: A. Barbier, £308.

Open the necessary accounts in the Ledger to record the above particulars, and post thereto, through the proper subsidiary books, the following transactions—

19..
Jan. 2. **Purchased, on credit, from D. Dennison—**
3 doz. wool scarves at 5s. 11d. each.
1 gross beaded trimmings at 4s. 6d. per dozen
Less 10 per cent trade discount.
4. **Drew, and cashed, cheque, £50, for office cash.**
4. **Returned, to D. Dennison, 6 scarves as faded.**
6. **Paid, in cash, salaries and wages, £32.**
6. **Paid, by cheque, £200, on account to A. Barbier.**
8. **Purchased, for cash, job lot of 20 velour costumes at two guineas each.**
10. **Sold, on credit, to D. Perkins, 50 costumes at £2 12s. 6d. each.**
13. **Paid, in cash, office salaries and wages, £34.**
14. **Cash sales to date, £87. Paid into office cash.**
16. **Paid, in cash, packing materials, £49 ; railway carriage, £12 4s. 6d.**
17. **D. Perkins sent cheque in settlement of his account, less 5 per cent cash discount.**
20. **Purchased, by cheque, new show case, £75.**
22. **Paid D. Dennison the amount of his account, less 5 per cent cash discount.**

Balance the Ledger and Cash Book, as on 22nd January, 19.., and extract a Trial Balance. (R.S.A.)

EXERCISE XXXVI

J. Litchfield carries on the business of a boot and shoe warehouseman. On 1st May, 19.., his books revealed the following position : premises, £7,800 ; office furniture and equipment, £774 15s. ; stock-in-trade, £2,480 ; cash in hand, £154 ; bank overdraft, £84 ; sundry debtors : T. Linder, £506 15s., E. Bradley, £454 10s. ; sundry creditor : J. Bernstein, £1,569 17s. 6d.

Open the accounts necessary to record the above position in the books of J. Litchfield and post thereto through the proper subsidiary books the following transactions—

19..
May 1. **Paid into bank £100 of the cash in hand.**
4. **Sold to E. Bradley, on credit, 100 pairs gent's shoes at 9s. 6d. per pair ; 15 doz. pairs ladies' Russian boots at 21s. per pair, the whole invoice subject to a trade discount of 10 per cent.**
5. **Paid, by cheque, insurance premium of 1 per cent on value of stock in trade as at 1st May, 19...**
6. **Paid wages, in cash, £10 12s.**
7. **Purchased, for cash, a job lot of gent's heavy boots, £28.**
10. **E. Bradley returned 10 pairs gent's shoes supplied on 4th May, as unsuitable, and for which credit note was sent.**
11. **Bought, on credit, from J. Bernstein, 4 doz. pairs ladies' dance shoes at 18s. per pair ; 12 doz. pairs children's bathing shoes at 11s. per dozen pairs ; case of boot polish for £2 5s. : packing and non-returnable crate invoiced at 12s. 6d.**
12. **T. Linder settled his account by cheque less 5 per cent cash discount. Paid cheque into bank.**
13. **Exchanged office typewriter for new machine paying by cheque, cash adjustment of £10.**
14. **Gave J. Bernstein a bill at 3 months for £1,000 on account.**
14. **J. Litchfield brought £200 additional capital into the business which was paid into bank.**

Balance the Ledger, bring down the balances, and extract a Trial Balance as on 14th May, 19... (R.S.A.)

EXERCISE XXXVII

S. Webber is in business as a wholesale draper. On 1st January, 19.., his position was as follows—

		£	s.	d.
Trade debtors:	R. Green	782	10	–
	B. Black	232	8	–
Trade creditors:	V. Brown	684	3	–
	W. White	984	8	–
Bill receivable:	F. Grey (due 4th January 19..)	160	–	–
Cash at bank		942	–	–
Cash in hand		51	15	–
Stock on hand		1,064	18	–
Fixtures and fittings		200	–	–
Motor vans		1,200	–	–

Open the necessary accounts in the Ledger to record the above financial position, and post the following transactions through the proper books—

19..

Jan. 2. Sold, on credit, to R. Pink, 3 doz. ladies' umbrellas, at 9s. 9d. each, less 10 per cent trade discount.

3. Drew and cashed cheque £50 for office cash, and paid, in cash, wages, £17 2s. 6d.; office salaries, £12; packing materials, £16 8s. 5d.

4. Bill receivable, due this day, was duly paid to bank.

5. Purchased, on credit, from W. White, 2 doz. costumes, at 49s. 7d. each.

7. Sold, for cash, job lots—
 122 yd. Jap silk, at 3s. 1d. per yard.
 16 handbags, at 7s. 6d. each.

10. Paid, in cash, wages, £18 1s. 6d., office salaries, £12; railway carriage, £12 14s. 2d.

12. Paid, by cheque, to V. Brown, £450 on account.

14. B. Black paid, by cheque, the amount due from him, less 5 per cent cash discount.

17. Drew and cashed cheque £80 for office cash, and paid, in cash, wages, £16 10s.; and office salaries, £12.

18. Purchased, for cash, job lines—
 300 yd. coating serge, at 2s. 5d. per yard.
 76 pairs silk stockings, at 4s. 8d. per pair.

19. Purchased, by cheque, new show case, £56.

21. Paid, by cheque, W. White, £243 18s., less 5 per cent cash discount.

24. Sold, on credit, to R. Green, six sets of furs, at 10 guineas per set.

26. R. Green sent cheque for £500 on account.

28. R. Green returned one set of furs, invoiced on the 24th instant, as damaged.

(R.S.A.)

EXERCISE XXXVIII

1. W. Wholesaler is a warehouseman dealing in groceries, provisions, and tinned goods. He keeps his ledger on the self-balancing principle and wishes to know the result of his trading in each class of goods separately. His stock on 1st January, 19.., was: groceries, £1,500; provisions, £4,360; tinned goods, £3,545.

His purchases and sales during the month were as follows—

			£	s.	d.
19..					
Jan.	2.	Sold R. Green, groceries	100	–	–
	9.	Sold White Bros.—provisions	360	–	–
		groceries	200	–	–
	10.	Bought of Ford Bros.—groceries	500	–	–
		provisions	500	–	–
	11.	Bought from B. Brown, roll top desk	20	–	–
	12.	Sold White Bros., tinned goods	400	–	–
	15.	Sold Fletcher & Co.—groceries	100	–	–
		provisions	1,000	–	–
		tinned goods	1,000	–	–
	18.	Bought of Walsh & Co., tinned goods	2,500	–	–
	19.	Bought from B. Brown, filing cabinet	12	10	–
	25.	Sold R. Green—groceries	100	–	–
		tinned goods	2,000	–	–
	30.	Bought from B. Brown, stationery	15	10	–

Stock on hand 31st January, 19.. : groceries, £1,610 ; provisions, £4,200 ; tinned goods, £2,800.

2. Illustrate the sectional system of self-balancing ledgers by posting direct from the above exercise all the items necessary to form a complete Sales Ledger and to render it self-balancing.

EXERCISE XXXIX

A and B are in partnership as wholesale warehousemen. They divide profits equally after allowing each partner interest at 5 per cent per annum on the amount standing to the credit of his Capital Account. On the 31st December last the Trial Balance of the firm stood as follows—

TRIAL BALANCE, 31st December, 19..

	Dr. £	Cr. £
Capital Account A	—	15,000
Capital Account B	—	10,000
Current Account A	—	500
Current Account B	2,500	—
Sundry debtors	9,000	—
Sundry creditors	—	7,000
Stock, 1st January, 19.., A department	4,500	—
Stock, 1st January, 19.., B department	1,500	—
Purchases, A department	16,000	—
Purchases, B department	8,000	—
Sales, A department	—	25,000
Sales, B department	—	11,000
Sales returns, B department	1,000	—
Wages, A department	1,000	—
Advertising	3,000	—
Salaries	5,000	—
General expenses	3,000	—
Discounts	1,000	750
Bad debts (written off)	500	—
Bad Debts Reserve Account	—	1,750
Bills receivable	2,000	—
Bills payable	—	4,000
Bank	7,000	—
Furniture and fittings	3,000	—
Business premises	6,000	—
Rates and taxes	1,000	—
	£75,000	£75,000

On the 31st December, 19.., the stock in hand was as follows: A department, £3,500; B department, £2,500. Write 10 per cent off furniture and fittings and 5 per cent off business premises for depreciation; add 1 per cent on sales to bad debts reserve. Prepare Departmental Trading Account in tabular form, Profit and Loss Account, and Balance Sheet.

CHAPTER VI

Import and Export Trade

In these days a large amount of import and export trade is conducted on the basis of consignment. *Consignments* are almost entirely confined to the accounts of merchants, so that only a comparatively limited number of persons are interested in the keeping of these accounts. But apart from this, their proper treatment is quite useful as explaining in general terms the application of double entry principles to transactions which we can comfortably consider right from the beginning to the end in a small space of time. By considering consignment accounts we can revise the principles of double entry.

CONSIGNMENT ACCOUNTS. Sometimes a merchant having goods for sale is sufficiently anxious to find purchasers for the goods that he takes special steps to bring them to the notice of possible customers. For that reason he sends supplies of goods to an agent residing at a distance so that the agent, having these goods on the spot, is in a better position to obtain orders for them than if he had merely samples. Consignment transactions are by no means limited to the foreign trade. An enterprising manufacturer may forward goods to agents in other towns so as to bring them more closely to the notice of possible purchasers. At the same time the tendency is for consignments to be less used than formerly in the home trade, and that tendency is likely to increase in the future. In entirely new countries, however, those on the spot, if distance and difficulties of transport contravene, have frequently to put up with what they can get rather than with what they want so that anyone who has goods on the spot is at a greater advantage. Hence business of this kind can be made to pay. On the other hand, there is a certain amount of risk connected with it.

From the point of view of the accounts, the first thing to bear in mind is that a consignment of goods sent by a merchant to a distant spot must be consigned to an agent there for him to deal with. The party sending the consignment is spoken of as the *consignor*, the agent to whom the goods are forwarded is known as the *consignee.*

The consignee takes possession of the goods, and his duty is to find a purchaser for them at the best price available. Sometimes he is limited to a specified price below which he cannot sell. At other times he can sell to the best of his powers, but he has to render an account of what he does, so that he must keep careful accounts.

The consignor, on the other hand, must keep a separate account of the goods he sends because—

1. All these consignments are plunges in the dark like speculations.

2. Each separate venture must be shown so as to reveal which markets are paying the best. The accounts must be framed to show what profit or loss results from each separate consignment.

3. It is not uncommon for a merchant to consign goods which are not his own. By arrangement with someone else he may consign goods on some terms agreed between them for the sharing of the profit or loss. In this case he has to account for the profit or loss to his co-partner in the Joint Venture. The accounts should, therefore, be so framed that each separate venture will show its own result in the form of profit or loss.

4. The consignor must keep his accounts so that he can see without trouble what the consignee owes him from time to time, and that he does really account to him for what he is owing.

The practice is for the consignee to account separately for each consignment. Supposing he is receiving at different dates consignments from the consignor, he would account for them separately because the consignor wants separate results for what has happened. Moreover he will pay for them separately. But sometimes, where the same parties have continual dealings, the consignee will not pay for each separate consignment but will, from time to time, forward remittances to his principal, the consignor, against what is owing by him as he may be requested to do. Hence there may be a running account between the consignee and the consignor. When this is the case the consignee is for practical purposes the local banker of the consignor. Formerly all the large merchant houses acted as bankers, and even at the present time some of them do so. They were the first foreign bankers. It is quite a common thing for a business house to have a running account or *Account Current* with its agent in a foreign country. It is a matter of arrangement between the parties whether the current account should carry interest. It usually carries interest varying with the rate of the bank rate at the place of the consignee's business.

TREATMENT OF OUTWARD CONSIGNMENTS. We will now consider how the consignor can most conveniently record these consignment transactions in his books. He will have to have a separate account for each consignment in his ledger or he will not be able to arrive at the profit or loss which the particular venture has produced. If he has a large number of consignments, he will keep a separate consignment ledger for them, and they will be known by distinctive numbers or by elaborating the name of the account. Even in quite large businesses the actual number of consignments will not be very numerous; that is to say, they will not be so numerous as to make it necessary to keep specialized books of first entry. The majority of houses which have consignment accounts still use the old-fashioned journal, in which we can record all kinds of transactions.

Through the journal we should make an entry in respect of the goods sent out on consignment, debiting them to the account of this particular consignment, and crediting them to the account of the kind of goods sent out. In the case of a business house with an ordinary form of Trading Account, the corresponding credit would be to an account which would be distinct from ordinary sales known as "Sales on Consignment Account." In that case it might be worth while to keep a "Consignment Day Book."

EXAMPLE. On the 21st February Thomas Ruffles, of Calcutta, forwarded to Henry Crichton & Son, of Belfast, on consignment 25 chests of indigo at £51 per chest, paying £12 12s. 6d. for freight. On the 18th May he received an account sales dated 20th April, showing that the goods had realized £2,493 1s. 4d. gross, and that the following expenses had been incurred—

	£	s.	d.
Dock Dues and Insurance	8	10	11
Cartage	2	15	6
Storage	3	4	7
Commission, 3%.			
Del Credere Commission, 2½%.			

The Journal entry in Ruffles' books would be as follows—

JOURNAL

			Dr. £	s.	d.	Cr. £	s.	d.
Feb. 21	Consignment to Crichton & Son Dr.		1,275	-	-			
	To Sales on Consignment .					1,275	-	-
	Value of goods forwarded to Henry Crichton & Son.							

Usually goods are not entered in the books at their cost price. They are usually put into the books at what is called a *pro forma* value. This value is designed partly to meet the requirements of Customs, for if the goods are consigned to some countries they have to pay a duty on entry, and this depends not on the cost price, but on their *pro forma* value. Another reason for not disclosing the cost price is that it may be desirable to withhold the information from the consignee. On balancing his books the merchant must make allowance for the difference between the cost price and the *pro forma* price.

The consignment account is next debited with all expenses incurred by the consignor in connection with the particular consignment. The corresponding credits would naturally be to Cash in so far as they are cash payments. Thus—

Dr. CONSIGNMENT TO HENRY CRICHTON & SON Cr.

		£	s.	d.			£	s.	d.
Feb. 21	To Sales on Consignment .	1,275	-	-					
21	,, Freight .	12	12	6					

Dr. SALES ON CONSIGNMENT Cr.

		£	s.	d.			£	s.	d.
					Feb. 21	By Consignment to H. Crichton & Son . .	1,275	-	-

Dr. CASH BOOK Cr.

					Feb. 21	By Freight .	£ 12	s. 12	d. 6

These are the only entries until the consignor receives news as to what the consignee has done with the goods. Sometimes the consignee waits until he has sold all the goods and then reports. His report takes the form of what is called an *account sales* (see specimen), that is, it is an account of the consignee's transactions in connection with goods comprised in the consignment. This document is rather in the form of an invoice, that is to say, it is not in debit or credit form. It states the proceeds of sale, if the consignee

ACCOUNT SALES

of 25 Chests of Indigo Sold by Henry Crichton & Son, for the account of Thomas Ruffles, Esq., of Calcutta

			£	s.	d.
T-R / 1-25	25 Chests Indigo		2,493	1	4
	Deduct Charges and Expenses—				
	Dock Dues and Insurance . . .	£8 10 11			
	Cartage	2 15 6			
	Storage	3 4 7			
	Commission, 3%	74 15 10			
	Del Credere Commission, 2½% . .	62 6 6			
			151	13	4
			£2,341	8	-
	E. & O. E.				
	Draft against above herewith due 23rd July.				
	Henry Crichton & Son, Belfast, 20th April.				

Dr. CONSIGNMENT TO HENRY CRICHTON & SON Cr.

		£	s.	d.			£	s.	d.
Feb. 21	To Sales on Consignm't	1,275	-	-	Apr. 20	By Crichton .	2,341	8	-
21	,, Freight .	12	12	6					
	,, P. & L. A/c	1,053	15	6					
		£2,341	8	-			£2,341	8	-

Dr. **HENRY CRICHTON & SON** Cr.

Apr. 20	To Consignm't	£2,341	8	-	Apr. 20	By B/R . .	£2,341	8	-

Dr. **BILLS RECEIVABLE ACCOUNT** Cr.

Apr. 20	To Crichton & Son . .	£2,341	8	-					

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

					May 18	By P. & L. A/c	£1,053	15	6

is responsible for the proceeds being collected in cash there is no occasion for him to disclose the names and he would probably not do so: for he, on his side, does not want to give information. But if he is not taking the risk of bad debts, he must disclose the names of the persons to whom the goods are sold. He then states the expenses incurred in the sale of the goods. Whatever is chargeable is put down and deducted from the gross proceeds, and then we have a net figure for which the consignee has to account at once. If he is running the risk of bad debts he is then accountable for the net proceeds as and when he is able to recover them. In the majority of cases he is acting *del credere*.

Directly the consignor receives the account sales, the following journal entry is made in order to show the result, viz.—

	£	s.	d.	£	s.	d.
Consignee's Personal Account . . Dr.	2341	8	-			
To Consignment Account . . .				2341	8	-

for the net proceeds as shown by account sales.

If the whole of the consignment is sold, the Consignment Account has been debited with the cost of the consignment and credited with the net proceeds. If the balance is on the debit it signifies a loss ; if on the credit, it signifies a profit. The Personal Account of the consignee, on the other hand, will show as a debit balance what the consignee owes for the goods. What was formerly a record of goods dispatched to a distant spot to be sold to the best advantage has matured into a liability due by the consignee, and when he settles the account, his account is credited and there is an end to the matter.

BALANCING THE BOOKS. If we are going to balance the books of the consignor at any time when some of the consignments remain unsold, we have to consider the position carefully. The ledger accounts will have been debited with the *pro forma* balance plus the expenses of the consignor, and there will be nothing else left on them until the Account Sales has been received. Owing to the fact that the *pro forma* value is an inflated price, the usual practice is to carry this debit balance on Consignment Account into the balance sheet as " Sales on Consignment Account." The reasonable assumption is that we should not have sent these goods on consignment if we had anticipated a loss. Hence they appear in the balance sheet as an *asset.*

TREATMENT OF INWARD CONSIGNMENTS. In the case of Inward Consignments, the consignee works on much the same lines as the consignor, but there are certain differences. In the first instance along with the goods consigned to him he will receive a *pro forma* invoice giving particulars of the goods and values. He has to remember, however, that they are not his own goods. Theoretically he cannot make an entry in his financial books because he has not contracted any legal liability. Consequently no entry is usually made in the books of account, but a record is passed through a Memorandum Book, called " Consignment Inwards Book," and the receipt of the goods is duly acknowledged. Whatever expenses the consignee incurs with regard to the consignment, he debits to a Consignments Inwards Account which he opens in the Ledger, and credits the payments in the Cash Book. He hears nothing of the expenses incurred by the consignor and, therefore, they do not pass through his books.

On the sale of the goods the Inwards Consignment Account will be credited and the actual purchasers of the goods will be debited. If the goods are sold for cash or by auction, the Cash Account will be debited and the Consignment Inwards Account credited. If, however, the goods are sold in the ordinary course of the business, to the customers of the consignee, then it is desirable that the consignee should not pass these sales through his ordinary Sales Book, or they would be credited to the Sales Account—which would be wrong. His best plan is to pass them through a special Consignment Day Book.

When all the goods are sold, if the Consignment Inwards Account shows a credit balance, they have been sold at a profit over and above the *pro forma* value ; if a debit balance, there has been a loss. The balance, whether profit or loss, is transferred to the Personal Account of the consignor.

EXPLANATION OF EXAMPLE. In the example given below a consignment transaction is treated from the standpoint both of the exporter or consignor, and of the importer or consignee.

1. The Consignor's Books. In the case of the outwards consignments an account is opened in the books of the Cardiff consignor entitled " Consignment Account with C. Hunter," and is debited with the cost of the goods. Double entry is obtained by opening a " Sales on Consignment Account " and crediting it with the same amount. These entries are, of course, first passed through the journal. All expenses incurred in sending the goods are debited to this consignment account, and the cash book is credited or the personal accounts of the persons concerned (e.g. the Dock Company). When the goods are dispatched the consignor frequently draws a Bill on the consignee for a large portion of the value of the goods. This has been done in the example and, when the Bill is accepted, C. Hunter and Co.'s personal account is credited and a " Bills Receivable Account " debited. All these entries are first made through the Journal.

When the consignees—C. Hunter and Co., of Capetown—have disposed of the goods they submit an Account Sales to the consignor which shows the gross amount realized by the sale, viz.—£3,530, less deductions for any charges which have been incurred by the consignee, together with his commission. The net proceeds in this case amount to £3,376 15s. Upon receipt of the Account Sales W. Robson, Ltd., will debit the Personal Account of the consignee with this net amount and credit the Consignment Account. The

COMPARATIVE TREATMENT OF CONSIGNMENTS INWARDS AND OUTWARDS

DATA. The following example refers to shipments of 100 tons of Iron consigned by W. Robson, Ltd., of Cardiff, by s.s. "Nonsuch" to C. Hunter & Co., Cape Town. The costs were as follows—

At Cardiff

	£	s.	d.
Cost of Material	3,050	-	-
Wagon Hire	24	-	-
Wharfage	25	-	-
Shipping, etc.	32	-	-
Insurance	3	-	-

At Cape Town

	£	s.	d.
Freight	50	-	-
Warehousing	15	-	-
Commission	88	5	-

Finance

	£	s.	d.
B/E drawn by Robson, Ltd., on C. Hunter & Co.	2,500	-	-
Balance due settled by Banker's Draft	876	15	-
Goods realized	3,530	-	-

CONSIGNMENT OUTWARDS

JOURNAL (of Wm. Robson, Ltd., Cardiff—Consignor) No. 1

19..			Dr. £	s.	d.	Cr. £	s.	d.
	C/O No. 1 to C. Hunter & Co., Cape Town	4	3,050	-	-			
	To Goods on C/O A/c	9				3,050	-	-
	C/O No. 1 to C. Hunter & Co., Cape Town	4	81	-	-			
	To Dock Co.—							
	Wagon Hire	10				24	-	-
	Wharfage	√				25	-	-
	Shipping Exp.	√				32	-	-
	Bills Receivable A/c	8	2,500	-	-			
	To C. Hunter & Co.	5				2,500	-	-
	C. Hunter & Co.	5	3,376	15	-			
	To C/O No. 1 C. Hunter & Co., Cape Town	4				3,376	15	-
	C/O No. 1 C. Hunter & Co., Cape Town	4	242	15	-			
	To P. & L. on C/O A/c	7				242	15	-

CONSIGNMENT INWARDS

JOURNAL (of C. Hunter & Co., Cape Town—Consignee) No. 12

19..			Dr. £	s.	d.	Cr. £	s.	d.
	Wm. Robson, Ltd.	10	2,500	-	-			
	To Bills Payable A/c	12				2,500	-	-
	Sundry Debtors	13	3,530	-	-			
	To C/I Wm. Robson, Ltd., Cardiff	9				3,530	-	-
	C/I Wm. Robson, Ltd., Cardiff	9	88	5	-			
	To Commission A/c	11				88	5	-
	C/I Wm. Robson, Ltd., Cardiff	9	3,376	15	-			
	To Wm. Robson, Ltd.	10				3,376	15	-

CASH BOOK (Wm. Robson, Ltd).

40 Dr. | 40 Cr.

19..			£	s.	d.	19..			£	s.	d.
	To C. Hunter	5	876	15	-		By C/O No. 1, C. Hunter, Cape Town (Insurance)	4	3	-	-
							" Balance	c/d	873	15	-
			£876	15	-				£876	15	-
	To Balance	b/d	873	15	-						

CASH BOOK (C. Hunter & Co.)

7 Dr. | 7 Cr.

19..			£	s.	d.	19.			£	s.	d.
	To Sundry Creditors	13	3,530	-	-		By C/L, Wm. Robson, Ltd. (Freight)	9	50	-	-
							(Warehousing)	√	15	-	-
							" Wm. Robson, Ltd.	10	876	15	-
							" Balance	c/d	2,588	5	-
			£3,530	-	-				£3,530	-	-
	To Balance	b/d	2,588	5	-						

LEDGER (Wm. Robson, Ltd.)

4 Dr. **Consignment Outwards No. 1 to C. Hunter & Co., Cape Town** 4 Cr.

19..			£	s.	d.	19..			£	s.	d.
	To Goods	J1	3,050	-	-		By C. Hunter & Co.	J1	3,376	15	-
	" Cash (Insurance)	CB 40	3	-	-						
	" Dock Co, (Sundries)	J1	81	-	-						
	" Transfer to P/L on C/O A/c	J1	242	15	-						
			£3,376	15	-				£3,376	15	-

LEDGER (C. Hunter & Co.)

9 Dr. **Consignment Inwards A/c from Wm. Robson, Cardiff** 9 Cr.

19.			£	s.	d.	19			£	s.	d.
	To Cash—(Freight)	CB 7	50	-	-		By Sundry Debtors	J12	3,530	-	-
	(Warehsng)	√	15	-	-						
	" Commission	J12	88	5	-						
	" Balance Transferred to Wm. Robson, Ld.	J12	3,376	15	-						
			£3,530	-	-				£3,530	-	-

5 Dr. C. Hunter & Co., Cape Town (Personal A/c) Cr. 5

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19..	To C/O No 1, C. Hunter & Co., Bal. A/c Sales .	J1	3,376	15	-	19	By B/R	J1	2,500	-	-
							,, Cash	CB 40	876	15	-
			£3,376	15	-				£3,376	15	-

7 Dr. Profit and Loss on Consignments Outwards Cr. 7

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
	Balance transferred at end of Accountancy Period to General P. & L. A/c .					19.	By C.O No. 1, C. Hunter & Co., Cape Town .	J1	242	15	-

8 Dr. Bills Receivable A/c Cr. 8

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19..	To C. Hunter & Co. .	J1	2,500	-	-						

9 Dr. Goods on Consignment Outwards Cr. 9.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
	Balance eventually closed to Cr. side of Trading A/c					19..	By C/O No. 1, C. Hunter, Ltd., Cape Town .	J1	3,050	-	-

10 Dr. Wm. Robson, Ltd., Cardiff (Personal A/c) Cr. 10

Date	Particulars	Fo.	£	s	d	Date	Particulars	Fo.	£	s.	d.
19	To Bill Payable .	J12	2,500	-	-	19.	By Transfer from C/I A/c .	J12	3,376	15	-
	,, Cash	CB7	876	15	-						
			£3,376	15	-				£3,376	15	-

11 Dr. Commission A/c Cr. 11

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
						19	By C/I Robson, Ltd., Cardiff	J12	88	5	-

12 Dr. Bills Payable A/c Cr. 12

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
						19 .	By Wm. Robson, Ltd. .	J12	2,500	-	-

13 Dr. Sundry Debtors A/c Cr. 13

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19	To C/I, Wm. Robson, Ltd.	J12	3,530	-	-	19 .	By Cash .	CB 7	3,530	-	-

10 Dr.				Dock Company					10 Cr.
				19..	By C/O No. 1, C. Hunter	J1	£ 81	s. -	d. -

ACCOUNT SALES of 100 tons of iron received from Messrs. Robson, Ltd., of Cardiff, ex s.s. "Nonsuch."
Sale for their account and risk. Invoiced, pro forma at £3,200.

			T.	C.	£	s.	d.	£	s.	d.
Stencil Marks on B/L and Iron if any		Proceeds of Sale								
		Particulars						3,530	-	-
		Less Charges								
		Freight at 10s. per ton	100		50	-	-			
		Warehousing . days at			15	-	-			
		Commission at 2½%			88	5	-			
								153	5	-
								£3,376	15	-
		Settled by—								
		B/Exchange at 3 m/d			2,500	-	-			
		Banker's Draft herewith			876	15	-			
								£3,376	15	-
		(Signed) C. Hunter & Co.,								
		Date . . . Cape Town								
E. & O.E.										

consignment account may now be balanced and the balance of profit or loss is transferred by Journal entry to a "Profit and Loss on Consignment Account." The transaction is finally closed upon receipt of the balance of payment from the consignee. The Personal Account of C. Hunter and Co., Capetown, is credited with the balance and the Cash Book is debited.

2. In the Consignee's Books. When C. Hunter and Co., receive the goods on consignment they cannot credit the Personal Account of the consignor, since no sale has taken place. They can only enter the particulars in a Memorandum Book which is usually known as the "Consignments Received Book." If they accept a Bill for a portion of the value of the consignment, they debit the consignor's Personal Account and credit a "Bills Payable Account," journalizing the entries. When any expenses are incurred in connection with the incoming consignment, they credit the amount in the Cash Book and debit a "Consignments Inwards Account."

On the sale of the goods the accounts of the Sundry Debtors are debited and the "Consignments Inwards Account" is credited. This latter account is also debited with the consignee's commission, viz. £88 5s. The balance of the Consignments Inwards Account, that is, £3,376 15s. is transferred to the consignor's—William Robson—Personal Account. When payment is received from the sundry debtors, the Sundry Debtors Account is credited and the amount received, viz. £3,530, is debited in the Cash Book. The transaction is finally closed when the consignees remit the balance of payment due to the consignor, either by a Bill of Exchange or by a cheque. In the latter case they debit the Personal Account of the consignor and credit the amount in the Cash Book.

JOINT VENTURES. A Joint Venture is said to exist when two or more traders or manufacturers carry on an undertaking in common for the purpose of buying and selling goods, agreeing to divide the resulting proceeds between them. For the sake of simplicity let us imagine that there are only two participants—one who sees to the buying and the other to the selling. The participants may contribute equally to the capital and share equally the risk; or they may agree to contribute unequally, say, one contributes two-thirds and the other one-third of the capital, and they bear the risks in the same proportion.

It will be seen that business on Joint Account is nothing more than a temporary undertaking, the record of which in the books must be kept quite distinct from the other transactions. For this purpose each of the participants will keep in his ledger a special trading account headed "Goods on Joint Account with X Y." This new Trading Account is kept precisely in the same way as an ordinary Trading Account. It is debited with all purchases and buying expenses and credited with the amount of the sale price; the profit on the venture will appear as an excess of the credit over the debit items.

Trade on joint account usually gives rise to a legal relationship between the parties concerned, and for this reason a Personal Account is opened as in the case of any other business friend. This Personal Account is debited with the joint partner's share in the purchase price and credited with his share in the selling price. If each participant pays immediately for his share in the purchase price and draws his share in the sale price the question of interest does not arise; otherwise interest must be calculated, and an account current submitted between the parties.

The legal relationship existing between the participants to a joint venture assumes great importance when recording the items in the books of account. This legal relationship may be shown in two different ways. The most obvious way is for each partner to share immediately everything which he spends or receives on behalf of the business, and to debit or credit the account of his partner. This method, however, can be recommended only where each transaction can be isolated and settled separately from the rest. If, however, the joint venture consists of a series of closely connected operations, the process of sharing out each transaction will become troublesome. A record of all the incoming and outgoing values on joint account and the mutual rights and obligations of the partners may be shown in a separate account headed, say, "Coffee on joint account with John Smith, of Liverpool," and this will give the total incoming and outgoing items in connection with the joint venture. On closing the account the total profit or loss will be ascertained and carried to our own Profit and Loss Account and to the accounts of the respective participants. This second method is much shorter than the process of sharing out each transaction, but yields the same result. Thus $\frac{1}{2}$ of the sum of $13 + 7 = 10$; likewise $\frac{1}{2}$ of $13 + \frac{1}{2}$ of $7 = 10$; and $\frac{1}{2}$ of $(13 - 7) = 3$, just as $(\frac{1}{2}$ of $13) - (\frac{1}{2}$ of $7) = 3$. The balance of an account is, therefore, the same whether the separate items are halved or only the balance of the total debits and credits is halved. In the illustration shown on page 87, column "A" shows a Joint Account in which each of the separate items is shared between the joint partners, and in column "B" the balance only is divided. It will be seen that the first method has the advantage of showing the successive alteration of the legal relationship between the parties whilst the second method is much shorter.

EXAMPLE. John Rose and Tom North agree to make a joint venture in olive oil, sharing profits or losses equally.

All the entries are to be kept in Rose's books.

They each contribute £300, and Rose buys £600 worth of oil on 1st December, 19...

Sales of oil for cash take place as under—

Dec. 10	**£126**
,, 12	**£218**
,, 18	**£142**

and Rose agrees to take the balance of the oil at a valuation of £263.

He then makes up the account and settles with North. Show the Joint Venture Account, Cash Account, North's Account, and Rose's Account as they would appear in Rose's books.

Dr. GOODS ON JOINT VENTURE ACCOUNT Cr.

		£	s.	d.			£	s.	d.
Dec. 1	To Bank .	600	-	-	Dec. 10	By Sundry Sales—Bank .	126	-	-
	,, Bal. Profit:				12	,, do. do. .	218	-	-
	Tom North, ½	74	10	-	18	,, do. do. .	142	-	-
	John Rose ½ .	74	10	-	18	,, J. Rose .	263	-	-
		£749	-	-			£749	-	-

Dr. TOM NORTH -NEWCASTLE Cr.

		£	s.	d.			£	s.	d.
Dec. 18	To Bank .	374	10	-	Dec. 1	By Bank . .	300	-	-
					18	,, Share of Profit .	74	10	-
		£374	10	-			£374	10	-

Dr. JOHN ROSE -NEWCASTLE Cr.

		£	s.	d.			£	s.	d.
Dec. 18	To Joint Venture A/c .	263	-	-	Dec. 1	By Bank . .	300	-	-
18	,, Bank .	111	10	-	18	,, Share of Profit .	74	10	-
		£374	10	-			£374	10	-

Dr. CASH CONTRA Cr.

		£	s.	d.			£	s.	d.
Dec. 1	To Tom North	300	-	-	Dec. 1	By Goods on Joint Venture A/c .	600	-	-
1	,, John Rose	300	-	-	18	,, John Rose .	111	10	-
10	,, Joint Venture A/c	126	-	-	18	,, Tom North .	374	10	-
12	,, do. do. .	218	-	-					
18	,, do. do. .	142	-	-					
		£1,086	-	-			£1,086	-	-

COMPARISON OF THE TWO METHODS OF RECORDING TRANSACTIONS OF A JOINT ACCOUNT

		"A" Successive Sharing of All Items				"B" Sharing of the Balance Only			
		Goods on Joint A/c		Joint Partners' A/c		Goods on Joint A/c		Joint Partners' A/c	
		Dr. £	Cr. £	Dr. £	Cr. £	Dr. £	Cr. £	Dr. £	Cr. £
1. (a) Remittance on Joint Account		1,000				1,000			
1. (b) Sharing			500	500					
2. (a) Buying Expenses		80				80			
2. (b) Sharing			40	40					
3. Remittance from Joint Partner					450				450
4. (a) Sale of the Goods			1,300				1,300		
4. (b) Sharing		650			650				
5. (a) Selling Expenses		50				50			
5. (b) Sharing			25	25					
Closing of (a) . . . TOTALS		1,780	1,865	565	1,100				
My Share of Profit		85							
Balance carried forward				535					
TOTALS		£1,865	£1,865	£1,100	£1,100				
Closing of (b) . . . TOTALS						1,130	1,300		450
Total Profit—									
My Share ½	£85								
His Share ½	£85								
	£170					170			85
Balance Carried to His Credit								535	
TOTALS						£1,300	£1,300	£535	£535

FOREIGN BRANCHES. Where a business has one or more branches abroad the general conduct of the branch business is usually left to the absolute discretion of the local manager. He will be required to carry out as faithfully as possible the policy of the directors in the home country. The books of account will naturally depend on the kind of business, and provided they are kept in a satisfactory manner and duly audited at intervals by qualified accountants, the directors are usually fully satisfied. The various Trading, Profit and Loss Accounts, and Balance Sheets sent to the head office should be drawn up in such a manner as to show clearly and explicitly the items of revenue and the nature and method of valuation of the assets and liabilities. In addition, there should be added the figures for the preceding quarter, half-year, or year as the case may be, for purposes of comparison.

HEAD OFFICE ACCOUNT. Since the head office finances the branch, and supplies it with the bulk of the goods, there is a constant state of indebtedness on the part of the branch to the head office. The position is almost that of an ordinary debtor or creditor, and is evidenced in the head office books by the debit balance of the branch adjustment account, and in the branch books by the credit balance of the head office adjustment account.

REMITTANCE ACCOUNT. Remittances passing from the head office to the branch and from the branch to the head office are generally posted in both ledgers to a separate remittance account, instead of being posted direct to the adjustment account. This separate account has the great advantage of keeping much unnecessary detail out of the adjustment account, thus simplifying it and making it clearer. At balancing time the total of this account is transferred to the adjustment account.

FINAL ACCOUNTS. On receipt of the branch trial balance, the head office passes a journal entry, debiting the Branch Adjustment Account in total, and crediting a Branch Trading Account in detail with the credit balances of the nominal accounts. A converse entry is made for the debit balances. The balance of the Remittance Account is posted, while the opening balance of the Adjustment Account at the beginning of the period has already been brought down. The balance of the Adjustment Account is now found and carried down, while the balance of the Branch Trading and Profit and Loss Account is carried to the head office Profit and Loss Account.

