THE ACCOUNTANT'S AND BOOKKEEPER'S VADE-MECUM

BY

G. E. S. WHATLEY

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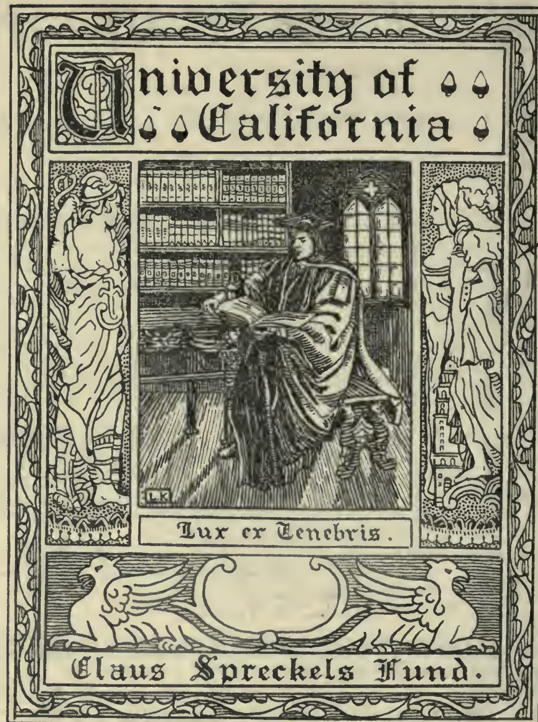

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TOGETHER WITH USEFUL FORMS AND DIRECTIONS

BY

G. E. STUART WHATLEY
ACCOUNTANT (EXAM. INST. C.A.)

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1893

PREFACE.

AMONG extant works on Bookkeeping there are several calculated, more or less, to instruct the student and give him a *theoretical* knowledge of the art and science of keeping accounts; but with these I am not entering into competition, it being my object to place in the hands of those who, having acquired some practical knowledge of Bookkeeping, seek further information upon those matters that call for the particular attention of the professional Accountant, and which the works before referred to either give in a scanty manner or not at all.

It was while preparing for the Final Examination required by the Institute of Chartered Accountants that I felt the want of such a text-book—and which want I now endeavour to supply, so as to put before Accountant Students and Bookkeepers generally such a work as will at least serve for a *signpost* to the desired goal, if it does not impart the complete knowledge required. It would be impossible for me to convey to the reader a thorough knowledge of the subjects I have treated upon without *practice* on his part—it is only by experience and full attention to the respective requirements that the theories herein stated can be put to a real and practical use. All that I can do is to lay down certain rules and offer suggestions which will *facilitate* the acquirement of this *practical knowledge*.

My object is to conduct the reader by the simplest methods; my language shall be plain and easy to be understood; and if it appear at times that I dwell too long on *minor* points, at least what may be thus deemed by the professional man and him who is already practically acquainted with the subjects, I would beg to remind them that it is for the *Student* I write, and that to him these minor points are the most useful.

One of the great secrets of Bookkeeping is to know how to make entries in the different books of account which shall be as full and as explanatory as possible; but at the same time to avoid multifarious and unnecessary postings. It is a fault of many Bookkeepers, when opening sets of books, to increase such books uselessly; the saving of labour is a matter of moment in these go-ahead times; and the endeavour of every good Accountant should be to keep a complete record of accounts with as few books as possible. This matter I have fully dealt with in the chapter on Tabular Bookkeeping.

Now the work is going forth to the world, I am conscious that I have not come up to the ideal I had before me in the first instance; but I trust what I have attempted may be of assistance to those who are about to enter the profession of Accountancy, as well as to the numerous body of Bookkeepers and Accountants in commercial firms and business houses. And I would ask those of my professional brethren into whose hands my work may fall that they will deal leniently with me for any shortcomings, but at the same time, any hints that they may offer, or any required corrections they may point out, I shall feel deeply indebted for, and will duly store same up, so that in any future edition I may make the "*amende honorable.*"

In conclusion, I have to thank those friends who have interested themselves in my labour, and have tendered me their valuable assistance; and principally I have to thank C. W. P. Overend, Esq., Barrister-at-Law, for his legal advice and assistance, C. H. Weatherley, Esq., A.C.A., who has given me a helping hand when I may have been in doubt on any technical point, and A. W. Stepski, Esq., for his valuable information on Continental and American systems of Tabular Bookkeeping.

G. E. STUART WHATLEY.

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CHAPTER I.

CAPITAL AND REVENUE.

CAPITAL AND REVENUE EXPENDITURE.

Some of the most difficult and most important items with which an Accountant has to cope, when dealing with the financial matters of a business or undertaking, are those of Capital and Revenue Expenditure. They call for careful examination, so that no items of expenditure which properly belong to Revenue be included among those of Capital. In times of depression in trade, or losses arising from other causes, there often is a tendency, when it is desired to keep down losses or to pay a dividend not less in amount than those declared in previous years, to write up assets by charging to Capital expenses which, in all strictness, should belong to the Revenue of the current period—or, in other words, to consider payments made for the upholding of property, fixed plant, etc., as representing an increase of the value of sunken Capital.

Items of outlay which are *actual* additions to, or extensions of, property, and which increase thereby the permanent value, or influence the power of production, should, without doubt, come under the head of Capital Expenditure; while those which represent repairs, replacement, or general upholding of property, should be regarded as Revenue Expenditure.

It is a fact that at times it requires great discrimination as well as experience to determine whether certain payments belong to either one or the other; yet where there is *uncertainty*, Capital should indisputably have the benefit of the doubt.

In order to explain more thoroughly the difference between the two classes of Expenditure, a better plan cannot be adopted than to do so by means of an illustration :—

A printing firm remove their old-fashioned printing presses and replace them by the latest and most improved machinery, thus materially increasing the value of their plant, as well as their power of production. The old machinery stood in their books at £3,000, and the new machinery cost £8,000; to say what proportion of the cost of the latter should be considered as Capital Expenditure would be a matter of judgment founded upon a knowledge of the particular business; but probably it would be the full cost less the amount at which the old machinery stood in the books.

With regard to the £3,000, the book value of the old machinery, prudence would suggest that, after allowing for any amount realised by its sale, the remainder should not be charged to the Revenue Account for the period during which the new machinery was fitted up, but that the writing off should be extended over two or three years, and there would be no reason for any objection to such a mode of treatment.

If the old machinery had been properly written down by yearly charges to Revenue, and supposing that it had been replaced by new machinery of the same pattern and description, the cost would in this case also be charged to Capital;

for such replacement would have been provided for by depreciation in past years. Any difference between the book value of the old and the amount realised by its disposal would be treated in the manner as before mentioned.

Had there been no writing down of the machinery, or had it been inadequate, then the cost of such replacement or some portion of it would have been properly charged direct to Revenue, taking into consideration, however, any "residue of value."

It is almost impossible to deal with this subject to any extent theoretically; it is a knowledge that can only be acquired by experience and close application in discharging the duties of an Accountant. An acquaintance, not a superficial one, with the principles of actuarial valuations will be of great assistance to form just and correct opinions upon the somewhat knotty points of Capital and Revenue Expenditure.

CHAPTER II.

REVENUE ACCOUNTS.

I.

TRADING AND PROFIT AND LOSS ACCOUNT.

It is in this section intended to supply a deficiency in extant works on Bookkeeping, which it is felt do not treat this portion of the art as fully as its importance demands. As to the proper method of raising a Trading Account, the writer does not remember having ever seen an example or coming across any lengthened explanation of this portion of a Revenue Account, although in a manufacturing or trading concern its importance is not to be denied.

A Revenue Account treats of Income and Expenditure, and shows the total profit earned or the total loss incurred during a certain period.

In a manufacturing or trading firm the Revenue Account should be divided into two parts: 1st, the Trading Account, showing the *gross profits;* 2nd, the Profit and Loss Account, showing the *net profit* or the *net loss.* In Partnerships and in

Companies there often is, and properly should be, a *third part* —in the former giving the details of the division of the profits or the individual participation in the losses, and in the latter the division of the profits (if any) or a portion thereof among the shareholders in the way of dividend. In non-commercial bodies, charitable institutions, associations, &c., a Revenue Account without any such divisions would suffice for all the purposes for which it would be required ; that is, to show the derivation of Income, and the Expenditure chargeable against the period during which the former has been received.

(a) Trading Account.

The Trading Account is intended to show the *gross profits* earned during a certain period (generally this is for six or twelve months' trading, *i.e.*, from the date at which the books were last balanced to the date of the present closing of the accounts), and its purpose is to show, as clearly as possible, that the surplus of sales or work turned out, after deducting the initial cost of goods or materials, together with the cost of production (if any), is sufficient to allow a margin to fully cover the *expenses of the establishment* (*i.e.*, the expenses incidental to carrying on the business), and to leave a surplus for net profits.

The debit side will consist of the amount of Stock on hand at the commencement of the period for which the accounts are written up, the Purchases of Goods or Materials during the same period, and any other items that would have to be taken into account in selling (as carriage, freight, etc.), or that would tend in a manufacturing concern to increase the cost of production (as wages, the salary of a manager or other person, if same be for duties solely performed in the producing departments) ; other salaries would come under the expenses of the establishment.

The credit side will contain the Sales during the period under notice (including charges for freight, carriage, insurance, etc., if the same be paid by customers), and the Stock on hand at the closing date; the balancing entry being the *gross profit* earned. With regard to *Returns outward* (*i.e.*, goods purchased, or cases, wrappers, etc., charged for in Invoices inward and returned after having been taken into Stock), and *Returns inward* (*i.e.*, goods, cases, wrappers, etc., returned by customers), these should be deducted from the Purchases and Sales respectively. It is usual, where Returns are of frequent occurrence, to keep a special book to record same.

The possibility of a *loss* appearing in this portion of a Revenue Account is *very remote;* such could only arise from an error of omission, from selling under cost, or from some extraordinary loss (as fire, loss of cargo, misappropriation of stock, &c.).

The amount of gross profit will be carried to the credit side of the Profit and Loss Account.

(*b*) The Profit and Loss Account.

This second division of the Revenue Account will contain on its credit side the balance brought down from the Trading Account, and such items of income as do not legitimately belong to the business, such as Rents received, Interest on Deposit at Bankers, on advances and on investments, &c.

The *expenses incidental to carrying on the business*[1] will come on the debit side; it is customary to open Subsidiary Accounts for these items, their respective balances being carried periodically to this account. Depreciation of Property, Plant, &c., Bad Debts written off, &c., will also appear here.

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[1] Rent (of office), Taxes, Salaries, Travelling Expenses, Printing and Stationery, Advertising, Law Charges, Repairs, Postage, Telegrams, Discounts, Commissions, &c., are among the items forming the expenses of the establishment.

The balancing result of this account will show either *net profit* earned or *net loss* incurred during the period for which the account was written up.

(c) Final Division of the Revenue Account.

In the case of a Company, *net profits* for the current period would be added to any amount of undivided profits carried to the credit side from the previous account. The debit side of this third division of the Revenue Account would show what portion of the total amount appearing on the contra side had been set apart—(1) to pay interest on debentures, &c., (2) to pay a dividend upon shares[1] (distinguishing between the different class of shares, if any), (3) for the formation of a reserve fund, or as an increment to one already formed, the balance, if any, being carried forward to next account.

In the event of there being a deficiency on former Revenue Account, such deficiency would have to be deducted from the net profits before there could be a division among the shareholders; but if the Profit and Loss Account resulted in a net loss, then this would have to be added to the deficiency on previous Revenue Accounts, or if, on the other hand, there had been a surplus carried forward from the previous account, then this surplus—or undivided profit of the previous period—would have to be deducted from the net loss for the current period, or *vice versa*. No dividend can be legitimately declared as long as there appears a deficiency on Revenue Account which has not been made good; that is, all loss of capital arising from whatever period must be made good or cancelled before a division of profits can take place. A dividend paid out of a reserve fund *not* set aside for some other specified

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[1] It is often the case that a dividend is declared free of Income Tax; but where it is paid less Income Tax the amount of the tax has to be calculated upon and deducted from each shareholder's dividend.

purpose is allowable.[1] In speaking of *non-division of profits*, dividends on ordinary shares are referred to; preference shares, of course, would have to be paid their percentage out of the profits for the period, irrespective of any deficiency shown on previous accounts, so long as the Capital was restored to the position it was in at the *commencement of the year* (*Dent v. London Tramways*, 16 Ch.D. 344).

With regard to a Partnership, the *net profit* or the *net loss* should be brought down, the former to the credit and the latter to the debit; the debit side will show the Interest on Capital, &c., Income Tax, and the division of profits among the partners according to their respective shares, each partner's share being carried to his respective Capital Account. Any sum set aside out of profits as a reserve will be entered here on the debit side as in Companies' Accounts. In the event of a loss, the credit side will show its division among the partners.

By way of illustrating the foregoing remarks two examples of a Revenue Account are appended, the one of a Trading Company, the other of a Manufacturing Firm.

I.—The London Drapery Co., Lim.

Revenue Account from the 1st July to 31st December 1887.

Dr. *Trading Account.* *Cr.*

1887		£ s d	1887		£ s d
July 1	To Stock on hand at this date	12,000 0 0	Dec. 31	By Sales .. £90,862 0 0	
Dec. 31	To Goods purchased £72,544 0 0			*Less* Returns .. 1,562 0 0	89,300 0 0
	Less Returns .. 544 0 0	72,000 0 0			
„ 31	To Balance carried down, being gross profit on the six months' trading ..	19,860 0 0	„ 31	By Stock on hand at this date	14,560 0 0
		£103,860 0 0			£103,860 0 0

[1] For the reason that a reserve fund is undivided *profits* carried forward from a previous period; "*a reserve fund being the setting aside of surplus profits.*" (See chapter on Reserve and Sinking Funds.)

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

		£ s d			£ s d
1887 Dec. 31	To Rent, Rates, and Taxes	1,515 10 0	1887 Dec. 31	By Gross Profit brought down ..	19,860 0 0
"	" Insurance.. ..	87 5 0	"	" Transfer Fees, &c.	57 15 0
"	" Office Expenses..	300 0 0	"	" Interest on deposit	100 0 0
"	" Salaries	800 0 0			
"	" Discounts.. ..	100 0 0			
"	" Bad Debts ..	200 0 0			
"	" Travelling Exps..	215 0 0			
"	" Depreciation on Buildings 2½% on £23,600	590 0 0			
"	" Depreciation on Office Furniture and Fixtures 7%	25 0 0			
"	" Preliminary Exps. further ⅛ off original amount, reducing the balance to £900 ..	300 0 0			
"	" Directors' Fees, Managing Director's Salary, &c.	1,500 0 0			
"	" Balance carried down, being Net Profit	14,385 0 0			
	£	20,017 15 0		£	20,017 15 0

Dr. PROPOSED APPROPRIATION OF NET PROFIT. *Cr.*

	£ s d		£ s d
To Interest on Mortgage ..	800 0 0	By Net Profit brought down	14,385 0 0
" Interest on Debentures, —% on £..	360 0 0	" Balance from last year's account ..	11,525 0 0
" Proposed dividend of 10% upon amount of called-up capital, £100,000= £10,000; *Less* Income Tax, 6d. in the £ on £10,000 250	9,750 0 0		
To Rent, Rates, and Taxes: Income Tax[1]	250 0 0		
" Reserve Account.. ..	4,500 0 0		
" Balance carried to next account	10,250 0 0		
	£25,910 0 0		£25,910 0 0
		By Balance brought down	10,250 0 0

The third portion of the above Revenue Account has been headed "Proposed Appropriation of Net Profit" on the ground that such appropriation of the profits or any other scheme for

1 This would be posted to credit of Rent, Rates, and Taxes Account, to provide for debit of Income Tax when claimed.

the like purpose could not be carried into effect until it had been laid before the shareholders at the Ordinary General Meeting, and a resolution passed adopting the Accounts and Balance Sheet then produced.

II.—Messrs. JONES, BROWN and ROBINSON, Paper Manufacturers

Revenue Account from the 1st January to 31st December 1887.

Dr. *Trading Account.* *Cr.*

1887		£ s d	1887		£ s d
Jan. 1	To Stock & Materials on hand at date..	2,118 2 2	Dec. 31	By Sales, including Carriage ..	18,632 2 3
Dec. 31	„ Purchases:—		„	„ Stock & Materials on hand at date	3,541 8 9
	Straw Esparto, &c. £6,015 1s 8d				
	Soda, Caustic, &c. .. £3,462 0 0				
	Waste & Sundries £1,796 0 0	11,273 1 8			
„	„ Wages, including Management ..	5,622 1 10			
„	„ Carriage ..	927 4 3			
„	„ Balance carried down being Gross Profit	2,233 1 1			
	£	22,173 11 0		£	22,173 11 0

Dr. Profit and Loss Account.[1] *Cr.*

1887		£ s d	1887		£ s d
Dec. 31	To Repairs	230 1 9	Dec. 31	By Gross Profits brought down ..	2,233 1 1
	„ Salaries	281 2 5			
	„ Discount	176 4 3			
	„ Commissions ..	63 4 2			
	„ Travelling Expenses	52 1 8			
	„ Rates and Taxes ..	142 6 1			
	„ Bad Debts	48 11 5			
	„ Balance carried down, being Net Profit	1,239 9 4			
		£2,233 1 1			£2,233 1 1
	To Interest on Capital	422 9 10		By Net Profit brought down	1,239 9 4
	„ Capital— £ s d				
	Jones 7/12 476 11 5				
	Brown 1/4 204 4 10				
	Robinson 1/6 136 3 3	816 19 6			
		£1,239 9 4			£1,239 9 4

[1] Depreciation on Plant and Machinery, &c., though omitted here, would have to appear in a regular account, as in the previous example.

