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PRINCIPLES & PRACTICE OF BUSINESS

WITH EXAMINATION QUESTIONS IN
THE THEORY AND PRACTICE OF COMMERCE
BUSINESS ORGANIZATION AND COMMERCIAL
CORRESPONDENCE

BY

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CHAPTER I.

THE RETAIL TRADE.

The Retailer.—The retailer is a distributor of goods to the general public, and his services are, in most cases, worth the profit he makes out of the business: if it were not so, the public would find out where the shopkeeper obtains his supplies, and buy direct. This is sometimes done, as will be shown later.

Retail distribution is not limited to the conveyance of goods from producer to consumer. In order to attract customers the shopkeeper has to hold a stock of goods in anticipation of a demand, and in so doing he runs the risk that what he has bought may not be saleable. To minimise this risk and at the same time increase his sales, the retailer studies the needs and tastes of his customers, and holds at their immediate disposal a variety of well-chosen commodities.

Even the retailer comparatively rarely buys direct from the maker or producer. He finds it more advantageous, in many cases, to go to the wholesale merchant or to the market, although by so doing he obviously has to pay not only the cost of the goods, but the intermediary's profit as well. One of the objects of this book is to show reasons for the intermediary's existence, and how he earns his living.

The retailer's activities are not always confined to distribution; for example, dealers in watches and jewellery, hardware, cycles and motors also *repair* or even *manufacture* their goods as well;

and tailors, bakers, etc., make most of what they sell. Again, the retailer sometimes supplies other tradesmen as well as the general public; ironmongers, for instance, supply material for builders and plumbers.

In this chapter the retail trade in **manufactured goods** is discussed. The distribution of foodstuffs is organized on very different lines and will be dealt with in another chapter.

Buying.—The maxim “small profits and quick returns” was never truer than when applied to the retail trade. Dealers in perishable foodstuffs such as fish, meat and vegetables must perforce buy daily, or almost daily, and sell again before their goods become uneatable. The retailer of manufactured goods is in a different position, it is true; but for him also it is essential to success that the goods he has bought to sell again shall remain in stock for as short a time as possible. He must buy wisely, “keep up the sale, and keep down the stock”; for every article in stock which is not required for sale in the near future means money locked up, which could be employed more profitably in other ways. And old stock means risk of loss through deterioration or change of fashion.

To keep down his stock and yet have plenty to sell, there is no other way for the retailer but to *buy little and buy often*. By buying in large quantities greater discounts are obtained, but the risk is greater too, and the larger the quantity of each class of goods, the poorer must be the variety of stock which the retailer is able to offer his customers. “Bargains” are dear at any price if they cannot be sold in a reasonable time.

In some trades the buying is largely *seasonal*, and the retailer may have to depart from his “hand-to-mouth” policy and **buy forward**. For example, drapers begin their summer buying as early as February, but this does not necessarily mean over-stocking, as they do not usually get delivery of the goods ordered until they need them to cope with the exceptional activity of the summer season.

Small retailers usually go to town about once a week to visit the wholesale warehouses, and receive frequent visits from manufacturers' and wholesalers' travellers. Even the large retail undertakings employing specialist buyers do most of their purchasing through travellers who call upon them.

Maker or Factor ?—The small man buys most of his stock from the **wholesale warehouses**, and may have an account with twenty or thirty different firms, according to the kind of business and the importance of the town in which he is placed. His reasons for so doing may be summarized as follows :—

(a) **Small quantities from stock.**—The function of the manufacturer is primarily technical, not commercial. He makes the goods, while the merchant stocks and sells them, frequently placing with manufacturers large contracts which keep them going for long periods at a time. Many merchants do more than that. In the hardware trade, for example, the wholesaler may order the component parts of an article of different manufacturers, and have them put together afterwards ; and a cloth merchant may arrange separately for the weaving and dyeing of the cloth he sells;

Now the retailer's policy is to buy little and often, that is, it is directly contrary to that of the manufacturer, who does not want to be bothered with making up small parcels and collecting thousands of little accounts. Some manufacturers have a selling organization of their own to cater for the retailer ; but even then they must charge for doing the intricate and laborious work that the wholesaler would otherwise do, and they consequently quote one price for the wholesaler and a higher price for the retailer. In any case, if the maker supplies retailers direct, the *selling cost per article* must be greater than the wholesaler's, for the latter is not working to sell one class or make of goods, but many. Whether it is possible or not for the manufacturer to compete by selling direct to the retailer depends upon the kind of trade.

(b) **Credit.**—The manufacturer does not often allow such liberal credit facilities as the wholesaler. His manufacturing expenses are generally quite enough for his finances without the additional strain of long credit. Part of the wholesaler's function is to *finance* his customers, enabling them to sell a large part of their stock before paying for it. He, himself, usually pays his manufacturers soon after delivery.

(c) **Variety.**—The manufacturer has only his own goods to recommend, but the wholesaler keeps a varied stock produced by hundreds of different makers, home and foreign. He naturally prefers to sell the goods which yield him the best profit, but he has the retailer's interests at heart too, and will usually advise him quite frankly as to the most saleable lines. The wholesaler employs expert buyers and therefore usually has the right goods; he has also a valuable fund of information gained by experience in a wider domain than that of the retailer, and collected by travellers familiar with every district.

It must not be imagined that the retailer is satisfied with the variety of goods offered him by one wholesaler only. He may have many different suppliers, each one being a favourite for a certain class of goods.

Direct Trading.—Before deciding to trade direct with makers, a retailer must consider what effect his action will have upon his relations with the wholesale houses. Many wholesalers are unwilling to supply people who deal direct, and a *boycott* on the part of one warehouse quickly leads to similar action by the others.

EXAMPLE.—A retailer decides to stock his shop with straw hats direct from manufacturers. His orders must be placed early in the year, and may be given to several small manufacturers at Luton, most of whom expect to work by contract, not for stock. The buyer must first decide how many hats of each style and size will be required. To calculate the number exactly, even from past experience, would be manifestly impossible, so he has to guess; and to avoid being left at the end of the season with a big stock of out-sizes he had better err on the side of insufficiency.

So he buys prudently—with the result that by the end of June he may be already “out” of certain sizes, and needs replacements. In the ordinary course the wholesaler would quickly execute a small “special order” from stock to tide the retailer over till the end of the season.

This is where the boycott occurs. The manufacturers are not interested in small orders for odd sizes, for they like to supply to contract. So the retailer must hope the wholesaler will “have pity on him,” and supply him with what he wants notwithstanding. The wholesaler too has to be careful in placing his contracts; but his sales are so large that a special order from him would be worth executing. His establishment is thus a sort of pool from which his many retail customers are constantly drawing small quantities.

If a retailer does a very large business, resells to other shops, or is otherwise a more than usually desirable customer, the wholesale people do not always openly object. What has been said applies, however, also to manufacturers who, despite the wholesale merchants, cater for the retail trade.

The Retailer's Motive.—The fact remains that direct trading between makers and retailers is on the increase, and the retailer's motive for cutting out the wholesale merchant is usually that he can *buy cheaper direct*.

If the manufacturer has a selling organization of his own to cater for the retail trade, his selling costs make up a higher percentage of the price of each article than the wholesaler's cost of distribution; but the wholesaler's price includes *two profits*—the manufacturer's and his own.

Cost of Manufacture <i>plus</i> Manufacturer's Profit	
Manufacturer's Cost of Distribution (say) 18% of sale price.	Wholesaler's Establishment Charges (say) 12% of sale price. <i>plus</i> Wholesaler's PROFIT (say) 8%.

As to whether the work of distribution will cost the manufacturer *more* than the wholesaler's establishment charges and profit, or *less* (as shown above), depends upon the value of the manufacturer's deliveries to each customer.

The Manufacturer's Motive.—If the manufacturer deals direct it is because he desires to free himself from the middleman ; to push his goods past all intermediaries straight to the retailers. If he can add to his profit an amount just sufficient to cover the cost of distribution he is satisfied, whereas the wholesaler must make a *profit* out of the *re-selling*, which is his livelihood.

By advertising his goods under a *trade mark*, a manufacturer may over-ride the wholesaler and make use of him at the same time. If the public clamour for a certain brand of gas-mantle, or stove, or motor, or other article, the retailer and wholesaler alike are compelled to stock it or lose valuable business. Once well connected and equipped to deal with the retail trade, the maker hopes to increase his turnover and thus reduce his costs as well as increasing his profits ; his position is stronger too, since he is no longer at the mercy of a few merchants.

Wholesalers, too, can make effective use of trade-marks, relying upon a head buyer with special technical knowledge to maintain the quality of the brand. Some of them add a little manufacturing side to their business, as, for example, hardware merchants, who manufacture brush and basket-ware ; drapery houses, who make their own mantles, costumes, umbrellas, etc.

Competition.—The small retailer's greatest competitors are the *multiple shops*, some of which have as many branches as a wholesale warehouseman has customers. All the branches drawing their supplies from a central *dépôt*, such undertakings can buy as favourably as the merchants ; and some, in fact, even manufacture for their own shops and for other members of the trade. The *departmental stores* buy direct to a certain extent, but not by any means exclusively, as each

department is in reality quite a small shop, and the buyer in charge of it has to follow a "hand-to-mouth" policy in the same way as the small man. That the stores can, by more economical working, sell cheaper than the small shops will be shown in a subsequent chapter.

Shopping by Post.—Mail orders form a considerable part of the business of many of the large retail stores, whose customers hail from all parts, including the colonies and foreign countries. Firms like Gamage's have a world-wide postal connection; and in Paris the Printemps, Louvre, Galeries Lafayette, etc., supply customers in this way all over France, the French Colonies, Egypt, and also to this country.

Manufacturers and merchants having no retail shops occasionally run a mail order business; cloth supplied by post after inspection of samples is often quite satisfactory.

Such business, however, is open to abuse, as the personal element existing between buyer and seller meeting over the counter is absent. In this country the system is not encouraged by the postal authorities as it is on the Continent, where parcels may be sent "Cash on Delivery" (C.O.D.), the postman collecting payment from the receiver. The Post Office Guide does mention, however, a few British protectorates and possessions abroad where a C.O.D. service is in force.

It is not a particularly economical method of distribution, as large sums have to be spent on advertising and preparing elegant catalogues if the business is to be developed. Some of the big shops, e.g. the Printemps, go to the extent of publishing a house magazine containing stories and articles of general interest.

Dealer and Consumer.—The Buyer who purchases goods for his own use is known as the **Consumer**; and this term is applicable whether the consumer purchases

- (a) in satisfaction of his personal needs (*food, clothing, housing, amusements, etc.*) or

(b) as equipment or raw material for his own occupation (*tools, machinery, railway plant, coal, iron, wool, cotton, etc.*).

All other buyers are **Dealers**, who buy with a view to re-sale for *profit*; or **Agents**, who buy or sell for the account of a third party called the principal, from whom they receive remuneration called *commission*.

Buyers may be private individuals, or groups of individuals such as companies and co-operative societies, or municipalities and governments.

The consumer, who buys in satisfaction of his own wants, leads the whole train of **commerce** (*i.e. trade or distribution, transport and finance*) and **industry** (*i.e. production*). The consumer may be influenced by both dealer and producer, in so far as the dealer stocks goods and the producer manufactures—as he sometimes does—speculatively, in the hope of creating a demand (see also p. 169).

EXERCISE 1.

1. What are the uses of the retailer under modern conditions, and what would be the most likely results of his abolition?

(S.A.tpc.II.)

2. Discuss the business maxim: "Small profits and quick returns."

3. A retailer in a large way of business decides to buy direct from manufacturers instead of buying through a wholesale dealer. How will this decision affect (a) the retailer; (b) the manufacturer?

(S.A.tpc.II.)

4. Why are stocks held by (a) wholesalers, and (b) retailers?

5. It has been said that direct trading as between maker and retailer is on the increase. How do you account for this? Explain your answer fully from the standpoints of the manufacturer and the retailer.

6. Is the mail order business a good system of distribution?

7. To what class of retailer do you consider the wholesale warehouseman to be indispensable? And what power has he to keep his customers and prevent them from buying of the makers direct?

8. State as clearly as you can how the buying of the ultimate consumer differs from the buying of dealers in commodities?

(S.A.tpc.II.)

CHAPTER II.

COMMERCIAL CORRESPONDENCE.

The Correspondence Clerk.—The Correspondence Clerk usually starts as a shorthand-typist, who takes down letters from dictation. If he is ambitious and takes an interest in his work, he soon gains sufficient knowledge of the business to answer some of the letters himself on short verbal instructions received from a superior; and in this way he will eventually rise to a more responsible position, in which he will himself dictate.

The aspirant to success in the correspondence department, particularly if he is engaged in foreign correspondence, must remember that correspondence is only a means to an end—not an end in itself; and he must not allow his interest in shorthand and foreign languages to weaken his interest in the business. The object of most correspondence is to agree about something, or to get something done.

The *style* of business letters must be *clear, definite, brief*, and—since business can only be hindered by unpleasantness—*polite*. Needless to say, the grammar, spelling and expression must be faultless if the firm is to create a good impression. It is an exceptional firm indeed who can afford to send out illiterate or careless letters.

Arrangement of the letter.—Particular attention should be given to punctuation, and the arrangement of dates, addresses and paragraphs. A model letter is shown on page 30.

Inside address.—The name and address of the receiver should be shown in full on the letter, to facilitate (a) envelope addressing, and (b) filing the copy under the name of the addressee. To avoid re-writing addresses, **window envelopes** are sometimes used into which the letter is folded in such a way that the address shows through a transparent front.

Acknowledgment.—As each letter is dictated, the typist should see that he is given the **original** letter, account, etc. (if any), to which the one he has just taken down replies. From this he can copy the exact address, acknowledge receipt, and mention the date and **reference number**, if any.

Paragraphing.—The first paragraph should always serve to mention the matter in hand, or to acknowledge any correspondence or goods received. Judicious paragraphing is essential to enable the reader to understand everything clearly, and to help the writer to see that he has omitted nothing. A new line is started for each aspect of the subject : *e.g.* one paragraph for prices, terms of payment, packing and where delivered, another for guarantees of quality, etc., a third for time of delivery, and so on.

If the letter refers to one subject only, it is convenient to put a heading, between the **salutation** and the first paragraph, for rapid reference when the copies are filed. If more than one order, inquiry, or other matter is discussed in the same letter, **paragraph headings**, similar to those used in this book, serve the same purpose ; but many firms make a practice of confining each letter to one subject only. The latter method is convenient, because it often happens that different matters have to be dealt with in different departments.

Enclosures.—The typist should be careful to see that all enclosures are in readiness, and should mark the letter either by means of adhesive tabs stuck on the corner as shown in Fig. 1, or by inserting a note of the enclosures in the space allotted in the printed letter heading, if such



FIG. 1.

is the system. A good way is to put a small "x" in the margin for each enclosure, or catalogue, etc., to be sent under separate cover, and opposite the line in which it is mentioned.

Addresses.—The following examples will serve to illustrate the most usual forms of address :—

Mr. Robert Clark,
Draper,
191, The Promenade,
Palmers Green, N. 13.

When addressing London firms, the proper *postal district* must be inserted. A list of *Streets and Places in the London Postal Area* may be obtained through any bookseller or at H.M. Stationery Office for 4d. There is also a list in the P.O. guide.

Messrs. Algernon Dykes & Co., Ltd.,
Caledonian Machine Works,
COVENTRY.

See that the name and address are *complete* and *exact*. Many correspondence clerks follow the excellent method of keeping an **Address Book** for the names of regular customers, whereas some offices are provided with a **card index** for the purpose. Even then, constant reference to the telephone, commercial, or trade directory will be found necessary.

Sir Wm. Angus, Sanderson & Co., Ltd.,
BIRTLEY,
Co. Durham.

Except for important towns, such as Birmingham, Manchester, etc., the name of the county or nearest large town should be inserted after the name of the town or village. There are three Birtleys in England, and reference to the *Post Office Guide* or a gazetteer will reveal, for example, no fewer than ten different places of the name of Weston, or twenty-eight if hyphen names are included!

The Phoenix Zinc and Lead Co.,
HALTWHISTLE,
Northumberland.

If there are no names of persons in the address, the word *Messrs.* should be strictly avoided. Its presence in such cases is a common error.

H. J. Fairclough, Esq.,
c/o Messrs. Jackson & Nichols,
97, White Street, E.C. 2.

It is discourteous to address *business* letters to individual employees of a firm. In this case, if Mr. Fairclough is dealing particularly with the matter in hand, the letter ought to be addressed to the firm, and headed *For attention of Mr. Fairclough*. It is quite correct, however, to address a letter to *Jas. Smith, Secretary, H. Brown, Cashier*, etc. Note the following modes of address:—

A. H. Conway, Esq., B.A., LL.B.
Dr. B. Morgan—*or*—
B. Morgan, Esq., M.D.
Felix Pontefract, Esq., H.B.M.'s Consul.
The Worshipful the Mayor of Gravesend.
The Right Hon. the Lord Mayor of London.
The Rt. Hon. The Lord Provost of Edinburgh.
The Rt. Hon. Sir N. Percy Fitzgerald, Bart., P.C.

Correct forms of address for public men and titled persons can be ascertained from a good dictionary or almanack. Where doubt exists as to the proper title, reference may be made to *Who's Who*.

Foreign Addresses.

Messrs. James & Kennedy,
84 State Street,
Chicago, Ill.,
U.S.A.

In American addresses the name of the state should always be mentioned, as Ala., Ariz., Cal., Col., D.C., Fla., Kans., Mass., Mich., N.Y., Oreg., Tex., Wyo., etc.

Monsieur Marcel Savary,
rue du Colisée, 3 bis,
Paris, VIII.,
France.

Messieurs Les Frères Bréguet.
Société de Transports Internationaux, S.A.

S.A. stands for "*société anonyme*": roughly the equivalent of our limited company. In addressing envelopes *Monsieur* must be written in full. In the body of a letter it may be abbreviated to *M.* (plur. *MM.*), but it should never be written as *Mons.*

Herrn Max Tannenberger,
 Althofstrasse, 5,
 Mülheim-Ruhr,
 Germany.

Herren Tuor & Staudenmann, G.m.b.H.
 Löbl. Duisburger Gasmotorenfabrik, A-G.

G.m.b.H. (*Gesellschaft mit beschränkter Haftbarkeit*) corresponds approximately to our private limited company. A.G. (*Aktiengesellschaft*) means limited company. *Lobliche* means praiseworthy or honourable, and should be used where the address contains no personal names. "Titl." (*Titula*) serves the same purpose.

Señor Don Trinidad Soriano,
 Calle Espíritu Santo,
 Sevilla,
 Spain.

Sres. Asquinazi y Sanchez,
 Plaza Capuchinos, 11,
 Málaga,
 Spain.

Memos. and Postcards.—Short messages of minor importance may be written on memorandum forms or postcards. Such do not require the words "Dear Sirs" and "Yours faithfully," and the firm's name-stamp accompanied by the initials of the writer take the place of the signature.

Printed Advice Notes save time in acknowledging receipt of correspondence to which no immediate reply is given, or for giving notice of dispatch of goods or instructions for delivery acknowledging receipt of remittances, etc.

Prepaid Replies.—If information is sought of people whose courtesy in replying involves no benefit to themselves, a stamped and addressed envelope should be enclosed, or a reply postcard used. This is not necessary in writing to public bodies.

Writing to foreign countries the cost of the return postage may be enclosed in **Reply Coupons**; which can be exchanged in any country which has adopted the arrangement for a postage stamp of 25 centimes or its equivalent. They may be obtained at any post office @ 3d. each.

Signatures.—Most commercial contracts are contained in the correspondence exchanged between the parties concerned. All letters must be properly signed, since the signature shows the writer's consent to what has been said.

(a) An individual doing business on his own behalf, *i.e.* a sole trader, will simply sign his own name, *e.g.*,

J. Smith.

(b) A partner has power to bind all the other partners to whatever contract he may make in the ordinary course of the partnership business. Mr. Smith, Mr. Brown, or any other partner of the firm of S. B. & Co., would sign

Smith, Brown & Co.

If a partner signed simply his own name, this would have the same effect.

(c) An agent or responsible employee may be given power to act on behalf of his principals by means of a document known as a Power of Attorney (P/A), drawn up in proper legal form, and embossed with a 10/- deed stamp. The P/A states clearly for what purposes the person is authorized to act for and bind his principals. Anyone thus authorized to sign correspondence, bills, receipts, etc., would sign

per pro. Smith, Brown & Co.,
B. Black.

The person empowered to act is called the Attorney, Procurist, or Authorized Clerk. Third parties contracting with a firm's representative may require to see his credentials.

(d) An unauthorized clerk, *i.e.* one not empowered by deed to bind his principals, may sign :

For Smith, Brown & Co.,
B. Black.
(or) pro Smith, Brown & Co.,
B. Black.
(or) Smith, Brown & Co.,
per *B. Black.*

(e) The correspondence, cheques, etc., of a **limited company** or **corporation** are usually signed by one or more of the Directors or Officers (see p. 64) of the business. Each signature should be followed by a description of the position held by the official, thus :

UNITED TOOL SYNDICATE, LTD.

B. Black,

Managing Director.

The name-stamps of companies frequently bear the words *for and on behalf of*, thus :

For and on behalf of

GEO. RENNER & CO., LTD.

H. White,

Secretary.

In this way the official makes it quite clear that he is acting merely on behalf of his company, and that he undertakes no personal responsibility, even though his company should fail to fulfil its obligations. (See p. 224.)

Confirmation.—It is a golden rule in business that everything should be put in writing. After an interview, at which prices have been agreed upon, samples approved, or any other matter arranged, a letter should be sent *confirming the interview*, and repeating everything that has been said, though in condensed form.

A **Telephone Message Book** should be kept to record all telephone messages having any bearing on the execution of orders, visits of representatives, etc., so that the message may be confirmed, and not be overlooked.

Telegrams are confirmed by next mail, a copy of the actual message sent (with transcription if a code or cypher message) being enclosed in the letter.

Failure to confirm a verbal or telegraphic message may involve one of the parties or both in heavy loss. Indeed, a contract for the sale of goods of £10 value or more is not enforceable at law unless it is in writing or unless part of the goods have been already delivered and accepted by the buyer or a deposit given by him.

And a contract having been altered verbally, the buyer has little proof against the seller if his instructions are not obeyed, unless he receives written acknowledgment.

EXERCISE 2.

1. State what you regard to be the essentials of a good business letter, and write a letter illustrating these essentials.

(U.L.C.cc.3.)

2. Write an answer to the following advertisement : " Wanted junior clerk for wholesale firm, with knowledge of French, shorthand, typewriting. Salary 20s. per week. Apply by letter only, X-50, *Daily Telegraph*, stating experience, if any, and qualifications."

(U.L.C.cc.3.)

3. Show how you would address envelopes to the following :

(a) Wm. Sanderson & Co., Ltd., Western Avenue, Bombay.

(b) Schmidt & Fischer, Kaiserstrasse, 10, Elberfeld, Germany.

(c) The Manager, South African Trading Co., Marine Parade, Durban.

(d) James Sunderland, M.D., 30 Pennsylvania Avenue, Massachusetts, U.S.A.

(e) The Sheffield Cutlery Co., Surrey Street, Sheffield.

(f) H. Sansome, Secretary, Simplex Speciality Syndicate, Imperial Buildings, Sydney, N.S.W. (Y.U.)

4. Show by examples how you would (a) address, (b) begin, and (c) conclude a letter to the following, assuming that all were strangers to you :

(1) A Privy Councillor.

(2) A Bishop.

(3) A Retail Tradesman.

(4) A Lord Mayor.

(5) A Master of Arts.

(6) A Lieutenant-Colonel. (S.A.cc.II.)

5. Show how envelopes should be addressed to the following names and addresses :

(a) Fabrique Nationale de Canions Automobiles, S.A., rue du Tronchet, 10, Lyons.

(b) Mech. Steinzeug-Röhren-Fabrik, A.G., Schaffhausen, Switzerland.

(c) R. Boissonas Fils, 10, rue Tronchet, Lyons.

(d) Adolf Lauterburg, Deutscher Ring, 81, Cologne.

(e) J. Cortes, Continuación de Jorge Juan, Manufactura de Guitarras, Valencia.

(f) Garcia Largos y Cia., Fabricantes de Porcelana, Seville.

6. Show examples of signatures suitable for :

- (a) A Sole Trader.
- (b) A Partner writing for the firm.
- (c) An unauthorized clerk.
- (d) An authorized clerk.
- (e) A Company Official.

Give reasons for each form of signature.

7. What is meant by “confirming” an interview, telephone message or telegram, and why is it done ?

8. How should the shorthand-typist deal with enclosures ? What purposes are served by memos., postcards and printed advice notes ? How may a reply be prepaid by the sender of (a) a letter, (b) a postcard, (c) a telegram, and in what circumstances is such prepayment desirable ?

CHAPTER III.

DISTRIBUTION OF FOODSTUFFS.

Markets and Intermediaries.—From the following brief outline of the principal branches of trade in home and foreign foodstuffs, two salient features will be apparent: (a) the concentration of supply and demand on *central markets*, and (b) the importance of intermediaries.

The quality of manufactured goods is usually identified with the name, trade-mark, or patent of the maker or dealer; therefore advertising and individual canvassing of buyers pay. Sales are increased and the larger turnover permits of cheaper production. All this applies to a far less degree to the sale of nature's own products, which are rarely trade-marked or associated with the name of the cultivator. **Produce** is sold on the centralized markets for *economy* and *rapid disposal*; and to secure these advantages even perishable produce (*e.g.* fish) is often sent long distances to be sold on the markets, although carriage and middlemen's profits might be saved if the producer had time to seek out buyers direct.

Although foodstuffs are sometimes sold direct, the *produce trades* offer more opportunity to intermediaries than business in manufactured goods. These intermediaries may be roughly divided into three classes:—

(a) **Merchants**, or dealers, who buy and sell for their own account and risk.

(b) **Agents, Salesmen and Factors**, who buy or sell for other

people, from whom they receive remuneration in the shape of a percentage of the price the goods cost, or realize, called **commission**.

(c) **Brokers**, whose function is to arrange business between buyers and sellers, to record the contract of sale, and to sign the contract on behalf of *both* parties. The broker receives from one or from both parties a commission called **brokerage**. Some brokers are also licensed **auctioneers**, and personally conduct the sale by auction of any goods they may be instructed to sell.

It must be noted that there are people who style themselves salesmen, factors, and even brokers, who really trade on their own behalf, as merchants.

Home Produce.—Only a very small part of the home crop is sold direct to local retailers, but many farmers supply the large retail firms in town by contract, sending them fruit, eggs, butter, etc., direct from the country. In some parts of Great Britain the growers bring their produce to the public **retail markets**, where they sell it themselves. This is a common practice on the Continent.

Most home-produced food is disposed of to local merchants or is consigned to merchants or salesmen on the **central wholesale markets**, who either *buy outright* of the farmer, or *sell* for him *on commission*. Those who sell on commission are also known as "commission salesmen."

MILK.—Milk is not sold on any market. It is either distributed by the dairy companies themselves, who have their own cows, or is supplied to the dairy shops by contract. Many farmers send all their milk to the *butter factories* under contract, so long as the town prices are not high enough to induce them to sell to the dairies.

Butter factors and *cheese factors* are not agents (p. 18 (b)). They are merchants, who buy up the produce of local farmers to sell at a profit.

Finance.—At one time bankers used commonly to allow *overdrafts* to farmers on so many head of stock or acres of

corn. Nowadays the tendency is for the local merchants or *co-operative banks* (p. 87) to finance producers, often advancing them money on their crops long before they are reared. On the Continent there are financial houses, known in France as "*Banques Agricoles*," which specialize in agricultural business.

Wholesale Food Markets.—These markets fall naturally into three divisions or categories: (a) the **market halls** or **grounds**, (b) the **auction sale-rooms**, and (c) the **exchanges**.

Market Halls.—Perishable produce such as vegetables, fruit and flowers, meat and poultry, and fish are brought on to the market *in bulk*. Dealings take the form of individual bargaining between the stall-holders and the public.

The Buyers are mostly local retailers and the agents of provincial dealers; but the general public are also admitted.

The majority of the public markets belong to the municipalities, to whom rent is payable by the occupiers of the stands and warehouses comprising the markets. All such markets are regulated, and have been established by Act of Parliament. In London, the markets owned by the City Corporation are:

- (a) *The London Central Market (Smithfield).*—Primarily a wholesale market for the sale of dead meat, of which more than 400,000 tons are dealt in yearly. A retail fish, fruit, vegetable and flower market is also held.
- (b) *Metropolitan Cattle Market (Islington).*—Only home-produced cattle. The market deals with about 300,000 animals annually.
- (c) *Foreign Cattle Market (Deptford).*—At present occupied by the War Office.
- (d) *Leadenhall Market (Leadenhall Street).*—Meat, poultry, game and provisions.
- (e) *Billingsgate Market (Lower Thames Street).*—The most ancient market belonging to the City of London. It exists "for the wholesale and retail sale of all sorts of fish." Total tonnage of fish dealt with in 1913 was 182,749 tons, of which 35.8% was water borne.
- (f) *Spitalfields Market (Commercial Street).*—Fruit and vegetables. Area about 2½ acres.

The London markets not owned by the Corporation are :

- (a) *Covent Garden*.—Fruit, flowers and vegetables. Established by a charter granted to the Earl of Bedford by Charles II. in 1661 : now owned by the Covent Garden Estate Co., Ltd. Extent : 5½ acres.
- (b) *The Borough Market* belongs to the Borough of Southwark. About 3 acres in extent, and does a large trade in fruit and vegetables.
- (c) *The Stratford Market* is the property of the Great Eastern Railway, and is used primarily for the sale of vegetables and some fruit. Supplies come chiefly from Essex and East Anglia, and buyers come from East and West Ham, Woolwich, and other places.
- (d) *Brentford Market*.—Fruit and vegetables.

An important feature of the meat markets is the **cold storage** warehouses adjoining them and at the docks; the need for cold storage is an important reason in the case of meat for the concentration of supplies.

Auction Sale Rooms.—Grocery (tea, coffee, cocoa, etc.) and imported fruit are disposed of by private treaty and at public auction. Buyers are usually Wholesale Merchants, to whom the brokers arranging the sales send a sale catalogue well in advance of each public sale. Buyers are given an opportunity before the sale of (a) inspecting *samples* in the sale room or at the brokers' sampling rooms, or (b) seeing the *bulk* of the goods at the docks or wharves.

Exchanges.—Some grocery (particularly coffee, sugar, rice, spices and tapioca); provisions (bacon, ham, butter, cheese, lard and eggs); hops, corn and fodder are sold privately and on the Produce Exchanges, where sellers (the farmers or their representatives, merchants, importers, hop factors, etc., as the case may be) meet buyers (wholesale merchants, large retailers or—in the case of hops—brewers).

It is essential that dealers on the exchange shall be able to agree there and then as to the quality of the goods they buy or sell. In a few cases (*e.g.* corn) sellers exhibit *samples* on the exchange; but as the goods are stored at a dock or

warehouse out of sight of the buyer, the latter is allowed three days in which to inspect the bulk and accept or refuse delivery. Dealings on most Produce Exchanges are, however, confined to staple commodities of well-known *grades* or *brands*. Disputes as to quality can thus be referred to the **arbitration** of brokers or other skilled members of the trade.

Most of the Produce Auction Rooms and Produce Exchanges were founded by associations of the brokers or merchants who use them, and are constituted as limited companies whose shares are held by the members.¹

Market Reports.—The newspaper reports of the Commodity Markets are compiled (*a*) from information collected by journalists who visit the markets and interview the principal firms, (*b*) from **Trade Reports** or Circulars issued by Brokers or Merchants, and (*c*) **Official Reports** rendered by Price Committees appointed by and consisting of members of the various produce exchanges.

FRUIT-VEGETABLES.—Covent Garden.—Grapes, Eng. Colmar, 3s. to 6s. 6d.; Belgian, 2s. 6d. to 3s. 9d. lb.; Murcia Bloods, 30s. to 40s. 300; Jaffa, 24s. to 28s. box 144; plums, 9s. to 14s.; pears, 5s. to 8s. box; Jamaica bananas, 1s. to 1s. 3d.; French cabbage lettuce, 1s. 9d. to 2s. doz.; carrots, 5s. to 6s.; turnips, 3s. 6d. to 5s.; parsnips, 5s. to 6s.; beetroot, 4s. to 6s.

POTATOES.—Best Lightsoil King Edwards, quoted 10s. 6d. to 11s. 6d.; best Siltland King Edwards, 10s. 6d. to 11s.; Blackland King Edwards, 9s. to 9s. 6d. and other varieties, 5s. to 6s. 6d. cwt.

MEAT.—Central.—Beef, Scot., short sides, 12s. 4d. to 13s.; Eng., 10s. to 11s. 8d.; imported hindqrs., 8s.; foreqrs., 5s. 4d.; Mutton, Scot. wethers, 13s. 4d. to 16s.; ewes, 8s. to 10s. 8d.; Eng. wethers, 12s. 8d. to 15s. 4d.; ewes, 8s. to 10s. 6d.; imported (frozen), 6s.; Pork, town killed, also Dutch, 11s. to 12s., all st. 8 lbs. Arrivals pitched comprised 70 tons Scot. beef; 26 Irish sides; 375 town killed sides, 3723 chilled qrs.; 1642 frozen qrs.; 17,422 carcasses imported mutton and lamb; 375 frozen pork.

TEA.—At auction 1890 packages of Java were on offer together with a few odd lots of Ceylon left over from Tuesday. Java sorts ruled slightly easier, while Ceylon made late rates.

COCOA.—No auctions were held yesterday, and privately the market remains quiet and unchanged.

COFFEE.—At auction offerings, which amounted only to 2860 packages, met a fair demand at generally steady rates. Nairobi—good bold greenish sold from 110s. 6d. to 112s. 6d.; medium from 93s. to 105s.; smalls from 70s. to 80s. 6d.; Peaberry from 107s. to 121s. Costa Rica—ordinary bold greenish sold at 110s. 6d.

¹ The function of the broker and the organization of the various sale rooms and exchanges are described more fully in another volume by the same author entitled: *Trade, Transport and Finance*.

SUGAR.—Home refined in good demand at the official rates. West Indian crystallized, on the spot, quoted from 79s. to 83s.; American granulated, 95s.; white Mauritius, 94s.; Tate's brownish to good coloury pieces, 60s. to 67s.; Lyle's yellow crystals, 80s.

CORN.—Mark Lane.—Eng. wheat moves off quietly, and suitable milling qualities rule at 94s. to 96s. 504 lb. delivered; imported slow at official rates. Flour trade quiet; Eng. G.R., 68s., sack ex mill; of "free" imported, Canadian quoted, 72s. to 76s.; Chinese, 60s.; Aust., 71s. 280 lb. ex store; beans and peas rather quiet, but held for steady prices. Oatmeal steady. Scot. £22 10s. to £24 10s.; Amer., £22, rolled £27; flaked, £28 ton.

The trade and official reports record the prices at which transactions have actually taken place, and the quantities sold and available, viz., *arrivals*, *deliveries* and *stocks*. All this information is of the greatest interest to buyers here and to shippers abroad who have consigned their produce for sale in this country, as indicating the state and tendency of the markets.

Private Treaty.—The centralization of produce within the wholesale markets does not exclude private dealings outside the sale room or exchange. Many dealings between merchants and importers or producers are quite independent of the building itself; but the market rules and customs extend, in part at least, to private dealings, and outside buyers and sellers may make use of the same intermediaries. In particular, the activities of the produce broker are not by any means confined to selling by auction or dealing on the exchange.¹

THE FISH TRADE.—This industry is so distinct from the other produce trades, and illustrates so effectively the utility of *centralization*, that it deserves more detailed description.

Fishing.—There are usually three distinct parties engaged in each voyage, viz. the ship-owner, the owner of the nets, and the fishermen.

In the herring trade the *net proceeds* from the sale of the fish (*i.e.* the price realized less sale expenses and all expenses connected with the voyage) are divided between the three parties as follows:

¼	to the boat,
¼	,, nets,
½	,, men.

¹ See note at foot of p. 22.

The amount due to each can be ascertained correctly and fairly, because the cases are marked with the name and number of each vessel, and a careful record is kept of the amount realized, which is credited to that vessel.

The owner has to bear the cost of any repairs, damage or daily wear and tear to his vessel; fuel, oil, provisions and such-like expenses only being included in "working expenses."

Should the nets be lost, the netters usually have to bear the loss; it is not shared by the other parties. In one storm the man who has "netted" the vessel may lose more than all his season's profit.

Some large steam-trawler companies work on a different basis. They employ a crew, and pay them wages and what is called "poundage," *i.e.* so much in the £ on the proceeds of the catch.

At the coast ports the fishing vessels usually bring in the catch themselves; but where the fleet is a long distance away from the port of discharge, the owner has fast steamers to bring the fish off the smacks, which latter remain out for long periods.

The Coast Sales.—On landing their fish at the coast ports, the owners employ salesmen to sell it by auction to local wholesalers, or the agents of London merchants. For this reason the salesmen are sometimes called "auctioneers." The sale is usually by Dutch auction, *i.e.* the auctioneer offers a high price to start with, and subsequently offers less and less until someone bids. No licence is required to sell fish by auction where it is first landed.

The salesmen usually work for 5% commission, which they deduct from the proceeds payable to their principals. 1½% of this commission is allowed, however, to the buyers, for prompt payment. It is unusual to allow more than a week's credit, and a large amount of the wholesale business is done for hard cash.

The salesmen also act as ship-brokers for the owners, that is, they look after the ship for them (which is necessary when the owner resides at another port). The ship-broker's duties consist of berthing the ship (*i.e.* arranging that she shall have somewhere to moor when she arrives), provisioning, paying the men's wages on account, etc.

Wholesale and Retail.—The wholesale buyers at the ports supply either direct to retailers or to other merchants at inland centres. Some London and Provincial merchants employ agents at the ports to buy for them.

Seaside fishmongers, if the place happens to be a fishing centre, naturally buy largely at the coastal sales; but *not* exclusively. Country fishmongers get most of their supplies from the whole-

sale merchants. But the fish does not always come from the nearest fishing port. Much of it comes from London or from other places *via* London, and nearly all *frozen fish* (from long distances) and the so-called *special fish* (*i.e.* oysters, salmon, pickled, cured and imported fish) are obtained through the Billingsgate market. The London retailers buy at Billingsgate.

As in any trade in perishable foodstuffs, dealings are mostly for cash. Fishmongers who buy on the market usually pay in coin and notes, comparatively few having a running account with salesmen.

The Fish Markets.—At Billingsgate, supply and demand are concentrated as in no other centre. Certain kinds of fish abounding at one part of the coast may be unpopular and almost unsaleable locally. If it is sent to London a market can be found for it, either in the London district, or somewhere in the provinces. What remains after the coastal buyers have disposed of all they can locally or to neighbouring towns, is sent to London to a salesman or "commission agent" for sale at Billingsgate on the usual salesmen's terms.

The rapidity and cheapness of rail transport for fish render profitable a system which would appear at first sight exceedingly wasteful.

BILLINGSGATE FISH.—Supplies, 670 tons by land and 38 tons by water. Prices: English and Scottish Salmon, 3s. 6d.; Irish Salmon, 3s. 3d. to 3s. 5d.; salmon trout, 2s. to 2s. 6d.; soles, 1s. 8d. to 2s. 6d.; slips, 1s. 4d. to 2s.; lobsters, 1s. 6d. to 2s. 6d.; crabs, 6d. to 1s. per lb.; dorsets, 5s.; turbot, 10s. to 14s.; brill, 10s. to 11s. 6d.; dabs, 9s.; plaice, 11s. to 13s.; Iceland ditto, 10s. to 12s.

GRIMSBY FISH.—Moderate supply, and owing to keen demand most fish made control prices, including halibut, dabs, roker, lemon soles, kit and gibbed haddocks and whittings. Cod made from control down to 7s. 9d. Plaice sold to 11s. per stone; soles, 2s.; turbot, 1s. 1d.; and brills, 1s. per lb.

Foreign and Colonial Produce.—It is in the overseas trade that we find the greatest number of intermediaries, and the nature of the business is such that it is not always possible to eliminate any of them. The intermediary's existence is justified by the assistance he renders to the trade in (*a*) collecting, (*b*) undertaking the risk of sale, (*c*) distributing, and (*d*) financing. His activities extend in some cases to altering the form of the produce, *e.g.* in the case of butter and bacon factories.

The countless small cultivators of dairy produce in the Colonies, Holland and Denmark and the vine and fruit growers of Southern Europe lack the necessary business

connections to supply any but local people, and long-distance consignments of very small quantities would be more trouble and expense than they were worth. Like our own farmers, these people consign the produce to their home markets, or sell it to **merchants** in the interior, or direct to **shippers** at the seaports. The merchants pay promptly, or even contract for the whole of their output, and lend them money and implements before the crop is grown.

The **importer** usually helps to finance the foreign shipper, thus assisting him to pay promptly the merchants or farmers from whom he has obtained his supplies. He does this through a foreign bank, with whom he arranges to advance to the shipper part of the value of each consignment as soon as it is put on board the steamer.

The Importers, or the brokers acting for them, divide each shipment into "**lots**" of considerable quantity: they are not interested in selling little parcels. Therefore only the largest retail concerns can afford to purchase direct of them, and most of the lots are bought by wholesale merchants or their agents or brokers. By selling in this way, Importers are enabled to recover their capital quickly and proceed with other consignments. Buyers have to pay and take delivery on "**prompt day**," a date fixed by the brokers or importers, ranging from a few days to a month after the sale.

The Wholesalers canvass retail customers and, in the case of grocery and fruit, exhibit the goods in their warehouses. They sell in small quantities and allow credit.

For such seasonal goods as dried fruit (the auction sales of which are held in September, October and November, as the shipments arrive from Spain and Greece) retailers are offered exceptional discounts and extended credit. Wholesalers are heavily stocked at such times, and are anxious to recover their capital as quickly as possible. Whether such offers benefit the retailer or not depends upon his ability to sell off quickly and gain on the accelerated turnover though selling at attractive prices which in themselves leave him a smaller margin of profit.

Elimination of the Middleman.—Although the greater part of imported foodstuffs passes through the machinery described above, intermediaries are sometimes partly eliminated, or at least united into one enterprise.

Liptons, for example, have their own plantations in Ceylon producing tea and distributing it in their own retail shops. Both tea and coffee are largely imported direct by wholesale grocers, or by agents of foreign shippers, as in the case of Brazilian coffee.

Retail and wholesale functions are united in the *multiple shop companies* and *co-operative distributive societies*.

Producers' Co-operative Societies exist in Canada, Australia, New Zealand, Denmark, Holland and some other countries, which eliminate the merchants and shippers in the producers' country. The small farmers club together, and set up their own co-operative depots at the ports, to which each member invoices his produce at an agreed price. Any profits made by the exporting depot are then divided among the members in proportion to the value of the goods sent down by each (p. 86).

Whether producers, buying merchants, shippers, importers, wholesalers and retailers are separate concerns or grouped together into one company, division of labour and responsibility is necessary, each function being different from the others, and requiring special training and local knowledge. The possibility of uniting them under one control depends upon (a) the employer's power to organize a big, unwieldy concern to work efficiently, and (b) his ability to finance more than one side of the business.

Profiteering.—Shortage of supplies gives opportunity to producers and merchants to charge high prices. Under normal conditions of supply and demand, profits are limited by *competition*. Intermediaries are unable, generally speaking, to make a profit at all unless they perform some useful service, because the addition of their profit must increase the price and divert demand to competitors.

High prices may be maintained artificially, by (a) rings, or associations of suppliers agreed not to undersell one another; (b) combinations of interests in the shape of trusts; or (c) the action of speculators buying up large quantities and holding them back in order to create an *artificial scarcity*.

In time of war or famine it is necessary that the government should intervene to minimize the evils arising from shortage of supplies. Recourse may be had to the following remedies:

- (a) Rationing;
- (b) State purchase and distribution to the public;
- (c) Control of prices at each stage of production and distribution; or
- (d) Anti-profiteering legislation.

Such measures do much (1) to prevent unequal distribution with its consequent scramble for commodities at any price, and (2) to limit the extent to which holders of stocks may exploit the need of the people by extorting high prices.

But the real causes of high prices during or after a great war are

- (a) dislocation of all branches of industry, and
- (b) depreciation of the currency.

The evil cannot be cured by State control, or punishment. Maximum prices, if insufficient, must reduce output and compel the Government to raise the limit or *subsidize* the commodity. If the maximum is more than adequate, it will tend to attract prices up to the permitted level, as it is likely to be regarded as a fixed official price, and not to be disputed.

EXERCISE 3.

1. Why are most foodstuffs concentrated for distribution on the central markets? Are there any exceptions?

2. Describe the different forms of market organisation; contrast the methods employed in each and mention half-a-dozen commodities customarily sold by each method.

3. What are Market Reports ? By whom are they prepared, and what are their uses ?

4. London is the fishing industry's most important centre and numerous shiploads are landed there. And yet fish is sent by train from places as far away as Glasgow to be sold on the Billingsgate market. Is this not a case of wasteful "over-centralization" ?

5. Account for the multitude of intermediaries usually concerned with the importation of foodstuffs.

6. What functions are served by the wholesaler in connection with foodstuffs ? (S.A.tpc.II.)

7. Are the intermediaries referred to in the last question ever eliminated ? And do you consider their elimination to be an advantage ? If so, to whom ?

8. What is profiteering ?

9. (a) Condense the following into a telegram :

To Mason, 30 Carr Lane, Totnes.

I can offer you, subject to receipt of your reply before 12 noon to-morrow, 10 cases King's Short-Cut Hams, 15-18 lbs., @ 54s. 6d. per cwt., f.o.r. Glasgow.

(Signed) PILTON.

State what the cost of the telegram would be.—D.C.C.

Note.—"F.o.r." means that the seller undertakes to pay the cost of delivery *free on rail*.

(b) Write a letter confirming the above telegram.

10. You have received a complaint from one of your customers about the quality of a consignment of coffee supplied. Draw up a reply, using fictitious names and addresses, from the following notes :

Express regret for the mistake. The coffee was part of a large consignment supposed to be all of the same quality. The case sent off to-day in place of that returned has been carefully examined. Try not to lose customer. (U.L.C.cc.3.)

CHAPTER IV.

QUOTATIONS AND ORDERS.

Quotations.—In asking for a quotation, all necessary information should be solicited in the same inquiry in order to avoid the waste of time that must result if detail is afterwards found wanting. Where the same inquiry is sent to several different firms, it is usually *duplicated* on special headed **Inquiry Forms**; otherwise it may take the form of a letter, as, for instance,

LUTON, 18th February, '21.'

Messrs. Mark Tapley & Son,
Nechells,
BIRMINGHAM.

Dear Sirs,

Please send me a catalogue of Brass Bedsteads and Spring Mattresses, and state your best terms and cash discounts.

One of my customers wishes me to quote for four Box Mattresses, Continental Pattern, with spiral springs, for 3-ft. beds. Do you make these? I should like to know also which models shewn in your catalogue you can supply from stock, and in how long from receipt of order you can guarantee delivery of the others.

Your neighbours, Messrs. Terris & Terris, with whom we have had considerable dealings, will give you any information about me that you may desire. For the business immediately in view I should prefer your quotations for cash.

Yours faithfully,

A **Quotation** is the *naming of a price*, and as such forms an important part of any commercial contract. A quotation

for goods to be supplied, or work to be done, is usually accompanied by a statement of conditions other than price, on which the person making the offer is willing to contract. The offer may be in the form of (a) a letter :

LONDON, 7th May, 1922.

Mr. Gustave Mairet,
" Blythwood," Bourne Hill,
N. 13.

Dear Sir,

Loofahs for Switzerland.

We have pleasure in quoting you First Quality Loofahs in original bales, as follows :

30/35 cm.	3,000 pcs.	in bale @	13/9
35/40 "	2,500 "	" "	16/9
40/45 "	2,000 "	" "	18/6
45/50 "	1,500 "	" "	21/-

Less 2½% Discount for cash against documents.

We are, dear Sir,

Yours faithfully,

or (b) it may be contained in a printed price list or catalogue accompanied by a covering letter giving special discounts and conditions :

CRADLEY HEATH, 15th June, 1922.

Dear Sirs,

As requested in your letter of the 14th inst., we have sent you under separate cover a copy of our new complete catalogue together with a special discount sheet applying to the prices.

We are prepared to allow you a further 5% discount over and above those already shewn in the sheet, and our goods would be delivered F.O.B. at an extra of 2½% with the usual cash terms of 2½% for cash against documents in London, or within 14 days of invoice.

We carry large stocks of practically all the items indicated in the catalogue, with the exception of Wrought Iron Tubes, of which the position is rather difficult at the present moment. Any discounts which we are able to quote you to-day would be subject to a revision at the date the material is despatched from

our Works, but if you are able to place your order with us on the terms that we will get the goods through for you at the earliest possible moment, and at the lowest price ruling at the date the goods are despatched, we shall be pleased to do our best for you.

Meanwhile we remain,

Yours faithfully,

TRADE REBATES.

Discounts named are subject to following Trade Rebates :

Section 1 Figs.	1-156 (excluding 154).	Less 15%
Section 2 Figs.	158/215	.. 15%
.. ..	216/304	.. 25%

All prices are subject to 2½% discount for monthly settlement (unless otherwise specified). Overdue accounts strictly net.

or (c) the offer may be made on a special **quotation form**, in which case the conditions are usually printed on the form, and should be read carefully by the buyer before placing the order. (d) Quotations are sometimes made on a *proforma* invoice (p. 62), showing usually, in addition to the prices of the goods offered, also the cost of packing and delivery. This method is particularly useful for foreign business, as distant customers like to know just what the goods will cost them delivered to destination, and how the total cost is made up. Frequently the expenses of transport and insurance are given "**without engagement**"; but, if not, the seller guarantees the figures quoted in the *proforma* invoice.

The ambitious young clerk should make it his business to be aware of every condition contained in the quotations and orders he handles, and to detect anything which may be unfavourable to his firm.

The following Tender, which is typical of those made by machinery makers, should be studied carefully, and the student should notice that it is in four parts: (1) the Quotation, (2) Terms of Delivery and Payment and Special Conditions, (3) Printed Conditions, and (4) Specification containing a technical description of the machinery offered.

*All Business Communications to be
addressed to the Company.*

Telegrams, "Vulco, Kilmarnock."

Established 1845.

Telephone No. 2167 Kilmarnock.

BRABY & HOGARTH, LTD.,

Engineers, Millwrights, Boilermakers, and Founders,
VULCAN FOUNDRY AND ENGINE WORKS,
KILMARNOCK.

Codes used—
A.B.C., 5th Edition,
Engineering,
Western Union Code.

ON ADMIRALTY,
WAR OFFICE, AND
INDIA OFFICE LISTS.

QUOTATION.

All Quotations and Sales are subject to the Conditions printed on the
back of this page. 21st January, 1921.

The Blueshale Colliery Co., Ltd.,
NOTTINGHAM.

Dear Sirs,

2,000 *Cub. Ft. Motor Driven Compressor.*
Our Ref. No. 9593.

We have pleasure in submitting you
herewith our tender for the following:

One Vertical two-crank two-stage
motor driven Air Compressor having
cylinders 26" and 16½" dia. × 12"
stroke × 300 revs. per minute, capa-
city 2,000 CUB. FT. OF FREE AIR PER
MINUTE to 80 lbs. per square inch
gauge, complete with inter-cooler,
unloading valve and extended bed-
plate for motor, but no electrical
equipment is included in this tender
—this to be supplied by your good-
selves,—all in accordance with en-
closed specification and Drawing
No. 1711/93.

FOR THE SUM OF ONE THOUSAND NINE HUNDRED
AND SEVENTY-FIVE POUNDS NET - - - £1,975 Net.

The above price includes for the services of a skilled man to
supervise erection.

M. B. P.

C

DELIVERY.—If favoured with your order we could give you delivery in 12/14 weeks.

TERMS.—As per conditions for contracts—see back.

SPECIAL CONDITIONS.—If, subsequent to this date the cost of manufacture is advanced due to the hourly rate of wages being increased either by the award of a Wages Tribunal or an alteration in the hours of labour, or in the event of the present price of any of the materials being advanced, the contract price of the above mentioned goods shall be revised so as to cover the increased cost to us. Should, however, the manufacturing cost be affected by a reduction in wages and materials the contract price shall be modified accordingly.

Please note that the foregoing price includes for delivery at your Colliery, near Nottingham.

Yours truly,

FOR BRABY & HOGARTH, LTD.
Wm. McGrath.

Enclos.

(Back of Quotation.)

The Tender is made upon the following terms :

1. **GENERAL.**—The acceptance of this tender includes the acceptance of the following terms and conditions.

2. **VALIDITY.**— Unless previously withdrawn, this tender is open for acceptance for the period stated herein, or where no period is stated within thirty days from the date hereof.

3. **ACCEPTANCE.**—The acceptance of this tender must be accompanied by sufficient information to enable us to proceed with the order forthwith, otherwise we are to be at liberty to amend the tender prices to cover any increase in cost which has taken place after acceptance.

4. **PACKING.**—Unless otherwise specified in this tender, all wooden packing cases, skids, drums, etc., must be returned to our Works at your expense and in good condition within one month of receipt, otherwise they will be charged for.

5. **LIMITS OF CONTRACT.**—This tender includes only such goods, accessories, and work as are specified herein.

6. **DRAWINGS, ETC.**—All descriptive and forwarding specifications, drawings, and particulars of weights and dimensions submitted with this tender are approximate only, and the descriptions and illustrations contained in our catalogues, price lists, and other advertisement matter, are intended merely to present a general idea of the goods described therein, and none of these shall form part of the contract. After acceptance of this tender, certified outline and general arrangement drawings will be supplied free of charge if desired.