EXAMPLE

GENERAL TRADING CO., LTD.—BRISTOL BRANCH
TRADING AND PROFIT AND LOSS ACCOUNT

		£			£
	To Stock, 1st Jan., 19..	3,400		By Sales . . .	12,800
	,, Local Purchases .	700		,, Stock, Dec., 19.. .	4,600
	,, Stock from Head Office . .	10,100			
	,, Balance being Gross Profit . .	3,200			
	£	17,400		£	17,400
	To Rent, Rates, and Taxes . .	540		By Balance being Gross Profit . .	3,200
	,, Salaries . .	750			
	,, Sundry Expenses .	840			
	,, Discounts . .	270			
	,, Depreciation .	120			
	,, Head Office A/c (Net Profit) .	680			
		£3,200			£3,200

BALANCE SHEET AS ON 31st DECEMBER, 1925

Liabilities		£	Assets		£
Sundry Creditors . . .		320	Cash at Bank . . .		780
Head Office Current A/c	£8,180		Debtors		2,600
Add Bal. of P. & L. A/c . . .	680		Furniture and Fixtures . . .	£1,320	
		8,860	Less Depreciation .	120	
					1,200
			Stock, 31st Dec., 19.. .		4,600
		£9,180			£9,180

The necessary entries required to amalgamate these accounts in the head office books are given below in Journal form—

JOURNAL

	£	£
Branch Trading A/c	14,200	
To Branch A/c .		14,200
Stock, 1st Jan. £3,400		
Local Purchases . 700		
Stock from H.O. . 10,100		
Branch Account .	17,400	
To Branch Trading A/c . .		17,400
Sales . . £12,800		
Stock, 31st Dec. 4,600		
Branch Trading A/c	3,200	
To Branch P. & L. A/c . .		3,200
Gross Profit transferred		

JOURNAL

	£	£
Branch P. & L. A/c .	2,520	
To Branch A/c .		2,520
Rent, Rates, and Taxes . £540		
Salaries . 750		
Sundry Expenses . 840		
Discounts . 270		
Depreciation 120		
Branch P. & L. A/c .	680	
To H.O. P. & L. A/c .		680
Net Profit transferred		

ACCOUNTS CURRENT. An account current is an account of transactions which have taken place between two parties during a given period. It is a copy of the ledger account of either party, with additional columns for interest, which is calculated at a fixed rate per cent on each item from the date of the transaction to the close of the account. Such an account is frequently rendered by consignors and consignees who have had mutual dealings. The following is an example of the way in which this statement is constructed, viz.—

EXAMPLE. Make out an account current to be rendered by A. White to W. Black on 30th June, 19.., in respect of the following transactions—

Jan.	13.	Goods Sold to Black	£230
	31.	Received Cash from Black	140
Feb.	3.	Bought Goods of Black	420
	8.	Paid Black Cash	250
Mar.	10.	Goods Sold to Black	112
May	4.	Bought Goods of Black	95

Interest to be calculated at 5 per cent per annum.

Dr. **W. BLACK IN ACCOUNT CURRENT WITH A. WHITE** Cr.

		Days	Interest £	s.	d.	Amount £	s.	d.			Days	Interest £	s.	d.	Amount £	s.	d.
19.. Jan 13	To Goods . . .	168	5	5	10	230	-	-	19.. Jan. 31	By Cash . . .	151	2	17	10	140	-	-
Feb. 8	,, Cash . . .	142	4	17	3	250	-	-	Feb. 3	,, Goods . . .	147	8	9	2	420	-	-
Mar. 10	,, Goods . . .	112	1	14	3	112	-	-	May 4	,, Goods . .	57		14	10	95	-	-
30	,, Interest per Contra .			4	6				June 30	,, Interest per Contra .						4	6
30	,, Balance c/d . .					63	4	6									
			£12	1	10	£655	4	6				£12	1	10	£655	4	6
									June 30	By Balance b/d . .					£63	4	6

EXERCISE XL

1. C. Wright, an agent, having sold goods for C. Dunn, has earned "commission" £10. Show by use of the Journal how this transaction would appear in Wright's books.

2. What is the difference between: (*a*) Consignment; (*b*) Joint Adventure? How would you deal with the consignments not completed at the date of balancing?

3. Explain carefully "Documentary Bill," showing clearly the part it plays in the transaction arising out of the export of goods, and the accounting entries involved.

EXERCISE XLI

Give the necessary Journal entries in the books of Hill & Sons in connection with the following transactions. Include any entry necessary to close the consignment account.

19..
June 4. Hill & Sons consigned to Western & Co., of Cape Town, goods valued at £750.
6. Hill & Sons paid cash for insurance on above, £43.
30. Hill & Sons received account from Albion Shipping Co., £64, for freight and carriage on consignment.
Oct. 3. Hill & Sons received account sales from Western & Co., showing that goods had realized £960, subject to their commission of 2½ per cent.

(L. & C.)

EXERCISE XLII

Thomas Johnson sends to his agents, Messrs. Smith & Sons, of Rio de Janeiro, 300 tons of galvanized sheets on consignment. The cost price of the sheets at the works is £3,000. Johnson pays railway carriage to Liverpool amounting to £40, all other expenses being paid by the consignee.

In due course Messrs. Smith & Son send an account sales showing 120 tons sold at £14 per ton, and 80 tons sold at £15 per ton, while the expenses paid by them were £100 for ocean freight, £10 for dock dues, £30 for marine insurance, and £120 for import duties into Brazil, this being the duty on the whole consignment. They deduct 2½ per cent commission and 1½ per cent brokerage on the value of the amount they have sold, and remit a draft for the balance due by them. Make out the account sales that Smith & Sons would render, and also make out the consignment account in the books of Thomas Johnson.

EXERCISE XLIII

John Berry, of London, consigned to William Patterson, of Bombay, goods which had cost Berry £1,000. Freight amounting to £203 was paid by Berry in London, and his general expenses were £65. Patterson's expenses amounted to £57, the goods realizing £1,745. Patterson's commission as agreed was £35. Prepare the account sales sent by Patterson to Berry. Show the whole of the transactions in Berry's books and the amount of profit or loss on the consignment.

EXERCISE XLIV

Richard Random & Sons ship goods to Paul Gold, their agent at Capetown, on 1st September, and sent therewith a *pro forma* invoice for £587 (goods, £500; freight, £60; and insurance, £18). On 28th October, Paul Gold sent home an account sales, from which it appeared that a portion of the goods had realized £460; and, deducting expenses £10 and commission £25, he enclosed a draft at three months for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On 2nd November, he sent home another account sales, which showed that the balance of the consignment had realized £320; which, less £8 expenses and £10 commission, he remitted by a three months' draft. Show how the above transactions should appear in the books of Richard Random & Sons.

EXERCISE XLV

On 29th November, 19.., Andorides Freres, of Athens, consign to W. Raleigh, of London, 50 cases of Turkish tobacco, each containing 120 lb. at 4s. per lb. The consignment arrived in London on 31st December, 19.., and W. Raleigh accepted a six months' bill for half the value of the tobacco, and took delivery in bond. On 4th January, 19.., he sold 30 cases to the John & Adam Cigarette Co., for 5s. per lb., and received payment the same day. On 31st January, 19.., the purchasers requested W. Raleigh to take the tobacco out of bond for them, and gave him a three months' bill for the duty, at 8s. 2d. per lb. paid by him. You are required to show the entries in W. Raleigh's books necessitated by the foregoing transactions. (R.S.A.)

EXERCISE XLVI

Define an "account current," and make out such an account for Alfred Brown in respect of the following transaction with Charles Dawson: 19.., 17th January, goods sold to Dawson, £200, due 1st February; 1st February, received cash from Dawson, £50; 18th March, goods bought of Dawson, £300, due 1st April; 1st April, paid to Dawson, cash £200; 1st May, goods bought of Dawson, £150; 10th May, goods sold to Dawson, £120, due 1st June. The account to be made up to 1st June, 19.., interest to be at 6 per cent per annum, which may be calculated by months instead of days. (L. & C.)

EXERCISE XLVII

The undermentioned transactions took place between Robertson & Co., of London, and Trumper & Co., of Melbourne.

19..			£
Dec.	31.	Balance owing by Trumper & Co. to Robertson & Co., at this date .	500
19..			
Jan.	7.	Robertson's shipped goods to Trumper & Co.	300
Apr.	10.	Bank draft received this day by Robertson & Co. from Trumper & Co.	600
	15.	Robertson's paid on behalf of Trumper & Co.—	
		Charges Orient Mail S.S. Co.	50
		London Packing Co.	100

Prepare account current bearing interest at 5 per cent, to be rendered by Robertson & Co. to Trumper & Co., as on 30th April, 19...

(R.S.A.)

EXERCISE XLVIII

A merchant allows one of his customers to have an open account with him, with interest running at 5 per cent per annum.

On 1st January, 19.., the balance owing by the customer was £1,600 and during the half-year ending 30th June the following were the transactions—

19..		£
Jan. 31.	Goods were sent to customer value	400
Feb. 28.	Cheque was received from customer value	500
Mar. 31.	Goods sent value	700
Apr. 30.	Goods sent value	300
	And cheque received	800
May 31.	Cheque received value	100
June 30.	Goods sent value	360

On 30th June, the merchant makes up his books. Make out the account with interest which he would send to his customer.

EXERCISE XLIX

John Rose and Tom North agree to make a joint venture in olive oil, sharing profits or losses equally.

All the entries are to be kept in Rose's books.

They each contribute £600, and Rose buys £1,200 worth of oil on 1st December, 19...

Sales of oil for cash take place as under—

19..	£
Dec. 10	252
12	436
18	284

And Rose agrees to take the balance of the oil at a valuation of £263.

He then makes up the account and settles with North. Show the Joint Venture Account, Cash Account, North's Account, and Rose's Account, as they would appear in Rose's books.

EXERCISE L

Brown & Green entered into a joint adventure. On 1st May, 19.., they purchased 2,500 tons of coal at 16s., for which they gave a bill on 10th May at two months. The coals were shipped to Lisbon on 15th May. The freight, etc., amounted to £500. A joint banking account was opened on 10th May, into which each party paid £600. The freight was paid for by cheque on 20th May, and on 25th May a cheque was drawn for £100 for charges at Lisbon. The coals were sold at 25s. per ton, and the proceeds were remitted by bank draft and paid into bank on 5th June. On 10th June the bill was paid under discount at £4 per cent per annum for one month. Prepare accounts showing the result of these transactions and the payment to Brown & Jones of the balances due to them. (L. & C.)

EXERCISE LI

Pilditch and Hislop agreed to speculate jointly. Pilditch through his own business is to transact the "joint adventure" and to receive 5 per cent commission on the sale for so doing.

19..
May 1. Pilditch bought on joint account 500 loads of firewood at 10s. per load from the Firewood Co.
1. Hislop paid Pilditch cash for his half of the transaction.
8. Pilditch sold a part of the firewood to The Smallwood Co. for £150, and the remainder for cash for £145.
25. The Smallwood Co. went bankrupt and a month later a final dividend was received from the estate of 10s. in the £.
26. Pilditch paid the amount due to Hislop on this joint account.

You are required to show the accounts in the books of Pilditch at the close of the transaction—

(*a*) Joint Account after charging the commission due to Pilditch; and
(*b*) Hislop's Account.

CHAPTER VII

Complete Model Set of a Wholesale Merchant's Accounts

THE FINANCIAL BOOKS. The basis of the accounts of the wholesale merchant is to be found in the initial inventory, the items of which are grouped together into assets and liabilities, and then entered into the Journal. The resulting surplus of assets over liabilities constitutes the initial capital. The business transactions, which are evidenced by credit documents, are recorded in the journals or in the various subsidiary books into which the journal has been subdivided, viz. the cash book, the purchases and sales books, the returns books, the bills books, etc., and the entries into these subsidiary books are then posted into the ledgers. At balancing time, a trial balance is drawn up to check the postings, and a Trading and Profit and Loss Account is then prepared as explained in Part I, Chapter XI.

THE BOOKS OF CONTROL. These financial records, however, are by no means sufficient and parallel with them certain controlling entries must be made. Among these may be mentioned—

1. The Control of Credit. The credit relations with the debtors and creditors must be kept in detail and a proper supervision exercised over the debtors' accounts. A list of debts due should be prepared periodically in order to facilitate the collection of outstanding accounts.

2. Control of Quantities. Since the financial books only relate to monetary values, quantities have to be controlled by separate entries. Hence the need for stock books and the record of the number of stocks and shares and other securities in our possession.

3. The Control of Rights and Obligations. This is to show the legal relations on which the business is based. It is effected by means of order books, contract books, the control of liabilities, status information, etc.

The diagram inset between pages 96 and 97 clearly shows the complete structure of the accounts of a wholesale business. From

this it will be manifest how, on the one hand, the financial records are built up on the basis of the opening entries and the credit documents and, on the other hand, on the control records. At the close of the trading period these two streams unite and help to form the final accounts.

MODEL EXERCISE. The following fully worked model exercise should be carefully studied, as it clearly illustrates the practical method of dealing with a variety of items which occur in combination. Thus the exercise illustrates the treatment of Joint Venture, Consignment, Contract, and Partnership Accounts, as well as the method of keeping the different ledgers and subsidiary books of a wholesale merchant's business.

Messrs. Oxbridge and Camford are in business as Merchants and Contractors. The following is a statement of their affairs as on 31st December, 19..—

	£
Cash in hand	175
Cash at bank	2,030
Stock on hand	1,500
Stock paid for by us to Alton & Co. but not delivered	300
Premises A/c	4,350
(Subject to mortgages for £3,000 at 5% per annum in favour of G. Grantham)	
Plant A/c	2,200
Materials	1,000
Fixtures and fittings	900
Rent due	200
One year's insurance paid in advance	25
Loan granted to Chesterman	350
Horses A/c	600
B.R. No. 1	400
B.R. No. 2	575
B.P. No. 1	450
B.P. No. 2	600
Sundry small debtors	430
Trade debtors—	
Pullover & Co.	775
Castle & Newton	450
Bernard Belling	210
Harborough & Co., Ltd.	375
Sundry small creditors	450
Trade creditors—	
Basing & Stoke	750
Peter Borough	550
Porthampton Trading Co.	700
Proportion of salary due to staff	45

Find and credit their Capital.

Their transactions for January were as below—

19..			£	s	d.
Jan.	1.	Sold goods for cash	150	-	-
		Purchased for cash 3 typewriters	65	10	-
		Sold on credit to P. Borough	160	-	-
	2	He returned as unsuitable goods to the value of	55	10	-
		Received bill of costs from Dorking & Co. (solicitors)	70	-	-
	3	Paid for stationery	15	15	-
		Paid for office books	5	5	-
		Purchased from Porthampton Trading Co. for joint venture with Leeds and Stafford	745	-	
		Paid carriage thereon	7	10	
		Sold old furniture	12	12	
		Sold to Pullover & Co. on credit	170	-	
	5	Received their acceptance for	400	-	
		Received from Leeds and Stafford on account their share of joint venture (cheque)	347	10	-
		Mr. T. Oxbridge drew out for Private A/c cheque	250	-	
		Horse died valued at	70	-	-
	6.	Purchased a bay mare	57	10	-
		Paid commission on purchase of same	2	2	-
		Goods which had cost £200 found to be damaged and sold to Pullover & Co. for cash £65, thus representing a loss of £135.			
		Signed contract for Presburn Hospital	1,500		
	7	Purchased on credit from Castle & Newton	300	-	
		Consigned to Nathan Norridge goods from stock	1,000	-	-
		Paid freight and insurance thereon	22	10	-
	8.	Received acceptance from Harborough & Co	375	-	-
		Supplied materials for contract	520	-	-
Jan.	10.	Paid labour on contract (cheque)	450	-	-
		Received from Castle & Newton (cheque)	200	-	-
	12.	Castle & Newton declared bankrupt, received first and final dividend of 6s. 8d. in £.			
		Debited Chesterman & Co 5% interest on loan	8	15	-
	12.	Sold plant value £450 used in connection with Presburn Hospital at a loss of 30%.			
		Received from trustees of Presburn Hospital a cheque	700	-	-
	13.	Sold goods for cash to Bradfield & Co.	145	-	-
		They tendered their cheque in payment for	160	-	-
		Gave them change in cash	14	10	-
		Sold to sundry small debtors on credit goods invoiced at £25, £60, and £98 10s. respectively.			
	14.	Bank returned Bradfield & Co.'s cheque dishonoured	160	-	-
	16.	Bradfield gave B/E in settlement which was dishonoured before bankruptcy.			
	19.	Bradfield & Co. declared bankrupt, received first and final dividend of 13s. 4d. in £.			
		Paid Electric Light A/c	14	7	6
		One of the vans belonging to the firm, having collided with a bicycle and injured the rider, paid in settlement	65	-	-
		Paid Dorking & Co. (solicitors) costs in this matter	5	5	-
	21.	Received from the Universal Insurance Co. in settlement of claim	70	5	-
		Received from local authority demand note for rates	40	10	-

19..		£	s.	d.
Jan. 21.	B.P. No. 1 discounted by the holder thereof.			
	Paid for repairs to premises	75	–	–
	Sold to B. Belling on credit	160	–	–
22	He returned as unsuitable portion of above valued at	30	–	–
	One of the clerks being sent out to make sundry petty office purchases lost 2 Treasury notes valued 30s .	1	10	–
	N. Norridge having sold goods consigned to him for £1,360, sent an A/S and B/E at 1 month to balance.			
	Purchased on credit from H Holyhead	185	–	–
23.	Sold same for cash to Corsia & Co	220	–	–
	Thus making a profit of	35	–	–
	Dorking & Co. agreed to accept £65 in settlement of Bill of Costs, which was paid by cheque . .	65	–	–
	Sent to H. Holyhead, B/P	185	–	–
	Paid Advertising A/c (cheque)	270	–	–
23.	Purchased 12 chests of tea in bond, each 112 lb. at 2s. 2d. lb			
	Paid Government duty thereon, 8d. per lb.			
24	Sold half of above to B. Belling for cheque . .	110	–	–
	Sold remainder to P. Borough on credit at 3s. 3d. per lb.			
	Received from sundry debtors on account . .	130	–	–
	Paid rent (cheque)	150	–	–
	Sent Basing & Stoke cheque for	400	–	–
26.	Sold part of consignment with Leeds & Stafford for cash	500	–	–
	Purchased from Bowne & East for bank draft, motor delivery van priced at £300 and subject to 5% discount.			
	Paid commission on purchase (cheque)	10	10	–
	Received account for overhauling and repairs thereto from Dadd Lands Co.	30	–	–
	Sold remainder of joint venture to P. Borough on credit for	530	–	–
	Our commission agreed at 5% on sale price before dividing profits equally.			
	Harborough & Co. returned their bill and was allowed 2½% discount.			
	Paid sundry small creditors on account (cheque) .	200	–	–
	Paid for broken windows	8	10	–
27.	Paid 6 months' interest on mortgage in favour of G. Grantham.			
	Purchased for cheque 40 reams of notepaper at 16s 6d. per ream	33	–	–
	Placed order for goods with Messrs. Little, Hampton & Co. on credit for	350	–	–
	Paid for electric light fittings at Presburn Hospital .	85	–	–
	Completed contract at Presburn Hospital and agreed to allow rebate of	60	–	–
	Received from trustees of Presburn Hospital a bill of exchange for balance due.			
28.	Paid salaries by cheque up to date	115	10	–
	An air raid having damaged the premises to the value of £200, and stock estimated at £170 and fixtures estimated at £50.			

		£	s.	d.
19..				
Jan. 30.	Received from Government agents in settlement, cheque	420	–	–
	Allow depreciation on balance of plant for one month at 5% per annum.			
	Allow 1 month's insurance at £25 per annum.			
	Allow 1 month's interest on capital at 5% per annum to be divided equally between the two partners.			
	Value of advertisement paid for and not yet published	100	–	–
	Oxbridge withdrew cheque for private use	150	–	–
	Camford withdrew cheque for private use	100	–	–
31.	Stock on hand	398	–	–
	Horses valued at	587	10	–
	Value of notepaper and stationery on hand	25	–	–

A separate Interest and Drawings Account is required for each partner distinct from the Joint Capital Account, the balances of which will appear in the balance sheet as assets or liabilities in the same way as other personal balances.

OXBRIDGE & CAMFORD
JOURNAL

				£	s.	d.	£	s.	d.
19..	Sundries	Dr.							
	To Sundries								
Jan. 1	Cash in Hand	Dr.	√	175	-	-			
	Cash at Bank	Dr.	√	2,030	-	-			
	Stock in Hand	Dr.	1	1,500	-	-			
	Stock in Suspense	Dr.	2	300	-	-			
	Premises A/c	Dr.	2	4,350	-	-			
	Plant A/c	Dr.	2	2,200	-	-			
	Materials	Dr.	2	1,000	-	-			
	Fixtures and Fittings	Dr.	2	900	-	-			
	Horses A/c	Dr.	3	600	-	-			
	Bills Receivable A/c	Dr.	3	975	-	-			
	Insurance A/c Unexpired	Dr.	3	25	-	-			
	Sundry Small Debtors	Dr.	1	430	-	-			
	Pullover & Co.	Dr.	1	775	-	-			
	Castle & Newton	Dr.	1	450	-	-			
	Bernard Belling	Dr.	2	210	-	-			
	Harborough & Co., Ltd.	Dr.	2	375	-	-			
	Chesterman (Loan)	Dr.	3	350	-	-			
	To Sundry Small Creditors		1				450	-	-
	Basing & Stoke		1				750	-	-
	Peter Borough		1				550	-	-
	Porthampton Trading Co.		2				700	-	-
	Salaries		4				45	-	-
	G. Grantham (Mortgage)		4				3,000	-	-
	Bills Payable		4				1,050	-	-
	Rent		4				200	-	-
	Oxbridge & Camford Joint Capital A/c		1				9,900	-	-
	Assets and Liabilities as at 1st Jan., 19..			16,645	-	-	16,645	-	

JOURNAL (contd.)

Date	Particulars	Fo.	£	s.	d.	£	s.	d.
19..								
Jan. 2	Legal Expenses . . . Dr.	6	70	-	-			
	To Dorking & Co. . . .	2				70	-	-
	Bills of Costs from latter.							
3	Joint A/c with Leeds & Stafford Dr.	2	745	-	-			
	To Porthampton Trading Co. .	2				745	-	-
	Purchase from latter for former's account.							
5	Loss on Horses . . . Dr.	6	70	-	-			
	To Horses A/c	3				70	-	-
	Value of Horse which died.							
6	Trustees of Presburn Hospital . .	3	1,500	-	-			
	To Contract No. 1 . . .	7				1,500	-	-
7	Nathan Norridge Consignment A/c . . . . . Dr.	3	1,000	-	-			
	To Goods on Consignment . .	7				1,000	-	-
8	Contract No. 1 . . . . Dr.	7	520	-	-			
	To Materials A/c . . .	2				520	-	-
12	Bad Debts A/c . . . . Dr.	8	100	-	-			
	To Castle & Newton . . .	1				100	-	-
	Loss incurred on balance of account £150 at 13s. 4d. in the £ . £100							
12	Chesterman & Co. . . . . Dr.	3	8	15	-			
	To Interest on Loan . . .	8				8	15	-
	5% on £350 . . . . £8 15s.							
12	Contract No. 1 . . . . Dr.	7	135	-	-			
	To Plant A/c	2				135	-	-
	Loss of 30% on Plant value £450 sold for £315 . . . £135							
19	Bradfield & Co. . . . . Dr.	4	160	-	-			
	To Bills Receivable . . .	3				160	-	-
	Dishonoured bill.							
19	Bad Debts A/c . . . . Dr.	8	53	6	8			
	To Bradfield & Co. . . .	4				53	6	8
	Loss incurred of 6s. 8d. in the £ on £160 . . . £53 6s. 8d.							
21	The Universal Insurance Co. . .	4	70	5	-			
	To Van Collision A/c . . .	8				70	5	-
	Being claim on former for latter account . . . £70 5s.							
	Carried forward		4,432	6	8	4,432	6	8

JOURNAL (contd.)

19..			£	s.	d.	£	s.	d.
	Brought forward		4,432	6	8	4,432	6	8
Jan. 22	N. Norridge	4	1,360	-	-			
	To N. Norridge Consignment A/c .	3				1,360	-	-
	Value realized by former as per A/S £1,360							
23	Dorking & Co. . . . . Dr.	2	5	-	-			
	To Legal Expenses . . .	6				5	-	-
	Allowance made by former on latter account.							
26	Motor Delivery Van . . . Dr.	9	285	-	-			
	To Bowne & East	2				285	-	-
	Purchase of former for £300 less 5% discount and paid for by Bank Draft— £300							
	Less 5% . . . 15							
26	Motor Delivery Van . . . Dr.	9	30	-	-			
	To Dadd Lands Co.	2				30	-	-
	Overhauling and repairs to former.							
26	P. Borough . . . . Dr.	1	530	-	-			
	To Joint A/c with Leeds & Stafford	2				530	-	-
	Balance of purchase on latter account.							
26	Joint A/c with Leeds & Stafford Dr.	2	51	10	-			
	To Commission A/c	7				51	10	-
	Agreed commission of 5% on Sales in former Joint A/c—							
	£1,030 at 5% . £51 10s.							
26	Discount . . . . . Dr.	10	9	7	6			
	To Bills Receivable	3				9	7	6
	Being discount allowed Harborough & Co. on their returned Bill, £375—							
	£375 at 2½% . £9 7s 6d.							
27	Contract No. 1 . . . . Dr.	7	60	-	-			
	To Trustees of Presburn Hospital .	3				60	-	-
	Rebate allowed on completion of above contract.							
28	Government Agents	4	420	-	-			
	To Sundries							
	Damage caused by air raid credited as under—							
	Premises	2				200	-	-
	Stock	1				170	-	-
	Fixtures and Fittings . .	2				50	-	-
	Carried forward		7,183	4	2	7,183	4	2

JOURNAL (contd.)

			£	s.	d.	£	s.	d.
19..	Brought forward		7,183	4	2	7,183	4	2
Jan. 30	Depreciation A/c . . . . Dr.	10	7	5	10			
	To Plant A/c	2				7	5	10
	Depreciation on balance of £1,750 at 5% per annum for 1 month—£7 5s. 10d.							
30	Insurance . . . . . Dr.	10	2	1	8			
	To Insurance Unexpired . .	3				2	1	8
	1 month at £25 per annum £2 1s. 8d.							
30	Interest on Capital . . . Dr.	10	41	5	-			
	To Sundries							
	Being interest on capital accounts at 5% per annum for month of January to be divided equally between the two partners as under—£9,900 at 5% per annum for 1 month—1/12th of £495 . £41 5s.							
	Oxbridge Interest A/c .	1				20	12	6
	Camford Interest A/c .	1				20	12	6
30	Advertising (Unexpired) . . Dr.	9	100	-	-			
	To Advertising	9				100	-	-
	Value of advertisement paid for but not yet published.							
30	Trade Expenses . . . . Dr.	6	23	15	-			
	To Stationery	6				23	15	-
	Being stationery used for the month; value of amount in hand being £25. £23 15s.							
31	Bradfield & Co. . . . . Dr.	4		10	-			
	To Commission A/c	7					10	-
	Commission charged on changing cheque.							
31	Contract No. 1 . . . . Dr.	7	250	-	-			
	To Profit on Contract No. 1 . .	11				250	-	-
	Being profit accrued on former now transferred to latter to close.							
	Carried forward		7,608	1	8	7,608	1	8

JOURNAL (contd.)

19..			£	s.	d.	£	s.	d.
	Brought forward		7,608	1	8	7,608	1	8
Jan. 31	Joint A/c with Leeds & Stafford .	2	226	-	-			
	To Sundries							
	Being profit accrued in former now divided equally as under—							
	Profit on Joint A/c with Leeds & Stafford	11				113	-	-
	One half of £226 . £113							
	Leeds & Stafford	3				113	-	-
	One-half of £226 . £113							
31	Nathan Norridge Consignment A/c .	3	337	10	-			
	To Profit on Nathan Norridge Consignment A/c	11				337	10	-
	Being profit of £337 10s. accrued on former, now transferred to latter to close.							
			8,171	11	8	8,171	11	8

SALES JOURNAL

19..			£	s.	d.	£	s.	d.
Jan. 1	P. Borough	1	160	-	-			
3	Pullover & Co.	1	170	-	-			
13	Sundry Small Debtors	1	183	10	-			
	£ s. d.							
	Goods . . 25 - -							
	Goods . . 60 - -							
	Goods . . 98 10 -							
21	B. Belling	2	160	-	-			
23	Bradfield & Co.	4	145	-	-			
24	P. Borough	1	109	4	-			
	6 chests, 672 lb. Tea, at 3s. 3d. £109 4s.							
31	Cr. Sales A/c	5				£927	14	-

BOUGHT JOURNAL

			£	s.	d.	£	s.	d.
19.. Jan. 7	Castle & Newton	1	300	-	-			
22	H. Holyhead . . .	2	185	-	-			
31	Dr. Purchases A/c . . .	5				£485	-	-

SALES RETURNS BOOK

			£	s.	d.	£	s.	d.
19.. Jan. 2	P. Borough	1	55	10	-			
22	B. Belling	2	30	-	-			
31	Dr. Returns (Inwards) A/c .	5				£85	10	-

BILLS RECEIVABLE BOOK

			£	s.	d.	£	s.	d.
19.. Jan. 5	Pullover & Co.	1	400	-	-			
8	Harborough & Co. . . .	2	375	-	-			
16	Bradfield & Co.	4	160	-	-			
22	N. Norridge at 1 month . . .	4	1,360	-	-			
27	Trustees of Presburn Hospital . .	3	740	-	-			
31	Dr. Bills Receivable A/c . .	3				£3,035	-	-

BILLS PAYABLE BOOK

			£	s.	d.	£	s.	d.
19.. Jan. 23	H. Holyhead	2	185	-	-			
31	Cr. Bills Payable A/c . .	4				£185	-	-

OXBRIDGE &
Dr. CASH

			Office Cash			Bank		
			£	s.	d.	£	s.	d.
19.. Jan. 1	To Balance	√	175	-	-	2,030	-	-
1	„ Sales	5	150	-	-			
3	„ Furniture and Fittings	2	12	12	-			
5	„ Leeds & Stafford	3				347	10	-
6	„ Sales (Damaged Goods)	5	65	-	-			
10	„ Castle & Newton	1				200	-	-
12	„ Castle & Newton	1				50	-	-
12	„ Plant A/c (£450 at 30% Loss)	2				315	-	-
12	„ Trustees of Presburn Hospital	3				700	-	-
13	„ Bradfield & Co.	3				160	-	-
19	„ Bradfield & Co.	3				106	13	4
21	„ The Universal Insurance Co.	4				70	5	-
24	„ Sales (Corsica & Co.)	5	220	-	-			
24	„ Sales (B. Belling)	5				110	-	-
24	„ Sundry Debtors	1				130	-	-
26	„ Joint A/c (Leeds & Stafford)	2				500	-	-
26	„ Bills Receivable	3				365	12	6
28	„ Government Agents (Air Raid)	4				420	-	-
			£622	12	-	£5,505	-	10
19.. Feb. 1	To Balance b/d		65	10	-	1,266	5	4

CAMFORD

BOOK **Cr.**

			Office Cash			Bank		
			£	s.	d.	£	s.	d.
19.. Jan. 1	By Furniture and Fittings (Typewriters)	2	65	10	-			
3	,, Stationery	6	15	15	-			
3	,, Trade Expenses (Office Books)	6	5	5	-			
3	,, Porthampton Trading Co.	6				745	-	-
3	,, Joint A/c, Leeds & Stafford (Carriage)	2	7	10	-			
5	,, Drawings A/c, T. Oxbridge	1				250	-	-
6	,, Horses A/c (Bay Mare)	3				57	10	-
6	,, Commission A/c (re Bay Mare)	7	2	2	-			
7	,, Nathan Norridge Consignment A/c(Fittings							
7	and Insurance)	3				22	10	-
10	,, Contract No. 1 (Labour)	7				450	-	-
12	,, Castle & Newton (Dishonoured Cheque)	1				200	-	-
13	,, Bradfield & Co.	3	14	10	-			
14	,, Bradfield & Co. (Dishonoured Cheque)	3	160	-	-			
19	,, Electric Light	8				14	7	6
19	,, Van Collision A/c	8				65	-	-
19	,, Van Collision A/c (Solicitors' Fees)	8				5	5	-
21	,, Rates	9				40	10	-
21	,, Repairs to Premises	9				75	-	-
22	,, Trade Expenses (Loss of Notes)	6	1	10	-			
23	,, Dorking & Co.	2				65	-	-
23	,, Advertising A/c	9				270	-	-
23	,, Purchases (12 Chests of Tea)	5				145	12	-
23	,, Duty on Tea (Purchases)	5				44	16	-
24	,, Rent	4				150	-	-
24	,, Basing & Stoke	1				400	-	-
26	,, Bowne & East	2	285	-	-			
26	,, Commission A/c (re Motor Van)	7				10	10	-
26	,, Sundry Small Creditors	1				200	-	-
26	,, Repairs to Premises (Broken Windows)	9				8	10	-
27	,, Interest on Mortgage (£3,000 at 5% per annum for 6 months)	10				75	-	-
27	,, Stationery (Notepaper)	6				33	-	-
27	,, Contract No 1 (Electric Fittings)	7				85	-	-
28	,, Salaries A/c	4				115	10	-
30	,, Drawings A/c (Oxbridge)	1				150	-	-
30	,, Drawings A/c (Camford)	1				100	-	-
31	,, Leeds & Bradford in Settlement	3				460	10	-
31	,, Balance c/d		65	10	-	1,266	10	4
			£622	12	-	£5,505	-	10

SALES LEDGER

SUNDRY SMALL DEBTORS

Dr.			£	s.	d.		Cr.		£	s.	d.
19.. Jan. 1	To Sundries	J. 1	430	-	-	19.. Jan. 24	By Cash	C.B. 12	130	-	-
13	,, Sales	J. 4	183	10	-	31	,, Balance c/d		483	10	-
			£613	10	-				£613	10	-
19.. Feb. 1	To Balance b/d		483	10	-						

PULLOVER & CO.

Dr.			£	s.	d.		Cr.		£	s.	d.
19.. Jan. 1	To Balance	J. 1	775	-	-	19.. Jan. 5	By Bills Receivable	J. 4	400	-	-
3	,, Sales	J. 4	170	-	-	31	,, Balance c/d		545	-	-
			£945	-	-				£945	-	-
19.. Feb. 1	To Balance b/d		545	-	-						

CASTLE & NEWTON

Dr.			£	s.	d.		Cr.		£	s.	d.
19.. Jan. 1	To Balance	J. 1	450	-	-	19.. Jan. 10	By Cash	C.B. 12	200	-	-
12	,, Dishonoured Cheque	C.B. 12	200	-	-	12	,, Cash	C.B. 12	50	-	-
						7	,, Purchases	J. 7	300	-	-
						12	,, Bad Debts A/c	J. 2	100	-	-
			£650	-	-				£650	-	-

Dr. **BERNARD BELLING** Cr.

Date		Folio	£	s.	d.	Date		Folio	£	s.	d.
19.. Jan. 1	To Balance	J. 1	210	-	-	19.. Jan. 22	By Returns	J. 9	30	-	-
21	,, Sales	J. 4	160	-	-	31	,, Balance c/d		340	-	-
			£370	-	-				£370	-	-
19.. Feb. 1	To Balance b/d		340	-	-						

Dr. **HARBOROUGH & CO., LTD.** Cr.

Date		Folio	£	s.	d.	Date		Folio	£	s.	d.
19.. Jan. 1	To Balance	J. 1	£375	-	-	19.. Jan. 8	By Bills Receivable	J. 14	375	-	-

Dr. **JOINT ACCOUNT WITH LEEDS & STAFFORD** Cr.

Date		Folio	£	s.	d.	Date		Folio	£	s.	d.
19.. Jan. 3	To Porthampton Trading Co.	J. 1	745	-	-	19.. Jan. 26	By Cash	C.B. 12	500	-	-
3	,, Cash (Carriage)	C.B. 12	7	10	-	26	,, P. Borough	J. 3	530	-	-
26	,, Commission	J. 3	51	10	-						
31	,, Sundries	J. 6	226	-	-						
			£1,030	-	-				£1,030	-	-

LEEDS & STAFFORD

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 31	To Cash	C.B. 12	460	10	-	19.. Jan. 5	By Cash	C.B. 12	347	10	-
						31	,, Joint A/c (Profit)	J. 6	113	-	-
			£460	10	-				£460	10	-

TRUSTEES OF PRESBURN HOSPITAL

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 6	To Contract No. 1	J. 2	1,500	-	-	19.. Jan. 12	By Cash	C.B. 12	700	-	-
						27	,, Bills Receivable	J. 14	740	-	-
						27	,, Contract No. 1	J. 3	60	-	-
			£1,500	-	-				£1,500	-	-

NATHAN NORRIDGE CONSIGNMENT ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 7	To Goods on Consignment	J. 2	1,000	-	-	19.. Jan. 22	By N. Norridge	J. 2	1,360	-	-
7	,, Cash (Fittings and Insurance)	C.B. 12	22	10	-						
31	,, Profit on Consignment	J. 6	337	10	-						
			£1,360	-	-				£1,360	-	-

Dr. THE UNIVERSAL INSURANCE CO. Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 21	To Van Collision A/c	J. 2	70	5	-	Jan. 21	By Cash	C.B. 12	70	5	-

Dr. N. NORRIDGE Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 22	To N. Norridge Consignment A/c	J. 2	1,360	-	-	Jan. 22	By Bills Receivable	J. 14	1,360	-	-

Dr. GOVERNMENT AGENTS Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 28	To Sundries	J. 3	420	-	-	Jan. 28	By Cash	C.B. 12	420	-	-

Dr. BRADFIELD & CO. Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 13	To Cash	C.B. 12	14	10	-	Jan. 13	By Cash	C.B. 12	160	-	-
13	" Commission	J. 5		10	-	16	" B/R	J. 4	160	-	-
14	" Dishonoured Cheque (Cash)	C.B. 2	160	-	-	19	" Cash	C.B. 12	106	13	4
14	" Sales	J. 4	145	-	-	19	" Bad Debts A/c	J. 2	53	6	8
19	" B/R	J. 2	160	-	-						
			£480	-	-				£480	-	-

BOUGHT LEDGER

SUNDRY SMALL CREDITORS

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 26	To Cash	C.B. 12	200	-	-	19.. Jan. 1	By Balance	J. 1	450	-	-
31	,, Balance c/d		250	-	-						
			£450	-	-				£450	-	-
						19.. Feb. 1	By Balance b/d		250	-	-

BASING & STOKE

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 24	To Cash	C.B. 12	400	-	-	19.. Jan. 1	By Balance		750	-	-
31	,, Balance c/d		350	-	-						
			£750	-	-				£750	-	-
						19.. Feb. 1	By Balance b/d		350	-	-

PETER BOROUGH

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 1	To Sales A/c	J. 4	160	-	-	19.. Jan. 1	By Balance	J. 1	550	-	-
24	,, Sales A/c	J. 4	109	4	-	2	,, Returns	J. 9	55	10	-
26	,, Joint A/c, Leeds & Stafford	J. 3	530	-	-	31	,, Balance c/d		193	14	-
			£799	4	-				£799	4	-
19.. Feb. 1	To Balance b/d		193	14	-						

Dr. **PORTHAMPTON TRADING CO.** Cr.