Interest on Debentures, Capital, Loans, &c., should appear in the third section of the Revenue Account, for the reason that they are not strictly expenses incidental to carrying on the business, and more particularly because by so doing the Balance brought down to the credit as net profit gives the amount upon which the Income Tax has to be calculated (no deductions being allowed for Interest on Capital, Annuities, or other annual payments payable out of profits, in assessments under Schedule D).

Income Tax should be deducted from Interest on Loans, Annuities, &c., before paying same to the parties entitled thereto. It should, however, not be deducted from the Interest paid to Bankers for the Trade Account, as the Banker pays the tax ; and such Interest should appear in the second section of the Revenue Account, as the Income Tax authorities allow same to be deducted on assessment.

CHAPTER III.

REVENUE ACCOUNTS.

II.

DEFICIENCY ACCOUNT.

It is often necessary, especially where year after year losses have been made, to prepare a *Deficiency Account*, so as to discover, if possible, the causes of such repeated losses. The present Bankruptcy Act requires such an Account, where possible, to be prepared with every Statement of Affairs; the end in view of such an Account being to show how the *Deficiency* appearing in a Balance Sheet or in a Statement of Affairs has arisen, *i.e.*, by what events in the trading it has been produced.

The answer to the following question, put at one of the Examinations of the Institute of Chartered Accountants, will illustrate how such an account should be prepared.

"The firm of Brown, Jones & Robinson was compelled to stop payment, and the investigation of the books showed the following results:—Creditors unsecured, £39,500; Creditors for Rent and Salaries, £500; Brown's capital, £2,000; Jones' capital, £1,500; Robinson's capital, £1,500; Cash in hand, £5,500; Debtors, £17,000, of which £15,000 is good, £750 doubtful (estimated to produce £250), and £1,250 bad; Bills Receivable, £4,500; Property, £6,000; Sundry profits, £15,000; Sundry losses, £3,000; Trade charges, £7,000; Brown's drawings, £4,000; Jones' drawings, £6,000; Robinson's drawings, £7,000. Arrange these items in the form of a Statement of Affairs and a Deficiency Account."

Dr. STATEMENT OF AFFAIRS on the 30th November 1887. *Cr.*

LIABILITIES.	£ s d	ASSETS.	£ s d
Creditors unsecured ..	39,500 0 0	Cash in hand	5,500 0 0
Creditors for Rent and Salaries payable in full, deducted as per contra .. £500 0 0		Book Debts— Good .. £15,000 0 0; D'btful £750 estimated to prod'ce 250 0 0	15,250 0 0
		Bad 1,250 0 0	
		Bills Receivable.. ..	4,500 0 0
		Property	6,000 0 0
			31,250 0 0
		Less Rent, Salaries payable in full, as per contra	500 0 0
			30,750 0 0
		Deficiency	8,750 0 0
	£39,500 0 0		£39,500 0 0

Dr. DEFICIENCY ACCOUNT. *Cr.*

	£ s d		£ s d
To Partners' Drawings from —— to —— 1887— Brown .. £4,000 0 0; Jones .. 6,000 0 0; Robinson 7,000 0 0	17,000 0 0	By Deficiency, as per Statement of Affairs	8,750 0 0
To Sundry Tr'de Ch'rges	7,000 0 0	" Capital at —— 1887— Brown £2,000 0 0; Jones 1,500 0 0; Robinson 1,500 0 0	5,000 0 0
" Sundry Losses ..	3,000 0 0	" Sundry Profits ..	15,000 0 0
By Bad Debts £1,250 0 0; " Estimated Loss on Doubtful Debts .. 500 0 0	1,750 0 0		
	£28,750 0 0		£28,750 0 0

From the foregoing Deficiency Account it will be seen at once that the stoppage of payment has been undoubtedly brought about by the excessive drawings of the partners, whose separate estates would be liable to make good the deficiency.

In the forms issued by the Board of Trade for a Statement of Affairs, there is a special one (Sheet K) prepared to account for the deficiency appearing on the front sheet of the Statement. An illustration is given here of the preparation of such an Account.

It is to be assumed in the first place that, by fire on the premises, J. Thompson has lost the whole of his stock, which was uninsured, and, in consequence, has been compelled to file his petition, the Statement of Affairs, when prepared, standing as follows :—

Dr. STATEMENT OF AFFAIRS. *Cr.*

	£ s d		£ s d
Unsecured Creditors (as per list A)	4,900 0 0	Book Debts (as per list H) Good	2,000 0 0
Preferential Creditors for Rent, Rates, Taxes, Wages, &c. (as per list E) £61 0 0		Doubtful	
		Bad £1,500	
Deducted contra		Cash in hand	393 9 2
		Bills of Exchange or other similar securities (as per list J), estimated to produce	875 0 0
			£3,268 9 2
		Deduct Preferential Creditors for Rent, Rates, Taxes, and Wages, &c. (as per contra).. ..	61 0 0
			£3,207 9 2
		Deficiency as explained in Statement (K) ..	1,692 10 10
	£4,900 0 0		£4,900 0 0

From this Statement of Affairs it is seen that the deficiency amounts to £1,692 10s. 10d. With regard to the explanation required to be given in List K of the differences between the amount of the indebtedness and the assets, as shown in the statement, it is required by the Board of Trade that the basis shall be on the excess of assets over liabilities, or *vice versa*, either at *twelve months* before the date of receiving order or such other date as the Official Receiver may fix. In the case under examination it has been taken at the date of the previous Balance Sheet, which was as follows:—

Dr. BALANCE SHEET at 30th June 1886. *Cr.*

	£	s	d		£	s	d
To Sundry Creditors ..	1,461	0	0	By Sundry Debtors ..	1,616	13	6
" Bills Payable ..	2,000	0	0	" Bills Receivable ..	875	0	0
" Capital	5,832	5	8	" Stock in hand ..	5,857	1	6
				" Cash in hand.. ..	944	10	8
£	9,293	5	8	£	9,293	5	8

So that the results finally arrived at may be clearly understood, it will be necessary to give the Revenue and Capital Accounts at the date of the Receiving Order.

REVENUE ACCOUNT.

Dr. TRADING ACCOUNT from 30th June 1886 to ——. *Cr.*

	£	s	d		£	s	d
To Stock in hand, 30 June 1886 .. ..£5,857 1 6				By Sales	8,065	3	6
To Purchases 7,565 3 6							
£13,422 5 0							
Less Value of Stock destroyed by fire 6,000 0 0	7,422	5	0				
To Balance carried down being gross profits ..	642	18	6				
£	8,065	3	6	£	8,065	3	6

Dr. PROFIT AND LOSS ACCOUNT from 30th June 1886 to ——. *Cr.*

	£	s	d		£	s	d
To Rent, Rates & Taxes	43	15	0	By Gross Profits brought down	642	18	6
" Salaries	50	0	0	" Net Loss, carried to Capital Account ..	1,004	16	6
" Bad Debts	1,500	0	0				
" Office Expenses ..	54	0	0				
£	1,647	15	0	£	1,647	15	0

Dr. CAPITAL ACCOUNT. *Cr.*

		£	s	d			£	s	d
	To Drawings	520	0	0	1886 June 30	By Balance	5,832	5	8
	" Goods, value of Stock destroyed by fire *	6,000	0	0		" Balance carried down	1,692	10	10
	" Profit and Loss A/c—Loss..	1,004	16	6					
	£	7,524	16	6		£	7,524	16	6
	To Balance brought down	1,692	10	10					

* This is debited to Capital A/c and not to Revenue A/c, as it is *loss of capital.*

The Deficiency Account would be prepared from the foregoing accounts, and would appear in the form following :—

DEFICIENCY ACCOUNT.

		£	s	d
(1) Twelve m'ths before date of Receiving Order, or such other time as the Official Receiver may fix.	Excess of Assets over Liabilities (a) on the (1) 30th day of June 1886	5,832	5	8
	Net Profit arising from carrying on business from the (1) 30th June 1886 to date of Receiving Order, after deducting usual Trade Expenses (if any) (b)	495	3	6
	Income from other sources since the (1)——day of—— 18—			
	Deficiency as per Statement of Affairs	1,692	10	10
(2) These figures should agree.	(2) £	8,020	0	0
(3) This Schedule must show when debts were contracted.	Excess of Liabilities over Assets (a) on the (1)——day of —— 18— (if any)			
	Net Loss arising from carrying on business from the (1) —— day of——18—, to date of Receiving Order, after deducting from Profits (c) the usual Trade Expenses (if any)			
(4) Add wife and children (if any), stating number of latter.	Bad Debts (if any) as per Schedule (3)	1,500	0	0
	Expenses (d) incurred since the (1) 30th day of June 1886 other than usual Trade Expenses, viz.: Household Expenses of self and (4)	520	0	0
	(5) Value of Stock destroyed by fire on the 10th day of February 1887 and uninsured	6,000	0	0
(5) Here add any other Expenses or Losses.	Surplus as per Statement of Affairs (if any)..			
	(2) £	8,020	0	0

(a) In other words, the Balance of Capital Account.

(b) It is scarcely correct to call this Net, for bad debts are not taken into account here.

(c) Gross Profits.

(d) Should agree with Drawings for the period.

It is apparent from this statement of deficiency that the principal cause of J. Thompson's insolvency arose from the fire on his business premises, and that before that event he was, even with the heavy amount of bad debts, perfectly solvent.

It is therefore clear, from all this, that the *direct object* of a Deficiency Account is, starting, where the same is possible, from a period when a person is perfectly solvent, to gradually from that date trace out in detail the losses and expenses, and the other causes that have led to, and finally brought about, his failure. The example given is naturally of the most simple kind, but it, at the same time, is sufficient, it is thought, to point out the way such an account should be prepared. In actual cases great care would have to be exercised; and it would be more often the rule than not, that where a Deficiency Account was required, many intricacies would be involved, and the examination and search might possibly extend over a considerable period of time.

The debit balance of Capital Account would always give the total amount of deficiency, but the details would have to be sought for in Revenue Account for *losses in trading*, and the accounts representing Outlay of Capital for *loss of capital.*

. . . .

Before bringing this subject to a close it may be an advantage to those who are not thoroughly proficient in the art of Bookkeeping to show how, from a set of books kept by Single Entry, or otherwise incompletely written up, an Approximate Trading Account for a stated period may be raised.

Let it be supposed that the Books of J. Thompson had been kept by Single Entry, and that it was desired to prepare a Trading Account from the 30th June to the 9th December 1886. The Cash Book contained principally receipts on account of sales for ready money and payment of customers' accounts, and purchases for ready money and payment of outstanding accounts for goods, and it was easy to eliminate whatever receipts and payments were extraneous thereto. On analysis it was found that the total receipts on account of sales amounted to £6,181 17s., and the total payments on account of purchases amounted to £6,126 3s. 6d. There was owing by customers on the 30th June 1886, £2,491 13s. 6d. (Open Accounts £1,616 13s. 6d., Bills Receivable £875), and on the 9th of December 1886, £4,375 (Open Accounts £3,500, Bills Receivable £875); and J. Thompson owed for goods on the 30th June 1886, £3,461 (Open Accounts £1,461, Acceptances £2,000), and at the later date, £4,900 (Open Accounts £3,400, Acceptances £1,500). Now, it follows that a portion of the cash received for goods between the 30th June and 9th December 1886 was for credit sales due at the earlier date, and a portion on account of credit sales subsequent to that date, the remainder being ready money sales. It is required to find the total sales for the period. If the amount due for credit sales on the 9th December 1886 (£4,375) be added to the total amount of cash received on account of sales from the 30th June 1886 to the 9th December 1886 (£6,181 17s.) the summation amounts to £10,556 17s. This sum, however, includes the Book debts (£2,491 13s. 6d.) due at the anterior date; in other words, the cash which had been paid in liquidation of the £2,491 13s. 6d., and the balance of that amount, still outstanding on the 9th December. If these be deducted from the £10,556 17s. there is left £8,065 3s. 6d., representing the total sales of the period, which would be as approximately correct as the circumstances would allow. The same process having been gone through with the cash payments for goods and the total amounts due for credit purchases, there would be a result of £7,565 3s. 6d., representing the approximate purchases for the period. To make the foregoing remarks perfectly plain and intelligible, the form is given below that such an Approximate Trading Account would take.

Dr. APPROXIMATE TRADING ACCOUNT from 30th June to 9th December 1886. **Cr.**

Date	Particulars	£ s d	£ s d	Date	Particulars	£ s d	£ s d
1886 June 30	To Stock on hand at this date	..	5,857 1 6	1886 Dec. 9	By Sales:		
Dec. 9	To Purchases:				Debtors, 9th Dec. 1886:		
	Creditors, 9th Dec. 1886:				On Open Accounts .. £3,500 0 0		
	On Open Accounts .. £3,400 0 0				On Bills Receivable 875 0 0	4,375 0 0	
	On Acceptances .. 1,500 0 0	4,900 0 0			Cash Receipts on a/c of Sales from 30th June to 9th Dec. 1886 ..	6,181 17 0	
	Cash Payments on a/c of Goods from 30th June to 9th Dec. 1886 ..	6,126 3 6				10,556 17 0	
		11,026 3 6			*Deduct:*		
	Deduct:				Debtors, 30th June 1886:		
	Creditors, 30th June 1886:				On Open Accounts .. £1,616 13 6		
	On Open Accounts .. £1,461 0 0				On Bills Receivable 875 0 0	2,491 13 6	8,065 3 6
	On Acceptances .. 2,000 0 0	3,461 0 0	7,565 3 6	" 9	" Stock on hand this date	..	6,000 0 0
" 9	To Balance carried down, being Gross Profit ..	..	642 18 6				
		£	14,065 3 6			£	14,065 3 6
					By Gross Profits brought down	..	642 18 6

It has been said before that a Revenue Account treats of Income and Expenditure, and it may appear to some that a Cash Account does the same; such, however, is not the case, a Cash Account treats solely of money receipts and money payments.[1] Certainly, the one may contain items that appear in the other; but at the same time both contain items which are quite foreign to the other.

The Cash Account only deals with actual amounts of money received and expended, the Revenue Account "shows, on the "credit side, the income or earnings, irrespective of whether "the same has been actually received, or, at the date of closing "the books, is due; while on the other or debit side are set "forth the expenses, irrespective of whether they have been "paid or are owing at the same date."[2]

"All receipts and payments relating to Capital and not to "Income would be omitted in the Revenue Account, but "would, of course, have to be included in the Cash Account; "for example, the following items appearing in the Cash "Account would be omitted in the Revenue Account for the "same period: On the Income side, Shareholders' Capital, "Premiums on Shares issued, Amounts received on Mortgage "and on Loan, or on Sale of Securities; and on Expenditure "side, sums paid for the purchase of Securities, sums advanced "on Mortgage, amount of Mortgages repaid, and sums "advanced on Loans, or amount of Loans repaid."

"On the other hand, the following items would appear in a "Revenue Account which would be absent in a Cash Account: "On the Income side, Sales not paid for at the date of closing "the books, Interest on Investments accrued, but not received; "while on the Expenditure side would be found Purchases by "the Company not paid for, and other similar entries."[3]

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[1] Cheques are, of course, considered as cash.

[2] Pixley's *Auditors*, page 107.

[3] Pixley's *Auditors*, page 103.

Before bringing this chapter to a close some remarks are offered upon the *improper use* of the Cash Book—even though the subject is somewhat wide of the matter that has been discussed. Perhaps instead of saying the improper use of the Cash Book, the meaning would be better conveyed by terming it *prostituting that Book to the uses of a Journal.* The Cash Book should be regarded as a record of only the money transactions of a firm—not only in the details but in the aggregate, and by the latter to show the monthly, quarterly, or yearly turnover that has taken place; but the moment it is used for entries not strictly cash entries this object is lost, and it becomes a fruitful source of errors if not a means whereby defalcations may be concealed.

Such an abuse of the Cash Book has undoubtedly been brought about by the gradual disuse of the Journal; this, however, will be treated of in the chapter on Tabular Book-keeping—what is now desired more particularly is to point out that the Cash Book should not be used for such entries as the following:—

1. The writing back of dishonoured Bills in hand (*i.e.*, not discounted or paid away).

2. The disposal of a Bill Receivable by a firm to one of its own creditors.

3. The transfer from one Ledger Account to another, such as, for example, in the case of a firm which both buys and sells to another, and the latter, in settlement of accounts between them, pays or receives the difference between the account for purchases and that for sales, but carries the balance of the former account through the Cash Book as if paid, and the balance of the latter as if received, instead of the *actual cash* passing between the two firms.