7. **INSPECTION.**—Our manufactures are carefully inspected at our Works before despatch. If tests or inspections other than specified in this tender are required these will be charged for extra. If tests or inspections are to be made in the presence of or by you or your representatives, and if there is any delay on your part in attending after seven days' notice that we are ready, the tests will proceed in your absence, and shall be deemed to have been made in your presence and inspections shall be waived.

8. **PERFORMANCE.**—The figures given for performance are based upon our experience, but we will only accept liability for failure to obtain the figures given, when we guarantee such figures within specified margins, known as "*tolerances*," under an *agreed penalty* (as liquidated damages) and *bonus* if the figures obtained exceed the tolerances. In the event of the goods being defective, or the performance failing to fulfil the terms of such guarantee, reasonable time and opportunity to remedy the defect or to comply with the terms of the guarantee shall be given to us; if we fail to do so, either party may cancel the contract by notice in writing as from that date without claim by or against the other, except as regards penalties, if any, which may have accrued under Clause 9.

9. **DESPATCH.**—The time given for despatch is to date from receipt by us of a written order to proceed, and of all the necessary information and drawings to enable us to put the work in hand. We will use our best endeavours to despatch on the date given, but will accept no liability for failure to do so unless a guarantee be given under an *agreed penalty* (as liquidated damages) for late despatch. Should the despatch be delayed by strikes, lockouts, fire, accidents, defective material, or any cause whatsoever beyond our reasonable control, a reasonable extension of time shall be granted.

10. **DELIVERY.**—When included, delivery is made within the Railway Company's free delivery area only.

11. **TERMS OF PAYMENT.**—Where no other terms of payment have been agreed, *progress payments* up to eighty per cent. of the contract price shall be paid as construction proceeds at our Works in not less than three instalments according to the value of work done, the remaining twenty per cent. to be paid when the work is ready for dispatch.

12. **STORAGE.**—If we do not receive forwarding instructions within fourteen days after date of notification that the goods are ready for dispatch, a charge of 2s. (two shillings) per ton per week will be made for storage and fire insurance until the goods are

despatched, and the goods shall be paid for as if they had been despatched.

13. **DAMAGE IN TRANSIT.**—When delivery is included, we will repair or replace free of charge goods damaged in transit, provided the carriers and ourselves receive written notification of such damage within three days of delivery, but not otherwise.

14. **GUARANTEE.**—For a period of six calendar months after the goods have been despatched, and subject to Clause 13, our liability is limited to making good any defects developing under proper use and arising solely from faulty design, materials, or workmanship, provided always that such defective parts are returned free to our Works. The repaired or new parts will be delivered subject to the same conditions of sale as the original contract. At the termination of such period all liability on our part ceases.

15. **PATENTS.**—In the event of any claim being made or action brought against you in respect of infringement of patents by the manufacture or sale by us of goods supplied to you hereunder, you are to notify us immediately, and we shall be at liberty with your assistance if required, but at our expense, to conduct all negotiations for the settlement of the same or any litigation that may arise therefrom; subject to such notification, and provided that no such goods, or any part thereof, shall be used for any purpose other than that for which we supply them, we will indemnify you in respect of any such claims.

16. **ARBITRATION.**—If at any time any question, dispute or difference whatsoever shall arise between you and ourselves upon, in relation to or in connection with the contract, either of us may give to the other notice in writing of the existence of such question, dispute or difference, and the same shall be referred to the arbitration of a person to be mutually agreed upon, or failing agreement, of some person appointed by the President for the time being of the Institution of Civil Engineers, whose decision shall be final and binding. No party shall be represented before the Arbitrator by Solicitor or Counsel.

17. GENERAL LIABILITY.—Our liability under the contract shall be limited to the obligations imposed by Clauses 8, 9, 13, 14 and 15 of these Conditions, and we shall not be liable further or otherwise than therein mentioned, and shall not be liable for any loss due to stoppage of plant, machinery or apparatus of any description, or to

any consequential damage direct or indirect however caused.

18. LEGAL CONSTRUCTION.—The contract shall in all respects be construed and operate as an English Contract and in conformity with English Law.

19. The titles of the Clauses shall not affect their legal construction.

SPECIFICATION

of

VERTICAL TWO-CRANK TWO-STAGE INTERCOOLING AIR COMPRESSOR.

Our Reference No. 9593.

Your Reference No.

Date, 21st January, 1921.

To *The Blushale Colliery Co., Ltd.,*
NOTTINGHAM.

Description.—The Compressor will be of the vertical two-crank, two-stage, totally enclosed, intercooling type, arranged for being driven by electric motor through solid coupling, and will be complete with inter-cooler and all fittings and accessories as detailed in the following specification, and similar to Drawing No. 1211.

Particulars of Compressor.—Air Cylinders, L.P. 26". H.P. 16 $\frac{3}{4}$ " dia. Stroke, 12". R.P.M. 300. Power Required, 355 B.H.P. at Compressor Shaft for continuous full load output.

Air-Pipe Branches: L.P. Intake 14" dia. H.P. Discharge 7" dia.

Water Branches: Main Supply 2 $\frac{1}{4}$ " dia. Main Return 3" dia. Cooling Water required 66 gallons per minute.

Capacity.—The Compressor will have an effective capacity of 2,000 cubic feet free air per minute, and will be able to compress this quantity of air continuously to a discharge pressure of 80 lbs. per square inch gauge when running at the stated speed.

Note.—The remainder of the Specification consists of a technical description of the plant, under headings:

Cylinders.—Trunk Distance Pieces—Upper Crank Casing—Lower Crank Casing—Connecting Rods—Air Valves—Pistons—Piston Rods—Piston Rod Packing—Crossheads—Crankshaft—Lubrication—Bedplate—Flywheel—Intercooler—Air Piping—Cooling Arrangements—Air Pressure Gauge—Foundation Bolts—Indicator Gear—Spanners—Materials and Workmanship—Air Governor—Unloading Valve.

Engineers', contractors' and builders' quotations are frequently called *Tenders*, or *Estimates*, the latter term being generally used to denote offers to do work, such as repairs or building.

ESTIMATE.

H. Wright & Son,
(Proprietor E. Wright),
Builders and Decorators,
Sugar Lane Works,
Northminster,
ESSEX.

NORTHMINSTER, 5th Nov., 1922.
Mr. Thos. Webber,
Sundial House.

Estimate for Work Required at *Sundial House*.

We have pleasure in submitting Estimate as requested. The favour of your order will be esteemed and shall receive our prompt attention.

Yours obediently,

H. WRIGHT & SON.

Drawing Room.

To wash, stop and distemper ceiling, cornice, frieze and centre flower, strip, stop and prepare walls, and hang paper to same.

For the sum of £5. 15s. (Five pounds fifteen shillings).

Papers to be charged for extra as chosen.

“**Firm**” and “**Subject**” Offers.—See chapter xxii. on “The Law of Contract,” p. 275.

Lists of Prices Current are issued periodically by wholesale grocers and others, and circulated amongst their customers. They show the *approximate* prices at which the customer may buy, but the seller does not undertake to supply at exactly those figures.

PRICES CURRENT.

COFFEE—in bond, per cwt. (duty 42s. on foreign ; 35s. on British).		
Jamaica, colory	155 0	162 0
Vera Paz	135 0	156 0
East India—		
Superior	156 0	158 0
Mid. to good mid.	148 0	153 0
Mocha, long berry	172 0	180 0

Cocoa—per cwt. (duty 4½d. per lb. on foreign; 3¼d. on British) in bond.					
Grenada, com. to fine	-	-	-	116 0	126 0
Jamaica	-	-	-	125 0	125 0
Guayaquil, Machala	-	-	-	125 0	130 0
Arriba	-	-	-	130 0	136 0
RICE—per cwt.					
Rangoon, cleaned	-	-	-	26 0	0 0
Bassein	-	-	-	26 0	0 0

The list of prices current must not be confused with the price list (which contains a definite offer), nor with the market report (which is merely a record of prices at which dealings have taken place). Prices in the produce trades are too unstable to be embodied in elaborate price lists, although wholesalers do sometimes issue short lists of prices—"subject to being unsold"—as special offers.

SPECIAL OFFER OF GREEN FRUIT.

Oranges, Denia.

714's Selected, about 170 lbs. nett per Case	65/-
„ Choice „ 180 „ „ „	70/-

Lemons, Messina.

300's Fine	per Box	20/-
„ Selected Bold	„ „	30/-
„ Extra Choice	„ „	35/-
180's Choice, Extra Large	per Half Case	23/-

Perfect colour and condition.

Nuts, New Seasons.

Barcelonas, Finest Screened, 124 lbs. per Bag	110/-
Almonds, Finest Tarragona, 108 „ „	100/-

To arrive—Due early January.

The Order, though commonly contained in a letter, is frequently written out for convenience on a special form.

EXAMPLE 1. *Order Form.*—Where the goods are deliverable from stock the preparation of an order is not a difficult matter, and where the seller's quotation stated all conditions

regarding packing, delivery, payment, etc., these conditions need not be repeated, provided the buyer agrees to them.

ORDER.

THE WHITE STREET WAREHOUSE, LTD.
Moorfields,
LONDON, E.C. 2.

Messrs. J. Gallaher & Co.
50a Cannon Street, E.C. 3,
14th May, 1922.

Please supply the following goods, viz. Ref. No., 00147.
50 pcs. 33 $\frac{1}{4}$ in. ab't 18 yards Natural Shantung @ 23 $\frac{1}{8}$ d. per yd.
75 " " " " " @ 2/11 "

Where goods have to be made specially, and a detailed Tender with Specification has been submitted and approved, the order need not reiterate all the details. The words "in strict conformity with your Quotation of the.....and Specification annexed thereto" will suffice to identify the order with the conditions agreed to on both sides.

EXAMPLE 2. Buyer's Contract Note.—Some firms make a point of embodying the entire contract in one document. The general conditions applicable to most of their business are printed on the Order Form, and any special instructions or terms of contract added in writing:—

Our Ref. No. 844.

33 Cross Street,
MANCHESTER, 28th Dec., 1921.

M Furo Fadeless Fabrics, Ltd.,
Eccles.

Dear Sirs,

We have this day contracted with you as under. Please give this order your careful attention, and execute in strict accordance with the conditions stated.

Awaiting your written confirmation, we are, dear Sirs,

Yours faithfully,

p. pro F. STAFF, SONS & Co.

Quantity.	Width.	Length.	Description.	Price.	Delivery.
200 pcs.	40 in.	60 yds.	<i>Zephyr</i>	2/9½	10 weeks
120 "	31½	60 "	<i>Cambric</i>	2/-	10 weeks from date hereof.

Quality to be in every respect in accordance with samples.
 Dispatch within the times stated hereon to be of the essence of the contract.

Delivery.—Price to include carriage to our warehouse.

Terms of Payment.—Usual.

Order Forms containing conditions of contract, such as the above example, are sometimes called “**Contract Notes.**”

EXAMPLE 3.—*Seller’s Contract Note.*—In some trades it is customary for the buyer’s order to be confirmed by the seller in a Contract Note containing the full conditions of sale in one document. After having been signed by the seller, it is sent to the buyer with a detachable form for him to sign and return, as evidence of his agreement to the contract.

Contract No. 181.

Bridge Works,
 MIDDLESBOROUGH, 29th June, 1921.

Messrs. Rund & Stabeisen,
 Sheffield.

We have this day sold to you, in accordance with the printed conditions at back hereof *Sixty-five tons Number 4 Forge Pig Iron* as follows :

Price.—*One hundred and fifty-eight shillings (158/-) per ton.*

Terms of Payment.—*Net Cash in thirty days after each delivery.*

Delivery.—*Free your sidings, G. N. Rly.*

Dispatch.—*20 tons in 12 weeks from date hereof, remainder to follow in monthly instalments of equal quantity.*

For and on behalf of

AJAX FOUNDRIES, Ltd.

..... Managing Director.

.....
To be detached and returned to us completed.

CONFIRMATION SLIP.

SHEFFIELD,.....19....

Ajax Foundries, Ltd.,
 Middlesborough.

We have received your Contract Note No. 181 dated 29th ult. relative to 65 tons No. 4 Forge and hereby confirm the same and agree to the terms and conditions contained therein.

(Signature).....

Contract Notes are very often used *instead* of Orders in connection with raw materials such as iron and steel, non-ferrous metals, fibres, etc.

Brokers' Contract Notes.—Where a *produce broker* is employed as intermediary between buyer and seller, it is he who writes out the contract in his "sale book," and sends copies of it, called Contract Notes, to the two parties concerned: (a) a *Bought Note* to the buyer, and (b) a *Sold Note* to the seller.

EXERCISE 4.

1. Write a letter to Heel Bros., Derby, requesting copy of Spring catalogue with note of best trade terms and cash discounts. Say you are in the market for a few job lines in Ladies' Velour Walking and House Shoes, and asking what they can supply from stock at really favourable prices.

2. Reply to above inquiry, advising dispatch of catalogue and bargain list. Quote 45% off list prices, and 2½% for cash in one month. Offer to supply Velour shoes from stock.

303N	7/6	White Poplin Gibson Str. Cap, Rd: Toe, Cuban Heel.					
305N	7/6	Nigger Poplin Court no cap,	"	"	"	"	"
306N	8/3	Best Quality Oxford	"	"	"	"	"
307N	8/9	" Velvet Court					
		(Tab and Buckle) M.S.	"	"	"	"	"
308N	8/9	Black Velour Tab Court	"	"	"	"	"
		(Buckle)	"	"	"	"	"

Above job lines are all of high-class manufacture, and prices are strictly net. Sellers pay carriage on all orders over £10 in value.

3. Write out a letter from J. Oswald, 114 Duke Street, Leeds, to Dene & Wood, Bellfield Chemical Works, Stockport, asking for lowest quotations and terms for 1 cwt. East Indian Aloes, 14 lbs. Peruvian Balsam and 14 lbs. Chinese Camphor.

4. Reply to the above inquiry, quoting 145/- per cwt. for Good E.I. Aloes and 17/- per lb. for the Balsam. Chinese Camphor cannot at present be had at any price, but will quote on advice of first arrival. Could supply refined Japanese @ 14/9 from stock. All prices include packing and delivery on rail at Stockport, and are subject to 2½% discount for prompt cash.

5. What do you understand by a "Tender" or "Estimate?" Give an example. What is a specification? (N.U.T.)

6. Name some conditions of contract commonly contained in Quotations.

7. What is the difference between (a) a Price List and (b) a list of Prices Current ?

8. Messrs. Sampson & Co., of Bradford, are asked by Messrs. Canning & Wilson whether they can supply 50,000 yards of a particular fabric, sample of which they enclose at round about the price of 3s. 6d. per yard and deliver within seven days of their placing the order with them. Draft Sampson & Co.'s reply from the following notes :

Factory too small, owing to depletion of staff, to permit of work to be put in hand for three weeks at least, and two months required to complete. Price out of the question. Costs increased by 60%, 5s. 10d. per yard minimum. Could supply similar, but less satisfactory, fabric at 5s. 2d. per yard as sample enclosed, and, possibly, save 3-4 weeks in the time required for manufacture, but sample is, as will be seen, sulphide and not aniline dyed. Regret exceedingly having to inconvenience old customers, but best will in the world cannot overcome ever-increasing difficulties due to exigencies of war. (S.A.cc.II.)

(Note.—This question was set in war-time.)

9. Condense the following into telegraphic form: We have received and tested the sample of zinc ashes referred to in your letter of the 6th inst., and for the 20 tons we can offer you £6. 4s. per ton, dry weight, delivered free at our works, subject to the bulk being equal to sample submitted. Early delivery, and net cash payment, after receipt of the material at our works, and verification of weight and quality. (S.A.cc.II.)

10. What is the difference between an Order and a Contract Note ? Illustrate your answer by an example of each, embodying a contract for 10 Bales Curled Algerian Fibres to be supplied by the Crin Végétal Co., 111 St. Mary Axe, E.C. 3, to Messrs. H. Chadwin & Son, Alwool Mattress Works, Curtain Road, E.C. 2.

CHAPTER V.

LARGE-SCALE RETAIL UNDERTAKINGS.

Origin of the Big Shops.—However capable a retailer may be in the management of his business, his sales are limited to the needs of the inhabitants of the district for the particular class of goods he has to sell. Though he may be smarter than his competitors and attract buyers from them to increase the number of his own customers, the total demand for his wares may be insufficient to satisfy his enterprising spirit.

There are two directions in which he may overstep his limitations: (a) He may add another department to his store and begin selling, say, furniture as well as drapery; or (b) he may keep to his original line of business and open branches elsewhere. If he adopts the first method, his shop becomes a Departmental Store, to which further departments are added as the business develops; the alternative is a Multiple Shop system.

The present-day departmental and multiple stores did not all begin in this way. Many started as such and have been formed from the commencement under the control of limited companies. In the case of the multiple shops, the manufacturer or large dealer is frequently found in the background, supplying his goods not only to his own branch shops but to other members of the trade as well.

An important difference between the departmental stores and the multiple shops is that the former occupy a central

position and depend for their existence upon their ability to attract customers from neighbouring parts ; whereas the latter open anywhere and everywhere, establishing small and big branches according to the opportunities of the districts they exploit. The central company forces its way upon the public, and if it is a manufacturing concern it thus liberates itself from middlemen and retailers alike, growing in strength as the number of its ramifications increases. This difference accounts moreover for the equally apparent contrast between the class of trade which each form of undertaking develops. The large stores attract by appealing to the people's natural taste for luxury, and they specialize in artistic, fashionable and expensive articles. The multiple shops supply the people's everyday needs at a few minutes' distance from their homes.

That the drug stores also sell attractive articles of toilet, etc., makes no exception to the rule ; by so doing they attract the local public, but they do not attempt to induce customers to come long distances to spend a day shopping for drugs and scent !

Organization of the Department Store.—Each department of a large store is a separate entity, and the sales, purchases, stock, expenses and profits of each are recorded separately. This arrangement enables the central management controlling the whole organization to follow and compare the progress of each section. In order that the *net* profits of each department may be correctly ascertained, such general overhead charges as rent and rates, lighting, carriage, etc., and the cost of administration are apportioned, and debited to each department according, usually, to its position and floor space.

The head of each department necessarily possesses special knowledge of the class of goods of which he is given control, and the sources from which they may be obtained. For this reason, in nearly all retail stores, and *wholesale warehouses*, the department head is also *buyer* for his department. His responsibility is thus clearly defined ; if his section should

prove unsuccessful he could not protest that he was not given the right goods to sell.

Each buyer is usually allowed a free hand in the choice of his purchases, though the orders are usually approved by a higher official as they pass through the correspondence department. The *extent* to which he may commit the firm must, however, necessarily be restricted. Usually a maximum sum is allocated for each month's purchases to each department, in which case no buyer may make further commitments without special sanction.

A certain amount of wholesome rivalry no doubt exists, and should do, between the various departments; but the duty of each buyer is rather to contribute to the success of the store as a whole than to make his own section show bigger profits than the others.

For this reason buyers are not allowed complete freedom in the fixation of prices. By selling at exorbitant prices the head of one department might be able to show bigger total profits, though on a reduced turnover; but the store's reputation of giving value for money must not be weakened, nor customers discouraged by high prices in one department from making purchases in others. One of the greatest difficulties of organization is to get all heads of departments and responsible officials to follow and adopt the policy and spirit of the house as a whole, while at the same time giving it the full benefit of their ability and initiative.

The general organization of the departmental store is similar in principle to that of the larger Wholesale Warehouses which also have a department for each class of goods dealt in. Reference should now be had to the Organization Chart and accompanying description contained in Chapter VII.

The Economy of the large store.—The establishment charges of a departmental store should be lower than would be incurred by a series of smaller shops of corresponding size. In view of the enormous first cost, and the apparent recklessness with which money is spent in providing writing rooms, rest lounges, lifts, refreshments, a post office, inquiry office, etc., and in

advertising and publishing handsome catalogues, it is not easy to realize the economy of such an establishment. But when expenditure is considered as a *percentage of sales* it assumes a more moderate appearance. Customers pass from one department to another, and are given the opportunity of buying far more than in a single shop.

The rent of a giant building occupying many storeys is obviously less than would have to be paid, in the same thoroughfare, for a number of ground-floor premises of the same total floor-space.

Each department is not large in comparison with other shops, but sales are sufficient to warrant buying in large quantities. Many a small factory is employed exclusively on contracts for one concern of this kind; buying offices or agencies (embodied in some cases in a branch retail establishment) are set up in the Continental centres; and indeed in some such stores quite a number of things are manufactured on the premises.

The staff can be more efficiently employed, as customers are numerous enough to keep every assistant fully employed. Ability quickly finds its reward, to the advantage of the house and its employees alike, and each member of the staff is put to do the work for which he is best fitted. Buyers and other persons in positions of responsibility are not called upon to do work which could be done equally well by subordinates, and each is thus enabled to give the firm full value for the high salary he earns. The *incentive* to work is good, as promotion to the general management of the firm is within the reach of the humblest employee who has the energy and intelligence to work his way upwards and shows himself able, eventually, to undertake the responsibilities of such a position.

The remarkable turnover of the large stores and their relatively economical working enable them to sell on a considerably lower **margin of profit** than small concerns working on less intensive lines. It would be idle to pretend that cheap prices are accounted for by inferior quality. The life or failure of an undertaking involving a capital outlay of half a million or so depends upon its ability to create an *immense and regular custom*, an object quite unattainable,

even in the busiest thoroughfares, unless the same customers can be persuaded to come again.

Owing to the variety of goods sold, the delivery of parcels to customers' houses costs the stores less than the large retail establishments selling only one line of goods, although the radius of delivery by the firm's own vans is usually wider.

Organization of the Multiple Shops.—Each shop is worked by a **branch manager**, whose position is widely different from that of a buyer in a store or warehouse. The branch manager has no voice in the buying or production of stock, nor is he consulted in matters of general business policy. The whole system is organized in detail from the Head Office, and the branch manager's duty is to see that the official instructions are followed.

In most companies the stock is invoiced to the branches at *sale price*. The branch manager's duty is thus confined to organizing the shop, and selling at the prices named without inquiring into the question of profit. Branch accounts are also simplified by this method; they should show the value of stock as the difference between supplies on one hand, and sales, returns or transfers to other branches on the other.

Cash takings are paid into the bank daily, and establishment charges and assistants' wages paid either by cheque direct from the Head Office or by the branch manager from a cash balance maintained by cheque from the Head Office week by week on the "*imprest*" system (p. 156).

The management of a branch shop requires less initiative than buying for a department, but the success of the company depends none the less upon the efficiency of its managers.

The economy of the multiple system.—The strength of the system lies in the number of its branches and the large quantity of goods which can be disposed of. The branches draw their supplies from either (a) one central depôt or (b) local depôts or "Reporting Offices." Where there are many branches scattered over a wide area each district is usually worked on what is known as the **block system**. The principal branch

of the district is appointed "reporting office" and given partial control of the others, receiving from them weekly statistics of sales, expenditure and stock, and supplying them with the goods they need. Buying at headquarters may be done on a large scale and expert buyers employed. Here again the division of labour results in better value for salaries paid. Manufacturing chemists, margarine firms, etc., make for other members of the trade as well, and where the purpose of the shop system is to render a service, *e.g.* Dyeing and Dry-Cleaning, the work can be done centrally on a large scale with far greater economy than would be possible if the orders were confined to what a single shop could obtain.

Since the buying is done at headquarters and the stock is kept at depôts supplying many branches, the value of stock lying idle at each branch can be reduced to a minimum, while each manager is able to show an immense variety of goods. The branches are supplied frequently—in many companies daily—by motor vans from the depôt, and as soon as a gap occurs in the stock at any one branch it can be instantly filled.

The branches of most multiple shop companies are visited periodically by inspectors from headquarters, and any improvements in window-dressing or management found desirable in one branch can be duplicated in the others.

Each branch advertises the others and money spent in newspaper and hoarding advertisements brings custom not to one shop, but to, maybe, hundreds of shops belonging to the same firm.

"Tied" Shops.—A sort of multiple shop system arises where a number of retail shopkeepers are bound by agreement to obtain supplies from one firm only. Tobacco and cheap jewellery are commonly sold by retailers who have been "set up" by a tobacconists' supply company or a jewellery warehouse. The liquor trade is a familiar example of "tied trading," a state of affairs which is largely responsible for the

drink evil, as under it the publican loses his useful function of *restaurateur* and becomes a mere distributor of drink for the brewers and distillers.

In any trade it may happen that a retailer becomes "tied" to one of his suppliers through misfortune. In difficulty to pay his accounts the retailer has perhaps taken such long credit from one of his wholesalers that he has to choose between losing his independence and going into bankruptcy. If his "principal creditor" brings him into bankruptcy, a part of the debt may be recovered, whereas if the customer is "nursed" and allowed further stock on credit he may eventually overcome his difficulties. But under such an arrangement the retailer must undertake to buy of no one else.

Expansion.—Improved means of communication and the strengthening of the capitalist system have been the main causes of the increase in the number of giant retail shops. A prosperous trader, by converting his business into a limited liability company, may launch out with more capital and less fear of misfortune than if he is confined to his own means and efforts; when he wishes to retire he can do so; the company still continues and he remains the principal shareholder.

An important factor that has contributed to the success of the large stores has been also the increase in wages and reduction in the hours of work of the lower middle classes. People have more to spend than they used to do and more time to spend it.

The natural destiny of the prosperous multiple shop company is to increase the number of its branches. Every new shop strengthens the position of the company, and in new districts such a firm may be an invincible and ruthless competitor for the small retailers, for the company can afford to run the new branch at a loss for an indefinite period if a footing can be got in no other way.

The department store is different. Where the premises are hemmed in by other buildings—and the store can exist only in a populous district—extension of the store is limited by the possibility of acquiring the surrounding property. The opportunity

for expansion lies more in absorption or amalgamation of other shops and the opening of branches in other towns. Both methods have been followed by some of the London and Parisian stores of late years.

Vitality of the small Retailer.—The small shopkeeper has not lost his means of livelihood. It is true that even in the country the small shops lose a good deal of business to the stores. Their propaganda is world-wide and people travel long distances to visit them, or failing that do some of their shopping by post. But where customers require above all personal attention to their particular wants, as in tailoring and any sort of repair work, they will always prefer to go to their "own" man. The competition of the multiple shops in the supply of food is due to greater efficiency in distribution. But the retailer of perishable foodstuffs works on an efficient system already—getting his supplies direct or from the market—and he has nothing to fear.

EXERCISE 5.

1. What other forms of business are there in retail trade besides the one-man business? Indicate those types which carry on their business through the Post Office. (U.L.C.tpc.3.)
2. Account for the modern tendency of the retail trade to become controlled by large companies.
3. What are the advantages of a Departmental Store: (a) to the general public; (b) to the trader, as distinguished from confining his capital to a single trade? (S.A.tpc.II.)
4. Describe, in general terms, the organization of a departmental store.
5. What are the distinctive features of Multiple Shops? (S.A.tpc.II.)
6. In what ways does the small retailer suffer from the competition of (a) the departmental stores and mail order houses, and (b) the multiple shops? Do you think the small trader will ever be completely eliminated by these giant concerns?
7. What is meant by a "tied" shop? Show how the state of affairs denoted by this expression may arise.
8. If wholesale dealers could be abolished, what would be the effect upon (a) manufacturers; (b) retailers? (S.A.tpc.II.)

CHAPTER VI.

INVOICES. GOODS OUTWARDS.

Execution of Orders.—One of the first essentials of office organization is some sort of mechanism by which all Orders Received are properly attended to, and customers notified if anything will have to be omitted when sending the goods. This object may be achieved by entering all inward orders as they arrive in an

(a) **Orders Received Book** or what is known, in export houses, as an **Indent Register**. The book might be arranged as follows, or in any other way suitable to the peculiar requirements of the business.

INWARD ORDER REGISTER.

Date.	Name and Address.	Goods.	Supplier.	Agent or Traveller.	Executed.
19.. Feb. 4	<i>Hockley, Settle.</i>	<i>5 pcs. Shantung No. 041554</i>	<i>Stock</i>	<i>Mr. Chelsea</i>	

After entry, the original order is passed into the warehouse or works for execution, and finally finds its way into the Packing Department, to serve as a guide to the packers in getting the goods together. In some business houses the office clerks, in addition to entering the orders, write out a **packing slip** and **label** for the packing department.

In some warehouses the original orders go to an *Order Room* adjoining the general office, to be entered into

(b) **Departmental Order Books.**—The entering is usually done by assistants from various parts of the store, who pick out of each order such items as may be dealt with in their respective departments. The original then goes to the packing department.

(c) **The Slip System.**—Most warehouses nowadays adopt the “slip system.” As each order is received, it is given to typists in the correspondence room, who copy the customer’s name, reference number and contents of the order on (say) three sheets together, interleaved with carbon paper. The three copies (or more if convenient) are then used as follows:—

Sheet No. 1 is cut up into slips for distribution to the various departments, the items being arranged according to the class of goods stocked in each. Thus dept. A will get the silks, dept. B the cotton prints, etc.

The goods named in each slip are then piled together in the department, and sent down to the **Packing Department**, with a note of any (1) “omits,” (2) “subs” (*i.e.* goods substituted for those ordered but not in stock), or (3) goods not in stock but “to follow” as soon as they can be obtained.

Sheet No. 2 is used as an “Assembly Sheet,” and sent down to the packing department to assist the packers in parcelling all the various contributions together.

Sheet No. 3 and the original order can be filed away for reference. Originals can be filed in *alphabetical order* under the names of customers, and copies *in order of date*—or as may be found convenient—to serve as a loose-leaf Order Book.

The **Assembly Sheet** is returned to the correspondence department after execution or part-execution of the order, so that customers may be notified of “omits,” “subs” or goods “to follow,” and the necessary orders sent to complete.

(d) **P.A.C. System.**—A similar system is adopted by some of the large retail stores for collecting together purchases made in different departments. The assistant fills in each bill as usual, and if the customer intends to make purchases at other counters she is given a "Purchase Assembly Card" which, together with copies of each bill, is sent eventually by pneumatic tube to the P.A.C. Sorting Room, where the parcels are prepared.

The Invoice.—As each order is executed, the seller sends his customer (under separate cover) an Invoice, showing how he has executed the order and how the price is made up, and charging him with the amount due:—

SKIN MERCHANT'S INVOICE TO FURRIER.

Telephone Bank 336.
59 Upper Thames Street,
London, 27th Jan., 1921.
E.C. 4.

Messrs. H. Wallaby & Co.,
5A Aldersgate Street, E.C. 1.

To GREY, FOX & SONS, LTD.

				£	s.	d.
19/1/21	6472	10 Sel Bear Col -	16/6	8	5	-
	6473	20 I ,, -	13/6	13	10	-
	6509	60 I sm. black -	7/6	22	10	-
		90 Dyed Goats				
	6521	20 Blue ,, -	12/6	12	10	-
				56	15	-
		Dis. 2½%		1	8	4
		per April 27th, 1921.		55	6	8

E. & O. E.

FURRIER'S INVOICE TO WHOLESALER.

Works : 5A Aldersgate Street,
 Clerkenwell, Islington. London, 25th May, 1922.
 Messrs. Black & White. E.C. 1.

Dr. to H. WALLABY & Co.,
 Wholesale Manufacturing Furriers and Skin Merchants.
 (Wool Boa Manufacturers).

Telephone No. 1898 Central.

				£	s.	d.
620	12	Squirrel Ties - - -	29/6	17	14	-
820	6	„ Muffs - - -	35/10	10	15	-
424	26	Skunk Goat Ties - - -	21/-	27	6	-
434	13	Black Goat Muffs - - -	22/6	14	12	6
	100	Squirrel Tails - - -	25/- ⁰ / ₁₀	1	5	-
	24	Amer. Opossum Collars - - -	39/-	46	16	-
	30	„ „ Muffs - - -	42/-	63	-	-
				181	8	6

HIDE FACTOR TO TANNER.

Leman Street,
 London, Nov. 5, 1920.
 E. 1.

Messrs. B. Barker Bros.

Bought of FELL & FLAY.

Your Order 38 Conveyance van Carr. Terms prompt.

		Avge.	lbs.	Rate	£	s.	d.
35	E. I. Kips, Seconds	7-11	311	38d.	49	4	10
40	„ Thirds	7-11	335	30d.	41	17	6
					91	2	4

LEATHER FACTOR'S INVOICE TO BOOT MANUFACTURER.

Bermondsey, E.,
 Dec. 11, 1921.

Messrs. Fitwell & Co., Derby.

Dr. to H. LEATHERHEAD & SON.

		Each.	Total.		£	s.	d.
19	No. 7, firsts, S/C Bends	8-10	173 lbs.	3/4 Net.	28	16	8

Contract No. 92, rem. to follow shortly.
 Per Mid. Rly.
 E. & O.E.

BOOT AND SHOE FACTOR'S INVOICE TO RETAILER.

Newark Street,
Leicester, 29th March, 1922.

Messrs. A. & J. Wynne, Manchester.

Bought of THE WELLINGTON BOOT COY., LTD.

Terms : Monthly Account.

			£	s.	d.	£	s.	d.
1037	48	Children's black glacé btn., white worked holes, riv., 6/2 ; 12/3 ; 18/4 ; 12/5's net.	3	7		8	12	-
214	24	Boys' fine box derby, un- lined, M.S., 6/8, 12/9, 6/10's net.	7	9		9	6	-
	3	Ditto 3/11's net.	8	6		1	5	6
G.18	30	Girls' fine box lace, M.S., punched, goloshed, 18/8, 9/9, 3/10's	8	3				
110A	12	Ladies' Field Boots, box hide bal., linen lined, riv.	6	7		12	7	6
						16	6	6
		Increase 50% - - -				8	3	3
						24	9	9
		Deduct 15% from re- vised catalogue prices				3	14	10
						39	18	5
		1 Case (returnable) -				-	9	-
						£ 40	7	5

Your Order No. 448 dated 4th Mar. 1922.
Dispatched to-day per Mid. Rly. carr. pd.
E. & O.E.

TUBE MAKER'S INVOICE TO IRONMONGER.

Cradley Heath, 30th July, 1922.

Messrs. H. & H. Pontiff, Ironmongers, Stratford, E.

Bought of PETER PIPER & Co., LTD.

Terms : 2½% for cash in 14 days.

			£	s.	d.	£	s.	d.
No. 1	3"	25 Lengths Wrought Iron Tubes 137' 6"	-/4	2	5	10		
" "	2"	14 Lengths Wrought Iron Tubes, 84' 0"	1/10	7	14	-		
" 2	3"	12 pieces 12" to 23½" Wrought Iron Tubes	-/10		10	-		
" 13	3"	8 Elbows, round	-/11		7	4		
" 15	2"	10 Sockets, diminished	1/4		13	4		
" 28	2"	12 Round Way Cocks w. Brass Plugs	8/7	5	3	-		
				16	13	6		
Discount as per list			25%	4	3	4	12	10 2
722		1 Towel Rail, solid drawn brass tube, wall pattern, 3' 0" × 2' 6" × 18 W.G.						
		Polished Brass		4	13	-		
		Connections			5	-		
				4	18	-		
Disc. 15%					14	8	4	3 4
							16	13 6
Special Disc. 5%								16 8
							15	16 10

Your Order No. 413 dated 21st June, 1922.
 Dispatched this day to your address per
 G.W.Rly., carr. paid.
 E. & O.E.

WHOLESALE HARDWARE DEALER'S INVOICE TO
RETAILER.

Mr. Wm. Eldridge, 79 & 80 Little College Street,
13 *Essex Road, Islington, N. 1.* London,.....19....
E.C. 4.

Bought of H. CASSELL.

No claims will be entertained unless made within seven days
after receipt of the Goods.

Payments monthly due the tenth of the succeeding month.
Delivery free London City. Empties *not* returnable.

		£	s.	d.	£	s.	d.
104B	½ doz. No. 2 "Putt" Reading Lamps, brass, w. reflector shades, @ ea. - - - - -	32/6	9	15	0		
	33½%		3	5	0		
					6	10	0

GROCERY MERCHANT'S INVOICE TO COUNTRY
WHOLESALER.

Telegrams : Ryckie, London—Fen.
Telephone : 5601-2 Avenue 39 Mincing Lane,
(2 lines). London,.....19....
E.C. 3.

Messrs. Gillott & Marston, Ltd., Crewe.

Bought of O. VAN RYCK & Co.

Terms : 1% 1 mo.

6 Bags Coffee ex. s.s. "Highland Prince" in Bond.

G.B					£	s.	d.
	216	1	2	22	3/2		
	7			19			
	8			20			
	9			20			
	20			18			
	1			21			
				10	0	8	
				1		2	
				9	3	6	@ 115/-
	Less 1% for payment within 1 month				56	7	5
					11	3	
					55	16	2

Another important purpose of the Invoice is that it serves as a voucher to the entries in the books of account. The buyer enters particulars and amounts of the original invoice received in his *Purchases Journal* (Bought Book, Invoice Book). A copy of every invoice sent out is kept by the seller for entry in his *Sales Journal* (Sold Book, Day Book).

When the auditors come to certify the accounts at the end of the half-year they require to see every entry justified by a proper voucher. Therefore, if a mistake is found in an inward invoice, it must not be altered by the buyer; the seller should be asked to rectify it.

Outward Invoices.—In a small business not divided into departments, outward invoices can be carbon-copied or press-copied in the same way as the other correspondence (p. 153). One copy is conveniently kept for the files, and (say) one other for the agent or traveller, if any, entitled to commission on the order. The copies of invoices can then be put into a separate basket for the bookkeeper to enter them into the Sales Day Book.

Entering.—In most wholesale warehouses the invoices are prepared as follows:—The goods against each order are piled up on the **Entering Counters**, where an “invoice clerk” or “entering clerk” turns over each article, calling out description, quality and price to another clerk, who enters the particulars forthwith into the Sales Journal. The prices and extensions are then checked and initialled, and the invoice is either

- (a) written or typed from the sales journal in the counting house, or
- (b) prepared in pencil simultaneously with the entry in the sales journal, the latter being interleaved with detachable invoice, copy and carbon sheets.

The latter method of invoicing is commonly used in conjunction with the slip system for orders received.

Multiple Loose-Leaf System.—In dealing with inward orders it is often convenient to make numerous carbon copies of the

order and invoice at one operation, for distribution to the various departments concerned.

Each business must have forms arranged to meet its particular requirements. In the example given on p. 60 (Fig. 2), which is convenient for a manufacturing business, the

Invoice to customer,
Day book copy,
Works order,
Dispatch order, and
Receipt

can be made at one writing. The Day Book copies in order of date go to make up a **Loose-Leaf Day Book** or sales journal. The remaining copies show no prices, the carbon sheets being cut short at the money columns. The Works Order is given to the works manager for execution, and the Dispatch Order is then sent down to the Packing and Forwarding Department to instruct the packers to get the goods together, pack them and send them off. The Receipt accompanies the goods, to be signed and returned by the customer to show that he has received them.

The same system is useful in a merchant's business where orders have to go to the wharf to deliver. Travellers' and Agents' copies, packing slips, etc., can be made at the same sitting.

Trade Discount is a deduction to be made from the catalogue or advertised price, to adjust it down to the actual or **trade price** which the seller wishes to charge.

Wherever the seller issues a catalogue (*e.g.* for metal fittings, hollow-ware, brushes, cycles, watches and jewellery, boots and shoes, etc.) or where he advertises retail selling prices (as in drapery, musical instruments, books, cycles, etc.) an adjustment of this kind is necessary. It enables the seller to quote his price according to circumstances, and to publish an elaborate catalogue which will not get out of date through fluctuations in the cost of material and labour.

If the printed prices should become insufficient, they can be

increased by (say) a round 50% by means of a rubber stamp impressed on each page of the list.


DATE OF ORDER		DATE	WORKS ORDER	STOCK USED
CUST ORDER NO.		ROCKWELL-WABASH CO. LTD.,		
OUR ORDER NO.		11, MILLER STREET LONDON E.C.		
DATE		ORDER		STOCK USED
CUST ORDER NO.		ROCKWELL-WABASH CO. LTD.		
OUR ORDER NO.		INVOICE		
FORWARDED BY		DATE		
CARRIAGE		YOUR ORDER NO.		
SOLD TO		OUR ORDER NO.		
FORWARDED BY		FORWARDED BY		
Day Book		PER		
Folio		CARRIAGE		
Rag		SOLD TO		
Cards				
Description		11, MILLER STREET LONDON E.C.		
Unit		ASSIGNMENT		
Price		WEIGHT		
Quantity				
Total				
G. O. C.				
S. O. C.				
C. O. C.				
Purchase				
TOTAL				

FIG. 2.

(By kind permission of Moore's Modern Methods, Ltd., London.)

If the invoice form is provided with two or three columns, all adjustments should be made in the inner column (see pp. 55 and 56) and the total trade prices extended.

Cash Discount is a deduction from the amount owing by a customer for payment within a stated time. It is an inducement to pay promptly, which offers the buyer the advantage of reducing the price, and enables the seller to recover his capital more quickly and with less trouble.

The cash discount allowance is not usually deducted by the seller. It is generally inserted by the buyer in red ink (see thick type on pp. 53 and 96) when he returns the invoice or monthly statement of account with a cheque to the seller to be receipted.

Tare and Draft.—The invoices of produce dealers usually show the **Gross Weights** and **Net Weights** of each case, bag or bale, the difference being the weight of the package (known as *Tare*) and, in some cases, a further allowance for leakage, dirt, moisture or errors in taring (called *Draft*).

Real Tare is the actual weight as ascertained by taking out the contents of each package and weighing it. Goods of high value per lb. such as tea and tobacco are tared in this way.

Average Tare is calculated by actually taring some of the packages and putting down the average. In the case of wool (which is packed so tightly that once a bale is undone it cannot be put back into the hoops without a mechanical press) it is tared on the average of 3% of the bales, and to the nearest lb. Bags of sugar, cocoa, coffee, etc., are average-tared, but more carefully.

Customs Average.—For purposes of import duty the net weights are ascertained by the Customs Authorities. Their method of taring depends upon circumstances; where the duty value is high actual tare is ascertained, but for dried fruit an average is reckoned on the basis of 10% or less tared. Customs average net weights do not necessarily agree with the invoice net or *selling weights*.

Estimated Tare.—For customs purposes, where goods are landed temporarily with a view to re-shipment outwards, the tare may be estimated or agreed; if they are exempt from duty it is not worth while taring them.

Ullage means the loss in casks of wine or other liquids due to evaporation, leakage, etc.

Note.—The invoice of coffee on p. 57 needs explanation.

“G.B.” in a triangle is the port-mark by which the goods are identified on the steamer and at the docks.

The numbers 216, etc., are the number of the bags, each bag is port-marked and numbered.

The next three columns are cwts., qrs. and lbs., showing the separate weight of each full bag, and making a total of 10-0-8 *gross*. From this is deducted 3 lbs. tare and 2 lbs. draft for each bag, or 30 lbs. in all, leaving 9-3-6 as the net selling weight, charge @ 115/- per cwt.

When, as in this invoice, the same series of figures occurs many times in succession, it is convenient to leave spaces instead of repeating them.

A **Proforma Invoice** differs from other invoices in that it does not charge the person to whom it is addressed. It is an invoice *pro forma*—i.e. for form—giving all necessary particulars regarding the goods, and the prices at which the sender values them. Proforma invoices are used (a) for consignments (p. 288), (b) for goods sent on approval, (c) to serve as a quotation (p. 32), or (d) to be sent to customers not trusted with goods on credit terms, together with a request for payment before delivery.

EXERCISE 6.

1. What arrangement or system would you suggest for ensuring the proper execution, without delay or oversight, of all orders received?

2. Explain what an invoice is. Enumerate the particulars it should contain and the purposes it serves.

3. How may invoices be conveniently prepared (a) in a small business, (b) in a departmental warehouse, (c) in a manufacturing business?

4. Rule up a form of invoice, using appropriate headings of your own, and enter the following:

40 6" 33466	Crystal Vases	-	-	per doz.	6s.
72 8" 33460	"	-	-	"	8s.
80 No. 3394	Flint Vases	-	-	"	2s. 3d.
87 No. 26783	"	-	-	"	2s. 8d.

Charge 10% on the whole to cover a rise in the cost of manufacture, and 12s. 6d. for the cost of one cask. The goods

are subject to discounts of 5 and $2\frac{1}{2}\%$. Deduct these discounts and, on behalf of the sellers, receipt the invoice for the net amount. (*For receipt, see Chap. X. on "Accounts."*) (S.A.cc.II.)

5. What is (a) Trade Discount and (b) Cash Discount? Whom does each advantage, and how are discounts usually deducted?

6. Explain a short method of working discount calculations, using same to find $4\frac{1}{4}\%$ on £77, and 9% on £6. 12s. 6d. (U.E.I.cc.Elem.)

7. Rule up a form of invoice embodying the following particulars:

Buyers—James Atkinson & Co., Birmingham.

Sellers—Silas Barker & Co., Eastcheap, London, E.C. 3.



9 chests Assam Fannings ex. "City of Lucknow."

	cwt.	qrs.	lbs.	
3319	1	0	15	Tare 19 lbs.
20	1	0	12	18
1	1	0	12	18
2	1	0	15	18
3	1	0	9	16
4	1	0	16	15
.5	1	0	12	17
6	1	0	0	16
7	1	0	7	15

Price 9d. per lb. In addition to the tare there is a draft allowance of 1 lb. per chest.

Deduct $1\frac{1}{4}\%$ for cash, and receipt the invoice on behalf of the sellers. (S.A.cc.II.)

8. Give the meaning of the following abbreviations and expressions: E. & O.E., E.E., kilo., actual tare, average tare, customs average, estimated tare, selling weights.

CHAPTER VII.

SHOP AND WAREHOUSE ORGANIZATION.

Ownership and Administration.—Where an undertaking is the property of a Sole Trader or a Partnership Firm, it is customarily managed by the sole proprietor, or by the joint proprietors called the **partners**, but not necessarily by all the partners.

If it belongs to a company the members of the company, that is to say the **shareholders** who have put their money, property, or services, into the undertaking, are joint proprietors in it; but in most cases—particularly where shares in the company have been issued to the public—the majority of the shareholders are not allowed to interfere beyond voting at the *Meetings of Shareholders* which are convened from time to time. All administrative power is vested in a **Board of Directors**, who have been appointed as such by their co-members, and delegated by the directors, according to circumstances, to various **officers** of the company.

In some companies every Director takes an active part in the management of the business. Usually, however, the majority of members of the Board merely give their assistance and advice at *Directors' Meetings*, presided over by a Chairman, supreme administrative power being given to one of the members, called the **Managing Director**.

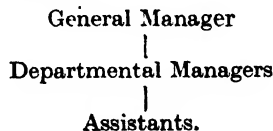
Or the position may be filled by a **General Manager** having no seat on the directorate, but working under the instructions of the Chairman of the Board. The idea underlying such an arrangement may be (1) that if responsible officers are on the directorate their functions are less open to criticism, and (2)

whether the Manager be a director or not, it may be desirable to have people on the directorate who would not be willing to give their whole time to the undertaking, and who are also directors of other companies or have other interests which can be turned to good account.

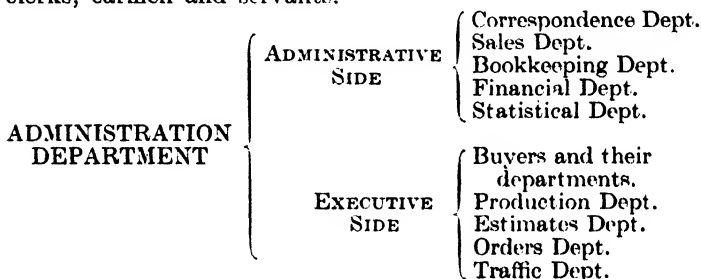
A **Secretary** is appointed by the Directors to assist the Chairman in so-called "Company Matters," which consist of attending the General and Board Meetings, taking Minutes of each, issuing Notices to shareholders and directors and corresponding with them or on their behalf apart from the ordinary business routine, and attending to all statutory requirements imposed on the Company, including the keeping of the Registers of Shares, Loans and Mortgages, and other statutory books.

In addition to his company functions the Secretary is usually responsible for the work of the General Accounts and Financial Departments, the preparation or obtaining from managers, engineers or outside experts of Statistics and Reports for the guidance of the directors, and in some cases he also supervises the General Correspondence and Office Organization.

Staff Organization.—In discussing questions of organization it is customary to classify the functions of various parts of the system as (1) **Administrative** and (2) **Executive**. No satisfactory definition of these terms is possible, because business organizers themselves are not agreed as to their exact meaning. However, since to *administrate* means to *control, manage or govern*, the term "administrator" may be reasonably applied to the employer or general manager in supreme authority over the employees in an undertaking, and the word "executive" to the under-managers engaged in carrying out the administrator's wishes. The work of the departmental or under-managers may be regarded to be both administrative and executive.



Some authorities consider the administrative side of a trading or manufacturing business to include, with the General Management or Administrative Department, those departments through which the general management (i) transacts business with the outside world, (ii) watches the progress of the undertaking and ascertains the profits derived therefrom, and (iii) finances the undertaking. The executive side is then considered to comprise all the Warehouse and Factory departments, including the work of the buyers, stockkeepers, checkers, order clerks, invoice clerks, packers, dispatch clerks, carmen and servants.



To conduct a large commercial or industrial concern successfully requires qualifications and personal attributes which are not possessed by the majority of people, and where they do exist they are rarely to be found united in the same individual. That the employer or managing director needs to understand the industries he controls, or the goods he sells, is obvious. But more important for his function than detailed technical knowledge is business acumen, and the organizer of a great undertaking can achieve nothing without the power to lead others.

The first step to efficient staff organization is to gauge properly the character and ability of every member of the staff, and to allot duties most suitable to each. The greatest achievement is to secure the untiring co-operation and loyalty of the managers and buyers who, themselves capable men, are usually—and ought to be—fully aware of their importance, and are apt to resent criticism if it is not made tactfully.

The division into departments must be so arranged that

the functions of each are clearly defined, and friction between them rendered impossible. They should interwork without overlapping.

Within the departments it is for departmental managers to organize the work in such a manner that every assistant is profitably employed, and to devise means of detecting mistakes and guarding against their repetition. It is necessary, however, to obtain a maximum uniformity of method and behaviour throughout the staff. To this end printed **Standing Orders** or Instructions for Employees are issued to the assistants in book form or exhibited in the building. For standardisation of method in the Bookkeeping Departments of large firms, detailed Standing Orders are an absolute necessity. The same applies also to the drawing offices and workshops of factories.

Grievances among the assistants may be the greatest hindrance to efficiency. In an increasing number of large firms, following the American example, all employees are allowed direct access between certain hours to the head of the firm. They are thus encouraged to work well, to voice their ambitions, and to feel that, though they have to obey their departmental managers, their work is of value to the firm as a whole, and is appreciated.

Incentive is also necessary to efficiency, but it is more difficult to provide in the organization of an office than in a factory. Owing to the difficulty of measuring results, staff assistants cannot usually be paid a bonus, as manual workers are, for additional work done. Promotion is undoubtedly the greatest inducement to an energetic man, but many employees are unwilling to undertake responsibility for fear of making mistakes and getting dismissed. The salesman's incentive takes the definite form of a commission on sales, but in the case of other employees a share in the profits distributed half-yearly or yearly possesses the disadvantage of vagueness. Increase of salary according to ability should be sufficient inducement for anybody.

Retail and Wholesale Stores.—The accompanying diagram (Fig. 3) represents the general organization of a large Departmental Store, and is adapted from a more elaborate

Organization Chart courteously lent by Messrs. Selfridge & Co. The chart is not intended to be a plan of the store. The situation of the various departments is not shown ; but the chart tells how the management of the whole undertaking is delegated, through a number of Under-Managers, to the Officials and Assistants responsible for the working of every part of the system.

The same principles may be applied, with certain modifications, to the organization of the Head Office or Depôt of a Multiple Shop Company, or to a Wholesale Warehouse. The multiple shop depôt is not, however, as such, arranged to receive customers, though some depôts include a selling side or Shop Department. It is hardly necessary to add that the management of a retail store cannot be likened in every detail to that of a wholesale warehouse, which exists to supply the retail shops.

Wholesale Warehouses are usually divided into departments fitted with counters and staffed with assistants for the service of customers, and in most cases the Buyer for each department is chiefly responsible for its management. In all essentials the wholesale warehouse is similar to a retail store, except in so far as it serves the trade and not the public. For example : **trade customers** do not require such attractions as writing and refreshment rooms, post office, and handsome window displays, or dress-fitters, page boys, doormen, etc. ; they all have an account with the wholesaler ; they are usually allowed credit ; their purchases are largely for future delivery ; and wholesale prices are very often subject to special trade and cash discounts. Consequently most, if not all orders, whether they are received over the counter or by post, have to be sanctioned by the **Credit Department**,¹ after which they pass through the **Order Department**² or its equivalent, and are executed in the warehouse, whence the goods are passed into the Packing and Forwarding Departments, and finally dispatched, invoiced and advised to customer in the manner explained in the last chapter. In the large retail stores, however, although credit accounts are opened for a large number of customers, all that is required being a satisfactory

¹ See Chap. XII.

² See Chap. VI.