			£	s.	d.				£	s.	d.
19.. Jan. 3	To Cash	C.B. 12	745	-	-	19.. Jan. 1	By Balance	J. 1	700	-	-
31	,, Balance c/d		700	-	-	3	,, Joint A/c (Leeds & Stafford)	J. 1	745	-	-
			£1,445	-	-				£1,445	-	-
						19.. Feb. 1	By Balance b/d		700	-	-

Dr. **DORKING & CO.** Cr.

			£	s.	d.				£	s.	d.
19.. Jan. 23	To Cash	C.B. 12	65	-	-	19.. Jan. 2	By Legal Expenses	J. 1	70	-	-
23	,, Legal Expenses	J. 3	5	-	-						
			£70	-	-				£70	-	-

Dr. **H. HOLYHEAD** Cr.

			£	s.	d.				£	s.	d.
19.. Jan. 23	To Bills Payable	J. 15	185	-	-	19.. Jan. 22	By Purchases	J. 7	185	-	-

Dr. **BOWNE & EAST** Cr.

			£	s.	d.				£	s.	d.
19.. Jan. 26	To Cash	C.B. 12	285	-	-	19.. Jan. 26	By Motor Delivery Van	J. 3	285	-	-

DADD LANDS & CO.

Dr.											Cr.
			£	s.	d.				£	s.	d.
						19.. Jan. 26	By Motor Delivery Van	J. 3	30	-	-

GENERAL LEDGER

OXBRIDGE & CAMFORD—JOINT CAPITAL ACCOUNT

Dr.											Cr.
			£	s.	d.				£	s.	d.
						19.. Jan. 1	By Sundries	J. 1	9,900	-	-

OXBRIDGE—INTEREST ACCOUNT

Dr.											Cr.
			£	s.	d.				£	s.	d.
						19.. Jan. 31	By Interest on Capital	J. 5	20	12	6

CAMFORD—INTEREST ACCOUNT

Dr.											Cr.
			£	s.	d.				£	s.	d.
						19.. Jan. 31	By Interest on Capital	J. 5	20	12	6

OXBRIDGE—DRAWINGS ACCOUNT

Dr.											Cr.
			£	s.	d.						
19.. Jan. 5	To Cash	C.B. 12	250	-	-						
30	„ Cash	C.B. 12	150	-	-						

CAMFORD—DRAWINGS ACCOUNT

Dr.											Cr.
			£	s.	d.						
19.. Jan. 30	To Cash	C.B. 12	100	-	-						

STOCK

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Stock in Hand .	J. 1	1,500	-	-	Jan. 28	By Government Agents .	J. 3	170	-	-

STOCK ON SUSPENSE

Dr. | Cr.

19..			£	s.	d.						
Jan. 1	To Sundries .	J. 1	300	-	-						

PREMISES ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Sundries .	J. 1	4,350	-	-	Jan. 28	By Government Agents .	J. 3	200	-	-

PLANT ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Sundries .	J. 1	2,200	-	-	Jan. 12	By Cash .	C.B. 12	315	-	-
						12	,, Contract No. 1 .	J. 2	135	-	-
						30	,, Depreciation A/c .	J. 5	7	5	10

MATERIALS ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Sundries .	J. 1	1,000	-	-	Jan. 8	By Contract No. 1 .	J. 2	520	-	-

FIXTURES AND FITTINGS ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Sundries .	J. 1	900	-	-	Jan. 3	By Cash .	C.B. 12	12	12	-
1	,, Typewriters .	C.B. 12	65	10	-	28	,, Government Agents .	J. 3	50	-	-

Dr. **HORSES ACCOUNT** Cr.

			£	s.	d.				£	s.	d.
19..						19..					
Jan. 1	To Sundries . . .	J. 1	600	-	-	Jan. 5	By Loss on Horses . .	J. 1	70	-	-
6	,, Cash (Bay Mare) .	C.B 12	57	10	-						

Dr. **BILLS RECEIVABLE ACCOUNT** Cr.

			£	s.	d.				£	s.	d.
19..						19..					
Jan. 1	To Sundries . . .	J. 1	975	-	-	Jan. 19	By Bradfield & Co. . .	J. 2	160	-	-
31	,, Sundries . . .	J. 14	3,035	-	-	26	,, Cash . . .	C.B. 12	365	12	6
						26	,, Discount . . .	J. 3	9	7	6
						31	,, Balance c/d . .		3,475	-	-
			£4,010	-	-				£4,010	-	-
19..											
Feb. 1	To Balance b/d . .		3,475	-	-						

Dr. **INSURANCE UNEXPIRED ACCOUNT** Cr.

			£	s.	d.				£	s.	d.
19..						19..					
Jan. 1	To Sundries . . .	J. 1	25	-	-	Jan. 30	By Insurance Accrued .	J. 5	2	1	8

Dr. **CHESTERMAN LOAN ACCOUNT** Cr.

			£	s.	d.						
19..											
Jan 1	To Sundries . . .	J. 1	350	-	-						
12	,, Interest on Loan .	J. 2	8	15	-						

BILLS PAYABLE ACCOUNT

Dr.											Cr.
19..			£	s.	d.	19..			£	s.	d.
Jan. 31	To Balance c/d		1,235	-	-	Jan. 1	By Sundries	J. 1	1,050	-	-
						31	" H. Holyhead	J. 15	185	-	-
			£1,235	-	-				£1,235	-	-
						19.. Feb. 1	By Balance b/d		1,235	-	-

SALARIES ACCOUNT

Dr.											Cr.
19..			£	s.	d.	19..			£	s.	d.
Jan. 28	To Cash	C.B. 12	115	10	-	Jan. 1	By Sundries	J. 1	45	-	-

RENT ACCOUNT

Dr.											Cr.
19..			£	s.	d.	19..			£	s.	d.
Jan. 24	To Cash	C.B. 12	150	-	-	Jan. 1	By Sundries	J. 1	200	-	-

MORTGAGE—G. GRANTHAM

Dr.											Cr.
						19..			£	s.	d.
						Jan. 1	By Sundries	J. 1	3,000	-	-

SALES ACCOUNT

Dr.											Cr.
						19..			£	s.	d.
						Jan. 1	By Cash	C.B. 12	150	-	-
						6	" Cash	C.B. 12	65	-	-
						23	" Cash	C.B. 12	220	-	-
						24	" Cash	C.B. 12	110	-	-
						31	" Sundries	J. 4	927	14	-

PURCHASES ACCOUNT

Dr.												Cr.
19..			£	s.	d.							
Jan. 31	To Sundries . . .	J. 7	485	-	-							
23	,, Cash . . .	C.B. 12	145	12	-							
23	,, Cash (Duty on Tea) .	C.B. 12	44	16	-							

RETURNS (INWARDS) ACCOUNT

Dr.												Cr.
19..			£	s.	d.							
Jan. 31	To Sundries . . .	J. 9	85	10	-							

LEGAL EXPENSES ACCOUNT

Dr.												Cr.
19..			£	s.	d.	19..			£	s.	d.	
Jan. 2	To Dorking & Co. . .	J. 1	70	-	-	Jan. 23	By Dorking & Co. . .	J. 3	5	-	-	

STATIONERY ACCOUNT

Dr.												Cr.
19..			£	s.	d.	19..			£	s.	d.	
Jan. 3	To Cash . . .	C.B. 12	15	15	-	Jan. 30	By Trade Expenses . .	J. 5	23	15	-	
27	,, Cash . . .	C.B. 12	33	-	-							

TRADE EXPENSES

Dr.												Cr.
19..			£	s.	d.							
Jan. 3	To Cash . . .	C.B. 12	5	5	-							
22	,, Cash . . .	C.B. 12	1	10	-							
30	,, Stationery . .	J. 5	23	15	-							

LOSS ON HORSES ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 5	To Horses A/c	J. 1	70	-	-						

COMMISSION ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 6	To Cash	C.B. 12	2	2	-	19.. Jan. 26	By Joint A/c, Leeds & Stafford	J. 3	51	10	-
26	" Cash	C.B. 12	10	10	-	13	" Bradfield & Co.	J. 5		10	-

GOODS ON CONSIGNMENT ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
						19.. Jan. 7	By N. Norridge Consignment A/c	J. 2	1,000	-	-

CONTRACT No. 1

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 8	To Materials	J. 2	520	-	-	19.. Jan. 6	By Trustees of Presburn Hospital	J. 2	1,500	-	-
12	" Plant A/c	J. 2	135	-	-						
10	" Cash (Labour)	C.B. 12	450	-	-						
27	" Trustees of Presburn Hospital	J. 3	60	-	-						
27	" Electric Fittings (Cash)	C.B. 12	85	-	-						
31	" Profit on Contract No. 1	J. 6	250	-	-						
			£1,500	-	-				£1,500	-	-

BAD DEBTS ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 1	To Castle & Newton	J. 2	100	-	-						
19	,, Bradfield & Co.	J. 2	53	6	8						

INTEREST ON LOAN (CHESTERMAN & CO.)

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
						19.. Jan. 12	By Chesterman & Co.	J. 2	8	15	-

ELECTRIC LIGHTS ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 19	To Cash	C.B. 12	14	7	6						

VAN COLLISION ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19.. Jan. 19	To Cash	C.B. 12	65	-	-	19.. Jan. 21	By Universal Insurance Co.	J. 2	70	5	-
19	,, Solicitors' Fees (Cash)	C.B. 12	5	5	-						
			£70	5	-				£70	5	-

RATES ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 21	To Cash	C.B. 12	40	10	-						

REPAIRS TO PREMISES ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 21	To Cash	C.B. 12	75	-	-						
26	„ Cash	C.B. 12	8	10	-						

MOTOR DELIVERY VAN ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 26	To Bowne & East	J. 3	285	-	-						
26	„ Dadd Lands Co.	J. 3	30	-	-						

ADVERTISING ACCOUNT

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 23	To Cash	C.B. 12	270	-	-	Jan. 30	By Advertising (Unexpired)	J. 5	100	-	-

ADVERTISING (UNEXPIRED)

Dr. | Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 30	To Advertising	J. 5	100	-	-						

9—(6075N)

INTEREST ON MORTGAGE—G. GRANTHAM

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 27	To Cash . . .	C.B. 12	75	-	-						

DISCOUNT ACCOUNT

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 26	To Bills Receivable .	J. 3	9	7	6						

DEPRECIATION ACCOUNT

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 30	To Plant A/c . .	J. 5	7	5	10						

INSURANCE ACCOUNT

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 30	To Insurance (Unexpired)	J. 5	2	1	8						

INTEREST ON CAPITAL

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Jan. 30	To Sundries . . .	J. 5	41	5	-						

Dr. **PROFIT ON CONTRACT No. 1** Cr.

			£	s.	d.				£	s.	d.
						19.. Jan. 31	By Contract No. 1 . .	J. 6	250	-	-

Dr. **PROFIT ON JOINT ACCOUNT WITH LEEDS & STAFFORD** Cr.

			£	s.	d.				£	s.	d.
						19.. Jan. 31	By Joint A/c (Leeds & Stafford) . . .	J. 6	113	-	-

Dr. **PROFIT ON NATHAN NORRIDGE CONSIGNMENT** Cr.

			£	s.	d.				£	s.	d.
						19.. Jan. 31	By N. Norridge Consignment A/c . . .	J. 6	337	10	-

OXBRIDGE & CAMFORD
TRIAL BALANCE—31st January, 19..

	£	s.	d.	£	s.	d.
Oxbridge & Camford, Joint Capital A/c				9,900	-	-
Oxbridge, Interest A/c				20	12	6
Camford, Interest A/c				20	12	6
Stock	1,330	-	-			
Stock on Suspense	300	-	-			
Premises	4,150	-	-			
Plant	1,742	14	2			
Materials	480	-	-			
Fixtures and Fittings	902	18	-			
Horses	587	10	-			
Bills Receivable	3,475	-	-			
Unexpired Insurance	22	18	4			
Chesterman (Loan A/c)	358	15	-			
Bills Payable				1,235	-	-
Mortgage				3,000	-	-
Stationery	25	-	-			
Motor Van	315	-	-			
Advertising Unexpired	100	-	-			
Sundry Small Debtors	483	10	-			
Pullover & Co.	545	-	-			
B. Belling	340	-	-			
Sundry Small Creditors				250	-	-
Basing & Stoke				350	-	-
Peter Borough	193	14	-			
Porthampton Trading Co.				700	-	-
Dadd Lands Co.				30	-	-
Cash in Hand	65	10	-			
Cash at Bank	1,266	10	4			
Rent				50	-	
Oxbridge, Drawings A/c	400	-	-			
Camford, Drawings A/c	100	-	-			
Total Assets and Liabilities £	17,183	19	10	15,556	5	-
Salaries	70	10	-			
Sales				1,472	14	-
Sales Returns	85	10	-			
Purchases	675	8	-			
Legal Expenses	65	-	-			
Trade Expenses	30	10	-			
Loss on Horses	70	-	-			
Commission A/c				39	8	-
Goods on Consignment				1,000	-	-
Bad Debts A/c	153	6	8			
Interest on Loan				8	15	-
Electric Light A/c	14	7	6			
Rates A/c	40	10	-			
Repairs to Premises	83	10	-			
Advertising written off	170	-	-			
Interest on Mortgage	75	-	-			
Discount	9	7	6			
Depreciation	7	5	10			
Insurance written off	2	1	8			
Interest on Capital A/c	41	5	-			
Profit on Contract No. 1				250	-	
Profit on Joint A/c, Leeds & Stafford				113	-	-
Profit on Consignment				337	10	-
£	18,777	12	-	18,777	12	-

OXBRIDGE & CAMFORD
TRADING ACCOUNT
for Month Ended 31st January, 19. .

Dr. **Cr.**

Date		£	s.	d.	£	s.	d.	Date		£	s.	d.	£	s.	d.
19. . Jan. 1	To Stock on Hand	1,500	-	-				19. . Jan. 31	By Sales	1,472	14	-			
	Less Air Raid Destruction	170	-	-					Less Returns	85	10	-	1,387	4	-
					1,330	-	-		,, Goods on Consignment				1,000	-	-
31	,, Purchases				675	8	-		,, Stock on Hand				398	-	-
31	,, Gross Profit c/d to Profit and Loss A/c				779	16	-								
					£2,785	4	-						£2,785	4	-

PROFIT AND LOSS ACCOUNT
for Month Ended 31st January, 19. .

Dr. **Cr.**

Date		£	s.	d.	£	s.	d.	Date		£	s.	d.	£	s.	d.
19. . Jan. 31	To Legal Expenses	65	-	-				19. . Jan. 31	By Gross Profit from Trading A/c	779	16	-			
	,, Trade Expenses	30	10	-					,, Commission A/c	39	8	-			
	,, Loss on Horses	70	-	-					,, Interest on Loan	8	15	-			
	,, Bad Debts A/c	153	6	8					,, Profit on Contract No. 1	250	-	-			
	,, Electric Light A/c	14	7	6					,, Profit on Joint A/c (Leeds & Stafford)	113	-	-			
	,, Rates	40	10	-					,, Profit on Consignment	337	10	-			
	,, Repairs to Premises	83	10	-											
	,, Advertising	170	-	-											
	,, Interest on Mortgage	75	-	-											
	,, Discount	9	7	6											
	,, Depreciation	7	5	10											
	,, Insurance	2	1	8											
	,, Interest on Capital	41	5	-											
	,, Salaries	70	10	-											
	,, Net Profit for Month c/f to Capital A/c	695	14	10											
					£1,528	9	-						£1,528	9	-

OXBRIDGE &
BALANCE
as at 31st

Liabilities and Capital	£	s.	d.	£	s.	d.
Mortgage at 5%				3,000	-	-
Sundry Creditors—						
On Bills Payable	1,235	-	-			
On Open Accounts—						
Sundry Small Creditors	250	-	-			
Basing & Stoke	350	-	-			
Porthampton Trading Co.	700	-	-			
Dadd Lands Co.	30	-	-			
				2,565	-	-
Rent Outstanding				50	-	-
Oxbridge—Interest A/c	20	12	6			
Camford—Interest A/c	20	12	6			
				41	5	-
Capital Account—						
1st Jan., 19... Balance	9,900	-	-			
31st Jan., 19... Net Profit for Month	695	14	10			
				10,595	14	10
			£	16,251	19	10

CAMFORD
SHEET
January, 19..

Assets and Property	£	s.	d.	£	s.	d.
Cash in Hand	65	10	-			
Cash at Bank	1,266	10	4			
				1,332	-	4
Sundry Debtors—						
On Bills Receivable	3,475	-	-			
On Open Accounts—						
Sundry Small Debtors	483	10	-			
Pullover & Co.	545	-	-			
B. Belling	340	-	-			
Peter Borough	193	14	-			
Chesterman (Loan A/c)	358	15	-			
Oxbridge—Drawings A/c	400	-	-			
Camford—Drawings A/c	100	-	-			
				5,895	19	-
Stock on Hand	398	-	-			
Stock Undelivered	300	-	-			
				698	-	-
Materials				480	-	-
Motor Van				315	-	-
Plant				1,742	14	2
Horses				587	10	-
Fixtures and Fittings				902	18	-
Premises				4,150	-	-
Suspense Accounts—						
Unexpired Insurance	22	18	4			
Unexpired Advertising	100	-	-			
Stationery Unused	25	-	-			
				147	18	4
			£	16,251	19	10

EXERCISE LII

1. Enumerate the various kinds of books which would be required to record the transactions of a large wholesale merchant's business.

2. Study the diagram inset between pages 96 and 97, and explain its meaning.

3. Describe briefly the method which is adopted in a modern merchant's accounts to reduce the number of entries passing through the Journal.

4. Distinguish between the Debtor's, Creditor's, and Impersonal Ledgers as used in a wholesale concern.

EXERCISE LIII

J Tudor is in business as a wholesale and retail ironmonger. On 1st March, 19.., his Balance Sheet was as follows—

BALANCE SHEET

	£	s.	d.	£	s.	d.		£	s.	d.
Capital . . .				1,084	14	–	Fixtures and fittings .	190	–	–
Creditors—							Motor van . . .	145	–	–
C. Tinman .	36	1	–				Stock-in-trade . .	808	13	10
J. Sawyer .	10	–	6				Debtor: M. Keens .	13	15	–
				46	1	6	Cash in hand . .	79	11	8
Bank overdraft . .				106	5	–				
				£1,237	–	6		£1,237	–	6

Open the Ledger accounts necessary to record the above financial position and post thereto, through the proper subsidiary books, the following transactions—

10th March, 19..

Paid into bank, £50 from cash in hand. M. Keens paid his account, less 5 per cent cash discount. Paid this cheque into bank. Paid wages, in cash, £13 6s. Sold M. Keens, on credit: 3 doz. spades at 5s. 6d. each, 6 plate racks at 6s. 6d. each, 14 lb. wire nails at 7d. per lb. Goods were packed in a non-returnable crate charged out at 2s. 4d. Total invoice was subject to a trade discount of 10 per cent. Cash sales since 2nd March amounted to £58 10s. 4d., £30 of which was paid into bank.

26th March, 19..

Goods supplied last week for cash, £5 3s. 7d., were returned as unsuitable and cash was refunded to customer. Bought, on credit, from C. Tinman: 10 patent kitchen ranges at £1 2s. 6d. each, ½ gross brass pokers at 1s. 6d. each, and a job lot of steel fenders for £17 18s. 4d. Trade discount of 20 per cent was allowed on the kitchen ranges only. Sold, on credit, to N. Richards: 3 zinc baths at £1 3s. 4d. each, and 1 vacuum cleaner at £3 7s. 6d. Accepted C. Tinman's bill, drawn at 3 months, for £50, on account of amount owing to him. Bought a quantity of enamel goods, £8 6s. 10d., and paid for same by cheque.

Balance the Ledger accounts, bring down the balances, and extract a Trial Balance as on 26th March, 19... (R.S.A.)

EXERCISE LIV

A and B carry on business in partnership as brokers. On 28th July the balances on their books are as follows—

	£	s.	d.
Brokerage received	300	–	–
Petty cash	50	–	–
Bank (debit balance)	276	3	4
Furniture	57	3	2
Creditors	194	–	3
Debtors	184	7	5
A—Capital Account	100	–	–
B—Capital Account	100	–	–

When these balances were extracted, however, the Petty Cash Book had not been written up. The partners decide to keep a columnar Petty Cash Book on the Imprest System. Draw up a columnar Petty Cash Book, record the following transactions, post to the appropriate ledger accounts and prepare a Trial Balance at 28th July—

			£	s.	d.
June	30.	Balance in hand	50	–	–
July	1.	Paid for stationery	5	7	6
	3.	Purchased stamps	1	–	–
	4.	Paid travelling expenses		5	7
	6.	Paid wages	14	7	6
		Paid National Health and Unemployment Insurance		4	8
	7.	Received from cashier	21	5	3
	9.	Paid A (drawings)	10	–	–
		Paid B (drawings)	10	–	–
	10.	Paid for ink pot		5	–
	11.	Paid for string		1	2
	12.	Paid for tea and biscuits		2	6
	13.	Paid wages	14	7	6
		Paid N. H. & U. Insurance		4	8
	14.	Received from cashier	35	–	10
	16.	Paid electric light bill	3	5	10
	18.	Purchased stamps	1	–	–
	19.	Paid travelling expenses		7	3
	20.	Paid for 1 chair	1	10	6
		Paid wages	14	7	6
		Paid N. H. & U. Insurance		4	8
	21.	Received from cashier	20	15	9
	23.	Paid for repairs to typewriter	1	3	7
		Paid A (drawings)	10	–	–
		Paid B (drawings)	10	–	–
	24.	Paid Henry Smith for goods sold, now returned	3	5	5
		Paid for stationery	3	6	5
		Paid travelling expenses		13	7
July	25.	Paid for table—purchased for B	6	3	4
	27.	Paid wages	14	7	6
		Paid N. H. & U. Insurance		4	8
	28.	Received from cashier	49	4	6

(R.S.A.)

EXERCISE LV

C. Worth and M. Soupert are in partnership on the following terms—

1. Interest at the rate of 5 per cent per annum is allowed on Partners' Capital, but no interest is charged on drawings or allowed on Current Accounts.

2. M. Soupert is entitled to have a management salary of £400 per annum, credited to him at the close of each year.

3. Profits, after providing for the above, are shared, as to the first £2,400, two-thirds to C. Worth, and one-third to M. Soupert. Profits in excess of £2,400 are shared equally.

The following balances were extracted from the books of the firm as on 31st December, 19.., before making any entries in respect of the above terms—

BALANCES

	£
Capital Accounts, 1st January, 19..—	
C. Worth	5,800
M. Soupert	3,200
Current Accounts, 1st January, 19..—	
Credit balances—C. Worth	1,200
„ M. Soupert	260
Stock 1st January, 19..	5,876
Fixtures and fittings	1,250
Sales	34,235
Purchases	21,238
Sales returns	1,652
Purchase returns	1,110
Rates, taxes, and insurance—	
Warehouse	410
Office	92
Lighting and heating—Warehouse	131
Office	56
Office salaries	510
Carriage inwards	403
„ outwards	875
Bad debts reserve, 1st January, 19..	772
Sundry debtors	6,878
„ creditors	2,284
Cash at bank	476
„ in hand	23
Horses	524
Vans	685
Travellers' salaries, commission and expenses	1 618
Warehouse expenses	162
„ wages	3,432
Postage, stationery, and telephone	188
Discount (debit balance)	417
Advertising—Newspapers and periodicals	1,042
„ price lists and show cards	523
Bank loan	2,000
Drawings—C. Worth	1,600
„ M. Soupert	800

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date. In preparing these accounts the following information must be taken into consideration—

1. £118 is to be written off Sundry Debtors as "bad."
2. Rents were due but unpaid on 31st December, 19.., as follows: warehouse, £50; office, £18.
3. Rates paid in advance were: warehouse, £72; office, £14.
4. £210 was due to travellers for December commission.

5. The following valuations were made at 31st December, 19..—

	£
Stock-in-trade	7,279
Horses	478
Stock of 19.. price lists . . .	80

6. Five per cent per annum depreciation is to be written off fixtures and fittings and 20 per cent per annum off vans.

7. The Bad Debts Reserve is to be made equal to 5 per cent of the debtors.

8. Stock-in-trade valued at £280 was destroyed by fire in 19... This loss was not covered by the firm's insurance policy.

CHAPTER VIII

Joint-Stock Company Accounts

NATURE OF A JOINT-STOCK COMPANY. Our next topic for consideration leads us into the sphere of the large undertakings which may control millions of capital and employ thousands of workers. In the case of the public limited company, the share capital is supplied by large numbers of people who do not even know each other's names, and only have this in common—that they all believe in the success of the undertaking and hope to draw a good dividend from their investment. Since the members of a joint-stock company may sell their shares at their discretion, and as numerous members make use of this opportunity, the composition of a company is a variable quantity, and from one day to another the majority of the members may be substituted by other shareholders. In its dealings with the outside world the company is anonymous and no living person is responsible for its liabilities in excess of the share capital. Likewise in the internal administration the company is impersonal. In the place of the principal of the sole trading concern who has his whole fortune invested in the business, we find the directors, who have been appointed or elected by the general meeting of the shareholders as the officials or managers. The death or resignation of any director or holder, therefore, has no influence upon the undertaking which continues to exist until it has achieved its object or goes into liquidation through insolvency. Nevertheless, the company is a person who can acquire rights and enter into liabilities; but it is a so-called fictitious or juristic person—a character which it does not assume until a number of legal formalities have been fulfilled.

THE ACCOUNTS OF A COMPANY. The details connected with the records of different businesses vary considerably, although the fundamental principles of accounting are the same. The student who has thoroughly mastered Part I of this work will experience little difficulty in dealing with the accounts of a limited company.

The diagram on page 133 shows the principal books which are

ACCOUNTS OF A PUBLIC LIMITED COMPANY

BOOKS REQUIRED

- **FINANCIAL BOOKS** (kept on the principle of Double Entry)
  - **SUBSIDIARY BOOKS**
    - Purchases, Invoice, or Bought Book
    - Sales, Sales Day, or Day Book
    - Cash Book
    - Journal, Returns Books, Bill Books

    The transactions in these books are posted into the Ledgers
  - **LEDGERS**
    - Bought or Creditors
    - Sold or Debtors
    - Nominal or Private

    In a large concern the Ledgers are usually kept on the sectional-balancing principle
- **STATISTICAL BOOKS**
  - **STATUTORY BOOKS**
    - Register of Members (includes Share Ledger)
    - Register of Directors
    - Register of Mortgages and Debentures
    - Minute Book
    - Annual Summary
  - **AUXILIARY BOOKS**
    - Postage Book
    - Petty Cash Book
    - Stock Book
    - Order Book
    - Wages Book

used in keeping the accounts of a company. They fall into two main groups, viz.—

1. The Financial Books, which are essential for recording the transactions according to the principles of double entry.

2. The Statistical Books, consisting of the statutory and auxiliary books, which are used chiefly for the purposes of registration, and to relieve the financial books of account of the mass of detail which is necessarily connected with the raising of a company's capital.

STATUTORY BOOKS. The books which a limited company is required by law to keep are—

1. Register of Members (Share Ledger). Under Section 25 of the Companies Act, 1908, every Company Limited by shares or by guarantee is bound to keep a Register of its Members. This contains a list of the names, addresses, and occupations of all members of the company, together with a statement of the shares held, their distinctive numbers, and the amount paid up on each. The date at which each person was entered on the register as a member must be given, and also the date when membership ceased.

2. Register of Directors and Managers. Under Section 75 of the Act, every company shall keep in its registered office the names, addresses, and occupations, and, in the case of naturalized British subjects, the former nationality, of its directors or managers, and shall send to the Registrar of Companies a copy thereof, and from time to time notify to the Registrar any change among its directors or managers. A specimen ruling for this book would be as follows, viz.—

REGISTER OF DIRECTORS OR MANAGERS

Present Christian Name or Names and Surname	Any former Christian Name or Names and Surname	Nationality	Nationality of Origin (if other than present nationality)	Usual Residence	Occupation
Goode, Frank	—	British	—	29 Ninian Road, Cardiff	Coal Merchant

3. Register of Mortgages and Charges. This book is required under Section 100 of the Act. In it must be entered all mortgages and charges specifically affecting property of the company, giving in each case a short description of the property mortgaged or charged, the amount of mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto. The following is a simple form of such Register, viz.—

REGISTER OF MORTGAGES AND CHARGES

Date of Charge	Name and Address of Mortgagee	Description of Property Charged	Amount	Rate of Interest	Date of Discharge	Remarks
19.. Mar. 14	National Provincial Bank, Ltd., Cardiff	Factory, East Moors	£10,000	5%		

4. Register of Debenture Holders. This is implied by Section 102 of the Act, which requires every register of debenture holders of a company, except when closed in accordance with the Articles (not exceeding 30 days in any year), to be open to the inspection of the registered holder of any such debentures, and to any holder of shares in the company, for not less than two hours in each day. Every such holder may, on the payment of the prescribed fee, require a copy of the register, or any part of it, or a copy of any Trust Deed for securing any issue of debentures. This book is similar to the Register of Members.

5. Minute Book. Every company must cause minutes of all proceedings of general meetings and (where there are directors and managers) of the meetings of its Directors or Managers to be entered in books kept for that purpose. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were held, or by the chairman of the next succeeding meeting, is evidence of the proceedings.

6. Annual List of Members and Summary of Capital Book. This contains a list of the members of the company on the fourteenth day after the ordinary general meeting, and a list of all persons who have ceased to be members during the year. Names, addresses, and occupations must be given, as in the case of the Register of Members, together with the number of shares held and the number transferred during the year. In addition, a summary of capital, etc., is required, giving detailed information as specified in the Companies Acts, 1908-17.

In addition to the above an annual balance sheet must be lodged with the Registrar of Joint-Stock Companies.

The chief features of company accounts as distinguished from those of a sole trader or a partnership are to be found in—

1. The treatment of the share capital.

2. The distribution of profit and losses and the preparation of the final accounts.

SHARE CAPITAL. This is fixed by the Memorandum of Association, and remains unchanged subject to the provisions of the Companies Acts. Apart from the alteration in the share capital as provided for by the Companies Acts, there is no business transaction which gives rise to any entry into the Share Capital Account. On the other hand, however, various kinds of investments or payments into the company occur at the time of its formation.

Capital is the money subscribed by the shareholders for the purpose of the company, and may be divided into—

1. Nominal, Registered, or Authorized Capital. This is the amount set out in the Memorandum which the company has power to issue, say 10,000 shares of £1 each. The stamp duty payable upon registration is based upon this sum.

2. Issued and Subscribed Capital. This is the capital represented by the number of shares that have been issued for cash, and to the vendors as fully or partly paid, say £6,000, thus leaving £4,000 unissued capital to be issued later if required.

3. The Called-up Capital. This is the amount of money called up on the shares actually issued. A company does not necessarily require the full amount at once on the shares it has issued, and therefore calls up only such as it needs, hence the use of the term. For example, if 10s. per share is called up on 6,000 shares of £1 each, the total amount called up equals £3,000, leaving £3,000 still uncalled.

4. Paid-up Capital. This is that part of the called up capital which has actually been received in cash by the company. For example, of the £3,000 called up, only £2,990 was received, thus leaving £10 unpaid as calls in arrear.

5. Working Capital. This is the amount left, after purchasing a business, for carrying on the undertaking. From the diagram on page 138 it will be seen that the term includes money paid for debentures, which are not really capital in the strict sense. Thus, if a company had an initial capital of £6,900 derived from the sale of shares and debentures, and paid £3,000 of it for a business, then £3,900 would remain as working capital.

CLASSES OF SHARES. The special problems which arise in connection with the accounts of a company are due to the nature of the capital and its record in the books of account. The "Share" as applied to the capital of a company is the unit into which the total capital is divided. The three principal classes of shares are Preference, Ordinary, and Deferred Shares, but there are many variations of these. The following list includes the classes most frequently encountered—

A Preference Share is one possessing some preferential right over other classes of shares, usually the right to a fixed dividend out of the profits of each year before any dividend is paid to the holders of ordinary shares. In many cases the additional right to a return of capital in priority to other classes is also given.

A Cumulative Preference Share entitles the holder to a dividend at a fixed rate, such dividend being payable out of future profits when the current year's profits are insufficient. All arrears of dividend on these shares must be paid before the other shareholders can participate in the profits, but there is no obligation to pay until there are sufficient profits available.

An Ordinary Share generally carries the right to the whole of the profits earned by the company after paying the fixed dividend upon the preference shares. They have no fixed right as to dividends, or as to repayment of capital. This disadvantage, however, is set off by the possibility of higher dividends than is payable upon the preference shares.

Deferred or Founders' Shares are shares which carry the right to all profits earned by the company after paying the preference

WORKING CAPITAL OF A COMPANY

WORKING CAPITAL

- **Nominal, Registered or Authorized Share Capital (10,000 Shares of £1 each)**
  - **Issued or Subscribed Share Capital (6,000 Shares of £1 each)**
    - **Called-up Share Capital (10s. per Share on 6,000 Shares = £3,000)**
      - **Paid-Up Share Capital (£2,990)**
      - **Calls-in-Arrear (£10)**
    - **Uncalled Share Capital (10s. per Share on 6,000 Shares = £3,000)**
  - **Unissued Share Capital (4,000 Shares of £1 each)**
- **Debentures (£3,910)**
  - **Naked** | **Legal** | **Fixed** | **Bearer** | **Terminable** | **Redeemable**
  - **Mortgage** | **Equitable** | **Floating** | **Registered** | **Perpetual** | **Irredeemable**

Working Capital of the Company = (Share Capital, £2,990 + Debentures, £3,910) − Purchase Price of Business, £3,000 = £3,900 dividend and maximum dividend upon the ordinary shares (as set out by the Memorandum and Articles of Association). They are often taken up by the founders or promoters of the company.

Participating Preference Shares usually confer the right to a fixed dividend, and, in addition, entitle the holder to participate in surplus profits (if any) after the Ordinary Shareholders have received a dividend at a stated rate.

ISSUE OF SHARE CAPITAL. All entries relative to the issue of capital are first made in the Journal, and are posted therefrom to the Ledger. Separate accounts are opened in the Ledger in respect of applications and allotments, and for each call made. The following is the sequence of the entries, viz.—

1. Debit Application and Allotment Accounts, and credit Share Capital Account with the amount due on application and allotment.
2. Debit Cash and Credit Application and Allotment Accounts with the cash received.
3. When calls are made, debit Call Account and credit Share Capital Account with the value of the call.
4. Debit Cash and credit Call Account with the cash received.

EXAMPLE. On the 1st January, 19.., the Electric Light and Power Co. offered 200,000 6% preference shares of £1 each payable as follows: 2s. 6d. on application; 5s. on allotment; 5s. on the 1st March; and 7s. 6d. on the 1st June. The directors went to allotment on 1st February and allotted 200,000 shares. Show the opening entries in the books of the company.

JOURNAL

19..		£	£
Feb. 1	Application A/c . . . . . Dr. To Preference Share Capital A/c . . Being the amount due on application for 200,000 shares at 2s. 6d. per share.	25,000	25,000
1	Allotment A/c . . . . . . Dr. To Preference Share Capital A/c . . Being the amount due on allotment for 200,000 shares at 5s. per share.	50,000	50,000
Mar. 1	First Call A/c . . . . . . Dr. To Preference Share Capital A/c . . Being the amount due on first call for 200,000 shares at 5s. per share.	50,000	50,000
June 1	Final Call A/c . . . . . . Dr. To Preference Share Capital A/c . . Being the amount due on final call for 200,000 shares at 7s. 6d. per share.	75,000	75,000

Dr. **CASH BOOK** Cr.

19..		£	19..		£
Feb. 15	To Application A/c	25,000	June 15	By Balance .	200,000
15	" Allotment A/c .	50,000			
Mar. 15	" First Call A/c .	50,000			
June 15	" Final Call A/c .	75,000			
		£200,000			£200,000

Dr. **APPLICATION ACCOUNT** Cr.

19..			19..		
Feb. 1	To Preference Share Capital .	£25,000	Feb. 1	By Bank . .	£25,000

Dr. **ALLOTMENT ACCOUNT** Cr.

19..			19..		
Feb. 1	To Preference Share Capital .	£50,000	Feb. 1	By Bank . .	£50,000

Dr. **FIRST CALL ACCOUNT** Cr.

19..			19..		
Mar. 15	To Preference Share Capital .	£50,000	Mar. 15	By Bank . .	£50,000

Dr. **PREFERENCE SHARE CAPITAL** Cr.

19..		£	19..		£
June 15	To Balance c/d .	200,000	Feb. 1	By Application A/c	25,000
			1	" Allotment A/c.	50,000
			Mar. 15	" First Call A/c .	50,000
			June 15	" Final Call A/c.	75,000
		£200,000			£200,000

Dr. **FINAL CALL ACCOUNT** Cr.

19..			19..		
June 15	To Preference Share Capital .	£75,000	June 15	By Cash . .	£75,000

An important point to remember with regard to the issue of share capital is that shares cannot be issued at a "discount," that is, a £1 share must not be issued for, say, 18s. A company must receive the full nominal value of the shares in money or money's worth. A company may receive more than the nominal amount of the shares, in which case it is said to issue shares at a *premium*. It must be remembered that this premium forms no part of the share capital, but must be recorded in a " Premium on Shares Account." The premium may be carried to Profit and Loss Account (if the Articles permit) but it is usual to transfer it to Reserve, or to utilize it in writing down any fictitious assets.