They are not strictly cash transactions, but rather transfers from one Ledger Account to another, and should therefore be passed through the Journal.

In insisting, as it may appear to some, so strongly upon this point, it is only with the desire to impress upon Students and Bookkeepers the essentiality of keeping the several books of account for the peculiar and legitimate object for which they were designed, and not to make them receptacles for foreign and miscellaneous entries.

CHAPTER IV.

DEPRECIATION.

There is no desire to enter into any polemical discussion upon the subject of Depreciation, but rather to afford such information as is strictly practical, and which experience has proved to be reliable. Much depends upon the character of the business or class of trade; whether it be financial, commercial, or manufacturing: in the one, the *depreciation* will arise principally from shrinkage or falling off, in market value, of securities and investments; while, in the others, property, such as plant, machinery, warehouses, furniture, utensils, etc., will form the more important items upon which *depreciation*, in the way of *wear and tear*, will have to be calculated. In a business where the plant will rapidly depreciate, or the property will in course of time become unproductive, the question of depreciation of necessity calls for more serious consideration.

Although it is almost impossible to fix any absolute method for calculating the rates of depreciation, or lay down any precise rule for same, the effect of wear and tear can be approximated, and a couple of formulæ are here given which may be regarded as a fair basis for making such calculations.

I.—Property, the interest in which expires by effluxion of time *and possessing no residue of value*, should be divided by the given number of years upon its original cost.

II.—Property which leaves a *residue of value* under any circumstances should be depreciated upon its diminishing amount.

To elucidate these two rules, it will be as well to apply each to such general items of property as would naturally come under it.

Under the head of having *no residue of value* would be classed :—

(*a*) *Leases.*—That is, property held (either as an investment or for occupation) for a fixed term. A proportion should be written off yearly to debit of Revenue Account, after debiting Lease Account and crediting Interest Account with interest upon the diminishing value, and by this means exhausting the purchase price at expiration of the lease. In order to arrive at the proportion to be written off yearly, refer (after fixing the rate of interest[1]) in Inwood's Tables or other work, to the table showing the value in years' purchase of an annuity at the required rate of interest, and divide the purchase price of lease with the number appearing in that column headed by the required rate of interest, and opposite the years of duration of lease ; the result will be the amount to be written off yearly against Revenue Account.

With regard to leasehold premises *in occupation*, the proportion written off is *equivalent to rent*, and should be treated accordingly.

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[1] The rate per cent. is contingent upon circumstances, but 5 per cent. would be the usual rate ; some accountants, however, adopt 6 per cent., that being the rate allowed by the London County Council in cases of compensation.

If the lease contains a provision for renewal, then it would be more proper to treat the depreciation as if the premises were *freehold*, having always a residue of value.

Should the lease contain a dilapidation clause, provision would have to be made to meet same.

(*b*) *Blast Furnaces, Gas Retorts, Chemical and other similar Fixed Plant.*—These being subject to rapid depreciation and constant repair, the original cost should be divided by the number of years of assumed life, and such proportion written off yearly until exhausted, there being little or no break-up value attached.

(*c*) *Patents, Trade Marks, etc.*—The period of value should be estimated, and this taken as their assumed life, and the original cost divided by this term and written off in yearly proportions.

Attention should be given, in this last case, as to any possible augmentation of *goodwill*, and consequently, discretion must be used in writing off *as having no residue of value.* Experience and knowledge of the particular business will point out to what extent this should be taken into consideration.

The following will be the most general items coming under Rule II. as having a *residue of value*:—

(*a*) *Freehold Land* is little subject to rapid changes in value. Local fluctuations may bring about either appreciation or depreciation; consequently, it may be taken that its value, except under rare circumstances, will remain unaltered: and any change in value it is better to adjust by actual valuation.

(*b*) *Freehold Buildings* should be written off at the rate of not more than 5 per cent., and not less than 2½ per cent. upon diminishing value.

(c) *Motive Plant (Engines, Boilers, Gear, &c.)*.—Engines and gear at 5 per cent., and boilers at 10 per cent. upon diminishing value. Engines and boilers might be written off at a common rate, say 7½ per cent., but it would be more advisable that they should be treated apart, the latter being written off at a higher rate than the former, as boilers are more subject to repairs and renewals.

(d) *Plant and Machinery* at 5 per cent. or more, not exceeding, however, 10 per cent. upon diminishing value. In large manufacturing concerns it is recommended to subdivide the plant and machinery in preference to deducting a fixed amount upon the whole, as certain machines may be subject to greater wear than others.

(e) *Furniture, Fixtures, &c.*—Seven per cent. upon diminishing value.

(f) *Rolling Stock.*—Locomotives 10 per cent., and wagons, generally, 7½ per cent., upon diminishing value. For railway wagons, however, it is somewhat difficult to fix a rate: what with constant repairs and renewals, at the end of 15 years little, if any, of the original wagon is left, and the prices for same vary considerably; they have been as low as £40 and as high as £80 each. The rate of depreciation mentioned above appears to be fair, and one that is generally accepted.

With regard to wagons leased upon the "Hire-Purchase System," the proper method would be to arrive at the value of the wagons at the date when all the instalments were paid, and divide this ultimate value by the number of instalments, and credit the product each time an instalment is paid to Capital through a "Wagon Purchase Account," the remainder of instalment being carried to Revenue, so that, at the time the purchase was completed, the "Wagon Purchase Account" would show the full present value of the wagons then acquired.

The above applies also to plant or other property acquired by the "Hire-Purchase System."

(*g*) *Casks* used in breweries, distilleries, oil refineries, etc., from 10 to 20 per cent. on diminishing value, say 10 per cent. on new stock and 20 per cent. on old. It would be better, perhaps, to hold up as a *Stock* on above basis like loose tools (*vide infra*).

(*h*) *Ships.*—The average life of a ship is assumed to be about 20 years, and the rate may be taken at 5 per cent. *on original cost* with respect to first-class express liners; 5 per cent. *on reduced values* for other vessels.

The rates of depreciation that have been placed against the various descriptions of property are not to be regarded as fixed rates, but rather as those which are generally adopted: the exigencies and nature of the particular businesses must determine whether they be more or less. They may be taken, however, as fairly approximate.

In writing off annual sums for depreciation against such properties or assets as come under Rule II., it must be borne in mind that as soon as the original cost is reduced so as to represent the *break-up value*,[1] such annual writing off should be discontinued, further depreciation being unnecessary.

The foregoing remarks have treated only of such capital items subject to a charge for depreciation (1) as having no residue value, and (2) as having a residue of value; there are, nevertheless, certain items which do not strictly come under such a classification; it will, therefore, be necessary to treat them separately. Such would be:

(*a*) *Loose Tools and Utensils* which, from their nature, would

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[1] As long as property is *usable* it will always possess a *working value* in addition to break-up value.

be better treated as *Stock*, and valued as such at the periodical stocktakings.

(*b*) *Bottles* used by mineral water manufacturers, wine merchants, &c., should be dealt with in the same manner.

(*c*) *Goodwill.*—There is no item of capital of more uncertain valuation than the goodwill of a business; it depends so much upon the contingencies of trade that it is never safe to regard it as of permanent value. The best plan to arrive at its value would be to take it as being worth three or five years' purchase of the average profits of a *stated period;* it might also be gradually written off, in the case of its having been acquired by purchase, by dividing the purchase-money over the number of years of estimated period of value.

It must not be forgotten that patents, trade marks, and valuable patterns, &c., go to augment the value of goodwill.

(*d*) *Shares, Bonds, and similar securities and investments,* being usually valued at cost price, are not subject to any charge for depreciation, except in the event of the market value falling below that at which they were bought. In such a case, something would have to be written off; but to what extent the class of security, and the state of the market at the time, would determine.

(*e*) *Formation Expenses.*—These, often forming a serious item in floating large companies, are the more properly dealt with by dividing them in equal proportions over a limited number of years, say 5 to 7. This is quite justifiable, the expenditure being incurred in the interest of the permanent working.

(*f*) *Outlay of Capital in opening mines, quarries, &c.*, and its ultimate recoupment may, with all correctness, be considered under this division. And no better method, it is submitted, can be adopted than that suggested by Mr. Guthrie in a lecture[1] delivered by him on the subject of Depreciation. He says:—" That a normal tonnage should be estimated over a " term of years taken to be the life of the undertaking. " Thus, if there should be a disappointment in respect of " tonnage raised, the loss will be loss of capital in ultimate " liquidation. Should there be a yield in excess of expecta- " tion, the rate may be reduced and discontinued altogether " when break-up values have been reached."

Mr. R. J. Evans, F.C.A., illustrates this theorem in a lecture on Colliery Accounts delivered by him at Sheffield. After making some remarks upon the principle of depreciation or recoupment of capital, he goes on as follows:—" I will now give " you an illustration of the mode upon which the amount is " assessed on a colliery lease. We will suppose a coal-owner " leases 1,000 acres of coal for a term of 50 years at a royalty " rent of £200 per acre, and the thickness of the seam is six " feet. He has spent £70,000 upon the completion of the " colliery, and now wants to know what sum he shall charge " his Revenue Account with, before he declares any profit."

" We will assume that the whole can be drawn during the " term of the lease. We have to ascertain as near as we can " what will be the value of the plant, stock, &c., at the termina- " tion of the lease, and also the penalties under the lease for " damaged land, &c. This sum we will assume to be £5,000. " The amount, therefore, of recoupment of capital is £65,000. " How is it to be provided for? Would you say by an annuity, " or by dividing the sum by the term of the lease? I think " there are great objections to both those plans, which I will " briefly explain. There is nothing fixed in a colliery lease " but the term. The coal may become thinner, dislocations

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[1] It is to this gentleman's lecture that the writer is indebted for the formulæ given above.

"in the measure are exceedingly common. The coal-owner "may be enabled to work out the whole of the coal in forty "instead of fifty years; or he may take additional coal, any "of which would throw out an actuarial calculation. I "believe the only true basis is on the tonnage."

"We have seen in this case that we have 1,000 acres of coal "under lease, which should produce 7,200,000 tons.[1] That is "the coal-owner's stock, upon which he has expended the sum "of £70,000 to work and bring out of the pit. And to bring "that quantity to the surface, he exhausts £65,000 of his "capital. The simple plan is to divide that sum by the stock "of coal he has, which in this case is 7,200,000 tons. This "will give 2·16d. per ton. If any additional coal is taken, "the extended area is brought into account and a new cal- "culation on the same basis is made. Owing, as I have "before explained, to the variations in a colliery business, it is "necessary, every three, five, or seven years, to review the "calculation, *but not the principle*, which should, in my "opinion, be based on the tonnage."

To illustrate more closely Mr. Guthrie's formula, and adopting the figures above-mentioned: the normal annual tonnage would be 144,000 tons, which, at the rate of 2·16d. per ton, would be £1,300. This sum would have to be charged annually to Revenue Account, to provide for the recoupment of capital. Should, however, the annual tonnage raised "be in excess of the expectation" of 144,000 tons, then the actual yield should be valued at the given rate of 2·16d. per ton in lieu of the nominal tonnage and Revenue Account debited therewith, but so soon as the total amount thus set aside should reach the capital expended on the development of the mine, in this case £65,000, the annual charge should at once

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[1] 100 tons per inch of thickness per acre:—6ft. seam = 72 inches. 72 inches × 100 tons × 1,000 acres = 7,200,000 tons.

cease, the break-up value of £5,000 having been reached. But, on the other hand, if the annual yield should be less, then Revenue Account would be charged with a less sum. Consequently, if the lease could not be renewed, or if the total output of coal had been under-estimated, there would result a "loss of capital in ultimate liquidation."

The amounts written off for depreciation should not appear on the liabilities side of a Balance Sheet; they should be deducted from their respective items on the assets side. Depreciation is not in any sense a "Reserve," it not being represented by assets; but is a deduction from the property depreciated.

For the convenience of Bookkeeping, and also to have some continuous record of depreciation, it is advisable to have a "Depreciation Account"; this must not, however, be confounded with "Depreciation Fund," which will be fully explained in a subsequent chapter upon "Reserve and Sinking Funds."

Depreciation has been treated in this chapter, with one or two exceptions, as having relation to *wear and tear;* there are, however, other causes of depreciation, such as decline in profits, reductions in the cost of labour, replacements by improvements before break-up value, or the period of assumed life, has been reached. These causes cannot be estimated in anticipation, and can only be provided for by the creation of a reserve to meet such contingencies.

In calculations for depreciation the following must be taken into consideration:—

Tenure of Land, Premises, &c.—It may be that the generally assumed life of other property is in excess of the tenure, in which case the amount to be written off as depreciation would have to be such that, by the time the holding fell in, the residual value of the property depreciated would be reached.

Location.—Buildings, plant, machinery, &c., may become of little or of no value, except so long as they are usable, on account of their being located in places where it would be impossible to realise either at all, or only at a considerable sacrifice. Such would be the case with machinery, &c., at mines in isolated districts or in uncivilised countries.

Hours of Working.—The foregoing rates of depreciation have been based upon the presumption that machinery, &c., is kept working during the generally prescribed hours: overtime or short time must be allowed for, as also where machinery is running continuously.

That machinery and other property are kept in an efficient state of repair has been assumed. All necessary repairs and renewals of machinery, plant, existing works, &c., should be charged to *Revenue*, and *Trading Account*, in addition, should bear an adequate charge for *depreciation*.

CHAPTER V.

RESERVE AND SINKING FUNDS.

A Reserve Fund is the *setting aside of surplus profits*, and is *represented by existing property and assets*, its *object* being to meet *contingent liabilities*. This object may be specified—such, for example, as the following :

Depreciation Fund, *i.e.*, to meet future depreciation of property and provide for its replacement.

Replacement of Machinery and Motive Power.

Renewal Account to cover any expenses that may be incurred in the renewal of Leasehold property, and to provide for such renewal or for any increase in the original value to be paid in securing new premises upon the falling in of any old lease, or for any similar purpose.

Reserve for Bad and Doubtful Debts, *i.e.*, to provide for any further loss beyond the actual amounts written off or for any unexpected loss as might arise by the suspension of payment of a firm which had been considered perfectly safe.

Dividend Reserve Account, for the purpose of equalising the payment of future dividends, *i.e.*, to permit a company in a bad year to pay its dividend upon shares at the same rate per cent. as it had done in previous years.

Replacement of Vessels, in a large shipowning firm, to provide for the cost of new vessels in place of others sold under the book value, or in the event of loss to provide for any difference between the book value and the amount received from the underwriters.

It must, however, be borne in mind that a *specified Reserve* must not be appropriated for any other purpose than that for which it was intended, and no professional auditor would sanction such an use—but where it is meant to meet *any contingency* that may arise, then a *Reserve Fund Account* is to be opened and to be unspecified.

There is a tendency among those little acquainted with accounts to confound items (which should be deducted from Assets) as profits set aside and forming a *Reserve*. This frequently happens with respect to *actual* depreciation of property and bad debts *actually* made. Nothing could be more objectionable or more erroneous than letting the writing down of property and assets appear on the liability side of a Balance Sheet. Shareholders and others might, having such a Balance Sheet put before them, be led to believe that the property entered there at cost represented its real value, and that the amount appearing on the liability side, representing the diminished value of property from wear and tear, was an amount of undivided surplus profits.[1]

It is very desirable that the distinction between the sum representing the diminished value to be deducted from the cost of property in order to arrive at the actual present value, and

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[1] Writings-off shown in this manner are passed by accountants, but only when *there is a reference* between the items, so as to permit of no misunderstanding.

the sum set aside out of *Profits* to meet the future outlay for the replacement, should be clearly understood. If this be done, there should be no difficulty in the way of demonstrating what a *Reserve Fund* ought to be.