ORGANIZATION CHART

[DEPARTMENTAL STORE]

MANAGING DIRECTOR

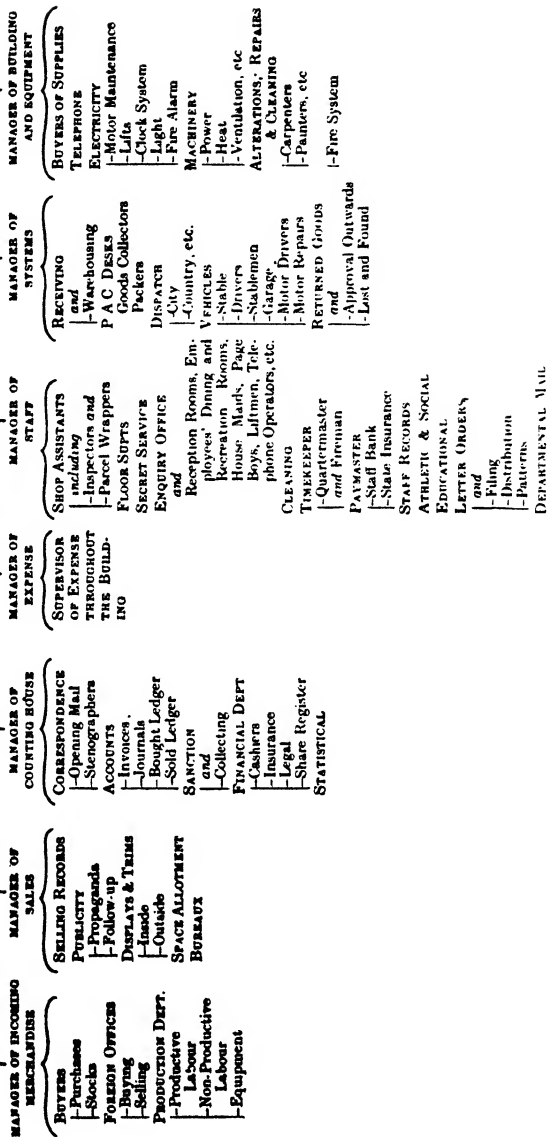


FIG. 3.

reference from other retail people with whom the customer has an account, most purchases are paid for at the cash desks before the goods are delivered; the special arrangements regarding payment and delivery will be explained later.

Supplies.—It will be noticed that in the particular firm to which the Organization Chart refers, a “Manager of Incoming Merchandise” is appointed to supervise all trade purchases, production and stock, and since some of the stock is purchased abroad through the company’s branches or agencies in foreign centres, these are also placed under the same manager’s control. The Merchandise Manager fixes the **high and low stock**¹ at the beginning of each half year with the Buyer of each department. This is governed by the trade of the previous year, and the percentage of increase during the latter part of the year, as well as by any knowledge that the Manager or Buyer may possess that would be likely to affect the sales for or against. The recommendations of the Merchandise Manager regarding purchases and production have naturally to be considered by the Managing Director in conjunction with the resources of the firm. In determining the extent to which the firm may be committed for the immediate future, reference may be had to periodic statements of **Ways and Means** submitted by the Financial Manager (or “Manager of Counting House”).

Reasons have been given² why in most stores and warehouses the *Buyer* of each department is mainly responsible for its working. Each department is a separate entity. Its purchases, sales and stock are recorded separately, so that the gross profit³ derived from each department may be ascertained and compared with the others. It will be clear on a moment’s reflection that the buyer’s position is very different from that of an independent shopkeeper. The

¹ *I.e.* the minimum and maximum value of stock which each department is to carry.

² See Chap. V.

³ See Chap. XI.

services of the general staff, the accounts, sales, packing and forwarding organizations and equipment are all provided for him. It is his duty to buy wisely and so regulate his turnover as to be able to show a profit to the firm after deduction of a fair proportion of the cost of maintaining the establishment as a whole, and without transgressing its general policy.

The buyer must be familiar with the names of manufacturers and their products, and must be a keen judge of qualities and prices. His own immediate knowledge may be supplemented by reference to Trade Directories, a copious supply of catalogues properly indexed, and records in the form of *Card Indexes*, as shown in Fig. 4.

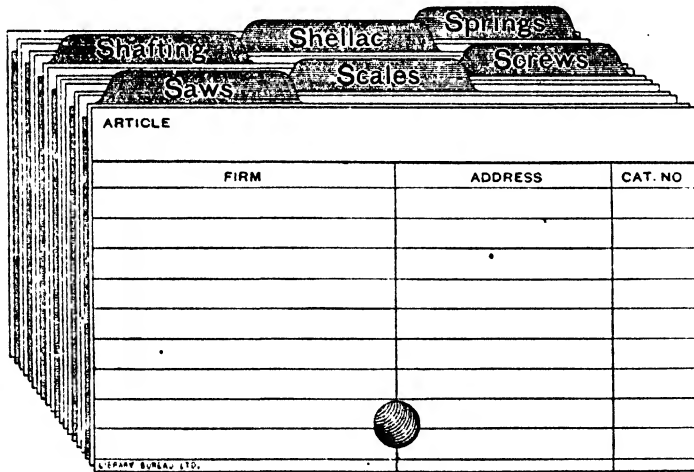


FIG. 4.—BUYER'S GUIDE.
(By permission of Library Bureau, Ltd.)

The authority of the Manager of Incoming Merchandise is conveniently extended to the firm's **Foreign Offices**, though many of these may be engaged in selling as well as buying for the firm. An exclusive buying agency abroad, controlled and kept in funds by the firm here, could not justify its existence unless its purchases were of exceptional value. The foreign branches of most stores and wholesale houses carry on a local business in addition to representing the

mother firm, from which they also obtain much of their supplies. Frequently the agency is entrusted to an independent firm already established in the foreign centre, under an agreement whereby each side gives the other **sole selling rights** for its respective products.

The responsibility of the manager in charge of a **Production Department** is similar to that of the departmental buyer, but his work is increased in that his stock results from buying and production together, and therefore necessitates the employment of labour and equipment, and the introduction of a system of *Costing*.¹

PRODUCTIVE LABOUR is here understood to include the *Fitters, Inside Staff* (engaged in making for stock, special orders, alterations and repairs), and *Outworkers*.

NON-PRODUCTIVE LABOUR includes the *Stockkeepers, Supervisors, and Cost and Wages Accountants*.

EQUIPMENT refers to *Supplies of Labels, Stationery, etc.*, the use of *Machinery, Power, Light, etc.*, and the *Allotment of Space*.

Sales.—The duties of the Sales Manager² include reporting to the general management on the progress of sales in every part of the system, increasing sales, and finding out what is in demand.

SELLING RECORDS.—Separate records are kept relating to *Departmental Sales, Assistants' Sales, Travellers' Sales*, and the result of any *Specialized Selling* campaigns, Exhibitions or Demonstrations.

PUBLICITY.—*Propaganda* includes Newspaper Advertising, Catalogues and Circulars, Letters, Posters, Hoardings, etc., and House Sign Cards. For an explanation of *Follow-up*, see p. 169.

DISPLAYS AND TRIMS.—Windows, Interior Displays, Merchandise Displays, Flowers and Palms, Electricity, Flags and Scenic Work; Outlying Windows, Shades, Sunblinds, Lighting.

SPACE ALLOTMENT has already been referred to on pp. 44 and 113.

The **BUREAUX** are specialized departments catering for *Theatrical, Hotel and Hospital Work, Dressmakers, etc.*

¹ See Chap. XIII.

² See Chap. XV.

Counting House.—It will be noticed that the term "Counting House" is here made to embrace Correspondence,¹ Filing,² Billing,³ Bookkeeping,⁴ Sanction and Debt Collecting,⁵ Ways and Means, and the Registration of Shares in the Company.

PAYMENT AND DELIVERY.—If a customer does not wish to pay at once at the Counter, she will make one of the following decisions:

1. *I will have the amount entered to my account (ENTER).*
2. *I will pay the carman when he brings the goods (C.O.D.).*
3. *I will send you the money if you hold the goods aside (W.R.).*
4. *I will send you the money if I keep the goods (APPRO.).*
5. *I will pay at the end of my tour round the store (PAY AT END).*
6. *I will pay a deposit now and the remainder afterwards (DEPOSIT).*

By marking the *Cash Bills* "Enter," "C.O.D." etc., and "TAKE" or "SEND," the Sales people ensure that the proper machinery is set in motion for the Collection of the money and/or the Dispatch of the goods.

Reference to the SANCTION DEPARTMENT as required to accept any order (either TAKE or SEND) without payment in advance, viz., any order to be executed as "Enter," "C.O.D." or "Appro." To avoid keeping customers waiting, telephones connect every department with the Sanction Department, where the customers' accounts are arranged in a number of loose-leaf ledgers spread out on tables, and sub-divided and indexed on the 3rd letter system for rapid reference.

The "Pay at end" method is used in connection with the PURCHASE ASSEMBLY CARDS referred to on p. 53.

Staff.—Some of the leading retail and wholesale houses promote the welfare and co-operation of their employees by devoting part of their activity to social and educational work.

The ATHLETIC AND SOCIAL ORGANIZATION includes *House Magazine* and *Charity Dept.*, and *House Medical Service*.

The EDUCATIONAL DEPARTMENT comprises a *School of Instruction*, and organized *Selling Demonstrations*, *Lectures*, *Library*, *Embryo Club*. *Scholarships* and Promotion are awarded according to progress in study.

¹ See Chap. XIV.

² See Chap. XVI.

³ See Chap. VI.

⁴ See Chap. X.

⁵ See Chap. XII.

Traffic.—In many warehouses the Traffic Manager supervises the maintenance of Building and Equipment, in addition to the Receiving, Forwarding and Carriage of goods. In the exceptionally large store to which the diagram refers the “ Manager of Systems ” is relieved of such duties.

EXERCISE 7.

1. Write an essay of about 200 words on “ Administration and Management.”
2. Discuss Staff Organization.
3. Draw a diagram to illustrate the Organization of a Departmental Store.
4. Compare the internal organization of a Departmental Store with that of a Multiple Shop dépôt and a wholesale warehouse.
5. From what sources do the large stores and wholesale houses obtain their supplies ? Explain any special features regarding the control of and responsibility for incoming merchandise.
6. What is the function of an Office or Counting House ?

CHAPTER VIII.

PACKING AND FORWARDING. GOODS INWARDS.

FOR economy in floor space the Packing, Forwarding and Receiving departments of most stores and warehouses are located in the basement, or on the top floor. The ground floor and lower storeys offer more valuable space for counters and work rooms.

Dispatch.—It is desirable to keep a record in the forwarding department of all parcels dispatched, showing the customer's name, number and contents of parcels and the method of carriage.

For **Town Delivery** by the seller's own vans, the record can be kept on a **Delivery Sheet**, which the carman takes with him :

DELIVERY SHEET.

No.	Date.	Name.	Address.	Packages.	Received by.
51	June 25	J. H. Harkess	Sugar St.	2 C/s	
52	„ „	A. & B. Chapman	4 Angus Pl.	1 bale	
53	„ „	I. Zangwill	Cross Sq.	2 pcls.	

The carman sees that the receiver signs for each delivery, and usually hands him a **Delivery Note** with a fuller description of the goods, no. of order, etc.

A *Delivery Book* can be used for the same purpose, with

detachable "Receive" Notes, the counterfoil serving as a record of dispatch and as a receipt :

DELIVERY BOOK.

<p><i>Received from</i> THE FORST PAPER Co., Garston. 20 rms. Ivory White, No. 33.</p> <p><i>For transmission to</i> Mr. Alexis Bower, Market St., Leicester.</p> <p><i>Date</i> 23rd February, 1921. <i>Conveyance</i> C. P. & Co. <i>Carriage</i> paid. <i>Signature</i> J. M.</p>		<p><i>To</i> Mr. Alexis Bower, Market St., Leicester.</p> <p><i>Please Receive from</i> THE FORST PAPER Co., Garston. 20 rms. Ivory White, No. 33.</p> <p><i>Order No.</i> 432 <i>Date sent</i> 23rd Feb. 1921. <i>Conveyance</i> C. P. & Co. <i>Carriage</i> paid.</p>
---	--	---

The above form of Delivery Book would be suitable for parcels sent by railway or carrier; the carman takes the Receive Note to deliver with the goods, and signs the counterfoil.

Another method of recording the dispatch of parcels is to keep a **Parcels Register**, printed in a similar manner to the Delivery Sheet, and initialed by the carman or clerk at the carrier's receiving office.

When goods are sent by Parcels Post the sender should always ask for a *receipt*, which will be given for unregistered or registered parcels. Where many parcels have to be sent by post a separate **Parcels Post Register** should be kept for the purpose, the post clerk being asked to affix his date stamp against each item.

PARCELS REGISTER.

1921.	Name.	Address.	Time.	Weight.	£	s.	d.	Stamp here.
Oct. 21	Wilson	Leeds	4 p.m.	5½ lb.		1	3	○
„ 21	Roberts	Highbury	„	1¾ „			9	○

Registration receipts should of course be kept separately.

Identification of Parcels.—When a claim is made on a carrier for non-delivery or damage, it is sometimes difficult to prove that the particular package in question contained goods of the value claimed. The carrier may show “clean” signatures for a number of parcels delivered about the date mentioned, and others may be on the way. A claim is much easier to establish if each parcel is *identified*.

9646	The invoice for these goods has a label with this number, which please quote when signing carrier's sheet.	The parcel has a label with this number, which please quote when signing carrier's sheet.
	9646	9646

Many wholesale firms use **gummed tickets** like the above, the first part being stuck to the packing slip for reference, the middle part gummed to the parcel, and the end portion attached to the invoice. The customer is asked to insert the number on the carrier's delivery sheet when he signs for the goods, and if the parcel is damaged the receiver will of course note that too. Evidence can thus be readily produced in support of a claim.

The Cost of Packing Materials and Carriage is either debited to the customer (if packing and delivery are charged for) or to Packing A/c and Carriage Outwards A/c. Most wholesalers employ a parcel company to distribute their goods under contract, thus effecting great economy, and enabling them to deliver free of charge where the value of an order is not less than £5 or £10.

Some firms charge for packing and carriage on a separate invoice or “debit note,” to facilitate the calculation of cash discount, the goods being usually “subject,” and packing, etc., “net.”

Returnable Casks, etc., are either charged for at once on the understanding that credit will be given when they are returned, or they may be charged for afterwards if not returned

within a certain time, a note being printed to that effect on the invoice, as for instance :

“ All wrappers not returned within the month following the date of invoice will be charged for at cost.”

A **Returnable Empties Register** should be kept in which to record properly all cases, casks, wrappers, etc., (a) sent out to customers, and (b) received from suppliers :

REGISTER OF EMPTIES RECEIVED AND RETURNED.

Date of Invoice.	Suppliers.	Description.	Mark or No.	Charged.	£	s.	d.	Returned.	Allowed for.
1922. Mar. 29	Wellington Boot Co.	1 Case	X4	On In- voice		9	-	1922. Apr. 10	C/N Apr. 13

The returnable case charged for @ 9/- on the invoice shown on p. 55, would be entered by Messrs. A. & J. Wynne as above. When they return it they enter the date in the “ returned ” column, and ask The Wellington Boot Co., Ltd., for a *Credit Note* for the amount.

If the invoice had stated that the case *would be charged for if not returned*, the entry would be (assuming the case to be returned within the time stipulated) as follows :

Date of Invoice.	Suppliers.	Description.	Mark or No.	Charged.	£	s.	d.	Returned.	Allowed for.
1922. Mar. 29	Wellington Boot Co.	1 Case	X4	—	-	-	-	1922. Apr. 10	—

If the case was *not returned*, then at the end of the month Messrs. A. & J. W. would receive a *Debit Note* charging them with the 9/-, which they would enter—

					D/N Apr. 30	9	-		
--	--	--	--	--	----------------	---	---	--	--

And then if they subsequently returned it they might send the D/N back and ask the W. B. Co. to cancel it, entering the fact as follows :

								May 2.	D/N can- celled.
--	--	--	--	--	--	--	--	--------	------------------------

Debit Notes and Credit Notes.—A debit note is sent to a customer to show him that the firm sending the note *debts* or *charges* him with the amount stated.

DEBIT NOTE.

Mr. Cornelius Stott, Truro.

Axminster, 4th Oct., 1922.

Dr. to BROWN & POULTER.

1922. Oct. 4	To Undercasting of our invoice of the 1st inst.		10	0
-----------------	--	--	----	---

A Credit Note has the opposite effect. It serves to make an allowance off an amount previously charged, or to acknowledge a debt—in a word, to *credit* the person to whom it is sent. Credit note forms are *printed in red*, to distinguish them from D/Ns.

CREDIT NOTE.

Messrs. A. & J. Wynne, Manchester.

Derby, 15th April, 1922.

Cr. by THE WELLINGTON BOOT CO., LTD.

1922. Apr. 13	By One Case invoiced on the 29th ult., and returned by you.		9	0
------------------	--	--	---	---

Debit Notes and Credit Notes, like invoices, serve as *Vouchers* for the debit and credit entries in the accounts of both parties to the transaction. The seller enters the copy and the receiver the original note.

Correction of Errors.—If an error is found in an invoice, there are three ways in which it may be rectified :

- (1) Where the error is discovered at once, *before* the other party has entered the amount in his books, an amended invoice can be sent and the first one taken back and destroyed.

But where the error is found after *entry*, the seller will send a

- (2) Debit Note for an undercharge, or a
- (3) Credit Note for an overcharge.

In every case the D/Ns and C/Ns should proceed from the seller. The buyer should ask to be credited or debited, not send vouchers himself.

Returns.—In some stores and warehouses having frequent occasion to return goods as unsuitable, debit notes are sent to suppliers as a safeguard against omission to ask for credit. When the supplier's credit note arrives the copy of the debit note can be cancelled.

Goods Inwards.—Before signing the carrier's delivery sheet for goods the parcels should be examined and a **clean signature** given only if everything appears to be in order. Damage to contents or package should be noted on the sheet, and if the receiver is in doubt he should sign "unexamined."

Checking.—Invoices received, after having been stamped in the general office with the date of receipt are usually entered (in a big establishment) in an **Invoice Register** to prevent their being lost sight of. They can then be submitted to the buyers of the departments concerned, checked with order, and passed eventually to the warehouseman for signature acknowledging receipt of the goods. A special date-stamp for invoices can be used with spaces for initials :

INVOICE.			
Received.....			
Figures checked by.....			
Goods	"	"
Passed by.....			

The last space having been initialed, the invoice is "passed" for entry in the Bought Journal.

Entering and Filing Inward Invoices.—In some offices a Guard Book is kept, into which the invoices can be posted in order of date. The pages are wider than the customary invoice form, so as to leave a space on the right-hand side for an £. s. d. column, into which the totals of the invoices are

extended and carried forward from page to page. The guard book thus serves as Invoice File and Sold Day Book combined.

A more usual method is to give the checked invoices to a bookkeeper in a basket, for him to enter the main features only into the Sold Journal, thus :

1922.		fol.	£	s.	d.	£	s.	d.
July 29	Brought Forward					342	15	7
30	Peter Piper & Co., Ltd.							
	Tubes and Fittings		12	10	2			
	Towel Rail, etc.		4	3	4			
			16	13	6			
	5% special disc't.			16	8			
						15	16	10

As the bookkeeper enters each invoice he marks on it the number of the page in the Day Book : " D.B. 38," etc. The entered invoices are then put away in an Invoice File, either alphabetically or in order of date, whichever method may be found more convenient.

Reference Numbers.—In a warehouse carrying hundreds of different lines, every article stocked should be quickly indentifiable with the firm from whom it can be obtained, in case further supplies are wanted.

A good way is to have the goods ticketed with a *double reference*, thus : 1104/G45, the first half being the manufacturer's stock no., and the second part the wholesaler's reference. Again, where goods are ordered specially to complete a particular customer's order, the supplier can be asked to mention on his invoice a particular ref. no. which will " key " it to the order for which the goods were required.

EXERCISE 8.

1. Supposing you were put in charge of the forwarding department of a wholesale firm, how would you deal with the following situation ? You have received a message from the general office

to say that Mr. Morris (one of your retail customers) has returned his May account with a note to the effect that the goods invoiced on the 15th May have not been delivered; he has "never seen them."

2. Referring to the last question: suppose that on inquiry of the parcels delivery company you were shown three clean signatures for goods delivered to Mr. Morris on the 7th and 18th May, their respective values being £3. 3s. 0d., £4. 7s. 0d. and £9. 10s. 6d., the parcel alleged to be missing being worth the last-mentioned amount. Is there any means of knowing that *this* was the missing parcel, and not the other ones of less value?

3. Who bears the cost of packing, the buyer or the seller? And how is the cost of packing materials and carriage dealt with in the accounts?

4. When goods are sold, the cost of carriage is sometimes borne by the seller, and sometimes by the purchaser. Why is this? Which arrangement do you think likely to prove the more economical? Give reasons for your answer. (S.A.tpc.II.)

5. Prepare an invoice for the following goods supplied by the United Drysaltery Co., Ltd., Leicester, to Messrs. Prince & Priest, Halford Mills, Loughborough: 56 lbs. Resin @ 48/- per cwt.; $\frac{1}{2}$ ton Zinc Oxide @ £4. 15s. per cwt. (packed in 30 bags @ 1/3 each); 1 cask Suds Oil, £5. 10s. (cask 7/6); $1\frac{1}{2}$ cwt. Soft Soap @ £1. 18s. per cwt.; 24 lbs. Vegetable Black @ 1s. 4 $\frac{1}{2}$ d. per lb.; 120 gallons of Engine Oil @ 2s. 6d. per gallon, less 10% (in 3 barrels @ 7s. 6d. each).

Per Motor Lorry, 10th April, 1918. (U.E.I.cc.Int.)

6. If the motor lorry mentioned in the preceding question accepted from Prince & Priest for the return journey 6 empty casks and 4 dozen bags at 7s. 6d. and 1s. 3d. each respectively, what document should be sent by the United Drysaltery Co., Ltd.? Make out a suitable form.

7. Referring to Question 5: by what means may Messrs. Prince & Priest ensure that all empties are duly returned (where chargeable) to suppliers, and credit claimed for those already charged for?

8. What are Debit Notes and Credit Notes, and why are they used? Samuel Phelps, Biscuit Manufacturer, Isleworth, sent and invoiced some tins of biscuits to James Goodenough, Confectioner, 12 New Street, Birmingham, and afterwards found that 10 tins of crackers had been invoiced at 4s. 6d. each instead of at 4s. 3d. each. What might S. Phelps do to put the matter right? Supposing that Phelps had not discovered the mistake but that Goodenough had, what might the latter do to put the

matter right ? Show, in proper form, the documents that might pass in each case. (S.A.cc.II.)

9. Why are carmen entrusted with the delivery of goods required to get the receiver's signature for each delivery ? What is the difference between a "clean" signature and a "qualified" signature ?

10. (a) Describe in detail a system suitable for a large retail store or wholesale warehouse for dealing with invoices received.
(b) Explain the use of reference numbers on goods, orders and invoices.

CHAPTER IX.

CO-OPERATION.

Co-operative Retail Societies.—The Co-operative movement in England began in the year 1844, when twenty-eight working men formed themselves into a society to open a retail shop in Rochdale for their mutual benefit. Each member subscribed £1 to the common fund, and took his share in the work and management of the shop. They called themselves the **Rochdale Equitable Pioneers.**

The benefit of the arrangement consisted not only in the members getting their provisions on trade terms; the shop was patronized by outsiders as well as by its own proprietors, and as the goods were sold at usual retail prices, the members made a profit as well as a saving. Since 1844 hundreds of co-operative societies have been formed in the U.K. and abroad, all of which are organized on similar, if not identical, lines to those followed by the Rochdale pioneers.

Each society is a separate unit, and is managed by permanent officials under a Committee. The committee is elected periodically by the members.

The management of co-operative societies and the duties of their organizers are governed by the *Industrial and Provident Societies Act, 1862*, which requires that each society must be *registered* as such, and shall thereupon become a *corporate body with limited liability.*

Any customer may become a member of a retail society and share in the profits by subscribing to at least one £1

share. The capital of each society is thus provided by the members, and is of two kinds: Share Capital and Loan Capital.

The total amounts subscribed for shares constitutes the *share capital*. The full value need not be paid at once; some societies require 1/- (or even 3d.) down, and allow the remainder to accumulate out of the member's dividend. But the sums so contributed *cannot be withdrawn* unless the society is liquidated. Under the act mentioned above, no member may hold shares of a greater aggregate value than £200.

Any member may *lend* to the society further sums in addition to the amounts paid for his shares, whether his holding be 1 or 200 shares. Money lent in this way is said to be *on deposit*, and may be withdrawn at any time by the depositor giving about 7 or 14 days' notice (according to the rules of the society). The total sums on deposit constitute the *loan capital*.

Members are entitled to a *fixed rate of interest* on share and loan capital, but the profits are distributed as *dividend*, in *proportion to the value of each member's purchases* during the accounting period.

Not *all* the profits are distributed as dividend. Holiday educational courses at seaside and country resorts, and social activities, absorb part of the profits, and large sums are appropriated each year for extensions, and to increase the assets of the societies. The first society provided in its rules for setting aside 2½% of profits for education, and soon after its formation it acquired a library for the benefit of its members.

In 1914 there were 3,054,297 members of retail societies in the U.K., or (assuming four or five persons to constitute a household) the number of persons supplied to some degree from co-operative stores reaches ten to twelve million persons, or one in four or five of the total population.

Wholesale and Productive Societies.—Practically the whole of the Co-operative Societies of this country are members of

the *Co-operative Union, Ltd.*, and also of the *Co-operative Wholesale Society, Ltd.* The Co-operative Union is the advisory, propaganda and educational authority of the movement. The Co-operative Wholesale Society is the federal institution, and is set up by retail distributive societies as their purchasing and producing agency.

The retail societies share in the profits of the C.W.S. in the same way as their own profits are shared by their members. And since such profits are ultimately distributed among the members of the retail stores, the latter participate not only in their own society's profits but also in those of the C.W.S.

There are also a number of *Productive Societies* (see p. 27) which work on *co-partnership* lines ; that is to say the workers share the profits by receiving a bonus at the end of each accounting period, calculated as a percentage of their earnings.

Each society, whether distributive or productive, has full autonomy, its own rules, its own management, and the results of its trading are at the disposal of the local members to be divided in the manner they think best. Each is thus a separate unit, and only comes in close contact with the others through the Co-operative Union and the Co-operative Wholesale Society.

In 1918 there were 62 productive societies in Great Britain, comprising textile and boot and shoe factories, printing works, building, wood and metal trades. The total capital was 1½ millions sterling, turnover 4½ millions, profit £336,000, and dividend on wages £50,000. The C.W.S. owns three cargo vessels, and has extensive property in many parts of the world, including 10,000 acres in Canada under wheat, plantations in India, Ceylon and West Africa, and purchasing centres in the U.S., Canada, Denmark, Spain and W. Africa. In addition to these purchasing activities the C.W.S. undertakes mutual Insurance against fire, burglary, and health and life

insurance. Co-operative *Banks*, one of which is controlled by the C.W.S., form an important part of the movement, particularly in agriculture, providing the producers with capital on the best possible terms.

National and International Objects of the Movement.—The ultimate aim in the view of most co-operators is to connect the productive (co-partnership) societies with the consumers' organization (the Co-operative Wholesale Society). The C.W.S. is already by far the largest producing agency in the world, and their actual productions during the year 1919 amounted to between 25 and 30 million pounds. But the stumbling block has been the fundamental difference between the two forms of co-operation; the one being principally in the interest of the workers, and the other, of the consumer.

At the present time there is an effort to establish a co-operative wholesale society in every country, so that co-operators the world over may exchange their products through their own organization. Already the movement in this country is connected with those of foreign countries through the **International Co-operative Alliance**, and international congresses are held at five-yearly intervals.

There exists a considerable amount of sympathy between the co-operative movement and a large element in the labour and socialist circles. They have a common purpose, viz., to eliminate capital and work for each other. Though the profits are as high as 15-20% of purchases in some cases, anyone may become a member and share in the "commonwealth" in proportion to the amount of assistance he gives to it in his purchases or labour. The shares will therefore never be quoted on the stock exchange. The poor man with a large family gains more from his society than the capitalist, for dividends are apportioned on purchases, not on the capital invested. In co-partnership production, the bulk of the profits goes to the worker.

Income Tax.—The profits of co-operative societies are not at present liable to income tax, and their exemption is a sore point of contention among the other members of the retail trading community. The co-operators argue that their dividends are *not profit*. They contend that by buying in common they merely effect a saving; that the dividend they receive from the society merely represents the difference between the actual cost of their purchases and the amount they paid over the counter when they took away the goods. It is reasoned that everyone is at liberty to spend his money as he likes and that co-operators pay income tax on their earnings or income from investments on just the same footing as other people, workmen in co-partnership undertakings also paying income tax on their wages. Co-operators say they merely avoid paying middlemen's profits by working together for mutual economy.

Where the argument against payment of income tax is faulty is that the dividend comes not merely from members' purchases: it is derived also from outsiders who come into the shops to buy.

Limitation of the System.—A cursory inspection of any co-operative store will reveal the fact that the system is practically confined to supplying the simple necessities of the home. Trade in fashionable and expensive goods, and pioneering work in opening up new ways for commerce and industry are so far confined to profit-seeking firms directed by men of initiative who find more scope in private enterprise.

Competition.—Thus it is the retailers of provisions and household wares who most feel the influence of the co-operative stores. Some retailers offer their customers a counter-attraction by issuing tin or cardboard checks with all goods sold, entitling the holder periodically to order further goods gratis to the extent of 5% of the face value of the checks. In Germany and Switzerland retailers unite in what are known

as "Rabattvereine" (*i.e.* discount associations), issuing adhesive stamps which their customers paste in a booklet and present at the office of the association in exchange for a refund of 5% of the amount of their purchases. The original idea was to encourage cash dealings, but the motive is nowadays rather to combat the co-operative and giant retail establishments by joint action on the part of the small retailers. The co-operative societies sell exclusively for cash, and the large stores do comparatively little credit business.

It is evident that so long as private enterprises exist, co-operative societies, like other undertakings, must continue the war of competition to defend their existence. But the co-operators' ideal is that the Co-operative Union should eventually control all production and all distribution the world over. They claim that under such a system increased production would not result in low wages and unemployment, but would have the natural result of allowing the worker a greater reward for his labours.

EXERCISE 9.

1. What do you consider the characteristics of the co-operative system ? (U.E.I.tpc.Int.)
2. Trace briefly its origin and development.
3. What is (a) the Co-operative Union, Ltd., and (b) the Co-operative Wholesale Society, Ltd.? What does the term "limited" imply when used in connection with co-operative societies ?
4. What is the difference in principle between a co-partnership productive society and a co-operative distributive society? Can they be combined ?
5. What other business is done by the C.W.S. besides distribution to retail shops ?
6. In what ways does the co-operative movement affect (a) competition, (b) politics, and (c) international relations ?
7. What do you consider to be the limitations of the co-operative system ?
8. What has been done by the retail shops to combat the influence of the co-operative distributive societies ?

CHAPTER X.

ACCOUNTS AND REMITTANCES.

Note.—This chapter is written on the assumption that every reader is familiar with the elementary principles of book-keeping. It will be remembered by such readers that all transactions are first recorded, in order of date, in the **Subsidiary Books**, or books of “original entry,” viz. :

A. The **Cash Books**—for payments and receipts, or

B. The **Day Books** or **Journals**—for credit transactions, *e.g.*

The **Bought Journal** (*Purchases Book, Invoice Book*).

The **Sold Journal** (*Sales Book, Day Book*).

The **Returns Inwards Book**.

The **Returns Outwards Book**.

The **Journal**, etc.

The Ledgers.—In all large offices **Ledger Clerks** are employed whose special duty is to **post** the contents of the Cash Book and Journals into the ledger accounts.

Customers' accounts are usually kept apart from the other accounts in the **Sold Ledgers** or **Customers' Ledgers**, separate volumes being commonly used for Town, Country and Export customers, etc.

Similarly the suppliers' accounts are arranged in **Bought** or **Suppliers' Ledgers**, all other accounts being contained in the **Nominal** or **Impersonal Ledgers**, except the profit and loss, trading, partners' capital and drawings A/cs., etc., which are put in a **Private Ledger** not accessible to the office clerks.

SOLD LEDGER ACCOUNT.

Dr.

A. & J. Wynne, Manchester.

Cr.

1920.		£	s.	d.	1921.		£	s.	d.		
Dec. 28	To Goods	84	24	12	9	Jan. 19	By Returns	47	8	3	4
1921						Mar. 10	„ Cheque	142	56	11	9
Jan. 9	„ „	85	18	6	6	„ „	„ Discount	„	1	9	-
„ 16	„ „	89	23	4	10	„ 13	„ Cr. Note	J.15		9	-
Feb. 15	„ „	93	38	15	1	„ 15	„ Returns	48	2	15	6
„ 25	„ „	101	9	-	-						
Mar. 10	„ „	117	24	6	7						
„ 29	„ „	136	40	7	5						
Apr. 3	„ „	138	5	11	-						

Rendering Accounts.—At the end of each month (or quarter, if accounts are payable quarterly) a **Statement of Account** is sent to every customer whose account shows a balance owing by him. The statement is simply a copy of part of the ledger account, and serves to show the customer the state of his account and demand payment of the balance. It is also used in many cases, though not always, as a form of receipt.

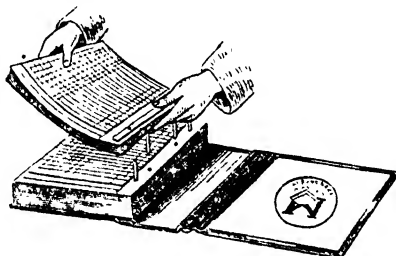


FIG. 5.—LOOSE-LEAF LEDGER.

(By permission of Moore's Modern Methods, Ltd.)

Alphabetical Ledgers.—The work is made easier by the use of ledgers which can be taken to pieces and distributed among several clerks working at the same time. **Loose-leaf Ledgers** (Fig. 5), having detachable leaves arranged alphabetically, one for each account, or **Card Ledgers** (Fig. 6), in which the

accounts are written on cards arranged vertically, and in alphabetical order, in a drawer.

CUSTOMER'S A/C IN CARD LEDGER

NAME		A. & J. Wynne		<i>Special Instructions</i>								
ADDRESS		Queen Street, Manchester.										
Terms		2 1/2% 1 mo. Limit £200										
DATE	ITEM	fol.	DEBITS			CREDITS			BALANCES			
1920												
Dec. 28	To Goods	84	24	12	9							
1921												
Jan. 9	" do.	85	18	6	6							
" 16	" do.	89	23	4	10							
" 19	By Returns	47				8	3	4	58	-	9	
Feb. 15	To Goods	93	38	25	1				96	15	10	
" 25	" do.	101	9	-	-							
Mar. 10	" do.	117	24	6	7							
" "	By Cheque	142				56	11	9				
" "	" Discount	"				1	9	-	72	1	8	
" 29	To Goods	136	40	7	5							
Apr. 3	" do.	138	5	11	-							
" 13	By C/N	J.15					9	-				
" 15	" Returns	48				2	15	6	114	15	7	

FIG. 6.

Monthly A/cs.—Many wholesale firms fix a certain day in each month—usually the 10th—as **pay-day**, on which payment of accounts is expected.

In order to allow time to prepare the statements, the month for accounting purposes is made to date from, say, the 20th of one month to the 19th of the next. Thus all invoices, D/Ns and C/Ns dated from the 20th December to the 19th January would appear on the monthly statement

dated 31st January, which would be extracted from the above ledger account as follows :

MONTHLY STATEMENT.

JANUARY A/C.

Derby, 31st January, 1922.

Messrs. A. & J. Wynne.

Dr. to THE WELLINGTON BOOT CO., LTD.

1921.				£	s.	d.
Dec.	28	To Goods	- -	24	12	9
1922.						
Jan.	9	„ Goods	- -	18	6	6
„	16	„ Goods	- -	23	4	10
				66	4	1
„	19	By Returns	-	8	3	4
				£58	-	9

The terms of payment being, in this case, “2½% 1 mo.” the amount of £58 0s. 9d. would be payable *under discount* on the 10th March, *i.e.* just over a month from the date of the January statement. After that date the account “runs net,” *i.e.* no discount will be allowed, but the customer is then in most cases, and subject to any stipulation to the contrary, allowed three months’ credit, *viz.*, until the 10th May.

Terms of payment vary in different trades, but as between wholesaler and retailer the cash discounts are usually graduated according to the number of months’ credit taken. For example, many of the drapery houses allow :

4% for payment prompt, *i.e.* on or before the 10th of the following month.

3½% for payment in 1 month, *i.e.* on or before the 10th of the second month.

3% for payment in 2 months, *i.e.* on or before the 10th of the third month.

2½% for payment in 3 months, *i.e.* on or before the 10th of the fourth month.

In the boot trade and among many wholesalers of other lines it is customary to quote :

3½% prompt,
2½% 1 month,
1½% 2 months,
— 3 months nett.

Referring again to Messrs. Wynne's account shown above, the February statement would show a balance unpaid and brought forward, as follows :

FEBRUARY A/C.

Derby, 28th February, 1922.

Messrs. A. & J. Wynne.

Dr. to THE WELLINGTON BOOT CO., LTD.

1922.		£	s.	d.
Jan. 31	To Account rendered	58	—	9
Feb. 15	„ Goods	38	15	1
		£96	15	10

By the end of March we find that the January A/c has been paid under discount, but when the April statement is made the February A/c has not been paid, and must therefore be carried forward.

MARCH A/C.

1922.		£	s.	d.	£	s.	d.
Feb. 28	To A/c rendered	9	—	—	38	15	1
„ 25	„ Goods	24	6	7			
Mar. 10	„ Goods				33	6	7
					72	1	8

Note.—In preparing statements all debits should be entered and added up first, and the total of the credit items deducted. As the various monthly *balances* are *due for payment* at different dates they should be shown on the statement separately. To do this properly double columns are necessary, as will be seen from the above and the following example :

APRIL A/C.

1922.		£	s.	d.	£	s.	d.
Feb. 28	To A/c rendered - -				38	15	1
Mar. 31	„ „ - -				33	6	7
„ 29	„ Goods - - -	40	7	5			
Apr. 3	„ „ - - -	5	11	-			
		45	18	5			
„ 13	By C/N - - 9 -						
„ 15	„ Returns - 2 15 6	3	4	6	42	13	11
					114	15	7

Note.—The two columns not being sufficient to show balance separately, extra lines may be added with pen and ink.

Form of Statement.—The above is the usual form of monthly statement of account. But some firms render a facsimile copy of the month's items, the form being printed with debit and credit sides.

Remittance.—Where accounts are payable monthly the customer in many cases deducts from the statement (in red ink) the discount to which he is entitled, and returns it to the seller with a cheque. The seller then *receipts the statement* and sends it back again.

Messrs. A. & J. Wynne's January a/c, after having been receipted by the Wellington Boot Co., Ltd., would look like this :

RECEIPTED STATEMENT.

Derby, 31st January, 1922.

Messrs. A. & J. Wynne.

Dr. to THE WELLINGTON BOOT Co., LTD.

		£	s.	d.
1921.				
Dec. 28	To Goods - - -	24	12	9
1922.				
Jan. 9	„ do. - - -	18	6	6
„ 16	„ do. - - -	23	4	10
		66	4	1
„ 19	By Returns - - -	8	3	4
		58	-	9
	Mar. 10. By Discount	1	9	-
	Cheque herewith	56	11	9

Received by Chq.

£56 11s. 9d.

11th March, '22.

FOR THE WELLINGTON BOOT
Co., LTD.

Jas. Heale, Cashier.

Letters accompanying remittances being all more or less in the same strain, printed forms are sometimes used similar to the following :

BLUCHER HOUSE,
MANCHESTER, 10th March, 1922.

The Wellington Boot Co., Ltd.,
Derby.

DEAR SIRS,

Enclosed we beg to hand you *Cheque* value *Fifty-six pounds 11/9* in payment of your account dated *31st January, 1922*, which please acknowledge in due course.

A. & J. Wynne.




		£	s.	d.
Your statement	- - -	58	-	9
Returns	- - -			
Allowances	- - -			
Shorts	- - -			
Discount 2½%		58	-	9
	- - -	1	9	-
Cheque herewith	- - -	56	11	9

Receipts.—Some firms use gummed *receipt labels* or rubber stamps to save writing :

RECEIVED WITH THANKS.			
By	{ Cheque } { Cash }	£	: :
	Discount	-	: :
		Cr.	£ : : <hr/> <hr/>
Date.....19.....			
For ABRAM LEVY & SONS.			
I. Jacobs.			

Where the whole amount of an account rendered is not to be paid at the same time (*e.g.*, March and April a/cs above), it is more convenient to get acknowledgment of payment on separate receipt forms :

RECEIPT FORMS.

No.		No.19...	
.....19...		RECEIVED from	
.....		the sum of	Pounds
.....	Shillings and.....	Pence
.....		for
£ 		£ 	2d. Stamp Duty.	

Receipt forms like the above are bound together in Receipt Book ; the counterfoils remain for reference.

39 MINCING LANE,
LONDON, E.C. 3, 17th Aug., 1921.

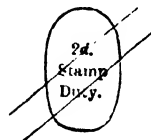
No. 532.

RECEIVED with thanks of *Messrs. Gillott & Marston, Ltd.*, the sum of *Fifty-six pounds three shillings and twopence*, which we have placed to the credit of your account as under :

Our Invoice dated July 15	-	£55 : 16 : 2
Interest for one month @ 7½%		: 7 : 0

Your Cheque..... £56 : 3 : 2

*per pro O. Van Ryck & Co.,
B. Meyer.*



A receipt ought to show :

1. The Date.
2. Name of Payer.
3. Amount in words and figures.
4. Consideration :
 - “ the price of.....”
 - “ being two months’ interest @ % on £.....”
 - “ in full settlement.”
 - “ on account.”
 - “ which has been placed to your credit,” etc., etc.
5. How received :
 - “ By Cheque,”
 - “ By Cash,”
 - “ in acceptance @ 30 d/d,” etc.
6. Signature of receiver.
7. Stamp duty 2d. where amount is £2 or more. Postage stamps will do, or the stamp may be embossed on the form.

To prevent dispute, the Cashier must watch that he gets a receipt for every payment made, especially where accounts are paid in cash. When payment is made by cheque a formal receipt is not so necessary, but it is usually given nevertheless. All cheques paid by a banker are periodically returned to his customer as *vouchers*, and the endorsement of the payee is in each case good evidence that the money has been received.

Some firms save trouble in collecting receipts by the use of Receipt Cheques :

FRONT.

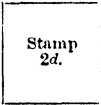
BROWN & COMPANY, LIMITED,
GENERAL MERCHANTS.

216 LONG ACRE, W.C.,
LONDON,

No. 108600.

September 1, 1921.

London County Westminster and Parr's Bank, Limited,
COVENT GARDEN BRANCH.



Pay.....or Order

.....
For BROWN & COMPANY, LIMITED,

£.....

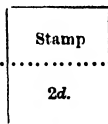
Director.

This Draft must be signed on the back by the Party to whom it is made payable,

BACK.

Received of BROWN AND COMPANY, LIMITED, the sum stated on the face of this cheque.

(Signature).....



(Date).....

Receipts for £2 or more must be stamped with 2d. Inland Revenue duty (postage stamps will do, or the stamp may be

embossed on the form) and the stamp must be cancelled by the person giving the receipt. Any person neglecting this regulation when giving a receipt is liable to a penalty of £10. And since (a) a creditor could show no valid excuse for refusal to admit in writing that he has received payment, and (b) where the amount is not less than £2, neglect to give a properly stamped receipt would amount to avoidance of the Stamp Acts, the remitter is entitled to *demand* a written acknowledgment in return payment.

By the Statute of Limitations debts which have not been acknowledged or claimed for more than six years cease to have any legal effect. Receipts should therefore be preserved for at least six years, after which time they may be destroyed.

Cancellation of Receipts.—Where money for which a receipt has been given is refunded, the person who gave the receipt can claim to have it returned for cancellation. If it is lost, the loser should sign a form of indemnity.

INDEMNITY FOR LOST RECEIPT.

I acknowledge to have received of the GAS LIGHT AND COKE COMPANY the sum of being the amount of a Deposit returned to me in respect of and having lost or mislaid the Company's Official Receipt I hereby agree to hold the Company free from all liability in respect of such deposit should the receipt be at any time hereafter produced.

.....
19...

Due Dates.—Pay day is not always monthly. The period of credit in many cases dates from the time the goods were supplied, *i.e.* in effect, the date of the invoice. It is then more convenient to deduct Cash Discount from the *invoice*, not the statement, and when payment is made the invoice may be returned to the seller to be receipted.

Average Due Date.—Where it is desired to settle by one payment a number of invoices having different due dates, the true average due date for payment of the whole amount is found by equating the amounts and due dates of each invoice as follows :

Date of Invoice.	Term.	Due.	Amount.			1st Method.		2nd Method.	
						Days.	Product.	Days.	Product.
1922. Aug. 20	1 mo.	1922. Sept. 20	£24	3	6	—	—	45	1088
Sept. 15	Prompt	Oct. 10	76	4	—	20	1524	25	1905
„ 23	14 days	Oct. 6	14	5	7	16	220	29	414
Oct. 4	1 mo.	Nov. 4	22	16	8	45	1005	—	—
			£137	9	9			2749	3407

1st Method.—The amount of each invoice in pounds is multiplied by the number of days between (a) its due date, and (b) the date when the *first* payment is due. The total of these products is then divided by the number of £ in the total amount owing, thus :

$$\frac{2749}{137.5} = 20.$$

The Quotient (20 in this case) represents the number of days after the first due date, when the total amount (£137 9s. 9d.) should be paid, viz., October 9th.

2nd Method.—The same effect is produced by counting the days *backwards* from the last due date, thus :

$$\frac{3407}{137.5} = 25.$$

The Quotient (25) then represents the number of days between the average due date and the *last* due date. 25 days back from Nov. 4th is Oct. 9th.

A similar method is employed for calculating the combined discount on a number of *bills of exchange* (*q.v.*), or the interest on a series of loans. The sum of the products multiplied by the rate per day gives the total discount or interest.

Checking Accounts.—Before invoices or statements are paid the amounts should be checked and passed for payment by different persons ; a “cross-check” minimizes the possibility

of error. A rubber stamp is commonly used with spaces for the checkers' initials :

TO BE PAID.
Figures checked by
Certified by.....
Date.....19.....

Overdue Accounts.—In order to ascertain that all accounts are paid, the statements as they are rendered may be recorded in a book :

REGISTER OF ACCOUNTS RENDERED.

Date.	Name.	Due.	Amount.	Reply.	On A/c.	Balance.	Remarks.

When the limit of credit has been exceeded by (say) 10 days, the customer is sent a **Reminder**, followed, if unsuccessful, by another (say) 7 days afterwards, and a third a week later. The reminder may consist of (a) a copy of the statement with an adhesive printed label :

AN EARLY REMITTANCE WILL OBLIGE.

AN IMMEDIATE REMITTANCE WILL GREATLY
OBLIGE.

AS THIS ACCOUNT IS A MONTH OVERDUE A
SETTLEMENT IS REQUESTED BY RETURN OF POST.

or (b) a separate signed letter may be sent on each occasion. The letters need not be composed specially each time ; a set form may be kept in the office for 1st, 2nd and 3rd demands, to be copied by the typists when required.

Reminders and replies received, together with any relevant remarks, are recorded on the statements register ; or instead of a register a **Card Index** may be used :

Name, <i>W. Micawber,</i>	
Address, <i>100 Hope Street, Monitown.</i>	
Limit £200.	
1920.	
Nov. 30	Statement £143 12s. 6d.
Mar. 20	Reminder No. 1.
„ 31	„ 2.
<i>Report.</i> —Mr. Lines reports: “Custr. says delay “ in payment due unforeseen circumstances, but “ “something may turn up.” (Over)	

The cards are then placed in order of the dates on which payment is due or on which the next demand should be sent, and any card showing no balance owing is removed to an alphabetical section at the back of the drawer, to be used again when the next statement is rendered.

EXERCISE 10.

1. A firm is asked to submit prices for certain goods, and obtains the order. State in proper sequence, and briefly define, what commercial documents the firm would send to its customers, from the opening of the transaction to its completion.

(U.E.I.cc.Elem.)

2. (a) What is the average due date of the following: March 6th, £122; March 24th, £16; April 5th, £65; May 2nd, £44; May 10th, £82?

(b) What is the average due date of: £120 due June 10th; £200 due July 3rd; £310 due July 30th, and £220 due August 5th?

(D.C.C.)

3. Describe fully the uses of Invoices, Debit Notes, Credit Notes, Statements of Account and Receipts, and enumerate a few items which might appear on each. What connection has each of these documents with a merchant's accounts ?

4. Wherein does a statement differ from an invoice, and why are statements made out by business men ? J. Wells, Wholesale Grocer, 55 and 56 Flint Street, Walworth, S.E. 17, had the following transactions with Robert Owen, 12 High Street, Deptford, S.E. 8 :

1915.

- July 1. J. Wells rendered a statement to R. Owen for goods supplied during June, 1915, amounting to £19. 10s. 7d.
- „ 2. J. Wells sold goods to R. Owen, value £20. 17s. 6d.
- „ 4. R. Owen returned goods to J. Wells, value £3. 16s. 8d.
- „ 8. J. Wells sold goods to R. Owen, value £3. 16s. 8d.
- „ 9. J. Wells sent R. Owen credit note for 5s. 8d. for error in invoice, July 8.
10. R. Owen sent J. Wells cheque on a/c for £5. 9s. 3d. which with discount 5%, settled an item £5. 15s., dated June 2, 1915.
- „ 15. J. Wells sold goods to R. Owen, value £12. 9s. 8d.

The goods are subject to 5% cash discount. Make out the statement in proper form as at August 1, 1915, and show the amount due either net or subject, as you please. (S.A.cc.II.)

5. Messrs. Littlejohn & Co.'s accounts are monthly, and subject to a settlement discount of 5% if paid on or before the 15th of the following month. John Arkwright delays payment of his March account till the 30th April, and then remits a cheque for £47. 10s., having deducted £2. 10s. discount. Draft two letters (a) asking Arkwright to pay the balance, and (b) informing him that you will allow the deduction on this occasion, but not in future. (S.A.cc.II.)

6. State precisely what is meant by "monthly account," "due date," and "average due date." Show by an example how cash discounts may be calculated where the seller's terms are "A/cs rendered monthly."

7. What is discount ? When and why is it given, and whom does it advantage ? (S.A.tpc.II.)

8. You call on J. Brown & Co. to collect an account for £25. 12s. 7d. due to your firm, Messrs. Jones & Evans. Brown & Co. hand you a cheque for £20, remarking that they are without an invoice for £5. 12s. 7d., one of the items charged on the statement. Show the form of receipt you would give J. Brown & Co. (S.A.cc.II.)

9. Should Cash Discount be deducted from the invoice or the statement of a/c ? Give reasons for your answer. Is it necessary to give a receipt to a customer when he pays his account ?

10. (a) What method would you suggest for dealing with Overdue Accounts in a large office ? (b) Draft a series of three short "consecutive set letters" for use in collecting overdue accounts.

CHAPTER XI.

PROFITS AND PRICES.

Stocktaking.—The junior employee employed in a store or warehouse—or manufactory for that matter—can hardly see many months of business life without being called upon to assist in the work of stocktaking. Many small retailers do not take stock at all. As the supply of any one article gets low, more is ordered ; and the proprietor cannot tell from one year's end to another the value of the goods he has on hand. No account is taken of deterioration, losses through employees' extravagance or pilferage, or selling off at reduced prices, and the proprietor is thus quite unable to calculate how much profit he has made. Moreover, if he is asked by a creditor to show his balance sheet he cannot do so, because the most important item—stock—is an unknown quantity. Stock-taking is essential to proper account-keeping, and no auditors would certify accounts as correct without a proper statement of stock. Finally : without proper accounts a trader, if he gets into difficulties, must expect to be treated harshly by his creditors.

At least once a year, therefore, all stock should be taken down and recorded in a **Stock Book**. Goods having a ready sale are entered at cost price ; but everything that has remained in stock more than three or six months, as well as goods not likely to be in fashion much longer, should be

marked down liberally. It is far better to value stock too low than too high.

Stocktaking is a big task, and it interferes with the smooth running of the business ; so it is done in the slackest time of the year. The month of January is a convenient time for retailers to take stock, coming as it does between the Christmas and early spring activities. In many of the wholesale textile houses stock is taken just before Christmas and again in July—not exactly six months being allowed between each financial “half-year” so that summer and winter business may be interfered with as little as possible.

As business has to continue in spite of the stocktaking, the work is best started on the top floor or in the basement, leaving the front shop until the last.

Stocktaking takes a day or two to complete, so if any goods are taken from a section that has already been listed, a note must be left to record the fact, and ensure that the stock list is adjusted to the exact date fixed for the balance sheet.

In addition to taking stock each year or half-year, many up-to-date retail and wholesale establishments keep a *Permanent Inventory* or *Stock List*, i.e. a monthly or weekly record of additions to and subtractions from stock, from which the approximate value of stock on hand at any time can be seen at a glance. The simplest method is to base all calculations on *Selling Values*, thus :

		(At sale prices)
Stock as on 31st Jan.	-	£1,800
<i>Add</i> February Purchases	-	420
		<hr/>
		£2,220
<i>Deduct</i> February Sales	-	390
		<hr/>
Estimated Stock as on 28th Feb.		£1,830
<i>Add</i> March Purchases	-	470
		<hr/>
		£2,300
<i>Deduct</i> March Sales	-	450
		<hr/>
Estimated Stock as on 31st March		£1,850

This is continued throughout the year, until the next stock-taking, when the *estimated stock* will probably *disagree* with the proper stock list, and the monthly figures should be adjusted to the amount of final stock ascertained at the stocktaking.

Values.—The sale value of Stock as on 31st January can only be estimated roughly, by adding a suitable *percentage* to the stocktaking value, for likely profit. Suppose, for example, that the stock book gives the value of stock on hand as £1,440. Reference to last year's accounts shows us that the firm earned (say) 20% *gross profit on sales*. That means that, on the average every £80 worth of stock sold for £100. We can thus roughly estimate the selling value of our present stock (£1,440) at more than stock-book value, in the ratio that 100 is more than 80, viz.

$$\frac{£1,440 \times 100}{80} = £1,800.$$

In order to get the sale values of purchases, all inward invoices can be marked in red ink with the intended selling prices, and an extra column provided in the Bought Book for such prices.