ISSUE OF DEBENTURES. An issue of debentures is treated in the books of account in a similar manner to the issue of shares. It must be borne in mind, however, that the status of debenture holders differs from that of shareholders. A shareholder is a member (i.e. a part proprietor) of the company, but a debenture holder is merely a creditor.

Debentures may be issued at a discount, but the company is liable for the full nominal value of the debentures, and they are shown in the Balance Sheet at their gross value, the discount being shown as an asset. This Discount on Debentures Account is usually written off by instalments extending over the life of the debentures.

When debentures are issued at a premium, the entries in the books of the company are the same as for shares issued at a premium. The debentures are shown at their nominal value on the liabilities side of the Balance Sheet. The premiums may be carried to Profit and Loss Account, provided the Articles give the necessary powers, but it is usual to put them to Reserve.

PRELIMINARY EXPENSES. The whole of the expenses consequent upon the formation and incorporation of a company are charged to a Preliminary Expenses Account and treated, temporarily, as a fictitious asset. These preliminary expenses include such items as—

1. Legal Charges, Capital Duty and other Stamps and Fees on various documents relating either to incorporation or to the conveyance to the company of property acquired.

2. Cost of Prospectus, Advertisements, Allotment and Call Letters, Underwriting Commission, and Brokerage.

3. Cost of Share Certificates, Statutory Books, etc.

This account should be written off out of profits as soon as possible, say during the first four or five years of the existence of the company.

PURCHASE OF AN ESTABLISHED BUSINESS. In many cases a company is formed for the purpose of acquiring and working an

EXAMPLE. Accounts relative to the issue of £20,000 of Debenture Stock at 5% discount. The stock is redeemable over a period of five years by equal annual drawings.

JOURNAL

Year	1		Dr. £	Cr. £
1	Debenture Discount A/c .	L. 5	1,000	
	To Debenture A/c .	L. 4		1,000
1	P. & L. A/c (⅕ discount) .		200	
	To Debenture Discount A/c	L. 5		200
2	P. & L. A/c (⅕ discount) .		200	
	To Debenture Discount A/c	L. 5		200
3	P. & L. A/c (⅕ discount) .		200	
	To Debenture Discount A/c	L. 5		200
4	P. & L. A/c (⅕ discount) .		200	
	To Debenture Discount A/c	L. 5		200
5	P. & L. A/c (⅕ discount) .		200	
	To Debenture Discount A/c	L. 5		200

CASH BOOK

3 Dr. Year			£	3 Cr. Year			£
1	To Debenture A/c . . .	L. 4	19,000	1	By Debenture A/c . .	L. 4	4,000
				2	" " " . . .	✓	4,000
				3	" " " . . .	✓	4,000
				4	" " " . . .	✓	4,000
				5	" " " . . .	✓	4,000

LEDGER

DEBENTURE ACCOUNT

4 Dr. Year			£	4 Cr. Year			£
1	To Cash .	3	4,000	1	By Cash .	3	19,000
	" Balance	c/d	16,000		" Disct. .	J. 1	1,000
		£	20,000			£	20,000
2	To Cash .	3	4,000	2	By Balance	b/d	16,000
	" Balance	c/d	12,000				
		£	16,000			£	16,000
3	To Cash .	3	4,000	3	By Balance	b/d	12,000
	" Balance	c/d	8,000				
		£	12,000			£	12,000
4	To Cash .	3	4,000	4	By Balance	b/d	8,000
	" Balance	c/d	4,000				
			£8,000				£8,000
5	To Cash .	3	4,000	5	By Balance	b/d	4,000

DEBENTURE DISCOUNT ACCOUNT

5 Dr. Year			£	5 Cr. Year			£
1	To Debent. A/c .	J. 1	1,000	1	By P. & L. A/c	J. 1	200
					" Balance .	c/d	800
			£1,000				£1,000
2	To Balance	b/d	800	2	By P. & L. A/c	J. 1	200
					" Balance .	c/d	600
			£800				£800
3	To Balance	b/d	600	3	By P. & L. A/c	J. 1	200
					" Balance .	c/d	400
			£600				£600
4	To Balance	b/d	400	4	By P. & L. A/c	J. 1	200
					" Balance .	c/d	200
			£400				£400
5	To Balance	b/d	200	5	By P. & L. A/c	J. 1	200

old-established business. The company, however, could not pay away to the vendor all the cash it receives for its shares and debentures; it must retain some as working capital. The purchase is therefore, generally paid partly in cash and partly in shares.

The case where a company is formed to acquire a business is dealt with in the following example.

The entries should be made in the Journal to record the purchase—

1. Debit the various Asset Accounts and Goodwill with the agreed value, and credit the Vendors and any liabilities taken over by the company.

2. Debit Vendor and credit Share Capital, Cash, etc., in satisfaction of the purchase consideration.

The value of the Goodwill is arrived at by deducting the value of the net assets (i.e. gross assets less any liabilities taken over by the company) from the purchase consideration.

If shares are issued to the public, the subsequent entries are made in the manner previously mentioned.

EXAMPLE. On 1st January, 19.., a limited company was formed to take over an established business, and was registered with a nominal capital of £50,000, consisting of 25,000 6% cumulative preference shares of £1 each, and 25,000 ordinary shares of £1 each.

The purchase price agreed with the vendor firm was £29,000, which was paid by allotments on 10th January as fully paid, £15,000 in ordinary shares, and £10,000 in preference shares, and the balance in cash on 1st February.

The following assets and liabilities were taken over by the company: plant and machinery, £12,700; book debts, £9,000; bills receivable, £2,900; stock-in-trade, £7,350; cash at bank, £550; sundry creditors, £6,600; bills payable, £1,500.

On 10th January the remainder of preference shares, and of the ordinary shares, were issued to the public and all amounts duly received, 4s. per share on application, 8s. per share on allotment, 4s. on first call due 10th February, and 4s. on second and final call due 10th March. On 1st July the company issued 7% debentures for £5,000, which were paid for 25% on application and balance on allotment.

JOURNAL OF THE COMPANY

			£	£
19..				
Jan. 10	Cash at Bank	Dr.	550	
	Plant and Machinery A/c	Dr.	12,700	
	Stock-in-trade A/c	Dr.	7,350	
	Sundry Debtors	Dr.	9,000	
	Bills Receivable A/c	Dr.	2,900	
	Goodwill A/c	Dr.	4,600	
	To Sundry Creditors			6,600
	„ Bills Payable A/c			1,500
	„ Vendor Firm's A/c			29,000
	Being assets and liabilities taken over.			
			£37,100	£37,100

JOURNAL OF THE COMPANY (continued)

19..		£	£
Jan. 10	Vendor Firm's A/c . . . . . Dr. To Preference Share Capital A/c . . For 10,000 shares allotted as fully paid to vendors in part payment of purchase consideration.	10,000	10,000
10	Vendor Firm's A/c . . . . . Dr. To Ordinary Share Capital A/c . . . For 15,000 shares allotted as fully paid to vendors in part payment of purchase consideration.	15,000	15,000
10	Application A/c (Preference Shares) . Dr. To Preference Share Capital A/c . . Being due on application for 15,000 shares at 4s. per share.	3,000	3,000
10	Application A/c (Ordinary Shares) . Dr. To Ordinary Share Capital A/c . . . Being due on application for 10,000 shares at 4s. per share.	2,000	2,000
10	Allotment A/c (Preference Shares) . Dr. To Preference Share Capital A/c . . Being due on allotment for 15,000 shares at 8s. per share.	6,000	6,000
10	Allotment A/c (Ordinary Shares) . . Dr. To Ordinary Share Capital A/c . . . Being due on allotment for 10,000 shares at 8s. per share.	4,000	4,000
Feb. 10	First Call A/c (Preference Shares) . Dr. To Preference Share Capital A/c . . Being due on 15,000 shares at 4s. per share.	3,000	3,000
10	First Call A/c (Ordinary Shares) . . Dr. To Ordinary Share Capital A/c . . . Being due on 10,000 shares at 4s. per share.	2,000	2,000
Mar. 10	Second and Final Call A/c (Preference Shares) Dr. To Preference Share Capital A/c . . Being due on 15,000 shares at 4s. per share.	3,000	3,000
10	Second and Final Call A/c (Ordinary Shares) Dr. To Ordinary Share Capital A/c . . . Being due on 10,000 shares at 4s. per share.	2,000	2,000
July 1	Application A/c (7% Debentures) . Dr. To 7% Debenture Stock A/c . . . Being amount due, viz., 25% of £5,000 issued	1,250	1,250
1	Allotment A/c (7% Debentures) . . Dr. To 7% Debenture Stock A/c . . . Being amount due, viz., 75% of £5,000 issued.	3,750	3,750

TRIAL BALANCE

	Dr.	Cr.
	£	£
6% Cumulative Preference Share Capital A/c		25,000
Ordinary Share Capital A/c		25,000
7% Debenture Stock A/c		5,000
Plant and Machinery A/c	12,700	
Stock-in-trade A/c	7,350	
Sundry Debtors A/c	9,000	
Bills Receivable A/c	2,900	
Goodwill A/c	4,600	
Sundry Creditors A/c		6,600
Bills Payable A/c		1,500
Cash at Bank	26,550	
	£63,100	£63,100

LEDGER OF THE COMPANY

Dr. 6% CUMULATIVE PREFERENCE SHARE CAPITAL ACCOUNT Cr.

			19..			£
			Jan.	10	By Vendor Firm	10,000
				10	" Application A/c	3,000
				10	" Allotment A/c	6,000
			Feb.	10	" First Call A/c	3,000
				10	" Second (Final) Call A/c	3,000
					£	25,000

Dr. ORDINARY SHARE CAPITAL ACCOUNT Cr.

			19..			£
			Jan.	10	By Vendor Firm	15,000
				10	" Application A/c	2,000
				10	" Allotment A/c	4,000
			Feb.	10	" First Call A/c	2,000
				10	" Second (Final) Call A/c	2,000
					£	25,000

Dr. APPLICATION ACCOUNT (PREFERENCE SHARES) Cr.

19..				19..		
Jan. 10	To Preference Share Capital A/c	£3,000	Jan.	10	By Cash	£3,000

Dr. APPLICATION ACCOUNT (ORDINARY SHARES) Cr.

19.. Jan. 10	To Ordinary Share Capital A/c .	£2,000	19.. Jan. 10	By Cash . . .	£2,000

Dr. ALLOTMENT ACCOUNT (PREFERENCE SHARES) Cr.

19.. Jan. 10	To Preference Share Capital A/c .	£6,000	19.. Jan. 10	By Cash . . .	£6,000

Dr. ALLOTMENT ACCOUNT (ORDINARY SHARES) Cr.

19.. Jan. 10	To Ordinary Share Capital A/c .	£4,000	19.. Jan. 10	By Cash . . .	£4,000

Dr. FIRST CALL ACCOUNT (PREFERENCE SHARES) Cr.

19.. Feb. 10	To Preference Share Capital A/c .	£3,000	19.. Feb. 10	By Cash . . .	£3,000

Dr. FIRST CALL ACCOUNT (ORDINARY SHARES) Cr.

19.. Feb. 10	To Ordinary Share Capital A/c .	£2,000	19.. Feb. 10	By Cash . . .	£2,000

Dr. SECOND (FINAL) CALL ACCOUNT (PREFERENCE SHARE) Cr.

19.. Mar. 10	To Preference Share Capital A/c .	£3,000	19.. Mar. 10	By Cash . . .	£3,000

Dr. SECOND (FINAL) CALL ACCOUNT (ORDINARY SHARES) Cr.

19.. Mar. 10	To Ordinary Share Capital A/c .	£2,000	19.. Mar. 10	By Cash . . .	£2,000

Dr. APPLICATION ACCOUNT (7% DEBENTURE STOCK) Cr.

19.. July 1	To 7% Debenture Stock A/c .	£1,250	19.. July 1	By Cash . . .	£1,250

Dr. **ALLOTMENT ACCOUNT (7% DEBENTURE STOCK)** Cr.

19.. July 1	To 7% Debenture Stock A/c . .	£3,750	19.. July 1	By Cash . . .	£3,750

Dr. **7% DEBENTURE STOCK ACCOUNT** Cr.

			19..		£
			July 1	By Application A/c .	1,250
			1	,, Allotment A/c .	3,750
					£5,000

Dr. **VENDOR FIRM'S ACCOUNT** Cr.

19..		£	19..		£
Jan. 10	To Preference Share Capital A/c .	10,000	Jan. 10	By Purchase Price agreed . . .	29,000
10	,, Ordinary Share Capital A/c .	15,000			
Feb. 1	,, Cash . . .	4,000			
	£	29,000		£	29,000

Dr. **PLANT AND MACHINERY ACCOUNT** Cr.

19.. Jan. 10	To Purchase Value £	12,700			

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

19.. Jan. 10	To Purchase Value .	£7,350			

Dr. **SUNDRY DEBTORS' ACCOUNT** Cr.

19.. Jan. 10	To Balances b/f .	£9,000			

Dr. **BILLS RECEIVABLE ACCOUNT** Cr.

19.. Jan. 10	To Balance b/f .	£2,900			

Dr. **GOODWILL ACCOUNT** Cr.

19.. Jan. 10	To Purchase Price .	£4,600			

Dr. **SUNDRY CREDITORS' ACCOUNT** Cr.

			19..			
			Jan. 10	By Balances b/f	.	£6,600

Dr. **BILLS PAYABLE ACCOUNT** Cr.

			19..			
			Jan. 10	By Balance b/f	.	£1,500

Dr. **CASH BOOK** Cr.

19..		£	19..		£
Jan. 10	To Balance b/f .	550	Feb. 1	By Vendor Firm A/c . (Balance of Purchase Price)	4,000
10	,, Application A/c . (Pref. Shares)	3,000			
10	,, Application A/c . (Ord. Shares)	2,000	July 1	,, Balance c/d .	26,550
10	,, Allotment A/c . (Pref. Shares)	6,000			
10	,, Allotment A/c . (Ord. Shares)	4,000			
Feb. 10	,, First Call A/c . (Pref. Shares)	3,000			
10	,, First Call A/c . (Ord. Shares)	2,000			
Mar. 10	,, Second (Final) Call A/c(Pref.Shares)	3,000			
10	,, Second (Final) Call A/c (Ord.Shares)	2,000			
July 1	,, Application A/c . (7% Deben.)	1,250			
1	,, Allotment A/c . (7% Deben.)	3,750			
	£	30,550		£	30,550
July 1	To Balance b/d .	26,550			

In the above example the old business is taken over as a going concern, that is, all the assets including cash and all the liabilities are acquired by the new company. All the opening entries are journalized. The assets are debited as having been received by the new company and the liabilities and purchase price are credited. Where these two sets of figures do not agree, the difference must be regarded as a payment made for the goodwill, the amount of which should be inserted as shown in the example. The Journal entries are then transferred to the various ledger accounts, the vendor firm being credited with the purchase price.

Where the vendor agrees to sell the business partly for cash and partly for shares, as in the example, the Vendor Firm's Account should be debited with the value of the shares and the Share Capital Account should be credited. When the balance is paid in cash the Vendor's account should be debited and the amount paid credited in the cash book. The procedure followed in the issue of the remainder of the shares is similar to that shown in the previous example.

FORFEITURE AND RE-ISSUE OF SHARES. Where the amount due upon shares is payable by instalments, it occasionally happens that a shareholder fails to pay one of the instalments. The Articles of Association of most companies authorize the directors, after certain formalities have been observed, to "forfeit" such shares. The entries required are—

1. Debit Share Capital Account and credit Forfeited Shares Account with the whole amount previously credited to the former account in respect of the shares forfeited.

2. Debit Forfeited Shares Account and credit Call Account with the instalments owing but unpaid by the shareholder at the time of forfeiture.

Until the shares are reissued, the balance on Forfeited Shares Account will be shown on the liabilities side of the Balance Sheet. If, as is usual, the directors have power to reissue the forfeited shares, they may do so by selling them to a new purchaser for a sum which, together with the amount previously received from the original holder, is not less than the nominal value of the shares. The book entries are as follows—

1. Debit Forfeited Shares Account and credit Share Capital Account with the amount called up on the shares reissued.

2. Debit Cash and credit Forfeited Shares Account with the amount received from the new purchaser.

EXAMPLE. The holder of 100 ordinary shares of £1 each of a company, had paid up 4s. per share on application, and 4s. per share on allotment, but failed to pay when due first call of 7s. per share, and second (final) call of 5s. per share. The board declared the shares forfeited by him, and they were re-issued to another member of the company as fully paid, in consideration of the sum of £70.

JOURNAL

	£	£
Ordinary Share Capital A/c . . . . . Dr.	100	
To Forfeited Shares A/c		40
„ First Call A/c		35
„ Second (Final) Call A/c		25
For 100 £1 shares forfeited by non-payment of calls first at 7s. per share, second (final) at 5s. per share.		
Forfeited Shares Re-issued A/c . . . Dr.	100	
To Ordinary Share Capital A/c		100
For 100 £1 shares re-issued to another member of the company, as fully paid for the amount of £70.		
Cash A/c . . . . Dr.	70	
Forfeited Shares A/c . . . . . . Dr.	30	
To Forfeited Shares Re-issued A/c . . .		100
For cash received from new holder and to adjust nominal amount of share capital.		

NOTE. The credit balance of £10 Forfeited Shares A/c represents a profit or premium on the shares; it is not divisible profit, but might be held in Reserve A/c, or applied to write down fictitious or nominal assets.

THE PREPARATION OF THE FINAL ACCOUNTS. The final accounts are somewhat different from those of a sole-trading or partnership concern. In addition to the Trading and Profit and Loss Accounts, an Appropriation Account is usually employed to show the total profits available for distribution and the way in which it is proposed to " appropriate " them. The first item in the account is the balance brought forward from the previous year. On the credit side is then placed the net profit of the current year, and against this, on the debit side, are shown transfers to reserve, sinking fund instalments, contributions to staff pension funds, dividends paid, and other similar items. The balance is carried forward to the following year and the Appropriation Account is thus a continuous running account. This account is necessary since the capital of a company is fixed and undivided profits must be shown distinct from capital.

A Balance Sheet must be drawn up each year and laid before the company in general meeting. It must be accompanied by a report of the directors as to the state of the company's affairs, and the amount which they recommend by way of dividend, and the sum, if any, which they propose to carry to the Reserve Fund.

We give on pages 154–155 a scheme for the preparation of the final accounts of a company.

EXAMPLE. The Soupert Manufacturing Co., Ltd., was registered in 19.. with a nominal capital of £100,000, divided into 50,000 ordinary shares of £1 each and 50,000 5 per cent preference shares of £1 each. As on 31st December, 19.., each class of share had been called up to the extent of 10s. per share (viz., 5s. on application and allotment and 5s. first call). On the same date the following balances appeared in the Ledger—

	£
Ordinary share capital	22,000
Preference share capital	14,000
Stock, 1st January, 19..	3,786
Sundry debtors	9,500
Ordinary shares, first Call A/c	500
Leasehold land and works	4,000
Rent, rates, gas, and water	792
Cash in hand	281
Cash at bank	3,594
Transfer fees	10
Machinery and plant	16,850
Sundry creditors	3,526
Manufacturing wages	7,892
Reserve for bad debts (1/1/19..)	200
Loose tools	1,450
Purchases	15,641
Purchases returns	341
Sales	33,261
Sales returns	151
Interest received on investments	162
Discount account (credit balance)	341
Preliminary expenses account balance	672
Investments	3,000
Office and management salaries	1,824
Dividend account (preference shares, half-year to 30/6/19)	350
Profit and loss account (credit balance, 1/1/19..)	1,060
Income-tax, Schedule D	384
Travellers' salaries and expenses	2,321
Factory power	871
Manufacturing expenses	794
Insurance	102
Bad debts	146

Before preparing a Manufacturing and Profit and Loss A/c for the year ended 31st December, 19.., and a Balance Sheet as on that date, the undermentioned adjustments are necessary—

1. Materials costing £150 were taken out of stock during the year for the manufacture of loose tools for the use of the company. The wages for the same purpose amounted to £200.

2. Depreciation is to be written off the machinery and plant at 10 per cent, and 15 per cent off the loose tools.

3. The stock on hand as on 31st December, 19.., was valued at £5,242.

4. The balance of the Preliminary Expenses A/c is to be written off.

5. The reserve for bad debts is to be increased to an amount equal to 5 per cent on the sundry debtors.

6. The managing director is entitled to a 5 per cent commission on the net trading profit.

7. £1,000 to be transferred to a reserve account.

BALANCE SHEET OF

As on . . . .

	Capital and Liabilities	£	s.	d.	£	s.	d.
1. Capital	Showing— (1) The number of shares . . . . . (2) The amount paid per share . . . . (3) Any arrears of calls . . . . . (4) Particulars of any forfeited shares . .						
2. Debts and Liabilities of the Company	Showing— (1) The amount of loans on mortgages or debenture bonds . . . . . . (2) The amount of debts owing by the Company, distinguishing— (a) Debts for which acceptances have been given . . . . . (b) Debts to tradesmen . . . . (c) Debts for law expenses . . . (d) Debts for interest on debentures or other loans . . . . . (e) Unclaimed dividends . . . . (f) Debts not enumerated above .						
3. Reserve Fund	Showing— The amount set aside from profits to meet contingencies						
4. Profit and Loss	Showing— The balance for payment of dividend, etc. . Claims against the Company not acknowledged as debts . . . . Moneys for which the Company is contingently liable						

.... CO., LTD.

.... 19. .

	Property and Assets						
		£	s.	d.	£	s.	d.
1. Property	Showing— Immovable property, distinguishing— (*a*) Freehold land . . . . . . (*b*) Freehold buildings . . . . . (*c*) Leasehold . . . . Movable property, distinguishing— (*d*) Stock-in-trade . . . . . . (*e*) Plant . . . . The cost to be stated with deductions for deterioration in value as charged to Profit and Loss A/c						
2. Debts Owing to the Company	Showing— (1) Debts considered good for which the Company holds bills or other securities . . (2) Debts considered good for which the Company hold no security . . . . . (3) Debts considered doubtful and bad . . Any debt due from a director or other officer of the Company to be separately stated . .						
3. Cash and Investments	Showing— (1) The nature of investment and rate of interest . . . . (2) The amount of cash, where lodged, and if bearing interest						

THE SOUPERT MANU

Dr. TRADING ACCOUNT FOR THE

	£	s.	d.	£	s.	d.
To Stock on Hand (1st January)				3,786	-	-
„ Purchases	15,641	-	-			
Less Returns	341	-	-	15,300	-	-
„ Manufacturing Wages	7,892	-	-			
Less Wages charged to Loose Tools	200	-	-	7,692	-	-
„ Factory Power				871	-	-
„ Manufacturing Expenses				794	-	-
„ Gross Profit carried to P. & L. A/c				10,059	-	-
			£	38,502	-	-

Dr. PROFIT AND LOSS ACCOUNT FOR

		£	s.	d.	£	s.	d.
To Rent, Rates, Gas, and Water					792	-	-
„ Office and Management Salaries					1,824	-	-
„ Insurance					102	-	-
„ Income Tax, Schedule D					384	-	-
„ Bad Debts		146	-	-			
„ Reserve for Bad Debts—5% on £9,500		475	-	-			
		621	-	-			
Less Reserve on Books		200	-	-			
					421	-	-
„ Travellers' Salaries and Expenses					2,321	-	-
„ Preliminary Expenses					672	-	-
„ Depreciation—							
10% on Machinery and Plant		1,685	-	-			
15% on Loose Tools	£1,450						
Additions for Year	350						
		270	-	-			
					1,955	-	-
„ Balance—Net Profit for Year					2,101	-	-
				£	10,572	-	-

Dr. APPROPRIATION ACCOUNT FOR

	£	s.	d.	£	s.	d.
To Preference Dividend for Half-year (30th June)				350	-	-
Reserve Fund				1,000	-	-
„ Managing Directors' Commission—5% on £2,101				105	1	-
„ Balance carried forward				1,705	19	-
				£3,161	-	-

FACTURING CO., LTD.
YEAR ENDED 31st DECEMBER, 19..

Cr.

	£	s.	d.	£	s.	d.
By Sales	33,261	-	-			
Less Returns	151	-	-	33,110	-	-
,, Materials Used for Loose Tools				150	-	-
,, Stock on hand				5,242	-	-
			£	38,502	-	-

YEAR ENDED 31st DECEMBER, 19..

Cr.

	£	s.	d.	£	s.	d.
By Gross Profits from Trading A/c				10,059	-	-
,, Discounts				341	-	-
,, Interest on Investments				162	-	-
,, Transfer Fees				10	-	-
			£	10,572	-	-

YEAR ENDED 31st DECEMBER, 19..

Cr.

	£	s.	d.	£	s.	d.
By Balance (1st January)				1,060	-	-
,, Net Profit for Year				2,101	-	-
				£3,161	-	-

THE SOUPERT MANU
BALANCE SHEET AS

Capital and Liabilities	£	s.	d.	£	s.	d.
Authorized Capital—						
50,000 5% Preference Shares of £1 each	50,000	-	-			
50,000 Ordinary Shares of £1 each	50,000	-	-			
	100,000	-	-			
Issued and Paid-up Capital—						
28,000 5% Preference Shares—10s. paid				14,000	-	-
44,000 Ordinary Shares—						
10s. per Share Called Up	22,000	-	-			
Less Calls in Arrear	500	-	-			
				21,500	-	-
Sundry Creditors				3,526	-	-
Managing Directors' Commission				105	1	-
Reserve A/c				1,000	-	-
Profit and Loss A/c—Balance				1,705	19	-
				£41,837	-	-

FACTURING CO., LTD.
AT 31st DECEMBER, 19..

Assets and Property	£	s.	d.	£	s.	d.
Leasehold Land and Works				4,000	-	-
Machinery and Plant	16,850	-	-			
Less Depreciation of 10%	1,685	-	-			
				15,165	-	-
Loose Tools	1,450	-	-			
Additions during the Year	350	-	-			
	1,800	-	-			
Less Depreciation of 15%	270	-	-			
				1,530	-	-
Stock on Hand				5,242	-	-
Sundry Debtors	9,500	-	-			
Less Reserve for Bad Debts	475	-	-			
				9,025	-	-
Investments				3,000	-	-
Cash in Hand	281	-	-			
Cash at Bank	3,594	-	-			
				3,875	-	-
				£41,837	-	-

EXERCISE LVI

1. What are the essential characteristics of a joint-stock company ? In what respects does it differ from a sole trading concern ?

2. Copy the diagram shown on page 133 and explain its meaning.

3. State the chief difference between books kept in an ordinary partnership and those kept in the case of limited liability companies.

4. In addition to Cash Books, Purchases and Sales Books, and Ledgers, there are other books called Statistical Books in use in the offices of a limited company ; name as many of them as you can.

5. Write explanatory notes on the following—
   (*a*) Register of directors and managers.
   (*b*) Register of mortgages and charges.
   (*c*) Minute Book.

6. Give a set of rulings suitable for the various books necessary to record particulars and figures relating to the share capital of a limited company, from the first application for shares by the public to the final records of the shares when fully paid.

7. Give a description of register of members, register of debentures, deferred shares. How should "Premium on Debenture Stock" be dealt with in the books ?

8. Explain briefly : nominal capital, issued capital, paid-up capital, calls in arrear, preference shares, participating preference shares.

9. What is a cumulative preference share ? The A. B. Company is three years in arrear with the dividends on its 1,000 6 per cent cumulative preference shares of £1 each. Would this fact affect the annual account ? If so, how ?

10. A limited company has issued £40,000 4½ per cent first mortgage debenture stock, interest payable 31st March and 30th September. Being in possession of surplus funds, it purchases £1,000 of this debenture stock at 95 per cent on 1st July. The company's year ends 30th September. State fully how this transaction should be dealt with in the books, and also in the Balance Sheet at 30th September.

11. What constitute the essential differences between a Trading Account, a Profit and Loss Account, and an Appropriation Account ?

12. Draw up the Balance Sheet of a public joint-stock company, showing what information you consider the shareholders are entitled to with regard to Profit and Loss. Insert imaginary figures.

13. The following Ledger Accounts appear in the Trial Balance of a company. State how you would deal with the items in preparing the annual accounts, and briefly comment on any points which would need special consideration—
   (*a*) Goodwill Account.
   (*b*) Repairs Reserve Account.
   (*c*) Unclaimed Dividends Account.
   (*d*) Debenture Issue Expenses Account.
   (*e*) Preliminary Expenses Account.
   (*f*) Expenditure during the year on the Company's Leasehold Works Account.
   (*g*) Forfeited Shares Account (amount of cash received on forfeited shares).

14. How would you deal with the undermentioned items when preparing the annual accounts of a limited company ?

(*a*) Interim dividend of £3,000 paid on ordinary shares.

(*b*) Transfer of £5,000 of profit to reserve fund.

(*c*) £1,000 expenses incurred in issue of £12,000 5 per cent debentures, repayable in twelve years from date of issue.

(*d*) Arrears of dividend on cumulative preference shares.

15. If you had before you the Balance Sheet, Trading Account, Profit and Loss Account, and Appropriation Account of a limited company, on which side of these four would you look for each of the following ?—

(*a*) The amount written off plant and machinery as depreciation for the year.

(*b*) The amount of calls in arrear.

(*c*) The amount of undivided profits.

(*d*) The amount of the reserve fund.

(*e*) The net profit for the year.

(*f*) The amount of the stock in trade at the beginning of the year.

16. Give a ruling of the Share Ledger of a limited company and insert therein the following particulars.—

On 28th March, 19.., J. Macarthur, manufacturer, Waltham, Berks, applied for 2,000 ordinary shares of £1 each, and paid 2s. 6d. per share application money. The shares were allotted to him on 1st April, and he paid 5s. per share allotment money on 3rd April. On 1st June a call of 2s. 6d. per share was made and duly paid by Macarthur on 4th June. On 1st July he sold 1,000 shares to L. Pirrie, grocer, Ashford, Kent, at 15s. per share.

(R.S.A.)

EXERCISE LVII

A company was formed in April, 19.., with a nominal capital of £100,000 in shares of £1 each, to purchase the business of Wardle & Co. The purchase price was £40,000 and was to be satisfied by the issue of 40,000 fully paid shares.

60,000 shares were offered for public subscription on 1st May, 19.., and 40,000 were applied for. The terms of issue were—

2s. 6d. payable on application, 5s. on allotment, 5s. on 1st June, and the balance on 1st July.

Allotment of shares (including vendors') took place on 13th May.

All cash due on calls was paid, except by one holder of 800 shares, who failed to pay the last call.

Make entries in the Journal *only* to record the above, including the cash transactions. (L. & C.)

EXERCISE LVIII

The capital of a company was £30,000 in £1 shares, all of which had been issued and called up. One holder of 1,000 shares had paid only 15s. per share, and as the final call was long overdue, the directors decided to forfeit the shares. This was done on 1st February, 19.., and the shares were re-issued on 9th March, 19.., at 17s. 6d. per share, to Benjamin Thomas.

Make the Journal and Ledger entries to record these transactions. (L. & C.)

EXERCISE LIX

A limited company offered to the public 1,000 debentures of £100 each, at 95, which were duly taken up. Underwriting costs and legal charges were incurred in connection therewith to the amount of £1,600. Show these transactions by means of the Ledger Accounts in the books of the company. How would the balances of these accounts appear on the company's Balance Sheet. (R.S.A.)

EXERCISE LX

The following appear on the left-hand side of a limited company's Balance Sheet. Suppose the company goes into liquidation, state in what order they would be paid.

Ordinary share capital.
Preferred ordinary share capital.
Preference share capital, cumulative as to dividends only.
Deferred ordinary share capital.
Sundry trade creditors.
Bills payable.
Second mortgage debenture stock.
First mortgage debenture stock.
Bank overdraft, secured by a specific mortgage on freehold property. (L. & C.)

EXERCISE LXI

From the following information prepare a Balance Sheet on the Easy Motor Co., Ltd., as at 31st December, 19...

The nominal capital was £100,000 in ordinary shares of £1 each; 50,000 had been issued and all the calls paid except on 1,000 shares, on which 5s. per share was unpaid.

	£
Cash in hand	763
Cash at bank	3,437
£5,000 War Loan at 90 per cent	4,500
Creditors	29,327
Debtors	16,398
Reserve for doubtful debts	818
Leasehold property as at 1st January, 19..	6,500
(£500 to be written off this)	
Stock in trade	36,315
Plant machinery	7,300
Profit for 19..	8,650
Goodwill	10,000
Balance of profit and loss account, 1st January, 19..	1,143
Interim dividend, paid 1st July, 19..	4,975

(L. & C.)

EXERCISE LXII

THE WILSON MANUFACTURING CO., LTD.
Trial Balance, 31st December, 19..

	£	£
Ordinary share capital—		
£40,000 in £1 shares ; 40,000 issued		40,000
Machinery and plant	6,600	
Sundry debtors	8,760	
Wages	7,335	
Salaries	1,300	
Sundry creditors		1,678
Profit and loss account balance		879
Materials purchased	13,867	
Stock, 1st January, 19..	11,076	
Sales		30,876
Freehold premises	17,000	
Rent received		800
Rates, taxes, and insurance	760	
Cash at bank	3,986	
General expenses	890	
Repairs and renewals	640	
Dividend paid	600	
Discount account	327	
Returns outward		369
Directors' fees	300	
Carriage inward	1,161	
	£74,602	£74,602

Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December, 19.., giving effect to the following adjustments—

Stock—31st December, 19..	£9,216
Rent receivable outstanding	50
Reserve 5% for doubtful debts	
Depreciate machinery and plant 5%	

(L. & C.)

EXERCISE LXIII

CRAWMORE & CO., LTD.
Trial Balance, 31st December, 19 .

	£	
Preference capital, £10,000, in £1 shares fully paid		£10,000
Ordinary capital, £10,000 in £1 shares		10,000
Calls in arrear, ordinary shares	100	
Reserve fund		8,000
Reserve fund investment	7,500	
Materials purchased	24,317	
Machinery and plant	6,000	
Sales		65,826
Cash at bank	3,310	
Sundry debtors	8,900	
Stock—1st January, 19..	18,866	
Wages	16,063	
Preference dividend account	600	
Salaries	1,200	
Rent, rates, taxes, and insurance	975	
Directors' fees	300	
Royalties paid	1,839	
Bad debts	307	
Debentures		20,000
Debentures repaid, 31st December, 19..	2,000	
Discount account		919
Preliminary expenses	850	
Sundry creditors		3,140
Carriage on purchases	1,431	
Carried Forward	£94,558	£117,885

	£	£
Brought Forward	94,558	117,885
Carriage on sales	2,147	
Printing, stationery, and office expenses	690	
Interest on investments		300
Debenture interest	500	
Freehold premises purchased.	22,000	
Legal and other expenses in connection therewith . . .	205	
Additions to freehold premises	1,700	
Profit and loss account, balance 1st January, 19.. . .		3,615
	£121,800	£121,800

From the above Trial Balance and the information given below, prepare a Trading Account, Profit and Loss Account, and Balance Sheet as at 31st December, 19...

Stock on hand 31st December, 19.., £8,433.

Reserve 5 per cent on debtors for doubtful debts.

Interest accrued on investments to 31st December, 19.., but not received, £100.

All interest on investments to be transferred to Reserve Fund.

Preliminary expenses to be written off.

Directors' fees owing, £100.

Debenture interest owing, £500.

Depreciation on machinery and plant, 5 per cent.

Rates prepaid, £75.

Transfer to Reserve Fund, £600 (L. & C.)

EXERCISE LXIV

The British Components, Ltd., was registered with a nominal capital of £20,000, consisting of 20,000 Ordinary shares of £1 each. The following balances were extracted from the books of the company on the 31st March, 19..—

Dr.	£	*s.*	*d.*	*Cr.*	£	*s.*	*d.*
Calls in arrear . .	100	–	–	Share Capital A/c.—			
Freehold premises . .	3,500	–	–	18,000 shares £1 each .	18,000	–	–
Rates, taxes, and insurance	427	3	4	Debentures, 5% . .	2,000	–	–
Fuel and power . .	129	4	10	Purchase returns . .	196	2	9
Interest on debentures .	50	–	–	Sales	15,920	15	8
Manufacturing wages .	3,542	16	–	Sundry creditors . .	3,496	12	7
Office salaries . .	924	15	6				
Carriage on purchases .	114	9	11				
Carriage on sales . .	276	15	1				
Purchases . . .	7,962	16	11				
Returns inwards . .	314	–	7				
Plant and machinery .	1,496	10	–				
Furniture and fittings .	327	6	8				
Sundry debtors . .	4,726	13	4				
Goodwill	7,500	–	–				
Manufacturing expenses .	219	14	9				
Office expenses . .	527	2	9				
Lighting and heating .	97	14	5				
Directors' fees . .	100	–	–				
Balance of profit and loss account, 1st April, 19..	192	4	9				
Cash at bank. . .	316	16	8				
Cash in hand . .	47	15	6				
Stock in hand, 1st April, 19...	6,719	10	–				

You are required to prepare Trading and Profit and Loss accounts for the year ended 31st March, 19.., and a Balance Sheet as on that date.

When preparing the accounts the following information must be taken into consideration—

10 per cent depreciation is to be written off plant and machinery; 5 per cent off furniture; and 2 per cent off freehold premises.

A reserve for doubtful debts is to be created equivalent to 5 per cent on the sundry debtors, and discount reserves of 2½ per cent on debtors and 5 per cent on creditors.

The debentures were issued on 1st July, 19.., and a half year's interest had been paid.

Wages amounting to £32 had been paid to employees engaged upon the making of new machinery, but the necessary adjustment had not been made in the books. The materials had been charged direct to plant and machinery.

Rates paid in advance and insurance unexpired amounted to £24.

Bank interest £7 2s. 3d. due to the company to date has not been entered.

Stock in hand on 31st March, 19.., was valued at £5,355 12s. 11d.

A claim of £121 had been made against the company for damage done by one of their motor drivers. The company admitted liability to the extent of £75, but nothing had been entered in the books.