For the sake of illustration, let it be supposed that A. with a capital of £1,400 laid it out in the following manner: He purchased a lease, having five years to run, for £800, and a patent for £600. He granted a licence for the latter to a firm who paid him an annual royalty of £1,000; this was his sole source of income. With regard to the lease, an amount of £189 18s. 8d. would have to be written off annually, in conformity with the method of writing off described in the chapter on Depreciation (page 24), so as to gradually exhaust the original cost when the lease terminated; but in this example it will suffice to divide it by the number of years it has to run, viz.: five, making the annual deduction £160. It is further assumed that A. drew annually for his personal expenditure that sum which would represent net profits. His Profit and Loss Account at end of 1st year standing thus:

Dr. PROFIT AND LOSS ACCOUNT (1st year). *Cr.*

	£ s d		£ s d
To Expenses	100 0 0	By Royalty on Patent ..	1,000 0 0
„ Depreciation of Lease	160 0 0		
„ Balance, being profit carried to Capital Account	740 0 0		
	£1,000 0 0		£1,000 0 0

The Balance Sheet being as follows:—

Dr. BALANCE SHEET at end of 1st year. *Cr.*

	£ s d		£ s d
To Capital	1,400 0 0	By Patent..	600 0 0
		„ Lease .. £800 0 0 *Less* Deprecn 160 0 0	640 0 0
		„ Cash in hand ..	160 0 0
	£1,400 0 0		£1,400 0 0

A., however, preferred to call the amount written off lease as a "Reserve," and made his Balance Sheet thus:

Dr. BALANCE SHEET at end of 1st year, as prepared by A. *Cr.*

	£ s d		£ s d
To Capital	1,400 0 0	By Patent	600 0 0
" Reserve	160 0 0	" Lease	800 0 0
		" Cash in hand ..	160 0 0
	£1,560 0 0		£1,560 0 0

Supposing that in the intervening years the Expenditure and Income had been the same as in the 1st year. At the end of the 5th year the amounts standing to the credit of Capital and to the debits of Patent Account and Lease Account would remain unaltered; on the other hand, Reserve Account would show £800 to the credit, and cash in hand would also be £800. Inasmuch as the lease would have expired, A. would have had to write it off, debiting "Reserve," and so closing that Account; or he might have preferred to debit Profit and Loss, in which case his Capital would be reduced to £600; on the former supposition his Balance Sheet would appear thus:

Dr. (a) BALANCE SHEET at end of 5th year. *Cr.*

	£ s d		£ s d
To Capital Account ..	1,400 0 0	By Patent	600 0 0
		" Cash in hand ..	800 0 0
	£1,400 0 0		£1,400 0 0

On the latter it would be:—

Dr. (b) BALANCE SHEET at end of 5th year. *Cr.*

	£ s d		£ s d
To Capital	600 0 0	By Patent..	600 0 0
" Reserve	800 0 0	" Cash in hand ..	800 0 0
	£1,400 0 0		£1,400 0 0

At the commencement it was laid down that a *Reserve Fund is the setting aside of surplus profits;* but in the case under consideration this was not done, the so-called "Reserve" being nothing more than the deduction required to be written off periodically from the lease, so as to bring it down to its present value. It is seen in the final Balance Sheet (*a* and *b*) that there is nothing beyond the original amount of Capital invested; and although in Balance Sheet (*b*) there appears a "Reserve" of £800 which might, apparently, on the face of it, be taken as conforming with that portion of the Rule which says that the Reserve is represented in existing property and assets, such an assertion could not, however, be maintained, when it is considered that the Capital Account has been reduced by £800, that being tantamount to a "Deficiency on Profit and Loss Account" appearing on asset side of Balance Sheet, and consequently the Reserve could not exist.[1] There was, in reality, no "Reserve Fund": what had virtually taken place, was the writing down of lease, a change from fixed property to floating assets; the former (the lease in this case) had been decreased, and the latter (the Cash) correspondingly increased; and so A.'s capital had remained intact. A., certainly, would not have put forward so false a statement of his affairs as would have been done, had he made no allowance for the falling in of the lease; for, in that case, his capital would have been reduced at the end of the five years by the original cost of the lease. In preparing a Balance Sheet, on the basis as above, with a Reserve Fund appearing on the liability side, a gross and misleading error would be made—gross in not being the meaning, in strict probity, of the term "Reserve Fund" ([2]), and misleading, inasmuch as it

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[1] "No Balance Sheet can be considered correct which shows on one "side a 'Reserve Fund,' and on the other fictitious assets such "as 'Preliminary Expenses,' 'Balance (deficiency) of the Revenue "'Account,' &c." (Pixley, *Auditors*, p. 138.)

[2] "The 'Reserve Fund' of a company should be the sum representing "the excess, or part of the excess, of the assets over the full liabilities, and "the term can only be used *honestly* with this signification." (Pixley, *Auditors*, p. 138.)

would state that there was a fund to meet contingent liabilities (1) (2).

But suppose that he had properly written down his lease yearly, and at the same time had put by out of surplus profits and invested a sum of £180 per annum. In such a case his Balance Sheet at end of 1st year would appear as follows :—

Dr. BALANCE SHEET at end of 1st year. *Cr.*

	£ s d		£ s d
To Capital..	1,400 0 0	By Patent	600 0 0
" Reserve	180 0 0	" Lease .. £800 0 0	
		Less Deprecn 160 0 0	
			640 0 0
		" Consols 3%	180 0 0
		" Cash in hand	160 0 0
	£1,580 0 0		£1,580 0 0

and at the end of the 5th year :—

Dr. BALANCE SHEET at end of 5th year. *Cr.*

	£ s d		£ s d
To Capital..	1,400 0 0	By Patent	600 0 0
" Reserve	900 0 0	" Consols 3%	900 0 0
		" Cash in hand	800 0 0
	£2,300 0 0		£2,300 0 0

A. would thus possess a Reserve of £900 to meet any unforeseen liability or loss. Say at this time he was mulcted in a sum of £200 for infringement of a prior patent, and at the same time lost his patent rights, he would possess a fund wherewith to

1 "As its name implies, the term 'Reserve Fund' should be applied "solely to the sum set aside and invested to meet an unforeseen or un-"expected loss after due provision for all the liabilities has been made." (*Ibid*, p. 138.)

2 No more forcible corroboration of this simple illustration can be given than that of the present "Liberator" Building Society scandal. An amount of some tens of thousands stood on the Balance Sheets as a Reserve, which, on examination, it was found did not exist. A further proof of the advisability of the investment of the Reserve Fund in such securities as those sanctioned for the investing of Trust Funds.

pay the fine and recoup the capital lost, and such would be the ultimate end for which a Reserve is created.

These examples, it is trusted, will fully demonstrate what is really a *Reserve Fund* and what is erroneously called such. For the sake of argument the examples have been made as simple as possible; but actual results would reach to far larger amounts, and be more complex in their nature.

It is essential that a Reserve Fund should be provided in all extensive businesses, especially mercantile concerns, where there are large dealings in the way of bills receivable; for in discounting these, there is always a probability, in no way remote, that heavy liabilities may be incurred by bills, that have been discounted or paid away to third parties in settlement of accounts, being returned dishonoured.

With regard to such items as Goodwill, and money paid for purchase of a business, &c., a Sinking Fund should be raised so as to write these off or reduce them to a realisable value. Mr. Pixley, in his work on *Auditors*, remarks upon this subject that, "so long as the company is prosperous, and its share-" holders receive a satisfactory dividend, this account (purchase " of business) is apparently as good an asset as a realisable " investment, but in the event of the company going into " liquidation, the greater part, if not the whole, of its value at " once disappears."

" It is, therefore, very desirable, instead of dividing all the " profits among the shareholders, for a Sinking Fund to be " raised, so that at the end of a certain period this account " may be either written off, or reduced in amount to a saleable " value. If this plan be adopted also with the fictitious Assets " Accounts, and they have by that means been abolished, the " shareholders will then have their money invested in realisable " securities."[1]

[1] Pixley's *Auditors*, page 147.

An endeavour has been made to point out the road by which one may attain to a perfect knowledge; but perfection, and a full comprehension of the subject, as of all other matters treated of in this work, are only to be reached by *Practice*, and experience in all the variety of accounts and businesses to be met with in an accountant's career.

CHAPTER VI.

ADJUSTMENT OF PARTNERSHIP ACCOUNTS.

This chapter on the adjustment of Partnership Accounts has been divided into two parts :—1st, the legal aspect of the subject; and, 2nd, the proper method of writing up the accounts relative to the legal requirements. That such division is essential is beyond doubt, as the latter portion is entirely dependent upon the ruling of the former.

I. *The Legal Aspect of the Subject.*

No clearer definition of the law upon the subject can be given than that by Lord Justice Lindley in his work on *Partnership*,* and which is here given *in extenso.*

" The final adjustment of a Partnership Account frequently " gives rise to questions of some difficulty. One is, whether " the principles on which profit and losses have been pre- " viously ascertained are to be adhered to, or whether they " are to be more or less departed from. Another is, whether " on a final adjustment of accounts, anything can be regarded " as profit or loss until the capitals of the partners have been " repaid or exhausted, as the case may be. In order to solve " these and similar questions, regard must always be had to " the terms of the partnership articles; but an express agree-

* Lindley on *Partnership and Companies*, Vol. I., pages 805 to 807.

" ment with reference to the taking of accounts may be, and " frequently is, only applicable to the case of a continuing " partnership, and may not be intended to be observed on a " final dissolution of the firm, or even on the retirement of one " of its members (*Blisset v. Daniel*, 10 Ha. 493 ; *Wade v. Jen-* " *kins*, 2 Giff. 509). A similar observation applies to the mode " in which the partners themselves have been in the habit of " keeping their accounts : that which has been done for the " purpose of sharing annual profits or losses is by no means " necessarily a precedent to be followed when a Partnership " Account has to be finally closed. Bearing these observa- " tions in mind, the following rules are submitted as those " which ought to be followed upon a final settlement of Part- " nership Accounts, where there is nothing else to serve as a " guide.

" In adjusting the accounts of partners, losses ought to be " paid, first out of profits, next out of capital, and lastly by " having recourse to the partners individually (*Crawshay v.* " *Collins*, 2 Russ. 347 ; and *Richardson v. Bank of England*, " 4 M. & Cr. 173) ; and the assets of the partnership should be " applied as follows :—

" 1. In paying the debts and liabilities of the firm to non- " partners.

" 2. In paying to each partner rateably what is due from " the firm to him for advances as distinguished from " capital.

" 3. In paying to each partner rateably what is due from " the firm to him in respect of capital.

" 4. The ultimate residue, if any, will then be divisible as " profit between the partners in equal shares, unless the con- " trary can be shown.

"If the assets are not sufficient to pay the debts and "liabilities to non-partners, the partners must treat the "difference as a loss, and make it up by contributions *inter se.* "If the assets are more than sufficient to pay the debts and "liabilities of the partnership to non-partners but are not "sufficient to repay the partners their respective advances, "the amount of unpaid advances ought, it is conceived, to be "treated as a loss, to be met like other losses. In such a "case the advances ought to be treated as a debt of the firm, "but payable to one of the partners instead of to a stranger" (*Wood v. Scoles*, 1 Ch. 369). "If, after paying all debts and "liabilities of the firm and the advances of the partners, "there is still a surplus, but not sufficient to pay each partner "his capital, the balances of capitals remaining unpaid must "be treated as so many losses to be met like other losses" (*Nowell v. Nowell*, 7 Eq. 538; *Anglesea Colliery Co.*, 2 Eq. 379 and 1 Ch. 555; *Ex parte Maude*, 6 Ch. 51; compare *Holyford Mining Co.*, Ir. Rep. 3 Eq. 208).

"The only case which practically gives rise to difficulty is "when partners have advanced, or agreed to advance, un-"equal capitals, and to share profits and losses equally. If "nothing more than this is agreed, a deficiency of capital "must be treated like any other loss; and the assets remain-"ing after payment of all debts and advances must be "distributed amongst the partners so as to make each "partner's loss of capital equal; and if the assets are not "sufficient there must be such a contribution amongst the "partners, or some of them, as to put all on an equality. "But if the true meaning of the partners is that all debts "shall be paid out of the assets, and that any surplus assets "remaining after payment of debts shall be divided between "the partners in proportion to their interests therein, or to "their capitals, effect must be given to such an agreement, "and those partners who agree to bring in most capital will "lose most" (*Wood v. Scoles*, 1 Ch. 369).

II. *The Method of Writing up and Adjusting Partnership Accounts.*

In the second portion of this chapter on the Adjustment of Partnership Accounts, it is proposed to fully explain the method of writing up and dealing with the accounts that shall conform with the legal requirements expounded in the foregoing first part.

It is to be assumed that the partnership deeds have been properly drawn up, and provision duly made therein for the final settlement of the accounts in the event of dissolution of the partnership through effluxion of time, through the death of one of the partners, by an agreement between all the partners, or through any other cause.

If any legal difficulty were to arise through the final adjustment of accounts not being provided for in the deed, or through there being no proper partnership articles, it would not interfere with the settlement of the Partnership Accounts as set forth here. The decision could only be to adjust the same on the basis of one or other of the modes that will be put forward later on as examples.

It very often happens, upon a dissolution of partnership, that one or more of the parties forming the late firm agree to take over the liabilities and assets of the partnership, and to pay the outgoing partners a stipulated sum, and to indemnify them against any claim to which they might be or become liable as partners in the old firm; but this is not a matter requiring attention here, the settlement would be one simply to be arrived at *inter se* on the basis of the last Balance Sheet, or on a valuation of the assets of the partnership. The dissolution of partnership to be dealt with in these examples is one in which the assets have to be fully realised, and the liabilities of the firm liquidated, the surplus, if any, being divided among the partners.

A deed of partnership may provide for the subscription of capital and the share of profits and losses in one of four different ways:—

(1) The capital subscribed to be a like sum by each partner, and the share of profits and losses to be equal.

(2) The capital subscribed to be equal, and the share of profits and losses to be in certain agreed proportions among the partners.

(3) The capital subscribed to be certain agreed but unequal amounts, and the profits and losses to be shared equally.

(4) The capital to be subscribed in unequal amounts, and the profits and losses to be shared in proportion to each partner's respective capital, or in such other manner as may be agreed upon.

It frequently happens that in a summary final adjustment of the accounts, the assets are insufficient to satisfy the debts and liabilities due to non-partners as well as the claims of the partners themselves; in such an event the position of affairs will be one of the three following:—

(1) Either the assets realised are *not* sufficient to pay the debts and liabilities of the firm in full;

(2) Or the assets realised are sufficient to liquidate the claim of creditors, but insufficient to repay the advances of partners;

(3) Or the assets realised are sufficient to pay the debts and liabilities of the firm and the advances of the partners, but insufficient to repay each partner his respective capital.

There is no need here to take into consideration a case where the assets realise their full value, for the accounts would be closed in their natural order without any difficulty.

But in any one of the three cases given above, any loss would have to be made good by the partners, each contributing in such proportion as there was an agreement to share profits and losses, either equally or unequally (*vide* pages 43 and 45).

An endeavour will be made to show how the adjustment of the Partnership Accounts should be dealt with when the assets do not realise sufficient to satisfy not only the debts and liabilities due to the partners, but those due to non-partners as well, and in accordance with the different positions of affairs set out on page 45. Attention is drawn to the priority of payments mentioned on page 42.

Example 1.—The assets on realisation being insufficient to meet the claims of non-partners.

A. B. C. arrange to become partners for seven years, and agree, among other things, to put into the business £15,000 subscribed in unequal sums (A. £5,000, B. £4,000, C. £6,000), and to share the profits and losses equally. At the end of the seven years, during which period B. has advanced £1,000, the partnership expires by effluxion of time, the Balance Sheet at that date standing thus:—

Dr. BALANCE SHEET of A., B., C. & Co., 31st Dec. 188–. *Cr.*

	£ s d		£ s d
To Creditors	8,000 0 0	By Cash at Bankers ..	1,700 0 0
" Bills Payable ..	1,500 0 0	" Debtors	4,850 0 0
" B. for Advances ..	1,000 0 0	" Stock-in-Trade ..	5,500 0 0
" Capital Accounts—		" Plant and Machinery	2,400 0 0
A. .. £2,100 0 0		" Horses, Vans, &c. ..	700 0 0
B. .. 1,000 0 0			
C. .. 1,550 0 0			
	4,650 0 0		
£	15,150 0 0	£	15,150 0 0

Upon a resolution being arrived at to fully realise the assets and to wind up the partnership affairs, an account would have to be opened, which might be called either "Liquidation Account" or "Realisation of Assets Account," to the debit of which would be carried the total assets appearing in the Balance Sheet, amounting to £15,150. On the credit side would appear the amounts produced by the assets respectively when the same were realised to their full extent.

A specially ruled Cash Book in tabular form is recommended, with the columns headed to agree with the items in the Balance Sheet ; this would obviate an analysis of the cash at the final closing of the accounts. (See pages 48 and 49 for form of Cash Book recommended.)

Other columns might be ruled for "Interest on overdue accounts," "Discount and allowances," and any contingent liabilities as might arise from the firm having endorsed or drawn bills which are eventually returned dishonoured.

It is to be assumed in the case under consideration that the assets have, either through over-valuation of stock or plant or through depression in trade, only realised £8,000, and that the costs of realisation amounted to £500.

The "Realisation of Assets Account" would stand thus :—

Dr. REALISATION OF ASSETS ACCOUNT. *Cr.*

	£	s	d		£	s	d
To Estimated Value of Assets at expiration of Partnership as per Balance Sheet	15,150	0	0	By Cash at Bankers at expiration of Partnership	1,700	0	0
" Cash — Expenses of realisation ..	500	0	0	" Cash—Book Debts ..	3,700	0	0
				" Do. Stock.. ..	1,300	0	0
				" Do. Plant and Machinery ..	1,000	0	0
				" Do. Horses, Vans, &c... ..	300	0	0
				" Balance carried down being loss on realisation	7,650	0	0
£	15,650	0	0	£	15,650	0	0
To Balance brought d'wn loss on realisation..	7,650	0	0	By Partners' Accounts for transfer of share of loss contra— A. one-third £2,550 0 0; B. " 2,550 0 0; C. " 2,550 0 0	7,650	0	0
	£7,650	0	0		£7,650	0	0

FORM OF

Dr. RECEIPTS.