A more customary practice is to keep the permanent inventory on the basis of cost values, inserting the initial and final stock at true stocktaking values. The objection to this system is that the true cost of goods sold is usually impossible to calculate from the "sales" figures, as profits are not uniform, some articles yielding a higher percentage than others. This item is therefore but very roughly estimated by deducting the average profit from the returns.

Perpetual Inventory of Quantities.—It is possible to record the number of articles of each class in stock at any time, by entering on a permanent stock list all quantities received and delivered, and the balance remaining. The card system or a loose-leaf book may be used, as shown on p. 110 (Fig. 7).

Such a record may be kept in a wholesale warehouse or manufactory, but it would not be practicable for a retail store, where sales are too small and frequent.

Turnover.—The permanent inventory is particularly useful in a departmental store or warehouse, as it serves as an accurate indicator by which the general management may watch the progress of each section of their business. It shows

the extent of each manager's buying, the amount of capital he is locking up in stock, and the promptness with which he is "turning over" his stock.

The word "turnover" is often used to denote takings or returns, which amounts to the same thing as the total amount of money "turned over" during a certain period.

But when we say a trader "turns over his stock" three times a year, we mean that his takings are equivalent to three times the average sale value of his stock on hand.

Thus, if a trader's stock amounted, on the year's average, to a selling value of £1,500, and his takings were £4,500, his turnover might be said to be "3 times a year." Some goods doubtless remain in stock longer than others; but on the average these figures would show that the goods had remained in stock for four months before being sold.

No. or Size	Article		Unit	Max.	Min.				
2"	Angles, Iron		1	200	25				
Date	Item	Received	Balance	Delivered	Date	Item	Received	Balance	Delivered
9/24/08			127						
1-15/09		2765	101	2.6					
2-24/09		2901	87	1A					
7-6/08		3106	2.2	65					
10/08	P 94	150	172						
2/1/09	3741		153	19					

FIG. 7.--PERPETUAL STOCK CARDS.
(By permission of Library Bureau, Ltd.)

The rapidity of the turnover varies according to the kind of goods and the management of the business. In a well-managed retail business, mantles and millinery ought to be turned over say six times, hosiery five, dresses four times,

silks twice a year. Hardware might be turned over on the average four times a year, but brushes and basketware go off much more quickly. Perishable foodstuffs have of course to be sold off once or twice a week, before they become un-saleable.

To calculate the speed of turnover from the permanent inventory, we total up the commencing, final and intervening stock values as shown on the list, and divide the number of entries, viz., 13 if the stock is calculated monthly, or 53 if it is worked out week by week.

Simply to add the initial and final stocks together and divide by two would *not* give us the average stock, as that would make no allowance for increase and decrease throughout the year.

The annual returns are then divided by the average stock thus :

$$\frac{\pounds 4,500}{\pounds 1,500} = 3 \text{ (times per annum).}$$

Profits.—The profits derived from any business undertaking fall naturally into two classes : Gross Profit and Net Profit.

Gross Profit.—(1) For the *Manufacturer* gross profit is the difference between the cost of material and production and the prices charged to customers for goods supplied or work done.

(2) For the *Merchant* dealer, whether retail or wholesale, it consists in the difference between buying prices and selling prices of the goods in which he deals.

(3) The *Agent*, who buys or sells goods for the account of other people, earns his remuneration in the shape of a commission, or, more rarely, a fixed salary.

An Agent's profit is legally limited to the remuneration his principal agrees to pay him, or allows him to take out of the price of the goods he is employed to buy or sell. Thus, having been employed to *buy*, he must account to his principal for any discounts or allowances he may obtain from the seller ; and if he

is employed to sell, he must not take a buying commission as well. The principal can compel his agent to refund any profits to which he has not agreed.

But Gross Profit is not *clear* profit. To carry on any sort of business takes not only time, but money. Office Rent, Lighting and Heating, Salaries and general expenses must be paid out of profits, and if the gross earnings on manufacture or trading are less than the cost of running the business as a whole, the net result is a *loss*, not a profit.

Net Profit.—Expenditure not directly incurred in the production or purchase of goods are classed as *indirect, overhead or establishment charges*, and the Net Profit of a business is the difference between Gross Profit and Overhead Charges.

The Final Accounts.—The Gross Profits for each year or half-year are shown in the Trading A/c or Manufacturing A/c, and it is in the Profit and Loss A/c that the establishment charges are deducted from the gross profits.

The following Manufacturing, Trading and Profit and Loss A/cs are taken from the books of a wholesale hardware firm, having several departments, one of which is devoted to manufacture :

MANUFACTURING A/C

for half-year ending 30th June, 1922.

Dr.	Brush Dept.			Cr.			
To Stock as on 1st	£	s.	d.	By Sales - -	£	s.	d.
Jan. -	616	15	9	„ Dept. D. -	4,225	3	0
„ Purchases -	1,141	6	8	„ Stock as on	3	18	0
„ Mfg. Wages -	1,455	5	5	30th June:			
„ Power -	56	4	3	Material -	360	0	0
„ Gross Profit -	1,734	18	6	Finished			
				Goods -	415	9	7
£ 5,004	10	7		£ 5,004	10	7	

TRADING A/C

for half-year ending 30th June, 1922.

Dr.	Dept. A.			Cr.			
To Stock as on	£	s.	d.	By Sales £7,134 6 8	£	s.	d.
1st Jan.	1,916	8	8	<i>Less</i>			
„ Purchases -	4,891	16	0	Returns 98 11 4			
„ Carriage					7,035	15	4
inward -	102	12	0	„ Dept. C. - - -	25	4	0
„ Dept. B. -	70	0	0	„ Stock as on 30th			
„ Gross Profit	1,651	1	0	June - - -	1,570	18	4
	£ 8,631	17	8		£ 8,631	17	8

Departmental Trading Accounts.—It is essential that a separate account be kept for each department, in order to show the progress of each separately. Each section is considered as a separate enterprise, and if its results are unsatisfactory compared with the others, the general manager has cause to consider whether he will (a) close it down and allow more space and capital for the others, (b) find out its defects and remedy them, or (c) suffer it to continue as a matter of general business policy.

The management may expect to make a loss on certain departments, as for example the refreshment department in a retail store. Sometimes a certain line (say gloves) may have to be continued for the convenience of customers, though it is more trouble than it is worth.

Carriage Inwards is usually charged to the trading a/cs as forming part of the gross profit calculation, because carriage paid on purchases increases the cost to the buyer. Carriage *Outwards* (where not chargeable to the customer) is considered a general or establishment expense in preference to being charged against sales. If customers are served by the firm's own vehicles, or by contract with carriers, carriage outwards will bear no exact proportion to sales, and if trading A/cs were kept for each dept., carriage outwards could not be exactly apportioned without great complication in the forwarding department.

PROFIT AND LOSS A/C.

Dr. *for half-year ending 30th June, 1922.* *Cr.*

	£	s.	d.		£	s.	d.
To Carriage Outwards -	188	1	6	By Gross Profit	7,896	7	4
„ Salaries -	1,988	11	8	„ Discounts received -	31	6	8
„ Travelling -	316	2	6	„ Interest on			
„ Commission -	291	14	2	Investments -	48	11	6
„ Advertising -	200	5	10				
„ Office Expenses -	98	19	10				
„ Rent and Rates -	190	0	0				
„ Income Tax -	186	14	3				
„ Insurance -	6	7	0				
„ Legal Expenses -	11	11	0				
„ Discounts allowed	122	7	1				
„ Bank Charges -	48	3	0				
„ Interest -	450	0	0				
„ Repairs -	24	4	6				
„ Depreciation -	80	0	0				
„ Net Profit -	3,773	3	2				
	£7,976	5	6		£7,976	5	6

Interest on Capital.—In addition to the expenditure actually incurred in maintaining the establishment, an allowance for interest on the capital locked up in the business must be charged against profits. Assuming the capital, in this instance, to be £12,000, the proprietors get a return of £4,223

	Sales.	Gross Profit.	
Mfg. Dept. -	£4,225 3 0	£1,734 18 6	41%
Dept. A -	7,035 15 4	1,651 1 0	23%
„ B -	4,924 17 1	676 9 11	14%
„ C -	9,270 8 5	1,899 3 6	20%
„ D -	7,904 6 6	1,934 14 5	24%
	£33,360 10 4	£7,896 7 4	24%

3s. 2d. or 70% (per annum) on their money; but since, by investing their money elsewhere (with greater safety and

without incurring the work or worry of business at all) they could get (say) $7\frac{1}{2}\%$ p.a., or £450 in the six months, the business ought to be charged at least this amount for the use of the money.

In this particular firm only those accounts which serve to show the *Gross Profit* from each department are kept separate, viz. Stock, Purchases, Returns Inwards, Productive Wages, Factory fuel and power, Stores used in manufacture, Sales, Returns Outwards and transfers of stock or material from one department to another.

There is in this case only one Profit and Loss A/c, to which the total gross profit from all departments is *credited*, the establishment charges (taken from the general salaries a/c, rent a/c, etc.) being deducted on the *debit* side to show the *total Net Profit* on the whole undertaking.

Departmental Profits.—To find the *separate net profits from each department*, each one must be made to bear a fair portion of the general overhead charges, as follows :

In this particular case the total establishment charges are apportioned *equally* among the five departments. In other stores and warehouses rent may be apportioned according to position and floor-space, office expenses and cost of packing and forwarding according to the amount of work involved, income tax according to revenue, etc.

Departmental and Columnar Profit and Loss A/cs.—Wherever possible, overhead charges directly appertaining to one department (*e.g.* assistants' salaries, repairs, depreciation)

Overhead Charges.			Net Profit.		Net Loss.
824 12 10	20%	910 5 8	21%	148 2 11	
824 12 10	12%	826 8 2	12%		
824 12 10	17%	1,074 10 8	12%		
824 12 10	9%	1,110 1 7	14%		
824 12 10	10%				
£4,123 4 2	13%	£3,921 6 1		£148 2 11	
		148 2 11			
		£3,773 3 2	12%		

should be recorded in separate departmental expenditure accounts. The half-yearly totals are then debited to either (a) *distinct Departmental P. & L. A/cs*, or (b) *one Columnar P. & L. A/c* showing the net results of each department side by side.

Such general overhead expenditure as rent, clerks' salaries, stationery, advertising, etc., must be divided as fairly as possible. To apportion them exactly would be manifestly impossible; it is a matter of judgment rather than fact.

Prices.—It is evident that if an article is sold at cost price it is sold at a loss. Establishment charges have to be paid whether any profits are made or not, and the selling price of each article must be at least sufficient to cover a fair proportion of such charges, or there can be no question of profit at all.

In starting a new business, the amount of overhead expenses to be charged against profits can only be estimated according to the manager's experience in other firms; but in the course of a year or two the accounts ought to show useful data from which such expenditure can be predicted with reasonable accuracy, and a suitable percentage charged against the selling price of each article.

The fixation of selling prices may be said to depend upon four main considerations: (1) What is the public prepared to pay? (2) How much of the price will be absorbed in establishment charges? (3) What profit is left per article or per cent.? and (4) Can the *total profit* on turnover be improved by cheaper or dearer selling?

EXAMPLE.—Referring to the schedule on p. 115 we find that (in the last year under review) establishment charges absorbed 13% of the total returns. An article costing, say 7/3, including carriage from the makers would therefore, if marked at 8/4, yield *no profit*, for 13% of 8/4 = 1s. 1d. But if the price were fixed at (say) 9/2, there would be a profit of

$(9/2 - 13\% \text{ of } 9/2) - 7/3 = (110d. - 14.3d.) - 87d. = 8.7d.,$
or 7% net profit on sales.

Profits and expenses are always calculated as a percentage of sales.

Profit and Turnover.—A special Statistical Department exists in some warehouses to collect reliable data in regard to sales, expenditure and profits.

The effect on sales of high or low prices may be recorded statistically, but figures are of little value without the sound judgment of men experienced in the selling business and well acquainted with the trade. It is evident that if by selling 500 yds. of a certain material a net profit of 10% is made, as against 5% on a turnover of 1000 yds., the total profit remains the same. But sales do not vary directly with prices. A slight reduction in price may raise profits tenfold where competition is keen, whereas in some cases an inflation of prices may have the same effect, only slightly reducing sales; in isolated cases high prices may even encourage sales, by suggesting to the public that the article is worth more than it is; e.g., a book on "How to get rich quickly" might sell better at 10s. 6d. than 5s. !

By selling in large quantities each sale may be quite fairly charged with a less percentage of overhead expenses. And the ideal price is that which brings the greatest net profit on the *whole* turnover, irrespective of the return on each unit sold or the percentage on the whole.

Fixed Prices.—In many cases neither the retailer nor the wholesaler has any choice in the matter of prices. **Proprietary articles**, advertised and sold under the manufacturer's or merchant's trade mark, are usually supplied to the trade at fixed prices for resale: say 4s. 3d. per doz. to the wholesaler, 4s. 11d. to the retailer, and 6½d. each to the public.

EXERCISE 11.

1. What is the purpose of stocktaking, and how is it done ?
2. If it is required to know the value of stock on hand at any time between the stocktaking periods, how can the information be obtained ?
3. What is meant by " returns," " turnover," " average stock," and from what source may each be ascertained ?
4. What do you consider to be a " rapid turnover," and how can a business manager calculate its rapidity ?
5. How is gross profit calculated, and what is the object of ascertaining gross profit at all ? (S.A.tpc. III.)
6. What is the difference between a Manufacturing A/c and a Trading A/c, and between either and a Profit and Loss A/c ?
7. (a) Why is carriage inwards commonly treated as prime cost, and carriage outwards as a charge against profits ? (b) Do you consider interest on capital to be a part of profit or a charge against profits ? Give reasons for your answer.
8. The general manager of a store wishes to compare the working of each department. Where will he look for the necessary information, what will he look for, and to what action may his inquiries lead him ?
9. How are prices fixed ?
10. What relation have profits to turnover ?

CHAPTER XII.

CREDIT FACILITIES. DEBT COLLECTING.

Reasons for Credit Dealing.—Previous chapters of this book have sufficiently explained the necessity for credit as between buyers and sellers.

The wholesaler, by allowing his retail customers credit, enables them to dispose of a large part of their stock before paying for it, and thus to conduct their business on a bigger scale, and consequently to buy more, than would be possible if all purchases had to be paid for immediately in cash.

Where the turnover is slow, buyers naturally require correspondingly long credit, and in the case of perishable goods such as fish and vegetables, practically all dealings are for cash, market buyers of such produce usually paying for all purchases at once in coin and notes.

The class of trade may also influence the extent of the credit facilities allowed to buyers. For instance, country ironmongers, who have customarily to await payment for the repair and installation work they do for the country folk and gentry, usually get longer credit than their town colleagues.

Retailers, as a class, are allowed longer credit than wholesalers. One of the main functions of the latter is to help his customers to pay their way, and to enable manufacturers, on the other hand, to recover their capital more quickly than they could if they supplied direct.

Intermediaries in the provision trades fulfil a similar function. Producers receive financial assistance from local merchants or exporters. Importers usually arrange with the banks to advance a percentage of the value of each consignment on shipment, and in their turn quickly recover their capital from the home merchants, who engage to pay and take delivery on "prompt" day—usually a few days or at most a month after the sale.

Forward Dating.—In those trades which are subject to great seasonal activity, the retailer needs more credit when he is stocking his shop for the season than at other times.

In the drapery trade it is customary for wholesale houses to *date forward* invoices for summer goods bought in the early part of the year. Goods bought in March, and included in the ordinary course in the account due (say) 10th April (for prompt cash), are thus charged for on invoices dated (say) a month later. In some cases the date is advanced as much as three months, allowing the retailer altogether seven months' credit if he allows his account to *run net*—which he is not supposed to do, however.

Other goods ordered at the same time, but not forming part of the same stock, are charged for on separate invoices, properly dated.

Dilatory Payers.—Wherever an inducement is offered, customers are expected to pay *under discount*. The promptest payers get the best treatment. Customers who habitually allow their accounts to run net quickly get known among the fraternity of travellers, and loss of credit with one supplier may lead to difficulties with all the others.

First Orders.—Before supplying goods on credit to new customers, suppliers naturally require to satisfy themselves of the prospective buyer's ability and willingness to pay.

Usually new customers are asked to supply a trade or banker's reference. However, where very small purchases

are of frequent occurrence, some firms allow credit up to £10 or so without investigation, preferring to run the risk of an occasional bad debt rather than take the trouble to inquire into the status of scores of customers for trifling amounts.

Trade References.—Letters replying to status inquiries should be worded carefully, for a rash or careless statement involves the writers in serious consequences. Through giving a misleading report he may have to sustain an action for damages. Status reports should be confined as far as possible to a statement of plain facts, and in answering such a question as “do you consider that we could safely supply this firm with goods to the value of say £50 on monthly a/c ?” it is wise to state clearly that any opinion expressed is offered “without prejudice,” *i.e.* it constitutes no sort of guarantee.

On the other hand, an unfavourable report, if not strictly exact in substance and fact, may lead to an action for libel by the firm whose reputation has been damaged by it.

Some firms decline absolutely to give written reports. On receipt of a status inquiry, the correspondent is invited to attend or send a representative to hear a verbal statement.

A common practice in writing both inquiries and answers to inquiries is to put the name in question on a separate slip pinned to the letter.

All correspondence of this kind is of course marked “private and confidential,” and inquirers should remember that they are asking a favour, and enclose a stamped and addressed envelope.

It is usual to ask for two trade references, though one is often considered sufficient.

Trade references have the advantage that they provide information as to a prospective customer's actual dealings with other suppliers. But the latter's reports are not infallible. An undesirable firm may make a point of regularly settling one or two accounts, whilst they treat other firms badly. Moreover, it may in certain cases be contrary to a creditor's

interests to give an unfavourable report. Suppose Mr. A is asked by Mr. B for a report on his customer C. If C happens to be in financial difficulties and at the same time heavily indebted to B, then by stating the true facts of the case B would increase C's difficulties, thereby reducing his own chance of ultimate payment.

Bank References.—First orders and business proposals are frequently accompanied by a note mentioning the name of one or two trade references, or the name of the bank at which the writer has an account. The latter is sometimes printed on the letter heading. Any firm having a banking account at the same or another bank may pass an inquiry through his own banker, part of whose business consists of assisting his depositors in this way.

A banker is not likely to descend to misleading people in his own interest, but his reports are usually very short, and can only refer in most cases to the state of his customers' accounts, which may be no criterion at all. The most prosperous firm may seek constant accommodation in the shape of overdrafts, though of course good firms do not dishonour their cheques or bills. Needless to say, bankers take no pleasure in decrying their own customers, and any person putting an inquiry through the bank should state definitely what he wants to know.

Private References are seldom asked or given in business. They may be useful, however, in connection with people who have not done business before on their own account.

Inquiry Agencies.—Another method of inquiring into a prospective customer's reputation is to obtain a status report from an Inquiry Agency or Trade Protection Society. These institutions constitute a sort of clearing house for status intelligence of value to manufacturers and merchants. Information is collected through the society's own agents, whose work is not unlike that of the private detective, and to their

reports is added such information as may be solicited from or given voluntarily by firms who have had dealings with the people in question.

Trade Protection, like insurance, is in its origin a scheme of mutual benefit or co-operation ; but most of the present-day agencies, like the majority of insurance companies, are nowadays worked for profit, as private enterprises. Bradstreet's, Stubbs' and the Trade Protection Agency, and on the Continent the Institut W. Schimmelpfeng, are among the most important.

Persons wishing to become members are required to make application on a printed form, by which they agree to treat in the strictest confidence all information furnished by the society, and to indemnify the society against any action arising from non-observance of such agreement, and on the other hand subscribers agree not to hold the society responsible for inaccurate information.

The inquiry agencies' reports are usually quite unbiassed. Firms who give trouble to their suppliers, however, are likely to get more than adequate retribution if the people they have aggrieved should take revenge by reporting their conduct to the society.

The activities of the trade protection societies are not confined to status intelligence. Some of them comprise a dozen different departments, *e.g.* :

Enquiry Department.—The backbone of the concern. Subscriptions are annual, and entitle the subscriber to a book of Enquiry Cheques for use on each occasion. The fees vary according to the country in which the firm enquired about is resident, and single enquiries are charged for at a higher rate. Thus where home enquiries are charged for at say 3/- each, a book of 100 cheques may be obtained at half that rate, say £7. 10s.

Account Collecting Dept.—The usual charge for collecting overdue accounts is 5% of the amount recovered—which may be considerably less than the cost of engaging a private solicitor, particularly where small amounts have to be collected.

Legal Dept.—The society's own solicitors conduct legal proceedings on favourable terms, and free legal advice is available to subscribers for the asking.

Special Services.—These cover a wide field of activity, including attendance at creditors' meetings, procuring copies of official documents at Somerset House, the Law Courts, etc., obtaining possession of documents or goods hired, etc.

Commercial Arbitration.—In cases of dispute subscribers may, if they can get the consent of the other party, avoid the cost and annoyance of legal action by submitting the matter to arbitration. The department acts as referee and mediator at modest fees.

Trade Marks and Copyright.—British and Foreign protection may be secured at moderate cost through the agency, and subscribers have the advantage of free consultation with an *Expert Advisor* on matters of copyright, marks and inventions.

Record and Directory Dept.—The main work of this department consists in the compilation of status directories, containing a short report on each firm named in it. The records are of course available subject to subscribers' guarantee of discretion.

Income Tax, Audit, Accounting and even insurance and stocks and shares also enter into the activities of some of the trade protection societies.

Guarantees.—It may happen that a supplier is willing to allow credit on condition that the prospective customer procures the "backing" of a third party, who guarantees the due fulfilment of his obligations. The **guarantor** or **surety** must give his undertaking *in writing*, and the document must bear a 6*d.* stamp cancelled by the person signing it. Otherwise it is of no legal effect.

And if, for example, B guarantees the fulfilment of C's obligations to A, A cannot proceed against B unless and until C has actually made default.

Inspection of Balance Sheet.—In isolated cases a supplier may institute his own inquiries by interviewing a prospective customer and asking him to show a certified copy of his balance sheet.

The balance should be a clear statement of the position of the firm, and ought to contain sufficient detail to enable an outsider to see clearly of what the assets consist, how they have been valued, and to what extent the firm is already

committed to other creditors. The question : “ *How to read a balance sheet* ” will be dealt with in another volume by the same author, entitled : *Trade, Transport and Finance*.

The Credit Department.—An important part of the work of the Credit Department consists of recording unfortunate experiences with customers with a view to protecting the firm in the future. The department must not only record bad debts : undesirable customers who give more trouble than they are worth should be noted, and the sales department warned against giving too liberal terms. A card index is an irvaluable form of status record :

Full and exact title of firm		Full Postal Address, if more than one give both	Date
Trade			£
Bankers	Telephone No	How introduced to us	Ledger Fol.
Name, Trade and Address of References		Replies from References	
Enquiry Agency		No. of Enquiry	Enquiry Agency's reply
Account offered or declined		Subsequent Remarks	


Shannon Card Index  by Royal Letters Patent

FIG. 8.

In many offices the limit to which credit should be allowed is noted on each customer's ledger account (see p. 92).

Debt Collecting may be another function of the Credit Department. The travelling salesman has perhaps less influence upon dilatory payers than any other official, for his business is rather to assist customers than to “ dun ” them.

But by putting overdue accounts into other hands, fresh influence is brought to bear. The duty of the professional debt collector is to obtain payment of what is due, not to discuss future business ; and the debtor knows that if he does not pay proceedings will be taken. (It has been explained already that the trade protection societies render useful service in this respect.)

Proceedings.—If the debtor refuses to pay, and the amount of the debt does not exceed £100, application may be made to the **County Court** for the issue of either (a) an **ordinary summons** or (b) a **default summons**.

The summons must be issued in the County Court of the district in which the debtor dwells or carries on his business. But if the creditor can show that the cause of action arose in his (the creditor's) district—i.e. if the order for the goods has been received at his place of business, or the goods have been delivered within his district—leave will be granted for him to sue in his own court.

If the printed conditions of contract provide that all disputes be settled within the seller's district, the seller is saved the trouble and expense of suing in another town in any case.

The Debtor proceeds to the **Plaint Office** of the proper court, and asks the official for a form of application, called a **Præcipe**, for the kind of summons it is desired to issue.

After having filled up the **præcipe**, the debtor returns it to the clerk together with **Particulars of Claim** and, if the parties reside in different districts, an **Affidavit of Debt**.

Whereas an *Ordinary Summons* (i) is served by the bailiff and (ii) fixes the date of the hearing, the **Default Summons** (i) may be served by the bailiff or by the plaintiff or his solicitor (or a person in the employ of either), and (ii) at the expiration of 8 days inclusive from the date of service the plaintiff is entitled to judgment, unless the defendant gives notice of his intention to defend the action.

If the creditor decides to obtain a default summons, he must in any case make an **affidavit of debt**. After service

the plaintiff must endorse the copy of the summons, return it to the Court, and obtain a form of **Affidavit of Service**, which has to be shown at the Court.

The Court fees having been paid, the creditor receives a **plaint note**, certifying that the action has been duly entered, acknowledging receipt of the fees, and, in the case of an ordinary summons, stating the date of the hearing.

Most County Court cases are for small amounts, as where the debtor has no defence, satisfaction can be obtained more promptly in the **High Court**, by the issue of a writ. Writs are not issued as a rule unless the amount exceeds £100 or the debtor has no defence.

If a default summons has been issued, and the defendant has not entered an appearance, no further proof of debt is required than the affidavit already referred to. The plaintiff attends at the Court at the proper time to sign judgment. Otherwise, the *plaintiff must prove his case* to the satisfaction of the court, and if the case comes up for trial he should appear well armed with copies of invoices, accounts, correspondence from the defendant acknowledging receipt of the goods, or any other available evidence. The plaintiff is entitled to enforce production of the debtor's books, invoices, letters or other documents relating to the matter in question, and warns him before the trial, by means of a **Notice to Produce**, that such documents are required. Or the debtor may be compelled to attend the Court with documents by service of a **subpœna duces tecum**.

The plaintiff may find it necessary to find witnesses to support his allegations, *e.g.* employees, carmen entrusted with the delivery of the goods, etc. An unwilling witness may be compelled to attend the court by service of a **subpœna ad test**.

Having obtained judgment, the creditor may seek the Court's assistance to enforce it by the issue of (a) execution, (b) a garnishee order, or (c) a judgment summons.

Execution means seizure of the debtor's goods by the bailiff.¹ If the property does not happen to belong to the debtor, the rightful owner (say a firm who has supplied furniture on a hire-purchase agreement, or even the debtor's wife) may dispute the claim, and stay execution by taking out an **interpleader summons**.

Garnishee proceedings.—If a judgment debtor should know of a third party who is indebted to the defendant, he may apply to the court to have such third party "garnished," *i.e.* instructed to withhold payment from the judgment debtor, and apply it or part of it in direct satisfaction of the plaintiff's claim.

The *Garnishee* is summoned to appear at the Court, and from that moment he must withhold payment. If the plaintiff is successful, the Court will order the amount to be paid to him by the Garnishee.

Judgment Summons.—A judgment summons is served by the plaintiff, and summonses the debtor to appear and show reason why he should not be committed to prison for default in obeying judgment. In this case the plaintiff must always prove that the defendant has the means to pay.

Committal to prison cannot be obtained against any debtor unless he wilfully refuses to obey the judgment.

Bankruptcy.—When a trader is unquestionably **insolvent**, in the sense that he is unable to pay his debts as they fall due, it becomes necessary for his property to be realized and distributed equitably among his creditors. He must not be allowed to give away his goods to friends, or to settle with certain creditors in full, depriving the others of their due. "Bankruptcy" infers (i) the winding up of a debtor's estate according to the manner prescribed by law, (ii) the distribution of the proceeds according to certain rules, and, ultimately, (iii) the freeing of the bona fide insolvent from any further claim in respect of the unsatisfied portion of his indebtedness.

The first duty of the trader who finds that he is insolvent is to **suspend payments**, and so give his creditors an opportunity

¹ Or Sheriff, if levied by the High Court.

of securing fair treatment. By adroitly "financing" his liabilities, an unscrupulous trader may postpone the crisis for months or even years. Firms with whom he has had no previous dealings may be willing, to secure a new customer, to supply him goods on credit, and the proceeds from the sale of such goods, and money derived from mortgaging and re-mortgaging his property, discounting "accommodation bills" (see p. 236) and other devices may serve to pacify creditors for a time, but with every fresh obligation created to pay off old ones, the debtor's chances of an honourable issue become less, and he may incur punishment.

Bankruptcy proceedings may be taken in the County Court of the debtor's district, or if he is resident in the metropolis or abroad, or if his address is unknown, then in the High Court.

Proceedings are commenced by a **Petition** being presented to the proper court, asking that a **Receiving Order** be made against the debtor. Any creditor filing a petition must show that the debt due to him amounts to at least £50, and that the debtor has committed a so-called **act of bankruptcy**.

A debtor may petition for a receiving order to be made against himself.

Briefly, a debtor commits an act of bankruptcy—

(1) If he makes a conveyance or assignment of his property for the benefit of his creditors generally.

(2) If he makes a fraudulent conveyance, gift, delivery or transfer of his property with a view to defeating his creditors.

(3) If he makes any conveyance or transfer of his property, or creates any charge thereon, amounting to a "fraudulent preference," *i.e.* favouring any of his creditors to the detriment of the others.

(4) If with intent to defraud or delay his creditors he absents himself, or begins to "keep house," *i.e.* refuses to see people within reasonable hours.

(5) If execution against him has been levied by seizure of his goods, and he has allowed the goods to be sold or held by the

sheriff for 21 days—a thing he would not be likely to do unless he were in a “bad way.”

(6) If he files a declaration of his inability to pay his debts or presents a bankruptcy petition against himself.

(7) If he fails to comply with a *Bankruptcy Notice*.

(8) If he gives notice to any of his creditors that he has suspended, or that he is about to suspend, payment of his debts.

No. 7 is the commonest ground for bankruptcy proceedings. After having obtained a final judgment or final order (*i.e.* a judgment on which he may issue execution), a creditor may have reason to believe that his debtor *cannot* pay. In that case the creditor may attend the Court and issue to debtor a **Bankruptcy Notice**, warning him that unless he complies with the notice by paying the debt or compounding for it, or satisfies the court that he has a counter-claim equal to or in excess of the judgment debt, he will have committed an *act of bankruptcy*.

The statements contained in the petition having been verified by affidavit, a copy is served on the debtor 8 days before the hearing, to enable him to appear and dispute it if he wishes to do so. The Court also requires affidavit of service.

If a receiving order is made, the debtor's property is henceforth vested in the **Official Receiver**. The debtor has to prepare a **Statement of Affairs**, and the O.R. convenes a **Meeting of Creditors**. At this meeting the creditors *may* decide to accept a composition of so many shillings in the £, or agree to some scheme of arrangement put forward on behalf of the debtor, in which case the R.O. is *rescinded*, *i.e.* withdrawn or annulled. On the other hand the creditors may resolve that the debtor be “adjudged bankrupt.”

The **Adjudication in Bankruptcy** is advertised in the *London Gazette*, and the bankrupt has to undergo a **public examination** in court, at which creditors have the privilege of cross-examining him. A **Trustee in Bankruptcy** is then appointed, in most cases, to take the place of the O.R.

Secured Creditors (e.g. those whose debts are guaranteed by a mortgage on the debtor's property or who hold a pledge as security for a loan in the shape of marketable investments etc.) may proceed at once to realise their securities, and what remains of the estate is applied firstly to payment of the cost of the bankruptcy proceedings, secondly in settlement of such *preferential claims* as rent, rates, taxes, wages and salaries, and lastly in discharging the claims of the **unsecured creditors pro rata**.

Immediately after public examination the bankrupt may apply to the Court to grant him the right to continue to carry on his business while the proceedings are in progress. This application is heard in the court, and it is open to any creditor to oppose it. Where it appears from the O.R.'s report that the debtor's failure was due to no fault of his own, an immediate **discharge** may be granted. But where the assets are insufficient to pay a dividend of 10/- in the £, or where no proper books have been kept, or where the debtor, while knowing that he was insolvent, has persisted in trading, the discharge may be suspended. An **Undischarged Bankrupt** is debarred from holding any public position, and if he should obtain credit to the extent of £10 without informing the person with whom he is dealing that he is an undischarged bankrupt, he would be liable to imprisonment.

Private Arrangements.—A debtor who finds himself hopelessly unable to meet his liabilities in full, may extricate himself from what would otherwise be an intolerable position by making application to the Court, as explained above. But the debtor who is in real difficulties, and has acted throughout in good faith, will do better for himself and his creditors by approaching the latter with a view of compounding with them privately. The agreement between the debtor and his creditors is known as a *Deed of Arrangement*, and may take the form of (a) a Deed of Composition, or (b) a Deed of Assignment.

As the first step to a private arrangement, the debtor usually approaches his largest creditor, who, if he agrees to settle the matter without recourse to the Bankruptcy Court, will appoint his auditors or some other firm of chartered accountants or solicitors to investigate the debtor's books, prepare a Statement of Affairs and convene a Meeting of Creditors.

Under a **Deed of Composition**, the creditors, in consideration of receiving a composition at a stated time or by instalments, agree to discharge the debtor and refrain from suing him unless and until he make default in the terms of the arrangement. The payments are usually *guaranteed* by a third party, often a relative of the debtor, or if no satisfactory surety is forthcoming, the debtor's property may be assigned to a Trustee until the composition is paid.

Under a **Deed of Assignment**, the debtor assigns his property to a Trustee to realize and distribute among the creditors, after payment of expenses. In consideration of the assignment (and dividends if any) the creditors release the debtor absolutely. Sometimes the Trustee is assisted by a **Committee of Inspection** appointed by the creditors.

In order to give persons dealing with the debtor notice that he has come to an arrangement with his creditors, the Deed of Assignment Act, 1913, provides that every deed must be registered. An advertisement also appears in the *London Gazette*, and a register is kept of all deeds, which is open to inspection by the public. Within three months any creditor who has not become a party to the deed may file a petition in bankruptcy, and upset the private arrangement.

If the creditors can agree to a private arrangement, a considerable advantage may be gained by it both for the debtor and the creditors. The cost of a private arrangement is usually less than that involved in bankruptcy proceedings, and by allowing the debtor, under proper supervision, to continue his business, the creditors' dividends are likely to be greater than would result from a complete liquidation by the court.

EXERCISE 12.

1. Why do terms of credit vary (a) in different trades ; (b) in the same trade ? (S.A.tpc.II.)

2. What steps should a trader take in order to ascertain the financial standing of a fresh customer ? If the trader has received an order from a man to whom, after inquiries, he considers credit is not advisable, how should he deal with the matter ? (D.C.C.)

3. Draft out two letters in acknowledgment of orders received from different firms who are both strangers to you. One of them offers you an order which looks as if it would give more trouble than profit, whereas the business proposed by the other firm is particularly desirable.

4. What services are performed by the Trade Protection Societies ?

5. Which do you consider to be more useful : a bank reference or a trade reference ? What particular points should be observed in replying to status inquiries ?

6. Your firm has received an order from Mr. Arthur Henderson of Southwark St., S.E.1., giving the name of the Drop Forge Alliance, Birmingham, with whom he says he has had considerable dealings. Draft a letter taking up this reference, saying that your goods are of considerable value, that your terms are cash in thirty days, and that you would like to know whether they consider Mr. Henderson safe for say £400/500 a month. Thank them in advance for their reply, and say you will be glad to reciprocate at any time you may be able to render a like service.

7. What is the function of a Credit Department ?

8. What steps would you take in order to obtain payment of an overdue account through the medium of the County Court ? (D.C.C.)

9. In what ways may payment of a judgment debt be enforced by a defendant who can, but will not pay ?

10. What is meant when a trader is made bankrupt, and what course must the creditors take to enforce their claims ? Are any claims for payment entitled to prior consideration ? (D.C.C.)

CHAPTER XIII.

WORKS ORGANIZATION.

Objects.—The business of the master manufacturer or contractor does not consist merely of buying suitable raw materials, producing what is wanted, and selling the finished product. In any but the smallest industry there can be no question of profit without :

- (1) Efficient Organization ; and
- (2) The keeping of proper accounts and Cost Records.

In a small workshop, the master may personally supervise the work, see that each man is profitably employed, and check waste of time and money. But in larger concerns, where responsibility has to be delegated to managers and foremen, efficiency is a greater achievement.

The records of cost should be such that from them (1) the cost of each process is readily ascertained and wasteful methods improved or eliminated, and (2) the prices for future work regulated according to past experience. If cost is over-estimated, the prices asked will stop business, however efficiently the commercial side may be conducted. If they are under-estimated, and proper accounts are not kept, the enterprise may travel a long way towards disaster before the proprietor is aware that anything is wrong.

DELEGATION OF RESPONSIBILITY.

The following schedule roughly illustrates the division into departments of a machine works of moderate size, and the responsibilities of its officials :

Finance Department.	}	SECRETARY.	}	BOARD OF DIRECTORS.
Accountant				
Bookkeepers				
Cashier				
Share Transfer Clerk	}	GENERAL MANAGER		
Commercial Department.				
Sales Manager				
Travellers				
Buyer	}	GENERAL MANAGER		
Stores Department				
Warehouse				
Forwarding Department.	}	GENERAL MANAGER		
Works.				
Foremen				
Inspectors				
Ratefixer				
Wages Clerk				
Blacksmith				
Plant Engineer				
Toolmaker				
Timekeepers				
Gatekeeper				
Drawing Office.	}	GENERAL MANAGER		
Chief Designer				
Draughtsmen				
Works Accounts Office.	}	GENERAL MANAGER		
Works Accountant				
Estimator				

In this case it is understood that the directors of the company take no active part in the management of the business. The Secretary and General Manager attend the board meetings to report and receive instructions. The Secretary is usually,

as in this case, responsible for the financial side of the business, supervising the work of the chief accountant and cashier. This is in addition to his duties as secretary to the Board of Directors, which involve preparation of minutes of meetings, reports on expenditure, sales, ways and means, etc., calling of meetings of directors and shareholders, transfer of shares and other so-called "company matters."

In some companies a Managing Director assumes complete headship over managers and secretary alike, and in partnerships one commonly finds one partner in charge of the commercial side while the other controls the works and drawing office.

The Works Manager controls the practical work of production, and for this he must be a capable organizer and have a personality that will enable him to lead the men under him. Having worked his way through the shops, as most works managers have done, as workman and foreman, he does not usually lack experience in the handling of men.

The works manager's business is to produce the goods in accordance with the designs, and with the materials he is given. Designing and buying are not his responsibility; but as a practical man he is qualified to criticise either, and his knowledge and experience are made good use of.

In a small factory the practical work is organized and allotted to the machine hands, fitters, etc., by a **Foreman**, whose duty is to get the work done, to supervise it, and to avoid waste by seeing that every man is constantly employed. But in larger organizations the supervision is too much for one man to do in detail. The Works Manager delegates the work to **Under-foremen**, each having control of a section of the workmen.

A **Plant Engineer** is responsible for the maintenance of boilers, dynamos, machinery and machine tools.

The **Toolmaker** has a small department to himself usually. In addition to the tools used in the shop, which he has to

stock and maintain, **special tools** and **jigs** have to be made for certain purposes. These are either ordered outside or made in the workshops. "Jigs" are any sort of appliance required for the execution of a special job, such as small parts to be fitted into the machines to adapt them to the work in hand, or for the shaping of tools, etc.

Foundry.—Large machine works often have a foundry of their own, but otherwise **castings** are made outside.

Drawing Office.—Every piece of work undertaken in a modern factory is planned on paper before the material is ordered.

A contract having been received for a new type of engine or machine, the Chief Designer works out in theory what the principal dimensions should be in order that it may be capable of doing the work for which it is required. He then sketches out the complete job, without detail, and divides it into sections. Each section is given to a separate draughtsman to develop in detail, exact dimensions of all parts being shown, and drawings prepared in plan, elevation and cross sections, to enable the works department to put all into execution. If it were a new motor tractor, for example, the underframes would probably be given to one draughtsman, wheels and shafts to another, gearing to a third, who specialized in such work, motor castings to a fourth, vaporizer and valve gear to an expert designer, and so forth.

There is always a certain discrepancy between theory and practice, but in any but pioneering work the power and efficiency or output of a machine can be determined within narrow limits before it is made.

The drawings are first made in pencil, to be subsequently **traced** on transparent tracing paper with Indian ink. The tracings are then printed out in blue or white sensitized paper in the same way as photographs.

For parts that have to be cast from metal, drawings are

given to a **pattern maker** to make wooden patterns, from which the moulds are prepared in the foundry.

In some works both designing and production are supervised by a **Chief Engineer**. And an important part of the chief engineer's or chief designer's work is the **testing** of completed machines before delivery. In some works, moreover, highly paid designers are kept constantly employed on new inventions and experimental work with a view to developing the future activities of the firm, without immediate profit.

COSTING.

Works Accounts.—The *financial accounts* serve the same purpose in an industrial concern as in a merchant's business. They record purchases and sales, receipts and expenditure, assets and liabilities and profits and losses. But the *Works Accounts* have only one object : to show the Cost of Production. Expenditure is recorded in more detailed and technical classification than in the financial books. Moreover, the Works Accounts or **Cost Books** contain two distinct classes of accounts :

- (a) **General Works Accounts**, which analyze the *total cost* in labour, material, stores, fuel, etc., in weekly or monthly periods, and
- (b) **Job Costing Accounts** (known, in big engineering or constructional work as "Contract Accounts") showing the *individual cost* of every article or series produced.

The General Cost Accounts contain substantially the same figures as the expenditure accounts in the commercial books, and the final results of both sets of accounts should agree. In many factories the Works Analysis is part and parcel with the financial accounts.

To find the individual cost per unit produced, each order is given a **Job A/c** and a consecutive **Job Number**. Costs in wages, material, etc., are separated by the works accountant and debited to the various job a/cs in proper proportion.

Costing.—The question of Cost is the keynote of all industry. Methods of “costing” necessarily depend upon the class of work undertaken; thus (1) In Manufacture—where there is a tendency to reduce cost by *mass production*, each article or machine part being one of a series of identical parts produced at the same time—the records are known as **Series** or **Multiple Costs**, and show the total cost per series of 100 or 1000 and average cost per piece. (2) For Chemical Works, Tanneries, and the By-Products department of Collieries (extraction of ammonia, tar, benzol, explosives, etc., from the coal gas) it is the **Cost per Process** that is required. (3) Builders, Contractors, Shipbuilders and Engineers working under contract naturally regulate their charges, wherever possible, from past experience by means of process or multiple cost records, but they must also know the cost of executing each contract. Such are known as **Terminal Costs**. (4) Mines, Quarries, Rubber and Sugar Companies, etc., reckon cost per ton, gallon, barrel, pound, etc., and the method is commonly known as **Single** or **Unit Costing**. (5) The term **Operating Costs** is applicable to Railway, Gas, Water and Electric Power companies, etc.

EXAMPLE OF FACTORY COSTING (MASS PRODUCTION).—The following paragraphs describe very briefly the costing organization of one particular factory engaged in making small machine tools and motor parts, and employing some 400 workpeople. Many important details have been omitted, for a whole volume would be required adequately to describe the work of one factory alone. Moreover, the description serves merely as an example; there are as many different systems of costing as shades of green, and one universal method does not exist.

WAGES.

(a) Each workman is given a *Time Slip* on which he enters the number of hours devoted to each job and the amount of work done in the time. When paid by the hour, the mechanic uses the "Hours-time" column; if doing piece-work the time is recorded in the "Hours-piece" column.

In many factories a *Time Book* takes the place of the slip used in this particular factory.

The foreman initials the slip, and passes it to the Wages Clerk, who prepares separate :

(b) *Job Wages Cards* for each job or series, and for each workman engaged on it at a *piece-rate*. The detachable counterfoil at the foot of the card is given to the workman, authorizing him to claim a certain sum in wages in respect of that particular work done. Thus the workman knows exactly to what he is entitled, and will not dispute the matter when pay-day comes.

Where the men are paid on piece-work the wages are calculated both ways, per hour and per piece, and the workmen are usually paid on the highest result.

TIME SLIP.

Mechanic No.....

Name.....

Date.....

Job.	Hours. Time.	Hours. Piece.

Folio.....

PAY SHEET for week

No.	Name.	Rate.	Fri.	Sat.	Mon.	Tue.	Wed.	Thur.	Day Work.				Overtime 25%.						
									Hrs.	£	s.	d.	Hrs.	£	s.	d.			

(c) Efficiency in organization would not be possible without regular attendance by all people employed in the factory. The late arrival of one man may disorganize a gang of six or a dozen operatives engaged on the same series, and the number of machines being limited the work has to be apportioned and timed to pass from one machine to another with clockwork regularity. Indeed, delays may cause a dislocation of the work of the whole factory. For this reason late arrivals are usually penalised by a deduction of a number of hours' wages.

The registration of attendances is simplified by the use of an *Automatic Time Recorder*, on which each man registers his arrival and departure, the exact time being recorded by means of a clock. The total hours as shown on the time slips should of course agree with this automatic record.

There are several systems in use. In the factory in question each man is given a numbered *Time Card* which is kept, with the others, in one of two racks fixed to the wall on each side of the clock recorder. On entering the works in the morning and afternoon the workman takes his card from the "IN" rack, holds it in a slot in the machine, pulls a lever, and puts it on the "OUT" rack with the exact time indelibly printed in the proper space (see p. 144). On leaving, the same procedure is followed, the card being then transferred from the "IN" to the "OUT" rack.

(d) From the slips, cards and automatic Time Records the Wages Clerk prepares a *Wages A/c* for each man, showing the amount due to him at the end of the week.

ending.....19.....

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Overtime 50%.			Total.			Insur- ance Fund.		Sick Benefit.		Paid on A/c.			Deductions.						To pay.				
Hrs.			£	s.	d.	£	s.	d.	s.	d.	£	s.	d.	Defectives.		Delays.		Sundry.		£	s.	d.	
															s.	d.	s.	d.	s.	d.			

(e) The items from the Wages A/cs are copied on to the weekly *Pay Sheet*.

JOB COSTS.

(f) The expenditure directly incurred in the execution of each series is properly apportioned and recorded on *Job Costing Sheets*, each bearing its respective Job. No. with a description and statement of number of parts included in the series.

In the particular case the Direct Costs are divided under three main headings, three costing sheets completing the set for each job or series:

Sheet No. 1—Wages (see p. 141), gives the name of each workman engaged on the series, his earnings, and the total wage cost incurred.

Sheet No. 2—Material, records the cost of materials employed on each series, the amounts being taken from the invoices received from suppliers or vouchers from the stock-keeper.

Sheet No. 3—Direct Charges, shows the cost of Designs, Patterns, Special Tools and Jigs, Testing and Experimental Work, Losses through errors and defects, Patent Royalties, Special Journeys, Installation Expenses at customers' premises, and the cost of any work directly devoted to the job in hand, whether paid for outside or done on the premises.

Prime Cost and Oncost.—It is thus possible to establish with certainty the expenditure *directly* incurred in the execution

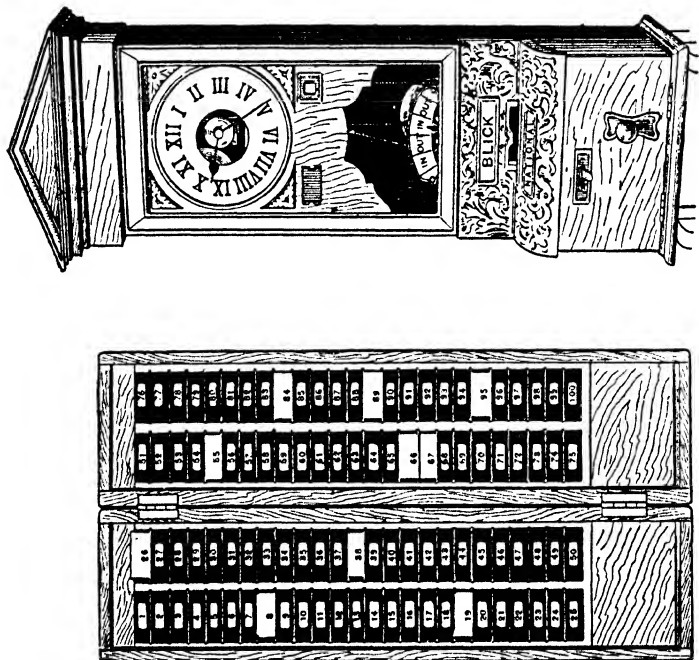


FIG. 9. AUTOMATIC TIME RECORDER.
(By permission of Blick Time Recording Devices.)

BLICK TIME RECORDING DEVICES						
No. 183		Name <i>Lorge Green</i>				
Week ending <i>9th July, 1920</i>						
DAY	IN	OUT	IN	OUT	TOTAL	
F	1 30	5 30	6 02	7 30	4 1/2	
A.M.						
P.M.						
S			8 02	12 31	4 1/2	
A.M.						
P.M.						
SUN						
A.M.	6 37	7 30	8 01	12 30	5 1/2	
P.M.						
M	1 32	5 30			4	
A.M.						
P.M.			8 11	12 30	3 1/2	
A.M.						
T	1 29	5 30	6 00	8 01	6	
A.M.						
P.M.						
W	1 32	5 30	8 00	12 30	4 1/2	
A.M.						
P.M.						
T	6 28	7 30	8 02	12 30	5 1/2	
A.M.						
P.M.	1 31	5 30			4	
Ordinary Time			1/4	3/4	12	
Overtime			1/4	1/4	6	
Total Wage			1/4	1/4	18	
Less Nat. Inact					3	
Amount Paid			1/4	1/4	17	

of each job or series of articles manufactured. The collection of the necessary figures to compile the **Job Costing Sheets**, Nos. 1, 2 and 3 referred to above, is only a matter of organization.

Expenditure devoted exclusively to the job in hand is known as "**Direct**" or **Prime Cost**; but the question of cost does not end there.

Allowance has to be made for factory rent, depreciation of machinery, fuel, power, lighting and heating of the works and planning department, stores, repairs and maintenance of equipment, salaries of works manager and officials, and *Indirect Wages*, viz. that part of the bill which cannot be charged to any one job in particular. Under the last heading may be mentioned the wages of foremen, storekeeper, tool-makers, stokers, etc., and men's time lost through temporary disorganization or devoted to shifting, repairing, cleaning, etc. All these expenses, though recorded separately, are grouped together for the purpose of costing, and called **Works Oncost**.

To this again is added **Office Oncost**, which includes administrative and office and selling costs, and all expenditure not directly incurred by the works department. Office Oncost corresponds exactly to the *establishment charges* of a trading concern.

Thus, whereas to the *Merchant Cost* means the price at which he buys goods (with the possible addition of carriage paid on their transport to his warehouse), for the Manufacturer the question of cost is not a simple one. The calculation includes :

<i>Prime Cost</i>	{	1. Direct Wages, 2. Material, 3. Direct Charges ;
<i>and</i>		
<i>Oncost</i>	{	4. Works Oncost, 5. Office Oncost.

Like the establishment charges of a trading business, Office Oncost is usually apportioned as a *percentage of the selling price* of the finished article (see p. 116).

There are several ways of apportioning Works Oncost, and each has its advantages. It may be calculated as a percentage of :

- (a) Direct Wages ;
- (b) Material ;
- (c) Direct Wages plus Material ; or
- (d) Direct Labour calculated in Hours.

In some factories works oncost is reckoned in two separate percentages, (e) one on direct wages and the other on material, the two being added together. And other considerations may affect the reckoning, as when, for example, (f) jobs requiring the use of heavy and expensive or powerful machines, or taking up much space in the erecting shops, which should be charged with a higher percentage of the total indirect factory charges than other work.

In some cases Works and Office Oncost are not separated at all.

As to how much per cent. should be added to direct wages, material, etc. for works oncost, that is a matter for judgment and experience, guided by the figures shown in the general works accounts.

(g) In the factory referred to above, short analyses of works and office costs are extracted from the works and commercial accounts each fortnight, and placed in concise form on cards arranged in a drawer like a *card index*.

Assuming the grand totals for the last few fortnights to make an average of roughly :

Wages	-	-	-	(say)	£2,000
Material	-	-	-	„	£1,000
Direct Charges	-	-	-	„	£500
Works Oncost	-	-	-	„	£500
Office Oncost	-	-	-	„	£200
					£4,200

then the percentage to be added on wages would be 25%, or on material 50%, or on wages *plus* material, one-sixth. If the works oncost is reckoned as a percentage of direct wages, and (say) £72 has been spent in wages for one particular job, that job must be debited with 25% of £72 = £18 for works oncost.

Final Cost Analysis.—It cannot be too strongly emphasized that the example of factory costing here shown is but very brief and shorn of much detail which would be necessary to convey a really accurate idea of the system. The description is given merely to show the main principles.

(h) The necessary elements of prime and oncost being available, the cost clerk proceeds to record the cost of each job or series in a *Final Cost Analysis*.

(i) From this analysis and other figures that are given to him, the Cost Clerk enters separate records for each series on loose *Job Cards*, which are then arranged in a drawer in alphabetical order (Carburettors under "C," Sparking Plugs under "S," etc.) for future reference when an estimate is required for similar goods.

Estimates.—Thus, whenever inquiries are received for work that has been done before, the Cost Records may be referred to, and a new estimate prepared, *based on previous cost, but adjusted to present rates* for wages, materials and oncost, and subject to a *déduction*, may be, for special designs, patterns, jigs and experimental work, where such have already been charged against previous jobs.