(N.C.C.)

EXERCISE LXV

From the following information relating to the Transformer Co., Ltd., prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st December, 19...

TRIAL BALANCE, 31ST DECEMBER, 19..

	£	£
Leasehold premises	18,700	
Repairs to plant	986	
Debenture stock 5%		20,000
Discount on debenture stock	1,000	
Preliminary expenses	2,500	
Investments as at 1st January, 19..	1,700	
Reserve for loss on investments, 1st January, 19..		900
Cash received for investments (£1,700), sold 1st December, 19..		300
Income tax	730	
Sales		98,653
Purchases	43,286	
Returns inward	1,333	
Wages paid	25,133	
Salaries	2,467	
General expenses	1,829	
Rent, rates, and insurance	931	
Coal purchased	7,643	
Stock of coal, 1st January, 19..	790	
Printing and stationery	1,567	
Motor lorries	1,000	
Fixed plant	12,000	
Stock of goods, 1st January, 19..	38,640	
Transfer fees		25
Share capital, 60,000 £1 shares, 15s. paid		45,000
Carried forward	£162,235	£164,878

	£	£
Brought forward	162,235	164,878
Profit and loss account, 1st January, 19..	978	
Debtors	7,300	
Creditors		4,426
Bank overdraft		6,893
Bills receivable	3,100	
Discounts (balance)		169
Bad debts	840	
Carriage inwards	1,913	
	£176,366	£176,366

Write off as follows—

Leasehold premises, one-tenth.

Fixed plant, 5 per cent.

Preliminary expenses, one-fifth.

Motor lorries, 20 per cent.

Investment, etc., accounts to close.

Wages owing, £380.

Insurance prepaid, £70.

Reserve 5 per cent on debtors for bad debts, and £500 for same on bills receivable.

Stocks, 31st December, 19..—Goods, £38,674; coal, £1,600; stationery, £300.

Debenture interest for year 19.. has not been paid. (L. & C.)

EXERCISE LXVI

From the following Trial Balance prepare the Profit and Loss Account and Balance Sheet of the Lancashire and Cheshire Bank, Ltd., at 31st December, 19... The authorized capital is £1,000,000.

	£	£
Share capital—50,000 shares of £20 each, £7 10s. paid		375,000
Cash in hand and at Bank of England	880,410	
Cash at call and short notice	769,350	
Advances to customers	3,552,730	
Investments—		
Consols and other British Government securities	430,400	
Indian Government stock	98,280	
Colonial Government securities	121,310	
Corporation and railway stocks	261,425	
Other investments	92,735	
Current and deposit accounts		5,547,780
Acceptances for customers	540,618	
Liability of customers for acceptances		540,618
Gross profit for the half year		282,350
Interest paid to customers	76,890	
Salaries and other expenses	91,240	
Profit and loss account, 1st July, 19..		15,640
Bank premises	196,000	
Reserve		350,000
	£7,111,388	£7,111,388

Transfer to a Special Reserve Account £20,000 to provide for depreciation of investments and write down bank premises by £10,000.

Also provide for the payment of a dividend of 20 per cent (free of tax).

EXERCISE LXVII

The following balances were extracted from the books of the Swandale Bank, Ltd., on 31st December, 19... You are requested to prepare therefrom a Profit and Loss Account for the half-year, and a Balance Sheet setting out the position on that date.

	£
Interest charged to customers	50,740
Salaries and other expenses	26,480
Discount charged on bills discounted (including rebate brought forward from 30th June, 19..)	14,216
Bank premises	41,670
Bills discounted	641,264
Reserve	150,000
Capital—50,000 shares of £10 each, £4 paid	200,000
Advances to customers and other accounts	1,780,360
Investments—	
Consols and other British Government securities	561,440
Indian Government and railway stocks	91,590
Colonial Government securities, British Corporation stocks, and British railway debenture stocks	168,300
Other investments	1,920
Interest paid to customers	14,850
Acceptance for customers	140,284
Profit and loss account—Balance, 30th June, 19	12,693
Current deposit and other accounts	3,979,363
Cash in hand and at Bank of England	762,584
Cash at call and short notice	341,970
Liability of customers for acceptances	140,284
Interest on investments	25,416

£1,500 is to be written off bank premises and a reserve of £7,000 provided against depreciation of investments. Rebate on bills not due at 31st December, 19.., was £2,842. Provide for the payment of a dividend of 15 per cent free of tax. The authorized share capital is 50,000 shares of £10 each. (L. & C.)

CHAPTER IX

Introduction to Factory Accounts

Double entry book-keeping must adapt itself to the various types of economic activity by taking into consideration the nature, size, and organization of the undertaking, the need for division of labour and internal control, and other necessary requirements. The factory undertaking has two functions to fulfil, viz., the production and the sale of the goods. It is at the same time a technical and a commercial undertaking.

General Objects of Factory Book-keeping. Factory book-keeping has, in the first instance, to solve those problems which every other book-keeping has to solve. The primary function of the accounts of any undertaking is the ascertainment of the legal relationship which results from the intercourse between customers and suppliers. Debits and credits are, therefore, to be entered in detail as well as in total to show their relationship to one another. The employer must be able to ascertain by his book-keeping the name of the debtor, the amount of his debt, the due date of the claim in order to control the collection of the amount, and if necessary send out reminders. On the other hand, the book-keeping must also show him his own liabilities, so that he can discharge them when they fall due.

In the legal obligations towards the outside world are also included those claims and debts which result from the manufacturer's financial dealings with banks and similar institutions. Furthermore, control must also be extended towards the interior of the business; incoming and outgoing goods and materials must be carefully recorded to ensure a proper control over the stocks. Finally, the accounts must reveal the state at any time of the manufacturer's net wealth. For this reason the books must contain a statement of the capital at the beginning of the trading period, together with an account of the changes in values which have since taken place. At the end of the period the result of the working must be shown, including a statement of the final capital. In short, the general object of factory book-keeping is the presentation of a record of the intercourse with the outside world, a statement of the results of the working during the trading period, and of the final capital.

SPECIAL OBJECTS OF FACTORY BOOK-KEEPING. Apart from these general objects, factory book-keeping has to fulfil particular objects which are due to the peculiarity of factory working, and which become clearer to us if we compare the trader's business with that of a manufacturer. The trader buys goods and, as a rule, passes them on without any alteration. In a factory this is different; anything the manufacturer desires to sell he must produce himself. He buys raw and auxiliary materials, has them treated in his factory until a new product results from them. His peculiarity is to be found, in this activity, in the production of his goods, which distinguishes him clearly from the trader.

This difference, however, also constitutes a difference in book-keeping. The trader keeps account of the incoming and outgoing goods, and in this way controls his stocks. He adds a certain amount to the purchase price for expenses and profit, and thus establishes in a simple manner the selling price. The manufacturer also keeps books of the incoming and outgoing of his raw and auxiliary materials, but these do not remain unchanged; they rather pass from one section to another until they finally leave the undertaking as the finished product. At every stage, however, the incoming and outgoing materials and labour must be ascertained: thus the book-keeping in the factory undertaking constitutes a means of control to a much greater extent than in other undertakings. At the different stages wages and expenses arise in the treatment of the raw materials which, in a manner of speaking, are absorbed by the raw materials, and which appear in the value of the finished product. The book-keeping must illustrate this whole process of production in such a way that the money's worth in materials, wages, expenses, etc., contained in the finished articles can be precisely established. For the proper record of these internal working processes a relatively large number of accounts is required, as compared with the homogeneous trading account in a merchant's business.

The peculiar task of factory book-keeping thus consists in the proper conception of the internal processes and the careful record of these processes of production. The fulfilment of these functions may be described as the works' book-keeping in contrast to the financial book-keeping.

SIMPLEST FORM OF FACTORY ACCOUNTS. Systematic factory accounting takes its origin in commercial accounting: it is, therefore, natural that, in its initial stages, use is made of the same kind of accounts. In commercial undertakings, the Trading Account stands in the centre of the accounting system. Here is concentrated the commercial work: the activity of buying and selling is compared, and the difference is shown as Gross Profit or Loss. All other accounts are more or less an auxiliary means of furnishing a complete statement of the circulation of the business capital entailed in the purchase and sale of goods.

In its simplest form a factory undertaking bears a great resemblance to a trading concern. Raw materials and partly finished goods are bought as in a trader's business, and they are resold after having been worked up into finished goods. As in the trader's business, all sorts of expenses arise in the conduct of a factory, including wages and salaries in addition to various kinds of trading and manufacturing expenses. It was, therefore, the most obvious thing for the trader who had to start factory accounting for the first time, to copy out the undissected trading account which he took as the basis of his factory accounts. In many factories even to-day this simple form of accounts is still to be found. It may be illustrated as shown on the opposite page.

In its simplest form, Factory Accounting is nothing else but a replica of Commercial Accounting. If Factory Accounts had no other function but to ascertain the annual profit on the basis of the final stocks we could now conclude our consideration of the subject, for we have already dealt with the preparation of final accounts in Part I.

OPENING A MANUFACTURING ACCOUNT. Factory Accounts in their simplest form, in which all purchases of raw materials and all sales of finished goods are entered into one huge account, and where there is no system of including the whole working of the factory, is totally incomplete. No insight into the cost of production can be gained by such a system, and it is impossible to ascertain the cost of the goods produced or the selling price of the goods to be

EXAMPLE.

		£
1.	The stocks of raw materials and partly finished goods in a certain manufacturing concern were valued at £5,000, of finished goods at £2,000	7,000
2.	Purchases of new materials	8,000
3.	Sales of goods during the period	16,000
4.	Wages paid	3,000
5.	Manufacturing expenses	1,500
6.	General trading expenses	500
7.	Stocks on hand; finished goods, £2,500; materials, £4,000	6,500

ILLUSTRATION OF THE SIMPLEST FORM OF FACTORY ACCOUNTS

		Trading A/c		Profit & Loss A/c		Other Accounts	
		Dr.	Cr.	Dr.	Cr.	Dr.	C·.
		£	£	£	£	£	£
1	Opening Stocks c/f	7,000					7,000
2	Purchase of Materials	8,000					8,000
3	Sale of Manufactured Goods		16,000			16,000	
4	Payment of Wages	3,000					3,000
5	Manufacturing Expenses	1,500					1,500
6	General Trading Expenses			500			500
7	Closing Stocks		6,500			6,500	
	Totals . £	19,500	22,500	500		22,500	20,000
	Profit on Trading A/c	3,000			3,000		
	Net Profit to Capital A/c			2,500			2,500
	£	22,500	22,500	3,000	3,000	22,500	22,500

sold. The entrepreneur gropes in the dark from one trading period to another.

The next stage of development is to separate the Manufacturing Account from the Trading Account, since the latter shows only the sale price of the finished products. The raw materials will no longer be entered to the Trading Account but only the finished goods which are ready for sale.

The fundamental idea of the Trading Account is that the manufacturer sells goods which he has bought from himself. If in the Trading Account of a merchant the debit amount represents the purchase price as agreed upon with the supplier of the goods, in the Trading Account of a manufacturer the debit amount represents the figure of the actual cost of production.

This Trading Account, therefore, calls for the opening of a new account which, so to speak, sells to the Trading Account the products at prime cost. The description of this new account varies, and is sometimes called "Manufacturing Account," "Production Account," "Working Account," "Blast Furnace Account," etc. Here we shall choose the first-named title, and lay stress right from the beginning upon the fact that the Manufacturing Account must be regarded as a Real Account which shows neither profit nor loss ; its balance is therefore an *asset*.

DEBIT SIDE OF THE MANUFACTURING ACCOUNT. It is easy to see which items are entered on the debit side of this account ; they are all costs which in one way or another are expended directly on manufacture. The Manufacturing Account is, therefore, debited with the cost of all raw and partly finished materials, wages and salaries of the factory staff, coal, the maintenance of the machinery ; in short, with all the costs entailed in the conduct of a factory. The entry of these items on the debit side of the Manufacturing Account must be carried out with the greatest care, since they will affect the whole of the factory accounts. Just as the inward carriage was entered on the debit side of the Trading Account, so in manufacturing the wages and salaries of the factory staff and all expenses of factory management must be regarded as expenses which increase the value of the partly-finished or finished articles. They become positive values—a character which is reflected in their entry on the debit side of the Manufacturing Account.

Some doubt may arise in regard to the entry of various other expenses which are not directly brought about by manufacturing, such as, the salaries of the commercial section, rates and taxes, and insurance premiums, cost of selling, interest, etc. These have to be distributed in part over the whole of the articles produced and in part over that portion of the products which is actually sold and dispatched—matters which have to be considered in the costing system. At the stage of factory book-keeping with an undissected

Manufacturing Account, it is better to enter these items of general expense into special Profit and Loss Accounts. In this way the Manufacturing Account will yield more reliable information concerning the actual costs of production.

CREDIT SIDE OF THE MANUFACTURING ACCOUNT. In this category must be included in the first place the closing stocks of all those items which have been debited to the Manufacturing Account, such as raw materials, partly-finished goods, etc. As during the trading period various kinds of values are taken out of the manufacturing department, such as finished products, by-products, and waste, it stands to reason that it is precisely these items which have to be credited to the Manufacturing Account.

The Manufacturing Account resembles the creditor's account in the trader's books. Just as in the latter case the purchasing values are entered to the credit of the suppliers, so in factory accounts the values of the goods produced must be entered on the credit side of the Manufacturing Account. Though this principle is easily understood it is difficult to apply in practice. Here there is no contract of sale, no invoice of the supplier from which documents we can ascertain the value of the goods produced, as is the case in ordinary commercial accounting. The only means of arriving at it is in the calculation of the cost of production. Here is to be found the most critical point in factory accounts; if we succeed in calculating this cost of production we are then on the same plane as in pure commercial accounts; the differentiating factor is that in factory accounts there is the difficult task of ascertaining the cost of the products. Of course, a trader, too, must ascertain his cost. The buying and selling costs of the trader, however, have reference to fixed values and quantities; the productive costs of the manufacturer are highly complicated, and must be built up on a basis of materials which have been carefully collected over a given period, and they postulate a minute knowledge of the business and of the manufacturing processes. We shall, therefore, refer to this branch of factory accounting as *Works* or *Costs Accounts*, and shall deal briefly with this topic in the next chapter. Here we shall start with the supposition that the values of the goods produced are already supplied by the cost accounts. Since we know the cost of production of the finished goods which are ready for sale, we can enter the figure periodically on the credit side of the Manufacturing Account.

From the accounts of the Lancashire Cloth Weaving Co., Ltd., on page **174** it will be seen that in the ordinary trading account the stocks of raw material and partly-finished goods are mixed up with the items for packing materials and carriage. Moreover, in the Profit and Loss Account expenses appear which are essential for the manufacture of the goods, and these are charged against gross profit. In a manufacturer's business the term " Gross Profit " should not be employed, and all the manufacturing expenses should be debited to the Manufacturing Account. This is clearly seen in the example given. In the first part of this account the raw materials supplied to the mill are stated separately; then follow the expenses constituting the Prime Cost, and finally the Factory Cost. The purely administrative and sales expenses are shown separately under the heading of Sales or Trading Account. The balance which represents net profit is carried to the Appropriation of Profit Account.

METHOD OF PROCEDURE IN THE KEEPING OF A MANUFACTURER'S ACCOUNTS. The most suitable introduction to the accounts of a manufacturer and to an understanding of the table on page **173**, is to take a preliminary survey of the various transactions met with in a factory, and to show how these are ultimately treated in the final accounts.

In this connection the student must clearly realize that the aim of *Works' Accounting* is the ascertainment of the semi-manufactured and of the finished product; all expenses of material, wages, and general expenses must, therefore, be recorded in such a way that their correct distribution to the various products may be seen from the periodical analysis. From the tabular survey on pages **178** and **179** it will be seen that the financial account of the manufacturer does not present any new difficulties. The new feature is to be found solely in the keeping of the works or costs accounts.

In regard to the outside world the manufacturing undertaking may be regarded as a buyer and a seller; it concludes contracts of sale, it becomes debtor and creditor, it enters into relations with Banking, Transport, and Insurance concerns, avails itself of Bills of Exchange, and other means of payment—precisely in the same manner as a purely commercial undertaking. Hence in factory

TABULAR REPRESENTATION OF MANUFACTURING AND TRADING ACCOUNTS

		Manufacturing A/c		Trading A/c		Profit & Loss A/c		Other Accounts	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
		£	£	£	£	£	£	£	£
1a	Stocks of Raw Materials and Half-finished Goods, as per Inventory	5,000							5,000
1b	Stocks of Finished Products, as per Inventory			2,000					2,000
2	Purchases of Materials (to Creditors and Cash)	8,000							8,000
3	Sales of Finished Goods (Sundry Debtors, Dr.)				16,000			16,000	
4	Wages (to Cash)	3,000							3,000
5	Factory Expenses (to Cash)	1,500							1,500
6	Trading Expenses (to Cash)					500			500
7	Ascertained Cost of Production of Finished Products		13,500	13,500					
8a	Stock of Raw Materials and Half-finished Goods, as per Inventory		4,000					4,000	
8b	Stocks of Finished Goods, as per Inventory				2,500			2,500	
	£	17,500	17,500	15,500	18,500	500		22,500	20,000
9	Profit on the Goods Sold			3,000			3,000		
10	Net Profit (Capital A/c)					2,500			2,500
	Totals £			18,500	18,500	3,000	3,000	22,500	22,500

EXAMPLE.

ACCOUNTS OF THE LANCASHIRE CLOTH WEAVING CO., LTD.

Year ending 31st December, 19..

Dr. TRADING ACCOUNT Cr.

Dr.	£	Cr.	£
To Stock of Material on Hand (1st January)	17,255	By Sales	83,853
,, Stock of Partly Finished Cloth (1st January)	1,642	,, Stock of Materials in Hand	15,264
,, Materials Purchased	34,978	,, Stock of Partly Finished Cloth	1,767
,, Dyewares	2,399		
,, Chemicals, Soap, Size, Oil	1,608		
,, Packing Materials	225		
,, Carriage, etc.	942		
,, Wages of Operatives	19,816		
,, Wages of Mechanics, Joiners	405		
,, Wages of Watchman, Timekeeper	127		
,, Gross Profit carried to Profit and Loss A/c	21,487		
	£100,884		£100,884

PROFIT AND LOSS ACCOUNT

Dr.	£	Cr.	£
To Coal and Motive Power	1,996	By Gross Profit from Trading A/c (31st December)	21,487
,, Gas, Lighting of Mill	539	,, Discounts on Purchases	727
,, Lighting, Heating of Office, and W.H.	63		
,, Rent, Rates, Insurance of Mill	3,000		
,, Rent, Rates, Insurance of Office and W.H.	305		
,, Stable Expenses	140		
,, Trade Expenses	268		
,, Salaries of Manager and Mill Staff	1,150		
,, Salaries of Office and W.H.	532		
,, Travellers' Salaries and Commission	1,218		
,, Office Stationery, etc.	206		
,, Incidental Expenses	63		
,, Repairs and Renewals of Machinery and Mill Fittings	1,602		
,, Bank Charges	259		
,, Discounts on Sales	869		
,, Bad Debts	79		
,, Net Profit carried to Appropriation A/c	9,925		
£	22,214	£	22,214

APPROPRIATION ACCOUNT

Dr.	£	Cr.	£
To Depreciation of Plant and Machinery	1,380	By Balance from Profit and Loss A/c	9,925
,, Depreciation of Office and W.H. Fittings	15		
,, Balance Available for Appropriation	8,530		
	£9,925		£9,925

ACCOUNTS OF THE LANCASHIRE CLOTH WEAVING CO., LTD.

Year ending 31st December, 19..

MANUFACTURING ACCOUNT

(a) RAW MATERIALS ACCOUNT

Dr.	£		Cr. £
To Stock in Hand	17,255	By Materials Issued to Mill (as per Goods Issued Book)	36,969
„ Purchases (as per Purchase Journal)	34,978	„ Stock in Hand	15,264
£	52,233	£	52,233

(b) MILL ACCOUNT

Dr.	£		Cr. £
To Work in Progress (1st January)	1,642	By Finished Cloth sent to Warehouse (at Factory Cost)	70,274
„ Materials Received from Store and Consumed	36,969	„ Work in Progress (Estimated)	1,767
„ Dyewares (Consumed)	2,399		
„ Chemicals, Soap, Size, Oil	1,608		
„ Wages	19,816		
Prime Cost of Production	62,434		
„ Coal and Motive Power	1,996		
„ Wages of Mechanics and Joiners	405		
„ Wages of Watchmen and Timekeepers	127		
„ Gas and Lighting	539		
„ Salaries of Manager and Mill Staff	1,150		
„ Rent, Rates, and Insurance	3,000		
„ Repairs, Renewals, Machinery, and Mill Fittings	1,602		
„ Stable Expenses	140		
„ Incidental Trade Expenses	268		
„ Depreciation of Plant and Machinery	380		
Factory Cost of Production £	72,041	£	72,041

Dr. TRADING (OR SALES) ACCOUNT Cr.

	£		£
To Cloth Received from Mill at Factory Cost	70,274	By Discount on Purcha:	727
,, Office and Warehouse Salaries	532	,, Sales	83,853
,, Travellers' Salaries, Commission, and Expenses	1,218		
,, Lighting, Heating of Office and Warehouse	63		
,, Rent, Rates, etc.	305		
,, Packing Materials	225		
,, Carriage, etc.	942		
,, Office Stationery, etc.	206		
,, Incidental Expenses	63		
,, Depreciation of Office and Warehouse Fittings	15		
	73,843		
,, Bank Charges	259		
,, Discounts on Sales	869		
,, Bad Debts	79		
	£75,050		
Balance c/d to Appropriation A/c	9,530		
	£84,580		£84,580

COMPARISON OF FINANCIAL AND WORKS ACCOUNTS IN A MANUFACTURING UNDERTAKING

	Financial Accounts	Works or Cost Accounts
1. Objects.	The systematic record of all transactions with the object of showing periodically the net increase or decrease of the capital.	The systematic record of the value and quantities of materials used in production ; the ascertainment of the costs of production for the purpose of calculating the cost of price.
2. Subdivision of the Accounts.	The employment of collective accounts in the Ledger, with the object of presenting a systematic summary of all changes in the form and value of the capital and its component parts.	Far reaching analysis of the accounts for the purpose of controlling the materials and processes of production.
3. Method of Treating the Manufacturing Expenses.	All items of loss are first entered into Nominal A/cs, and then transferred to the Profit and Loss A/c.	These expenses are transformed into asset items by debiting them to the accounts for materials and products, whence they are included in the value of the Finished and Partly Finished Goods.
4. Books. (*a*) Subsidiary Books.	Journal, Cash Book, Sales and Purchases Books.	Books are used similar to those in the commercial section and in addition special stock books are kept.
(*b*) Principal Book.	The Ledger, with its monthly transfers.	No Ledger is necessary—its place being taken by tabular lists.
(*c*) Auxiliary Books.	Returns Inwards and Outwards Books, Bills Receivable and Bills Payable Books.	These items are left to the commercial section and are only utilized for the purpose of the quarterly balance.
5. Stock-taking.	This is undertaken half-yearly or yearly and is based chiefly upon the data furnished by the Works' Department.	A quarterly or monthly inventory is taken of all items of stores and equipment belonging to the works.
6. Balancing.	This is undertaken every month and assumes the form of a Trial Balance.	No monthly Trial Balance is prepared, but summaries are drawn up from the stock books.

COMPARISON OF FINANCIAL AND WORKS ACCOUNTS (*contd.*)

	Financial Accounts	Works or Cost Accounts
7. Final Accounts.	A complete Trading and Profit and Loss Account and Balance Sheet are drawn up every year, and the closing of the Ledger Accounts and the distribution of profit then takes place.	Every quarter a complete works account is prepared showing roughly the profit, and this acts as a kind of control of the commercial accounting.
8. Method of Ascertaining Profits.	All the nominal accounts are transferred to a Trading and Profit and Loss Account, the balance of which shows the Net Profit.	A rough estimate of the profits is obtained by comparing the net selling value of the goods dispatched with their cost of production.
9. Method of Showing Profit.	The excess of the assets over the liabilities, less the amount of capital at the beginning of the Trading Period.	A summary of the changes of the incomings and the outgoings of the various items of capital during the Trading Period.
10. Special Auxiliary Books.	Postage Book, Petty Cash Book.	Wages Analysis. Manufacturing Records. Stock Books of Materials Issued and Stores Used. Statistics of Results.

accounting we find all the usual books of account, the opening entries, stocktaking, the preparation of final accounts, just as in the case of the wholesale warehouse trade. These books have already been explained, and we are, therefore, entitled to presume that the student has made himself acquainted with the opening and keeping of such books.

The system of accounts which form the basis of Factory Accounting embraces in the first instance most of the personal, real, and nominal accounts which are met with in an ordinary trading undertaking. These accounts are grouped under collective headings or are split up into separate items according to the size of the business. The accounts which are peculiar to a manufacturing undertaking are those resulting from the process of manufacture itself, and which arise from the combination of materials, labour, and machinery.

1. A Group of Accounts Representing the Fixed Assets. Among the fixed items of capital invested in a factory are to be included the land upon which the factory buildings are erected, and those portions of land used for the purpose of storage or other business activity ; to this must be added the internal traffic arrangements such as factory sidings and wharves ; also the plant tools, and utensils of all kinds. Large establishments also possess their own workshops in which the daily repairs are executed, and where any necessary alterations of machinery may be effected. In some factories special departments are also provided for the inspection of raw materials and finished goods, for the study of new methods of production, and for research work. Hence we may have the following accounts representing the fixed assets—

1. LAND ACCOUNT.
2. INVESTMENTS ACCOUNT.
3. BUILDINGS ACCOUNT.
4. MILLS ACCOUNT.
5. MACHINERY ACCOUNT.
6. LOANS TO SUBSIDIARY COMPANIES ACCOUNT.
7. LABORATORY ACCOUNT.
8. TOOLS, UTENSILS, AND EQUIPMENT ACCOUNT.
9. COLLIERIES ACCOUNT.
10. WORKSHOP FOR REPAIRS ACCOUNT.
11. BLAST FURNACES ACCOUNT.

To these further accounts may have to be added, such us—

12. SIDINGS AND WHARF ACCOUNT.
13. WAREHOUSES ACCOUNT.
14. ROLLING STOCK ACCOUNT.

2. A Group of Accounts for Raw and Auxiliary Materials. The materials used in manufacture may be grouped under the heading of Raw and Auxiliary materials, and these may be further subdivided according to the particular branch of manufacture. In order to take a general survey we will confine ourselves to these two kinds of accounts, the value and quantity of which will be analysed by means of auxiliary books and lists. The materials which are necessary for the maintenance of machinery and of the whole business management are included under the heading of "Maintenance Charges." As most factories also pack their products, and as the packing material constitutes a considerable portion of the working expense, it is necessary to keep a separate account for this item. Hence the following accounts are opened—

15. RAW MATERIALS ACCOUNT.
16. AUXILIARY MATERIALS ACCOUNT.
17. MAINTENANCE CHARGES ACCOUNT.
18. PACKING MATERIALS ACCOUNT.

3. A Series of Accounts for the Intermediate or Partly-finished Goods. Intermediate products are to be found in nearly all factories; they are links in the manufacturing process. The first treatment of a raw material leads to a product which forms the raw material of a subsequent process. From the ore and coal, for instance, an iron works first produces the pig iron which is subsequently converted into malleable iron, steel, etc.

Although the intermediate products are not sold, yet they must receive the greatest care in the preparation of the cost accounts. Herein lies the secret of the whole process of manufacture. The manufacturer who does not treat these intermediate products with the utmost care and attention, and who does not control their quantity and value will always remain in the dark.

The value of the intermediate products is composed of the cost of the raw materials used in manufacture and the sum of the manufacturing costs expended upon them. Profit and Loss can no more be shown from the accounts of these intermediate products than from the accounts of raw materials. Both are regarded as real accounts whose value is identical with the calculated cost of production.

4. A Series of Accounts for the Manufactured Articles. The manufacturer regards as his finished product those articles which he does not subject to any further treatment, but which he sells as they are. Hence the final products of one factory may frequently be the partly finished goods of another factory. They are purchased as raw material and are subjected to further treatment. For example, the cotton spinner sells his yarn to the weaver, and the farmer sells his wheat to the miller, who in turn sells his flour to the baker.

By-products and waste arise in nearly all factories; their utilization to the greatest possible extent presumes an exact control and their inclusion in the system of accounts; in our example we have the following accounts—

19. STEEL RAILS AND PLATES ACCOUNTS. } Principal
20. PIG IRON AND CASTINGS ACCOUNT. } Products.
21. RESERVE PATTERNS ACCOUNT.

In the commercial portion of the factory accounts these various items are frequently concentrated into one collective account designated "Production Account" or "Manufacturing Account"; in this account the intermediate products are also included. This concentration is only possible if, parallel with the commercial accounts, a separate account is kept of the quantities and values of the various products in the works book-keeping.

The production account is credited with the sale price of all products, and with the amount of the stock at the end of the period. It is debited with the cost of production of the manufactured goods.

The balance of the Production Account is transferred to the Profit and Loss Account.

The main point to note is that in the factory accounts each product which has been sold is accounted for in regard to both the prime cost and the sale price, and the one figure is set off against the other.

5. A Series of Accounts of the Commercial Section. The following accounts would appear in this section—

22. CASH ACCOUNT.
23. DEBTORS ACCOUNT.
24. CREDITORS ACCOUNT.
25. BILLS RECEIVABLE ACCOUNT.
26. BANK ACCOUNT.
27. BILLS PAYABLE ACCOUNT.
28. INTEREST ACCOUNT.
29. PROFIT AND LOSS ACCOUNT.
30. CAPITAL ACCOUNT.

As this series of accounts is the same as in commercial undertakings further explanation is unnecessary.

6. A Series of Accounts for the Manufacturing Expenses. The working up of the raw materials calls for the use of other materials and power. These consist of various auxiliary materials such as we have previously mentioned. The forces employed are mechanical power and human labour. The expenses of the former consist of coal, timber, sand, cement, and lime, maintenance of machinery, etc., and these items are included under the heading of "Auxiliary Materials." The most important portion of the manufacturing cost is represented usually by the "wages" item, which occupies a very important position in the system of accounts. The wages are generally paid weekly, and the documentary basis is furnished by the time sheets of each individual worker; from these sheets the weekly wages lists are compiled. The wages must be grouped in such a way as to show the share to be allocated to each particular manufacturing process. Without such a dissection of wages, it would be impossible to ascertain the correct value of the intermediary or finished products. The wages account in the ledger concentrates all the wages into a single total, the indispensable complement to which is the Wages Book or Lists.

31. WAGES ACCOUNT.
32. MANUFACTURING EXPENSES ACCOUNT.

7. A Series of Accounts for Sale and Dispatch. When ready for dispatch the products must be transported to the railway station, and this would involve expense in the nature of cartage. When the goods are delivered free to the railway station, the cartage must be borne by the seller, and in case the goods are sold free to the destination of the customer, then the railway carriage must also be paid.

Cartage and railway carriage increase the value of the products, and should, therefore, be included in the calculation of the cost of production. As the products do not participate to the same extent in these expenses, the latter should be dissected and a careful record kept of them.

Deductions are also made by customers in the shape of a Cash Discount from the invoice price. Hence a separate account becomes necessary for this item. The sale is sometimes carried through with the collaboration of agents, who must be paid a selling commission for their services, the entry of which must be made into the Commission Account. Discounts and commissions diminish the selling price of the goods, and for this reason they are excluded from the items of productive cost, but are deducted from the selling price. We have, therefore, the following four new accounts—

33. RAILWAY CARRIAGE ACCOUNT.
34. CARTAGE ACCOUNT.
35. DISCOUNTS ALLOWED ACCOUNT.
36. COMMISSION ACCOUNT.

8. A Series of Accounts for the General Expenses. The expenses incurred in the management of the undertaking, especially of the commercial section, are booked to the following accounts—

37. TRADING EXPENSES ACCOUNT—these are subdivided into Postages, Inquiry Fees, Advertising, Travelling Expenses, Stationery, Office Materials, etc.
38. SALARIES ACCOUNT.
39. FIRE INSURANCE ACCOUNT.
40. RATES AND TAXES ACCOUNT.

These expenses, likewise, must be distributed over the products and may, therefore, be included in the total costs.

9. A Series of Accounts for Depreciation, or for the formation of a Sinking Fund, and a Reserve for Renewals. The depreciation of buildings, machinery, tools, etc., is a diminution of value which must be regarded as an expense in the production of the goods. It is obvious, therefore, that this item of loss must be included as an element in the cost of production. Many undertakings, however, do not enter the item for depreciation until the end of the year, when it is taken direct to the Profit and Loss Account. The last account therefore is—

41. DEPRECIATION ACCOUNT, which includes the loss in value of Buildings, Machinery, Stocks, etc.

EXAMPLE.

PIG IRON PRODUCTION ACCOUNT OF BROWN & SMITH
IRON SMELTERS

Dr. For the Year Ending 31st December, 19.. Cr.

	£		£
To General Wages . .	8,037	By Production—Transferred to Trading A/c . .	39,409
„ Ironstone (including Royalties) . . .	5,707		
„ Limestone	1,513		
„ Coal (including Carriage)	6,047		
„ Coke (including Carriage)	17,546		
„ Salaries . . .	559		
£	39,409	£	39,409

PIG IRON TRADING ACCOUNT

Dr. Year Ending 31st December, 19.. Cr.

	£		£
To Stock—Pig Iron (1st Jan., 19..)	12,268	By Pig Iron Sales	54,056
,, Production A/c.	39,409	,, Foundry Consumption of Pig Iron	103
,, Foundry Charges, Repairs to Locomotive, etc.	1,198	,, Stock of Pig Iron (31st Dec., 19..)	10,550
,, Transferred to Profit and Loss A/c.	11,834		
£	64,709	£	64,709

PROFIT AND LOSS ACCOUNT

Dr. Year Ending 31st December 19.. Cr.

	£		£
To Travelling Expenses	40	By Trading A/c.	11,834
,, Rates and Taxes	657	,, Wagon Hire	278
,, Land Damage, etc.	60	,, Branch Railway Income	705
,, General Charges	92	,, Interest	199
,, Manager's Salary	500		
,, Reserve for Bad Debts	591		
,, Depreciation—			
Plant, Works, Rolling Stock, etc.	2,500		
Coal and Coke Wagons	150		
,, Net Profit carried down	8,426		
£	13,016	£	13,016
	£		£
To Division of Profit—		By Net Profit brought down	8,426
J. Brown	4,213		
W. Smith	4,213		
	£8,426		£8,426

BALANCE SHEET OF BROWN & SMITH IRON SMELTERS

As at 31st December, 19..

Liabilities	£	£	Assets	£	£
Sundry Creditors		18,732	Sundry Debtors	15,329	
Capital Accounts—			Less Reserve for Bad Debts	1,500	
J. Brown—1st January, 19..	25,531				13,829
Add Profit	4,213		Loans to Workmen		213
			Works, Plant, Rolling Stock, etc., as per		
	29,744		last Balance Sheet	33,080	
Less Drawings	4,000		Less Depeciation	2,500	
		25,744			30,580
W. Smith—1st January, 19..	26,613		Coal and Coke Wagons	3,150	
Add Profit	4,213		Less Depreciation	150	
					3,000
	30,826		Stocks, 31st December, 19..—		
Less Drawings	5,000		Pig Iron	10,550	
		25,826	Coal	240	
			Coke	688	
			Ironstone	600	
			Limestone	35	
					12,113
			Cash at Bank Deposit A/c	9,000	
			Cash at Bank Current A/c	1,523	
			Cash in Hand	44	
					10,567
		£70,302			£70,302

EXAMPLE.

DUNMORE STEEL CO., LTD.—BLAST FURNACE ACCOUNT

Year ended 31st December, 19..

Dr.	£	£		£	Cr. £
To Stocks on Hand, 1st January		1,005	By Pig Iron Sales		25,300
„ Materials Used—			„ Pig Iron delivered to Steel Mills		16,500
Iron Ore	20,500		„ Stocks on Hand, 31st December		7,500
Scrap Iron	1,500				
Coke	12,000				
Coal	3,500				
Limestone	500				
Bricks	500				
		38,500			
„ Stores		550			
„ Wages		4,500			
„ National Insurance		85			
„ Workmen's Compensation		90			
„ Repairs and Renewals		250			
„ Electricity		450			
„ Locomotives and Roads		600			
„ Wagon Maintenance		350			
„ Water Supply		100			
„ Furnace Relining Reserve		200			
„ Rent and Rates		300			
„ Balance, being Profit to Profit and Loss A/c		2,320			
		£49,300			£49,300

STEEL MILLS ACCOUNT

Year ended 31st December, 19..

Dr.	£	£	Cr.	£	£
To Stocks on Hand, 1st January		1,500	By Sales		37,850
,, Materials Used—			,, Stocks on Hand, 31st December		4,500
Pig Iron from Furnaces	16,500				
Coal	6,500				
Rolls	400				
		23,400			
,, Stores		850			
,, Repairs and Renewals		350			
,, Wages		7,050			
,, National Insurance		130			
,, Workmen's Compensation		150			
,, Electricity		500			
,, Locomotives and Roads		420			
,, Wagon Maintenance		200			
,, Laboratory		150			
,, Water Supply		150			
,, Rent and Rates		250			
,, Balance, being Profit to Profit and Loss A/c		7,250			
		£42,350			£42,350

DUNMORE STEEL CO., LTD.—PROFIT AND LOSS ACCOUNT

Year ended 31st December, 19. .

Dr.	£	£		£	Cr. £
To Office Expenses		580	By Profit from Furnaces		2,320
,, Rent, Rates, and Taxes		200	,, Profit from Steel Mills		7,250
,, Salaries		1,800			
,, Directors' Fees		200			
,, Travelling Expenses		250			
,, Bad Debts		320			
,, Balance, being Net Profit		6,220			
		£9,570			£9,570

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	£	£		£	Cr. £
To Interim Dividend Paid		1,700	By Balance from 19 .		1,500
,, General Reserve		500	,, Net Profit for Year		6,220
,, Final Dividend Reserved for		1,700			
,, Balance		3,820			
		£7,720			£7,720

DUNMORE STEEL CO., LTD.—BALANCE SHEET

31st December, 19. .