Date		L. Fo.	Cash	Bank	Book Debts received	Stock	Plant and Machinery	Horses, Vans, &c.
			£ s d	£ s d	£ s d	£ s d	£ s d	£ s
1886 Feb. 7	To Cash at Bankers at date of expiration of partnership, as per Balance Sheet		..	1,700 0 0				
" 8	" J. Smith, Book Debt		1,000 0 0	..	1,000 0 0			
" "	" F. Macowan, "		300 0 0	..	300 0 0			
" "	" Cash contra ..		..	1,300 0 0				
" 9	" T. Reeves, Book Debt		1,200 0 0	..	1,200 0 0			
" "	" Jones & Co., Book Debt		50 0 0	..	50 0 0			
	" Cash contra ..		..	1,250 0 0				
" 19	" Brook & Mills, Auctioneers:							
	Plant		1,000 0 0	..	..	..	1,000 0 0	
	Stock		1,300 0 0	..	..	1,300 0 0		
	Horses		300 0 0	..	..	..	..	300 0
	" Cash contra ..		..	2,600 0 0				
" 21	" C. Rose, Book Debt		800 0 0	..	800 0 0			
	" C. Wynne & Son, Book Debt ..		350 0 0	..	350 0 0			
	" Cash contra ..		..	1,150 0 0				
	Total realisation of Book Debts .		..	..	£3,700 0 0			
	Total realisation of Stock ..		..	..	..	£1,300 0 0		
	Total realisation of Plant, &c. ..		..	..	..	..	£1,000 0 0	
	Total realisation of Horses, &c. .		..	..	..	..	..	£300 0
Mar. 1	" A., Balance due ..		450 0 0					
" "	" B., " " ..		550 0 0					
" "	" C., " " ..		1,000 0 0					
" "	" Cash contra ..		..	2,000 0 0				
			£8,300 0 0	10,000 0 0				

CASH BOOK.

PAYMENTS. *Cr.*

Date		L. Fo.	Cash	Bank	Incidental Expenses of Realisation	Payment to Creditors	Bills Payable	Advances of Partners
1886			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
Feb. 8	By B. Payable, No. 640		..	1,000 0 0	..	..	1,000 0 0	
" "	" Bank contra ..		1,300 0 0					
" 9	" Do. ..		1,250 0 0					
" 19	" Cohen & Cohen ..		..	2,500 0 0	..	2,500 0 0		
	" Auctioneers' Charges, &c. ..		..	250 0 0	250 0 0			
	" Bank contra ..		2,600 0 0					
" 20	" B. Payable, No. 641		..	500 0 0	..	..	500 0 0	
" 21	" Bank contra ..		1,150 0 0					
	" Matthews & Co. ..		..	360 0 0	..	360 0 0		
	" Union Bank loan..		..	1,040 0 0	..	1,040 0 0		
" 28	" Carter & Co. ..		..	1,650 0 0	..	1,650 0 0		
	" H. Cooper		..	350 0 0	..	350 0 0		
Mar. 1	" Bank contra ..		2,000 0 0					
" 3	" Macfarlane & Son		..	1,650 0 0	..	1,650 0 0		
	" Priestley & Co. ..		..	450 0 0	..	450 0 0		
" 14	" Accountants' charges and incidental expenses		..	150 0 0	150 0 0			
" "	" Law Costs.. ..		..	100 0 0	100 0 0			
			£8,300 0 0	10,000 0 0	500 0 0	8,000 0 0	1,500 0 0	

The Capital Accounts of the respective partners would be as follows:—

Dr. A.'s Capital Account. *Cr.*

	£ s d		£ s d
To Realisation of Assets for one-third share of loss	2,550 0 0	By Amount to credit at date of expiration of partnership, as per Balance Sheet ..	2,100 0 0
		„ Cash, Amount due on adjustment.. ..	450 0 0
	£2,550 0 0		£2,550 0 0

Dr. B.'s Capital Account. *Cr.*

	£ s d		£ s d
To Realisation of Assets for one-third share of loss	2,550 0 0	By Amount to credit at the date of expiration of partnership, as per Bal'nce Sheet	1,000 0 0
		„ Amount due on Adjustment— Transferred from Loan Account £1,000 0 0; Cash .. 550 0 0	1,550 0 0
	£2,550 0 0		£2,550 0 0

Dr. C.'s Capital Account. *Cr.*

	£ s d		£ s d
To Realisation of Assets for one-third share of loss	2,550 0 0	By Amount to credit at the date of expiration of partnership, as per Bal'nce Sheet	1,550 0 0
		„ Cash, Amount due on adjustment ..	1,000 0 0
	£2,550 0 0		£2,550 0 0

The specimen of the Tabular Cash Book given on pages 48 and 49 has been written up to agree with the case under notice, showing the usage of same and how it is finally closed.

A statement showing how the final adjustment had been carried out, and that it had been performed in a proper manner would be necessary, probably appearing in the following form:—

STATEMENT showing the final adjustment of the Partnership Accounts of A., B., and C., the —th ——— 188—.

Dr.	£ s d	*Cr.*	£ s d
To Sundry Liabilities payable to non-partners (1) ..	9,500 0 0	By Realisation of Assets— Proceeds £8,000 0 0 *Less* Expenses 500 0 0	7,500 0 0
" B. for advances ..	1,000 0 0	" A.'s Capital A/c— Amount due on adjustment	450 0 0
		" B.'s Capital A/c— Amount due on adjustment .. 550 0 0 Add advance contra .. 1,000 0 0	1,550 0 0
		" C.'s Capital A/c— Amount due on adjustment	1,000 0 0
£	10,500 0 0	£	10,500 0 0

It has been mentioned (page 43) that where it has been agreed to share the profits and losses equally, a deficiency of capital must be treated like any other loss; and that, if the surplus assets are not sufficient after payment of all debts and advances to make each partner's loss equal, there must be a contribution amongst the partners, or some of them, so as to put all on an equality. Now, in the example just given, it has been seen that each of the three partners, A., B., C., contributed £450, £1,550, and £1,000 respectively, to make good the deficiency appearing at the final adjustment of the accounts. As the agreement with regard to profits and losses was to share these equally, it follows that though there was an *unequal* subscription of capital, the final loss, however, must be equally borne by the respective partners. However obvious this may be to the practical and experienced accountant, it is as well, on behalf of those for whom this work is intended, that it should be fully demonstrated here.

It was supposed that A. put into the business £5,000, and that his Capital Account at the date of the dissolution of

[1] Details of the liabilities might be given, to agree with the particulars in the Balance Sheet prepared at the date of the dissolution of partnership.

partnership showed there was £2,100 to his credit; hence it follows that his drawings in excess of profits during the seven years amounted to £2,900, no losses having been made. B. and C. put in £4,000 and £6,000 respectively, and that, at expiration of the partnership, the respective amounts due to them on their Capital Accounts were £1,000 and £1,550, consequently B.'s drawings in excess of profits amounted to £3,000 for the seven years, whilst C.'s amounted to £4,450. From the following statement it will be seen that the total loss of each partner was £2,550:—

	A.	*B.*	*C.*
Capital at commencement..	£5,000 0 0	£4,000 0 0	£6,000 0 0
Amount contributed to make up deficiency	450 0 0	1,550 0 0	1,000 0 0
	5,450 0 0	5,550 0 0	7,000 0 0
Less Drawings in excess of profits during 7 years ..	2,900 0 0	3,000 0 0	4,450 0 0
	£2,550 0 0	£2,550 0 0	£2,550 0 0

Example 2.—The assets being insufficient to repay partners their advances.

In this second case the supposition is that, though the assets are sufficient to meet the claims of outside creditors, there is an insufficiency to liquidate the claims of partners for advances. The terms of the deed of partnership and the respective amounts of capital subscribed may remain as in Example 1, but the sharing of profits and losses instead of being equal will be *pro rata* to the capital subscribed, viz., A. $\frac{1}{3}$, B. $\frac{4}{15}$, C. $\frac{2}{5}$.

Dr. BALANCE SHEET AT DATE OF EXPIRATION OF PARTNERSHIP. *Cr.*

		£ s d		£ s d
To Creditors		8,000 0 0	By Plant and Machinery	2,400 0 0
„ Bills Payable ..		1,500 0 0	„ Horses, vans, &c. ..	700 0 0
„ B., Advances ..		1,000 0 0	„ Debtors	4,850 0 0
„ Capital, viz.:			„ Stock-in-trade ..	5,500 0 0
A. ..	£2,100 0 0		„ Cash at bankers ..	1,700 0 0
B. ..	1,000 0 0			
C. ..	1,550 0 0			
		4,650 0 0		
	£	15,150 0 0	£	15,150 0 0

The assets realise £10,000, and the costs of realisation amount to £500.

Dr. LIQUIDATION ACCOUNT. *Cr.*

	£ s d		£ s d
To Estimated Value of Assets at expiration of Partnership, as per Balance Sheet	15,150 0 0	By Cash at Bankers at expiration of Partnership	1,700 0 0
" Expenses of realisation	500 0 0	" Cash, Book Debts ..	3,700 0 0
		" Do. Stock	3,300 0 0
		" Do. Plant & Machy.	1,000 0 0
		" Do. Horses & Vans	300 0 0
		" Balance carr'd down, being loss on realisation	5,650 0 0
£	15,650 0 0	£	15,650 0 0
To Balance bro't down, loss on realisation	5,650 0 0	By Partners' Accounts for transfers of share of loss contra :— A. ⅓ share 1,883 6 8 B. $\frac{4}{15}$ " 1,506 13 4 C. ⅖ " 2,260 0 0	5,650 0 0
	£5,650 0 0		£5,650 0 0

Dr. A.'S CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for ⅓ share of loss..	1,883 6 8	By Amount to credit at date of expiration of Partnership, as per Balance Sheet ..	2,100 0 0
" Cash, Amount due on adjustment.. ..	216 13 4		
	£2,100 0 0		£2,100 0 0

Dr. B.'S CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for $\frac{4}{15}$ share of loss	1,506 13 4	By Amount to credit at the date of expiration of Partnership, as per Balance Sheet..	1,000 0 0
		" Amount due on adjustment, transferr'd to Loan Account ..	506 13 4
	£1,506 13 4		£1,506 13 4

Dr. C.'S CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for ⅖ share of loss..	2,260 0 0	By Amount to credit at date of expiration of Partnership, as per Balance Sheet ..	1,550 0 0
		" Cash—Amount due on adjustment	710 0 0
	£2,260 0 0		£2,260 0 0

STATEMENT showing final adjustment of the Partnership Accounts of A., B., C. & Co., — March 188—.

Dr.	£ s d	*Cr.*	£ s d
To Sundry Liabilities payable to non-partners	9,500 0 0	By Realisation of Assets Proceeds £10,000 0 0 *Less* Expens 500 0 0	9,500 0 0
„ B., for advances ..	1,000 0 0	„ B.—Capital Account, Amount due on adjustment	506 13 4
„ A.—Capital Account, Amount due on adjustment	216 13 4	„ C. Do. do.	710 0 0
£	10,716 13 4	£	10,716 13 4

Example 3.—The assets being insufficient to repay the partners their respective capital.

In this third and last example, it is to be supposed that, though the assets realise sufficient to meet all the liabilities of the partnership, the surplus is not sufficient to satisfy the claims of the partners with regard to their respective capitals. The terms of the articles of partnership remain the same as in Example 1, except that the capital is subscribed equally, namely £5,000 each, while the division of profits and losses is in the following proportions, A. ·383′, B. ·333′, and C. ·283′. The Balance Sheet at expiration of partnership stands as follows:

Dr. BALANCE SHEET AT DATE OF EXPIRATION OF PARTNERSHIP. *Cr.*

	£ s d		£ s d
To Sundry Creditors ..	5,600 0 0	By Plant and Machinery	1,500 0 0
„ Acceptances	2,500 0 0	„ Sundry Debtors ..	7,699 0 0
„ Capital Accounts:—		„ Stock in hand ..	3,000 0 0
A. .. £1,387 0 0		„ Cash at Bankers ..	348 0 0
B. .. 1,060 0 0			
C. .. 2,000 0 0	4,447 0 0		
£	12,547 0 0	£	12,547 0 0

The assets realise in this case £9,500, and the expenses of realisation are £600.

Dr. REALISATION OF ASSETS ACCOUNT. *Cr.*

	£ s d		£ s d
To Estimated Value of assets at expiration of partnership as per Balance Sheet	12,547 0 0	By Cash at bankers at expiration of partnership	348 0 0
" Expenses of realisation	600 0 0	" Cash—Book debts ..	5,452 0 0
		" Do. —Stock	2,500 0 0
		" Do. —Plant and machinery	1,200 0 0
		" Balance carried down being loss on realisation..	3,647 0 0
£	13,147 0 0	£	13,147 0 0
To Balance brought d'wn loss on realisation	3,647 0 0	By Partners' Accounts for transfers of share of loss per contra— A.·383' share £1,398 0 4 B.·333' " 1,215 13 4 C.·283' " 1,033 6 4	3,647 0 0
	£3,647 0 0		£3,647 0 0

Dr. A.'s CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for ·383' share of loss	1,398 0 4	By Amount to credit at date of expiration of Partnership as per Balance Sheet ..	1,387 0 0
		" Cash—Amount due on adjustment	11 0 4
	£1,398 0 4		£1,398 0 4

Dr. B.'s CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for ·'333 share of loss	1,215 13 4	By Amount to credit at date of expiration of Partnership as per Balance Sheet ..	1,060 0 0
		" Cash—Amount due on adjustment	155 13 4
	£1,215 13 4		£1,215 13 4

Dr. C.'s CAPITAL ACCOUNT. *Cr.*

	£ s d		£ s d
To Realisation of Assets for ·283' share of loss	1,033 6 4	By Amount to credit at date of expiration of Partnership as per Balance Sheet ..	2,000 0 0
" Cash — Amount due on adjustment ..	966 13 8		
	£2,000 0 0		£2,000 0 0

STATEMENT showing final adjustment of Partnership Accounts of A., B., and C., — March 188—.

	£ s d		£ s d
To Sundry Liabilities payable to non-partners	8,100 0 0	By Realisation of Assets Proceeds £9,500 0 0 *Less* expenses 600 0 0	8,900 0 0
" Amount due to C. on account of capital at adjustment ..	966 13 8	" Amounts due from partners on adjustment— A. .. £11 0 4 B. .. 155 13 4	166 13 8
	£9,066 13 8		£9,066 13 8

It would probably have been considered sufficient had only one example of the final Adjustment of Partnership Accounts been given, as the principle is clearly shown to be the same in all; but as this work is intended for those who are in some degree ignorant of the *modus operandi*, and that, consequently, a difficulty might arise in their minds as to the treatment of the accounts under circumstances other than that given in the example, it has been thought advisable to give three examples, taking into consideration the different relations between the capital subscribed and the division of profits and losses. In cases 1 and 2 the capital has been taken as subscribed in unequal amounts by the respective partners, whilst in the former the profits and losses were shared equally, and in the latter they were shared in proportion to the respective capitals first subscribed; in case 3 the capital subscribed has been in equal sums from each partner, whilst the profits and losses have been shared in agreed proportions.

In neither of the examples given has any notice been taken of interest, either on advances by partners or on capital. In the former case interest would have to be calculated at an agreed rate up to the date of settlement, unless there was any provision to the contrary. With respect to interest on capital:—" As a general rule partners are not entitled to " interest on their respective capitals *unless there is some*

" *agreement to that effect*, or unless they have themselves been " in the habit of charging interest in their accounts (*Cooke v.* " *Benbow*, 3 de G. I.), and even where one partner has brought " in his stipulated capital and the other has not, the former " will not be entitled to interest, on the winding up of the " partnership, if it has not been previously charged and " allowed in the accounts of the firm (*Hill v. King*, 3 de G. I. " and Sur. 418); and where a person is paid for his services " by a share of profits, interest on capital cannot be charged " against him, unless there is some agreement to that effect" (*Rishton v. Grissell*, 5 Eq. 326). "Moreover, where interest " on capital is payable, *the interest stops at the date of dissolu-* " *tion*" (*Barfield v. Loughborough*, 8 Ch. 1, *Watney v. Wells*, 2 Ch. 250), "and undrawn profits are not necessarily to be " treated as bearing interest like the capital" (Lindley, *Law of Partnership*, Vol. I., 786).

Particular and careful attention must be paid in the winding up of a partnership to the wording and clauses of the partnership deed; but not to the terms of the deed alone, but also to the manner in which they have been acted upon by the partners themselves.

III. *Retrospective Adjustment.*

The foregoing remarks have had relation to the adjustment of accounts on a dissolution of partnership, through death, effluxion of time, or other cause, and when it has been necessary to realise the whole of the assets and wind up the affairs of the firm. Disputes among partners, however, often necessitate the adjustment of the Partnership Accounts; the matters in dispute are either referred to arbitration, or an action is commenced in the Chancery Courts by one or more of the partners, for a settlement of the contention between them. In such an event the adjustment of the accounts may be on an entirely different basis.

The Court will on certain grounds decree a dissolution of the partnership in an action brought by one of the partners. The principal cases coming under this head are:—

(*a*) Where a person has been induced by the fraud of another person to enter into partnership with him (*Rawlins v. Wickham*, 1 Giff. 355).