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ANALYSIS OF

Job. Nos.	Quantities.	Description.	Date commenced.	Drawing.	Patterns.

JOB CARD.

Quantity.....

Date.....19..... Description.....

	Previous Cost.	New Estimate.	Present Cost.	Average per Unit.
Designs - - - -				
Patterns - - - -				
Jigs and Tools - - - -				
Tests - - - -				
Raw Material - - - -				
Stores - - - -				
Direct Wages - - - -				
Contract Work Outside - - - -				
Works Oncost - - - -				
Office Oncost - - - -				
Sundry - - - -				
Cost - - - -				
Normal Profit - - - -				
Normal Selling Price - - - -				
Actual Selling Price - - - -				
Actual Profit - - - -				

CHAPTER XIV.

INWARD AND OUTWARD LETTERS.

Delivery of Letters, etc.—When the postman delivers Registered letters or parcels he requires the receiver to sign a Delivery Sheet. Before a clean signature is given, the packet should be examined, and if it is broken or damaged the postman's attention should be drawn to the fact, and a remark put on the sheet.

Should any of the contents of a Registered or Unregistered packet be damaged or missing, the wrapper should be preserved so that it may be produced as evidence if a claim has to be made on the post office.

Letters may be called for at the post office before the usual time of delivery on payment of a *sorting fee* of 3d. in each case, which must be paid whether the correspondence is found or not.

No charge is made for pre-delivery to holders of *Private Boxes* or persons entitled to use the *Poste Restante*. A Private Box, into which correspondence is sorted for delivery on application, may be rented.

A *Private Bag*, in which correspondence is delivered either by Private Messenger or in rural districts by the post office, may be made use of at any post office from which delivery is made, but the bags, which must be provided with a lock, are not supplied by the post office. The bag is locked by the post office before being sent out. It may be used also for posting correspondence. (See *P.O. Guide*.)

Inward Correspondence.—In large businesses a special department of the Counting House is reserved for corre-

spondence. It is usually staffed with shorthand-typists working under the supervision of at least one Correspondence Clerk capable of dealing with many matters himself.

As soon as the mail arrives, one or two clerks are entrusted to (1) open the letters and check the enclosures. It is convenient to mark on the letter itself the number of enclosures found with it, and amount if money is enclosed, to enable the person answering the letter to notify the sender if anything is missing. The letters are then passed to another clerk to be (2) date-stamped and sorted into baskets. All matters that can be dealt with in the correspondence department are put on one side, while remittances and receipts are put in the cashier's basket, quotations or inquiries requiring special attention to the various buyers' baskets, and so on. The baskets are then distributed.

In some organizations shorthand-typists are sent round from the correspondence department to the various managers' rooms to take down the letters in shorthand, returning to the correspondence department to type them out. In other businesses the letters received are returned to the correspondence department with the buyers' notes marked in pencil, from which the correspondence clerks may dictate suitable replies, or the buyers may go to the correspondence department to dictate.

In any case it is necessary to adopt a definite system to ensure that every letter received is properly attended to. Separate baskets should be reserved for inward letters (*a*) not yet dealt with or only partly answered, (*b*) in abeyance, (*c*) done with, and for outward letters (*d*) to be copied.

As each reply is dictated, the original letter received is handed to the typist, who returns it, together with the typed reply, to the dictator. The latter will then initial or sign the reply and place it in the copying basket *d* to be taken out into the general office, approved if necessary by another official, copied and packed up for the post.

The original letter is then consigned to one of the baskets named :

(1) If any points have not yet been dealt with, it goes back into the first basket *a*.

(2) If it has merely been acknowledged, a full reply having been promised in a few days, it is marked (say) "Ackn. 29th" and put in the abeyance basket *b*.

(3) Letters requiring no reply or completely dealt with are put in the "done-with" basket *c* to be filed away.

Register of Inward Letters and Telegrams.—In some, though by no means the majority, of offices the inward letters are entered, either before or after sorting, into a register arranged more or less as follows :

INWARD CORRESPONDENCE BOOK.

Ref. No.	Date.	Time.	Name.	Town.	Subject.	Handed to	Remarks.
001634	1921 Feb. 18	9 a.m.	Best	N'castle	Inqy. for Gas Engr.	G. A.	Ackn. 19th Ansd. 21st
001635	„ „	„	Halley	Cromer	Remittance	C. H.	Ansd. 19th

Where such a register is used, it is convenient to have a **date-stamp** arranged with a space for the Register No. and date acknowledged or answered in addition to the movable received date :

No. 001634
19 Feb. 21
Ackn. 19th Ansd. 21st

As the letters are handed out, the person receiving each basket initials the column of the register. Some inward

letter books are made with interleaved carbon paper and detachable sheets, the latter being passed round with the letter baskets. The department managers then sign for the whole basketful as shown on the list.

The typist puts the ref. no. on each outward letter, and as each is copied the remarks column of the register is entered up. Blank spaces in the remarks column serve as a reminder that the letters in question have not been answered.

A **Cash Inwards Book** may also be employed with advantage in which to enter remittances received, and thus to guard against any cheques etc. being mislaid.

Copying.—Correspondence received and copies of letters dispatched must be carefully preserved. This is necessary for two purposes :

- (a) Subsequent reference in the office.
- (b) As evidence of contract, *e.g.* prices quoted, guarantees of quality, delivery, etc., agreed to.

Desiderata.—For ready reference it is desirable to *file* all inward letters from each correspondent together with the copies of those sent in reply. By arranging all letters to and from each customer in order of date, the correspondence forms a continuous narrative. Overseas correspondence cannot be filed in this way, because many more letters may be sent before the reply to any one of them arrives.

As legal evidence of contract the best copies are those which are actual impressions—press-copies, not carbon duplicates—showing signature and all ; and they should be *unalterable*.

Manifold Books.—For commercial travellers' use the Manifold Book is the most portable and convenient copying appliance. Numbered tissue sheets are interleaved with white letter paper perforated in the margin, a carbon sheet being inserted between and a stiff card underneath. The writing is done with an indelible pencil on the tissue page, and the perforated duplicate is torn out to post.

Manifold Books are often used for *Orders*, the no. of the page serving as Order No., and for other purposes in the office.

Press Copy Books consist of white tissue or buff paper, each leaf being numbered. The letters are written with copying ink, or if typed a copying ribbon is used.

Each document to be copied is placed *behind* a leaf of the book, and a damp rag is spread in front of it. Waterproof cards are put in front of the rag or damping sheet and behind the document to be copied, to keep the rest of the book dry.

The book is then screwed down in a **Copying Press**, when the pressure causes the moisture to soak through the tissue leaves and absorb the ink from the letters.

Half-a-dozen letters may be copied simultaneously, and if more than one copy of the same letter is desired, loose tissue sheets may be inserted under the damp rag.

Note.—Any form of letter book has the advantage of containing authentic copies, signature and all, which (if no leaves are torn out) provides good evidence of what has been written. But for large correspondence it is quite unsuitable, as the copies appear in order of date, not alphabetically; so the book has to be *indexed*.

LETTER BOOK INDEX.

Brown, J. & Sons	Coventry	14, 17, 21, 31	B
Baxter & Co.	Newcastle	4, 6, 11, 18, 19, 40	
Boulders, Ltd.	Exeter	8	

To save time in looking for the copy of a particular letter out of many addressed to the same firm, the pages are **cross-referenced** in blue pencil, thus :

CROSS REFERENCES.

On page 14—AG4-198/17. (This shows that a copy of the last letter to J. Brown & Sons may be found on p. 198 of the *last* letter-book (AG4); the next letter was copied on p. 17 of *this* book.)

On page 17—14/21.

On page 21—17/31.

On page 31—21/

Loose Carbon Copies.—Where the correspondence is type-written, carbon copies possess the advantage that they can

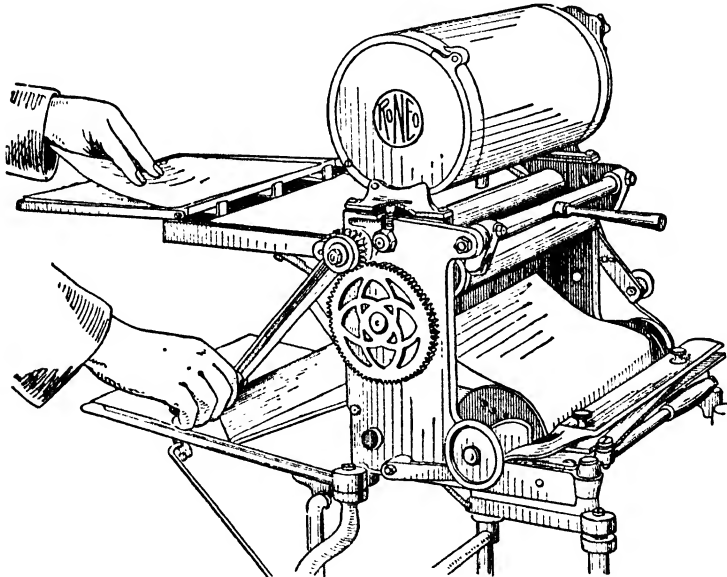


FIG. 10.—COPYING MACHINE.

(By kind permission of Roneo Ltd., Roneo Building, Holborn, E.C. 1.)

be filed alphabetically with letters received. Erasures, however, if not done very carefully, smudge the copy, and may make it unreadable. In some offices the copies are initialed

by the person signing the letters, but in any case carbon copies can be easily altered, which is a disadvantage.

Copying Machines.—Where many letters have to be copied, much time and labour is saved by the use of a Rotary Copying Machine (Fig. 10).

As the operator turns the handle, the letters are automatically pushed off the tray between rollers, which squeeze them one by one against a paper band. The band is treated chemically in such a way that it remains *moist*, and receives an impression of each letter as it passes. On leaving the rollers the band passes round a drum. When 20 or 30 letters have been copied, the operator pulls a lever which presses a knife right through the drum, cutting the paper roll into separate copies.

Quite apart from the question of time and labour-saving, the rotary machine is the most practical copying device. The copies are actual impressions of the letters sent, and being loose they can be filed together with letters received.



FIG. 11.

Dispatch.—As each letter is copied it should be marked with a rubber stamp (Fig. 11) and any documents to be sent under separate cover should be carefully gathered together.

While one clerk weighs and stamps the packets, another enters them in the Postage Book.

The Postage Book shown here is worked on what is known as the **Imprest System**. Supposing that the stamps are checked once a week, the postage clerk adds up to ascertain how much he has spent during the week—in this case £4 9s. 5d.—and asks the Cashier for exactly this amount, which he then enters in red ink in the left hand column. The balance is then brought up to what it was before—£5—which is called the “*imprest*.” **Petty Cash Books** are very often worked on the *imprest* system.

The Postage Book serves not only as an account of money spent in stamps: it is also a record of each day's outgoing

POSTAGE BOOK.

£	s.	d.	Date.	Name.	Address.	Time.	Packet.	Weight.	£	s.	d.	Posted by	Remarks.
			1921.										
5	-	-	Oct. 23	Forward					4	7	7		
			" "	Gould	B'ham	3 p.m.	<i>l.</i>				2		
			" "	Marriott	Hull	3.30	<i>tel.</i>	14 wds.			10		
			" "	"	"	5 p.m.	<i>l.</i>				2		
			" "	Partridge	E.C. 3.	" "	<i>cat.</i>	7 oz.			4		
4	9	5	" "	Picard	Paris	" "	<i>l.</i>	2 oz.			4		
			" "	To Cash					5	-	-		
			" "	By Bal.	c/d.								
£9	9	5							£9	9	5		

5 - - " 25 To Bal. b/d.

post. In a few offices the Postage Book, Cash Inwards Book and Inward Correspondence Register are combined in one volume, the left-hand page being reserved for inward and the right-hand page for outward correspondence.

The Post Office Guide.—Needless to say, the post clerk must thoroughly familiarize himself with the Post Office Guide. All postal rates should be learnt by heart, except the foreign and colonial parcels and telegram charges, a complete list of which is contained in the guide. As regards the supplemental services and special postal facilities, the main thing is to know that they exist. If they are needed all the necessary details can be gleaned from the guide in a few minutes.

EXERCISE 14.

1. If it were your particular duty to receive your firm's incoming correspondence and parcels, what would you consider such duty to consist of? What is the use of private post bags and private boxes?

2. Describe a good system of dealing with correspondence in a large office, from arrival of the letters until their final disposition. (C.I.S.Int.)

3. Mention briefly the various ways of duplicating outward correspondence for office reference purposes, and state which you recommend and why. (S.A.cc.II.)

4. Explain why and how a letter-copying book is indexed. (U.E.I.cc.Elem.)

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5. How is the receipt or despatch of the following sometimes recorded in a business office :

- (a) Inward Correspondence.
- (b) Outward Correspondence.
- (c) Parcels despatched through the P.O.

Suggest a suitable ruling for each of these three records, and show two specimen entries in each case. (S.A.cc.II.)

6. Explain carefully the method of keeping Petty Cash known as the "Imprest System," and give the ruling you recommend for a petty cash book. (U.E.I.cc.Int.)

7. What is the postage from London on the following :

- (a) 6-oz. letter to Boston (Mass.)
- (b) 1½-oz. letter to Madrid.
- (c) 4-lb. parcel to Amsterdam.
- (d) 3½-lb. parcel to Shanghai.
- (e) 1¼-oz. letter to Melbourne.
- (f) 2-oz. letter to Kobe. (S.A.cc.II.)

8. What is meant by (a) Poste Restante, (b) Late-fee letter, (c) Registration of letters, and (d) Express Delivery ? (U.E.I.cc.Elem.)

9. What steps should be taken in case of non-delivery of a registered letter ? (U.E.I.cc.Int.)

10. (1) What is the object of registering letters, and what is the procedure when (a) making-up, and (b) posting a registered letter ? (2) Name three ways in which delivery of letters by the Post Office may be expedited. (3) Is there any way of sending an inland letter other than through the Post Office ? If so, state what the sender has to do. (S.A.cc.II.)

(See *P.O. Guide* : Express Services—Railway Letters ; and *Note* : The transmission of letters is the *monopoly* of the Post Office. It is illegal for anyone else to do such business without authority.)

CHAPTER XV.

SALESMANSHIP.

The Sales Manager.—In most large trading or manufacturing firms a Sales Manager is appointed to organize the selling side of the business. In the stores and wholesale warehouses buying and selling are combined to a certain extent, in that the buyer to each department is usually head of the department. But the control of departmental and outside salesmen is exercised in most cases by a Sales Manager.

Salesmanship may be said to have three objects, each of which would be easy enough to attain singly, but is difficult to combine with the others. It is the salesman's business to

1. Sell profitably ;
2. Increase Sales ;
3. Study the markets and find out what is wanted.

Moreover, though he may be successful in all these activities, the salesman defeats his own purpose if he does not organize the selling side of the business with shrewdness and economy, for there is little satisfaction in profits if they are allowed to be extinguished by excessive establishment charges.

Selling Profitably.—The function of the salesman and his staff is to secure a profitable and regular outlet for his firm's goods.

Mere price-cutting is not salesmanship. If goods are sold at cost price, they are sold at a loss, since establishment charges continue whatever the sales may be. If much time

and trouble have to be sacrificed to effect each sale (as in the case of machines for which there is only a limited demand, and which have to be sent out on trial with a fitter in attendance or kept in repair for a period of guarantee after sale), the price must be calculated accordingly.

Price is not the salesman's only argument. Indeed, it is good salesmanship that helps in the end to reduce prices, by achieving good results at moderate expense.

A good salesman is as much concerned with his firm's ability to execute orders as with the customer's willingness to buy. In a merchant's business, buyers must be consulted as to the prospect of sufficient supplies, and a manufacturer's salesman has to avoid making promises that the firm cannot fulfil. If the works department is already fully supplied with orders, a rash promise of delivery may mean interrupting other orders, and perhaps disorganizing the whole factory in order to get machines free to proceed with the new job under a penalty for non-delivery. Promising early delivery may get the order, but if it overburdens the works department, dislocation and loss may result instead of profit.

It is the salesman's business also to avoid so far as possible onerous conditions of contract, such as penalties for delay in delivery. Also if guarantees are given, the salesman must be quite sure that he knows all the facts, and is not mulcting his firm for a breach of contract.

In one case within the writer's experience an enterprising salesman sold an internal combustion engine for use in South Africa on a plateau 5000 ft. above sea-level. But he did not realise at the time that such engines lose much of their power when working in a rare atmosphere, and that the usual horse-power that was guaranteed at the time of the sale was quite impossible of fulfilment at such an altitude. The engine was rejected, and had to be sold locally at a loss.

Publicity.—There are many ways by which a firm's wares may be brought to the notice of the public. The amount of

advantage to be derived from the methods at the salesman's disposal depends upon his initiative and judgment. Enquiries may be obtained by means of :

1. Advertisements in the daily press, magazines, trade journals, trade directories and buyers' guides.
2. Replying to " wanted " advertisements.
3. Hoardings and Illuminated Signs.
4. Tram, 'Bus, Tube and Railway Placards and Transparencies.
5. Cinematograph and Theatre screen and programme notices.
6. Circular letters, catalogues, photos, calendars, house journals, etc.
7. Lectures and press contributions by members of the firm and staff—" Puffs."
8. Exhibitions and Public Trials.
9. Travellers.
10. Branches and Agents.

Advertising.—Some forms of enterprise could not exist without advertising. For a patent medicine business, for example, or a quack who offers to teach " shorthand in a week by postal tuition," " French in a month without a master," or to train the " mind and memory " of the gullible for £5 to earn £5000 a year, etc., advertising is a necessity, and sales vary in direct proportion to the amount spent in publicity. The same applies to such things as toilet soap, toothpaste, cigarettes, etc., which are in competition with dozens of other brands which the public would find equally good if they were not reminded every day that they could not live without the " So-and-so " brand ! Advertising in such cases is a *permanent* expense, and ranks first among all other establishment charges.

But where the article offered is of sufficient merit to induce customers to come again, a short advertising campaign may

lead to a life-long demand, with comparatively little further support in the form of publicity. Particularly is this the case where the goodwill of a business is secured by means of a trade-mark.

Advertising must always be considered, in part at least, as an overhead charge against immediate profits ; but it follows from what has been said above that, in some cases, expenditure in a publicity campaign may be regarded as a *preliminary expense* that will pave the way to future business.

The Economy of Advertising.—Naturally the cost of advertising, like all other establishment charges, is included in the price. The customer pays for it—and the money he pays contributes also towards the upkeep of the seller's family—but the customer is only concerned with getting good quality for a low price. By increasing sales, advertising diminishes the cost of production per unit and money spent in good salesmanship may be as productive of economy as money invested in a new machine. Other things being equal, a firm which refused to advertise could not compete with other firms who did, although the biggest weapons in the fight for business are quality and price.

“ Keying ” and Renewing Advertisements.—Firms who have occasion to advertise in many journals may keep a scrap book, in which to paste a cutting of each advertisement, the pages being headed with the names of the papers and arranged in alphabetical order. Where advertisements have to be illustrated, another scrap book is kept with impressions from every electro-block and a ref. number to the cabinet in which it may be found. An electro register is also kept to record electros sent out and returned.

The question of renewal naturally depends upon results—where results can be gauged, which is not always. If goods are for sale in the shops, it is quite impossible to record the number of purchases induced by each advertisement ; the

most that can be done is to compare sales with advertising expenditure in certain districts.

But where inquiries and orders are received by post, each advertisement may be "keyed" in such a way that replies will reveal the identity of the advertisements from which they resulted.

(a) Some advertisers ask the reader to mention the name of the paper; but this request is usually ignored.

(b) Others offer samples or catalogues on condition that the reader cuts out a coupon appearing in the advertisement. The objection to this method is that readers may object to spoiling their papers or magazines.

(c) A commoner method is to make each advertisement series differ from the others by some peculiarity in the address. For instance, the address given in the *Daily Mail* might be "Box 21," while readers of the *Daily News* are asked to address letters to "Box 22." Or the key might be "M Dept." and "N Dept."

Results are then recorded on a Card Index (Figs. 12 and 13):

BACK

Waste Trades Review								
Address:								
Date	Space	Begun	Series	Expires	Charge	Less %	Paid	

FIG. 12.

The same index card can be used as a record of space and cost, and as a reminder of the date when each series of advertisements expires, thus :

FRONT

DATE	INQUIRY	RESULT

○

FIG. 13.

The projections facilitate reference. The above advertisement falling due for renewal in July, all tabs except that marked "July" are cut off. The cards are arranged alphabetically in the drawer, but all those requiring attention in January, February, etc., may be readily sorted out by the position of the tabs, which form twelve projecting rows on the top of the cards, one for each month.

"Wanted" Advertisements.—It is noticeable that under normal conditions of supply and demand sellers usually have to seek out buyers—that advertisers, for instance, are after money, not goods. Users of machinery and raw materials or second-hand equipment occasionally advertise their wants in the trade journals, but it is mainly government and municipal authorities that resort to advertising as a means of obtaining tenders. For example, see opposite page.

In private undertakings where buyers are keen judges of qualities and prices, and are familiar with the best sources of supply, "wanted" advertisements are seldom resorted to.

Circulars are effective in certain cases, provided they are addressed only to those firms who are really likely to take an effective interest.

But circulars sent broadcast are rarely worth in results the postage and paper expended on them. The same applies to

handbills distributed from door to door—a particularly wasteful form of publicity—and free samples.

CITY OF COPENHAGEN.

Turbo-Dynamo, &c.

THE MUNICIPALITY OF COPENHAGEN require Tenders for the delivery of one 4,000-KW. Steam Turbine Generator with Condensing Plant.

Specifications and Conditions of Contract may be had on application to Elektrisk Station, Gothersgade No. 30, Kopenhagen K. on payment of 30 kr., which sum will be refunded on return of the Specification accompanied with the Tender.

Tenders must be sent to "Direktoren for Kobenhavns Belysningsvaesen, Raadhuset, Kobenhavn B.," not later than 12 o'clock noon, January 16th, 1921.

Kobenhavns Belysningsvaesen,

December, 1920.

1221

In any case circular letters should be typewritten or printed in facsimile (see p. 188), for printed matter quickly finds its way into the "w.p.b."

The Salesman.—The character and ability of both indoor and outdoor salesmen is a matter of vital importance to any firm. The character of the firm is represented in the personality of its travellers and assistants more than through its correspondence.

A man who can show good past selling records, and has a good character, appearance, politeness, shrewdness, and—not least in importance—a retentive memory, may command a fare share of the profits which he will undoubtedly bring to any good firm who likes to engage him.

But the necessary qualifications depend largely upon the kind of work the traveller is expected to do. Selling to people

who know they need the goods, or "nursing" regular customers and getting repeat orders from them, is a task requiring less initiative and knowledge than pioneering work, which consists of getting new customers all the time. For example, travelling for a new office appliance, machine tools, mining and railway plant, tractors, etc., which are not in constant demand by the same customer. To travel successfully for such things is work for a man of more than ordinary ability.

In any case, selling is a disheartening, chilly business, and a good sales manager exerts a healthy influence around him, and gives his subordinates more encouragement than censure.

Personality is essential to good salesmanship, but if it is used to induce people to buy what they do not want, it may do far more harm than good. In any useful business, the salesman's duty is to *create custom*, and that can only be done by seeing that customers get satisfaction.

Finally, the salesman must be quick in action, and keen to appreciate opportunities. Where price is a real obstacle, and competitors have offered lower, a keen traveller may be able to persuade his buyer to wait while he takes a taxi or wires to the office for authority to make a compromise. The smart salesman loses no orders through lack of information or promptitude, and will not spoil an order or commit his firm to impossibilities through failure to inquire into his customer's peculiar requirements.

Training on the technical side is as important a preliminary to salesmanship as training in the art of selling. The salesmen should be familiar with processes of manufacture, and should be in a position to compare processes and materials, and answer most ordinary technical or commercial questions regarding the goods he has to sell. Moreover, knowledge is of little use if the salesman is not lucid and useful in his explanations. Buyers who see many travellers in the day have no time to waste.

A close study of cost and of competitive makes and qualities is essential to efficient salesmanship, but price is not the salesman's only argument.

For example: a retail customer is in most cases more interested to know how he can sell an article than whether it is the best or cheapest. Ingenuity in packing, attractive labels and show-cards, and advertisements—particularly those which mention the names of sellers—enable the retailer to *sell*, and when he knows that it is not difficult to induce him to buy and come again. Some firms go to the extent of organising selling campaigns on the retailers' premises—serving cups of cocoa or meat extract gratuitously to customers, or putting patent gas cookers on show in full working order, etc.—an arrangement which is perhaps of more advantage to the retailer than the firm at whose expense it is carried out.

Adjustment of machines, tuning of pianos, etc., after delivery are valuable means of maintaining contact with customers and obtaining further business by introduction, and an offer of gratuitous expert advice (*e.g.* regarding a prospective customer's factory equipment) shows an interest in his welfare which is not likely to pass unrewarded.

Expenses.—Travellers are either (*a*) allowed a fixed allowance for travelling, or (*b*) permitted to spend what they consider necessary—subject of course to the sales manager's criticism when they hand in their account. The disadvantage of the fixed allowance is the tendency it creates to economising by shirking visits, or putting up at cheap hotels, and giving the firm a reputation for stinginess or poverty. It is the traveller's duty to convey a favourable impression of his firm, and if misunderstandings have arisen in correspondence or otherwise, the visit of a representative should put matters back on a friendly footing. The personal element is of the greatest importance, and bad manners (*e.g.* in disparaging competitors) and intractability of character are faults sufficient to condemn a traveller absolutely.

Commission.—Most travellers are paid a small fixed salary in addition to their commission on orders. In some firms the commission is only awarded on orders actually “brought home,” but a fairer and more usual method is to allocate to each traveller a certain *territory*, and to guarantee him commission on all orders received from that territory, whether he brings them home or not.

Many firms again employ travellers on commission alone, and on that basis the traveller usually pays his own expenses, and acts for more than one firm at the same time—though not for competitors, of course.

Reports.—Reports of all travellers’ visits should be recorded on a card index kept in the office, and the same cards can be used to record business done, travellers’ impressions, and status reports for the use of the credit department.

The cards should be arranged *geographically*, so that travellers leaving for the Birmingham district, Manchester, etc., may take away a section of the card index with them for reference.

Records.—Where many travellers are employed, comparative records are kept of sales, commission, expenses and salary appertaining to each traveller and the district allocated to him.

Trade-Marks.—Money spent in advertising and travelling is productive of more permanent results when the goodwill of the business is secured by means of a Trade-Mark. Wholesalers as well as manufacturers often sell under a trade mark, employing an expert to examine and maintain the quality of the goods sold under it. Where the quality of the goods is really in itself sufficient to induce customers to repeat their orders, the trade mark is a pillar of great strength and support to its proprietors. But a mark may do more harm than good if the article has no merit, in which case it will sell again only if its identity is concealed.

Many merchants in ordering goods stipulate that no name or brand shall be shown on the goods—so that they may benefit by good quality, and be free to profit by the makers' excellence of work by getting further orders and then pitting one maker against another to buy cheaper. The only way for a manufacturer to protect himself properly is to register a trade mark and *advertise* it. Opposition will be strong, and he may incur a year or two of reduced output and heavy expense, but once his goods are known and appreciated wholesalers will be obliged to go to him in order to fulfil their customers' express instructions. Selling expenses in the future are greatly reduced, and merchants who persistently boycott branded goods are eventually eliminated from the chain of distribution.

Creating Markets.—Theoretically the wholesaler should be guided in his purchases by his retail customers' requirements. The retailer is the man who is in direct touch with the public, and he ought to know what to sell. But the wholesaler has to foresee what the demand will be, and his stock, like that of the retailer, is purchased mainly in anticipation of demand. Very frequently new ideas spring from the wholesaler, who places his contracts with manufacturers long before the goods are needed, and it is well-known that fashions in dresses, millinery, boots and shoes are fixed by the large dealers a year or more in advance.

An important part of the merchant's work is to glean information as to what sells in different neighbourhoods, but he ought at the same time to be able to take the initiative, not merely persuading buyers to favour him with an order, but showing them how they themselves can make a profit out of the goods they are offered for sale.

“Follow-up.”—When a firm is sufficiently interested to make a first enquiry it is probably worth the seller's while to “follow-up.” Some sort of mechanism should exist in every Sales Department to enable the salesmen to keep all enquiries under close supervision, and to prevent as far as possible any

loss of business through missing appointments or otherwise failing to keep in touch with likely customers. There are two different kinds of "follow-up" systems :

(1) The first is used for following up inquiries coming in by mail. A glance at the illustration (Fig. 14) will show how

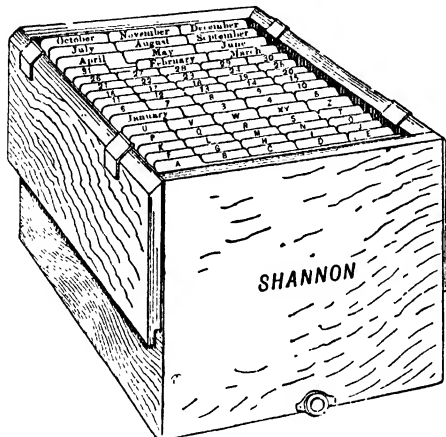


FIG. 14.—" FOLLOW-UP " FILE.

simple is the apparatus, which consists of a filing case or drawer containing two sets of Vertical Guides. The front set of guides are labelled alphabetically, and the back set bear tabs for months and days.

As each incoming enquiry is answered, it is filed in the alphabetical section of the follow-up. The copy of the reply is then placed under the date on which the salesman intends to take up the matter again, and that date is marked on the inquirer's letter, so that at any time, should an order be received or any question arise, the correspondence can be easily found. When the day arrives for the enquiry to be followed-up, the correspondence is removed from the follow-up system, and the order records are consulted to see whether an order has come through or not.

(2) The other system serves as an automatic reminder of

appointments, etc., which a salesman may have made in order to follow-up enquiries which he has on hand. The system may conveniently take the form of a Card Index arranged in geographical sections. The cards in each section being arranged alphabetically, the dates to be remembered are shown by means of a movable Reminder Clip or "Tickler," as shown in the illustration (Fig. 15).

Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
10 20 31	10 20 29	10 20 31	10 20 29	10 20 31	10 20 30	10 20 31	10 20	10 20 30	10 20 31	10 20 30	10 20 31
<i>Shalecliffe Silkstone Colliery Ltd.</i>											
<i>Bankersley, Nr. Barnsley</i>											
<div style="display: flex; justify-content: space-between;"> <div style="width: 15%;"> 192 Apr 24 May 11 </div> <div style="width: 85%;"> <i>Hammer Drill Circular</i> <i>Saw Mr. Harriott. New set of drills reqd.</i> <i>towards end of Jan. Aug in September</i> <i>Interested in small 47^m/m type only</i> </div> </div>											

FIG. 15.—"FOLLOW-UP" CARD RECORD.

Branches.—Whereas the trade of this country—both home and foreign—centres mainly in the big seaboard towns, most manufactories are situated in the provinces. In order to secure better contact with the commercial world, some makers set up branch offices or agencies in London, Manchester, etc., from which business may be more promptly negotiated with the merchant and export houses. In some cases the branch includes a warehouse or show-room.

Comparative Records of Weekly or Monthly Sales.—From the statistics of sales in each department and in each class of goods, progress can be effectively illustrated by means of graphs (Fig. 16) :

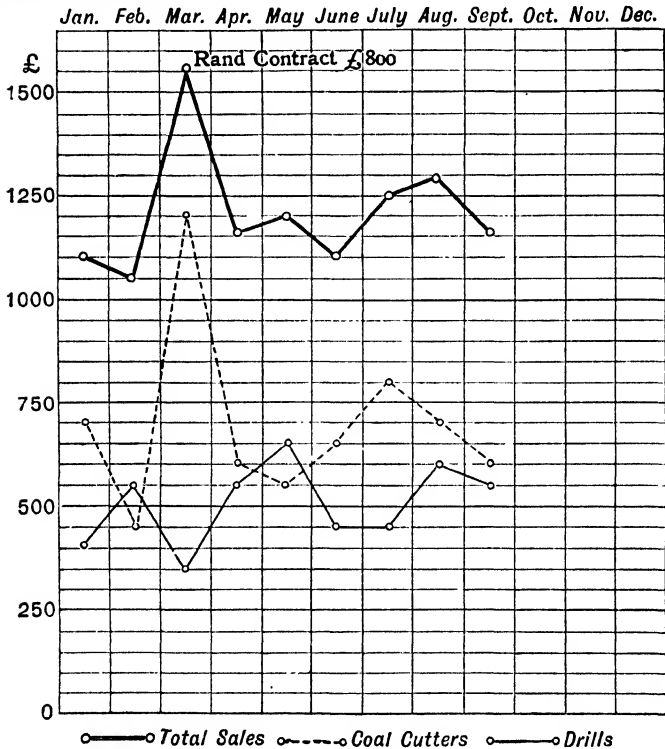


FIG. 16.—SALES GRAPH.

EXERCISE 15.

1. What is the difference between procuring orders and salesmanship ? (S.A.tpc.II.)
2. What are the various ways in which goods are brought to the notice of a prospective purchaser ? (U.L.C.tpc.5.)

3. What is Goodwill, and how is it affected by (a) Advertising ; (b) Management ? (S.A.tpc.III.)
4. Who, in the long run, pays for Advertising ? (S.A.tpc.III.)
5. What do you understand by "keying" advertisements ?
6. What purposes are served by Advertising, in the case of (a) a departmental store, (b) a manufacturer, (c) a railway company ? (S.A.tpc.II.)
7. Many manufacturers in the Midlands, and elsewhere, have London agents. What are the duties of these agents, and what purposes do they serve ? (S.A.tpc.II.)
8. It has been said that the trader who holds a stock of goods does so in anticipation of a demand. How far is this statement true, and what are the advantages and dangers attending this course ? (S.A.tpc.II.)
9. Suppose that you are putting on the market a new make of Fountain Pen which has desirable features not possessed by any existing pen. Draft a trade circular calculated to bring you orders for your pen.
N.B.—The candidate is to exercise his own understanding as to what details he gives in the circular, the objects of which are to satisfy the customer that the pen has peculiar merits, great selling powers, and that the profit to be derived from its sale is large. (S.A.cc.III.)
10. What are the duties of a Sales Manager ? (S.A.tpc.II.)

CHAPTER XVI.

OFFICE APPLIANCES. FILING AND INDEXING.

Apparatus for Outward Mail.—In large concerns, where the daily correspondence amounts to hundreds of letters, the

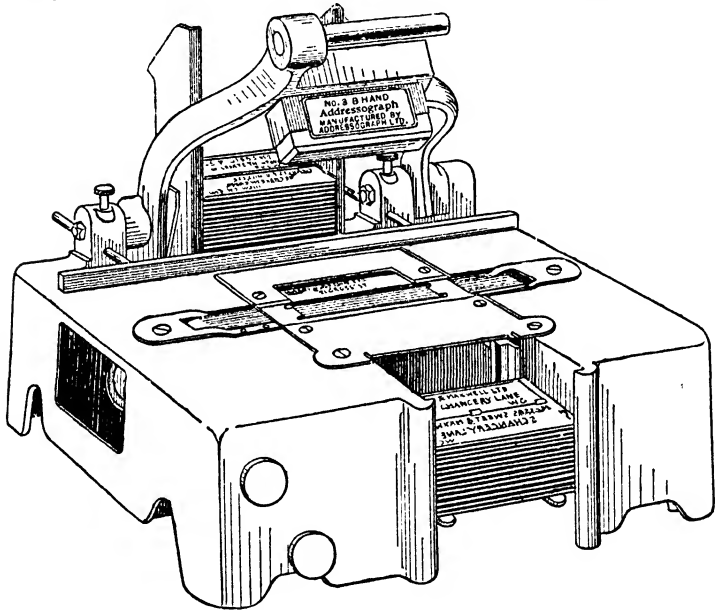


FIG. 17.—ADDRESSOGRAPH.
(By permission of Addressograph, Ltd.)

packing-up of the outward mail inevitably puts a strain on the correspondence department at the end of the day. Most of the letters being dictated in the morning and typed and signed in the early afternoon, the bulk of the copying and making-up commences at about 4 o'clock.

The rotary copier is a great time-saver, and in many offices the tedious work of addressing envelopes is assisted by the use of outlook envelopes, or the typists are instructed to prepare envelopes for each letter they write. But if the amount of work is sufficient to justify expenditure on machines, apparatus may be obtained for (1) Dictating Letters; (2) Copying Letters; (3) Folding Letters; (4) Addressing Envelopes; (5) Sealing Envelopes; and (6) Stamping.

The Dictaphone enables a manager to dictate letters at any moment without interrupting the work of the typist, and to cease dictating to attend to other business without keeping the typist waiting.

The Addressograph.—The names and addresses of regular correspondents are cut or embossed (two systems are in use)

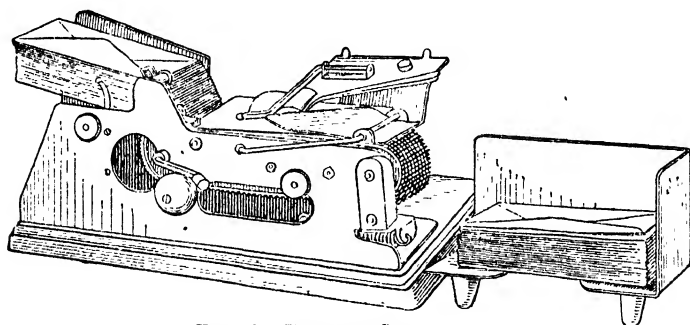


FIG. 18.—ENVELOPE SEALER.

(By permission of Messrs. Vick, Ashworth & Co.)

on metal plates, which may be prepared to order by the makers or done in the office in a special machine supplied for the purpose. The address plates are kept in a long drawer arranged in alphabetical order. The plates are transferred from the drawer to the magazine at the back of the machine (Fig. 17), and each swing of the lever slips out one of the plates, pushes it on to an inking ribbon placed over the envelope, ejects the plate down the front of the machine and brings the next one into

position. The envelopes are fed into the machine by hand. By the depression of another lever, addresses that are not wanted may be slipped straight through without printing.

Addressographs are made to work by hand, pedal or electric motor.

Old Methods of Filing.—Perhaps the oldest apparatus for preserving correspondence and business documents is the Spike File (Fig. 19). In principle all modern filing systems are really modifications or improvements of the spike file.

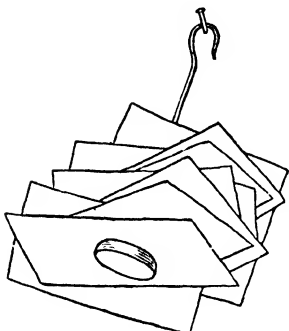


FIG. 19.—SPIKE FILE.

Note.—In its original form the spike file is still used for keeping papers which do not require careful preservation, such as advice notes, packing instructions or messages received in the forwarding department, and for tradesmen's bills, etc.

Another method is that known as Pigeon-Holing. The filing cabinet (Fig. 20) consists of a number of compartments or "pigeon-holes" labelled alphabetically. Letters received from each customer are folded and marked or "docketed" at the back with the name, date, etc., and tied together with a ribbon in the order in which they have been received.

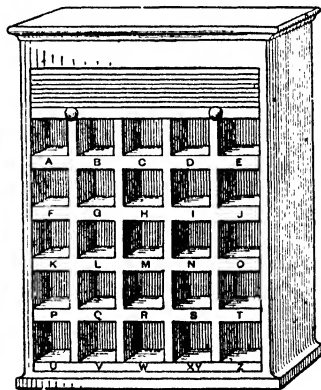


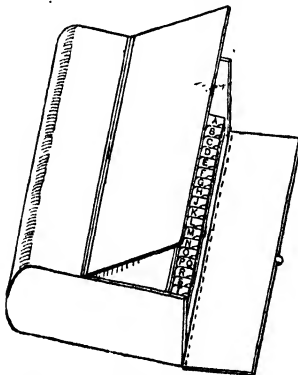
FIG. 20.—PIGEON HOLES.

Note.—Pigeon-holes are quite unsuitable for filing the correspondence of a modern office; but *Agreements* are always folded and docketed as shown in

Fig. 21, and many improved filing cabinets are provided with specially constructed pigeon-hole drawers or lockers to accommodate them.

If used for correspondence, the pigeon-hole cabinet is generally used for inward letters, outward letters being copied in press-copy books.

Desiderata.—In the choice of a suitable filing system for any particular purpose the following considerations are of the greatest importance: (a) cost in comparison with the number of documents to be filed; (b) economy in time (easy manipulation and ready reference); (c) security from error or loss; and (d) the peculiar requirements of the business. In particular it is desirable that copies of correspondence should be filed along with the inward letters, so that as far as possible the section of the filing system allotted to correspondence with each customer shall present a continuous narrative. Inward Invoices, Out-



M. B. P. FIG. 22.—BOX FILE.

ward Invoices, and Receipts are usually filed separately for convenient reference in connection with the accounts.

Box Files.—These files are shaped like big books (Fig. 22), and are arranged on shelves. One side and the edge next the wall are hinged to open. The letters are placed between alphabetical guide leaves.

Note.—Box files are only

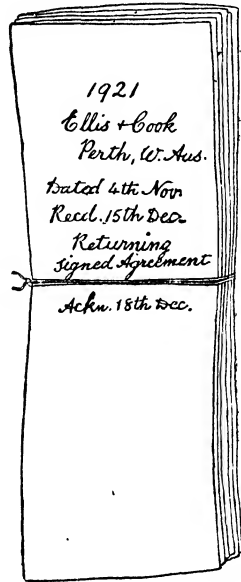


FIG. 21.—DOCKET.

suitable for private purposes, or for an office in which very little correspondence is dealt with. The letters are, however, free from dust, are easily inserted and removed, and do not need to be folded or punched.

Pilot Files are used more than any other, particularly on the Continent. Each file is like the cover of a book, with an Arch Clip in the binding (Fig. 23).

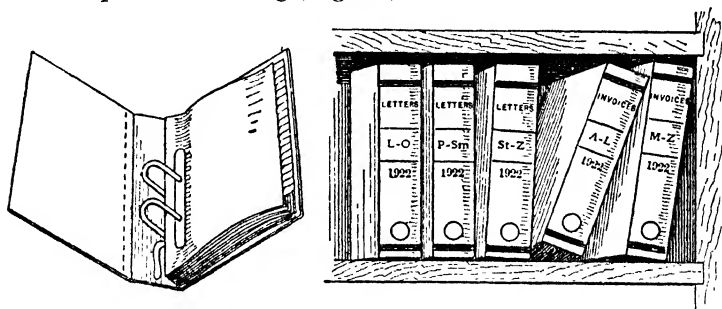


FIG. 23.—PILOT FILES.

The letters are punched, and inserted between alphabetical leaves, and the files are arranged, like the box files, on shelves.

Note.—Pilot files provide a cheaper and more elastic filing system than box files. As the correspondence increases, new files can be purchased at small cost, and the alphabetical file labels and guide leaves can be changed or shifted. But for large correspondence pilot files are found to be considerably less convenient, to take up more space in the office, and to cost more per 1000 letters filed than the modern drawer files.

At the end of each year the pilot files may be emptied, and their contents transferred to **Binding Cases** with less elaborate clip attachments, and costing about half the price. The same applies to the other systems.

Apron Files.—The so-called “Apron file” is the earliest form of modern file, but it has not been mentioned first because in its present state of development it is by no means a primitive apparatus. It differs from other modern files in that it is a

portable file, made to hang on the wall or keep otherwise ready for constant reference. It is, therefore, especially suitable for "set letters" in the correspondence department, calculation tables, indents and any documents which it may be necessary to pass round the office without separating or detaching from the file.

Makers of modern files and filing cabinets are legion, and most of them manufacture "apron" files. For purposes of illustration we have elected the Shannon File (Fig. 24), however, as we understand it was the first serious effort towards methodical filing. The letters are first perforated on a **File Punch**, which may be seen attached to the foot of the file. They are then slipped on the Arch, the parts of which are made to interlock so as to avoid tearing the papers, and, once filed, a letter is as safe as a key on a ring, never requiring to be removed for reference. Every file is fitted with a **Compressor Cover** to keep the papers down, and on which reference is made for transferred correspondence.

As each file becomes full the papers and index are transferred bodily into a **Binding Case** properly labelled. Letters may thus be easily traced, no matter how old they may be.

Horizontal Drawer Files.—The next illustration shows the Shannon Lock Arch Files fitted into the drawers of a filing cabinet (Fig. 25). Such a system as this can be built up in sections, and possesses all the advantages claimed for the apron files, which is more than can be said for any other complete filing system. For large correspondence, the cost per

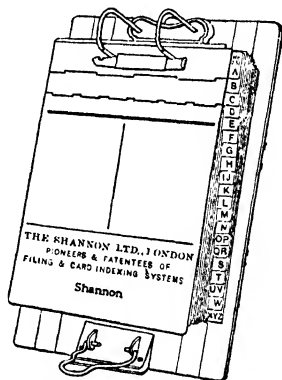


FIG. 24.—APRON FILE.

1000 letters is less than the cost of pilot files, but more than the cost of installing the modern vertical filing system.

Vertical Drawer Files.—The underlying principle of the Vertical System of filing is that *a separate file is reserved for each correspondent*. If the idea were carried out consistently, there would be many files with but one or two letters in them ; so *miscellaneous files* are used to group together any casual letters, in alphabetical order.

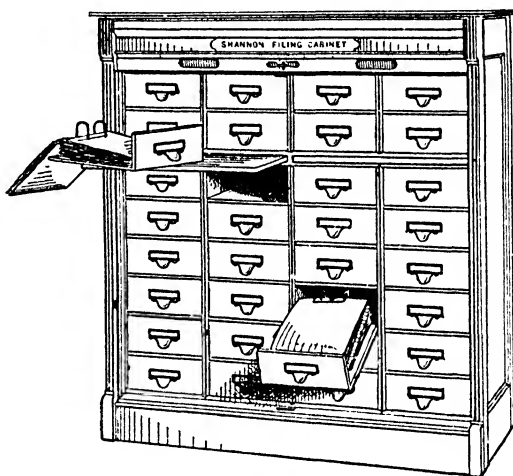


FIG. 25.—HORIZONTAL FILE CABINET.

The Vertical System necessitates the use of a great many files, so these are designed to be manufactured as cheaply as possible. The files are simply thin card-board or manila folders, arranged vertically in the drawer of the filing cabinet, and separated into groups or sections by stout guides which serve to index the folders according to (a) name, (b) number, or (c) subject.

The system of indexing should be carefully considered before the installation of a system, with the idea of making

the method run in conjunction with existing routine. The latest method, known as Direct Name indexing, is described later, and the methods which have led up to this should be studied in order to appreciate its advantages.

(a) **Alphabetical System.**—In this system the guides are simply labelled alphabetically “A,” “B,” “C,” and so on, sub-divided

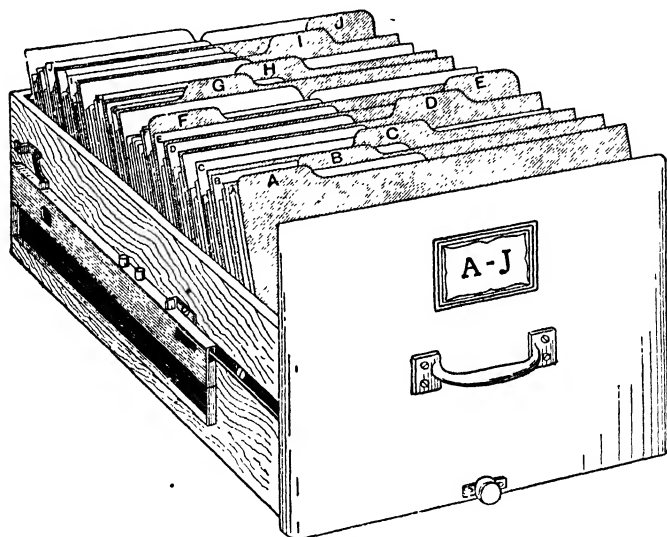


FIG. 26.—ALPHABETICAL FILE.

if necessary, and the folders are arranged between the guides in alphabetical order (Fig. 26). A miscellaneous folder can be used for odd letters and placed immediately behind each guide.

The disadvantage of this system is that it provides no check on mis-filing, and Cross-Indexing (see p. 185) is not possible except with the aid of a separate card record.

(b) **Numerical System.**—In this system a separate alphabetical drawer is kept for the miscellaneous files, whilst each regular correspondent is given a separate file bearing a *number*.

The folders are placed in the drawers in numerical order, a guide being allotted to every ten or so to facilitate reference. The filing clerks readily get to know each customer by his number, but for ready reference a record of all file numbers is kept in an Alphabetical Card Index.

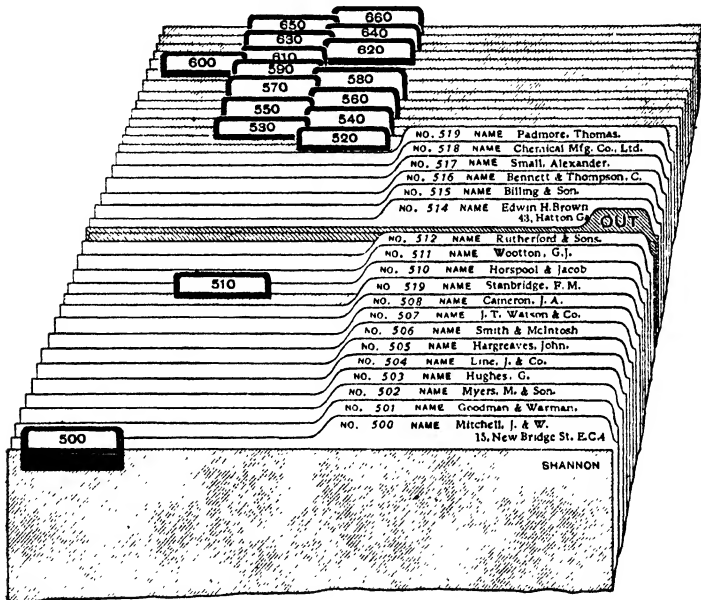


FIG. 27.—NUMERICAL FILE.

Only where a very elaborate cross-index is necessary is the numerical system advocated, but for certain cases it is without equal, and should not be forgotten.

(c) **The Alphabetical-Numerical System** is a combination of the two systems described above. The guides are similar to those used in the alphabetical cabinets, with the addition, however, of a numerical list of names. Correspondents' files are *lettered and numbered*, to correspond with the list on the

guide immediately preceding. Thus all firms under, say, Aa-A1 come together behind the Aa-A1 guide, but within that section the folders are arranged numerically.

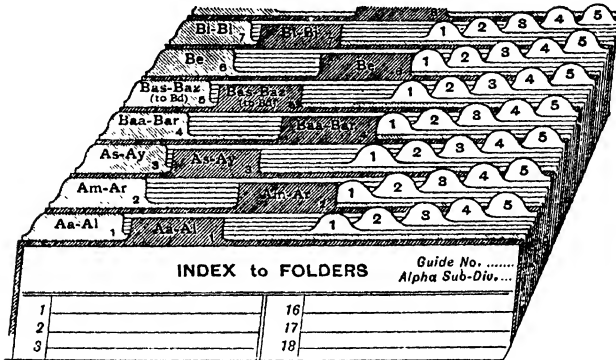


FIG. 28.—ALPHA-NUMERICAL FILE.

The Alphabetical-Numerical method, though a development of the numerical method, is really a step back rather than an improvement. It takes just as long to look for a folder number on the list in front of each guide as it does to look up a number on the card index, the system is not so elastic, and dead matter cannot be eliminated from the system without altering the guide lists.

(d) **Direct Name System.**—This is the latest development of vertical filing. The guides are *lettered and numbered*, and each folder has a tab on which the name of the correspondent or subject is clearly typed or written, and another tab bearing the number of the guide in front. The folders in each section thus have different names, but they all have the same number. On the left-hand side of the illustration can be seen the miscellaneous folder, which is a feature of every vertical filing system.

Re-filing is made much easier by the use of the numbers,

as reference to the number on the folder tab gives the number of the guide. As a safeguard against the loss of files and

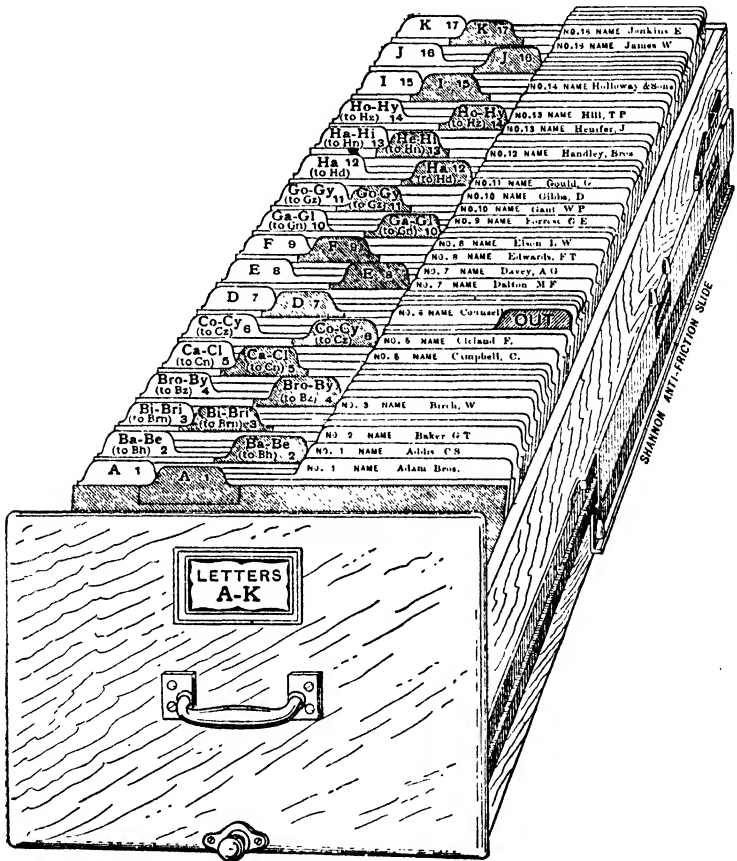


FIG. 29.—DIRECT NAME FILE.

incorrect filing, "out-folders" are used to signal correspondence "out," and these out-folders are used to take any letters which may arrive to be filed whilst the proper file is

in use in another part of the office. It is claimed for the Direct Name System that it saves 25% of the filing clerk's time, and that its upkeep is cheaper than that of any other vertical filing system.