Liabilities	£	£	Assets	£	£
Nominal Capital—			Buildings, Plant, Railroads, Wagons, etc.		79,500
100,000 Ordinary Shares of £1	100,000				
Share Capital Issued—			Stocks on Hand—		
85,000 Ordinary Shares of £1 (fully paid)		85,000	At Furnaces	7,500	
			At Steel Mills	4,500	
					12,000
Reserves—					
Furnace Relining A/c		500	Sundry Debtors		16,500
General Reserve as at 31st Dec., 19. .	4,500				
Addition for Year to 31st Dec., 19. .	500		Cash at Bank		1,870
		5,000			
			Petty Cash in Hand		150
Sundry Creditors		14,000			
Final Dividend Unpaid		1,700			
Profit and Loss A/c Balance		3,820			
		£110,020			£110,020

EXERCISE LXVIII

1. In what main respects does the book-keeping of a factory differ from that of an ordinary trading concern ?

2. What are the general objects of factory book-keeping ?

3. " The peculiar task of factory book-keeping consists in the proper conception of the internal processes and the careful record of these processes of production." Explain and elucidate this statement.

4. What is the function of a Manufacturing Account ? In what respect does it differ from a Trading Account ?

5. How many different classes of accounts would you expect to find in the ledgers of a manufacturer ? Briefly explain the difference between them.

6. You are instructed to investigate the accounts of a company carrying on the business of manufacturers of electrical machinery. The business has been in existence for some time, large sums of money have been spent in plant, in fitting up the factory, and in labour. About the date of your instructions, the company is commencing to sell the products of its factory, and it is necessary that the system of account-keeping be thoroughly revised. State the first step you would advise should be taken, and then set out with illustrations the books and accounts which should be kept in order to ascertain the exact cost of the manufactures which the factory produces.

EXERCISE LXIX

(For solution see page 184).

Messrs. John Brown and William Smith were equal partners in the firm of Brown & Smith, Iron Smelters. The following balances of accounts appeared in their books as on 31st December, 19.., viz.—

	£
General wages	8,037
Coal used (including carriage)	6,047
Coke used (including carriage)	17,546
Wagon hire (credit balance)	278
Pig iron sales	54,056
Foundry consumption of pig iron	103
Branch railway income (leased to adjoining company)	705
Materials and stores (including foundry charges and repairs to locomotives, etc.	1,198
Ironstone used (including royalties, etc.)	5,707
Limestone used (including royalties, etc.)	1,513
Salaries of furnace experts	559
Travelling expenses	40
Rates and taxes	657
Land damages and compensation to neighbours	60
General charges	92
Manager's salary	500
Pig iron stock (1st January, 19..)	12,268
Interest (credit balance)	199
J. Brown (Drawings Account)	4,000
W. Smith (Drawings Account)	5,000
Works, plant, rolling stock, etc.	33,080
Coal and coke wagons	3,150
Coal stock (1st January, 19..)	240
Coke	688
Ironstone stock (1st January, 19..)	600

Limestone	£ 35
J. Brown (capital)	25,531
W. Smith (capital)	26,613
Sundry creditors (including all necessary adjustments)	18,732
Sundry debtors	15,329
Loans to workmen	213
Reserve for bad debts	909
Cash at bank (deposit)	9,000
Cash at bank (current)	1,523
Cash in hand	44

Write £2,500 off works, plant, rolling stock, etc., as depreciation.
Write £150 off coal and coke wagons as depreciation.
Make the reserve for bad debts up to £1,500.
No interest upon capital or drawings is to be charged.
The stock of pig iron on 31st December, 19.., was valued at £10,550.
Prepare a Pig Iron Production Account (showing the cost of pig iron produced); a Pig Iron Trading Account (showing the gross profit realized by pig iron sales); and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date.

EXERCISE LXX

The following is the Trial Balance of the Hartley Manufacturing Co., Ltd., at the 31st December, 19... Prepare Manufacturing, Trading and Profit and Loss Account for the year, and Balance Sheet.

	Dr. £	*Cr.* £
Share capital—		
Authorized :		
100,000 6% preference shares of £1 each		
100,000 ordinary shares of £1 each		
Issued and paid up :		
50,000 6% preference shares of £1 each		50,000
50,000 ordinary shares of £1 each		50,000
5% debentures		80,000
Debenture interest owing		1,000
Goodwill (at cost)	50,000	
Stock of materials—1st January, 19..	10,800	
Work in progress—1st January, 19..	12,320	
Sales stock—1st January, 19..	16,300	
Purchases of materials (*less* returns)	44,000	
Carriage of materials (inwards)	140	
Sundry creditors		22,600
Works—freehold land and buildings, 1st January, 19..	42,840	
Plant and machinery, 1st January, 19..	24,400	
Cash in hand	70	
Wages (production)	12,340	
Wages (indirect, works services and supervision)	5,207	
Salary (works manager)	750	
Salary (managing director)	1,500	
Directors' fees	500	
Salaries (administration)	3,200	
Travellers and agents : commissions, salaries, and expenses	10,703	
Discounts received		941
Interest on Deposit Account		260
Discounts allowed	1,460	
Patents—balance 1st January, 19..	15,000	
„ additions	1,000	
„ renewal fees	470	
Carried Forward	£253,000	£204,801

Brought Forward	£253,000	£204,801
Office furniture, etc., 1st January, 19..	2,620	
Loose tools, 1st January, 19..	1,100	
,, ,, additions	200	
Sundry debtors	29,839	
Profit and Loss Account, 1st January, 19..		8,909
Payments in advance	200	
Income tax reserve		1,200
Income tax assessment (*less* tax recovered by deduction)	1,300	
Bank balances:		
Current and Deposit Accounts	10,030	
Carriage outwards	1,410	
Bad debts written off	770	
Bad debts reserve, 1st January, 19..		1,400
Interest on debentures	4,000	
Sundry expenses (administration)	1,767	
Dividends paid	8,000	
Works charges—power, plant repairs, rates, taxes, lighting, etc.	3,574	
Sales (*less* returns)		101,500
	£317,810	£317,810

Write off depreciation, etc., as under—

	£
Buildings	1,700
Plant and machinery	2,200
Patents	1,000
Furniture	220
Loose tools	300

Stocks at 31st December, 19.., were valued at—

	£
Stock of materials	13,100
Sales stock	18,200
Work in progress	23,890

The reserve for bad and doubtful debts at 31st December, 19.., is to be £1,200. (U.O.L.)

EXERCISE LXXI

(For solution see page 187).

Dunmore Steel Co., Ltd.
Trial Balance, 31st December, 19..

		£
Stocks, blast furnaces, 1st January		1,005
Materials used at blast furnaces—		
Iron ore		20,500
Scrap iron		1,500
Coke		12,000
Limestone		500
Coal		3,500
Bricks		500
Stores	(blast furnaces)	550
Wages	,,	4,500
National Insurance	,,	85
Workmen's Compensation	,,	90
Repairs and renewals	,,	250
Electricity	,,	450
Locomotives and roads	,,	600
Wagon maintenance	,,	350
Water supply	,,	100
Rent and rates	,,	300
Carried Forward		£46,780

Brought Forward		£46,780	£
Furnace relining account		200	
Pig iron sales			25,300
Pig iron delivered to Steel Mills			16,500
Steel Mills stocks, 1st January		1,500	
Materials used at Steel Mills—			
Pig iron from furnaces		16,500	
Coal		6,500	
Rolls		400	
Wages	(Steel Mills)	7,050	
National Insurance	,,	130	
Workmen's compensation	,,	150	
Stores	,,	850	
Repairs and renewals	,,	350	
Electricity	,,	500	
Locomotives and roads	,,	420	
Wagon maintenance	,,	200	
Laboratory	,,	150	
Water supply	,,	150	
Rent and rates	,,	250	
Steel sales			37,850
Office expenses		580	
Bad debts		320	
Rent, rates, and taxes (offices)		200	
Salaries		1,800	
Travelling expenses		250	
Director's fees		200	
Interim dividend paid		1,700	
Ordinary capital			85,000
Sundry creditors			14,000
Furnace relining reserve			500
General reserve			4,500
Buildings, plant, railroads, and wagons		79,500	
Sundry debtors		16,500	
Petty cash		150	
Bank		1,870	
Profit and Loss Account balance 1st January, 19..			1,500
		£185,150	£185,150

From the figures set out in the above Trial Balance the following accounts are to be prepared: Blast Furnace Account, Steel Mills Account, and General Profit and Loss Account for year ended 31st December, 19.., and Balance Sheet at 31st December, 19... Out of profits £500 is to be placed to the general reserve and provision made for the payment of a final dividend of 2 per cent (making 4 per cent for the year).

CHAPTER X

FACTORY ACCOUNTS (*continued*)

EVERY manufacturer requires to know the cost of producing his goods for the purpose of arriving at the amount at which he can sell at a profit and, in the same manner, to know beforehand the cost of every contract he may undertake. It has been stated, and very truly, that " an ordinary trading account is a locked up store-house of valuable information to which the cost accounts are the key."

WORKS OR COSTS ACCOUNTS. Cost Accounts are essential to a manufacturer if he is to maintain a firm hold on his business. He will desire to know whether a branch of work is paying or not; whether it is costing him more to produce any article than he could buy it readily produced. The Cost Accounts aid him to become cognisant of and to trace any waste of material, inefficient management, or bad workmanship.

As one kind of business differs from another, so the cost accounts applicable to one business differ from those applicable to another, yet the method of keeping them is the same. For example, in a manufacturing business the cost of production must be ascertained in order to fix the amount of the selling price. The cost of the article is made up of the following items of cost, viz.—

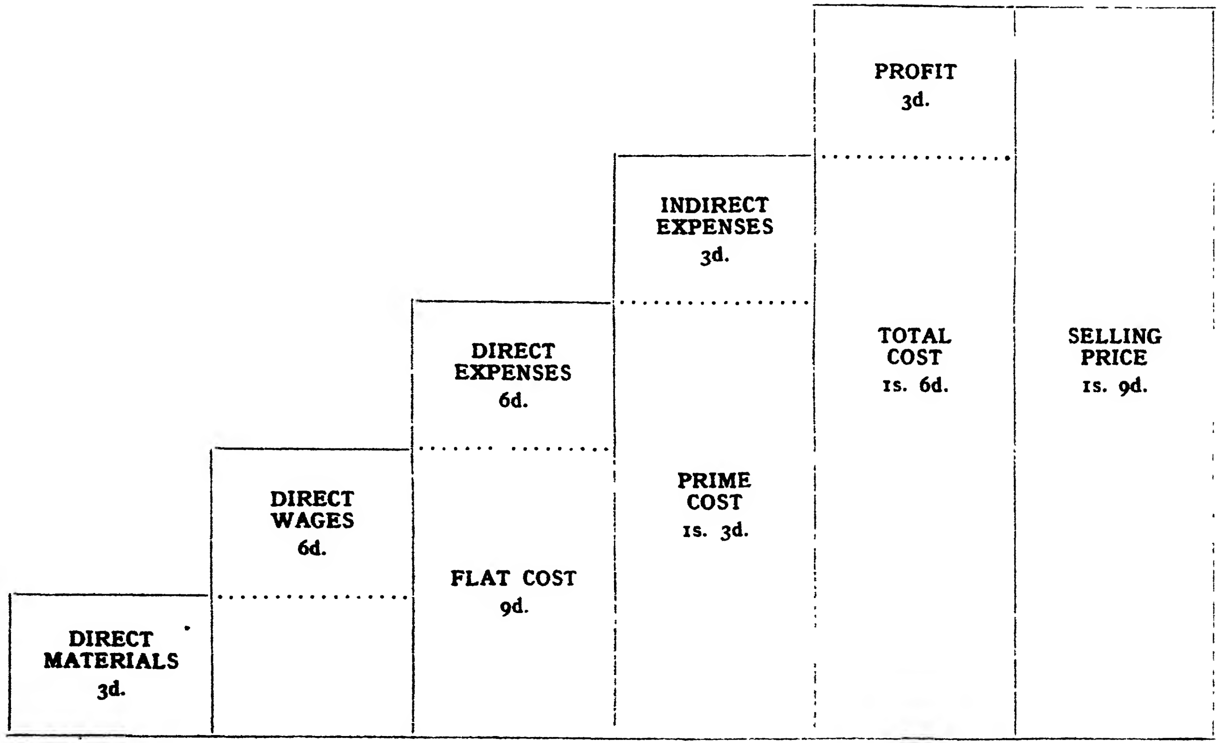
1. Cost of Raw Materials. The purchase of raw materials are analysed to the various departments, and the actual amount used in the manufacture of an article is charged on the cost sheet of that article. (See inset between pp. 210 and 211.)

2. Productive Wages. The wages are analysed from the workmen's time sheets, and the cash value of the amount of time expended on the article charged on to the cost sheet.

3. Carriage Inwards on Raw Materials. Carriage Inward on the amount of raw material used in the article is charged direct on the cost sheet.

4. General Works Charges, including foremen's wages, power, stores, etc. These items are not added direct in cash on the cost

MANUFACTURER'S COSTS OF PRODUCTION



sheet, but are included as a percentage on the productive wages, or partly on wages and partly on materials. The total cost of the goods ready for the warehouse is now arrived at.

5. Expenses of Establishment and Distribution. These are added as a percentage on the cost of the goods as ready for the warehouse. The total cost of the goods is thus settled, and at this stage the percentage of profit should be added.

The following example will perhaps make this clear—

PRIME COST

	£
1. Materials	120
2. Wages	40
3. Carriage	4
4. General Works Oncost, 50% on Wages	20
Cost at Warehouse	£184
5. Office Oncost, 10% on Warehouse Cost	18
Total Cost	£202
Add for Profit, 25% on Total Cost	50
Selling Price	£252

Showing profit on sale, 20%.

The diagram on the opposite page illustrates the elements which constitute the manufacturer's selling price. From this illustration it will be seen that the selling price of an article is composed of—

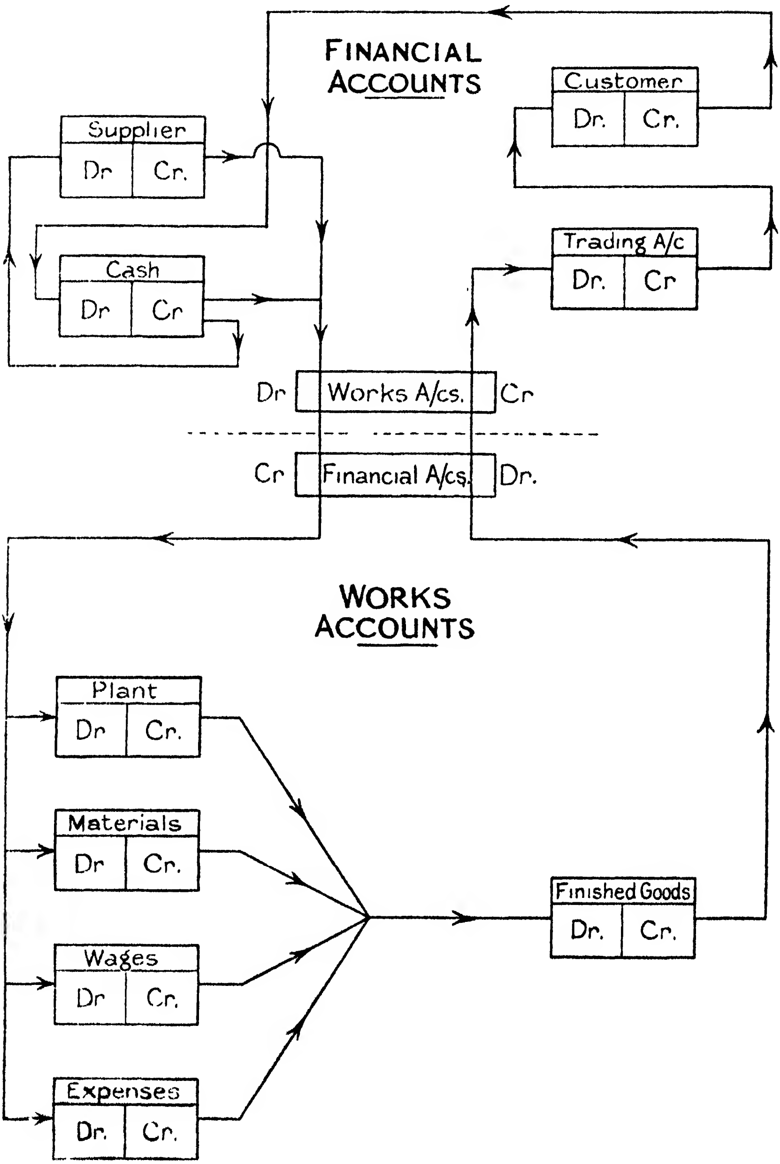
1. *The Flat Cost*, consisting of the cost of raw materials including all charges thereon, plus the amount paid for productive wages.

2. *The Direct Expenses* of production, including the amounts to be written off for depreciation of factory.

3. *The Indirect Expenses*, that is, the costs of sale and administration.

To the total of these expenses must be added a percentage for profit.

It is desirable that the results shown in the Cost Accounts should agree with those shown in the Financial Accounts. A good system of costing does not work on the basis of supposition or guess-work, but is concerned with recording of actual facts relating to production, distribution, and management. The efficiency of any method of costing will, therefore, depend to a very great extent upon reliable sources of information. The diagram on the next page shows the



RELATION BETWEEN WORKS AND FINANCIAL ACCOUNTS relation between the Works or Cost Accounts and the Commercial or Financial Accounts. It shows how the three elements of wages, materials, and expenses are dealt with in a system of costing, and how the two sets of accounts may be linked together by means of a Transfer Account.

RELATION BETWEEN WORKS AND FINANCIAL ACCOUNTS. It will be seen that the Works and the Financial Accounts are not opposed to each other as two independent systems, but that they are closely interlaced—the one being supplemented by the other, the same documentary evidence forming the basis of each system. The Works Accounts are analytical; the Financial Accounts are synthetic. The Financial Accounts are concerned with the ascertainment of the results accruing from the combination of the commercial and technical managements—the Works Accounts, on the other hand, are concerned with the calculation of the price per unit of the articles produced, and with showing their selling price in relation to their cost of production; hence the same final result is achieved. The manager of a manufacturing concern can dispense with neither the one nor the other form of accounts. From the Works Accounts he derives some of his most valuable information; in its detail it furnishes him with particulars of the course of production and of the quantitative and qualitative success of each operation of production; it summarizes not only the final results of the undertaking, but also brings out clearly the influence of each separate operation, and each branch of manufacture on the total result. From the periodical summary of the manufacturing accounts and the preliminary estimate of expenses, the management may discern that the net profit depends not merely upon the activities in the works, but also on the administrative and distributive operations; they are also led to realize that every single process exerts a decisive influence upon the course and success of the undertaking. Mistakes are thus revealed in the commercial and in the factory administration, and the way is pointed out to improved working or to a diminution in the expenses of production. A good system of accounting, therefore, is one of the most important means for ensuring the success of a manufacturing undertaking.

ALLOCATION OF EXPENSES. The costing problems which confront the manager of a concern which is engaged in the production of individual articles differ essentially from those which arise in a concern which turns out one, or even a limited number of standard products. In such a business it is of the greatest importance that the management should be provided, through the costing system, with a means of ascertaining the cost of each article which is produced in the works. It is obvious that where a large variety of articles are produced, each of which differs widely from the others, special methods must be adopted if the greatest efficiency is to be secured. Consider an article which, at one stage of its production, requiries to be subjected to a process of machining, and suppose that we wish to ascertain the cost of this work. Comprising this cost we find—

(*a*) The wages of the machine operator.

(*b*) The cost of running the machine.

(*c*) A proportion of departmental overhead expenses.

Even these three items do not exhaust the possibilities for we have not included an allowance for the general overhead expenses of the business. If all these items had to be ascertained separately for each piece of work, it is obvious that the procedure would be cumbersome and probably inaccurate.

If, in the place of these different items we could substitute an hourly rate for each machine, and in this rate include all these elements of cost, we should simplify the problem considerably. Under such circumstances, provided that we knew the time taken for the operation, the calculation of the cost becomes merely a matter of multiplication. We must, therefore, briefly consider how this hourly rate may be calculated.

From the Trading and Profit and Loss Account we may ascertain the amount of the various expenses which have been incurred during the past year, and upon these figures we must base our calculations. In some cases it may be considered that some of the figures require adjustment if it is estimated that some items of expense will be greater or less during the coming year. Having secured these figures, we must tabulate them as shown on page 202, and allocate the expenses as far as possible amongst the different departments of the business. The basis of this analysis will vary with the different items; in some cases the expense will be distributed according to the area of the department, in others, according to the wages paid, and in some cases, according to the capital invested in the department. In the tabular statement given on page 202, the method upon which each item is analysed is indicated, while the data underlying the calculations are given in the following table—

Department	Annual Wages	Plant and Fixtures	Floor Space
	£	£	Sq. ft.
A	2,000	2,000	2,000
B	1,500	2,500	1,500
C	500	1,000	1,000
Stores		2,000	1,000
Overhead Expenses		500	500
Total . .	£4,000	£8,000	6,000

RECOVERY OF OVERHEAD EXPENSES. After these expenses have been ascertained and allocated, it is then necessary to devise a method of recovering them. This may be done in two ways—

(*a*) By a percentage on materials;

(*b*) By a percentage on direct departmental expenses plus wages paid.

Let us assume that in the business under consideration, it is estimated that materials valued at £5,000 will be consumed during the year. By reference to the table it will be seen that the expenses allocated to the Stores amount to £286. Expressing this as a percentage on materials as obtain—

$$\left(\frac{286}{5000} \times 100\right) = 5{\cdot}72 \text{ per cent.}$$

In other words, we must add approximately 6 per cent to the cost of materials in order to recover the overhead expenses in the stores department.

In recovering overhead expenses by a percentage on direct departmental cost we proceed as follows—

	£
Wages, excluding Stores Wages and Holiday Wages . .	4,000
Direct Departmental Expenses (total of Columns 2, 3, and 4 of statement on page 202)	1,908
Direct Departmental Cost	£5,908

TABLE SHOWING THE ALLOCATION OF EXPENSES AMONGST THE DEPARTMENTS OF A MANUFACTURING UNDERTAKING

Items of Expense	Method of Allocation	Total (1)	Dept. A (2)	Dept. B (3)	Dept. C (4)	Stores (5)	Over-head Expenses (6)
Manufacturing Expenses—		£	£	£	£	£	£
1. Rent, Rates, and Taxes	According to floor space	300	100	75	50	50	25
2. Insurance—Plant and Stock	According to value of plant or stock	80	20	25	10	20	5
3. Insurance—Workmen's Compensation	In proportion to wages paid	16	8	6	2		
4. Light	According to number of lights	100	20	40	20	10	10
5. Heating	According to floor space	36	12	9	6	6	3
6. Power	Measured directly for each department	100		80	20		
7. Repairs to Plant	Allocated by direct analysis	80	10	60	5		5
8. Holiday Wages	In proportion to wages paid	160	80	60	20		
9. Depreciation	According to value of plant	600	200	250	100		50
10. Direct Departmental Sundries	Allocated by direct analysis	80	10	50	10		10
11. Interest on Capital	According to value of plant or stock	800	200	250	100	200	50
Commercial Expenses—							
12. Management		800					800
13. Office Salaries		900					900
14. Printing and Stationery		50					50
15. Telegrams and Telephones		80					80
16. Bad Debts		50					50
17. Discounts		20					20
18. Audit and Legal Fees		50					50
Selling Expenses—							
19. Travellers' Expenses		100					100
20. Advertising		100					100
21. Carriage		50					50
	Yearly Assessment of Departmental Expenses	£4,552	£660	£905	£343	£286	£2,358
	Weekly Assessment of Departmental Expenses		£13/4	£18/2	£6 17 2½		

The overhead expenses are shown in column 6 to be £2,358, and this, expressed as a percentage of direct departmental cost, gives us

$$\left(\frac{2358}{5908} \times 100\right) = 40 \text{ per cent.}$$

Having ascertained this percentage, the most simple way of recovering overhead expenses, as already stated, is by fixing an hourly rate for each department. In this rate will be included—

1. Productive wages in the department.
2. Direct departmental cost.
3. A proportion of the overhead expenses of the business.

Let us assume that in Department A of our example, no machinery is employed. Tabulating the weekly expenses of the department we obtain the following statement—

	£	s.	d.
Productive Wages	40	-	-
Departmental Weekly Expenses	13	4	-
Direct Departmental Cost	53	4	-
Add 40% for Overhead Expenses	21	5	7
	£74	9	7

Hence, in one working week, Department A will incur expenses amounting to £74 9s. 7d,. and these must be recovered and charged to the various jobs which pass through the department. At first sight it would appear that if we divided this amount of expense by the total number of hours worked in the department, we should obtain the hourly rate for the department, but a little consideration will show that this cannot be done. In every manufacturing undertaking, the employees will have to devote a certain amount of time to work which cannot be charged to any customer. Thus, a machine operator will have to oil and clean his machine, and make adjustments from time to time, and the expense incurred during this *non-productive* time cannot be recovered directly. Instead of dividing the total expenses by the total number of working hours, we must divide by the average number of *productive* hours for the department. This figure can only be ascertained from experience by an analysis of the time sheets of the employees. Thus, if in Department A ten men are employed, working 48 hours per week, the total working hours for the department will be 480. Assuming that it is found that 350 hours only are productive, the hourly rate will be—

$$\frac{£74\ 9s.\ 7d.}{350} = 4s.\ 3d.$$

The calculation of cost is now a simple matter. If a man's time sheets shows that he has spent 5 hours on a certain piece of work, the cost of the work is simply 5 × 4s. 3d., or 21s. 3d.

In the case of a department where power-driven machinery is employed, the matter becomes more complicated. If the equipment of a department is not substantially uniform, the method known as the Machine Rate Method is usually desirable. Under this method, the expenses of the department—excluding wages—are allocated amongst the various machines in proportion to—

1. The cost of the machine ;
2. The number of hours per week during which it is employed productively.

As an example, let us take the case of Department C where the plant is valued at £1,000 and the wages amount to £500 in a working year of 50 weeks, that is, £10 per week. The table on page 205 shows how these figures are distributed.

As shown in the table, we can allocate the wages of the operatives to their respective machines, but when we come to consider departmental overhead expenses we must work on a different basis. The cost of each machine, and the number of productive hours per week are shown in the above table, so that the share of the overhead expenses to be allocated to any machine is expressed by the following—

The cost of the machine divided by the sum of the products of the cost of each machine and the number of productive hours. Thus, the share of the overhead expenses allocated to Machine No. 1 would be $\frac{500}{37500}$, the cost of the machine (Col. 1) divided by the total of column 3.

The departmental cost is ascertained as before, except that wages

Machine	Cost (1)	Average Number of Hours in Use per Week (2)	Product of Hours and Cost (Col.1 × Col. 2) (3)	Operator's Weekly Wage (4)			Wages per Productive Hour (Col. 4 ÷ Col. 2) (5)		Rate per Hour for Overhead Expenses (6)		Machine Hourly Rate (Col. 5 + Col. 6) (7)	
	£			£	s.	d.	s.	d.	s.	d.	s.	d.
No. 1	500	40	20,000	4	-	-	2	-	3	7½	5	7½
No. 2	300	35	10,500	3	-	-	1	9	2	2	3	11
No. 3	200	35	7,000	3	-	-	1	9	1	5½	3	2½
	1,000	110	37,500	10	-	-						

are deducted since they have already been allocated to the various machines. Thus—

	£	s.	d.
Productive Wages	10	-	-
Departmental Weekly Expenses	6	17	2½
Direct Departmental Cost	16	17	2½
Add 40% for Overhead Expenses	6	14	10½
Total Departmental Cost	23	12	1
Less Operators' Wages	10	-	-
	£13	12	1

Hence, the overhead expenses are allocated as follows—

Machine No. 1	$£\left(\frac{500}{37{,}500} \times 13.604\right)$	= 3s. 7½d.
Machine No. 2	$£\left(\frac{300}{37{,}500} \times 13.604\right)$	= 2s. 2d.
Machine No. 3	$£\left(\frac{200}{37{,}500} \times 13.604\right)$	= 1s. 5½d.

These items, added to the rate of wages paid per productive hour as shown in column 5, give the hourly rate for the machines as shown in column 7.

COST AND VALUE OF PRODUCTION STATEMENT. We have now devised a method for ascertaining these hourly rates and for recovering overhead expenses. The prudent business man, however, cannot afford to allow the matter to rest here and wait until the end of the next financial period to check the results of his manufacturing operations. He must be furnished with records which will enable him to check the accuracy of his rates at frequent intervals, and give him an opportunity of making any necessary adjustments. For this purpose, the daily time sheets which are made out by the employees are analysed, the productive time being separated from the non-productive, and a weekly statement of the value of production for each department is drawn up in the form shown on page 205. This will give us the total number of productive hours worked

WAGES BOOK

Week ending 7th April, 19....

Name	No.	Weekly Wages	Hours Lost	Amount of Wages Lost	Employee's Insurance	Wages After Deductions	Over-time Hours	Amount of Over-time Wages	Total Wages £	s.	d.	Employer's Insurance
DEPT. A—												
J. Brown . .	1	£5			1/4	98/8			4	18	8	1/5
T. Roberts . .	2	£5			1/4	98/8	2	5/2	5	3	10	1/5
R. Jones . .	3	£4/10			1/4	88/8			4	8	8	1/5
S. Jackson . .	4	£4/10			1/4	88/8			4	8	8	1/5
T. Robinson . .	5	£4/4			1/4	82/8			4	2	8	1/5
F. Powell . .	6	£3/12	4	6/-	1/4	64/8			3	4	8	1/5
A. Phillips . .	7	£3/12			1/4	70/8			3	10	8	1/5
L. Dixon . .	8	£3/12			1/4	70/8			3	10	8	1/5
M. Williams . .	9	£3/12			1/4	70/8			3	10	8	1/5
B. Griffiths . .	10	£2/8			1/4	46/8			2	6	8	1/5
									£39	5	10	

Department A

VALUE OF PRODUCTION

Week ending 7th April, 19....

Name, Machine, or Number	Chargeable Hours											Non-chargeable Hours						
	S.	M.	T.	W.	Th.	F.	Total Hours	Rate	£	s.	d.	S.	M.	T.	W.	Th.	F.	Total Hours
Operative No. 1 . . .	3	8	9	9	8	7	44					1	1			1	1	4
2 . . .	2	7	8	8	9	6	40					2	2	1	1	2	2	10
3 . . .	2	7	6	4	5	6	30					2	2	3	5	4	2	18
4 . . .	3	6	6	7	5	8	35					1	3	3	2	4		13
5 . . .	3	7	6	6	8	7	37					1	2	3	3	1	1	11
6 . . .		6	7	7	6	8	34						3	2	2	3		10
7 . . .	2	6	7	7	7	6	35					2	3	2	2	2	2	13
8 . . .	2	6	6	6	7	7	34					2	3	3	3	2	1	14
9 . . .	3	7	6	6	7	7	36					1	2	3	3	2	1	12
10 . . .	3	7	6	6	6	7	35					1	2	3	3	3	1	13
							360	at 4/3	£76	10	-							118

in the department, namely, 360, and this number multiplied by the departmental hourly rate gives the value of production of the department for the week. This amounts, as shown, to £76 10s., and represents the figure which has been charged to the customers of the business on the cost sheets. The real test comes, however, when we compare this value of production with the cost of production.

One of the chief elements in the departmental cost of production is the wages paid to the employees, and this figure may be obtained from the Wages Book, a specimen of which is given on page 207. This is one of the most important of the auxiliary books used in a factory. The rates of wages are agreed upon between the workers and the employer, and the number of working hours of the individual employees are entered into the book along with the amount of contribution for national insurance. As the employer is responsible for the payment of these contributions, he deducts the worker's share from his wages, the deduction being shown in the Wages Book. Moreover, in some factories there are special wages conditions such as additions for overtime, bonuses for particular services, and there may also be deductions for damaged tools or fines for breaches of works regulations. These may also be shown in the Wages Book.

Having obtained the amount actually paid out in wages, which in our example is £39 5s. 10d. for Department A, we may proceed to compile a Cost and Value of Production Statement. To the wages paid, we add the insurance, including both workman's and employer's contributions amounting in this case to 27s. 6d., so that in column 1 of the statement given below we show the total of £40 13s. 4d. We may proceed to find the total cost of production for the department as before, thus—

	£	s.	d.
Wages and Insurance	**40**	**13**	**4**
Departmental Weekly Expenses	**13**	**4**	**-**
Direct Departmental Cost	**53**	**17**	**4**
Add 40% for Overhead Expenses	**21**	**10**	**11**
Total Cost of Production	**£75**	**8**	**3**

These figures are shown in the statement for each department of the business and are compared with the value of production. In this case, where the value of production is £76 10s., it will be seen that a small surplus has been made. If the expenses have been allocated correctly and the rates calculated accurately the figures of cost and value of production should approximately equal one another if taken over a period. Should the records show a more or less constant surplus or deficit, in the absence of any other explanation such as an abnormal period of slackness in the works, it must be taken as an indication that the rates need revision.

COSTING PROCEDURE. We must now consider, very briefly, the procedure by which the various items of cost are gathered together in order to ascertain the cost of any piece of work. For the purpose of illustration we will consider the business of a printer who divides his works into three departments in addition to the stores, namely, the Composing, Binding, and Machine Departments. In order to show how their time is distributed, the employees in each department make out a time sheet every day, the form of which may be similar to that given on page 211.

Each piece of work is given a number and cost sheet is made out for it. This number is quoted on all time sheets and other returns when referring to the particular job, so that all time and materials may be posted to the cost sheet concerned. Thus, in the example, we see that three hours were spent on Job Number 9863 for Jones and Co., Ltd., and this time is posted on the Cost Sheet as shown on inset between pages 210 and 211. In a similar way, the time spent on the same job in other departments is also posted to the cost sheet.

With regard to materials, in this case paper, the storekeeper makes a daily return of paper issued showing the job number, the class of paper issued, and bin number, and the quantity given out, together with the price. These details are posted on the various cost sheets. The Packing Department also make a return giving details of all jobs dispatched, together with the charges for carriage, postage, and so on. When all the various items have been collected, they are summarized as shown in the example, and the total cost of the work is found. To this cost is added a certain percentage of profit, and the selling price thus obtained.

SPECIMEN COST SHEET

Name: *Jones & Co., Ltd*	Quantity	Description	Job No. *9863*
Address: *32 West Bute Street*			Date Received *2nd April*
	1,000	*L.P. 4to Letterheadings printed black ink*	Estimate No.
Cardiff			Order No. *E 346*
			Date Delivered *5th April*

Composing Dept.

Comp. No.	Date	Hours	£	s.	d.
7	*2/4.*	*3 at 4/3*		*12*	*9*

Binding Dept.

Date	Folding	Collating	Sewing	Perforating	Numbering	Binding	Ruling	Cutting	£	s.	d.
								¼ hr		*6*	

Machine Dept.

Mach. No.	Date	Hours	£	s.	d.
6	*3/4.*	*1 at 3/-*		*3*	

Sundries	£	s.	d.
Letterpress Ink			*2*
Binding Materials –			
Leather			
Cloth			
Boards			
Sundries			

Summary	£	s.	d.
Composition		*12*	*9*
Machine		*3*	*–*
Binding			*6*
Total Labour Costs		*16*	*3*
Materials, etc. –			
Paper		*5*	*7*
Binding			
Letterpress Ink			*2*
Carriage			*3*
Total Cost	*1*	*1*	*9*
Charge	*1*	*5*	*–*
Sales Ledger Fo. *Jo. 37*			

STORES

Date	Quantity	Description	Bin No.	£	s.	d.
3/4/..	*255*	*Royal Charter Bond L.P. 15 at 2/- per 100*	*59*		*5*	*7*

Dispatch

5/4/..				*3*

(6075N)

These figures are shown in the statement for each department of the business and are compared with the value of production. In this case, where the value of production is £76 10s., it will be seen that a small surplus has been made. If the expenses have been allocated correctly and the rates calculated accurately the figures of cost and value of production should approximately equal one another if taken over a period. Should the records show a more or less constant surplus or deficit, in the absence of any other explanation such as an abnormal period of slackness in the works, it must be taken as an indication that the rates need revision.

COSTING PROCEDURE. We must now consider, very briefly, the procedure by which the various items of cost are gathered together in order to ascertain the cost of any piece of work. For the purpose of illustration we will consider the business of a printer who divides his works into three departments in addition to the stores, namely, the Composing, Binding, and Machine Departments. In order to show how their time is distributed, the employees in each department make out a time sheet every day, the form of which may be similar to that given on page 211.

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With regard to materials, in this case paper, the storekeeper makes a daily return of paper issued showing the job number, the class of paper issued, and bin number, and the quantity given out, together with the price. These details are posted on the various cost sheets. The Packing Department also make a return giving details of all jobs dispatched, together with the charges for carriage, postage, and so on. When all the various items have been collected, they are summarized as shown in the example, and the total cost of the work is found. To this cost is added a certain percentage of profit, and the selling price thus obtained.

COMPOSING DEPARTMENT DAILY TIME DOCKET

Name ...... *A. Phillips* ...... *No.* ....*7*. *Date* ......*2nd April*. .. ....*19*....

Job No.	Customer's Name	Description of Work	Ordinary Time	Overtime	For Office Use Only	
					Chargeable Hours	Non-chargeable Hours
9863	*Jones & Co., Ltd*	*Letterheadings*	*3*		*3*	
9461	*Roberts, Ltd.*	*Circular (8 pages)*	*3*		*3*	
		General	*3*			*3*
					6	
			9			

...... *J. Brown* ...... Foreman

COST AND VALUE OF PRODUCTION STATEMENT

Week ending 7th April, 19....