(*b*) Where one partner so grossly misconducts himself, and so constantly commits breaches of the partnership contract, that mutual confidence is destroyed, and the other partners are practically unable to carry on the business along with him (*Smith v. Jeyes*, 4 Beav. 502; *Waters v. Taylor*, 2 V. & B. 299). However, the Court will not order a dissolution merely because there are faults of temper, or because there are squabbles between the partners, except the effect of them is to exclude one of the partners from his interest in the partnership, or to render it practically impossible to carry on the business properly. (See *Goodman v. Whitcomb*, 1 I. & W. 589; *Smith v. Jeyes*, 4 Beav. 502.)

(*c*) Where one of the partners becomes hopelessly insane (*Jones v. Noy*, 2 M. & K. 125).

(*d*) Where one of the partners becomes liable to a criminal prosecution by reason of his having been guilty of a fraud or other crime (*Essel v. Hayward*, 30 Beav. 158).

(*e*) Where the partnership is for a term which has not expired, and one of the partners assigns his share to a stranger (Lindley, 231).

(*f*) Where the purposes of the partnership cannot be carried into effect with any reasonable prospect of profit (*Wilson v. Church*, 41 L.T. Rep. N.S. 50, at p. 63; 13 Ch. Div. 1, at p. 65).

It may be that the correctness of the respective Capital

Accounts of the partners is called into question *inter se*, certain transactions of one or more of the partners being impugned by the others. For example, payments made by one partner out of the Partnership Funds are contested by the others as being *ultra vires*, and to be regarded as a private transaction, and not as forming a part of the partnership business, or *vice versa*. It may, moreover, happen that the disputed transactions extend over a number of years.

The accounts requiring correction under such an adjustment would be the Balance Sheets, the Profit and Loss Accounts, and the Capital Accounts of the respective partners, and possibly some accounts relating to real property.

The best method, perhaps, in such a case would be, not to interfere with the books of the partnership until the final decision of the Court or the award of the arbitrator had been received, but to correct seriatim the periodical Balance Sheets, Profit and Loss Accounts, &c., commencing with those in which the disputed item or items first appear.

It is a somewhat difficult matter to give an illustration of such an adjustment; but an endeavour is here made to explain what is intended:—

It is to be supposed that after carrying on business for five years (1870 to 1875) A. and B., after frequent misunderstandings, submit their case to arbitration. Among the items in dispute is the purchase, in 1871, of a parcel of land for agricultural purposes by B. out of Partnership Funds for £3,000. This, A. contended, was not for the use of, or to the benefit of, the partnership, and, moreover, was *ultra vires* of B., as being contrary to the terms and conditions of the partnership deed.

It has been decided (*Natusch v. Irving*, cited in Lindley, p. 600) that a firm cannot engage in any other business but that for which the partnership was formed, except with the consent of all the partners.

Upon the Arbitrator making his award, this, among other matters, was disallowed, with all outgoings incurred in the purchase, or expended afterwards upon the said land (this is assumed to amount to £120). And these sums were to bear compound interest at the rate of 5% per annum to the date of the award (31st Dec. 1876).[1] Consequently, B.'s Capital Account for 1871 would have to be debited with the purchase-money and the expenses and other disbursements relating thereto. This besides would affect the share of loss or profit of the respective partners in the year in question, as also in the subsequent years.

The first thing to be done is to prepare copies of the Balance Sheet, the Profit and Loss Account, and the partners' respective Capital Accounts for the several years from 1871 to 1876, each year's accounts being bound up separately, and having a few clean pages at the end so as to allow for the adjustment of each year's Profit and Loss Account.

Separate statements of the £3,000 and the £120 (the amounts disallowed by the Arbitrator) should then be prepared, and interest calculated yearly both on the principal and the accrued interest, as in the forms subjoined:

---

[1] Interest could only be claimed in the event "of there being some agreement to that effect, or unless they (the partners) have been in the habit of charging interest in their accounts, and even where one partner has brought in his stipulated capital and the other has not, the former will not be entitled to interest on the winding-up of the partnership, if it has not been previously charged and allowed in the accounts of the firm" (Lindley, *Law of Partnership*, Vol. I., 786; see also *supra*, pages 56 & 57).

I.

STATEMENT of £3,000 now debited to B.'s Capital Account, being the amount paid for land at on 7th Aug. 1871, and disallowed by the Arbitrator in his award of 31st Dec. 1876, with compound interest thereon to latter date at the rate of 5% per annum.

		£ s d	£ s d
1871	Principal	..	3,000 0 0
	Interest on £3,000 0 0 at 5% from 7 Aug. to 31 Dec.= 146 days	60 0 0	
	Less Income Tax 6d. in £	1 10 0	
			58 10 0
			3,058 10 0
1872	Interest on £3,058 10 0 for one year at 5%	152 19 0	
	Less Income Tax 6d. in £	3 16 6	
			149 2 6
1873	Interest on £3,207 12 6 for one year at 5%	160 8 0	
	Less Income Tax 5d. in £	3 6 10	
			157 1 2
1874	Interest on £3,364 13 8 for one year at 5%	168 5 0	
	Less Income Tax 4d. in £	2 16 1	
			165 8 11
1875	Interest on £3,530 2 7 for one year at 5%	176 10 0	
	Less Income Tax 4d. in £	2 18 10	
			173 11 2
1876	Interest on £3,703 13 9 for one year at 5%	185 4 0	
	Less Income Tax 4d. in £	3 1 8	
			182 2 4
			£3,885 16 1

II.

STATEMENT of £120 now debited to B.'s Capital Account, being charges in connection with purchase of land at on 7th Aug. 1871, and disallowed by the Arbitrator in his award of 31st Dec. 1876, with compound interest thereon to latter date at the rate of 5% per annum.

		£ s d	£ s d
1871	Principal	..	120 0 0
	Interest on £120 0 0 at 5% from 7 Aug. to 31 Dec.= 146 days	2 8 0	
	Less Income Tax 6d. in £	1 1	
			2 6 11
1872	Interest on £122 6 11 for one year at 5%	6 2 0	
	Less Income Tax 6d. in £	3 0	
			5 19 0
1873	Interest on £128 5 11 for one year at 5%	6 8 0	
	Less Income Tax 5d. in £	2 8	
			6 5 4
1874	Interest on £134 11 3 for one year at 5%	6 15 0	
	Less Income Tax 4d. in £	2 3	
			6 12 9
1875	Interest on £141 4 0 for one year at 5%	7 1 0	
	Less Income Tax 4d. in £	2 4	
			6 18 8
1876	Interest on £148 2 8 for one year at 5%	7 8 0	
	Less Income Tax 4d. in £	2 6	
			7 5 6
			£155 8 2

Income tax is deducted from interest on account of its having been deducted on the yearly interest on capital; *vide* Capital Accounts.

These two statements show the yearly interest required to adjust the several Profit and Loss Accounts, while the heading forms the narration for the necessary Journal entry at the final adjustment of the Books.

We now take the Balance Sheet and other accounts for 1871, and turning to the clean pages at the end,

Bring forward the net profit of the year, viz., £7,200.

We then add the interest on the £3,000, as per Statement I., the charges disallowed, viz., £120, as they formed part of the revenue expenditure of the period, and have to be written back and the interest on this last amount as per Statement II. This gives us £180 16s. 11d. to be added to the nett profits of the period; *vide* accounts for 1871 as given below.

BALANCE SHEET, 31st Dec. 1871.

LIABILITIES		£ s d	ASSETS		£ s d
Sundry Creditors ..		6,478 5 2	Sundry Debtors		15,164 14 4
Capital, viz.:—			Land situate at		~~3,000 0 0~~
	£12,654 12 3		Stock-in-Trade:		
A. ..	~~12,564 3 10~~		In shops	£3,642 0 0	
	7,766 11 11		In warehouse	5,478 10 0	
B. ..	~~10,857 0 4~~	*20,421 4 2*			9,120 10 0
		~~23,421 4 2~~	Warehouse and Office Fittings		250 0 0
			Cash in hand		2,364 5 0
		26,899 9 4			*26,899 9 4*
		£ ~~29,899 9 4~~			£ ~~29,899 9 4~~

Sections I. and II. of the Revenue Account (*vide* pages 5 and 6) are not given here as they do not bear on the point in question—though, of course, in an actual case they would have to be set out in full.

REVENUE ACCOUNT for the period ending 31st Dec. 1871.

SECTION III.

		£ s d		£ s d
To Interest on Capital ..		868 16 8	By Balance .. .. (from section II.)	8,275 14 2
" Income Tax		206 17 6		
" A. ½ share	£3,600 0 0			
" B. ½ share	3,600 0 0			
		7,200 0 0		
		£8,275 14 2		£8,275 14 2

Dr. A.'s CAPITAL ACCOUNT. *Cr.*

		£ s d			£ s d
1871 Dc. 31	To Transfer Drawing Account	1,280 0 2	1871 Jan. 1	By Balance	9,768 0 0
			Dc. 31	„ Interest at 5% £488 8 0 *Less* Income tax 12 4 0	476 4 0
	„ Balance	*12,654 12 3* ~~12,564 8 10~~	„ „	By ½ share of profit ..	*3,690 8 5* ~~3,600 0 0~~
		13,934 12 5 £ ~~13,844 4 0~~		£	*13,934 12 5* ~~13,844 4 0~~
			1872 Jan. 1	By Balance	*12,654 12 3* ~~12,564 8 10~~

Dr. B.'s CAPITAL ACCOUNT. *Cr.*

		£ s d			£ s d
1871 Dc. 31	To Transfer Drawing Account	1,189 12 4	1871 Jan. 1	By Balance	8,054 0 0
	„ *Land purchased* 7 *Aug.* 1871 ..	*3.000 0 0*	Dc. 31	„ Interest at 5% £402 14 0 *Less* Income tax 10 1 4	*331 15 9* ~~392 12 8~~
	„ *Charges thereon* ..	*120 0 0*			
	„ Balance	*7,766 11 11* ~~10,857 0 4~~	„ „	By ½ share of profit ..	*3,690 8 6* ~~3,600 0 0~~
		12,076 4 3 £ ~~12,046 12 8~~		£	*12,076 4 3* ~~12,046 12 8~~
			1872 Jan. 1	By Balance	*7,766 11 11* ~~10,857 11 11~~

(*Example of the entries to be made in blank pages left at end of the yearly accounts for the adjustment.*)

		£ s d	£ s d
Net Profit as per Revenue Account (*fo.*)			7,200 0 0
Add			
Interest on £3,000 disallowed by Arbitrator in his award of the 31st Dec. 1876, from 7th Aug. to 31st Dec. 1871 = 146 days at 5% per annum .. £60 0 0 *Less* Income Tax, 6d. in £ .. .. 1 10 0 Charged to B.	(*fo.*)	58 10 0	
Amount of charges in connection with purchase of land at .... 7th Aug. 1871, disallowed by Arbitrator in his award of 31st Dec. 1876	(*fo.*)	120 0 0	
Interest on the above £120, 7th Aug. to 31st Dec. 1871 = 146 days at 5% per annum .. £2 8 0 *Less* Income Tax, 6d. in £ .. .. 1 1 Charged to B.	(*fo.*)	2 6 11	
			180 16 11
Adjusted profits for 1871			£7,380 16 11
A.'s ½ share of profits	(*fo.*)	3,690 8 5	
B.'s ½ share of profits	(*fo.*)	3,690 8 6	
		£7,380 16 11	

We now turn to B.'s Capital Account and enter in red (in italics here) to his debit the £3,000, ruling same out among the assets in Balance Sheet. We also debit B.'s account in red with the £120, and correct his entry for interest by deducting from the amount already entered £58 10s. 0d. (interest on the £3,000) and £2 6s. 11d. (the interest on the £120). We now finally amend the share of profit carried to each partner's Capital Account, and this being done, re-cast each side, bring down the corrected balance, and carry same to Balance Sheet, the sides of which, on being re-cast, should agree and thus prove the correctness of the work.

So far we have corrected and adjusted the accounts for 1871, but in so doing have effected an alteration in the Capital Accounts of each partner, irrespective of any change made by amounts written back; that is to say, they are entitled to a further share of profits than was originally allotted to them; viz., the £180 16s. 11d. appearing in the adjustment of Profit and Loss Account. But as this will affect the amount of interest on capital in the next and subsequent years, a statement is to be drawn out in the same manner as Statements I. and II.

III.

STATEMENT of Interest on £180 16s. 11d., the extra amount of Profit due to Partners as on 31st Dec. 1871, after adjustment of accounts for the year ending 31st Dec. 1871, at the rate of 5% per annum compounded, from the above date to 31st Dec. 1876; the moieties being credited to A. and B. respectively.

		£ s d	£ s d
1872	Principal		180 16 11
	Interest on £180 16 11 at 5% for one year	9 1 0	
	Less Income Tax, 6d. in £	4 6	8 16 6
1873	Interest on £189 13 5 for one year at 5%	9 10 0	
	Less Income Tax, 5d. in £	3 11	9 6 1
1874	Interest on £198 19 6 for one year at 5% .. .	9 19 0	
	Less Income Tax, 4d. in £	3 4	9 15 8
1875	Interest on £208 15 2 for one year at 5%	10 9 0	
	Less Income Tax, 4d. in £	3 6	10 5 6
1876	Interest on £219 0 8 for one year at 5%	10 19 0	
	Less Income Tax, at 4d. in £	3 8	10 15 4
			£48 19 1

As this will be a deduction from profits in the next and following years, it is always better to write it and others of the same character in *red* ink, so as to easily distinguish them from those having an opposite result.[1]

The accounts for the second year are here given as a further example:

As also a statement showing the treatment of the extra profits for the year derived from the re-adjustment:

Dr. BALANCE SHEET, 31st Dec. 1872. *Cr.*

LIABILITIES	£	s	d	ASSETS	£	s	d
Sundry Creditors ..	7,354	7	8	Sundry Debtors.. ..	20,692	0	0
Capital, viz.—				Land situate at	~~3,000~~	~~0~~	~~0~~
£15,644 13 1				Stock-in-trade:			
A. .. ~~15,476 13 11~~				In shops .. £3,420 0 0			
10,618 6 10				In warehouse 6,825 0 0			
B. .. ~~13,786 6 0~~					10,245	0	0
	26,262	*19*	*11*	Warehouse and office fittings	230	0	0
	~~29,262~~	~~19~~	~~11~~	Cash in hand	2,450	7	7
	3				*3*		
£	3~~6~~,617	7	7	£	3~~6~~,617	7	7

REVENUE ACCOUNT.—*It has been thought unnecessary to repeat this; but to take the Net Profit as the same as last.*

Dr. A.'S CAPITAL ACCOUNT. *Cr.*

		£	s	d			£	s	d
1872					1872		*12,654*	*12*	*3*
Dec. 31	To Transfer Drawing Account.. ..	1,300	0	0	Jan. 1	By Balance	~~12,564~~	~~3~~	~~10~~
		15,644	*13*	*1*	Dec 31	„ Interest at 5% £628 4 2			
„ „	„ Balance	~~15,476~~	~~13~~	~~11~~		*Less* Income tax 15 14 1	*616*	*18*	*4*
							~~612~~	~~10~~	~~1~~
							3,673	*2*	*6*
					„ „	By ½ Share of Profit ..	~~3,600~~	~~0~~	~~0~~
		16,944	*13*	*1*			*16,944*	*13*	*1*
	£	~~16,776~~	~~13~~	~~11~~		£	~~16,776~~	~~13~~	~~11~~
					1873		*15,644*	*13*	*1*
					Jan. 1	By Balance	~~15,476~~	~~13~~	~~11~~

[1] In this example the amount has been treated entire, but it can, and conveniently so, be divided into two statements, showing each partner's share. This would the better agree with the adjustment appearing at the end of each year's accounts.

Dr. B.'s Capital Account. *Cr.*

Date	Particulars	£	s	d	Date	Particulars	£	s	d
1872									
Dec. 31	To Transfer Drawing Account.. ..	1,200	0	0	1872		*7,766*	*11*	*11*
		10,618	*6*	*10*	Jan. 1	By Balance	~~10,857~~	~~0~~	~~4~~
" "	" Balance	~~13,786~~	~~6~~	~~0~~	Dec. 31	" Interest at 5% £542 17 0			
						Less Income tax 13 11 4	*378*	*12*	*5*
							~~529~~	~~5~~	~~8~~
							3,673	*2*	*6*
					" "	By ½ share of Profits..	~~3,600~~	~~0~~	~~0~~
		11,818	*6*	*10*			*11,818*	*6*	*10*
	£	~~14,986~~	~~6~~	~~0~~		£	~~14,986~~	~~6~~	~~0~~
					1873		*10,618*	*6*	*10*
					Jan. 1	By Balance	~~13,786~~	~~5~~	~~6~~

			£ s d	£ s d	£ s d
Net profit as per Revenue Account, page					7,200 0 0
Add—Interest on £3,058 10s. 0d. being amount disallowed as on 31st Dec. 1871, with compound interest thereon (see Balance Sheet for 1871)			152 19 0		
Less Income Tax			3 16 6		
Charged to B.				149 2 6	
Interest on £122 6s. 11d. being amount disallowed as on 31st Dec. 1871, with compound interest thereon (see Balance Sheet for 1871)			6 2 0		
Less Income Tax			3 0		
Charged to B.				5 19 0	
				155 1 6	
Deduct—Interest on £180 16s. 11d., the extra amount of profits due to partners as on 31st Dec. 1871 (see Balance Sheet for 1871)					
A.'s ½ share	£90 8 5				
Interest at 5%		£4 10 6			
Less Income Tax		2 3			
			4 8 3		
B.'s ½ share	£90 8 6				
Interest at 5%		£4 10 6			
Less Income Tax		2 3			
			4 8 3	8 16 6	
					146 5 0
Adjusted profits for 1872					£7,346 5 0

A.'s ½ share of profits	£3,673	2	6
B.'s ½ share of profits	3,673	2	6
	£7,346	5	0

IV.