N.B.—The photographs (Figs. 24 to 29) are reproduced by the courteous permission of The Shannon Ltd., London.

Subject References.—In referring to correspondence the *name* is not always the clue that is required. It is necessary in many cases to devise some means of finding the correspondence exchanged with different firms relating to a particular *subject-matter*. If separate files are used Cross-References may be written on each file concerned, or a Card Index may be used, a separate card being devoted to each contract, thus :

NITRATE CONTRACT.	
Garcia Oficinas, Valparaiso.	
	file.
Hoppers : Caledonian Iron Works	87
Cables, etc. : Ropeways Ltd.	144
Power Plant : Robeys.	40
Electric Plant : Brush Co.	216
Consulting Engineer : Mr. G. Murray	68

The Railway System.—Railway, forwarding and tourist companies employ a system of filing totally different from any of those discussed above. The number of correspondents is enormous, and only a small percentage of them are in lasting communication with the firm. Claims in respect of lost tickets or damaged goods, enquiries for prospectuses of tours, orders for tickets, etc., are quickly disposed of, and when the correspondent has been given satisfaction, his correspondence becomes a dead letter. The letters are therefore grouped according to subjects, not names.

The first letter received in reference to any particular subject is entered in an *Inward Letter Book* (see p. 152), and marked with the same reference no. as appears in the book.

This number serves as a **Subject Reference Number** for the whole of the correspondence relating to the same matter, and is repeated on every subsequent letter, a request being inserted on the outward letters thus :

In your reply please
refer to AR22/33541.

In this case AR would be the department, 22 the year 1922, and 33541 the register no.

Originals and carbon or loose press copies are pinned together, and labelled with the reference no. No file is required, though the letters may be wrapped in brown paper to keep them clean, and the various numbered packets are put away in drawers or on shelves, in numerical order. If a name reference is desired, a card index may be used as an alphabetical reference to all letters exchanged with certain firms.

Invoice Filing.—Reference to p. 58 will remind the student that *inward invoices* and *copies of outward invoices* must be entered in the Bought and Sold journals respectively before they are filed away.

Unpaid invoices, like unpaid statements of account, may be arranged temporarily in order of name or discount date in a separate drawer, or in a tray on the invoice clerk's desk.

After entering or payment, all invoices and copies should be filed in separate files, or folders of distinctive colour, *not* with the relative customers' other correspondence. As already explained, inward invoices, outward invoices and receipts should be given separate files. The method of pasting invoices in a "guard book" used in place of the day books is now obsolete.

In order to connect the invoice files with the bought and sold journals, the bookkeeper should write the account book folio no. on each invoice (say, in red ink or blue pencil) as he makes the entry.

Multiplex Copies.—If many copies of the same letter or document are required, these may be obtained by any of the following processes :

(a) *The Gelatine Process.*—The first copy is written with *hektograph ink*, and pressed on the gelatine to make an impression. 30-50 copies may be drawn from one impression on the gelatine, but they are of ugly appearance and only suitable for use within the firm, though inquiries are sometimes duplicated in this way.

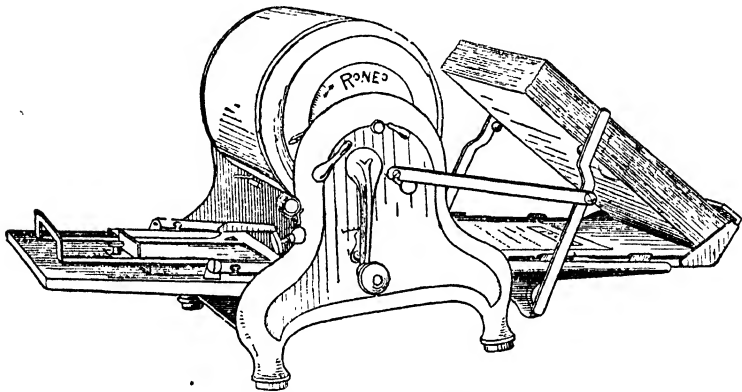


FIG. 30.—ROTARY DUPLICATOR.

(b) *Carbon Copies.*—Ten or a dozen copies may be made simultaneously in the typewriter, but the last ones are “woolly” and often unreadable.

(c) *Stencil Process.*—The first impression is made out with a *stylus* on a wax sheet, or typed after removing the ribbon from the machine.

The copies are printed from the wax sheets either by hand, in a *Mimeograph*, or mechanically in a *Cyclostyle* or *Rotary Duplicator*.

Mechanical duplicators (Fig. 30) are fitted with a *mechanical feed*, which picks up the paper automatically and slips it under

the roller sheet by sheet ; some are even driven by an electric motor.

Hundreds of copies may be taken from the same stencil.

(d) *Facsimile Typewriting*.—All the above methods possess the disadvantage that they produce work which is obviously copied. Selling letters which have this appearance, like printed circulars, are likely to be put into the waste paper basket without being read.

Exact facsimiles of typewritten letters can be produced in the office on a **Multigraph**, which is fitted with type, and consequently makes clear lettering and dents the paper just as the typewriter does.

The work can be given out to one of the duplicator companies, who will even arrange for pen corrections to appear here and there on the circulars.

Indexing.—The names in a printed directory are arranged in perfect alphabetical order, in the same way as the words in a dictionary, thus :

Aaronson, L., B.Sc.
 Abercrombie, Sir Richard, Bart.
 Abington, Rev. H. H., D.D.
 Accola, L. (Dr.).
 Adair, R. (Mrs.).
 Alfortville, Usines de Gaz d' (Secretary).
 Andover, H. & G. Johnson.
 Angus, A., Macfarlane & Co.
 Arbib & Son.
 Ayton Mines, Ltd.

The most important name or word appears first in the index, and the student should take great care to put the other names, initials, etc., in the proper conventional order, as shown above. The abbreviations, Mr., Esq. and Messrs. should not appear in the index, as they are not necessary for purposes of reference.

For indexing ledgers, letter books, etc., *strict* alphabetical order can only be achieved by the use of removable cards in a drawer. If the names are listed, the addition of new ones

will upset the alphabetical order. The best that can be done with a "live" index is to separate the names into alphabetical *groups* or classes.

The A.B.C. Index.—Where the names are not very numerous, they may be arranged according to the first letter of the most important word. Thus the above names might appear on the "A" page of the letter book or ledger index as follows :

Ayton Mines, Ltd.
Accola, L. (Dr.).
Arbib, A. & Son,

etc. The names are entered as they come, the order being alphabetical only in so far that the names all begin with the same letter.

The same page being used for X and Y, this arrangement provides 25 *groups* or sections.

The Vowel Index.—Further division is obtainable by classing the names under the first letter and first vowel, thus :

On page *Aa* : Adair, R. (Mrs.).
 Aaronson, L., B.Sc.
 ,, *Ae* : Abercrombie, Sir Richard, Bart.
 ,, *Ai* : Abington, Rev. H. H., D.D.
 Arbib & Son.
 ,, *Ao* : Andover, H. & G. Johnson.
 Accola, L. (Dr.).
 Alfortville, Usines de Gaz d' (Secy.).
 ,, *Au* : Angus, A., Macfarlane & Co.
 ,, *Ay* : Ayton Mines, Ltd.

The vowel index provides six sub-divisions under each first letter, making $25 \times 6 = 150$ groups.

The Third Letter Index provides 25 sub-divisions to each first letter, thus :

On page *Aa* : Adair, R. (Mrs.).
 ,, *Ab* : Arbib & Son.
 ,, *Ac* : Accola, L. (Dr.).
 ,, *Ad* : Andover, H. & G. Johnson.
 ,, *Ae* : Abercrombie, Sir Richard, Bart.
 ,, *Af* : Alfortville, Usines de Gaz d' (Secy.).
 ,, *Ag* : Angus, A., Macfarlane & Co.

etc.

This provides $25 \times 25 = 625$ sections. The Smiths may be arranged in separate, geographical indexes.

Figuring Machines.—Typewriters may be fitted with a “**billing**” device to facilitate the preparation of columns of figures for invoicing and statistical work.

In some offices a special machine is used for typewriting the entries in the books of account. The account book, opened at the proper page, is clamped firmly to a table forming the bedplate of the machine. The typewriter has no carriage, for the machine itself, which is supported on slides fixed to the bedplate, travels over the page, each depression of a key causing the type to strike down on to the page, and to move the typewriter one space from left to right.

Calculating Machines are in common use, particularly in banking houses. Machines may be obtained for adding, subtracting, multiplying and dividing, and most adding machines, like the best **automatic cash registers**, type the amounts and totals as the operator sets the figures on the keyboard.

Electric Card Sorters are used in some Government Offices, and in the Statistical Departments of railway companies, etc., where numerous lists of figures have to be dissected and tabulated in different ways. The matter to be dissected is first transferred to loose cards, in each of which holes are punched to represent figures. The cards are then sorted automatically in the machine, and the data thus presented in any desired order. For instance, statistics of sales may be listed by this means in order of amounts, or travellers' names, or districts, or departments. The system is too elaborate to be treated more fully in these pages, and is only applicable to very large undertakings.

The **slide Rule** gives rapid results in multiplication, division, involution, evolution and several other operations, but as its operations are limited to three significant figures, the slide rule

is less suitable for the commercial than for the engineer's or contractor's office.

EXERCISE 16.

1. What is an Office, or Counting House ?

2. What modern office appliances would you recommend for installation by a manufacturing firm having, say, a thousand employees and a very large correspondence, and whose costing and booking systems involve much tabular analysis ? Briefly describe the appliances you recommend. (*N.B.*—Candidates are not required to offer long disquisitions on the appliances, but to describe simply and briefly the character, purpose and advantages of each.) (S.A.cc.III.)

3. (1) What general principle would you adopt for filing the inward and outward correspondence of a business office, and why ?

(2) Index the following names on the vowel system : Messrs. C. A. Bevan ; Messrs. Billings & Son, Ltd. ; E. S. Bryanston, Esq. ; Bakewell Bros. ; The Bollo Manufacturing Co., Ltd. ; Edward Bedall & James ; Mrs. Burstall ; The General Manager, Brennan Explosives, Ltd. ; The Barker Tool Co., Ltd. ; Messrs. Birch & Birch ; W. S. Byles-Thompson, Esq.

(3) Explain briefly what is meant by cross-referencing the letter-book. (S.A.cc.II.)

4. Briefly describe the systems of filing you consider useful for a merchant's office, and compare the merits of each.

5. (1) Explain (*a*) the Railway System of Filing, and (*b*) Cross Subject Referencing.

(2) Explain a system of filing suitable for the preservation of invoices inwards, and the arrangement you would recommend to facilitate reference. (U.E.I.Int.)

6. What method of duplicating would you recommend for producing—

- (a) 50,000 circular selling letters ;
- (b) 2000 market reports for retail customers ;
- (c) 25 circular inquiries to manufacturers ;
- (d) 50 notices to agents.

How would you proceed to post circulars (*a*) and (*b*) ?

7. Show how the following names would be indexed in the letter book :—The Editor, *Western Morning News* ; The Acme Manufacturing Co., Ltd. ; Col. Sir Robert Eames ; The Headmaster, St. John's College, Leatherhead ; Secretary, Esmond's Dry-Cleaning Co., Ltd. ; Messrs. Lewis & Lewis ; Messrs. Edward

Grey, Fitch & Co., Ltd. ; The Manager, Bank of Egypt ; The Very Revd. the Dean of Ripon ; and Sir Fortescue Flannery, Bart. (S.A.cc.II.)

8. Compare the merits of four different kinds of index for office purposes. Illustrate your answer.

9. Messrs. Thomas Holt & Co., of 128 Market Street, Manchester (Telegrams : Holt, Manchester), have just received 10 bags of granulated sugar ordered from Messrs. Joseph Taverner & Sons, of 119 Great Cobalt Street, London (Telegrams : Grano, London). Messrs. Holt find that five of the bags have been seriously damaged by sea water. Draft, in as few words as possible, a telegram from Messrs. Holt explaining the matter and at the same time ordering another five bags to be dispatched at once. (S.A.cc.II.)

10. Write a letter from Messrs. Taverner (see Question 9) acknowledging the receipt of the wire from Messrs. Holt and stating that five bags of granulated have been sent off, and that Messrs. Taverner are investigating the complaint about the damaged bags. Add any expression you think appropriate to the occasion, and sign the letter in such a way as to show that you have power to act for Messrs. Taverner. (S.A.cc.II.)

CHAPTER XVII.

THE BANKING ACCOUNT.

Bankers' Deposits.—A banker is a dealer in money and credit. He also performs certain services for his customers ; but his activities are mainly directed to buying and selling (*a*) money and (*b*) credit, (*i.e.* the right to money), for a price called interest. In other words the banker is a borrower and a lender, or investor.

Borrowing is an essential part of banking. The banker's own capital—or, in the case of a company, the money subscribed by the shareholders—forms only a part of the funds employed in the business. The *turnover* is increased by the use of other people's money, received in the shape of 'deposits.' Naturally the banker arranges to borrow at a lower rate of interest than that which he derives from his loans and investments.

The relationship existing between the banker and his customer is therefore that of debtor and creditor. If the banker were the custodian of his depositors' money, he would be answerable to them for any profit derived from its investment, and instead of offering his customers interest on their deposits, he would have to charge them for taking care of it.

Bank deposits, then, like other debts, may become *statute barred*. But valuable articles, such as furs, jewellery, plate, deeds, etc., entrusted to a banker to be kept in his safes, are not lent ; the banker is responsible for their safe-keeping as *custodier* (see p. 284).

Bankers receive deposits withdrawable (a) at notice, and (b) on demand. Those of the former class are entered on what are known as Deposit A/cs ; the latter are called deposits on Current A/c.

DEPOSIT RECEIPT.

No. 1514

The Anonymous Banking Coy., Limited

£.....

BROADWAY, CROUCH END, N.,
.....19...

DEPOSIT.—AT SEVEN DAYS' NOTICE.

Received from.....

.....
Sterling to the credit of.....Deposit Account.

For the ANONYMOUS BANKING CO., LTD.

.....Manager.

Entd.....Account.

This DEPOSIT RECEIPT is not transferable. The amount will not bear interest unless it remains undisturbed for one month. It is repayable on seven days' notice, at the expiration of which notice, if the money is not withdrawn, all interest will cease, and the amount, or any part of it, if re-deposited, will be treated as new money. The rate of interest is subject to alteration, of which notice will be given in the *Times* newspaper.

When the money is withdrawn, or the interest paid, the Depositor must sign the Cheque on the back hereof, first affixing a twopenny Draft Stamp. If part only is withdrawn a new receipt will be given for the balance.

Deposit Accounts.—Notice of withdrawal is usually 7 days ; but it may be a fortnight, a month or any length of time agreed between the banker and his customer.

NOT TRANSFERABLE.

On the Continent, and at some provincial banks, the rate of interest is a matter for agreement with customers, and it may be increased or reduced according to the banker's need to encourage depositors to lend him their money. But

BACK.

London,.....19.....

To the Anonmous Banking Company, Limited,

HORNSEY BRANCH.

Pay to self or Bearer.....

£.....

Here,
Affix a
Twopenny
Draft
Stamp

NOTICE OF WITHDRAWAL.

To the

ANONYMOUS BANKING COMPANY, LTD.,
HORNSEY BRANCH.

I hereby give you notice that on the.....

I shall withdraw the sum of £.....
from my Deposit Account.

Depositor's Signature.....

Date.....19.....

customers are warned of any decrease in the deposit rate, to enable them to terminate the contract and withdraw their money if they do not agree. The London banks allow interest

on Deposit A/cs at what is known as the official **Bankers' Deposit Rate**, which fluctuates from time to time, and is usually 2% below **bank rate** (*q.v.*). Both deposit and bank rates are published in the money columns of the London newspapers.

Customers are given a **Deposit Receipt** for each payment.

Deposit Receipts are **not transferable**. They may, however, be negotiated by endorsement (*i.e.* the transferor's signature written on the back) as a death-bed gift.

Current A/c.—Money deposited on current account is lent to the banker on the understanding that the depositor may withdraw the whole or part of the amount at any time, without notice.

The London banks grant no interest on current accounts, and provided the customer maintains a **minimum balance** (usually £50 or £100), no charge is made for services rendered in paying cheques. This does not mean that the banker has the use of his customers' money for nothing. He pays for it in the cost of keeping up his establishment and paying an army of bank clerks to serve his customers.

On the Continent and in the provinces interest is allowed on current accounts, and customers are charged commission on "turnover" (*i.e.* withdrawals). But the rate is always lower than that allowed for deposits withdrawable at notice, because moneys which may be withdrawn at any time on demand cannot be used so profitably.

A reserve of coin and notes must be kept in the till for everyday demands in cash, and most of the remainder must be invested in such a way that if customers suddenly demand repayment of large sums, the money may be recovered quickly. A large part of the money received on current account is lent "at call" and at very short notice; but bankers can obtain but a comparatively low rate of interest for such short loans.

In England, withdrawal is usually effected by means of orders to pay, called **cheques**, which may be made payable

to the **drawer** (*i.e.* the customer) or to a specified **payee**, or to **bearer**. Cheques may therefore be used as a means of (a) withdrawal in cash for the drawer's use, or (b) payment to another person. In any case the holder may, subject to certain rules, *transfer* his right to payment to a third party, if he wishes to do so. The banker on whom a cheque is drawn is called the **drawee**.

Opening an Account.—In order to prevent the fraudulent use of cheques, bankers require new customers to be personally introduced, or to supply a reference.

Each new customer is asked to sign his name in the bank's **Signature Book**, to which the bank clerks may refer when cheques are presented for payment. If a banker pays a cheque on which the drawer's signature has been forged, he must bear the loss himself.

Joint A/cs.—An account kept in the name of two or more persons is called a *Joint Account* (J/A). Unless all cheques are to be signed by all the parties, the party or parties who are authorized to sign must be given *written authority*, signed by the others. Any party may subsequently withdraw his authority if he wishes to do so.

If one of the parties to a joint a/c whose signature was necessary should die, the balance may be withdrawn by the others, on proof of death being given to the banker.

After the necessary preliminaries have been completed, the customer is given

(a) a Paying-in Book,

in which the first counterfoil is receipted for the amount of the first deposit, and then, after the references have been taken up, he receives

(b) a Cheque Book, and

(c) a Pass Book.

The Paying-in Book.—The illustration (Fig. 31) explains itself. Each page is perforated into two halves, both of which are filled in by the customer.

175] LONDON COUNTY WESTMINSTER & PARR'S BANK LIMITED.			LONDON COUNTY WESTMINSTER & PARR'S BANK LIMITED.		
<u>17th August 21</u>			17th August 1921		
			Credit <u>B. Black</u>		
Gold... ..			Gold... ..		
Treas. } (£1)			Treasury Notes (£1)		
Notes } (10/-)			" " (10/-)		
Silver... ..			Silver... ..		
Copper... ..			Copper... ..		
Bank Notes...			Bank Notes... ..		
Country Notes			Country Notes		
DRAFT Payable in LONDON only		11	DRAFT Payable in LONDON only	46	9 11
Do.			Do.		
Reading	18	10 5	Reading	18	10 5
LONDON COUNTY WESTMINSTER & PARR'S BANK					
J.S.					
£65 - 4			Paid in by		
			£65 - 4		
Customers are requested to cross all Cheques "London County Westminister & Parr's Bank Limited."					

FIG. 31.—PAYING-IN BOOK.

The receiving clerk detaches the right-hand portion (called the slip) and returns the paying-in book over the counter, having marked the counterfoil with the bank stamp and initialed it as a receipt.

The slips serve as vouchers for the entries in the books of the bank. Cheques or "drafts" drawn on banks in different towns are entered separately, and separate paying-in slips may be had at the counter for (a) country, and (b) Scotch and Irish cheques.

SCOTCH & IRISH CHEQUES.

Scotch and Irish Cheques sent in for collection before 1.30 p.m., Saturdays 11 a.m., will be credited on the third day after receipt in one amount, as entered on the paying-in slip, notwithstanding that proceeds of collection may not have been received.

WILLIAMS DEACON'S BANK, LIMITED.

Date.....191...

Credit.....

NAME OF BANK.	NAME OF TOWN.	£	s.	d.

The Cheque Book is likewise provided with counterfoils, which are filled in by the customer for future reference.

No charge is made for cheque books beyond the value of the inland revenue stamp duty (2d. each). Special forms bearing the customer's name may be ordered at cost. New cheque books are ordered on a special form contained in each cheque book.

The Pass Book contains a copy of the customer's a/c in the bank's ledger, or (the sides being reversed) the book may correspond to the bank's account in the customer's cash book.

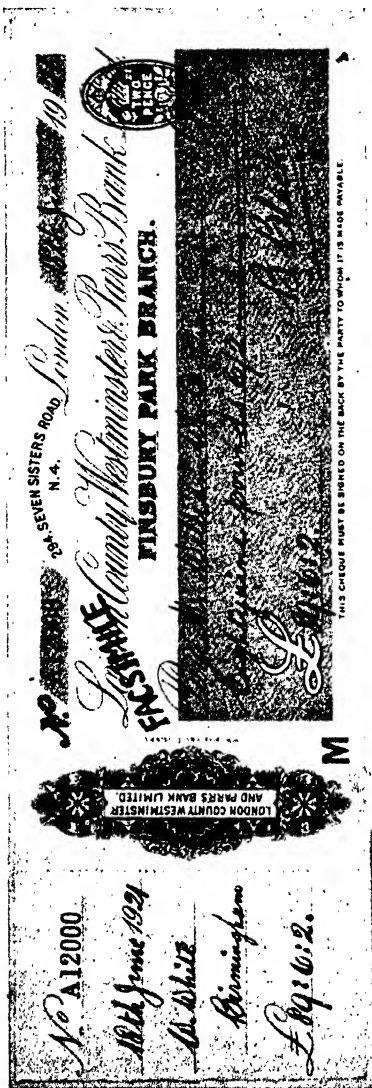


FIG. 32.—CHEQUE.

LONDON, COUNTY, WESTMINSTER & PARR'S BANK, LIMITED.

.....Branch

Dr.

In Acct. with *Bertram Black, Esq.*

Cr.

	Amount	£	s.	d.		Amount	£	s.	d.
19...		1793	11	1	19...		1680	6	4
June 16	To Cash	44	17	10	June 17	By Corfe -	50	0	0
" 20	" "	112	18	3	" 18	" White -	89	6	2
" 21	" "	109	10	5	" 20	" Cox -	37	18	11
" 24	" "	93	7	6	" 21	" Salaries -	66	12	6
" 25	" "	81	0	7	" 21	" Niven -	7	15	0
					" 21	" Pneumatic	114	8	7
					" 26	" Aasael -	11	3	8
					" 28	" Salaries -	66	12	6
					" 30	" Dyson -	5	4	0
					" 30	" Balance -	105	18	0
		<u>2235</u>	<u>5</u>	<u>8</u>			<u>2235</u>	<u>5</u>	<u>8</u>
July 1	To Balance	105	18	0					

In the above example the banker credits himself with all cheques paid, cheque books ordered, interest, commission and other charges, and debits himself with cash deposited by his customer, and cheques, dividend warrants or other instruments paid in for collection.

If an error should occur in the pass book it may be rectified ; but if the customer in good faith draws cheques against the balance as shown in the pass book and in excess of what the balance of the account really is, the banker is precluded from raising the error as an excuse for refusal to pay such cheques.

In order to keep the entries up to date and to localise mistakes, pass books are circulated as freely as possible. The counters are provided with slots, into which customers may slip their pass books to be made up every week or month. In addition to this, customers are asked to verify them, and give a written statement that they have done so, say every quarter or half-year.

A pocket is provided in the pass book in which the banker periodically returns all paid cheques drawn by his customer. These cheques cannot be used again, for the banker cancels the drawer's signature on payment of each one.

Reconciliation Statement.—As the accounts are balanced at the end of any financial half-year or quarter, the pass book is sent to the bank to be “made up” to the last day of that period. The Cashier can then compare the bank balance shown in the firm’s Cash Book with that given in the pass book.

An examination of the pass book will probably reveal one or two items which have not been entered in the cash book at all, *e.g.* :

Credit—Interest or dividends collected by the bank and not yet entered in the firm’s books.

Debit—Interest to date on overdrafts or loans, commission, cheque books or other charges ;

After these **adjustments** have been made, the cash book will now show the *true balance available* at the bank. But to connect this true balance with that shown in the pass book it may be necessary to prepare a Reconciliation Statement, as follows :

Balance as per Pass Book	-	-	-	£105	18	0
Add Effects paid in but not yet credited	-	-	-	25	1	6
						£130 19 6
Deduct Cheques drawn but not yet presented at the bank	-	-	-	-	-	-
				34	11	8
						£96 7 10
Balance as per Cash Book	-	-	-	£96	7	10

Transfers from Current and Deposit A/cs.—While taking care to maintain the required minimum balance on current *a/c*, the trader has no desire to leave a large sum of money, which could earn interest, lying idle. Surplus funds which will be required later, but are not needed for immediate use, may profitably be transferred to Deposit *A/c*, a reverse transfer back to current *a/c* being made when ready money is again in request.

FORM to be signed by customer to TRANSFER from
Current A/c to Deposit A/c.

Debit J. H. Smith
Transfer to Deposit A/c.

ANONYMOUS BANKING COMPANY, LIMITED,
HORNSEY BRANCH.

G.B. 30th October, 1921.

£100.

J. H. Smith.

Loans and Overdrafts.—Bankers are always willing to advance money to their customers against suitable *security*. The advance may take the form of (a) a loan, a round sum being debited to the customer's **Loan A/c** and credited to his current a/c, or (b) an **Overdraft**, which is nothing more than the banker's permission to his customer to *overdraw* his current a/c up to an agreed limit.

In the first case, interest is charged on the debit balance of the **Loan A/c**, whether the customer makes use of it all (through his current a/c) or not; in other words the loan is *held at his disposal* in a round sum. In the second case the customer is charged interest only on the actual amount by which he has overdrawn his current a/c.

Uses of Cheques.—There are three ways in which a cheque may be utilised. The payee may (a) *cash* it at the establishment on which it is drawn, (b) *pay it in* to his own banking a/c "for collection," or (c) *negotiate* it (*i.e.* transfer it for value) to another person.

If the payee has no banking a/c and is unable to take or send it to the place where it is payable, he will have to transfer it to someone who can use it. But cheques are seldom negotiated by the payee in payment of his own debts, because if the amount of a cheque does not happen to be the same as the sum which the payee wishes to remit, there is little to be gained by passing the cheque on. Customers' cheques are

best paid in, for business men are not usually anxious to reveal the names of their customers, and find it more convenient to draw separate cheques for the exact amounts due to suppliers.

Encashment and Collection.—In order to “cash” a cheque, the holder must present it at the branch of the particular bank on which it is drawn. Then the banker—having ascertained that the drawer has sufficient funds to his credit—*pays the holder cash* over the counter, and *debits the drawer’s account* in his books.

If drawer and holder bank at the same establishment, and the latter prefers to pay the cheque into his account, all the banker has to do is to *credit* the holder and *debit* the drawer.

But in the majority of cases the holder does not bank at the same place as the drawer. There are hundreds of banks (including head offices and branches) in this country; nevertheless cheques drawn on any bank in the British Isles may be paid in to the holder’s own current a/c, wherever it may be. The banker who receives the cheque, (called the **collecting banker**), contrives to collect the amount from the one on whom it is drawn (called the **paying banker**) either (a) in coin or notes, or (b) in the shape of a credit entry in his own account at another bank.

If a paying banker is unable to **honour** (*i.e.* pay) a cheque drawn by one of his customers, he marks it **R/D** (refer to drawer), **N/S** (not sufficient funds) or otherwise appropriately, and returns it to the holder.

For the sake of convenience, cheques paid in are credited to the customer’s account before the amount has been collected. But the customer is not entitled to draw against the full balance until the cheque has been “cleared,” *i.e.* presented and approved. Thus, if the customer has say £125 to his credit, including a cheque for £40 just paid in but not yet collected, he can draw up to £85, but no more. If he issues a cheque for

more, and the holder presents it before the £40 has been collected, the banker may return the cheque to the holder marked "effects not cleared."

Collection of Bills, etc.—Customers on current a/c may also entrust trade bills and promissory notes (see next chapter), and dividend warrants, to the banker for collection in the same way as cheques.

The Origin of the Clearing House.—In the early days of banking each banker collected the cheques paid in by his customers by presenting them direct to the banks on which they were drawn. The messenger who conveyed the cheques brought back coin and notes in exchange.

In 1775 a few London banks reduced the work of their messengers by hiring a room in Change Alley as a rendezvous for the exchange of cheques.

Thus if the clerk from bank A came with cheques for £600 drawn on bank B, and B's clerk had £500 worth payable by A, clerks A and B exchanged cheques. As a result of the exchange, bank B would owe bank A £100 more than A owed B, so B's clerk paid A's clerk the difference in coin and notes.

As the settlement consisted of paying or receiving differences only, the system afforded economy in the use of currency, in addition to saving time and trouble.

This was the origin of the clearing house, and the scheme was so successful that in 1805 larger premises were taken in Lombard St. The members of the clearing house remained few in number, for those who enjoyed its privileges were not anxious to extend them to their competitors, of whom the joint-stock banks, which commenced in 1833, were the least welcome. It was not until 1854 that the first joint-stock bank was admitted, whereas at the present time nearly all the clearing banks are limited companies. The Bank of England joined in 1864.

In 1854 payment in coin and notes was abolished. Each

clearing bank had an account with the Bank of England and settled with co-members to whom differences were due by means of drafts drawn on the Bank of England.

The present London Clearing House is in Post Office Court, off Lombard Street, adjacent to the Bank of England. The London clearing bankers are :

The Bank of England.	London Joint City and Mid-
Bank of Liverpool & Martin's,	land Bank, Ltd.
Ltd.	National Bank, Ltd.
Barclay's Bank, Limited.	National Provincial and
Coutts & Co.	Union Bank of England,
Glyn, Mill, Currie & Co.	Ltd.
Lloyds Bank, Ltd.	William Deacon's Bank, Ltd.
London, County, Westminster	
and Parr's Bank, Ltd.	

Whereas under the system introduced in 1854 differences due to or by each member were paid separately by bank drafts, at the present time all differences are pooled together at the Bank of England in a joint account called the **Account of the Clearing Bankers**. Each member makes *one* transfer, to or from this joint a/c, instead of settling individually with each of the others.

It should be clearly understood that clearing is a matter of "give and take." Each clearing banker has **charges** to debit the other clearing bankers with, and they in their turn have charges on him. The cheques, etc., he sends *out* to the C.H. constitute what he calls his **out-clearing**; the **in-clearing** includes all charges coming *in* from the C.H.

The clearing banks' charges are not confined to cheques drawn and paid in by their own customers in the City. Their numerous branches have cheques to clear also, and in order to make use of the C.H. any banks which are not members must employ the services of one of the clearing banks as **Clearing Agent**.

The representatives of the clearing banks meet at the C.H. four times a day. Before each "Clearing" the clerks inside

the various banks are busy sorting and listing the various charges for the out-clearing, the out-clearing list being provided with a money column for each of the other clearing banks. The amounts of the cheques in each column are totalled with an automatic *Adding Machine*, which saves a great deal of time and never makes a mistake.

Thus, the totals of bank C's list might show C to be entitled to receive from

say	Bank A	B	D	E	F	etc.
	£10,000	£15,000	£9,500	£12,000	£14,000	

The charges which have to be presented on the various clearing banks are arranged in separate batches, and conveyed to the C.H. by a clerk, who distributes them round the various desks for the *in-clearers* to deal with.

When the in-clearers arrive, each one totals the amounts of the charges presented by the others in columns as the out-clearers did before. Thus C bank's in-clearing list should agree with C's column in the out-clearing books of the other banks.

The totals having been agreed between the clearers, each prepares a **Summary Sheet** to show the *differences* or balances owing to or by the other clearing banks. The following rough sketch illustrates the principle on which the summary is prepared :

THE.....BANK, LIMITED.

	DEBIT	CREDIT
	£	£
Barclay - - - - -	1,000	
Coutts - - - - -		800
Glyn - - - - -		900
Lloyds - - - - -	1,100	
<i>Etc.</i> - - - - -	<i>etc.</i>	<i>etc.</i>
Balance due to Clearing Bankers -	400	
	£10,500	£10,500

When the final result of the clearing is ascertained the clearer prepares his **transfer**. If his bank has a balance to claim, he uses a *green ticket*, instructing the Cashiers of the C.H. to

“ Be pleased to credit our Account the sum of £..... out of the money at the credit of the Account of the Clearing Bankers.”

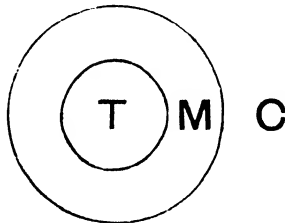
This green ticket is then countersigned by the Inspector of the C.H. If the balance is on the other side (as above) the clearer writes out a *white ticket*, reading :

“ Be pleased to Transfer from our Account the sum of £..... and place it to the credit of the Account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors, signified by his countersigning the drafts).”

Cheques that cannot be paid are returned the way they came, and pass through the C.H. with other charges at a later clearing.

T. M. & C.—It will be noticed that all cheques payable in England and Wales bear at the foot one of the letters T, M or C. The Initials stand for “ Town,” “ Metropolitan ” and “ Country,” and serve to indicate the area in which the particular branch is situate.

For the purposes of clearing, the Metropolitan area form a ring between the Town (*i.e.* roughly, the City) and the Country, thus



Within the London area (T and M) the banks are connected by **walks**, that is to say the charges are distributed by town or

metropolitan messengers. The country offices naturally communicate with London by post.

Now, by means of these initials, sorting is facilitated, and a collecting banker can see at a glance how long any given cheque will take to clear. Cheques (1) marked T or M and paid in within the metropolitan area are cleared the *same day*. But (2) town or metropolitan cheques paid in at country banks, or (3) country cheques paid in in London, take *part of 3 days* to clear, whereas (4) country cheques paid in at other provincial towns take *4 days inclusive*.

A London cheque paid in at, say, Winchester on Monday would arrive in London on Tuesday, and if the collecting banker in Winchester did not get it back *dishonoured* on Wednesday he could presume it had been paid.

But a cheque payable at, say, Leicester and paid in at Winchester on a Monday would arrive in London on Tuesday, in Leicester on Wednesday, and if not paid it would be returned *direct by post* to the collecting banker at Winchester, arriving the next day, Thursday.

If the holder of a cheque particularly wishes to know at once whether there are funds to meet it, the collecting banker will inquire by telegraph, at the customer's expense.

Branch Offices.—As a rule all branches of the same bank present and collect cheques to and from the other branches through the head office. The H.O. credits the collecting branch and debits the paying branch.

The same principle applies to cheques drawn on and paid in at different

Country Banks having the same London Agent. The Agent in that case credits the collecting bank and debits the paying bank.

Provincial Clearing Arrangements.—All country cheques but those payable locally gravitate to London. But there are **Local Clearing Houses**, and simpler affairs known as **Local Exchanges**, which fulfil the same functions. However, they

only cope with cheques *paid in and payable* by banks within the same district. There are proper clearing houses at

Birmingham	Aberdeen	Dublin
Bristol	Dundee	
Leeds	Edinburgh	
Leicester	Glasgow	
Liverpool	Greenock	
Manchester	Inverness	
Nottingham	Leith	
Sheffield	Paisley	

As far as the English provincial clearings are concerned, differences are settled by means of drafts on the Local Branch of the Bank of England, where there is one, or by drafts on London agents.

EXERCISE 17.

1. "Bankers are borrowers, not custodiers of their customers' money." Explain fully what is meant by this, and why it is so.

2. The syllabus of this examination stipulates that Candidates shall be able to prepare such forms as Invoices, Statements, Credit Notes, Debit Notes, Paying-in Slips and Cheques. Define and state the use of each kind of these commercial documents.
(U.E.I.cc.Int.)

3. What is the difference between a "deposit" and a "current" a/c at a bank?
(U.E.I.cc.Int.)

4. Explain in detail the procedure connected with the opening of a current a/c at a bank.

5. What is a J/A ?

6. Rule a form of paying-in slip for Cheques for £15 9s. 6d. and £4 1s. 9d.; Notes, £10; and Silver, 16s.; to be paid in your current a/c with the United Shires Bank.
(D.C.C.)

7. What do you know about the bank pass book, and how will a banker's loan affect it ?

8. My pass book shows a balance in my favour to 31st December of £71 5s. 8d., which does not correspond to my cash book. The cash book shows two cheques drawn on the 30th Dec. amounting together to £28 11s., and we paid in £50 on New Year's Eve; neither of these amounts has been entered in the pass book. My cashier has undercast the debit side of the C.B. to the extent of 10s., and has not entered up 8s. 4d. for

cheque book and 6s. 6d. commission. Show what the C.B. balance ought to be, and how we can reconcile it with the P.B., to show the auditors.

9. Your bankers have returned a cheque for £50 received by you from one of your customers, marked n/s. Draft two letters (a) on the supposition that you were dissatisfied and would welcome a severance of your connection with the customer; (b) assuming that you valued the connection and had faith in the customer's integrity. (S.A.cc.III.)

10. Trace the origin of the London Bankers' Clearing House.

11. Explain the functions of the Bankers' Clearing House. (U.L.C.tpc.4.)

12. Explain the use of the letters T. M. and C. printed on cheque forms, and state what cheques do not pass through the London Clearing House.

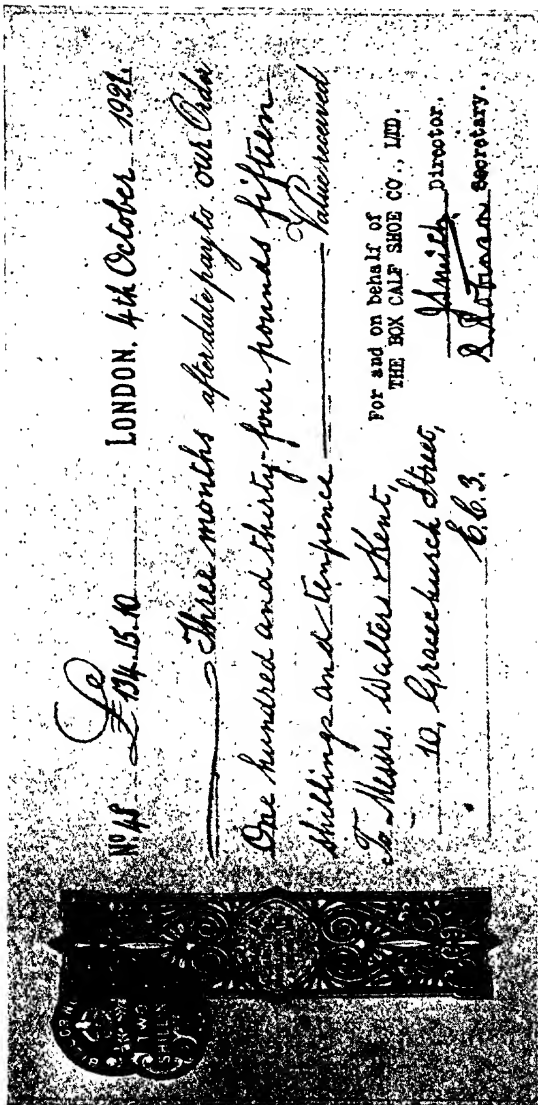


FIG. 33.—BILL OF EXCHANGE (DRAFT).

The payee (*Messrs. Chas. Baldwin & Co.* are the payees in the above example) is the party to whom the drawee is ordered to pay the amount of the bill.

Inland bills are usually drawn "to my order" or "to our Order" (see facsimile on p. 213) in which case the drawer and payee are the same person.

"A Cheque is a bill of exchange drawn on a banker 'payable on demand.'"—*Bs/E Act*, 1882, § 73.

Cheques are not accepted, as they are payable on presentation. A banker must, however, pay his customer's cheques provided the latter has sufficient available funds to the credit of his current a/c.

Endorsement.—Most Bills are drawn payable to the Order of a specified payee, e.g.

"*J. Smith* or Order."

"to our Order."

"to the Order of *J. Smith*."

while others are made payable to Bearer, e.g.

"*J. Smith* or Bearer."

"to Bearer."

"to the Order of Bearer."

"Or Bearer" Cheque forms may be obtained at any bank. But other bs/e are seldom drawn to bearer. Bills payable on demand to Bearer are called "cash orders"; their use is discouraged by bankers.

The holder of a bill "to Order" must endorse it (i.e. sign his name on the back) before he presents it for payment, or if he wishes to transfer the property in it to another person. "Bearer" bills require no endorsement.

Without either of the words "order" or "bearer," a bill is deemed to be payable to order.

A mere signature constitutes what is known as a blank endorsement. Endorsed in blank, an order bill becomes payable to bearer, and can be passed on from hand to hand without further endorsement.

<i>J. Smith.</i>

The **endorser** or any *bona fide* holder may change a blank endorsement into a **special endorsement** by adding the name of an **endorsee**. Presentation for payment or further transfer is now of no avail without the signature of the endorsee, who may endorse *in blank* or *specially*, as he pleases.

Pay S. Jones. <i>J. Smith.</i>

Be it noted that, although endorsement may, or may not, be necessary to transfer a bill, the *property* in it actually passes to the transferee by *delivery* of the instrument. Before the holder of a bill has *delivered* it to the transferee, he can alter his endorsement if he likes.

A **restrictive endorsement** is one which prohibits further negotiation of a bill, or expresses that it is a mere authority (*e.g.* to an agent) to deal with the bill as directed.

Pay D. Sykes only.
 Pay D. Sykes not transferable.
 Pay D. Sykes for my use.
 Pay D. Sykes for the account of
 Pay D. Sykes or order for collection.

If, as above, further transfer is permitted, the transferee can only sue on the bill in the name of the person who authorized him to collect payment as stated on the endorsement.

Negotiation may be prohibited in the first instance by drawing the bill (say) "*Pay to D. Sykes only.*"

A **Conditional endorsement** may be disregarded by the payer, as a b/e is an "unconditional" order.

For **qualified endorsement** see below.

Where a bill changes hands many times, it may be necessary to paste on to it a "**rider**" or **Allonge** to accommodate further endorsements. This occurs occasionally in the case of foreign bills, but in this country bills are not usually negotiated many times.

Domicil.—In signing his acceptance, the drawee usually indicates the *place* where the holder may present the bill for

payment when it falls due. That place or "domicil" is commonly the head office or London Agent of the acceptor's bank. *Most bills are presented and paid through the banks.*

In the absence of any mention of the place of payment, the bill is to be presented within business hours at the acceptor's usual place of business.

Inland and Foreign Bills.—All bills drawn and made payable within the "British Islands," or drawn in the British Islands upon some person resident therein, are *Inland Bills*. The "British Islands" include the Channel Islands and the Isle of Man.

All other bills are **Foreign Bills**.

Stamp Duty.—A bill that is not properly stamped according to English law is *invalid* in the U.K.

The stamp duties on Inland Bills are :

(a) For bills payable *on demand, at sight*, or within three days after date or sight, a *flat rate* of duty, endorsed or adhesive - - - - - 2d.

(b) For bills drawn at more than three days, an *ad valorem* rate of duty, which must be embossed on the form :—

If amount does not exceed £10	-	-	-	2d.
" " " 25	-	-	-	3d.
" " " 50	-	-	-	6d.
" " " 75	-	-	-	9d.
" " " 100	-	-	-	1s.

If amount exceeds £100, then 1/- per complete £100 or fraction thereof.

Foreign bills drawn within the *British Isles* are subject to the same duty. But where bills drawn *outside* the British Isles are received in this country to be endorsed, negotiated or paid, *adhesive foreign bill stamps* must be affixed.

The rate is as above, but for bills drawn at more than three days :

If amount does not exceed £10	-	-	-	2d.
" " " 25	-	-	-	3d.
" " " 100	-	-	-	6d.

And 6d. per £100 or fraction of £100 thereafter.

Dates.—A bill is payable *on demand*, which is expressed payable “on demand,” or “at sight,” or “on presentation,” or in which no time for payment is expressed. Sight drafts, although payable on demand, are invariably presented for acceptance by the walk clerk of the collecting bank. The drawee may prefer to pay cash at once; but sight drafts are usually accepted, and then passed through to the drawee’s bank to be paid in the same way as other acceptances or cheques.

In calculating the **due date** of a bill not payable on demand, “months” are reckoned as calendar months, and to the date on which the expressed period (*e.g.* “three months after date”) expires, must be added 3 **days of grace**. Thus a bill drawn on 1st March at 2 *m/a* (*mos. after date*) falls due on the 4th May; and one drawn at 60 *a/s* (*days after sight*) would be due for payment 63 days after the drawee had “sighted” or seen it.

Foreign bills are commonly drawn at or after sight, because the exact time they will take to arrive at destination is not ascertainable. In order to fix the due date, the acceptor of such a bill must **date the acceptance**, *e.g.*

Accepted
11th Nov., 1922.
Payable at the National Provincial and
Union Bank of England, Ltd.
Lewis and Bond.

The **Due Date** is sometimes inserted on the face of a bill, under the date of drawing.

The period between the drawing or accepting date and the due date of a bill is known as the **term** or **currency** of the bill. So demand drafts have no term.

Where a draft or an acceptance is **undated**, the holder may insert what he believes to be the true date. And a bill is not invalid by reason that it is **antedated** or **post-dated**.

It is an anomaly that a demand bill drawn for (say) £100 and dated 3 months hence, is just as valid as one dated properly and drawn payable at 3 m/d ; whereas the stamp duty for the demand bill would be only 2*d.* as against 1/- for the other.

Tenor.—The “tenor” of a bill may be taken to mean its contents generally : amount, date, acceptance, term, etc. The word is commonly used also to denote the term of the bill.

Usance is the time allowed by usage for the currency of bills of exchange drawn on foreign centres. English merchants use the word to denote simply the “term” of the bill, whatever it may be. But in some foreign countries “usance” has a definite value. Thus in France “usance” is 30 d/d, and “double usance” (*deux usances*) 60 d/d. In France there are no days of grace.

Drawing Bills.—It is discourteous to draw a B/E on anybody without his consent. By accepting the draft the debtor guarantees payment on due date, which he may not always be prepared to do. On the other hand, if the draft is presented through the bank (which is often done) or by some one to whom the drawer has transferred it, the drawee does not like to “dishonour” the bill by “non-acceptance.”

Uses of the Bill of Exchange.—The holder of a bill of exchange may use it in any of the following ways :

(1) He may keep it until due date and present it himself for payment, either directly or through the bank.

(2) He may negotiate it, that is to say (a) remit it for value to another private individual or firm ; (b) discount it ; or (c) transfer it as security for a loan. Bills are negotiable before or after acceptance.

The B/E a Contract to Pay.—By obtaining the acceptor’s signature to a draft, the drawer gains an advantage, whether he intends to transfer the bill or not. The original debt is extinguished to the extent of the sum accepted, and *each bill*

contains a fresh contract, quite separate from the transaction which gave rise to the original debt.

The acceptor not only promises to pay ; he engages *unconditionally* to pay the amount of the bill as ordered, and if he "dishonours his signature," *i.e.* fails to pay, he is liable not only for the amount of the bill, but for damages as well.

Where a debt is not secured by a bill of exchange or promissory note (see p. 234), the debtor cannot be compelled, unless a definite agreement to that effect was included in the terms of the original contract, to pay interest on an overdue account.

The words "*Interest will be charged on overdue accounts*" printed on the sellers' invoice do not alter the position. The stipulation as to interest must have been made and agreed to as part of the transaction which gave rise to the debt, not added afterwards without consideration. (See p. 276.)

Every holder of a bill is *primâ facie* deemed to have given value for it (the words "value received," on the face of the bill are optional) and to be entitled to payment. *The onus of proof lies with the defendant.*

In order to enforce by legal action payment of an ordinary book debt, the creditor must prove to the Court that he is entitled to payment. (See p. 127.)

Negotiation of Bills.—Trading and Manufacturing firms do not as a rule draw on third parties to pay their trade creditors. The amounts and due dates of the bills are not likely to coincide with the drawer's own obligations to other people. Bills and cheques are usually paid into the bank for collection, and the trader pays his own suppliers by drawing cheques for the exact amounts due to them, or accepting their drafts. Moreover, merchants have usually no desire to reveal the names of their customers by negotiating cheques and bills bearing their signature.

The establishment of banks and "discount houses" in all important commercial towns of the world has rendered the

private negotiation of bills unnecessary. But where such facilities are lacking, *A* can draw on his customer *B* to pay his supplier *C*, or *C* may be paid by means of a draft drawn on *A*'s agent or branch office. In settling accounts with foreign customers such methods are frequently adopted, in order to save the expense and loss on exchange that would be occasioned by remitting money to and fro through the banks.

Thus Foreign Bills may be drawn on third parties, as a means of (1) collecting payment from overseas customers, or (2) remitting money to overseas suppliers. But since merchants comparatively rarely have debtors and creditors in the same country, one of the parties is usually a bank.

In the first case the payee is usually a foreign or colonial bank through whom the bill has been negotiated. In the second, the remittance is purchased from a bank having branches or agents in the country where payment is desired, in the shape of a banker's draft ordering the bank abroad to pay the amount to the person named.

The Banks, Bill Brokers and Discount Houses make it their business to buy and sell trade bills, and to collect and pay their customers' drafts. They are properly organized for such work, and are also sufficiently well informed regarding the principal firms drawing and accepting bills to discount good bills for their customers. The customer parts with his bill to the banker or dealer, and receives in exchange immediate payment of the face value, less a percentage called discount. Bankers also advance their customers money on the security of bills, on the understanding that such bills are to be retransferred to the borrower on repayment of the loan with interest; and in the case of bills drawn on foreign traders, the banks frequently advance part of the value of such drafts as are entrusted to them to collect.

It should be clearly understood that drafts may be negotiated *before or after* acceptance. The holder of a bill which has not yet been accepted should present it for acceptance as soon as

possible, and if the bill is payable after sight, presentation for acceptance is *necessary*, in order to fix the maturity of the instrument.

If the drawee fails to accept a bill when it is presented by the holder for acceptance, the bill is said to be **dishonoured by non-acceptance**. If he refuses payment, the bill is said to be **dishonoured by non-payment**.

Liability of the Parties.—Now, every person who puts his signature to a bill of exchange thereby makes himself a party to the contract to pay. The *Acceptor* “engages that he will pay it according to the tenor of his acceptance.” The *Drawer* “engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate any indorser who is compelled to pay it, provided the requisite ‘proceedings on dishonour’ be duly taken.” The *Indorser* undertakes the same responsibility towards any subsequent indorser and the holder.

The “proceedings on dishonour” usually include “noting” (and sometimes “protesting”) by a legal gentleman called a Notary Public, who certifies that the bill has been properly presented and dishonoured. But in any case “Notice of Dishonour” must be sent within a “reasonable time” (it should be done at once) to any party or parties whom it is desired to hold liable. Any party to whom notice has not been given is discharged. And every other party has, after the receipt of such notice, the same period of time for giving notice to antecedent parties.

So the drawer is ultimately liable in any case, for having uttered a bill which has suffered dishonour. Any one of the indorsers may be called upon to compensate the holder, but such indorser can in his turn claim back against previous indorsers or the drawer, through whose hands the bill has passed. It is evident, therefore, that every indorsement affords additional security to the holder.

The holder of a bill payable to bearer who negotiates it without indorsement is called a **Transferor by delivery**. He is

- (i) Not liable on the instrument ; but
- (ii) He warrants to his immediate transferee being a holder for value that the bill is what it purports to be, that he has a right to transfer it, and that at the time of transfer he is not aware of any fact which renders it valueless.

In practice, the transferor of a bill is usually expected to indorse it, whether the bill be to bearer or order.

Delivery.—“ Every contract on a bill, whether it be the drawer’s, the acceptor’s, or an indorser’s, is incomplete and revocable, until delivery of the instrument in order to give effect thereto.” Suppose, for example, the drawee of a bill accepts it, and then, hearing that the drawer has become bankrupt, cancels his acceptance and returns the bill to the holder. He will not be liable on the bill, because it was never delivered by him. But “ Delivery,” meaning transfer of possession from one person to another, may be **actual** or **constructive**. So if the drawee had given notice that he had accepted the bill, he would no longer be entitled to revoke his acceptance. In any case, once the bill is in the hands of a “ holder in due course ” (*q.v.*) a valid delivery by all parties prior to him so as to make them liable is conclusively presumed.

A Material Alteration, in particular any alteration of date, sum payable, time or place of payment, should be *initialed* or *signed* by all parties to the bill. Any party who has not assented to a material alteration is entirely released from liability on the bill.

Acceptance.—A **general** acceptance assents without qualification to the order of the drawer. But the drawee may be willing to give only a **qualified** acceptance, in which he varies in express terms the effect of the bill as drawn. In particular a **qualified** acceptance may be

- (a) Conditional ;
- (b) Partial : *e.g.* " Accepted for £50 only " (on a bill drawn for say £100) ;
- (c) Local : *e.g.* " Accepted, payable at Barclay's Bank and there only."