Department	Wages and Insurance			Departmental Weekly Expenses			Direct Departmental Cost			Overhead Expenses 40%			Total Cost of Production			Total Value of Production			Surplus			Deficit		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
A . .	40	13	4	13	4	-	53	17	4	21	10	11	75	8	3	76	10	-	1	1	9			
B . .																								
C . .																								
Total . .																								

EXERCISE LXXII

1. What is the function of cost accounts in a manufacturing business ?

2. Explain the meaning of the following—
   (1) Total cost.
   (2) Establishment expenses.
   (3) Indirect expenses.
   (4) Sales expenses.

3. If a manufacturing concern keeps proper cost accounts, how may these cost accounts be utilized to confirm the results shown by the financial books ? (A.I.T.)

4. What do you understand by the term "oncost" ? Upon what basis should it, in your opinion be calculated ? State your reasons.

5. Robert Reed is a cigarette manufacturer. He desires to inaugurate an efficient system of costing. Are any books or records necessary for this purpose other than the ordinary books of account ? If so, describe them, and submit rulings of any books you recommend.

6. Give an example of a cost sheet ; and name the books and records, which would contain the information required for its compilation.

7. Give a form of wages book to be kept by a manufacturer and explain its working. Make allowance for the National Insurance and Widows' and Orphans' Pensions Acts.

8. The Trial Balance of the Limeshire Iron Co., Ltd., contains the following accounts : furnace wages ; salary of works managers ; stock at beginning of year ; trade charges ; distribution and sale expenses ; office salaries ; rates and taxes ; insurance. Purchases : coal, iron-stone, limestone, sundries. Sales : pig iron, slag, sundries.

   Insert your own figures and prepare accounts showing how you would allocate the various accounts in order to arrive at the gross and net profit or loss for the year. (R.S.A.)

9. Your employer, an electrical engineer, informs you that, in his opinion, a leakage of raw material is taking place from stores. He instructs you to devise methods and records which will afford an efficient check on goods—
   (*a*) Upon arrival into store.
   (*b*) Upon issue from store.

   Submit your reply to these instructions, with sketches of any books you would recommend. (R.S.A.)

10. What do you understand by a machine hourly rate ? Describe briefly how you would determine it.

11. Illustrate in chart form how the agreement or interlocking of the cost and financial account is effected.

12. What are the three main elements of cost which enter into all costing records ? Choose one of these elements and submit the ruling of a book, or abstract, suitable for the collection of the necessary detail relating to the element you select.

EXERCISE LXXIII

The following information was extracted from the books of the Northern Manufacturing Co., Ltd., for the year 19..—

	£		£
Bad debts written off	240	Carriage and cartage—	
Cash discounts allowed	190	(Inwards)	751
Salaries—Counting House	1,265	(Outwards)	347
Directors' fees	1,100	Depreciation (plant and machinery)	652
Drawing office salaries	560	Depreciation (office furniture)	25
Gas and water—		General expenses	431
(Factory)	128	Manager's salary (two-thirds factory, one-third office)	1,200
(Office)	42	Materials purchased	18,772
Productive wages	12,530	Repairs of plant and machinery	454
Rent, rates, etc.—		Sales	46,115
(Factory)	856		
(Office)	247		
Stock of materials—			
1st January	4,825		
31st December	6,368		

Prepare statements giving the following information—

(*a*) Materials consumed. (*c*) Factory oncost. (*e*) Total cost.
(*b*) Prime cost. (*d*) General oncost. (*f*) Net profit.

EXERCISE LXXIV

Prepare Manufacturing and Profit and Loss Accounts from the following figures, and a Cost Sheet showing the cost of production per article made and sold. The sales consist of wireless sets at the uniform selling price of £20 each.

	£		£
Manufacturing wages	22,800	Rent Factory	475
Salaries	855	,, Office	380
Purchases	26,075	General Expenses	760
Sales	57,000	Commission	190
Opening Stock	2,000	Machine Repairs	285
Motive Power	2,375	,, Depreciation	475
Carriage inwards	95	Closing Stock	1,000

(I.O.B.)

EXERCISE LXXV

A business has three manufacturing departments, A, B, and C, issuing materials in the proportions of 11 : 6 : 3. From the following information show the total cost of production of each department for the year 19.., and ascertain the oncost per hour per machine, working on the basis of 52 working weeks of 40 hours per week—

	£
Stock of raw materials, 1st January, 19..	3,000
Stock of finished goods, 1st January, 19..	3,370
Stock of raw materials, 31st December, 19..	3,500
Stock of finished goods, 31st December, 19..	5,460

Purchases, £12,000; repairs, £342; non-productive wages, £972; productive wages, £9,000; heat, light, and power, £738; depreciation of plant, £836; sales, £32,500; salaries, £1,503; rent, rates, and insurance, £783; general expenses, £1,350.

The wages of each department were, viz.—

A—£5,000 in connection with 6 machines
B—£3,000 in connection with 4 machines
C—£1,000 in connection with 1 machine

All expenses are to be charged to the departments in the same proportion as the production wages, except depreciation, which is to be divided equally between the eleven machines.

EXERCISE LXXVI

The following items appears in the annual accounts of a company—

	£
Material used	36,000
Production wages	25,000
Works overhead charges	5,000
General expenses	4,500

Prepare an estimate of the cost of a job where the materials are estimated to cost £300 and the workmen's wages £200, explaining the calculations upon which your figures are based.

APPENDIX "A"

QUESTIONS AND EXERCISES FROM PUBLIC EXAMINATION PAPERS

Abbreviations Used

R.S.A.	Royal Society of Arts.
L. & C. . . .	Lancashire and Cheshire Union of Institutes.
L.C.C.	London Chamber of Commerce.
C.I.S.	Chartered Institute of Secretaries.
N.C.C	Northern Counties Technical Examinations Council.
N.U.T. . . .	National Union of Teachers.
U. of L. . . .	University of London (Inter. B.Com.)
A.I.T.	Assistant Inspectors of Taxes.
I.O.B.	Institute of Book-keepers

1. What is double-entry book-keeping? State the advantages of double-entry over single-entry. (L. & C.)

2. What is meant by the term "single-entry" book-keeping? Describe its shortcomings and submit a *pro forma* balance sheet prepared under this system. (R.S.A.)

3. Describe the system of book-keeping you would recommend for a retail trader, mentioning the principal books he should keep, the columns in each book and the use of each book. (N.U.T.)

4. Explain how a retail trader may ascertain approximately the amount of stock-in-trade that he had in hand without an actual stock-taking. What use can be made of a knowledge of the approximate value of his stock month by month. (U. of L.)

5. Enumerate the chief credit documents from which the books of first entry are compiled. Give a specimen of *one* of the documents you mention, and show how it is linked with the system of accounts. (N.U.T.)

6. Why do business men periodically prepare a Trading Account and a Profit and Loss Account? Supposing the Profit and Loss Account showed a loss at the end of the period, how would the balance be dealt with in the books of a sole trader? (N.C.C.)

7. Explain the uses to which the Journal proper is put in practical modern book-keeping. Illustrate your answer by giving the ruling of a Journal, and make two specimen entries therein. (R.S.A.)

8. State briefly how net profits should be dealt with in the accounts of—
(*a*) A sole trader.
(*b*) A partnership.
(*c*) A limited company. (R.S.A.)

9. (*a*) The Loamshire Bank wrote to A B that "unless the credit balance of his credit account averaged £100 they should charge him a commission." Explain the meaning of this sentence. (R.S.A.)

15—(6075N)

9. (*b*) Dickson owes Chatenay £200 for goods supplied on 31st January. Payment of the account is not due until 31st March.

Will Chatenay be in a stronger position if he obtains a bill of exchange from Dickson for the amount due ? If so, why ? (R.S.A.)

10. Rule a form of Cash Book suitable for recording the following transactions ; enter the following items therein, and balance the book as on the 22nd January.

Jan. 1. Cash in hand, £11 8s. ; cash in bank, £137 14s. 2d.
3. Cash sales, £23 7s.
4. Paid J. Stansfield, cheque £9 10s., discount 10s.
5. Received cash from J. Mitchell, £12.
8. Paid cash into bank, £30.
11. Drew cheque for private purposes, £5.
15. Cash sales, £47.
18. Received cash from J. Newman, £11 6s., discount having been deducted from the account 14s.
19. Paid cash into bank, £40.
21. In checking the Pass Book two items were discovered which had not been entered in the Cash Book, viz., interest had been credited, £1 5s. ; commission charged, 13s.

(N.C.C.)

11. The following Trial Balance was prepared by George Dickson's book-keeper as on 31st December, 19... If, in your opinion, it is incorrect, amend it—

	Dr.		*Cr.*
	£		£
Salaries and Wages	2,642	Sales	11,872
Office Expenses, Rent, Rates, etc.	1,276	Sundry creditors	2,554
Loan from Bank	1,440	Bills receivable	1,570
Purchases	5,241	Capital Account	5,000
Sundry Debtors	8,748	Insurance paid in advance	82
Drawings Account	525		
Cash at Bank	994		
Bills Payable	212		
	£21,078		£21,078

12. When preparing the Balance Sheet of a business concern, what steps would you take to ascertain the amount that ought to be reserved to cover losses arising from bad and doubtful debts ? (U. of L.)

13. Upon what principles would you value stock-in-trade for Balance Sheet purposes, having due regard to (*a*) price fluctuations ; (*b*) alterations in duties payable upon dutiable articles ? (U. of L.)

14. Give a *pro forma* Adjustment Account, as it would appear in the Bought Ledger of a trader, and state from what sources the various items appearing on that account are posted. (U. of L.)

15. How would you distinguish between Fixed Assets and Floating Assets ? Why is such distinction necessary ? (U. of L.)

16. Sketch a form of columnar Purchase Book ; and enter therein five purchases which would be likely to occur in a trade with which you are familiar.

17. George Dickson owed £100 to Robert Rheid for goods supplied. On 1st October, the latter drew a Bill of Exchange, at two months, for the amount of the debt, and forwarded it to G. Dickson, who duly accepted and returned it. Enter this Bill in George Dickson's Bills Payable Book, and state the entries which would appear in his books upon accepting the Bill; and after the Bill had been duly met. (N.C.C.)

18. On the 20th December, 19.., you purchased goods from Messrs. Walton & Sons to the value of £250, and agreed to pay by Bill of Exchange drawn at three months from that date, and which was duly accepted. On the 10th of January you find yourself able to meet the bill, and Messrs. Walton agreed to receive payment and allow you a rebate of 5 per cent per annum, on the unexpired portion of the period. Show the entries for this transaction as they would appear in your books. (R.S.A.)

19. As from 1st January, 19.., a trader desires to alter his system of account keeping so that he may be able to show separate Trading Accounts for the different kinds of goods in which he deals. Assuming this involves the preparation of four Departmental Trading Accounts, show the rulings of any books that may be necessary or desirable for the purpose of effecting this alteration, and state how each should be posted to the appropriate Ledger Accounts. (U. of L.)

20. Prepare Purchases and Sales Ledger Adjustment Accounts from the following particulars—

19..			£	s.	d.
Jan.	1.	Balance on Bought Ledger—*Dr.*	78	13	4
		,, ,, ,, *Cr.*	1,491	7	2
		Balance on Sales Ledger—*Dr.*	1,642	9	1
		,, ,, ,, *Cr.*	42	16	8
Dec.	31.	Purchases	8,156	11	8
		Returns inward	171	11	–
		Sales	9,478	8	–
		Returns outward	265	2	11
		Cash received from customers	8,762	1	2
		Discounts allowed	328	5	7
		Cash paid to suppliers	7,584	3	1
		Discounts received	248	6	6
		Transfers from Bought to Sales Ledger	67	5	–
		Bills receivable	612	14	6
		Bills payable	252	10	–
		Debtors on Bought Ledger	87	1	7
		Creditors on Sales Ledger	52	13	4

(A.I.T.)

21. Make out an Account Sales for 400 bags of rice ex S.S. *Peerless*, sold for the account of Alma Bros., Rangoon, by Philips & Co., Ltd., Import Merchants, London. Gross weight 10 tons 8 cwt.; tare and draft 8 cwt.; sold at 39s. per cwt. The following expenses were incurred: Dock dues and cartage, £6 6s.; warehousing and insurance, £3 15s.; broker's expenses and commission, £3 10s.; agents' commission, 2½ per cent on gross sales. (N.C.C.)

22. On 15th January, 19.., Philips & Co., Ltd., Import Agents, received in London, ex S.S. *Peerless*, 400 sacks of rice, to be sold for

the account of Alma Brothers, of Rangoon. Messrs. Philips paid the following charges in connection with the consignment: 16th January, dock dues and cartage, £6 6s.; warehousing and fire insurance, £4 10s.; 1st February, broker's expenses and commission, £3 10s. The sale realized £204, and Messrs. Philips charged a commission of 2½ per cent; on 18th February they remitted a sight draft for the balance of the account. Show the whole of the entries which are necessary in the books of account of Messrs. Philips only. (N.C.C.)

23. The following figures arise in connection with discount in a commercial house—

	£
Discount allowed to customers during the half year to 31st December, 19..	1,000
Discount allowed by customers during the half year to 31st December, 19..	500
Provision for Discount allowable to customers at 30th June, 19..	100
Provision for Discount allowable by customers at 30th June, 19..	50
Provision for Discount allowable to customers at 31st December, 19..	200
Provision for Discount allowable by customers at 31st December, 19..	75

Show how these items would be recorded in the books and what the effect of them would be on the Profit and Loss Account for the half-year to the 31st December, 19... (U. of L.)

24. Write out a set of transactions embodying the following facts—

(1) Consignment of goods to a foreign country; insurance; part payment in anticipation; sale of the above consignment; account sales sent; account closed; remittance to settle.

(2) Give the Journal entries of the consignee and the consignor for the transactions you have just written out.

(3) Draw up the account sales referred to. (N.U.T.)

25. A B's account in my Ledger stands as under—

Dr.	A B.	*Cr.*
£235		£75
115		125

Journalize the following transaction which refers to the account above; "5th July. Have agreed to accept composition of 13s. 4d. in £ from A B and have this day received first dividend of 5s." (N.U.T.)

26. State the differences between the constitution of a partnership and a limited liability company as regards (*a*) capital; (*b*) profits and losses. (U. of L.)

27. A and B are in partnership sharing profits and losses two-thirds and one-third respectively. At the date of the dissolution their capitals are £1,000 A and £240 B. The sundry creditors amounts to £7,200; cash in hand, £160, and the remaining assets realized £2,840. The expenses of winding up amounts to £164. The partners brought in cash to meet their respective deficits. Close the books of the firm showing the Cash Book and Ledger Accounts completed. (N.C.C.)

28. The Sundry Debtors on 31st December amounted to £3,879 15s. 4d. A reserve of 5 per cent must be made for doubtful debts, and a total reserve of 5 per cent for discounts to be allowed. The discounts allowed during the year amounted to £126 13s. 3d., and there was an old discount reserve standing in the books of £106 16s. 2d. Show the Journal, Ledger, and Profit and Loss Account relating to these items. Also, show the item Sundry Debtors as it would appear in the Balance Sheet. (N.C.C.)

29. Sketch the ruling of a Purchases Day Book suitable for a warehouseman dealing in silks, satins, and sundries. Briefly explain its chief advantage. (L. & C.)

30. Bullock, Bull and Bear are partners sharing profits and losses one-half, one-third, and one-sixth respectively. The partnership was dissolved on the 31st December, 19.., when the position of the firm was as follows—

	£
Property	24,000
Book debts	5,000
Bank overdraft	700
Goodwill	6,100
Sundry creditors	1,000
Bills receivable	1,200
Loan to Shepherd	1,400
Capital Accounts—	
Bullock	16,000
Bull	17,500
Bear	2,500

The property realized £26,000, Bullock bought the book-debts for £4,000 and the goodwill for £6,000. Prepare final accounts. The realization expenses were £180. (I.O.B.)

31. A and B are in partnership with credit balances of £5,000 each on Capital Account and sharing profits and losses equally. B is entitled to charge £450 p.a. as salary and both partners are to have 5 per cent interest on capital. B is also to be credited with 2 per cent commission on net profits after charging such commission. The profits for the year, ended 31st December, 19.., before charging any of the above amounts, are £6,152. Indicate the net profit and show the amounts credited to each partner in connection with the year's accounts. (I.O.B.)

32. What is the difference between "capital" and "revenue" expenditure? State to which class the following belong: Repairs to machinery; preliminary expenses; repairs to buildings; additions to machinery. (L. & C.)

33. What do you understand by the term Contingent Liability? Illustrate your answer. (I.O.B.)

34. State precisely the difference between (*a*) depreciation, (*b*) fluctuation, (*c*) wear and tear. Illustrate your answer by reference to the type of asset which could be suitably dealt with under each head. (N.C.C.)

35. Explain the difference between capital expenditure and revenue

expenditure. State how you would deal with the following items. Make Journal entries if you consider it necessary.

(*a*) £120 spent on re-painting the warehouse has been charged to buildings.

(*b*) £260 wages of your own workmen (debited in the usual way to Wages Account); and £500 for materials which has been debited to Purchases Account. Both items being expended on an extension to the office.

(*c*) Replacement of parts of machinery which were worn out £130, and which had been debited to Plant and Machinery Account. (N.C.C.)

36. In connection with the flotation of a company an account called Formation or Preliminary Expenses is often created. Enumerate a few of the items which go to make up this account. If underwriting commission has been paid would this item be included? If not, where would it appear? State how you would deal with such an account or accounts at the end of the period. (N.C.C.)

37. The Firdale Property Co., Ltd., issued 2,000 6 per cent debentures of £500 each at 96 per cent and pay 1 per cent for underwriting.

Show how this transaction should be recorded in the books of the company and the figures as they would appear in the Balance Sheet after the operations have been completed. (I.O.B.)

38. The Cereals Co., Ltd., offer 400 debentures at £100 each, bearing 5 per cent interest, at 95, redeemable in 10 years at 105. The whole amount is subscribed on 1st January, 19... The expenses in connection with the issue are £500. Show the effect of the transaction in the Balance Sheet of the company at 31st December following. (I.O.B.)

39. Enumerate—

(*a*) The Statutory Books of a Joint Stock Company.

(*b*) The returns which have to be made by a Joint Stock Company to the Registrar in the ordinary course of bu iness. (I.O.B.)

40. What is a Dividend Equalization Fund? How is such a fund created? Is such a fund always equitable and beneficial to the shareholders? Comment hereon. (I.O.B.)

41. From the following information prepare an Adjustment Account of the Sales Ledger as it would appear in the General Ledger of the Snowhill Co., Ltd., as at 31st December, 19...

	£	s.	d.
Debtors, 1st January, 19..	8,964	13	7
Bills receivable	4,500	–	–
Sales	36,341	6	9
Cash paid	67	19	6
Cash received	30,549	11	11
Discount allowed	1,318	12	2
Returns	181	17	9
Credit transfers to bought ledgers	86	9	–

The balances abstracted from the Sales Ledger at 31st December, 19.., amounted to £8,738 19s. and the company's Trial Balance at that date showed a difference of £1 10s.

What conclusion would you draw? (L. & C.)

42. The capital of a company was £30,000 in £1 shares, all of which

had been issued and called up. One holder of 1,000 shares had paid only 15s. per share, and as the final call was long overdue, the directors decided to forfeit the shares. This was done on 1st February, 19.., and the shares were reissued on 9th March, 19.., at 17s. 6d. per share, to Benjamin Thomas.

Make the Journal and Ledger entries to record these transactions. (L. & C.)

43. Define—
(*a*) Certified transfer.
(*b*) Prospectus.
(*c*) Receiving Order.
(*d*) Overhead charges. (C I.S.)

44. Explain briefly the ruling in *Garner* v. *Murray*, in connection with Partnership Accounts. (I.O B.)

45. The Brighthouse Coal Co., Ltd., have acquired a lease of a colliery from the Midlands Colliery Co , Ltd., for 30 years, at a royalty of 1s. per ton, with a minimum yearly rent of £1,200; with power to recoup short workings.

The tons raised during the first five years were as follows—

1st year	T. 10,000
2nd ,,	25,000
3rd ,,	35,000
4th ,,	20,000
5th ,,	50,000

Prepare the necessary accounts showing the charges to Profit and Loss Account for each year and the amount due to the landlords at the end of each year, assuming that such amounts were paid within one month after the close of each year. (I.O.B.)

46. The Jevington Trading Co., Ltd., is registered with a nominal capital of 20,000 7 per cent preference shares of £1 each and 30,000 ordinary shares of £1 each. The public subscribed on 1st March, 19.., for 15,000 preference shares at 105 and 20,000 ordinary shares at 110 payable as follows—

	Pref.	Ord.
On Application (with premium)	2/–	3/–
On Allotment	5/–	5/–
Balance on 1st May		

All cash was received by 30th June, except that for the final call on 100 ordinary shares, which were forfeited on that date.

The preliminary expenses, £700, were paid in cash.

Show the Balance Sheet of the company at 30th June, 19...

47. Jones buys a machine (cash value £93 1s. 6d.) on hire purchase for £100, paying £25 down and the balance by three annual instalments of equal amount. Interest has been calculated by the vendor at 5 per cent. Show the Machine Account in the books of the purchaser balanced at the end of each of the three years. Write off depreciation on the original cash value of the machine at 10 per cent per annum.

48. Explain the following terms in connection with Cost Accounts: A unit of cost, indirect expenses, on-cost, cost of production.

49. From the following particulars prepare Coal Production Account and Coke Production Account, showing cost per ton produced against each item of expenditure.

Opening stock (coal) 8,000 tons at 9s.
" " (coke) 2,000 tons at 12s.
Closing Stock (coal) 9,000 tons valued at £4,100.
" " (coke) 5,000 tons valued at £3,000.

		£	s.	d.
Timber and ropes	(coal)	3,787	10	–
Wages	"	25,250	–	–
Royalties	"	1,262	10	–
General charges	"	5,050	–	–
Wages	(coke)	2,700	–	–
Stores	"	900	–	–
General expenses	"	450	–	–

Sales of coal. 100,000 tons at 10s.
Sales of coke 15,000 tons at 15s.
Coal used in Coke Department (included in sales of coal).
16,200 tons at 10s.

(I.O.B.)

50. Prepare a Cost Sheet of the Blacknut Colliery Company for the month of September, 19.., from the following figures—

Works cost: stores, £100; repairs, £150; surface rents, £100, royalties, £200.

Office cost: general charges, £120.

Wages: underground, £2,000; surface, £200.

The tons raised: 14,350. (I.O.B.)

51. From the following particulars, covering a certain period, prepare a cost sheet of a Gas Company showing the cost of the various items per 1,000 ft. of gas sold—

Coal used, £450; Residuals sold, £50.

Working expenses—

Purifying, £50; salaries of engineers, £25.

Wages, £200; repairs, £100; general expenses, £225.

The gas sold was 5,000,000 ft. = £1,375.

52. Henry Hardings is insolvent. From the following particulars prepare his Statement of Affairs stating how much in the £ may be expected, allowing £300 costs—

	£
Creditors for rent, rates, etc.	650
" fully secured	4,000
" partly secured	12,000
" unsecured	16,000
Plant (estimated to produce £6,550)	10,000
Stock (estimated to produce £2,240)	3,200
Book debts, good	2,000
" doubtful (expected to realize £1,000)	2,000
" bad	800
Household furniture, expected to realize	700
Life policy for £3,000, surrender value	1,200
Loan on life policy with interest accrued	1,040

The estimated value of securities held by fully secured creditors is £6,000, and those held by partly secured creditors, £6,000.

(I.O.B.)

53. On 1st July, 19.., the financial position of P. Williams, a retailer of fancy goods, was as follows—

	£	s.	d.
Stock in trade	942	2	6
Loan from E. Ellen	500	–	–
Cash at bank	66	5	9
Fixtures and fittings	145	–	–
Bill payable (L. Reid)	65	10	–
Trade debtor: C. Barber	7	14	1
Cash in hand	14	5	1
Trade creditor: A. Kerr	34	10	–

Open the necessary Ledger Accounts to record the above position and post thereto, through the proper subsidiary books, the following transactions—

July 1. Paid E. Ellen, by cheque, interest to date on loan, £12 10s.
2. Purchased, on credit, from J. Gibbs, 9 Attaché cases at £8 14s. per doz., 18 umbrellas at 13s. 4d. each, and 3 brushes at 16s. 6d. each, the whole invoice being subject to a trade discount of 7½ per cent.
4. Sent cheque to A. Kerr, in settlement of account, less 5 per cent cash discount.
5. Paid, in cash, wages £5 2s. 6d., postages 12s. 9d.
6. Received, and paid to bank, cheque from C. Barber for amount due from him.
7. Sold, on credit, to N. Paine. 3 handbags at 27s. 6d. each, 2 pairs of hair brushes at 15s. 9d. per pair, and 6 silver vases at £1 15s. per pair.
8. Received Barber's cheque back from the bank dishonoured.
9. Sold, for cash, fancy goods, for £11 1s. 3d.
11. Received from J. Gibbs, credit note for £1 10s. in respect of damaged umbrellas returned to him on 5th instant.
12. Banked all cash in till with the exception of £5 retained for change.

Balance the books as on 12th July, 19.., and extract a Trial Balance. (R.S.A.)

54. A, B, and C are in partnership as merchants, sharing profits in the proportions of five-tenths to A, three-tenths to B, and two-tenths to C. From the following Trial Balance extracted from their books prepare their Trading Accounts, Profit and Loss Account, and Balance Sheet, first providing £1,265 for depreciation of business premises and £465 for depreciation of furniture and fixtures. The reserve for bad and doubtful debts is to be increased to £2,400. The value of the stock on hand on 30th September, 19.., was as follows: Department A, £23,282; Department B, £8,931.

TRIAL BALANCE, *30th September*, 19..

	Dr. £	*Cr.* £
A Capital Account	—	50,000
B ,,	—	30,000
C ,,	—	20,000
A drawings	2,000	—
B ,,	1,000	—
C ,,	1,000	—
Business premises	10,170	—
Furniture and fixtures	5,620	—
Sundry creditors	—	12,166
Sundry debtors	50,780	—
Carried Forward	£70,570	£112,166

			£	£
Brought Forward			70,570	112,166
Rates, taxes, and insurance			1,000	
Stock on hand 1/7/19.., A Dept.			21,614	—
" " "	B	"	12,980	—
Purchases	A	"	82,712	—
"	B	"	83,539	—
Sales,	A	"	—	162,321
"	B	"	—	97,873
Sales returns,	A	"	1,416	—
" "	B	"	575	—
Wages,	A	"	47,680	—
Discounts			5,620	1,972
Salaries			5,400	—
General expenses			4,683	—
Advertising			2,500	—
Bad debts			1,963	—
Bank			46,773	—
Bills receivable			10,975	—
Bills payable			—	24,168
Reserve for bad and doubtful debts			—	1,500
			£400,000	£400,000

(U. of L.)

55. The following balances were extracted from the books of Messrs. Alderson & Bell, Manufacturers, on the 31st December, 19..—

Dr.	£	*Cr.*	£
Stock in hand, 1st January, 19...	8,515	Sales	31,538
Purchases	19,192	Discount	97
Wages	4,700	Rent received	100
Warehouse rent	180	Returns outwards	105
Ground rent	94	Reserve for doubtful debts	879
Rates	80	Creditors	19,137
Gas and electricity	62	Bills payable	5,921
Coal	200	A. Alderson, Loan Account	5,000
Returns inwards	1,343	A. Alderson, Capital Account	12,000
Insurance	195	B. Bell, Capital Account	6,000
State insurance	61		
Salaries	1,936		
Printing and stationery	348		
Trade expenses	127		
Discount	193		
Interest	282		
Partners' salaries	800		
Cash at bank	3,149		
Sundry debtors	19,696		
Bills receivable	1,924		
Machinery and plant	4,140		
Fittings and fixtures	760		
Land and buildings	12,800		
	£80,777		£80,777

From the above particulars you are required to prepare the final accounts and a Balance Sheet as on the 31st December, 19... The following information and adjustments must be taken into account—

The reserve for doubtful debts must be brought up to 5 per cent of Sundry Debtors. Depreciation at 5 per cent is to be provided on the machinery and plant, and the fittings and fixtures. The warehouse rent and the electricity for the last quarter of the year, viz., £60 and £18, respectively is due, but has not been entered in the books. Insurance prepaid amounts to £55. The articles of partnership provided for the partners to receive 5 per cent interest on their capitals, and to share profits as follows: Alderson two-thirds, Bell one-third. The stock in hand 31st December, 19.., was valued at £8,300. (N.C.C.)

56. From the following Trial Balance extracted from the books of X & Y, prepare their Balance Sheet, Departmental Trading Accounts and Profit and Loss Accounts, first providing for depreciation of fixtures and furniture at 10 per cent per annum, and increasing the reserve for doubtful debts to £3,000. After providing for interest on capital at the rate of 5 per cent per annum, X is entitled to receive two-thirds of the net profit and Y one-third. The value of the stock in trade at 31st August, 19.., was as follows, viz.—

	£
Department "A"	1,800
" "B"	5,200
" "C"	9,500

TRIAL BALANCE, 31*st August*, 19..

	Dr. £	*Cr.* £
Capital Account X		15,000
" Y		10,000
Current Account X	1,500	
" Y	1,500	
Stock, 1st March, 19..—		
Department A	2,000	
" B	5,000	
" C	10,000	
Purchases—		
Department A	10,000	
" B	21,000	
" C	27,000	
Sales—		
Department A		18,000
" B		25,000
" C		32,000
Wages—Department A	2,500	
Debtors	24,000	
Creditors		10,000
Bills receivable	2,400	
Bills payable		8,500
Bank		2,600
Fixtures and furniture	5,000	
Rent, rates and taxes	2,500	
Discounts	2,000	1,500
Bad debts	750	
Reserve fund—bad debts		2,400
Salaries	5,250	
General expenses	2,600	
	£125,000	£125,000

(U. of L.)

APPENDIX "B"

TERMS USED IN ACCOUNTING IN THE WHOLESALE AND RETAIL TRADE

Acceptance.—When a draft or bill has been presented to the drawee and signed or accepted by him, it is called an " Acceptance." The bill is said to be presented for acceptance.

Acceptor.—The person who writes his name across the face of the bill and thus makes himself responsible to pay it when it falls due.

Accommodation Bill.—A bill drawn upon, or accepted by a person for the convenience of another without the former having had any consideration from the latter ; slang expressions are " kite " or " windmill."

Account Current.—An account of transactions which have taken place between two parties during a given period. It is a copy of the ledger account of either party with additional columns for interest which is calculated at a fixed rate per cent for each item from the date of the transaction to the close of the account. .

Account Sales.—A statement of goods sold on commission, rendered by the agents to whom they were consigned.

Accountants' Clerk.—A general term covering any clerk employed by a firm of accountants.

Act of Bankruptcy.—An action or event upon the incidence of which a person may be adjudged bankrupt by the making out of a receiving order by the Court. Acts of bankruptcy may be arranged in three classes, viz.—

1. Personal acts done or made with the intention of delaying creditors, as for example, if the debtor—

(*a*) Departs out of England.

(*b*) Being out of England, remains out.

(*c*) Departs from his dwelling-house or otherwise absents himself.

(*d*) Remains in the house and gives orders that he is to be denied to creditors and others with the intent to defeat or delay his creditors.

2. Certain dealings contrary to the general policy of the bankruptcy laws, as for example—

(*a*) If he makes a conveyance or assignment of his property for the benefit of his creditors generally.

(*b*) If, either in England or elsewhere, he makes a fraudulent conveyance or transfer of his property or any part thereof.

3. Acts which show that the debtor is as a fact insolvent in the sense that he has ceased to pay his debts or is unable to pay his debts when they become due. For example—

(*a*) If execution issued against the debtor has been levied by seizure of his goods.

(*b*) If the debtor files in the bankruptcy court a declaration of his inability to pay his debts.

(*c*) If the debtor gives notice to any of his creditors that he has suspended or is about to suspend payment of his debts.

Adding Machine Operator.—One who operates an adding machine and is responsible for the correct listing of figures and the mechanical calculation required. The operator is frequently called after the type of adding machine, e.g. Burroughs' operator.

Allotment.—The distribution of the shares of a company by the Directors in response to the application made to them, or in pursuance of contracts agreeing to take them.

Articles of Association.—The by-laws of a company—the rules provided for its management, the right to vote, powers of directors, nature of dividends, and many other matters relating to the daily life of a corporate body.

Audit Clerk.—One who investigates and verifies the balance sheet already prepared by a firm's employees or who prepares all accounts and the balance sheet from a firm's books where no balance sheet is prepared.

Auditor.—A person who is employed to examine accounts, compare vouchers, etc., with entries in the cash book, ledgers, and other books, and to submit a report in proper form.

Bad Debts.—These are debts which appear in the books of the firm, the money for which will never be received.

Bad Debts Reserve.—In order that the figure appearing in the Balance Sheet representing debts due to the firm should be as near as possible to the sum it is hoped will be realized, a certain margin is reserved in case of bad and doubtful debts. Such a reserve may be created as follows: The Bad Debts are transferred direct to Profit and Loss Account, and the Bad Debts Reserve Account is then adjusted. If the old reserve is not large enough, the extra amount required is debited to Profit and Loss Account and credited to Reserve. If the old Reserve is too large, then the surplus is debited to the Reserve and credited back to Profit and Loss Account. Consider the following example—

The Bad Debts Reserve on 1st January was £100, and the Bad Debts during the year amounted to £105. The debtors on 31st December are £3,000, and it is decided to make a reserve of 5 per cent of this amount. The entries are as follows—

19..		£	£
Dec. 31	Profit and Loss A/c . . . . . *Dr.*	105	
	To Bad Debts		105
	Transfer of Balance		
31	Profit and Loss A/c . . . . . *Dr.*	50	
	To Bad Debts Reserve		50
	Additional amount required to raise Reserve from £100 to £150 (5% on £3,000). .		

Dr. BAD DEBTS RESERVE *Cr.*

19..		£	19..		£
Dec. 31	To Amount c/d . .	150	Jan. 1	By Balance . .	100
			Dec. 31	,, P. & L. A/c. .	50
	£	150		£	150
			19..		
			Jan. 1	By Balance b/d .	150

Balance.—The difference between the debit and credit sides of an account.

Balance Sheet.—A statement of the assets and liabilities of any trading concern.

Bank Clerk.—A clerk who makes up pass books, enters up ledger accounts from the cashier's journals, writes routine letters and acts generally under the instructions of the cashier and manager.

Bank Credit.—A credit by which a Bank, on receipt of proper security, allows a person to draw on it to an agreed extent.

Bank Rate.—The rate per cent charged by the Bank of England for discounting bills. This rate is fixed weekly by the directors according to the condition of the Money Market.

Bankruptcy.—Traders and persons who are unable to meet their liabilities are said to be insolvent. In this country the regular method of dealing with insolvent estates is under the Bankruptcy Acts, 1883 and 1890. To make the bankruptcy laws apply, it is necessary that a court having jurisdiction to administer the Bankruptcy Acts should have made an order accordingly. A creditor may petition the Court to make out a receiving order against a debtor, but before he can do so with hope of success he must satisfy the Court that he has a claim of not less than £50 immediately due, and he must further satisfy the Court that his debtor has committed an Act of Bankruptcy. The effect of a receiving order, when granted, is to place an official who is called the Official Receiver, in possession of all the debtor's property From that moment onwards no one can effectively deal with the property of the debtor except the Official Receiver. He alone can give a valid receipt on behalf of the debtor, and any person endeavouring to interfere with him in the execution of his duties is liable to be brought up for contempt of court.

After the debtor has submitted a Statement of Affairs, the Official Receiver calls a meeting of creditors who may resolve—

(*a*) To accept a composition in satisfaction of their debts.

(*b*) To agree to a scheme of arrangement of the debtor's affairs

(*c*) That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In the last case the debtor is required to undergo a public examination as to his business affairs and his property. When this is concluded, he may apply to the Court for an order of discharge. The Court has power to grant it, refuse it, or suspend it for a time, as it thinks fit, taking into consideration all the circumstances of the case.

Billbroker.—One who acts on a commission basis as agent for discounting bills of exchange between the holder and the bill discounter; he sometimes himself acts as bill discounter.

Bill of Exchange.—A written order on stamped paper from one person to another for the payment of a specified sum of money at a fixed date, to some person named, or to the bearer. The value of the stamp varies with the amount of the bill.

Bill of Lading.—A written statement signed by the master or agents of a vessel, acknowledging the receipt of goods on board, and agreeing, under certain conditions, to deliver them safely to the person to whom they are directed. It must be stamped with an impressed sixpenny stamp before execution.

Bill of Sight.—A permission granted to an importer, who is ignorant of the real quantities and qualities of the goods consigned to him, to view the goods in the presence of the officers of the customs, in order that he may be able to make a perfect entry of them.

Book Debt Buyer.—One who buys from creditors, in return for an arranged proportion of sums due, the rights to collect certain debts, trusting to recoup himself through amounts which he may be able to recover from debtors.

Book-keeper.—One who keeps accounts, or in large businesses, a section of the accounts. In the latter case, he is responsible to the chief book-keeper.

Brokerage.—The commission payable to a broker for his services.

Brokers' Contracts.—Notes signed by brokers and forwarded to their principals immediately on completion of purchases or sales.

Calls.—The amounts which the members of a company are called upon to pay on shares not fully paid.

Capital.—That portion of wealth which is invested in a business to produce further wealth. It is the surplus of the assets over the liabilities.

Capital and Revenue Expenditure.—Capital Expenditure comprises all expenditure incurred in acquiring assets for the purpose of earning income, or of increasing the earning capacity of the business. It is non-recurrent. For example, land and buildings, plant and machinery. All recurrent expenditure, which cannot properly be debited to an asset account, is revenue expenditure. This includes, in the case of a manufacturing business—

(*a*) The cost of materials purchased for consumption in the process of manufacture or goods bought for re-sale.

(*b*) Wages paid to workmen engaged in the production of commodities for sale.

(*c*) The expenses of selling and distributing the goods produced.