STATEMENT of Interest on £146 5s., the extra amount of Profit due to Partners as on 31st Dec. 1872, after adjustment of accounts for the year ending 31st Dec. 1872, with interest at rate of 5% per annum compounded, from the above date to 31st Dec. 1876, the moieties being credited to A. and B. respectively.

		£ s d	£ s d
1873	Principal	..	146 5 0
	Interest on £146 5 0 for one year at 5%	7 6 0	
	Less Income Tax, 5d. in £	3 0	
			7 3 0
1874	Interest on £153 8 0 for one year at 5%	7 13 0	
	Less Income Tax, 4d. in £	2 6	
			7 10 6
1875	Interest on £160 18 6 for one year at 5%	8 1 0	
	Less Income Tax, 4d. in £	2 8	
			7 18 4
1876	Interest on £168 16 10 for one year at 5%	8 9 0	
	Less Income Tax, 4d. in £	2 10	
			8 6 2
			£30 18 0

The same plan would be adopted for the subsequent years until the final adjustment (in this case under date of 31st Dec. 1876); the Statements I., II., III., IV., and others to be made each year in accordance with III. and IV. would give the results to be carried through the Journal to the respective accounts, the totals giving the necessary figures and the headings forming the narration of each Journal entry. The books could then be closed in the usual way, and should agree with the amended Balance Sheet of 31st Dec. 1876.

In an adjustment of Partnership Accounts on the above basis there would probably occur items in dispute as being a portion of the property of the business, and which had been taken by one of the partners as personal property. In such case the adjustment would be the opposite to the illustration given, the Capital Account of one partner being credited with the item written back, and the assets of the firm being increased by the addition of such item of property. The manner of procedure would be the same as given above; it is thought, however, that the example given will be sufficient to demonstrate the manner of adjusting Partnership Accounts under such a condition of affairs.

In the event of a case similar to the illustration given above being taken into Court, a receiver would in all probability be appointed; it is the practice, however, of the Court to use great caution. The primary object of the application must not be to carry on the business, but to dissolve the partnership and realise the assets as quickly as possible, or dispose of the business and assets to such partner who shall offer the highest amount, and so pay out the other partner or partners under such terms and conditions as the Court may direct. Mutual confidence being the basis of a partnership, it must be shown that the partner or partners against whom the receiver is asked has been guilty of acts which are injurious to the business, and destroy mutual confidence. When a partner has been induced to join a firm by fraudulent representations, a receiver will be appointed at his request. The Court sometimes appoints one of the partners, on being satisfied that, from his special knowledge of the business or other matters, he will be more likely to beneficially wind up the estate than a stranger; but he must give security, and must act without salary. In the order he would be described as receiver and manager.

Forms for a Receiver's Cash Account are given in the Appendix.

It may be as well to say a few words, before bringing this subject to a close, upon the ways in which a dissolution of a partnership may take place, and to do so as clearly as possible, the following remarks from a lecture* delivered

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* *Vide Accountants Students' Journal*, Vol. III., No. 30: Messrs Gee & Co.

to the London Accountant Students' Association by R. Ringwood, Esq., Barrister-at-Law, are quoted :—

" There are three ways in which a dissolution of partner-" ship may take place. In the first place, a dissolution may " take place by operation of law. A dissolution by operation " of law takes place :—

" (*a*) Where one of the partners dies, unless there is an " express agreement in the articles of partnership that the " death of one of the partners is not to effect a dissolution " (*Gillespie v. Hamilton*, 3 Mad. 251).

" (*b*) Where one of the partners becomes bankrupt a dis-" solution takes place *ipso facto*, because his share is trans-" ferred to his trustee in bankruptcy, with whom, of course, " the other partners never agreed to carry on business (*Fox* " *v. Hanbury*, 2 Cowp. 445). I need hardly say that " the bankruptcy of all the partners would have a similar " effect.

" (*c*) On similar principles, if one partner in a partnership " at will assigns his share to a stranger or to the other partner, " a dissolution takes place. (See Lind. 698 ; *Heath v. Sansom*, " 4 B. & Ad. 172.)

" (*d*) A dissolution would also probably take place where " any event happens which would make the partnership " illegal. (See *Esposito v. Rowden*, 7 E. & B. 763, 784.)

" Secondly, the time of the dissolution may be fixed by the " agreement of the partners. Thus, if the partnership is a " partnership at will, any member can at any time give notice " of dissolution ; though, if he does so at an unreasonable " time, and when ruinous loss would be caused to the concern, " the Court would probably interfere. (See *Featherstonhaugh* " *v. Fenwick*, 17 Ves. 298.)

" Again, where the partnership is for a fixed term, it comes " to an end when that term has expired, unless the parties " still continue to carry on the business, in which case the law " holds that there is a partnership at will (*Featherstonhangh* " *v. Fenwick, ubi sup.*).

" Further, I need hardly say that, though the partnership " term has not expired, a dissolution may take place if all the " partners agree."

The third way is when the Court, on certain grounds, will decree a dissolution of the partnership. For the principal cases coming under this head, see page 58.

CHAPTER VII.

JOINT STOCK COMPANIES' ACCOUNTS.

There is no intention of going into any elaborate details for keeping the accounts of a company with limited liability, but rather to show the method of opening and writing up the Statistical books,[1] the principal of which are—

The Application and Allotment Book.

The Share Ledger (Register of Members).

The Call Book.

The Register of Transfers.

Register of Mortgages.

Annual List of Members and Summary Book.

Minute Book.

The one important book required under the Companies Act 1862 is a Register of Members, and there shall be entered therein the following particulars :—

(1) The names and addresses and occupation, if any, of the members of the company, with the addition, in the case of a company having a capital divided into shares, of a statement of the shares held by each member, distinguishing each share

[1] Statistical books, so called to distinguish them from the Financial or ordinary books of account.

by its number; and of the amount paid, or agreed to be considered as paid, on the shares of each member.

(2) The date at which the name of any person was entered in the Register as a member.

(3) The date at which any person ceased to be a member.

The Share Ledger complies with all these requirements, and therefore it is recommended not to keep a separate book for this purpose.[1]

The first thing to be done by the registration clerk of a new company is to enter the applications for shares in the Application and Allotment Book in the order in which they are received. These are usually handed in to the company's bankers, and are obtained from the bank daily, together with the pass-book recording the deposits received.

The form of an Application and Allotment Book is given on page 73, and has been filled up in such a manner as to represent every case that may occur in the application for and in the allotment of shares in a company with limited liability.

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[1] Mr. Francis Pixley, F.C.A., however, in his excellent work on AUDITORS, remarks that this plan has one great disadvantage.

" *Section 32,*" *he writes,* " *of the Companies Act 1862 prescribes that the* " *Register of Members shall be open to any member gratis and to that of* " *any other person on the payment of one shilling, or any less sum the* " *company may prescribe for each inspection. It might be very undesirable* " *for the company to throw open its Share Ledger to the inspection of* " *everyone making a demand under this section, and for this reason the* " *Shareholders' Ledger is usually kept as a separate book. The book* " *which gives all the particulars required by the Act, without affording* " *any information to an inspector, except by considerable research, is one* " *which contains the shares in numerical order, with the names of their* " *respective holders, and other particulars, in the same line with the* " *number.*"

APPLICATION FOR AND ALLOTMENT OF SHARES.

1	2	3	4	5	6	7	8	9		10	11	12	13	14	15	16	17	18
						Allotment					Due on allotment							
No. and Date of Application	Date of Application received	Name	Address	Occupation	No. of Shares applied for	Date	No. of Shares allotted	Distinctive No. of Shares From	Distinctive No. of Shares To	Amount of deposit	Amount	Date paid	Calls paid in advance	Balance due on Shares	Amount returnable (if any)	Share Ledger folio	No. of Share Certificate	Remarks
						1892				£ s d	£ s d		£ s d	£ s d	£ s d			
Vendor and his nominees		Fenton, John	64 The Grove, Hammersmith, London, W.	Engineer	5,000	Jan. 20	5,000	1	5,000	..	..	..	..	..	..	1		*Allotted as fully paid under Agreemnt. of Nov. 30 1891.*
		Fenton, Mary	64 The Grove, Hammersmith, London, W.	Married woman	1,000	„ 20	1,000	5,001	6,000	..	..	..	..	..	..	2		
		Black, William	The Oaks, Sidcup, Kent	G'ntlem'n	4,500	„ 20	4,500	6,001	10,500	..	..	..	..	..	..	3		
		Marks, James	6 Rood Lane, London, E.C.	Ship owner	1,500	„ 20	1,500	10,501	12,000	..	..	..	..	..	..	4		
Signatory		Smith, John	16 Mildmay Park, London, N.	Clerk	1	„ 20	1	..	12,001	10 0	10 0	1892 Jan. 30	..	1 0 0	..	5		
Signatory		Bruce, George	17 Bedford Row, London, W.C.	Solicitor	1	„ 20	1	..	12,002	10 0	10 0	„ 31	..	1 0 0	..	6		
Signatory		French, Ernest	42 Mare St., Hackney, London, N.	Porter	1	„ 20	1	..	12,003	10 0	10 0	„ 30	..	1 0 0	..	7		
Signatory		Evans, Charles	17 Bedford Row, London, W.C.	Solicitor's clerk	1	„ 20	1	..	12,004	10 0	10 0	„ 31	..	1 0 0	..	8		
Signatory		Readman, John	48 Lime Street, London, E.C.	Surveyor	1	„ 20	1	..	12,005	10 0	10 0	Feb. 6	..	1 0 0	..	9		
1891 *1* Dec. 16	1891 Dec. 18	Clinton, Henry	The Broadlands, Abingdon, Berks	Banker	1,000	„ 20	1,000	12,006	13,005	500 0 0	500 0 0	„ 10	..	1,000 0 0	..	10		This includes his one share as signatory.
2 „ 20	„ 21	North, Frances	Inverness Lodge, Hyde Park Pl., London, W.	Widow	300	„ 20	300	13,006	13,305	150 0 0	150 0 0	„ 8	300 0 0	..	..	11		
3 „ 20	„ 21	North, Eva	Inverness Lodge, Hyde Park Pl., London, W.	Spinster	500	„ 20	300	13,306	13,605	250 0 0	50 0 0	„ 8	..	300 0 0	..	12		
4 „ 29	„ 30	Duff, Edwin	Thirwall Hall, Lymm, Cheshire	Baronet	100	..	..	..	..	50 0 0	..	..	..	..	50 0 0	..		Letter of regret and cheque—Jan. 21.

Columns 6, 8, 10, 11, 13, 14, 15 on each page should be cast up; the total of former pages being added on—thus:—

Total of page 3	£
Totals of pages 1 and 2 brought forward	
Total carried to page	£

The first entries should be the shares agreed to be allotted as fully paid up to the vendor or vendors (and his or their nominees) in part or full payment of the purchase money[1] for the property or business acquired by the company, then follow those subscribed for by the signatories to the memorandum of association who have not otherwise applied for shares.

Application No. 1 is a case where an applicant for shares has marked his form to the effect that his request for so many shares includes *that one* for which he subscribed when signing the memorandum of association. Where this has not been done, and the company has eventually gone into liquidation, and all the shares have not been subscribed for, the liquidator is within his rights by including the signatory in the list of contributories for the shares so subscribed, even though he applied for other shares, the signing of the memorandum of association and the request for shares sent in after issue of prospectus being regarded as two distinct applications or undertakings to accept shares. The Courts have upheld this.

No. 2 is a case where the subscriber, when paying the amount due on allotment, also pays the balance remaining due on the shares, thus converting them into fully paid-up shares. It is usual, where calls are thus paid in advance, to allow interest upon the amount paid in excess of calls made.

In No. 3 the applicant applies for more shares than the directors allot, either through the full number offered to the public being taken up, or through there being numerous other

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[1] The writer recommends the adoption of such a plan, as by this means the shares considered as fully paid-up are kept quite distinct from those which are applied for; the latter would then bear consecutive numbers without being broken into.

requests for shares, with which the directors wish to comply so far as the remaining shares can be divided among the applicants *pro rata*, or from any other cause. In the event of such a case as the last, the excess amount paid on deposit is applied to the payment due on allotment, and if there be any sum beyond this it is either returned or allowed to remain against future calls. In the example given it will be seen that there was not enough to satisfy the call on allotment by £50, request for the payment of which would be contained in the letter of allotment.

No. 4 is a case where no allotment takes place, and consequently a letter of regret is sent, together with a cheque returning the deposit.

Immediately after the allotment of the shares, the Share Ledger should be written up. The form recommended is given on pages 76-7, with two examples of entries, which are given to show how the vendors' shares and the ordinary shares are respectively entered in that portion of the Ledger set apart for the registration. A full explanation of the Share Ledger and the advantage of the form here adopted will be given before the close of the present chapter.

1

SHARE LEDGER.

FENTON, JOHN.

64 The Grove, Hammersmith, London, W. Engineer.

Dr. CASH ACCOUNT. *Cr.*

			£ s d				£ s d
1892 Jan. 20	To Share Capital— 5,000 Shares of £2 each.. ..	J. 1	10,000 0 0	1892 Jan. 20	By Vendor's Purchase Account ..	J. 2	10,000 0 0

Shares Acquired							Shares Transferred						Balance	
Date of Registration	Transfer No.	Share Ledger folio	Number of Shares acquired	Distinctive Numbers		Amount paid per Share	Trans-fer No.	Share Ledger folio	Number of Shares trans-ferred	Distinctive Numbers		Amount paid per Share	No.	Capital
				From	To					From	To			£
Jan. 20	In accordance with the terms of the Agreement of 30 Nov. 1891	..	5,000	1	5,000	40/-	..	..	..	..	..	..	5,000	10,000
June 28	..	..	..	..	..	..	1	11	10	1	10	40/-	4,990	9,980
" 30	..	..	..	..	..	..	6	14	100	41	140	40/-	4,890	9,780
(1)													4,890	£9,780

(1) The heavy line and figures are supposed to represent *red ink*; for explanation see page 95.

11 SHARE LEDGER.

NORTH, FRANCES.

Inverness Lodge, Hyde Park Place, London, W. Widow.

Dr. CASH ACCOUNT. *Cr.*

Date		Folio	£ s d	Date		Folio	£ s d
1892 Jan. 20	To Share Capital — Application and Allotment: 300 shares of £2 each, £1 per share called up	J. 1	300 0 0	1891 Dec. 21	By Cash, Application	C.B. 1	150 0 0
Mar. 20	„ Share Capital — 1st call 10/- on 300 shares	J. 3	150 0 0	1892 Feb. 8	„ Do. Allotment	„ 4	150 0 0
„ 21	„ Cash	C.B. 6	1 13 8	„	„ Do. Calls in advance	„ 4	300 0 0
				Mar. 20	„ Interest on £300 to date	J. 4	1 13 8

Shares Acquired							Shares Transferred						Balance	
Date of Registration	No. of Transfer Deed	Share Ledger folio	Number of Shares acquired	Distinctive Numbers From	Distinctive Numbers To	Amount paid per Share	No. of Transfer Deed	Share Ledger folio	Number of Shares transferred	Distinctive Numbers From	Distinctive Numbers To	Amount paid per Share	No.	Capital
1892 Jan. 20	Allotted		300	13,006	13,305	..	..	..	..	..	..	..	300	..
June 28	1	1	10	1	10	40/-	..	..	..	..	..	..	310	..
	(1)												310	£620

(1) *Vide* note, page 76.

There is no intention to go into any lengthy statement of how the certificates are prepared, or of the manner of making calls, &c.[1] All that is here intended is, firstly, to give such instructions as will enable anyone to keep the necessary books in proper order; and, secondly, to put forward such forms as it is thought will fully comply with all requirements, and will give, at the same time, all necessary information without being too elaborate or too confusing.

Another book that will be almost immediately required is the Call Book, the form for which is given on page 79, with examples.[2]

The date of the first call is usually mentioned on the prospectus, and the articles of association should state the manner in which calls are to be made and paid. Whether or not the prospectus bears the date of the first or other calls, it is essential that the call be made by a Board minute stating both the amount and the time at which it is to be paid.

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[1] For such information, the reader is referred to the *Secretary's Manual*, published by Jordan & Son, which deals with the matter thoroughly.