Note.—The mere domiciling of a bill does not qualify an acceptance. But if the words " and there only " are added, there must be presentment at that place to charge the drawer and indorsers. However, omission to present for payment on the day the bill falls due will not discharge the acceptor, unless there is an express stipulation to that effect.

- (d) Qualified as to time : *e.g.* " Accepted payable 6 months after date " (on a bill drawn at say 3 m/d) ;
- (e) Acceptance by one or more of the drawees, but not by all.

The holder may refuse to take a qualified acceptance, and treat the bill as dishonoured by non-acceptance. If he does take it, any drawer or endorser not having assented to such qualified acceptance is discharged from his liability on the bill.

Payment.—The holder of a bill bearing several signatures will not agree to payment by cheque or renewed acceptance, because by so doing he is not sure of his money, and by allowing the original bill to be discharged the holder loses his right of recourse against the other parties to it. Payment should be made by a banker (as where a bill is domiciled at a bank), or in coin or notes.

Limitation of Liability on Bills.—The drawer or any indorser may insert a stipulation negating his own liability to the holder, or waiving some or all of his own duties as holder.

Thus, a *qualified endorsement* bearing the words *sans recours* or " Without Recourse " shelters the indorser from liability, though it would still leave him liable for a previous forgery.

An agent is nevertheless personally liable as signatory to a bill, though he is only acting for someone else ; but if he adds words to his signature indicating that he signs for or on behalf of a principal, or in a representative character, he is not liable

thereon. This is why company officials invariably sign cheques and other bills, etc., "For and on behalf of."

EXERCISE 18.

1. What is a B/E, and how may it be negotiated from one person to another ?

2. On the 1st January, 19—, Messrs. Jones & Son, of Reading, drew upon R. Paton & Co., Limited, at three months, for £102. 3s. 9d. The Bill was duly accepted by the drawees and returned to the drawers, whereupon their General Manager, R. McLaren (having authority to do so) endorsed the Bill in favour of R. Robinson & Sons. Show the form of the Bill, giving the acceptance, and also the endorsement. (S.A.cc.II.)

3. Describe, and explain the effect of, five different kinds of endorsement. Is it always necessary to endorse a bill in order to cash or negotiate it ?

4. Define "Inland" and "Foreign Bill," and state the duty to which each class of bill is liable.

5. (a) What is meant by the "Tenor" of a Bill of Exchange ? If an inland bill is dated March 1st, 19—, and drawn at 60 d/d, when does it fall due for payment ? If the bill were drawn at 3 d/d, when would it fall due ? If the bill were drawn at 60 d/s, and first presented to the drawee on March 15th, when would it fall due ? (S.A.cc.II.)

(b) Is a date essential ?

6. (a) State fully the commercial uses of a Bill of Exchange. (U.E.I.tpc.Int.)

(b) Of what advantage is a b/e to a drawer who does not wish to negotiate it ?

7. Speaking generally, is it the practice in this country for business men to negotiate cheques ? To what extent is it the practice to negotiate Bills of Exchange given by a Debtor to a Creditor in the ordinary course of trade ? . . . How are Bills of Exchange *usually* negotiated, and what is the reason for this *usual* method of negotiation ? (S.A.cc.III.)

8. (a) Explain the liability of (a) the drawer, (b) the acceptor, (c) the payee, and (d) the endorser of a Bill of Exchange. (S.A.tpc.II.)

(b) To what extent does a "material alteration" to a bill affect the liability of the parties to it ?

9. (a) *A* drew upon *B* at three months for £100, and *B* accepted the bill. *A* then discounted the bill with *C*, and later *C* re-discounted it with *D*. At maturity the bill was dishonoured. What are the respective positions of *A*, *B*, *C* and *D*? (S.A.tpc.II.)

(b) Would *C* have been liable if he had not signed the bill? If so, to what extent?

10. What is meant by a "Qualified Acceptance"? How does such an acceptance affect the rights of the holder as against (a) the acceptor, and (b) the drawer and indorsers of the bill?

11. *A* accepts a bill but does not domicile it with a banker. The bill is presented at *A*'s office for payment, and *A* thereupon tenders his cheque in settlement. What will the bank's walks clerk do in these circumstances, and why? (S.A.cc.III.)

12. (a) In what ways may the drawer or an indorser of a b/e negative or limit his own liability in regard to the instrument?

(b) What is necessary to avoid personal liability of directors, secretaries and other officials for signing their companies' cheques? (C.I.S.Int.)

13. A contractor received a letter from a firm who have supplied him with constructional steel-work, demanding immediate payment of their invoices amounting to a total of £448. 6s. 8d. and due for payment at the end of the current month. Draft a letter from the contractor stating that owing to a prolonged strike in his district the completion of two important contracts has been delayed, and that he will consequently find difficulty in effecting payment at the time stipulated. He would be willing, however, to accept a bill for the amount payable at two months' date with interest at say 7%.

14. Draft a letter from a Cardiff merchant advising his agents at Pretoria, Transvaal, of a draft drawn on them in favour of a firm at East London. Give the number and other suitable particulars of the draft, and recommend it to the agents' kind protection.

CHAPTER XIX.

BILLS OF EXCHANGE (*Continued*).

Bills Payable.—It has been explained that most bills are presented for payment through the banks; indeed many are conveyed that way to the drawees for acceptance.

Acceptors usually domicile their “Bills Payable” at their own bank, and the banker pays such acceptances when due, just as he pays his customers’ cheques, debiting their current accounts with the amounts paid. Naturally, if the banker paid against a forged acceptance, he would have to bear the loss himself, as he would if he paid a forged cheque.

The banker would be liable, moreover, for paying a bill whose endorsement was not genuine.

Advice.—Many firms, whose place of business is outside the City, domicile their acceptances at the *head office* or *London Agent* of the bank at which they have their current account. In such cases it is necessary for the acceptor to send his own

BARNSELEY, 8th Nov., 19...

The Manager,
Yorkshire & Durham Bank, Ltd.,
Barnsley.

Dear Sir,

Acceptor.	Drawer.	Drawn.	Term.	Due.	Amount.		
Ourselves	J. King, London	Sept. 9	3 m/d	Dec. 12	£114	8	7

Please advise Lloyds’ Bank to honour the above acceptance, and charge the same to the account of

H. BARTON & SON.

banker an **Advice slip** shortly before maturity of the bill, requesting him to communicate with the bank where the bill will be presented.

Since the paying banker may know nothing of the acceptor, if a bill were presented on him without definite instructions having been given to him to pay it, he would return the bill to the presenting banker *dishonoured for non-payment*, marked “no orders” or “no advice.”

Discounting Bills.—Referring to the facsimile bill on page 213, let us suppose the Box Calf Shoe Co., Ltd., have duly received acceptance of their draft on the 5th October (24 hours after having put it in the slot labelled “Drafts for Acceptance” in Messrs. Walter & Kent’s counter).

Wishing to raise money on the bill, the drawees take it to the bank next day, and ask at the “Bills Discounted” department what rate would be charged for discounting it: Reference is made to the bank’s card index of status reports, or a confidential enquiry sent to the acceptor’s banker. The rate of discount will depend on (a) the rates asked by the other banks, *i.e.* the **market rate of discount**, and (b) the **financial status** of the acceptor—also, to a certain extent, on the reputation of the holder of the bill, who will have to endorse it and will thus become liable to the bank if they cannot get payment at maturity.

Say the bank quote $5\frac{1}{2}\%$. If this is agreed to, the bill is left at the bank, and the Box Calf Co.’s current account is credited with the *face value*, viz. £134 15s. 10d., and debited with the *discount* for the three months the bill has to run, at $5\frac{1}{2}\%$ *per annum*, viz. £1 17s. 1d.

	Face Value	£134 15 10
5% for 1 year - - - -	£6 14 9	
$\frac{1}{2}\%$ „ „ - - - -	13 6	
5 $\frac{1}{2}\%$ „ „ - - - -	£7 8 3	
5 $\frac{1}{2}\%$ for three months - - - -	- - -	1 17 1
	Discounted Value	£132 18 9

By discounting bills, the banker renders useful service to both drawer and acceptor. The former is thus enabled to realize his debts in cash before they are due, and the latter, if the banks are willing to discount his bills, can in many cases get longer credit or a rebate (say a month's extra discount) if he is willing to settle promptly with his creditors by accepting their drafts.

Noting and Protesting.—If payment of a bill of exchange should be refused, immediate notice of dishonour should be sent to all parties whom the holder wishes to make liable (see p. 221). The form of notice may be worded more or less as follows :

“ Please take notice that a draft drawn by *The Box Calf Shoe Co., Ltd.*, upon *Walters & Kent*, dated *4th October, 1921*, at *three months after date due 7th January, 1922*, and upon which you are liable as drawer,¹ has been returned dishonoured for non-payment.”

“ I therefore request immediate payment thereof.”

When the banker is merely acting as agent in *collecting* a bill, he returns it to his customer, who must himself give out the necessary notices of dishonour. Whereas if the bill has been *discounted*, the giving of notice is the banker's business, and he will notify his customer that the bill has been dishonoured and that the customer's account has been debited with the amount and expenses.

It is usual, although it is not absolutely necessary, to *note* an inland bill dishonoured for non-acceptance or non-payment, in order to provide evidence that the bill has been properly presented. The holder—say the banker who is collecting or has discounted the bill—employs a **Notary Public** to present the bill again, and the notary records the result on a “ **Noting Ticket** ” as follows :

¹ Or “ **indorser** ” as the case may be.

Elias Scrooge,
 Notary,
 1 Cullum St., E.C. 3.
 Noting 6/8
 "No Advice."
 AP 11050/2

A bill may be noted at any time on the day of its dishonour, though it is the custom in London not to send a dishonoured bill to the notary until the bank is closed.

The Noting Ticket is pinned to the bill with a **Banker's Ticket**, showing the total amount debited to the customer's account. Assuming the bill to have been discounted, the ticket might have the following contents :

Draft	-	-	-	£134 15 10
Noting	-	-	-	6 8
Postage	-	-	-	-
Interest	-	-	-	-
				£135 2 6
Commission $\frac{1}{4}\%$	-			6 9
				£135 9 3

Although it is not absolutely necessary to note inland bills, foreign bills dishonoured for non-acceptance or non-payment must be noted and *protested*. A bill must be noted not later than the day after its dishonour ; but protest may be "extended" (that is to say the formal **Protest** may be prepared) *subsequently*, as on the date of the noting. By § 51 of the Bills of Exchange Act, 1882, a protest must contain a copy of the bill, and must be signed by the notary making it, and must specify :

- (a) The person at whose request the bill is protested ;
- (b) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

The document is engrossed in customary form, and impressed with a shilling stamp.

Extension of protest is essential in the case of foreign bills, since a notarial protest is the only evidence of dishonour admitted by most foreign courts, and without it recourse cannot be had against drawers or indorsers residing abroad.

Failure to extend protest of a foreign bill discharges the drawer and indorsers from liability.

Where a bill is dishonoured, the holder may recover from any party liable on it, not only (a) the amount of the bill, but also (b) interest from maturity, and (c) the expenses of noting, or, when protest is necessary and has been extended, the expenses of protest.

Bankers collecting bills with foreign signatures usually ask if they are to protest in the event of non-acceptance or non-payment. Without explicit instructions, the banker's duty is to protest such a bill for the protection of his customer, as by omitting to do so he would discharge the drawer and indorsers.

The words "sans frais" or "without expense" on a bill serve to instruct the collecting banker *not* to protest.

All instructions of this kind *ought* to be given separately—not on the bill—as by admitting the possibility that the parties may not pay one is likely to create an undesirable impression.

Any bill may be protested for better security against the drawer or indorsers, where the acceptor becomes bankrupt or insolvent or suspends payment before the bill matures.

It should be clearly understood that business men do not dishonour their bills if they can reasonably avoid doing so. A firm who habitually dishonoured their bills would gain a very bad reputation. Moreover, on issuing a draft to a third party, the drawer is careful to advise the drawee, and recommend his signature to that gentleman's "kind protection," which means that he does not want the draft to come back dishonoured.

Case of Need.—The drawer of a bill and any indorser may insert the name of a person to whom the holder may resort in case the bill is dishonoured by non-acceptance or non-payment.

The “case of need” is usually named on a *slip* attached to the bill, and is removed before the bill is presented on the drawee.

<p><i>In case of need apply to Messrs. Cox & Cox, Seething Lane.</i></p>
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The holder may resort to the referee in case of need or not, as he may think fit.

Acceptance for Honour.—*After protest* for non-acceptance or for better security, any person not already liable (*e.g.* the referee in case of need) may intervene and accept the bill *supra protest* for the honour of the drawer or any indorser, thus :

“Accepted for honour and account of Messrs. W. Harduppe with $13/4$ notarial charges, and will be paid if regularly presented when due.

Cox & Cox.”

Should the acceptance not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer.

The acceptor for honour is now liable to the holder and all parties subsequent to the one whose honour he has protected.

Be it noted, however, that a bill *must be protested for non-payment* before it is presented on an acceptor for honour or a referee in case of need.

Payment for Honour.—*After protest* for non-payment, any person may intervene and pay it *supra protest* for the honour

of any party liable thereon ; but in order to claim compensation from such party, the person paying the bill *supra protest* must have the payment attested in a **notarial act of honour** appended to the protest. The holder of the bill gives the payer for honour the bill and the protest in exchange for the money.

Renewal.—It sometimes happens that the acceptor of a bill, being short of ready money as the due date approaches, asks the drawer's consent to renew the bill.

If a renewal is agreed to, interest is usually added to the amount of the old bill at an agreed rate for the number of days *between the expiry dates* of the old and new bill respectively, and the acceptor pays for the stamp. *E.g.*

Amount of old bill due 7th Jan.	£134 15 10
Renewed by acceptance dated 18th Dec. at 3 m/d, due 21st Mar., with Interest at 6% <i>p.a.</i> , viz. 73 days	1 12 4
	£136 8 2
Stamp	2 0
	£136 10 2
Amount of new bill due 21st Mar.	

The new bill might be prepared by the drawee, who would then accept it first and send it to the drawer afterwards for his signature, in exchange for the old bill for cancellation. Then the drawer would not charge for the stamp.

If the drawer has discounted the bill, he can himself **take it up** by advising the bank to debit his account and refrain from presenting it ; but once an acceptance has been negotiated renewal is usually refused.

Interest and Discount.—According to arrangement, the amount of a bill drawn to renew a previous bill may include *Interest* or *Banker's Discount*. In the above calculation, $\frac{7\frac{3}{4}}{365}$ ths of 6% is added to the amount of the old bill, as *interest*. But if the drawer stipulated for *banker's discount* the new bill would have to be drawn for such an amount that, discounted

at say 6% on the date the old bill matured, it would realize the same amount as the old bill.

Let O = amt. of old bill.

N = „ „ new bill.

Now £100 discounted @ 6% 73 days before maturity would realize $£100 - \frac{6}{100} = £98\frac{2}{5}$;

$$\therefore \frac{N}{O} = \frac{100}{98\frac{2}{5}} = \frac{100 \times 5}{494} = \frac{500}{494};$$

$$\therefore \text{If } O = £134. 15s. 10d., N \text{ must be } £ \frac{134.792 \times 500}{494}$$

$$= £136.429 = £136 8s. 7d.$$

$$\begin{array}{r} 494 \) \ 67396 \ (\ 136429 \\ \underline{3176} \\ 2120 \\ \underline{1440} \\ 4520 \\ \underline{74} \end{array}$$

<i>Proof</i> : Amount of new bill	£136.429
6% of N = £8.186	
$\frac{73}{365}$ ths of 8.186 =	1.637
Amount of old bill	£134.792

Note.—In arithmetic books, though not in business, discount is called “banker’s discount” when it is calculated from face value downwards, and “true discount” when it is reckoned from the discounted value upwards, as above.

“True discount” is not the same thing as interest. Thus : 5% interest added to £100 makes £105; but 5% discount off £105 leaves £99 15s., not £100.

Retirement.—With the drawer’s permission an acceptor may pay under discount before his acceptance falls due, in this way making better use of his surplus funds, if he has any, than by leaving an unnecessarily large balance on current a/c at the bank. Or he may take up the bill at the bank under discount, if he can arrange it.

“A **Promissory Note** is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time,

a sum certain in money, to, or to the order of, a specified person or to bearer.”—*Bills of Exchange Act, 1882, § 83.*

No. 312. £134. 15s. 10d.

40 Lemon Street,
London, 4th October, 19 .
E. 1.

2/- Impressed Stamp

Three months after date We promise to pay to the Order of *The Box Calf Shoe Co., Limited*, One hundred and thirty-four pounds 15/10. Value received.

Walters & Kent.

All promissory notes drawn within the British Islands (including those payable on demand) must be stamped *ad valorem*.

The rules relating to Bs/E apply, with necessary modifications, to promissory notes. In applying these rules, the **maker** of a note (*i.e.* the person promising to pay) is deemed to correspond with the acceptor of a bill, as primarily liable, and the **first indorser** of a note to correspond with the drawer of an accepted bill payable to the drawer's order. The provisions relating to *Acceptance*, *Acceptance supra protest* and *Bills in a set*¹ do not apply to notes, and where a foreign note is dishonoured, *protest* thereof is unnecessary.

A promissory note may be made by two or more makers, and they may be liable thereon “**jointly**” or “**jointly and severally**,” according to the wording.

Where a note reads “I promise to pay” and is signed by two or more persons, it is deemed to be a “**joint and several**” note; but the words “We promise” imply a joint undertaking.

In any case, if a p/n is dishonoured, the plaintiff may sue all the parties together, or any one of them personally. But if the note is a joint one, and judgment has been entered against one of the makers, the plaintiff cannot afterwards proceed against the others. Whereas if the makers had promised *jointly and severally*, separate actions could be taken against every one of them.

¹The rules relating to bills in a set are contained in § 71 of the Act.

Bankers' Drafts are bills of exchange drawn by one banker on another, requesting payment, usually on demand, to the person named. They are used mainly for remittance to foreign places.

For inland payments of over £40 (the limit for P.O. Money Orders) the bank draft is the best means for persons having no banking a/c. But some business firms pay by bank draft in preference to cheques. The banker is given a *slip* of particulars of the drafts required, and the drafts are usually called for later on in the day. Bank drafts are (a) safer than cheques, as the drawing banker advises the drawee of each draft, and (b) more generally acceptable in payment by persons who would not take a cheque in payment from a person with whom they were unacquainted.

“**Bank Bill**” is a term given to any bill of exchange bearing a banker's signature. Such bills are discountable at lower rates than ordinary trade bills.

Bank Post Bills are issued by the Bank of England as an easy means of transmitting money from one part of the kingdom to another.

No. London, August 1, 19 .

At seven days' sight I promise to pay this my sole Bill of Exchange to or Order,

ONE HUNDRED POUNDS sterling value received of

Accepted August 1, 19 .

For the Governor and Company
of the Bank of England.

£ONE HUNDRED.

Bank Post Bills may be regarded as promissory notes or as bills of exchange. They are drawn at 7 or 60 days after sight, for any sum from £10 to £1000, and no charge is made for them. B.P.B.'s may be obtained at any branch of the Bank

of England, payable at any of the other branches. They have no days of grace.

Bank post bills originated in the days of highwaymen, providing the safest possible means of carrying or sending remittances from place to place. In case of loss or robbery, the paying branch could be advised to stop payment.

Bank Notes are promissory notes issued by bankers payable on demand. The lowest allowed to be issued in England is for £5, and the highest £1000. Bank notes are subject to a special scale of stamp duty, and bankers who are licensed to issue unstamped notes pay a composition on the average issue for each half-year. The Country note issues are insignificant compared with that of the Bank of England, which enjoys an extensive monopoly.

Accommodation Bills.—An Accommodation Bill is one which is drawn, accepted or endorsed with the sole object of raising money by discounting it. It is the duty of the party or parties accommodated by means of the bill, *i.e.* those who receive the money by discounting it, to see that the acceptor is put in funds to meet the bill when it falls due. Such bills are vulgarly known as **kites**, or, since they are not infrequently paid when due with money raised by discounting further accommodation bills, they are sometimes called **windmills**, one following the other like the sails of a windmill.

Bankers naturally refuse, if they are aware of their nature, to discount such bills for private persons or traders, whereas they are willing to discount bona fide trade bills without other security than the signature of the parties to them. In the ordinary course of trade the *b/e* represents *value in goods*, which are usually of at least sufficient value, when realized, to pay the buyer's acceptance for the price. However, it is a common practice for Banks to accept bills for the accommodation of their customers and of other banks.¹

¹ See *Trade, Transport and Finance*, Chaps. VI. and XV.

EXERCISE 19.

1. To what extent are bankers responsible for the due payment of their customers' acceptances ?

2. Calculate $1\frac{1}{4}\%$ on £534. 3s. 7d. ; $7\frac{1}{2}\%$ on £137. 5s. 8d.

(a) On April 1st, 19—, a banker agrees to allow a customer an overdraft for £200 for a period of six months. On June 30th, the Pass Book is made up, the Interest to that date is charged, and the balance against the customer is £187. 16s. 6d. No further transaction takes place till September 11th, when the customer pays in a cheque for £200. Thereafter the account continues in credit. What is the amount of interest charged by the banker at September 30th, if the rate is 6% ?

(b) On October 1st, 19—, a customer discounts a bill for £218. 10s. 9d., due December 1st. On November 1st the customer takes up the bill by paying in a cheque for £218. 10s. 9d. What is the actual amount of the discount paid by the customer if the rate is 4% ? (S.A.cc.II.)

3. Why are bills of exchange sometimes drawn on third parties ? What is the usual procedure if the drawee refuses acceptance ? (S.A.tpc.II.)

4. (a) Explain the procedure relative to discounting bills.

(b) Explain the difference between Cash Discount, Trade Discount, True Discount and Bankers' Discount, with an example of each. (U.E.I.cc.Int.)

5. Explain and give reasons for the requisite "proceedings on dishonour" in the case of (a) inland, and (b) foreign bills. Is it ever necessary to protest an inland bill ?

6. Explain "Acceptance and payment for honour supra protest."

7. If a Bill of Exchange for £812. 10s. due for payment on May 31 was renewed (on the usual terms) on April 26 to fall due on July 15, what would be the amount of the renewed bill if, at the time of the renewal, bank rate was 6% p.a. ? Assuming that Ford & Co., the acceptors of the renewed bill, dishonoured it at the due date, draft a letter to them such as you think would be appropriate. (S.A.cc.II.)

8. Explain : Sans recours ; sans frais ; case of need ; retirement of a bill ; Banker's Ticket.

9. What is a Promissory Note, and in what respects does it differ from a Bill of Exchange ?

10. Describe and explain the uses of Bankers' Drafts, Bank Bills, Bank Post Bills, Bank Notes. What is meant by a "Notarial Act of Honour" ?

11. What is an Accommodation Bill ?

12. Draft a letter from a London Merchant requesting a firm of manufacturers whose draft, accepted by him, falls due on the 10th prox., to consent to a renewal of the bill for a further period of three months from to-day's date, with interest added at 6%. Remind the drawers that they agreed at the time the bill was accepted, that it might be renewed if the merchant should wish, and give a suitable reason for the merchant's desire to have it renewed.

CHAPTER XX.

NEGOTIABLE INSTRUMENTS. CHEQUES.

Assignment of Debt.—In its origin, the object of the bill of exchange was to enable merchants to pay their trade creditors in distant parts without sending specie. In England it has developed into a perfectly flexible *paper currency*, the property in which passes by delivery coupled with the intention to transfer it. The property having passed, the right to sue on the bill follows, and though the original debt may be subsequently paid to the party to whom it was due, the present holder's rights remain unaffected.

Until the eighteenth century the English law courts were little concerned with trading. The customs and usages of merchants were observed between themselves, and disputants coerced to obey them in much the same way as members of the present-day exchanges and trade associations are obliged to respect the established rules and to abide by the decisions of their committees. Mainly through the efforts of Lord Holt and Lord Chief Justice Mansfield, these customs eventually gained recognition in the courts of law, and in so far as they were ratified by legal decisions became part of the law, and formed what is known as the *lex mercatoria*, or Law Merchant.

At Common Law, apart from the Law Merchant, a debt or other *Chose in action*¹ was not assignable at all.

¹ *Chose in Action* is a legal term used to denote the right to a thing (e.g. a debt, b/e, mortgage, bill of sale, insurance policy, etc.) as distinguished from the thing itself (e.g. goods or coin)

Equity sanctioned the assignment of contractual rights, subject to certain exceptions, but the assignee was not permitted in every case to sue in his own name. In any case the assignment must be supported by consideration given by the assignee, and

(1) The assignee can only enforce such rights as the assignor had. Thus, if the debtor has a counter claim or "set-off" against the assignor, or if the latter has only a defective title to the rights or property he purports to transfer, the assignee can claim no more than the assignor could have claimed.

(2) The assignment is not binding upon the party liable until he has received notice thereof.

The Judicature Act of 1873 gives the assignee of a legal chose in action all legal and other remedies, and enables him to sue in his own name, where in Equity he would have to sue in the name of the assignor. The Act says nothing about consideration, but in other respects its application is narrower than that of the rules of Equity, for in addition to the two stipulations referred to above, it provides that

(3) The assignment must be in writing, signed by the assignor ; and

(4) The assignment must be absolute, not by way of a charge only.

Both in Equity and under the Judicature Act, an assignment is complete without the consent of the party to be charged, who becomes answerable to the assignee from the moment he receives notice of the assignment.

Life Insurance Policies, Marine Insurance Policies, Shares in companies, and Mortgage Debentures issued by companies are assignable to the extent and in the manner provided in the special Acts of Parliament relating to them.

Negotiable Instruments.—Bills of Exchange (including cheques) belong to a class of documents known as "negotiable

called Chose in possession, of which the owner has immediate enjoyment. The term *chose in action* includes all rights of property which may be enforced by action, such as the benefit of a contract, copyright, patent rights, etc.

instruments.” The term is possibly derived from the fact that, since transference of such instruments entitled the holder to a definite value which is unaffected by the rights of previous holders, such instruments have become negotiable, or *merchantable*. The three main characteristics of *negotiability*, as distinguished from *assignability*, may be summarized as follows :—

(1) The property in a negotiable instrument is acquired by any one who takes the instrument in good faith and for value, notwithstanding any defect of title in the person from whom he took it. The bona fide holder for value of a negotiable instrument holds it “free of the equities.” For instance :

In the case of a Bill of Exchange, the “holder in due course” (*q.v.*) acquires his right to payment by the fact that he took the bill honestly and that value had been given for it ; indeed, he may enforce his rights even though (without his knowledge) he may have received the instrument from a person who had no right to it—*e.g.* one who had found, or stolen it.

Moreover, since the bill contains an *unconditional* order to pay, no dispute arising out of the original sale or other transaction as between drawer and drawee affects the holder’s position in any way.

(2) A negotiable instrument contains a contract, the rights in which pass freely from hand to hand without notice to the parties liable for its fulfilment.

(3) No separate contract of assignment is needed to transfer the rights in a negotiable instrument. The property passes to a bona fide holder for value by mere delivery of the instrument, though in some cases endorsement is necessary too.

Every holder of a negotiable instrument is deemed to be a bona fide holder for value. In any action brought by (say) the holder of a *b/e*, to enforce his rights, it is for the defendant to prove that the holder is not entitled to payment according to the tenor of the bill.

In addition to Bs/E (including Cheques) and P/Ns (including Bank Notes), Dividend Warrants and Coupons, Treasury Bills, Exchequer Bonds and most Stock Exchange securities "to bearer" are also negotiable instruments.

On the other hand Postal Orders, Money Orders, I.O.U.'s and *registered* or *inscribed* securities (*i.e.* securities not to bearer) are not negotiable instruments, though (with the exception of the I.O.U.'s) they are transferable or assignable from one person to another.

An I.O.U. is nothing more than an acknowledgment of debt. As an instrument of transfer it would have no legal effect, because (1) it contains no contract to pay, and (2) it does not purport to assign the debt.

<p>To Mr. H. Hawk, Clerkenwell, N. I.O.U. £50 (<i>Fifty pounds</i>) C. Sparrow. London, 15th Nov., 1921.</p>
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The Holder in Due Course.—The rights under a b/e (or a p/n) can be enforced only by a "holder in due course," *i.e.* "a person who has taken the bill, complete and regular" on the face of it, under the following conditions; namely:

"(a) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact:

"(b) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it."

Note that the bill must be "complete and regular" in all essentials. No rights at all can be acquired by means of a

forgery. But the forgery of a signature which was not necessary to the transference of the bill—*e.g.* a forged indorsement on a bill to bearer—does not invalidate the instrument. Neither does a wrong date.

Lost Instruments.—If a bill or note is lost, the loser should at once notify all parties of the fact, so as to warn them not to pay anyone who is not entitled to the instrument, and (since most bills are domiciled at a bank) the banker should be instructed to stop payment.

The same procedure is necessary where a cheque is lost, but in that case the loser must ask the *drawer* to countermand payment, for bankers require proper authority to refuse payment of their customers' cheques; the drawer should go to the bank in person or send a written message.

The loss naturally falls on the loser, and where a bill is lost in transmission to the payee, the latter must suffer the loss if he has selected the channel through which remittance was made, or if the ordinary means of communication (*e.g.* the post, where the parties are in postal communication) are used.

If payment has been stopped too late and the instrument has been cashed, the loss may be irretrievable; but otherwise the loser can apply to the drawer for a duplicate. By Sec. 69 of the *Bills of Exchange Act, 1882*—

“Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer for another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again.”

And if the drawer refuses to give a duplicate the court may compel him to do so. The security usually takes the form of a **Letter of Indemnity.**

INDEMNITY FOR LOST CHEQUE.

I, *Alfred Brown*, residing at *The Manor, Maidenhead*, Considering that I have lost or mislaid a Cheque No. *x11489* dated *12th July, 19* , granted by you for payment in my name at theBank, Ltd., and Whereas you have issued to me a duplicate copy of the said Cheque, Therefore I the said *Alfred Brown* and I *Charles Dixon* residing at *Bruce Lodge, Lexham Gardens, London, W.8*, hereby oblige ourselves and our successors whatever, all conjointly and severally, to guarantee or defend, and relieve you from all and any claim, question or expense which may be raised against or incurred by you in reference to the said Cheque, which we oblige ourselves to deliver to you if and when found.

In witness whereof, etc. *A. Brown.*
C. Dixon.

The above would be subject to Stamp Duty as follows: *6d.* for the guarantee, and *2d.* as a receipt stamp.

A person who finds or steals a bill has of course no right to payment; but if the bill should get into the hands of a holder in due course the drawer would have to provide money to pay it. In the case of a cheque, where payment is countermanded the banker must obey his customer's instructions and refuse to pay; but a holder in due course may proceed against the drawer, and force him to remove the stop. This is the risk against which the drawer requires to be secured before he will issue a duplicate.

If a promissory note is lost, the loser must indemnify the *maker*.

Cheques.—It has been already stated that a cheque is a “bill of exchange drawn on a banker payable on demand.” Cheques are subject to the same flat rate of stamp duty as other drafts payable on presentation, viz. *2d.* for any amount, embossed or adhesive.

The Date.—If a banker pays a *post-dated cheque*, he is not entitled to debit his customer's a/c until the proper date.

Cheques not paid in for six months after issue are said to be *stale*, and are returned to the holder marked "out of date." However, the holder is not thereby deprived of his right to payment.

All cheques should be paid in the day they are received, to facilitate book-keeping and avoid loss arising through delay. If the holder of a cheque unnecessarily delays presenting it for payment, and in the meantime the bank should suspend payments, the drawer is not liable to make good any loss, provided sufficient funds were available in his account when the cheque could have been paid. The payee becomes the creditor of the bank.

Banker's Authority to refuse Payment.—If a banker refuses payment of a cheque without just cause, he exposes himself to action for damages by his customer. A reasonable time is allowed, however, for keeping the account up to date, to ascertain what funds are available.

A banker may refuse payment of a cheque if

- (a) Funds to drawer's credit are insufficient ; or
- (b) If the cheque is not in order.

He *must* refuse payment if he detects a forgery, or if

- (1) Payment is countermanded by the drawer.
- (2) He receives notice of the drawer's death.
- (3) " " " " bankruptcy.
- (4) " " " " insanity legally certified.
- (5) " a Garnishee Order (see p. 128).

When payment is refused the cheque is returned as explained in Chap. XVII.—*e.g.* *N/S* ; *I/F* ; *N/f* ; *N/e* ; *R/D*. *Effects not cleared* ; *Words and figures differ* ; *Out of date* ; *Cheque mutilated* ; *Alteration in amount requires drawer's signature* ; *Drawer deceased* ; etc.

If the words and figures differ, the banker pays the smaller amount, or returns the cheque unpaid. Legally a bill of exchange

wherein the words and figures differ is payable according to the words.

If a cheque is accidentally torn, the holder should draw the receiving clerk's attention to the damage when paying the cheque in. In such cases the collecting banker marks the cheque "accidentally mutilated by us" and affixes the bank's official stamp. The cheque will then be duly paid.

Fictitious Payees.—A Cheque drawn in favour of a fictitious or non-existing person, *e.g.*

Pay *Queen Elizabeth* or Order.

would be payable "to Bearer," without endorsement.

However, where a cheque is drawn to an **Impersonal Payee**, such as :

Pay *Petty Cash* or Order,
Pay *Salaries* or Order,

it is *usually* considered to be "to the order of the drawer," and must be endorsed by him. In many business houses separate cheques are drawn in this way for the withdrawal of cash for particular purposes. The Pass Book, in which the items appear, thus affords an additional check on the office books.

Form of Endorsement.—Whereas a banker is liable if he pays a cheque on which the drawer's signature has been forged, he cannot be held responsible for a forged indorsement. He must know his customer's signatures, but he cannot know everybody's signature.

Nevertheless, the banker must do his duty without negligence, and if the endorsement of a cheque presented on him is **irregular**, he will require it to be corrected. The following forms of indorsement are usual and regular :

Payee.	Indorsement.
William White	William White W. White per pro W. White, B. Black
W. White	B. Black, Agent for W. White William White Walter White W. White.
Dr. Johnson	J. Johnson, M.D. James Johnson
Chas. Green and Henry Jones	<i>This would be a Joint Cheque : both payees must sign.</i>
Chas. Green or Henry Jones	<i>This would be an Alternative Cheque : either payee may sign.</i>
Mrs. Brown	Mary Brown M. Brown
Mrs. John Brown	(Mrs.) Mary Brown Mary Brown, wife of John Brown Mary Brown (Mrs. John Brown) Mary Brown, widow of John Brown
Executors of the late Thos. Abbott	For self and co-executors of Thos. Abbott, Hy. Jones. (One may sign for all.)
Trustees of Thos. Abbott	For Thos. Abbott Chas. Wright, } Trustees. Hy. Jones, } (All must sign.)
J. Browne (where the name should be Brown)	J. Browne J. Brown.

The usual signatures for authorised clerks, partners and company officials have already been given on p. 14. Some banks require procuration signatures to be confirmed by the presenting banker.

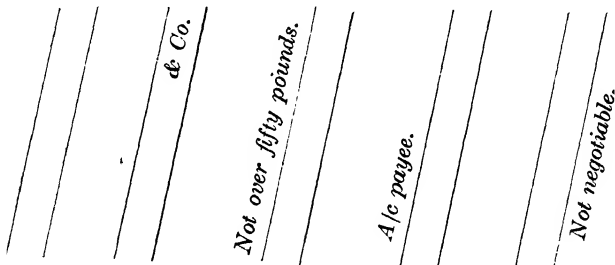
Whereas a banker is not responsible if he pays without negligence an order cheque with a forged indorsement, he *would be liable* for paying any other bill of exchange whose indorsement was not genuine. On the other hand, though

the banker must pay his customers' cheques, he is not compelled to have anything to do with their trade bills.

Crossed Cheques.—A common method of safeguarding cheques is to "cross" them.

A **General Crossing** consists of *two parallel lines* drawn vertically across the face of the Cheque, as follows :

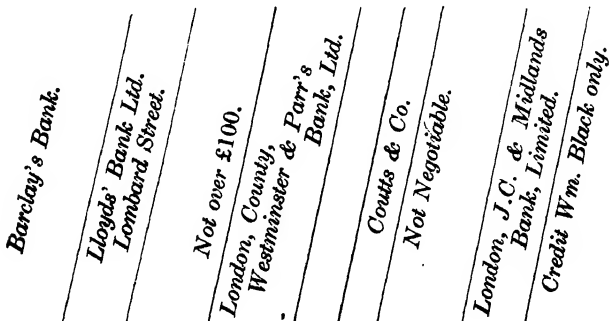
GENERAL CROSSINGS.



Other signs or words may be added, but so long as the name of a bank is not mentioned, the crossing is a "general crossing."

A **Special Crossing** consists of the *name of a bank* written across the face of the cheque, with or without the lines or additional words :

SPECIAL CROSSINGS.



Where a cheque is crossed generally, the banker on whom it is drawn is only authorized to pay it *to a banker*. If the cheque is crossed specially, it must be paid *to the banker named*, or his agent being a banker.

Hence, although the holder of a crossed cheque cannot himself demand payment over the counter, if he "pays in" the cheque to his current a/c, his own banker will receive payment for him and credit his account with the proceeds. If drawer and payee of a crossed cheque bank at the same place, the banker has to "pay himself" by debiting the drawer's a/c, and gives the holder the benefit by putting the amount to the latter's credit.

The holder of a cheque may cross it, or turn a general crossing into a special crossing, or add to a general or special crossing the words "not negotiable." But the crossing is a *material part* of a cheque, and it is not lawful for any person to obliterate it without authority.

When a cheque is crossed specially to more than one banker, the banker on whom it is drawn must refuse payment. But a banker to whom a cheque is crossed specially may again cross it specially to another banker for collection, and a banker to whom a cheque is sent for collection, whether uncrossed or crossed, may cross it specially to himself.

A person, not having a banking a/c, who receives a crossed cheque in payment may (1) negotiate it to somebody who has; (2) ask the drawer to cancel the crossing or (3) issue a new cheque, uncrossed, or (4) ask the banker on whom the cheque is drawn to arrange for it to be paid in spite of the crossing. The drawer may obliterate his own crossing by striking it through and adding the words "Pay Cash" accompanied by his initials or, preferably, his signature. However, bankers justly disapprove of this method. With regard to method (4): a banker who disobeys a crossing does so at his own risk; it is not an offence to cash a crossed cheque.

If asked to cash such a cheque, the banker would request the holder to call again in a day or two, during which time he could make inquiries or ask the drawer's permission.

The crossing of a cheque does not prevent the holder from negotiating it ; it is merely a safeguard, in that only a banker can collect payment of such a cheque. The addition to a general or special crossing of the words

Not Negotiable provides a further safeguard against wrong payment of a cheque. By sec. 81 of the *Bs/E Act*,—

“Where a person takes a crossed cheque which bears on it the words ‘not negotiable,’ he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.”

It will be noticed from the above that the words “not negotiable” on a cheque form part of the crossing. Without the crossing the meaning of the words would be doubtful.

A “not negotiable” crossing does not completely destroy the negotiability of the cheque ; the contract to pay is quite distinct from the original transaction which gave rise to it, and the right to payment may still be transferred by delivery of the instrument. But if a cheque bearing a “not-negotiable” crossing should be stolen or lost, a subsequent holder (though he took it in good faith and for value) would have no more right to enforce payment than the thief or the finder had.

Where a holder himself adds the words to a crossing, he does not impair his own or any previous holder's rights ; he merely makes the cheque safer for the future.

“**A/c Payee.**”—Any bona-fide holder may add to the crossing of a cheque the words “A/c payee” or (say) “A/c J. Smith only.” The paying banker is careful not to disregard this instruction, but if he disobeyed it it is doubtful whether the drawer could hold him responsible, as the paying banker and drawer are in no contractual relationship. There is no rule of law which would prevent a cheque crossed “A/c

Payee" from being negotiated; the words are addressed to the *drawee*, i.e. the paying banker.

"Not Transferable."—The drawer of a bill may safeguard it by adding the word "only" to the name of the payee, and any holder may make an endorsement restrictive. (See p. 215.)

Precautionary Measures.—The greatest care should be used in drawing cheques to allow no opportunity for an unscrupulous person to raise the amount. Words and figures should be commenced as far to the left as possible, and if the words are insufficient to extend across the face of the cheque, the gap should be filled in by a thick line. It should thus be quite impossible to raise the amount from say £20 to £120, £100 to £190, *Eight to Eighty*, etc.

Methods have already been explained by which the drawer or holder may guard against misappropriation of a cheque, viz. :

By Crossing, either generally or specially ;

By the addition to a crossing of the words :

"Not negotiable,"

"Not over Fifty Pounds," etc.,

"A/c Payee" ;

By drawing "Pay *so-and-so* only."

And the holder may safeguard *inward cheques* by crossing them specially to his own bank (unless they have already been crossed)—a method which may be applied equally well to *inward postal orders* and *money orders*, and can be done very quickly by the use of a rubber stamp. For reasons already stated, all cheques should be paid in promptly, and endorsement should be delayed until the last moment.

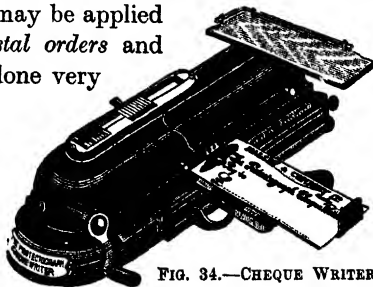


FIG. 34.—CHEQUE WRITER.

(By permission of Messrs. Halsey & Co. Ltd.)

Many firms use Automatic Cheque Writers to prevent all possibility of alteration in form or amount. Some machines

are made to impress the various crossings only, while others, like the one illustrated in Fig. 34, write the amount in full. The machine cuts through the paper, and inks it at the same time, leaving an indelible impression.

Until the year 1917, the banker was in all cases held liable where he paid a cheque for an amount which had been fraudulently raised. This state of the law, which was based on the debatable doctrine that the drawer ought not to anticipate wrong-doing, was most unsatisfactory from the bankers' standpoint, and in 1917 the House of Lords decided in *re Macmillan v. London Joint Stock Bank* that a customer owed his banker a duty to use reasonable care in drawing cheques, and that if by reason of his failure to do so and the intervention of crime loss ensues, the customer, not the banker, must bear the loss.

Certified Cheques.—A "Marked" or "Certified" or "Guaranteed" Cheque is one which has been marked by the banker on whom it was drawn to certify that the drawer has sufficient funds to his credit at the bank to cover the amount. The drawer can use such a cheque to pay strangers who would not otherwise accept payment by cheque.

In America the banker's certification constituted acceptance of the draft; the drawer's a/c is debited, and all parties are relieved of liability. Not so in this country, however. By certifying his customer's cheque, the British banker does *not* become a party to the contract to pay; he merely certifies that there are adequate funds to the credit of the drawer's account with him. But if a marked cheque is lost, the drawer cannot countermand payment, for the banker's word would be of little value if at his customer's pleasure he afterwards refused to cash the cheque for a bona fide holder. In other respects a certified cheque does not differ from any other.

Receipt Cheques.—It might appear that a "receipt cheque" (see p. 100) does not contain an unconditional order to pay, and is therefore not a bill of exchange, and not a negotiable

instrument, particularly where the wording of the cheque definitely instructs the banker to

“ Pay *so and so* the sum of *so and so* on the receipt hereunder being presented through a banker duly stamped, signed and dated.”

A Receipt Cheque *is* a negotiable instrument, however. *The order to pay is unconditional*, for the drawer is in any case entitled to a receipt in exchange for his money, whether he pays it himself or asks his banker to pay. By issuing receipt cheques the drawer merely gets the bank clerks to relieve him of some of his office work. The banker is not compelled to have anything to do with his customer's receipts, and may require those who use receipt cheques to sign an *indemnity* exonerating him from blame for errors in connection with such receipts.

FORMS OF POSTAL REMITTANCE COMPARED.

The considerations which should decide the remitter as to the most suitable means of sending money are : (a) economy ; (b) safety ; and (c) convenience. In the vast majority of transactions between business firms remittance by Cheque, Acceptance or Promissory Note is preferable to any other method of payment. In the case of :—

Cheques, the cost, apart from postage, is only 2*d.* for any amount. Cheques may be drawn in such a way as to render misappropriation practically impossible ; no more convenient method could be devised, and the pass book serves as a useful check on the office accounts.

Bills of Exchange having more than three days to run, and all **Promissory Notes** cost more in stamp duty than Cheques unless the amount is less than £10 ; but by their means the remitter can gain time, while satisfying his creditor as fully, in most cases, as if he paid him at once in cash.

Postal Orders and Money Orders provide a convenient means of transmitting small sums of money through the post. But for amounts exceeding 21s. 5d. cheques are cheaper, and where the remitter has no banking a/c he will find a bank draft cheaper than an inland money order for any amount exceeding say £10.

POSTAL ORDERS.

Poundage on postal orders will be as follows :

6d. to 2/6	-	-	-	-	-	-	-	1d.
3/- to 15/-	-	-	-	-	-	-	-	1½d.
15/6 to 21/-	-	-	-	-	-	-	-	2d.

Orders are kept on sale at every M.O.O. for any multiple of 6d. up to £1, and for 21s. The sender of a P.O. may increase its value by an amount not exceeding 5d. by affixing British postage stamps not exceeding three in number to the face of the Order. Odd halfpence will not be paid.

INLAND MONEY ORDERS.

Poundage on inland money orders will be as follows :

Not exceeding £3	-	-	-	-	-	-	-	4d.
Exceeding £3 but not exceeding £10	-	-	-	-	-	-	-	6d.
" £10 " "	-	-	-	-	-	-	-	8d.
" £20 " "	-	-	-	-	-	-	-	10d.
" £30 " "	-	-	-	-	-	-	-	1/-

No single M.O. can be issued for a sum exceeding £40.

No order may contain a fractional part of 1d.

INLAND TELEGRAPH MONEY ORDERS.

The charges for Inland Telegraph Orders are as follows :

- (1) A Money Order poundage at the ordinary rate for Inland Money Orders.
- (2) A charge for the Official Telegram of Advice to the office of payment at the ordinary rate for Inland Telegrams, the minimum being 1/-.
- (3) A supplementary fee of 2d. for each Order.

The Remitter is allowed, on paying for the additional words required, to have a short private message for the payee, not exceeding twelve words, added to the Official Telegram of Advice.

Postal Orders differ from Money Orders in amount and method of payment.

The purchaser of a Postal Order is expected, before parting with it, to fill in the names of the payee and the paying office. But anyone entitled to payment may fill in his name and make the order payable where he likes. The Counterfoil should be retained by the sender, who may, if he wishes to do so, obtain *repayment of the amount* (but not the poundage) on presenting the Order and Counterfoil at the issuing office. The Postmaster cannot undertake to consider any application respecting a P.O. which has miscarried, or which has been lost or destroyed, unless the Counterfoil is produced, and unless proof be given to his satisfaction that the name of the payee was inserted in the order before the holder parted with it.

When applying for a Money Order, however, the remitter must use a printed requisition form, and state thereon the name of the payee and the place where the order is to be payable. Advice is sent from the **issuing office** to the **paying office**, and, unless the order is presented through a bank, the person presenting it must furnish the remitter's name for comparison with the advice.

The remitter of a Money Order may *stop payment* by sending a notice, accompanied by a fee of fourpence to the office where the order is payable. If a M.O. is lost, application may be made for the issue of a duplicate; if loss occurred during transmission by post a duplicate is supplied gratis, otherwise a charge of 6d. is made. The remitter of an Inland Money Order may *defer payment* for any period not exceeding 10 days.

Postal Orders and Money Orders may be *crossed for payment through a bank*, and it will be noticed that both forms bear the words *Not Negotiable*. It should be noted, however, that these words appearing on post office orders have a wider meaning than the "not negotiable" crossing of a cheque. The P.O. Guide says :

"Postal Orders do not, like Bank of England Notes, represent value in themselves. If an order be lost or stolen, no person into whose hands it may fall, though himself innocent, is entitled

to receive the amount of the order. The rightful owner is alone entitled to cash the order."

Postal Orders and Money Orders are not *negotiable instruments*. The right to payment does not pass to a holder for value by mere delivery of the order. If the remitter gets the post office to stop payment of an order, the holder has no remedy against the post office, and the possession of the order gives him no right to enforce payment against the remitter.

Postal Remittance to Places Abroad.—As a means of remitting money to places abroad the post office is not to be recommended. *Bank Drafts, Mail Transfers or Telegraphic Transfers* obtainable at any bank doing foreign business are more economical and more convenient.

British Postal Orders are issued in most British Possessions and Dependencies and certain other places abroad, a list of which, together with the regulations relating thereto, is given in the P.O. Guide.

The Rates of Poundage for Foreign and Colonial Money Orders are *3d.* or *4d.* (according to the country to which remittance is desired) for every £1 or fraction of £1, and the Limit of Amount varies from £20 to £40 as shown in the list of countries contained in the guide. **Foreign and Colonial Telegraph Money Orders** may be sent to those places marked T in the list, the charge for which consists of the ordinary poundage for M.O.'s payable abroad, a charge for the Telegram of Advice, and a Supplementary Fee.

Registration.—Compensation in respect of money of any kind (coin, notes, orders, cheques, stamps, etc.) will only be given in those cases in which the money is enclosed in one of the Registered Letter envelopes sold by the Post Office and the packet is tendered for transmission by Registered Letter Post.

The fees payable over and above the postage (and the respective limits of compensation) range from *2d.* (for £5) to *1s. 10d.* (for £400).

Bank of England and Treasury Notes are useful for the

remittance of round sums up to £5, but for larger amounts the cost of registration is a deterrent. In remitting bank notes the *numbers should be recorded*, and as a further precaution the sender may *cut them in half* and remit in two separate envelopes.

Coins.—Remittance in coin may be desirable when it is desired to send money to the blind or infirm.

The compensation given in respect of coin, which must be packed in such a way that it cannot move about, will in no case exceed £5.

Postage Stamps are convenient for the payment of very small amounts, but for remittances of more than 1s. or so they are undesirable, as the receiver may have difficulty in disposing of them. The Post Office will not repurchase any smaller amount than £1 worth of stamps, and they charge a Commission for doing so at the rate of 5% of the face value of the stamps. Application has to be made on a form, which is handed in at a M.O.O. with the stamps, and payment is made only by means of an order sent by post from the Chief Office of Account.

EXERCISE 20.

1. Explain the procedure necessary to assign a debt.
2. What is a negotiable instrument? Mention a few examples of negotiable instruments and instruments which, though referring to payments or debts, do not belong to that category.
3. What is the difference, if any, between a Promissory Note and an I.O.U.? Give a specimen of each to illustrate your answer. (D.C.C.)
4. You are unfortunate enough to lose an open cheque for £50 drawn by *B* in your favour. What can you do to safeguard yourself? Show how, as a business man, you would generally draw your cheques, and explain clearly why you adopt that form. Of what use is the Banker's Pass Book to the customer? If the balance in the pass-book at any particular date does not agree with the balance shown in the customer's Cash Book at the same date, how is the difference usually accounted for, and what should the customer do to establish the agreement of the two books? (S.A.cc.II.)

5. Define "Holder in due course."

6. Show examples of a general crossing and a special crossing as used on cheques, and explain the effect of each. (U.E.I.cc.Int.)

7. Under what circumstances may a banker refuse payment of a cheque, and what marks would you expect to find on the cheque when returned to the holder? What may happen if a banker fails to honour his customer's cheque without good cause?

8. Explain "Fictitious payee" and "Impersonal payee." To what extent is a banker liable in respect of his customers' (a) cheques, (b) acceptances and p/ns?

9. What is the effect of adding the words "not negotiable" to the crossing of a cheque: (a) when the addition is made when the cheque is drawn; (b) when the addition is made by a bona fide holder for value immediately before paying it into his bank? (S.A.tpc.II.)

10. Is a cheque a Bill of Exchange? Wherein does a cheque differ from a Bill of Exchange? Assuming that you had no banking account, how would you cash the following cheques?

(a) A cheque for £5 drawn payable to your order.

(b) A cheque for £5 drawn payable to you or bearer.

(c) A cheque for £5 drawn payable to your order and crossed. (S.A.cc.II.)

11. (a) If, after issue of a cheque, the amount be fraudulently raised by a person who succeeds in cashing it for the higher amount, does the loss fall on the banker or on the drawer?

(b) If the words and figures of a cheque differ, to what extent is the banker authorized to pay it?

12. (a) What is a "marked" or "certified" cheque? What happens when such a cheque is lost? (S.A.tpc.II.)

(b) Is a Receipt Cheque a negotiable instrument?

13. On March 20th, 1918, Messrs. Yorke & Evans, of Shrewsbury, remit the sum of £380 to the Crescent Metal Co., Limited, Rugby. Draw each of the alternate forms of documents which could be used, viz. (a) a crossed cheque on the Salop County Bank, (b) a Bill of Exchange at three months after date, showing the acceptance, and (c) a Promissory Note. (U.E.I.cc.Int.)

14. You wish to send the following sums to your agents in various towns. State the best methods of making the remittances.

To A	-	-	-	-	£1	7s.	6d.
B	-	-	-	-	43	5	6
C	-	-	-	-	3	7	
D	-	-	-	-	7	-	-

(U.E.I.cc.Elem.)

Note: Compare all the means of postal remittance with which you are acquainted.

15. (a) What is the meaning of the words “not negotiable” printed at the top of Postal Orders ? (D.C.C.)

(b) Differentiate between Postal Orders and Money Orders, and explain how and in what circumstances payment of such orders may be stopped and the money refunded. Can P.O.'s and M.O.'s be used, and do you recommend their use, for remitting money abroad ?

16. (a) What alterations, or additions, may be made to a cheque after it has been withdrawn without invalidating it ? (S.A.tpc.II.)