(*d*) Establishment charges such as rent.

(*e*) The cost of using the permanent assets of the business and of maintaining their efficiency by means of repairs, etc.

Card System.—This closely resembles the loose-leaf system (q.v.). Loose cards are kept in a drawer, into which the cards are fastened by means of a rod passing through a hole in the base of the card. This system is more applicable to cases where the number of the accounts is large but in which each account has two entries. Similar advantages and disadvantages are claimed for this system as for the loose-leaf system.

Cashier.—The person in charge of all cash and responsible for all cash transactions. He pays wages, keeps petty cash accounts, and receives any cash that comes with orders or in payment of accounts and enters it in the cash book.

Charter Party.—A written contract between the owner or master of a ship and the freighter, by which the former lets the ship to the latter for the conveyance of goods to one or more places. It requires a sixpenny stamp.

Chief Accountant.—A person who has charge of a staff of book-keepers who undertake all necessary work under his instruction ; he obtains details of all monetary transactions from the ledger clerks and the cashier, and prepares all financial statements for the production of a balance sheet. He may also calculate commission due to salesmen and pass the statement to the cashier for payment.

Collateral Security.—A secondary security for the payment of money or the performance of a contract. The term is generally applied to the deposits of deeds or documents giving the right to property in case the first or chief security fails or becomes insufficient.

Company Promoter.—A person who acts as agent for the proprietors of a business in making all preliminary arrangements for the flotation of a limited company. Sometimes he acquires an interest in an enterprise requiring capital for developments and floats a limited company as a speculation.

Composition.—An arrangement between a debtor and his creditors whereby the latter accept in full settlement of his debts lesser sums than are actually owing. If a composition is offered, it is customary in bankruptcy to work on the basis of so much in the £ for every £ due. If a composition is accepted by the creditors, that is to say, if a majority are in favour of it, it still has to go before the court, and the court will not sanction a composition unless it provides at least 7s. 6d. in the £. Where a composition is accepted by the court, the bankruptcy is annulled, and the debtor is able to start business once more.

Contingent Liability.—A liability that arises only on the happening of a certain event, as for example, Bills under Discount ; if the acceptor dishonours the bill, then the endorsers and drawer become liable for payment.

Contract Accounts.—These relate to the cost of carrying out distinct contracts such as those entered into by builders. The purpose of such accounts is to show the cost of each contract, and the resulting profit or loss.

Cost Accountant.—One who obtains and records rates of wages, etc., of the workmen, clerks, and managers employed in a concern, rent, rates, and taxes of buildings, cost of heating, lighting, cleaning, etc., prices of materials used in manufacture, amount of sales, wastage, depreciation, cost of transport, insurance, etc., so that the manager of the costing department may have guidance in framing estimates and also may calculate the proportion of the above costs in various relations, i.e. to show the absolute cost of a unit of manufacture, to compare cost of units at one period with another period, or to compare the absolute cost of one process with another process.

Days of Grace.—The three extra days added to the term of a Bill of Exchange for the purpose of determining the day on which it falls due, the bill being due and payable on the last day of grace.

Debenture.—A certificate of indebtedness given by a company, usually under seal. Debentures have a first charge after mortgages (if any) for both the principal and interest due on them, on the whole of the assets of the undertaking. Accordingly, they rank before Preference and Ordinary Capital.

Deed of Arrangement.—Insolvent traders sometimes endeavour to make private arrangements with their creditors, their property being transferred to a trustee who manages it on behalf of the creditors. A deed embodying such an arrangement is called a " Deed of Arrangement." It enables a debtor to escape the publicity and stigma of the bankruptcy court, while the creditors obtain a bigger dividend as the expenses consequent on bankruptcy are avoided. Such an arrangement, however, constitutes an act of bankruptcy and a dissentient creditor may bring a bankruptcy petition against the debtor.

Demurrage.—A charge of so much per day made by the owners of ships and barges for their detention beyond a stipulated time. The term is also used for a charge of so much per day made by railway companies for detaining their wagons, trucks, and carriages beyond a certain time. Legal holidays and Sundays are not counted.

Depreciation.—The diminution which takes place in the value of a wasting asset, no matter what sum is spent upon it in repairs. This loss in value may be caused by one or more of the following—

(*a*) Market fluctuations in the value of the asset.

(*b*) Wear and tear arising from continued use.

(*c*) Obsolescence which occurs when an asset is superseded by one of a new or improved type.

(*d*) Effluxion of time.

Provision may be made for depreciation in a variety of ways, the chief of which are the following.

1. *Fixed Instalment Method.* A fixed percentage is deducted each year from the original cost, so that the book value of the asset is reduced to nil or its value as scrap at the end of its life. It is mostly used for writing off short leases, and is unsuitable for plant and machinery where additions are continually being made, as the depreciation on each item must be calculated separately.

2. *Reducing Instalment System.* This is most common of all systems. A fixed percentage is deducted each year from the gradually reducing value of the asset. The amount so provided is reduced in the last years of the life of the asset when the cost of repairs and renewals usually increases, which tends to equalize the yearly charge.

3. *Annuity System.* Under this system the purchase of the asset is regarded as an investment of capital which, if otherwise employed, would be earning a certain rate of interest. The amount of depreciation must be found

from actuarial tables, and will remain constant throughout the period, being debited to revenue and credited to the asset, but the interest debited to the asset and credited to revenue will be less each year as it is worked out on the reducing value of the asset.

4. *Depreciation Fund Principle.* By this, an equal amount is charged yearly during the estimated life of the asset, which, with interest, will eventually equal the original cost of the asset and be available for replacing it. This system is suitable for plant and other wasting assets where it is desired not merely to write off an amount, but to make some provision for the replacement of an asset at the end of its estimated life.

5. *Insurance Policy System.* This is similar to the Depreciation Fund Method except that an insurance policy is taken out for the amount required to replace the asset at the end of its period of life.

6. *Revaluation Method.* The assets are revalued each year. It is used for depreciating assets which cannot be dealt with by other methods and where special considerations have to be taken into account.

Discount Broker.—One who acts on a commission basis as agent for the discounting of bills of exchange between the holder and the bill discounter.

Dissolution of Partnership.—The act of breaking up an association formed for the purpose of trade, or the act of retiring from such association of one or more of the partners concerned.

Distraint.—A seizure for debt.

Dividend.—The periodical distribution of the profits of a company. It is also applied to the instalments paid by a bankrupt to his creditors.

Documentary Bill.—A Bill having attached to it certain documents as security, usually a bill of lading, insurance policy, invoice, and letter of hypothecation.

Double Account System.—This is a form of keeping accounts adopted by certain undertakings of a public nature but which is different in many respects from the ordinary system of accounting. It is chiefly employed in connection with undertakings formed under special parliamentary powers such as railway companies, water companies, gas and electric light works, and tramways, which although intended to be conducted at a profit are also carried on, at least partly, in the general interest of the public, and it is recognized that the public have some right to information as distinct from the shareholders respecting the operations of the concern. Hence, in connection with these semi-public undertakings a special form of accounts is usually prescribed by Act of Parliament. The form varies to meet the circumstances of each case, but in all these undertakings the final accounts are prepared on the double account system.

This system of compiling the final accounts has, as its main object, the presentation in a clear statement of the capital of the undertaking. It shows the amount and method of raising the capital subscribed and how it has been expended.

All income and expenditure of a capital nature is shown in an account termed a Receipts and Expenditure on Capital Account which shows on its credit side the capital already contributed, and on the debit side the amount spent upon the fixed assets of the undertaking. The balance of this account is transferred to the final account termed the General Balance Sheet which merely shows the floating assets of the business.

Under the Double Account System the distinction between capital and revenue is very strictly observed. Capital receipts are composed of subscriptions in respect of stocks, shares, and debentures; capital expenditure consists of the money spent on land, buildings, plant, works of construction, and extention. Revenue receipts consist of the earnings of the undertaking as a going concern; revenue expenditure consists of working and administrative expenses, repairs, and renewals. A disadvantage of the system is that,

FORM OF BALANCE SHEET PREPARED ON DOUBLE ACCOUNT SYSTEM

CAPITAL ACCOUNT

Dr. | *Cr.*

Expenditure	To 31st Jan.	Half-year to 31st July, ..	Total to Date	Receipts	To 31st Jan.	Half-year to 31st July, ...	Total to Date
	£	£	£		£	£	£
Lines open for traffic	9,512,000	70,000	9,582,000	Consolidated Stock	9,000,000	800,000	9,800,000
Lines in course of construction	700,000	150,000	850,000	Debenture Stocks	2,900,000		2,900,000
Working Stock	1,415,000	16,000	1,431,000	Loan		100,000	100,000
					11,900,000	900,000	12,800,000
Subscriptions to other Railways	950,000		950,000	Balance to General Balance Sheet			196,000
Steamships and Wharves	175,000	8,000	183,000				
Balance							
	12,752,000	244,000	12,996,000				12,996,000

GENERAL BALANCE SHEET, 31st JULY, ...

	£		£
To Net Revenue Account	390,000	By Balance	196,000
„ Unpaid Dividends	1,000	„ Cash at Bankers—Current Account	200,000
„ Interest on Debentures accruing	58,000	„ Stores and Materials in Stock	174,000
„ Balances due to other Companies	139,000	„ Traffic Accounts due to the Company	191,000
„ Superannuation Fund	168,000	„ Amounts due from other Companies	37,000
„ Widows' and Orphans' Fund	25,000	„ „ „ Clearing House	25,000
„ Savings Bank	90,000	„ „ „ Post Office	8,000
„ Depreciation on Steamers	19,000	„ Sundry Debts due to the Company	65,000
„ Reserve	20,000	„ Dividends to be received by the Company	14,000
	910,000		910,000

whereas it shows in a clear form the amount of capital subscribed and expended, it makes no provision for the depreciation of the assets; the latter, therefore, do not appear at their true value in the account. Depreciation funds are sometimes created by appropriations from revenue each year, against which investments are held.

Dutch Auction.—The plan of offering articles at nominal prices somewhat above their value, and gradually lowering the prices until accepted, the person who first assents becoming the purchaser.

Endorse.—To sign on the back of a bill when it is negotiated or paid away to another person.

Endorsee.—The person to whom the bill, cheque, or other document is transferred by endorsement. He can then deal with the document as if it had been actually made out to him in the first instance.

Estimating Clerk.—A costs clerk who works out quantities and prices of materials from current quotations to assist the estimator in the preparation of a tender for a contract.

Executor.—One who is appointed by a testator to see that his Will is properly carried into effect after his decease.

Fiat in Bankruptcy.—The authority issued by the Court which declares the bankruptcy.

Fictitious Assets.—A term applied to those items which appear on the asset side of the Balance Sheet but which do not represent value, or which cannot be realized, such as a debit balance of Profit and Loss Account, preliminary expenses not written off, etc.

Garnishee Order.—In English law the word "Garnishee" is applied to a person who has been ordered by the Court to pay a debt he owes, not to his creditor, but to some third person who has obtained judgment against the creditor. Thus, if A owes B £100, and C obtains a final judgment against B for a debt of £200, he may apply to the Court for an order obliging A to pay £100 to C instead of B. Such an order is a "Garnishee Order," A being the Garnishee. This order is used in case a debtor has no furniture upon which execution may be levied, but who has a banking account. It is usual to apply for an order attaching sufficient of the amount of the debtor's credit at the bank to pay the debt and costs.

Goods on Sale or Return.—Goods sent out on sale or return are goods sent to a customer on approval. No sale is effected until the customer does one of three things, viz.—

1. Notifies the seller that he accepts the goods.
2. Retains the goods beyond the date specified on the invoice.
3. Does any act which will negative the title of the true owner.

This class of transaction needs special treatment in the books of account, if the Balance Sheet is to show the true position. The best way to deal with these items is to have a special Day Book ruled as specimen shown at foot of page 237.

When the goods are sent out, the date, name of customer, invoice number, and the selling price of the goods are entered in columns (1) to (4). As soon as the potential buyer notifies the seller that he accepts the goods, particulars are entered in columns (6) and (7) and are debited therefrom to the Sales Ledger, the total of column (7) being finally posted to Sales Account in the Ledger. If the goods are returned, particulars are entered in column (5).

The difference between the total of column (4) and that of columns (5) and (7) represents the selling price value of the goods on sale or return at any particular time. This value, reduced to cost price, may be included in the Balance Sheet as "Goods on Sale or Return."

Goodwill.—This is the monetary value attaching to the probability that old customers will resort to the old place notwithstanding a change in ownership or control of the business. It may arise from the reputation of the article sold, monopoly, trade marks, the personality of the proprietor, or the favourable situation of the premises where the business is carried on. There is no legal obligation to write down the value of this asset, though it is a prudent business policy to do so.

Hire Purchase Accounts.—Under the Hire Purchase System, goods are delivered to a person (called the Hire Purchaser) in return for his undertaking to pay agreed sums at specified intervals for a certain period, and on the understanding that at the end of that period, when the payments are completed, the goods become his absolute property.

In the buyer's books no entry will be made until the first instalment is paid. This will then have to be allocated between capital and revenue. The cash value of the articles must be ascertained, and also the rate of interest charged for the hire. Interest on the cash value, or the unpaid portion of it, must be worked out whenever an instalment is payable. The amount of interest will be the proportion of the instalment chargeable to revenue, while the balance of the instalment will represent the proportion to be capitalized. Depreciation must be charged annually on the cash value, or its diminishing balance, so that the asset shall appear in the books at the end of the time at its then proper value.

In the seller's books the items will be entered at their cash value in a special Hire Purchase Journal, and posted to the debit of the purchaser and to the credit of a Hire Purchase Sales Account. As each instalment falls due, the customer's account or the unpaid balance of it, will be debited with interest, which will be credited to a Hire Purchase Interest Account, and taken eventually to Profit and Loss Account as a profit. As the goods, however, are not yet the actual property of the buyer and may be returned, a reserve should be made to cover any possible loss arising from such a contingency.

Hollerith Operator.—One who operates and controls a Hollerith calculating machine by inserting cards in a punching machine and punching according to the particulars required to be tabulated. The punching is checked in a verifying machine, in which the operator repeats the punching operations, and if the second operation does not tally with the first, the machine stops and the column in which the error occurs is thus located. The cards are then placed in a sorting machine which is driven by electricity; the machine is adjusted in order to count the desired items; cards are then placed in batches in the tabulating machine which writes down the total of each batch separately; finally, the totals of the batches at the end of the operations are added by arithmetic or on the comptometer.

Income and Expenditure Account.—This is an account of a non-trading concern which deals not only with the actual income and expenditure of the

Date	Particulars	No. of Invoice	Goods sent on Sale on Return			Goods Returned			Date	Goods Sold			Led. Fol
			£	s.	d.	£	s	d.		£	s.	d.	
19.. Mar. 10	Jackson & Co., Ltd., Birmingham . . .	29	25	10	-				19.. Mar. 17	25	10	-	J. 9
(1)	(2)	(3)	(4)			(5)			(6)	(7)			(8)

current year, but with the whole of it. All items of income and expenditure belonging to the period must therefore be included even though they have not been received or paid at the time of making up the account. The balance of the account shows the surplus of income over expenditure, or vice versa; it represents the surplus or deficit for the year, and is carried to the Balance Sheet. It is sometimes known as a Revenue Account, to which it is exactly similar in character. The following is an example—

THE CARDIFF RECREATION CLUB

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 19..

Dr.			*Cr.*		
Expenditure		£	*Income*	£	£
To Printing and Stationery		100	By Annual Subscriptions	600	
,, Salaries		50	,, Subscriptions Due	10	
,, Repairs and Cleaning		30		——	
,, Cost of Entertainments		75		610	
,, Rent, Rates, and Taxes		70	*Less* Paid in Advance	20	
,, Gas and Electric Light		50		——	590
,, Newspapers and Magazines		60	,, Entrance Fees		160
,, Depreciation—			,, Sale of Tickets for Entertainment		150
Library Books	10				
Furniture	40				
	——	50			
,, Cost of Annual Dinner		75			
,, Balance (Surplus of Income over Expenditure for the year)		340			
	£	900		£	900

Income Tax.—The income tax is a tax levied annually by Parliament for the sake of producing revenue to meet public services. It is raised, as far as practicable, at the source from which the profit springs; and for facility of collection, the possible sources are grouped under five headings, which are known as Schedules A, B, C, D, and E.

Schedule A, or the Landlord's tax, includes the income which is derived from the ownership of land or houses.

Schedule B, or the Farmer's Tax, includes the income which is derived by occupying land, and this tax is collected from the occupier of the land and not from the owner.

Schedule C, or the Investor's Tax, includes the incomes derived from investments in Government securities, not only at home, but in the Colonies or in foreign countries.

Schedule D, or the Trader's Tax, is the most comprehensive of all. Within this schedule more than half the income is obtained. It includes income derived from any trade, profession, or business; from colonial or foreign property; from investments in colonial or foreign securities (except those charged under Schedule C); or from income derived from any other source not included under the other schedules. The great majority of the activities of the country come within the scope of this schedule. The incomes from investments which are not Government securities, come into this schedule.

Schedule E, contains incomes earned in respect of employment by the State, public companies and bodies, or private companies and firms.

Within these five categories there is included every conceivable kind of income. The classification into five schedules is based upon a special characteristic of the British Income Tax, which is known as " collection at the source."

Income Tax Recovery Agent.—A person who undertakes for clients the recovery from the Inland Revenue Department of excess payments made on account of income or other taxes and duties.

Inscribed Stock.—Stock is sometimes issued without a certificate being granted to the holders. This is known as Inscribed Stock, the names of the holders and the amount each holds being inscribed in a register kept by an agent for the issue of the stock. A holder of inscribed stock who wishes to transfer it can only do so by signing in the register a statement to the effect that he has assigned his holding to some other person ; or by giving a power of attorney to a representative to enter the transfer in the register.

Interim Dividend.—A dividend declared before the whole amount of the profits of an undertaking for any period has been ascertained.

Internal Check.—The organization of the accounts in such a way as to acquire a speedy detection and rectification of errors and at the same time to minimize the possibility of fraud.

The following are essential requirements of a system of internal check—

1. There must be a definite division of responsibility, so that in the event of any dereliction of duty there may be no uncertainty as to who is at fault.

2. No one should perform any duties which do not devolve upon him, unless he is instructed by a superior who is prepared to accept responsibility for departure from the rule.

3. In order to lessen the risk of collusion, clerical work should not be checked mutually, i.e. if A checks B, B should not check A.

4. The duties should be changed where possible at stated intervals.

5. Every member of the staff should be required to absent himself for at least ten days in each year for holiday purposes. Any discrepancies are then likely to come to light.

6. The cashier or his assistants should not be allowed to make entries in the " Debtors' Ledgers."

7. No goods should be issued from stock without first being entered up.

8. As many independent persons as possible should be concerned in all transactions involving the receipt or issue of goods. This will tend to lessen the risk of collusion.

Investment Accounts.—These record particulars of money invested in any of the numerous types of securities. Where the number of investments is large, it is desirable that the profit or loss arising from each investment shall be ascertained. A separate account must be opened for each investment, and thus the profit and loss on each security is disclosed. The accounts are generally ruled with three columns on each side so that the nominal value of the holding, the principal or capital value, and the periodical interest or dividends may be seen at a glance.

Invoice Clerk.—A clerk who enters on an invoice form, from the original order and other documents, the name and address of the customer to whom the consignment is being sent, details of each item with the price and total cost.

Joint Account.—The record of a speculation entered into by two or more persons, in order to divide the risk of the undertaking.

Joint Stock Company.—One in which the capital has been contributed jointly by the members. The capital is usually divided into shares, and each shareholder pays the price of his holding by instalments as required. In a limited company, each shareholder's liability for the debts of the concern is limited to the amount unpaid on his shares

Ledger Clerk.—One who keeps journal and ledger accounts of goods bought or sold and renders accounts and statements to customers. In large firms he is sometimes specifically designated, e.g sales ledger clerk.

Loose Leaf System.—A system under which pages are capable of being removed from or inserted into a binder by means of a locking arrangement. It is devised to retain open or current accounts only. As soon as any page is finished it is extracted and replaced by a fresh one, thus obviating the work of allocating to an account the number of pages it is expected to occupy, and the trouble of transferring the accounts when the space allotted is insufficient. The system admits of the accounts being arranged to suit individual requirements; thus it may be on an alphabetical basis, or a numerical basis or a combination of these two. The advantages claimed for the loose leaf system are—

1. That the opening of new ledgers is dispensed with.
2. An account is kept perpetually in one place.
3. A reduction of clerical labour by having no blank leaves and the handling of "live" accounts only.
4. That "dead" accounts and full sheets can be easily removed and transferred to another binder.
5. That the ledger may be divided into parts for the rendering of monthly statements.
6. Greater facility for auditing.

The disadvantages of such a system are that loose leaves are liable to be lost and that it is easier to commit fraud on loose leaves than in bound books, as a false leaf may be more easily inserted.

Manufacturing Account.—An account which precedes the Trading Account in the case of a manufacturing concern. Its object is to ascertain the cost of the articles or goods manufactured, and in which the concern has been trading.

Memorandum of Association.—The document setting out the objects for which a company is formed, signed by the original members of the company at the time of its incorporation.

Mortgage.—A pledge of land or property by deed, as security for money lent or owing.

Narration.—The description of any business transaction inserted after a journal entry.

Notary Public.—A solicitor specially authorized to present, protest, and note dishonoured bills of exchange.

Over-trading.—The locking up of so great a portion of the capital embarked in an undertaking that too little is left for use as working capital.

Par.—The nominal or face value of a security. If the market price is higher than that originally paid, the security is said to be "above par." If the price be less, it is said to be "below par." When the nominal and market value are equal, it is said to be "at par."

Pay Clerk.—One who prepares wages sheets of employees, calculates amount of money to be added or deducted in respect of overtime, lost time, sickness, etc. If alterations are to be made in agreements, he adjusts the scales and rates of pay accordingly.

Plant Register.—This register enables depreciation to be more accurately determined each year, and also is a ready means of ascertaining the cost of any plant that may be sold, in order to determine whether any loss on sale arises after taking into consideration depreciation already written off. The book may have columns for several years, and be ruled as follows.

PLANT REGISTER

Date	Item No.	Name of Machine	Dept. in use	Cost	19..			19..		
					Rate of Dep.	Amount of Dep.	Balance	Rate of Dep.	Amount of Dep.	Balance
19.. Mar. 31	25		Dept. C.	£ 700	10%	70	630			

Productive Wages.—The wages of the factory workpeople and staff. They are charged to the trading account when a separate manufacturing account is not prepared.

Protest.—The steps taken to charge an endorser with liability for the payment of a dishonoured bill.

Proxy.—Authority placed in the hands of a deputy as a substitute for its personal exercise.

Receipts and Payments Account.—This is a statement of cash actually received and paid during a given period in connection with a non-trading concern, such as a club, society, or hospital. It is, in effect, a summary of the Cash Book, and therefore shows the opening and closing balances of cash in hand, and receipts and payments of any kind made during the period. An account in this form will frequently give to an uninitiated person a wrong impression of the financial position of the undertaking in question since no distinction is made between capital receipts and payments, and receipts and payments on account of revenue. Further, cash alone is dealt with, outstanding expenses, or income due but not received, being ignored, while outstanding debtors and creditors, if any, at the beginning and end of the period are not included. An example of such an account is given on page 243.

Renewal.—The extension of the time of payment of a bill of exchange by giving a fresh bill.

Reserve Fund.—The proportion of profits of a business set aside for future unexpected losses.

Retailers.—Those traders who sell goods directly to the general public.

Retiring a Bill.—Honouring it, paying it when due.

Revenue Account.—An account of the profits and losses of a non-trading concern.

Royalty Accounts.—A royalty is an amount payable by a person for some special right or privilege conceded to him by another person, e.g. the right to work a mine or to manufacture and sell a patented article, or to produce and publish a book. Royalties are usually based upon a fixed sum per unit of output. The payment to the landlord usually takes the form of a minimum yearly rent, merging into a royalty of so many pence per ton of mineral extracted. This minimum rent is payable whether the mine is worked or not, and thus the landlord is assured of a certain, regular income.

When the tonnage of the output is less than that necessary to cover the minimum rent at the rate of royalty payable under the lease, the difference is termed "short-workings." Short-workings are generally recoverable out of royalties earned in excess of the dead rent during a given period from the commencement of the lease. The methods of recording these royalties and short-workings in books of account may be summarized thus—

1. The debit to Royalty Account (which is ultimately transferred to Profit & Loss Account) must represent the agreed royalty on the actual output, whether short-workings occur or not.

2. The minimum rent is payable in any case, and in those years where the tonnage worked does not reach this figure, the amount of the minimum rent payable is debited to Minimum Rent Account and credited to the landlord. The Landlord's Account is cleared upon payment.

3. The royalty on tonnage worked is debited to Royalty Account and credited to Minimum Rent Account, the balance of the latter account being transferred to Short-workings Account. If there is a right to recoup short-workings, the Short-workings Account is treated as an asset and appears as such in the Balance Sheet.

4. For those years in which the royalty on output exceeds the minimum rent, there is no necessity to open an account for the latter, the better method being to debit the Royalty Account and credit the landlord direct with the full amount of royalty on the tonnage produced.

CARDIFF VEGETARIAN SOCIETY

SUMMARIZED ACCOUNT OF RECEIPTS AND PAYMENTS

Dr. FOR THE YEAR ENDING 31ST MARCH, 19.. *Cr.*

RECEIPTS				£	s.	d.
To Subscriptions of Members and Associates (Minimum)				17	12	–
,, Subscriptions for *Messenger*				3	19	3
,, Subscriptions in excess of minimum and Donations				40	17	–
,, Library Fines						8
,, Sales: Literature and Goods				7	11	4
,, Collections at Lectures				9	4	2
,, Receipts at other Meetings and Classes				15	3	4
,, Balance, to be carried to next year, viz.:—						
Due to Treasurer	£22	18	9			
Less Library Funds in hand	6	12	3			
				16	6	6
				£110	14	3

PAYMENTS	£	s.	d.	£	s.	d.
By Balance from last year, viz.:—						
Due to Treasurer	17	6	7			
Less Library Funds in hand	6	12	3			
				10	14	4
,, Printing and Stationery—General				12	5	4
,, Postages—General				5	4	7
,, *Vegetarian Messenger*, Postage, etc.				6	6	1
,, Sundry and Incidental Expenses				4	4	9
,, Literature, etc., for Sale and Distribution				3	17	6
,, Lectures				49	16	1
,, General Meetings, Field Day, Classes, etc.				18	5	7
				£110	14	3

BALANCE SHEET, 31ST MARCH, 19..

LIABILITIES	£	s.	d
LIBRARY DONATIONS	10	8	7
SUBSCRIPTION PAID IN ADVANCE		5	–
BALANCE DUE TO TREASURER	22	18	9
	£33	12	4

ASSETS	£	s.	d.	£	s.	d.
LIBRARY—Value of Books	3	1	10			
Cash in hand	6	12	3			
				9	14	1
STOCK OF LITERATURE, ETC., FOR SALE				1	11	7
REVENUE ACCOUNT—						
Balance (Deficit) at 1st April, 19..	15	16	8			
Add Loss for the year	6	10	–			
				22	6	8
				£33	12	4

5. Where a debit balance exists in the Short-workings Account and the royalties exceed the minimum rent, the royalty on the excess tonnage is debited to the landlord and credited to Short-workings Account. This process is repeated each year in which there is excess tonnage until the Short-workings Account is extinguished. Where, however, the lease provides that the right of recovery exists only for a certain period, at the end of that period any balance to the debit of Short-workings Account must be written off to Profit and Loss Account.

The following example illustrates the preparation of these accounts. A colliery company are lessees of a mine at a dead rent of £1,000 per annum merging into a royalty of 1s. per ton raised, with power to recoup short workings within four years. The coal raised during the four years was as follows—

1st year	1,000 tons
2nd ,, ...	15,000 ,,
3rd ,, ...	25,000 ,,
4th ,, ...	45,000 ,,

The Dead Rent Account in the ledger of the colliery company would appear as follows—

Dr. DEAD RENT ACCOUNT *Cr.*

		£			£
Year 1	To Landlord . . .	1,000	Year 1	By Royalties .	50
			,,	,, Short Workings	950
		1,000			1,000
Year 2	To Landlord . .	1,000	Year 2	By Royalties .	750
			,,	,, Short Workings	250
		1,000			1,000

Dr. ROYALTIES ACCOUNT *Cr.*

		£			£
Year 1	To Dead Rent .	50	Year 1	By Trading A/c .	50
,, 2	,, Dead Rent .	750	,, 2	,, Trading A/c .	750
,, 3	,, Royalties . .	1,250	,, 3	,, Trading A/c .	1,250
,, 4	,, Royalties . .	2,250	,, 4	,, Trading A/c .	2,250

Dr. SHORT WORKINGS ACCOUNT *Cr.*

		£			£
Year 1	To Dead Rent .	950	Year 1	By Balance c/d .	950
,, 2	,, Balance b/d .	950	,, 2	,, Balance c/d .	1,200
,, 2	,, Dead Rent .	250			
		1,200			1,200
,, 3	,, Balance b/d .	1,200	,, 3	,, Transfer to Landlord's A/c	250
			,, 3	,, Balance c/d .	950
		1,200			1,200
,, 4	,, Balance b/d .	950	,, 4	,, Transfer to Landlord's A/c	950

Dr. LANDLORD'S ACCOUNT *Cr.*

		£			£
Year 1	To Cash . .	1,000	Year 1	By Dead Rent .	1,000
,, 2	,, Cash . .	1,000	,, 2	,, Dead Rent .	1,000
,, 3	,, Cash . .	1,000	,, 3	,, Royalties .	1,250
,, 3	,, Short Workings A/c . .	250			
		1,250			1,250
,, 4	,, Cash . .	1,300	,, 4	,, Royalties .	2,250
,, 4	,, Short Workings A/c . .	950			
		2,250			2,250

Scrip.—The receipt given for a company's shares pending the delivery of share certificates.

Secret Reserves.—A surplus, the existence of which is not shown on the balance sheet.

Set Off.—A counter claim by a person on whom a demand is made.

Sinking Fund.—This is either a charge against profits to provide for a wasting asset such as a lease, or an appropriation of profits to repay some known liability such as debentures. In each case, however, there is a corresponding amount of cash invested in order that the sinking fund may be immediately available when required.

Sleeping Partner.—A partner who does not assist in the management of the business but who receives a share of the profits and is also liable for his share of the loss.

Statement of Affairs.—This consists in the first instance of a summary of the debtor's assets and liabilities which are valued according to what they will realize. Assets handed to creditors as security are not included. Against these assets appear creditors who are not secured. The secured creditors appear on the statement but are not carried into the effective money column, so that the second money column shows the amount of assets and the claims against them. The law confers special rights on certain classes of creditors; these are known as Preferential Claims and include—

1. Debts due from the Crown.
2. Claims for local rates, with certain limitations.
3. Claims for salaries and wages with certain limitations.
4. Liabilities under the Workmen's Compensation Acts.
5. Contributions payable under the Unemployment Insurance Act, 1920.

These preferential claims are stated short on the liabilities side of the statement and deducted from the assets side. The remaining balance is the amount available for distribution. Thus the statement of affairs shows the position of the debtor and how he came to be in that position. It has to be verified by affidavit of the debtor. If the debtor is incapable of preparing the statement, the Official Receiver will authorize someone to assist him and the cost of such assistance will be paid out of the estate.

A Statement of Affairs compiled on the above lines will show on 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 losses on realization and costs) is available for distribution among the 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 explained, some modification of the ordinary form of Profit and Loss Account has to be provided. This modified account (known as the 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 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 realization of assets so that the ultimate balance of the account is the deficiency shown in the Statement of Affairs. The following example will illustrate the preparation of these accounts—

Brown & Co., filed their petition in bankruptcy on 31st December, 19.., and the following information was obtained from their books:

Cash in hand, £33; Cash at Bank, £275; Stock in Trade cost £1,430, estimated to realize £1,045. Customers' Accounts: Good, £4,400; Doubtful, £715, estimated to realize £110; Bad, £1,320. Machinery, etc., cost £3,300, will probably fetch £1,100. Freehold property cost £13,200, valued at £9,900; this property is mortgaged for £7,700. Investments at cost, £1,650; market value, £1,100; these are held as part security by creditors for £1,430. Contingent liabilities on Bills discounted £7,000, of which £1,650 are expected to rank. Unsecured creditors: Trade, £8,800; On loan, £2,200. Claims for rates £66; for Wages £55, and for Rent £110.

The partners commenced business on the 1st January, 19.., with a capital of £6,000 in cash. The profits have been—

First year . . .	£5,300
Second year . . .	£3,000
Third year . . .	£3,212

The partners drawings were—

First year . . .	£2,200
Second year . . .	£5,500
Third year . . .	£3,850

Stock-keeper.—A warehouse man who keeps the stock book showing the amount of stock (as distinguished from stores) and quantities of goods passing

STATEMENT OF AFFAIRS OF BROWN & Co.

AT 31ST DECEMBER, 19..

Gross Liab.	Liabilities (As stated and estimated by Debtor)		Expected to Rank			Assets (As stated and estimated by Debtors)		Estimated to Produce		
£			£	s.	d.			£	s.	d.
8,800						Cash at Bank		275	–	–
2,200	Unsecured Creditors		11,000	–	–	,, in Hand		33	–	–
1,430	Creditors partly secured	£1,430				Stock in Trade (Cost £1,430)		1,045	–	–
	Less estimated value of security					Machinery (Cost £3,300)		1,100	–	–
	(investments) as per contra	1,100				Freehold Property (Cost £13,200)—				
			330	–	–	Valued at	£9,900			
1,650	Contingent Liability on Bills of					*Less* Mortgage	7,700			
	Exchange, discounts £7,000, expected							2,200	–	–
	to rank		1,650	–	–	Investments (Cost £1,650)				
231	Preferential Creditors for—					Valued at Market Price, £1,100 per contra				
	Rent	£110				Book Debts—Good		4,400	–	–
	Rates	66				Doubtful	715			
	Wages	55				Bad	1,320			
	Deducted Contra	£231					2,035			
						Estimated to Produce		110	–	–
						Deduct Preferential Creditors		9,163	–	–
						as per contra		231	–	–
								8,932	–	–
						Deficiency as per Statement		4,048	–	–
£14,311		£	12,980	–	–		£	12,980	–	–

DEFICIENCY ACCOUNT

31st December, 19..

	£	s.	d.		£	s.	d.
Excess of Assets over Liabilities, on 1st Jan., 19	6,000	-	-	Bad Debts, 1st Jan., 19.., to 31st Dec, 19..	3,575	-	-
Net Profit from Business 1st Jan, 19.., to 31st Dec, 19.. .	5,300	-	-	Drawings 1st Jan., 19.., to 31st Dec, 19..	2,200	-	-
Net Profit from Business 1st Jan, 19.., to 31st Dec, 19.. . .	3,000	-	-	Drawings 1st Jan., 19.., to 31st Dec, 19..	5,500	-	-
Net Profit from Business 1st Jan., 19.., to 31st Dec., 19.. . .	3,212	-	-	Drawings 1st Jan., 19.., to 31st Dec., 19..	3,850	-	-
Deficiency as per Statement of Affairs	4,048	-	-	Depreciation of Stock . . .	385	-	-
				,, of Machinery . .	2,200	-	-
				,, of Property . .	3,300	-	-
				,, of Investments. .	550	-	-
£	21,560	-	-	£	21,560	-	-

through the warehouse or stockroom. He checks the stock book periodically against the stock in hand.

Storekeeper.—One who maintains, records, and issues as required stores, i.e., raw or semi-manufactured articles, tools, fuel, spare parts or other articles required for use in production or repair, as distinguished from stocks of finished articles.

Suspense Account.—An account into which items are posted until their proper destination is determined, such as a remittance received without knowledge of the senders, and other uncertain items.

Trade Discount.—A special allowance made to customers in the trade who buy goods for the purpose of re-sale. The amount allowed should be deducted from the invoice and the price shown at its net figure in the books of account.

Ullage.—The difference between the full capacity and actual contents of a cask.

Usance.—The time allowed between different countries for drawing bills.

Voucher.—A document which shows that payment is made or that goods are delivered.

Wages Book.—This is one of the most important of the auxiliary books used in a factory. The rates of wages are agreed upon between the workers and the employer and the number of working hours of the individual workers are entered into the book along with the amount of contribution for national insurance. The rates are expressed either as time or as piece rates. In the former case the wages are paid on the basis of the amount of time worked, and in the latter on the basis of the work done. The number of hours worked are usually regulated by legislation as is also the amount of compensation payable to the worker in the case of sickness, accident, or invalidity, and both employers and employed have to contribute towards the funds which are established for this purpose. As the employers are responsible for the payment of the contributions, they deduct the workers portion from the wages. Moreover, in some factories there are special wages conditions such as additions for overtime, bonuses for particular services, and there may be special deductions for damaged tools or fines for contravening the Factory Acts or on account of serious defects in the work done. It sometimes happens that the worker asks for an advance or sub before the work is executed. These amounts are debited to the worker and deducted on pay day.

As soon as the wages lists are compiled on a certain day, every worker is given an abstract of his wages on a voucher or the amount is entered into his wages book. After this the wages list is handed over to the cashier who pays out. The wages list must be entered into the wages book because this book may have to be submitted to the factory inspector if requested ; likewise it serves as a proof to the employer of the correctness of his contributions to the national insurance fund.

An example of a typical wages book employed in a factory undertaking is shown on page 207.

Warehouse Book.—A book used for keeping an account of the quantities of goods received into or sent out from the warehouse.

Wholesale Dealer.—A person engaged in transacting business with professional buyers and sellers.

Winding Up.—The equitable settlement of the financial affairs of a business which is brought to a close on account of bankruptcy or liquidation.

Without Recourse to Me.—Not liable as an endorser if written over the endorser's signature on the back of a bill of exchange.

Write off.—1. To close a ledger account by transferring the difference as a loss either to Discount and Allowances Account, or to Bad Debts Account.

2. To reduce the book value of an asset.

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