(b) Discuss the effect of adding to the crossing of a cheque the words: “A/c Payee only.” To whom are these words addressed, and what have you to say for or against this addition to a crossing ?

CHAPTER XXI.

CURRENCY.

The Origin of Money.—Division of labour is notably the first step towards civilization. So long as man was content to dwell in caves or huts of mud and twigs, clothing himself with the skins of the animals he killed for food or sport, he had little need of what we now call “business dealings” with his fellows. In his primitive state man enjoyed freedom of a sort; but his life was hard, and in most cases any diversion of his activities from immediate needs and personal protection probably brought immediate retribution from either his fellow-men or the forces of nature.

But when communities of human beings organized their social life and labour, they became capable of building cities, constructing (in modern times) railways and steamships, and providing not only the essentials of life, but wealth in reserve, while still having leisure to devote to education and amusement—for the fortunate members of the community at any rate. The key to it all is *division of labour* and organization.

In the early stages of civilization each individual *barters* his services or property in excess of his own personal needs for the different products of other men’s labour or plunder. But such a primitive system possesses the disadvantage that each member of the community has difficulty in finding people willing to supply him with what he needs, in exchange for what he has to offer. To facilitate exchanges,

those who wish to *buy* must have something to offer in payment which any seller will readily accept. Skins, horn and ivory, grain, precious stones, and shells have all been used, but it was not until metal was employed as a **medium of exchange** that man can be said to have known the use of money.

In its origin, then, *money is a commodity* which can be bartered for other commodities and services.

Currency.—The term “currency” is applied to that form of money which is current in any country.

Where there is a **metallic currency**, the commodity chosen as a medium of exchange is a metal or metals, made into **coins** under the supervision of the state. The head of the monarch, eagle or other emblem stamped on the coin serves to certify it as genuine.

Standard of Value.—Any currency, in addition to being used as a medium of exchange, serves also as a *standard* by which the value of other commodities is measured. Before the war of 1914/18, most European countries used a **Gold Standard**, and in the U.S. gold coins are still in circulation. In Mexico, India, the Straits Settlements and China the standard is silver.

The Standard Metal is not pure gold or silver; alloys are used and the standard alloy of which the coins are made is called *Bullion*.

English and Turkish gold bullion is 22 *carats fine*, i.e. $\frac{22}{24}$ of the alloy is pure gold; and the remaining $\frac{2}{24}$ a base metal consisting of a mixture of copper and tin. The gold bullion of other continental countries and of the U.S. is $\frac{9}{10}$ fine, and the Indian silver rupee weighs 180 grains, 11 parts out of 12 being pure silver.

Thus, when the British standard was Gold, the value of any merchantable thing was expressed in terms of *comparison* with the value of the gold in the English sovereign. The golden sovereign contains about 123·27 grains of 22 carat gold. Hence, when sovereigns were used in the place of the present

£1 notes, the value of 1 oz. Troy (480 grains) of 22 carat gold could be expressed in terms of £ s. d. as £ $\frac{480}{123.27} = \text{£}3. 17s. 10\frac{1}{2}d.$

Under the gold system, a bicycle priced at (say) £7. 15s. 9d. might be purchased for the same money as 2 oz. T. of 22 carat gold (neglecting the value of the alloy). If gold suddenly became plentiful, more gold would be offered in exchange for other commodities. The balance between the supply of gold and the supply of other commodities would be upset. The nation's *purchasing power* in gold having increased, the *demand for commodities* would correspondingly increase, with the result that prices would go up. The bicycle dealer would require more than 2 oz. T. of gold for his bicycle, *not* because bicycles had become more difficult to produce, but because he, his customers, his workmen and everybody else measured value in terms of golden money.

Formerly, the *pound sterling* meant one pound Troy of silver. The £ being divided into 240 pence, the 240th part of a lb. T. was, and is to this day, known as a dwt. (penny-weight).

Monometallism and Bimetallism.—Where—as was the case in Great Britain and most Continental countries and is to this day in the U.S.—the currency is based on one standard metal only (whether gold, silver or other metal) the currency is said to be *monometallic*. Coins of inferior metals may also form part of the currency, but if the standard is monometallic such coins can only be used as small change, and a debtor may be legally compelled to offer *standard coins* in payment of sums of more than a certain amount.

If two standards are employed (say gold *and* silver) the currency is *bimetallie*.

Bimetallism has the disadvantage that the values of the two metals inevitably fluctuate in relation to each other, and the currency becomes depreciated from a cause first discovered

by Sir Thos. Gresham (Queen Elizabeth's financial adviser), and known after him as **Gresham's Law**. To put it shortly, the law is that *bad money drives good money out of circulation*. So soon as the market price of one of the standard metals becomes cheaper than its legal equivalent in the other metal, the public hoard the more valuable metal, and pass on the coins that have become worth less than their face value.

The operation of Gresham's Law may be impeded by coining only a limited number of coins of the cheaper metal, thus causing an artificial scarcity of them, and making what is called a **Limping Standard**.

Where there is a monometallic standard (gold, for instance), a fall in the price of the other metals (silver, nickel or bronze) does not upset the currency, because the coins of the cheaper metal only serve as **Token Coins**, which are not guaranteed to be worth their weight in metal, and are only *legal tender* for the payment of small amounts.

Legal Tender is that kind of money which can be demanded in payment of debts. A creditor can enforce payment of a debt in legal tender, and he is not obliged to accept, nor has he any right to claim, payment in any other form.

In Great Britain gold coins, Currency notes and Bank of England notes are legal tender for any amount. Silver coins are legal tender for the payment of any sum not exceeding 40s., and bronze coins for 1s. or less.

A gold coin less than 10s. in value would be too small for convenient use, so a cheaper metal—silver $\frac{3}{4}\frac{1}{10}$ fine¹—is used for coins down to 3d. in value, when the quantity of metal again becomes very small, and bronze has to be used.

Change is a necessity, and the so-called **token coins** serve that purpose regardless of their value as metal. But if the value of the metal of which the token coins are made *increases*, so

¹ Silver coins issued on and after 13th Dec., 1920, are only $\frac{2}{4}\frac{9}{10}$ fine; an alloy of silver and nickel.

that each coin is worth more as metal than as money (this occurs in the case of English $\frac{3}{4}$ fine silver coins when the price of silver exceeds 5/6 per oz. T.) the token coins tend to disappear from circulation to be hoarded, or melted down, or smuggled away into foreign countries, where the metal can be sold at its market value. This occurred in many European countries after the great war.

Credit.—Where a country possesses a proper currency the latter is the *only* standard by which the value of other commodities is measured ; but currency is by no means the only medium of exchange. Coins and notes are used for shopping, travelling, etc., and wages are paid in legal tender because they are mostly required by the wage earner and his family to spend in small amounts. But the bigger transactions of business are financed, not with coin and notes, but with *Credit*.

Banking transactions provide an example of the use of credit as a medium of exchange. Of the hard cash “deposited” at a bank, the banker does not keep the whole in his till. He *invests* and *lends* most of it to earn income for himself and pay his clerks and establishment charges. His customers have no objection to this arrangement, provided the banker so organizes his business that if, at any time, a “run” occurred at the bank, all his depositors claiming repayment of their deposits at the same time, the banker could call back the money he had lent outside and, with the assistance of the other banks, repay his debts *in legal tender*.

When a merchant supplies goods “for cash” he can legally demand payment in legal tender ; but in most commercial transactions payment consists of debit and credit entries in the banking accounts of the parties concerned. If goods are supplied “on credit,” the customer’s obligation to pay takes the place of money until the term of credit expires, when payment is effected in (a) cash or (b) the banker’s credit,

transferred by cheque or (c) someone else's credit, secured by a b/e or p/n.

Credit, then, is in this sense nothing more than indebtedness, and in so far as it may be transferable, indebtedness may be used like money, as a *medium of exchange*—though of course credit is not money, nor is it legal tender. Bank of England Notes and Treasury Notes however, which are guaranteed by the State, are *legal tender*.

Representative Money.—Any transferable instrument which obviates the immediate use of legal tender—such as Bs/E (including Cheques), P/Ns (including Bank Notes), “Certificates” entitling the holder to currency notes (*q.v.*), Postal Orders and Money Orders—may be classed as “representative money.”

Ratio of Legal Tender to Credit.—If there were no credit, purchases and payments for services, etc., could be made only with cash, and the total purchasing power of the nation would be clearly confined to the amount of legal tender in the hands of the people.

The amount of gold coin in circulation before the war broke out in 1914 has been estimated at about £120,000,000, and the average value of Bank of England notes (which could be exchanged on demand for gold stored in the vaults of the Bank) was at that time about £30,000,000.

After making allowance for silver and bronze coins, and the Scotch and Irish notes which are legal tender in Scotland and Ireland respectively, all the legal tender in circulation in the British Isles would thus have scarcely amounted to £5 per head of the population—a sum obviously inadequate to finance trade and industry.

The truth is that the larger transactions are financed, not by means of direct payments in legal tender, but with credit.

Even the bankers' deposits on current a/c consist mainly of cheques drawn on or bills domiciled with other bankers, only a comparatively small portion being received over the counter in hard cash. Moreover, when a banker discounts a

bill, or grants his customer a *loan* or *overdraft*, he does not usually pay the amount at once in hard cash; he allows his customer to *draw cheques* on him, entitling other people to payment.

The enormous amounts transferred daily through the London Clearing House, without the use of a single coin, may be seen from the following table, which is published weekly in the money column of the larger newspapers.

CLEARING HOUSE RETURN.

The return of the London Bankers' Clearing House for the week ended November 17 shows a total of £683,045,000, a decrease of £8,139,000 over last year. The aggregate to date is £34,577,643,000, an increase of £10,270,833,000. The official return is appended:

1920.	Town Clearing.	Metropolitan Clearing.	Country Cheque Clearing.	Total.
Thu., Nov. 11	£90,808,000	£5,614,000	£11,372,000	£107,794,000
Fri., " 12	98,701,000	6,112,000	11,438,000	116,251,000
Sat., " 13	71,006,000	6,387,000	13,144,000	90,537,000
Mon., " 15	123,296,000	6,966,000	13,912,000	144,174,000
Tues., " 16	89,053,000	6,076,000	12,214,000	107,343,000
Wed., " 17	98,296,000	6,310,000	12,340,000	116,946,000
Week -	£571,160,000	£37,465,000	£74,420,000	£683,045,000
1919.	Town Clearing.	Metropolitan Clearing.	Country Cheque Clearing.	Total.
Thu., Nov. 13	£92,423,000	£6,847,000	£13,235,000	£112,505,000
Fri., " 14	107,965,000	6,648,000	15,058,000	129,671,000
Sat., " 15	71,370,000	6,453,000	16,777,000	94,600,000
Mon., " 17	105,712,000	6,718,000	11,957,000	124,387,000
Tues., " 18	90,758,000	6,556,000	11,287,000	108,601,000
Wed., " 19	101,214,000	6,909,000	13,297,000	121,420,000
Week -	£569,442,000	£40,131,000	£81,611,000	£691,184,000

ANNUAL TOTALS.

	1920.	1919.
Grand Total - - -	£39,018,903,000	£28,415,382,000
Town Clearing - - -	32,852,933,000	23,214,685,000
Metropolitan Clearing - -	2,093,750,000	1,813,920,000
Country Clearing - - -	4,072,220,000	3,386,768,000

So long as the banks are all right, most people prefer to have "money at the bank" to being overloaded with coin and notes themselves, though they know quite well that if—and it is

unlikely—every depositor in the kingdom demanded immediate payment in legal tender on the same day, the banks would collapse.

Cash Reserves.—If bankers kept cash in their tills sufficient to repay every depositor at the same time they would have nothing to lend, and would thus be deprived of their means of livelihood—unless they charged a fee for warehousing their customers' money for them. Moreover, in modern times, bankers could not obtain sufficient cash for the purpose, for most of their deposits do not consist of cash.

Nevertheless bankers undertake to repay all current account moneys *on demand*. So they keep such cash in reserve as experience shows to be sufficient for everyday needs, and use the rest. The cash reserves of most banks amount to about 12% or 15% of their liabilities.

When trade is brisk, and business men seek accommodation from the banks, the bankers' liabilities naturally increase, and more cash is required for till money to keep up the reserve. And when the shops, for example, are "doing well," the public require additional legal tender for shopping. As the demand for production increases, more workmen are employed, higher wages are paid, and further sums are drawn from the banks to pay them.

Inflation of Credit.—When the war broke out on the 4th August, 1914, the need for currency became acute. Investors feared that invasion or the stoppage of trade from unknown causes would reduce the value of their investments, and they sought to sell for cash. The Stock Exchange had to be closed to check the panic. Depositors sought to withdraw their money from the banks, and at the same time the government required more currency than ever to pay the millions of soldiers which were shortly to be put on foot. Manufacturers, on the other hand, suddenly called upon to supply unlimited quantities of ammunition and war material, engaged more men at

enhanced wages and working longer shifts, and it was clear to those who understood how things were moving that the meagre supply of currency in circulation was inadequate to meet the demands of the country. If nothing had been done to ease the situation, the banks would not only have been unable to allow further credit ; the demands of their depositors might soon have deprived them of what legal tender they had. But the government came to the rescue with

Currency Notes.—On the 6th August, 1914, the **Currency and Bank Notes Act** was passed, authorizing the Treasury to

“ issue currency notes for one pound and for ten shillings,” such notes to be “ current in the United Kingdom in the same manner and to the same extent and as fully as sovereigns and half-sovereigns are current,” and to be “ legal tender in the United Kingdom for the payment of any amount.”

Regarding the issue of the notes, the Act provided that

“ Currency notes may be issued to such persons and in such manner as the Treasury direct,”

and by an Amending Act of the 28th August

- “ The Treasury may, if they think fit, instead of issuing any notes to any person, give to that person a certificate entitling him to the issue, on demand from the Treasury, of the notes mentioned in the certificate.”

In practice the currency notes and certificates are issued to the banks in exchange for government securities or old notes.

As the war became prolonged, the government was compelled to issue gigantic War Loans to finance it, and when peace was declared in 1919 the amount of the war debt had almost reached the incredible figure of £8,000,000,000, or roughly £200 per head of the population. All this sum was obviously not lent to the government in currency. The average value of currency notes in circulation amounted to some £300,000,000, and the Bank of England's active note issue had increased to about £70,000,000, but on the other

hand gold coin had been withdrawn from circulation to prevent its disappearance from the operation of *Gresham's Law* already referred to.

Credit became thus "inflated" because the banks, still satisfied to keep a reserve of one-eighth or one-sixth of their liabilities in cash, were able to discount more bills and allow their customers more accommodation in overdrafts and on loan accounts, because "cash" meant now not only coin, but currency notes as well. When the banks required to increase their cash reserves they could freely obtain "Certificates" entitling them to the issue of currency notes in exchange for government securities deposited with the Treasury, and it was not until 1920 that measures were taken to limit the power of the Treasury to issue more notes.

The inflation would have been less serious but for the assistance which the banks gave to the government by taking over large quantities of war loan for credit, and re-selling the war loan certificates to their customers for payment by instalments.

The government's purchasing power was increased by the acquisition of large credits at the banks, backed in the main by notes of the Treasury's own manufacture, whilst the purchasing power of the public was not, as it ought to have been, sacrificed to the government to help the war, for the public were only called upon to pay by instalments.

Depreciation of the Currency.—As credit and currency alike became inflated, and gold was withdrawn from circulation, the value of the thus diluted medium of exchange became less. Money and credit became more plentiful while every other commodity was becoming less plentiful, owing to the activity of the workers being diverted from production to destruction. The inevitable result was that the value of every commodity, as measured in terms of the new money, became enhanced. *Prices went up.*

Nor did the upward tendency end with the cessation of hostilities. After five years of extravagance, began the work

of reconstruction. New companies were formed, municipalities required money for repairs delayed during the war and for housing, and an increase of 150% (in 1920) in the cost of living meant that a loan of £250 would only serve the same purpose as £100 before the war. The currency was swollen to three times its former size, but its purchasing power was so reduced that there was still not enough to "go round."

Convertible and Inconvertible Paper.—Bank Notes, since they may be exchanged on demand for currency, may be termed "convertible paper." So long as they remain convertible, their value cannot depreciate below the value of the currency which the issuer promises to pay.

Currency Notes, when they were first issued, *were* convertible, for the Act provided that

"The holder of a currency note shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the note at its face value in gold coin which is for the time being legal tender in the United Kingdom."

Such is the state of the law, but neither bank notes nor currency notes have been cashed to any great extent. On receiving a demand for gold the officials of the Bank of England would appeal to the patriotism of the person presenting the notes, and if the gold were required for export, payment would be refused. A Board of Trade license is now required to export gold, and since it is illegal to deface the coin of the realm, it would be illegal to sell gold coins as metal.

So Bank Notes are convertible in Currency Notes, and Currency Notes are now practically "inconvertible" paper, and the result is that they have depreciated, and the price of gold as measured by the new paper standard has much increased. The same thing has occurred in nearly every country in the world.

In some countries, gold coins and inconvertible notes are allowed to circulate concurrently. The operation of Gresham's

law does not then invariably result in the absolute disappearance of the gold, but the gold is esteemed to be worth more than the paper. In Argentina, for example, the depreciation has been so great that \$300 paper would only purchase the same value as \$100 gold. Under such circumstances gold is said to be at a *prémium* or *agio* of (in that case) 200%, while paper was at that time at a *discount* of $66\frac{2}{3}\%$.

EXERCISE 21.

1. (a) What are the advantages of exchange? How are exchanges usually effected in everyday life? (U.L.C.tpc.3.)
or (b) Write notes on the forms and uses of money in modern society. (U.L.C.cc.4.)

2. What do you mean by "metallic currency"? What other forms of currency are there? (S.A.tpc.II.)

3. Write a brief essay on:—"The effect of the law of legal tender on the issue of gold as a medium of exchange." (S.A.cc.II.)

4. What do you understand by "Representative Money"? Give as many examples as you can, and explain the part that representative money plays in our monetary system. If a Bank of England note for £5 is as good as five sovereigns, explain why it is. Also, explain why a cheque for £5 is not necessarily as good as five sovereigns, if such be the fact. (S.A.cc.II.)

Note :—There was no embargo on gold at the time this question was set.

5. Money is spoken of as a "measure of value." How far can it be correctly so regarded at the present time? Give reasons for your answer. (S.A.tpc.II.)

6. It has been said that a banker is a "dealer in credit." How can that be?

7. Define "Cash Reserve" and "Inflation of Credit."

8. What is the object of issuing the currency notes, and what has been the effect of their introduction? (S.A.tpc.II.)

9. What are the differences between a Bank of England Note and a Treasury Note? (S.A.tpc.II.)

10. Explain the meaning of (a) Gresham's Law and (b) Agio.

CHAPTER XXII.

CONTRACTS.

Definition.—Any agreement may be called a contract if the parties to it intend thereby to enter into legal relationship with each other. The common definition of a contract as “an agreement enforceable at law” is a faulty one. People sometimes find to their sorrow that contracts are *not* always enforceable.

In bygone days the making of contracts was necessarily attended by more ceremony than now. If the parties could not read or write, they had to get a third person to write out the agreement. It was then read, in the presence of witnesses, to the contracting parties, who affixed their seals.

To this day any contract may be made under seal, and for certain contracts relating to landed property and other matters the seal cannot be dispensed with.

Contracts *under seal* are also known as *Deeds*, or *Specialty Contracts*.

Specialty Contracts.—There are three essentials to a Deed: It must be (1) in writing, (2) sealed, and (3) delivered. The seals consist nowadays of small gummed wafers, which can be purchased of any stationer, and each party places his forefinger on the seal allotted to him, reciting the words “I deliver this as my act and deed.” If a corporation is a party to a deed, its **common seal** is impressed on the paper in place of the wafer, by means of a machine which only certain officials of the concern are entitled to use. Legally, the seal serves the

purpose of the signature, but the parties always sign as well, and the witnesses also append their signatures. Delivery need not be actual; a party binds himself to the contract by declaring or implying that the instrument is his act and deed, though he may afterwards put it back in his pocket.

A contract by deed between two or more parties has been known from early times as an Indenture. Formerly the indenture was written double on one sheet of parchment, which was afterwards separated through a wavy or indented line. In case of dispute the two halves could be identified as original and counterpart by the fact that they fitted each other.

A Deed Poll is a deed to which there is but one party or set of parties. It usually begins with the words "Know ye all men," or "To all to whom these presents may come, greeting." The name "deed poll" is traceable to the fact that such deeds were formerly made with a shaven or "polled" edge, not indented.

A deed poll is necessary to give effect to *Powers of Attorney*, a *Change of Name*, and for other purposes. A *Gift* of property of which the receiver does not take immediate possession (e.g. a promise to subscribe to a charitable institution) is destitute of all legal effect unless it is made by deed.

Simple Contracts.—All contracts which are not deeds, or contracts of record (which will not be discussed here), are known as "simple" or "parol" contracts. Such contracts may be expressed (either verbally or in writing) or implied. An implied contract is one which can only be inferred from the conduct of the parties to it. A verbal or an implied contract may be just as valid as a written contract unless the law requires it to be made in special form. But all business contracts ought to be written, as a verbal agreement may be difficult to prove, and its terms may be forgotten.

The law declares certain contracts to be *void* unless they are written; for instance:

Bill of Exchange.
 Assignments of Debt;
 Copyright.

Acknowledgments of debts which have become "statute barred."

Contracts of Marine Insurance.

„ „ Guarantee.

„ which are not to be fulfilled within a year from the day on which they are made.

Stamp Duty.—The amount of stamp duty for deeds and simple contracts is not uniform. Deeds by which shares are sold are subject to *ad valorem* duty, and bonds and insurance policies are stamped according to special tariffs. Unless otherwise specifically charged with duty, **Agreements under hand**, *i.e.* simple written contracts, must bear a *6d.* stamp. Certain contracts are exempted from duty altogether, as for instance :

- (1) Any agreement or memorandum, the subject-matter whereof is of less value than £5.
- (2) Hire of labourer, artificer, manufacturer or menial servant.
- (3) Sale of Goods.

There is no escape from the stamp regulations, for contracts liable to duty cannot be enforced until the duty is paid, and penalties are inflicted for delay in attending to it.

The writing of a simple contract, though it is in some cases necessary, is only presumptive evidence of what has been agreed, and such evidence may be disproved. But a simple contract is *void* without (1) valuable consideration to support it, and there must be evidence of (2) offer and (3) acceptance.

Offer and Acceptance.—Where there is written evidence of a contract, offer and acceptance need not be contained in the same document. Most commercial contracts are contained in the correspondence exchanged between the contracting firms, which must be produced if legal action ensues.

Acceptance must be *absolute*. The entire contract may be evidenced in a quotation and an order, or an order and a letter accepting the order unconditionally; but if there is any difference between the two both parties must consent to it.

An offer may be withdrawn at any time before it has been accepted, but not afterwards. Acceptance cannot be withdrawn.

Where a contract is made through the post, the postal system is deemed to be the *messenger* of the party who first employs it or authorizes its employment by the other party. Thus acceptance of an offer through the post is complete as soon as the letter containing it has been properly posted, whether the letter reaches its destination or not.

But if the offer is verbal, and no agreement has been made that the reply shall be transmitted by post, there is no contract until notice of acceptance has actually reached the party who made the offer.

A **Firm offer** is one which cannot be withdrawn after acceptance. It may, however, be withdrawn at any time before it is accepted. If no stipulation is made regarding acceptance, the offer is valid for a *reasonable* time, but if (say) *A* offers goods to *B* "subject to your (*B*'s) acceptance by midday 12th inst.", *B*'s acceptance after that time is of no avail.

An **option** is a promise to hold an offer open during a certain period. Such a promise must be supported by consideration; otherwise it is gratuitous and of no legal effect. Thus *A* may undertake not to withdraw his offer until the 12th inst. on payment by *B* of a premium of (say) 10s.

A **subject offer** is one by which the person offering reserves the right to withdraw even after acceptance. For example, a seller of specific goods (say, second-hand machinery), may offer the same article to more than one prospective buyer, though he knows that he could only execute one order for it. If he offered "firm" to two different people, who both accepted, he obviously could not satisfy both of them. The disappointed party might then sue him for breach of contract. He must therefore offer such goods "subject to being unsold."

Consideration may be given or promised in money, or

property of any kind, or services, or even a forbearance. It is the *motive* of the contract.

A *Contract of Sale* is "a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a money consideration called the price." Interest usually serves as consideration for a loan, and *vice versa*. Where the goodwill of a business is sold, consideration for the price rests in the vendor's renunciation of his clientèle, the right to use his trade-marks, etc. And where an entertainer is engaged to perform, consideration for his engagement and salary may be given not only in services, but also in an undertaking not to perform elsewhere for the time being.

Consideration may be *immediate*, or it may be a promise to be fulfilled at some *future* time; but it must not be something that a person is already legally compelled to do.

Thus, if *A* performs work for *B* under a contract, and has not been fully paid for it, the balance owing cannot legally be applied as part consideration for another contract. And if, under the conditions of a contract of sale, *B* has definitely agreed to pay the contract price to *A* within a month but fails to pay within that time, an inducement in the shape of discount offered subsequent to the agreement is not binding on *A*. *A* was already entitled to payment as agreed.

Consideration must be something of value, but the court is not concerned with its *adequacy*, unless it is so trivial as to give rise to a suspicion of fraud or duress. However, under the Moneylenders Act, 1890, if the terms of a loan by a money-lender are deemed to be harsh and unconscionable, the court may reopen the transaction, and substitute more equitable terms.

In practice Consideration forms part of deeds as well as simple contracts, and in certain cases (*e.g.* radius agreements) a deed is of no value unless it is supported by consideration.

Sale of Goods.—By the Sale of Goods Act, 1893, paragraph 4: "A contract for the sale of goods of the value of £10 or upwards shall not be enforceable by action unless (1) the buyer shall accept part of the goods so sold, and actually receive the same,

or (2) give something in earnest to bind the contract or in part payment, or unless (3) some note or memorandum in writing of the contract be made and signed by the party to be charged or his agent in that behalf."

Though none of these conditions be fulfilled, a contract of sale may be perfectly *valid*, but (if the value is £10 or more) it *cannot be enforced* by legal action.

"**Acceptance**" does *not* mean approval of the goods. There is acceptance within the meaning of this section when the buyer does any act in relation to the goods which recognizes a pre-existing contract of sale, whether there be acceptance in performance of the contract or not.

Mere receipt of the goods in the alleged buyers' warehouse proves nothing; but if the buyer offers them for re-sale, or even compares them with a sample *without approving them*, he may thereby be deemed to recognize the existence of a contract between himself and the supplier of the goods.

Similarly, a person buying furniture in a shop, and leaving £2 deposit, cannot afterwards deny that he bought the furniture without giving an untrue reason for the deposit.

The **memorandum** need not be a formal contract or order. Sufficient evidence may appear in a note or letter referring to the transaction.

Employment.—Where there is no agreement, expressed or implied, as to notice of determination of a contract of employment, the hiring is for a year, and terminable only at the end of the year. But a shorter agreement may be implied by custom. Agreements with responsible clerks and confidential servants are usually terminable in three months after notice by either party, and for less responsible employees and work-people the length of notice required generally coincides with the payment of wages: thus, where wages are paid weekly, the servant may be discharged at a week's notice, and if he desires to leave his employer's service he must give a week's notice of retirement.

An employer may discharge his servant without notice for gross misconduct, wilful disobedience, negligence so serious as to endanger his employer's business, or serious incompetence or incapacity to perform his duties.

EXERCISE 22.

1. What is a contract ?
2. Define a " deed poll " and an " indenture," and mention one purpose for which each may be used.
3. Enumerate the different types of contract which must be in writing to be legally binding. (U.L.C.tpc.4.)
4. What is meant by Offer and Acceptance in relation to contracts ?
5. Explain : Firm Offer, Option, and " Subject to being Unsold."
6. What is meant by Consideration ?
7. When must a contract (a) for the Sale of Goods, (b) for Employment be in writing ? (S.A.tpc.II.)
8. In the absence of a written contract of Employment, how much notice of retirement or dismissal is required ?
9. Draft in as few words as possible compatible with clearness and accuracy a telegram embodying the following, and state what it will cost :—
 " Please send without delay 56 cwt. of 80 per cent. reduced white zinc paint, as per your quotation dated the 6th instant. The goods are to be sent per the London and North Western Railway to our works at Ardwick, Manchester, and cash will be remitted immediately on delivery." (S.A.cc.II.)
10. Explain the meaning of the following : 3 enclos. ; received £50 on account ; stamped *ad valorem* ; monthly a/c net ; 30 d/s ; C.O.D. ; L.S. ; P/A. ; Ullage ; B.P.B.

CHAPTER XXIII.

THE SALE OF GOODS.

Definitions.—A course of lessons in business methods would be incomplete without some mention of the legal rights and obligations of buyer and seller under a contract of sale. Having learnt the last two chapters of this book, the student must not imagine that he is any better equipped to be his own lawyer than he was before. But these few paragraphs contain a few elementary definitions, a knowledge of which will help the junior clerk better to understand what he is doing when he is given work to do in connection with quotations and orders.

By the Sale of Goods Act, 1893 : “ Where under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a **sale** ; but where the transfer of the property in the goods takes place at a future time, or subject to some conditions thereafter to be fulfilled, the contract is called an **agreement to sell**.”

When the time elapses, or the condition is fulfilled, the agreement to sell becomes a sale.

The goods which form the subject of a contract of sale may be either **existing goods**, owned or possessed by the seller, or goods to be manufactured or acquired by the seller after the making of the contract of sale, in this act called “ **future goods**.”

Specific goods are those which are identified by agreement between buyer and seller as belonging to the contract of sale,

and for which no other goods, however similar, may be substituted except by mutual consent. Goods not so identified are referred to in the act of 1893 as *unascertained goods*.

Conditions and Warranties.—"Whether a stipulation in a contract of sale is a 'condition,' the breach of which may give rise to a right to *treat the contract as repudiated*, or a 'warranty,' the breach of which may give rise to a *claim for damages* but not a right to reject the goods and treat the contract as repudiated, depends in each case on the construction of the contract." A stipulation may be a condition, though called a warranty in the contract.

Quotations and orders ought to be carefully worded, and should the buyer wish, for example, to reserve the right to cancel his order if delivery is not made within the time stipulated, he must state clearly in the order that "delivery is to be of the essence of the contract," or words to that effect.

It should be clearly understood that breach of a warranty gives no right to the injured party to cancel the contract of sale. If I buy a watch which is warranted for two years, the seller is not bound to take it back and refund the money if it goes wrong within that time, but he must repair it free of charge, or pay for the repairs to be done elsewhere.

Implied Conditions as to quality and fitness.—In the case of a contract of sale by *sample*, there is an implied condition that (a) the bulk shall correspond with the sample in quality, (b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample, and (c) that the goods shall be free from any defect, rendering them unmerchantable, which would not appear on a reasonable examination of the sample.

Where goods are sold by *description*, there is an implied condition that they shall correspond with the description, and if the sale be by *description and sample*, the goods must correspond to both.

Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are

required, so as to show that the buyer relies on the seller's skill or judgment, and the goods are of a description which it is in the course of the seller's business to supply (whether he be the manufacturer or not), there is an implied condition that the goods shall be reasonably fit for such purpose, provided that in the case of a contract for the sale of a specified article under its patent or other trade name, there is no implied condition as to its fitness.

A machinery merchant's traveller obtained from the management of an ironstone quarry an order for a compressed air drilling plant to bore into the rock. The rock proved to be so soft that any such machine would be useless for the purpose. The sellers had to take the entire plant back, at great loss to themselves.

But if the quarry company had specifically ordered (say) an Ingersoll drill, they would have themselves to blame if it proved to be not the right kind of machine.

Where goods are bought by description from a seller who deals with goods of that description, there is an implied condition that if such goods are of *good merchantable quality*; provided that if the buyer has examined the goods, there shall be no implied condition which such examination ought to have revealed.

Breach of Contract.—Where under a contract of sale the property in the goods has passed to the buyer, and the buyer wrongfully neglects or refuses to pay for the goods according to the terms of the contract, the seller may maintain an action against him for the price of the goods.

The seller has the same remedy where the price is payable on a day certain irrespective of delivery, although the property in the goods has not passed.

If the property has not passed—*i.e.* where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller's remedy lies in an action for **damages for non-acceptance**.

If the seller breaks the contract by failure to deliver, the buyer is entitled to **damages for non-delivery**. But the court

may, if it thinks fit, on the application of the buyer, direct that the contract shall be performed specifically, without giving the defendant the option of retaining the goods on payment of damages.

The Measure of Damages for non-acceptance or non-delivery or breach of warranty is the estimated loss directly or naturally resulting, in the ordinary course of events, from the breach of contract:

(a) In the case of non-delivery or non-acceptance, the measure of damages is *prima facie* to be ascertained by the difference between the contract price and the market or current price at the time the goods ought to have been delivered or accepted, or, if no time was fixed, then at the time of the refusal to deliver or accept.

(b) In the case of a breach of warranty of quality such loss is *prima facie* the difference between the value of the goods at the time of delivery to the buyer and the value they would have had if they had answered to the warranty.

Any claim beyond the actual extent of the loss suffered would partake of the nature of a *penalty*, not damages.

Manufacturers are sometimes induced to agree to a so-called "penalty clause," by which, for instance, having guaranteed delivery within (say) six weeks from receipt of order, the makers are to sacrifice (say) 5% of the value of the contract for each month's delay. In such a case the amount of damages is thus agreed to in advance, and the damages are known as liquidated damages. The court looks unfavourably upon such a clause, and the buyer *may* find that he cannot enforce it.

Where a contract of sale is subject to any condition to be fulfilled by the seller, the buyer may *wave* the condition, or may elect to treat the breach of such condition as a breach of warranty, and not as a ground for treating the contract as repudiated. It may be in the buyer's interest to do this.

The measure of damages may *exceed* the original value of the contract. For example: a delivery of diseased cattle may

result in the contamination of the whole of the buyer's live stock, entitling him to consequential damages. But manufacturers commonly shelter themselves by their printed conditions of tender against liability for consequential damage. (See p. 36.)

Transfer of Property.—Where there is a contract for the sale of specified or unascertained goods, the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred.

For the purpose of ascertaining the intention of the parties regard shall be had to the terms of the contract, the conduct of the parties, and the circumstances of the case. Unless a different intention appears :

Rule 1. Where there is an unconditional contract for the sale of *specific* goods, in a deliverable state, the property passes to the buyer when the contract is made, and it is immaterial whether the time of payment or the time of delivery, or both, be postponed.

Rule 2. But if the seller is bound to do something to such specific goods for the purpose of putting them into a deliverable state, the goods do not become the buyer's property until such thing be done and the buyer notified.

Instance :—A second-hand machine purchased subject to its being repaired and put in good running order.

Rule 3. The same applies where the seller is bound to weigh, measure or test or do anything with reference to the goods for the purpose of ascertaining the price.

Rule 4. Where goods are delivered to the buyer on approval or "on sale or return" or other similar terms the property therein passes to the buyer :

(a) when he signifies his approval or acceptance of the goods or does any other act adopting the transaction ;

(b) if he does not signify his approval or acceptance but retains the goods without giving notice of rejection beyond the time fixed for the return of the goods or beyond the expiration of a reasonable time.

Rule 5. The property in *unascertained* or *future goods* does not pass to the buyer until the goods are ascertained; but once goods in a deliverable state and answering to the description have been *unconditionally appropriated* to the contract by one party with the assent of the other, the property in the goods thereupon passes to the buyer. Such assent may be express or implied, and may be given before or after the appropriation is made.

Rule 6. Delivery of the goods to the buyer or to a carrier or other bailee or custodier (whether named by the buyer or not) for the purpose of transmission to the buyer, is deemed to be unconditional appropriation of the goods to the contract.

Risk.—“ Unless otherwise agreed, the goods remain at the seller’s risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at the buyer’s risk whether delivery has been made or not.

“ Provided that where delivery has been delayed through the fault of either buyer or seller, the goods are at the risk of the party in fault as regards any loss which might not have occurred for such fault.

“ Provided also that nothing in this section shall affect the duties or liabilities of either seller or buyer as a bailee or custodier of the goods of the other party.”

A bailee—*e.g.* a wharfinger¹ or warehouseman, dyer, bleacher, repairer, etc.—is liable for loss or damage arising through his own fault or negligence, but—subject to any agreement to the contrary—the goods remain at the *risk* of the owner in so far as such accidental causes as theft, fire, etc., are concerned.

Right of Disposal.—If the seller wishes to retain his property in the goods until certain conditions are fulfilled he may, by

¹ Reference to the documents in *Trade, Transport and Finance*, chap. 7, will illustrate this. The importers, having entrusted goods to the wharf company, insure them against fire at their own expense, just as they would do if the goods were stored in their own premises.

the terms of the contract or appropriation, reserve the right of disposal of the goods until such conditions are fulfilled.

Seller's Lien.—Notwithstanding that the property in the goods has passed to the buyer, so long as the seller is still in possession, he has a *lien* on the goods, or right to retain them until payment or tender of the price by the buyer :

- (a) Where the goods have been sold without any stipulation as to credit ;
- (b) Where the goods have been sold on credit, but the term of credit has expired ;
- (c) Where the buyer becomes insolvent.

The seller, unless he reserves the right of disposal, loses his right of retention on delivery of the goods to a carrier or other bailee or custodier for transmission to the buyer. From such time until the buyer or his agent in that behalf takes delivery of the goods, the goods are said to be *in course of transit*.

Stoppage in transitu.—While the goods are in course of transit, the seller may prevent delivery if the buyer is *insolvent*. This right is known as the "right of stoppage in transitu," and may be exercised either by taking actual possession of the goods, or by the seller giving notice of his claim to the carrier or other bailee or custodier in whose possession the goods are.

Re-sale by Buyer.—The unpaid seller's right of *lien* or *stoppage in transitu* is not affected by any sale which the buyer may have made, unless the unpaid seller has assented thereto. But where a document of title to goods has been lawfully transferred to the buyer, and the buyer transfers the document by way of sale to a person who takes it in good faith and for valuable consideration, then the seller's right of lien or retention or stoppage in transitu is defeated.¹

Unpaid Seller's Right of Re-sale.—Having exercised his

¹ See *Trade, Transport and Finance*, chaps. 3 and 5.

right of lien, etc., the seller may—subject to certain rules—proceed to re-sell the goods, and recover damages from the original buyer for any loss occasioned by his breach of contract.

Consignments.—Goods entrusted to someone for sale by him on behalf of the owner are said to be goods “on consignment.” The owner is called the *consignor* or *principal*, and the person to whom the goods are entrusted for sale is known as the *consignee* or *agent*.

The agent is usually given a *proforma invoice* (see p. 57), to show at what figure the owner values the goods, and after the sale the agent accounts to his principal for the proceeds, less expenses and his commission on a document called an *Account Sales*.¹

Consignments and Sales on Approval.—There are important differences in the relationships between (a) sender and receiver of goods on consignment, and (b) the parties to a contract of “sale or return”:

In the case of a consignment, the consignee holds the goods, and receives payment for them, *as agent* for his principal, the consignor. His responsibility is to obey his principal's instructions, and to do the work he professes to do without negligence. The goods never become his property; they belong to his principal until they are sold, when the ownership passes to the buyer. At any time before they are sold the consignor may instruct the agent to send them back, or to dispose of them in some other way.

Goods left with a prospective buyer “on approval” or “sale or return” cannot be recovered after they have been approved. Then, if the customer becomes insolvent, the sender must rank for dividend with the other creditors. The buyer is liable as *bailee* of the goods until he signifies his approval, but he is not obliged to return the goods to the seller unless he has agreed to do so.

¹ See *Trade, Transport and Finance*, chap. 7.

Sale without Authority.—It is a general rule of law that a person who sells property which is not his own, cannot, without the consent of the rightful owner of them, confer a better title to the property than he has himself. The buyer must restore the property, without compensation, to its rightful owner, and can claim redress only against the person who wrongfully sold them to him.

But there are important exceptions to this rule. For instance: (1) The “holder in due course” of a *Negotiable Instrument* (see p. 241) may acquire a good title to it by the fact that he has in good faith given value for it, though the person from whom he got it had no right to transfer it at all. In certain cases also the buyer of goods may, though the seller had no right to sell, claim that he is entitled to them because (2) he bought them in *market overt*, or (3) he was dealing in good faith with a *factor* within the meaning of the Factors Act, 1889.

Market Overt.—Where goods are sold in market overt according to the usage of the market, the buyer acquires a good title to the goods, provided he buys them in good faith and without notice of any defect or want of title on the part of the seller.

In the City of London, every shop is market overt for such things as are put there for sale in the ordinary course of business. But the goods must not be concealed behind a hanging or cupboard; the thing must be sold “openly, so that anyone that stood or passed by the shop could see it.”

Outside the City of London, the Market Place or other spot of ground set apart by custom (or a market constituted by a statute) for the sale of particular goods is market overt; it must be open, public and legally constituted. An auction room is not market overt.

Where goods have been stolen, and the offender is prosecuted *and convicted*, the property reverts in the rightful owner, notwithstanding the sale in market overt.

But the conviction of the offender does not destroy a buyer's title to goods sold in market overt where the goods have been obtained by fraud or other wrongful act (*e.g.* the giving of a worthless cheque) *not amounting to larceny*.

Factors Act, 1889.—As a general rule, an agent or representative has power to act only with the authority of his principal, and the latter is not legally bound to any contract made without his consent. The authority may be given in a formal P/A (see p. 14), in a letter, verbally or by implication or precedent. Anyone in dealing with an agent is entitled to ascertain that such agent is properly authorised to act.

But the Factors Act, 1889, gives a peculiar validity to certain contracts made with a so-called “mercantile agent” who is in possession of goods with the consent of the owner, though in making the particular contract such agent may be acting without the authority of the owner of the goods.

For the purposes of the act, a mercantile agent is defined as

(§ 1) “a mercantile agent having in the customary course of his business as such agent authority either to sell goods or to consign goods for the purpose of sale or to buy goods or to raise money on the security of goods.”

Commission Agents buying or selling for foreign or colonial principals and some *Produce Brokers* come under this category, and so do *second-hand dealers* and others who receive *e.g.* bicycles or furniture for sale on commission. It would be a hardship to people dealing in good faith with such an agent if their contracts could be annulled because the seller acted against his principals' instructions. For this reason the act provides that

(§ 2) “Where a mercantile agent is, with the consent of the owner, in possession of goods or of the documents of title to goods, any sale, pledge, or other disposition of the goods, made by him when acting in the ordinary course of business of a mercantile agent, shall, subject to the provisions of this Act, be as valid as if he were expressly authorized by the owner of the goods to make the same; provided that the person taking under

the disposition acts in good faith, and has not at the time of the disposition notice that the person making the disposition has not authority to make the same."

The same applies to (a) a *seller who continues or is in possession*, or (b) a *buyer who obtains possession of the goods with the consent of the seller, notwithstanding any lien or other right of the original seller*.

An agent of the class mentioned in § 1, who is authorized to act in his own name, and to receive the price and give a good discharge to the buyer, is known legally as a **Factor** (though the word "factor" is commonly used to denote all sorts of people—see p. 19). Unless otherwise agreed, a Factor is personally liable on the contracts he makes with third parties, and he can sue or be sued in his own name. His powers also extend to giving credit and insuring the goods. If he disobeys instructions he is answerable to his principal; but the party with whom he deals can enforce the contract.

EXERCISE 23.

1. What are the legal requirements in a contract for the sale of goods of £10 and upwards, and do such contracts require stamping? (U.E.I.tpc.Int.)

2. What is the difference between a "condition" and a "warranty"?

3. State the principles of law relating to the sale of goods in reference to *one only* of the following:

(a) Sales by description; or

(b) Sales or return; or

(c) Sales by sample. (U.E.I.tpc.Int.)

4. State very briefly the sorts of Conditions of Contract you would expect to find in a manufacturer's Quotation for Machinery to be made to specification. Define "progress payments." Restrict your answer to 200 words.

5. What remedies has one of the parties to a contract against the other for breach of contract? When is a contract unenforceable? (S.A.tpc.II.)

6. What is meant by (a) Liquidated Damages, (b) Consequential Damages " ? Give examples.

7. When may a buyer or seller be considered to be the bailee or custodian of the goods of the other party, and what are his responsibilities as such ?

8. Explain " Seller's Lien." When is it enforceable ?

9. Arthur Jackstein, of Aberdeen, sent Seebright & Co., of London, a cheque for £60 by way of payment in advance for goods ordered. Seebright & Co. hand the goods to the Midland Rly. Co. for conveyance to Jackstein. But, in the afternoon of the day when they do this, Jackstein's cheque is returned dishonoured by the bank. Rapid enquiries from other members of the trade establish the fact that Jackstein is insolvent. Show how, by acting promptly, Seebright & Co. can save themselves from all but a trifling loss, and discuss as fully as you can the peculiar right by virtue of which they can act. (S.A.cc.II.)

10 What is Market Overt ?

11. What is a Factor ?

ABBREVIATIONS.

First Year Course.

Latin Expressions.

<i>Ad lib.</i>	<i>ad libitum</i>	at pleasure.
<i>ad val.</i>	<i>ad valorem</i>	at (on) the value.
<i>a.m.</i>	<i>ante meridiem</i>	before noon.
	<i>bona fide</i>	with good faith.
<i>B.Sc.</i>	<i>baccalaureus scientiæ</i>	bachelor of science.
<i>Cantab.</i>	<i>Cantabrigiensis</i>	of Cambridge.
<i>cap., c.</i>	<i>caput</i>	chapter.
<i>cent.</i>	<i>centum</i>	a hundred.
<i>cf.</i>	<i>confer</i>	compare.
<i>circ., cir.</i>	<i>circa, circum</i>	about.
<i>con.</i>	<i>contra</i>	against.
<i>d.</i>	<i>denarius ; denarii</i>	penny ; pence.
<i>D.D.</i>	<i>divinitatis doctor</i>	doctor of divinity.
<i>e.g.</i>	<i>exempli gratia</i>	for the sake of example.
<i>et al.</i>	<i>et alibi</i>	and elsewhere.
	<i>et alii (aliæ)</i>	and others.
<i>etc.</i>	<i>et caeteri (caeteræ, caetera)</i>	and the rest, and so forth.
<i>et seq., sq., sqq.</i>	<i>et sequentes (sequentia)</i>	and the following.
<i>ib., ibid.</i>	<i>ibidem</i>	in the same place.
<i>id.</i>	<i>idem</i>	the same.
<i>i.e.</i>	<i>id est</i>	that is.
<i>in trans.</i>	<i>in transitu</i>	in transit.
<i>lb.</i>	<i>libra ; libræ</i>	pound ; pounds (weight).
<i>LL.B.</i>	<i>legum baccalaureus</i>	bachelor of laws.
<i>LL.D.</i>	<i>legum doctor</i>	doctor of laws.
<i>£ s. d.</i>	<i>libræ ; solidi ; denarii</i>	pounds ; shillings ; pence.
<i>M.D.</i>	<i>medicinæ doctor</i>	doctor of medicine.
<i>mem., memo.</i>	<i>memorandum, memoranda</i>	things to be remembered.
<i>N.B.</i>	<i>nota bene</i>	note well.

<i>nem. con.</i>	<i>nemine contradicente</i>	no one speaking against.
<i>nem. diss.</i>	<i>nemine dissentiente</i>	no one dissenting.
<i>No.</i>	<i>numero</i>	number.
<i>Oxon.</i>	<i>Oxonia</i>	Oxford.
<i>per an.</i>	<i>per annum</i>	yearly.
<i>per cent.</i>	<i>per centum</i>	by the hundred.
<i>per pro., p.p.</i>	<i>per procuracionem</i>	by procuration.
<i>Phil.D.</i>	<i>philologiæ doctor</i>	doctor of philology.
<i>Ph.D.</i>	<i>philosophiæ doctor</i>	doctor of philosophy.
<i>p.m.</i>	<i>post meridiem</i>	after noon
	<i>prima facie</i>	at the first look.
	<i>pro forma</i>	for form.
<i>pro tem.</i>	<i>pro tempore</i>	for the time being.
<i>prox.</i>	<i>proximo</i>	next ; of the next month.
<i>P.S.</i>	<i>post scriptum</i>	written after ; postscript.
<i>q.v.</i>	<i>quod vide</i>	which see.
<i>re</i>	<i>in re</i>	in the matter of.
<i>tal. qual.</i>	<i>talis qualis</i>	such as they are ; just as they come.
	(often written " tale quale "	
<i>ult.</i>	<i>ultimo</i>	last ; of the last month.
<i>u.s.</i>	<i>ut supra</i>	as above.
<i>v.</i>	<i>versus</i>	against.
<i>viz.</i>	<i>videlicet</i>	namely ; to wit.

Terms used in Invoices and Accounts.

a/c	account.	Cr.	credit ; creditor.
A/C	account current.	C/N	credit note.
amt.	amount.	cwt.	hundredweight.
A/S	account sales.	D/N	debit note.
@	at	Dr.	debit ; debtor.
B/ (B/s)	bag(s) or bale(s).	D/y	delivery.
B/S	balance sheet	dis.	discount.
Bls.	bales.	do.	ditto.
Bx(s)	box(es).	E.E.	errors excepted.
bush.	bushel(s).	E. & O.E.	errors and omissions excepted.
b/d	brought down.	fwd.	forward.
b/f	brought forward.	hhd.	hogshead.
C/ (C/s)	case(s).	%	per cent.
c/d	carried down.	‰	per mille ; per thousand.
c/f	carried forward.	P/C	prices current.
C.O.D.	cash on delivery.	Pcl.	parcel.
C.W.O.	cash with order.	Pcs.	pieces.
C.A.	Chartered accountant.	Pd.	paid.
Com.	commission.	Pkgs.	packages.
Con.	contra.		

P.O.	Post Office ; postal order.	Regd. retd.	registered. returned.
P.P.	parcel post.	Rly.	railway.
Recd.	received.	wt.	weight.
Rect.	receipt.	yd.	yard
Ref.	reference.		

Terms relating to Banking.

Acc.	acceptance.	M.O.	money order.
afft.	affidavit.	m/s	months after sight.
a/s	after sight.	N.A.	no advice.
B.B.	bill book.	N.a.	non-acceptance.
B/C	bills for collection.	n/o	no effects.
B.D.	bills discounted.	n/f	no funds.
B/Dft.	bank draft.	N/N	not to be noted.
B/E (Bs/E)	bill(s) of exchange.	N/O	no orders.
Bk.	bank ; book.	N.P.	Notary Public.
B.O.	branch office.	N/S	not sufficient.
B.P.B.	bank post bill.	P/N	promissory note.
C.H.	Clearing House.	R/D	refer to drawer.
D/D	demand draft.	R.O.	receiving order.
d/d	days after date.	O.R.	Official Receiver.
dft.	draft.	T.M.O.	telegraphic money order.
D/R	deposit receipt.	T.T.	telegraphic transfer.
H.O.	head office.		
J/A	joint account.		
m/d	months after date.		

Second Year Course.

Terms relating to Transport and Insurance.

a.a.r.	against all risks.	D/W	dock warrant.
a/or	and or.	Entd.	entered.
arr.	arrival.	Exd.	examined.
B/L (Bs/L)	bill(s) of lading.	F/P	fire policy.
C/P	charter-party.	f.g.a.	foreign general average.
C.R.	carrier's risk.	f.a.a.	free of all average.
c.p.d.	charterers pay dues.	f.c. & s.	free of capture and seizure.
C. & D.	collection and delivery.	F.L.N.	following landing numbers.
C.C.	continuation clause.	G/A	general average.
Dbk.	drawback.	Insce.	insurance.
d/w	deadweight.	L.C.	label clause.
D/O	delivery order.	M/C	marginal clause.
D/C	deviation clause.		

M/R	mate's receipt.	S/N	shipping note.
O.R.	owner's risk.	S. to S.	station to station.
P/A	particular average.	s.p.d.	steamer pays dues.
P.P.I.	policy proof of interest.	ss., s.s.	steamship.
R.I.	re-insurance.	s/y	steam yacht.
R.D.C.	running-down clause.	U/w	underwriter.
s.	sailing ship.	W.O.B.	washed overboard.
		W/W	warehouse warrant.

Terms relating to Foreign Trade.

A/S	account sales.	f.a.q.	fair average quality.
c.f.i. or	cost, insurance and	f.a.s.	free alongside ship.
c.i.f.	freight.	f.o.r.	free on rail.
c.f.	cost and freight.	f.o.s.	free on ship.
cg.	centigramme.	f.o.t.	free on truck.
cm.	centimetre.	hl.	hectolitre(s).
D/A	documents against acceptance.	H.M.C.	His Majesty's Customs.
D/P	documents against payment.	kg.	kilogramme(s).
L/C	letter of credit.	km.	kilometre(s).
£E	Egyptian pound(s).	M/I	marginal interest.
£T	Turkish pound(s).	m.	metre(s).
\$	Dollar(s).	n/m	not marked.

Terms relating to Finance.

Back	Backwardation.	I.R.O.	Inland Revenue Office.
B.P.	Bills payable.	Iss.	Issue.
B.R.	Bills receivable.	L/A	letter of authority.
C.B.	cash book.	L.S.	Latin: <i>locus sigilli</i> = the place of the seal.
C/m	call of more.	P/A	power of attorney.
Consols	Consolidated Annuities.	Shr.	share.
cum div.	with dividend.	x.c.	ex coupon.
Cy.	currency.	x.d.	ex dividend.
ex cp.	without coupon.	x in.	ex interest.
ex div.	without dividend.	x. n.	ex new.
ex in.	without interest.		
ex new	without the right to take new shares.		

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DATE OF ISSUE

This book must be returned
within 3, 7, 14 days of its issue. A
fine of ONE ANNA per day will
be charged if the book is overdue.

3

1