[2] It will be found more convenient to have this in loose sheets with the number of call left blank, as also the amount of call per share. The sheets of such call when complete can then be stitched together, having a limp cover (leather or other material) at back so as to permit of the whole being rolled up.

CALL BOOK.

1st Call of *Ten Shillings* per share, making total amount paid up per share *£1 10s.*

Date of Call made as per Board Minute of	Date of despatch of Call Notices	Due date of Call	Share Ledger fo.	Name	Address	Description	No. of Shares held	Total Amount of Call	Date paid	Cash Book fo.	Interest at 5% per annum: Days	Interest at 5% per annum: Amount	Remarks
1892	1892							£ s d	1892			£ s d	
Mar. 20	Mar. 21	Apr. 20	5	Smith, John	16, Mildmay Park, London, N.	Clerk	1	10 0	Mar. 30	6			
" "	" "	" "	6	Bruce, George	17, Bedford Row, London, W.C.	Solicitor	1	10 0	" 28	6			
" "	" "	" "	7	Finch, Ernest	42, Mare Street, Hackney, London	Porter	1	10 0	Apr. 18	7			
" "	" "	" "	8	Evans, Charles	17, Bedford Row, London, W.C.	Solicitor's Clerk	1	10 0	" 20	7			
" "	" "	" "	9	Readman, John	48, Lime Street, London, E.C.	Surveyor	1	10 0	" 23	8			
" "	" "	" "	10	Clinton, Henry	The Broadlands, Abingdon, Berks	Banker	1,000	500 0 0	July 2	14	73	5 0 0	2nd application, Apr. 30; Final " May 10; Placed in hands of Solicitors, May 28
" "	" "	" "	11	North, Frances	Inverness Lodge, Hyde Park Place, London, W.	Widow	300	150 0 0	Feb. 8	4	*41*	*1 13 8*	*On £300 paid in advance, Feb. 8th, 1892*
" "	" "	" "	12	North, Eva	Inverness Lodge, Hyde Park Place, London, W.	Spinster	300	150 0 0	Apr. 20	7			

When a call is decided upon by the Board of Directors and the resolution is passed, letters are at once sent out. The best form for these is a threefold one, such as that given on page 81.

The counterfoil, the letter, and the request to banker, should all bear the respective folio in the Share Ledger; the advantage being that reference to the particular account in the Share Ledger, in case of need, is so much easier.

Some companies do without the letter of request to bankers, but it is always advisable to adopt same, as frequently the names in the Pass Book are not always to be identified on account of their being in a mutilated form or indistinctly written. This is prevented, however, by the letter of request, as that document is retained by the bankers when payment is made, and handed by them to the company with the Pass Book[1] in the same manner as the application for shares.

It will be noticed in the examples given that "Henry Clinton" did not pay his call until long after due, and consequently was charged with interest; and that "Frances North" had interest allowed, the same being calculated on the amount of £300 from the date it was paid in advance (8 February) to the date when the call was made (20 March). This should be entered in red (italics here) so as to distinguish interest earned from interest allowed. In a company where there are several of such payments in advance, it is better to have two interest columns, one for interest on calls overdue, and the other for interest on calls paid in advance.

If the certificates have been issued previous to the call being made, notice should be given to the shareholders in the

---

[1] It is advisable to have distinct Pass Books for deposits on application for shares, and for each respective call.

FORM OF CALL LETTER.

No.... Share Ledger Fo....

Date__________189..

______Call of________per Share.

Name________________

Address________________

No. of Shares held__________

Total amount of Call £__________

Date due__________

Examined by__________

Date posted__________189..

Posted at__________

Hour______ min______

Posted by__________

No.... Share Ledger Fo....

THE COMPANY, LIMITED.

__________189..

I have to give you notice that the Directors of The Company, Limited, have this day resolved that a Call of £......per share be made on the shares of the Company.

You appear on the register as the proprietor of......shares, and the amount of call due thereon is £....which sum please pay to The Bank, Limited, on or before the day of

By Order of the Board,

____

Secretary.

To__________

If you will forward to the Company your share certificate and the banker's receipt for the amount of Call, the former will be returned to you with the payment of Call endorsed thereon.

This Form to be sent entire with the payment of Call to the Bank, Limited.

No.... Share Ledger Fo....

THE COMPANY, LIMITED.

......Call of........per Share.

Request to Bankers to accept payment.

Date__________1892

To the Directors of

The Bank, Limited.

Gentlemen,

I request you to place to the credit of The Company, Limited, the enclosed cheque for £........being payment of a....Call of £.... per share upon the shares standing in my name on the register of the Company.

I am, Gentlemen,

Your obedient servant,

____

Address__________

Profession or Business__________

THE COMPANY, LIMITED.

Banker's Receipt.

No.... Date...... .....189..

Received from__________ on account of The Company, Limited, the sum of........pounds,........shillings, being the amount of the....Call of....per share on........ shares in the above Company.

For The Bank, Limited.

£ : : __________

call letter that, upon production of the certificate with banker's receipt, the company will endorse the certificate with the amount of call paid.

It was stated above that there was no intention to deal with the financial books, or books of account; but, in order to make the examples in the Share Ledger as complete as possible, it has been deemed desirable to put before the reader the Journal entries that would be necessary for such purpose, and at the same time to illustrate those entries which are peculiar to a limited liability company's accounts. (See pages 83 to 85.)

JOURNAL. 1

January 1892.

Dr.fo.	Cr.fo.		£ s d	£ s d
		20th		
		Sundry Persons *Dr.*		
		To Share Capital Account		24,000 0 0
		for 12,000 shares of £2 per share allotted as fully paid up to the Vendor and his nominees in accordance with the terms of the Agreement under date of 30 Nov. 1891, and his letter of request of Dec. 17 1891, as per Board Minute of the 20th Jan. 1892.		
		Shares.		
S.L. 1		Fenton, John 5,000	10,000 0 0	
		Fenton, Mary 1,000	2,000 0 0	
		Black, William.. 4,500	9,000 0 0	
		Marks, James 1,500	3,000 0 0	
		12,000		
		20th		
		Sundry Shareholders *Dr.*		
		To Share Capital Account		1,605 0 0
		for 1,605 shares allotted to the following persons as signatories to the memorandum of association, or in accordance with their respective applications, as per the Board Minute of the 20th Jan. 1892, upon which 10/- per share has been paid, and a further sum of 10/- per share is now due.		
		Shares.		
		Smith John 1	1 0 0	
		Bruce, George 1	1 0 0	
		French, Ernest 1	1 0 0	
		Evans, Charles 1	1 0 0	
		Readman, John 1	1 0 0	
S.L. 11		Clinton, Henry 1,000	1,000 0 0	
		North, Frances 300	300 0 0	
		North, Eva 300	300 0 0	
		1,605		
		20th		
		Purchase Account *Dr.*	30,000 0 0	
		To .. .. (vendors)		30,000 0 0
		for the consideration to be paid by the Company for the business, plant, machinery, buildings, &c., in accordance with the Agreement of the 30th Nov. 1891, this day adopted by the Company, in the manner following:—		
		12,000 shares, fully paid up, of £2 each .. £24,000 0 0		
		Cash.. .. 6,000 0 0		
		£30,000 0 0		

JANUARY 1892. 2

Dr. fo.	Cr. fo.	20th	£ s d	£ s d
		To .... (VENDOR) *Dr.*	24,000 0 0	
		To SUNDRY SHAREHOLDERS		
		for 12,000 shares of £2 each issued to him and his following nominees under Board Minute of the 20th Jan. 1892, as fully paid-up shares, in part consideration of the amount to be paid for business, plant, machinery, &c.		
		Shares.		
	S.L. 1	To Fenton, John .. 5,000		10,000 0 0
		" Fenton, Mary .. 1,000		2,000 0 0
		" Black, William.. 4,500		9,000 0 0
		" Marks, James .. 1,500		3,000 0 0
		12,000		
		Note.—The payment in Cash of £6,000 passing through Cash Book will close Vendor's Account.		
		20th		
		SUNDRIES *Dr.*		
		To PURCHASE ACCOUNT		30,000 0 0
		for the transfer to the proper Accounts of the following, as per schedule annexed to the Agreement of the 30th Nov. 1891:—		
		Goodwill	6,000 0 0	
		Buildings	15,000 0 0	
		Plant and Machinery	6,000 0 0	
		Stores taken over	3,000 0 0	

APRIL 1892. 3

Dr. fo.	Cr. fo.	20th	£ s d	£ s d
		SUNDRY SHAREHOLDERS *Dr.*	802 10 0	
		To SHARE CAPITAL ACCOUNT		802 10 0
		for first call of 10/- per share on 1,605 shares, as per Board Minute of 20th March 1892 (for details see Call Book folios ....), and payable this day, making £1 10s. 0d. per share paid up.		
		Note.—By using the form of the Call Book given, the repetition of the debit entries may be avoided in the Journal by making a reference to the former.		
		20th		
		INTEREST ACCOUNT *Dr.*	1 13 8	
	S.L. 11	To MRS. FRANCES NORTH..		1 13 8
		for interest at the rate of 5% per annum on £300 from Feb. 8 to Mar. 20, 41 days, being the interest due up to date of first call on amount due on shares paid in advance.		

JULY 1892. 4

Dr. fo.	Cr. fo.			£ s d	£ s d
		CLINTON, HENRY ... Dr.	2nd	5 0 0	
		To INTEREST ACCOUNT		..	5 0 0
		for interest at the rate of 5% per annum on £500 from April 20 to July 2, 73 days, being the interest due on first call over-due, and not paid till latter date.			

Pro forma JULY 1892. 5

Dr. fo.	Cr. fo.			£ s d	£ s d
		SHARE CAPITAL A/C. ... Dr.	28th	(amount called up)	
		To.......................... (Share Ledger A/c.) for .... shares Nos. ...... to ...... forfeited this day by the Board as per their Minute No. (see Minute Book fo. . ..) of 28 June 1892, upon which 30/- per share has been called up, of which 10/-per share, due 20 April 1892, remains unpaid at this date.			.. (amount unpaid)
		To FORFEITED SHARE ACCOUNT for .... shares Nos. ...... to ...... registered in the name of .... forfeited this day by the Board as per their Minute No. .. (see Minute Book fo...) of 28 June 1892 upon which £1 per share (application and allotment) has been paid.			.. (amount paid)

Separate accounts might be opened in the General Ledger if thought desirable, for "Application and Allotment Account," "1st Call Account," "2nd Call Account," etc., finally transferring them to "Share Capital Account." By this means the amount of Share Capital would stand in the Ledger as one sum.

Transfers.

One of the most important duties that a secretary and a registration clerk have to perform, and one that requires the greatest care and attention, is the transfer of shares. Without a fair business knowledge and without some acquaintance with Company Law, mistakes may be easily made and errors arise that may lead to serious results, either as regards the company, or the secretary individually, or both.

The first steps towards the transfer of shares is the production at the office of the company by the transferor or his broker of a transfer deed or deeds, often in blank, together with the share certificate, for the purpose of a *certification*[1] being entered upon the transfer deed. The rule of the Stock Exchange with regard to certification is as follows:

"The buyer of shares or stock may refuse to pay for a "transfer deed unaccompanied by coupons or certificates, "unless it be officially certified thereon that the coupons or "certificates are at the office of the company. But if the "transfer deed be perfect in all other respects, the shares or "stock must not be bought in until reasonable time has been "allowed to the seller to obtain verification."

The Certification is made by writing on the left-hand margin of the deed in such form as follows:—"This is to certify that Certificate No. ——— for ——— shares" (*i.e.*, the number to be transferred as shown by the deed) "upon which ——— per share has been paid, has been lodged at the offices of the company," and is signed by the secretary. An indiarubber stamp can be used for this, bearing a facsimile of secretary's signature. The certificate is cancelled by the registration clerk, who backs it with the particulars of the transfer; or, perhaps, better still, fixes on its face a slip ruled as follows:—

CERTIFICATE No. *1* FOR *5,000* SHARES No. *1* TO *5,000*, amount paid per share, £*2*.

1	2	3		4	5	6	7
	Shares Transferred						
No. of Transfer Deed	Number	Distinctive Numbers From	Distinctive Numbers To	No. of New Certificate	Date when Transfers were passed by Board	Share Ledger folio	Remarks
					1892		
1	10	1	10	340	July 2	11	
	30	11	40				
6	100	41	140	344	July 2	14	
Balance ..	4,860	141	5,000				
	5,000						

[1] This certification is not essential, as sometimes the transfer is presented for registration without this preliminary step. In any case the share certificate must be always surrendered.

From the transfer deed he fills in heading and columns Nos. 2 and 3. An example is here given which will be followed out so as to illustrate the method.

When handing back transfer deed after certification, an inquiry should be made as to whether a balance certificate is required, and if so a "balance" receipt should be given (for form see page 88). It is, of course, to be assumed that if there be any shares over and beyond those transferred a balance certificate will be required, but often when a share-dealer or a speculator holds a number of shares he may allow his original certificate to lie at the offices of the company until his holding is exhausted; therefore it is as well to make certain that a balance certificate is desired, otherwise the registration clerk may make out, and the directors may sign and seal, fresh certificates which will never be taken up.

The cancelled certificate should be placed on a file marked "I. Certificates lodged."

When a transfer comes in for registration it should be carefully examined to see:—

I.—That it is stamped with the correct *ad valorem* duty.

II.—That the signatures agree with the names in the body of the document.

III.—That the signatures are duly attested.

IV.—That the shares transferred are in the holding of the transferor, and that the distinctive numbers are in order.

V.—That there are no material alterations, or any other matter that might invalidate the deed.[1]

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[1] A correction in the distinctive numbers would not be a materia alteration, so long as the transferor held the proper number of shares to be transferred.

No transfer should be accepted when there is a call due and unpaid on the shares to be transferred.

In exchange for the transfer deed, usually presented by the transferee or his broker (whose name should be obtained), the registration clerk gives a receipt bearing the date when the new certificate will be ready. The form recommended is the following :—

TRANSFER RECEIPT.

No. **1** Date........................ Shares.............. From............ to................ Broker .... Date new Certificate ready .... Fee........ Fee Book Fo.........	THE COMPANY, LIMITED TRANSFER No. **1** Received Certificate No. ....for....shares. Nos...... to ...... Date.............. Signature .... New Certificate ready.......... Fee paid............

NOTE.—The receipt is filled in by recipient of new Certificate, and receipt should be fixed in Transfer Guard Book, or affixed to Certificate's counterfoil.

BALANCE CERTIFICATE RECEIPT.

Balance No. **1** *Transfer Nos....... Date .... Shares................ From............ to.............. Transferor .... Broker .... Date new Certificate ready	THE COMPANY, LIMITED. BALANCE **1** Received Certificate No. ...... for ...... Shares Nos..... to ...... Date........ Signature........

NOTE.—*The Transfer No. under which the Balance Certificate is given should be filled in when new Certificate is made out.

No date when new Certificate will be ready can be given, as it is impossible to know when Transfers will come in.

Receipt should be affixed to counterfoil of new Certificate.

In companies where dealings in their shares are heavy and of daily occurrence, and consequently transfers numerous, it is impossible to state a time when certificates will be ready, owing to the amount of work to be done in preparing certificates, and the difficulty in obtaining the necessary attendance of directors to sign and seal same. Frequently before the certificate is ready, the shares covered by same are transferred over and over again. In this case a special form of transfer receipt should be used, which could then be lodged at the offices of the company in the same manner as a share certificate.

The registration clerk should enter on the right hand top corner of the transfer deed the number of the deed, the day's date, and the Share Ledger Folio of the transferor; an india-rubber stamp in the form annexed could be used.

Transfer No.....	
Date	
Share Ledger Folio	....

He should then enter the particulars in the Transfer Register (see page 90 for form), and after removing the proper certificate from File I, should attach same to deed or deeds (filling up on slip column I), and place both on a File marked "II. Transfers registered."

REGISTER OF TRANSFERS.

No. of Deed	Date of Registration	No. of Certificate cancelled	Share Ledger folio	Transferor			Number of Shares transferred	Distinctive Numbers		Transferee			No. of new Certificate	Share Ledger folio	Consideration
				Name	Address	D'scription		From	To	Name	Address	D'scription			£ s d
1	1892 June 28	1	1	Fenton, John	64 The Grove, Hammersmith	Engineer	10	1	10	North, Frances	Inverness Lodge, Hyde Park Place, London, W.	Widow	340	1	24 10 0
2															
3				These c	olumns are supposed to	be fill	ed up, b	ut it h	as not	been thought ne	cessary to show details	here.			
4															
5															
6	June 30	1	1	Fenton, John	64 The Grove, Hammersmith	Engineer	100	41	140	Whale, Alfred	The Grange, Wootton Bassett	Clerk in holy orders	344	14	215 0 0

The same day transfers are presented for registration, letters should be sent to the respective transferors, notifying that such and such transfers have been presented, and requesting that, if same are not in order, information be by return of post given to the company of the fact, otherwise they will be passed in due order.

Before the next board meeting the new certificates should, if possible, be prepared. No transfer should be submitted to the board unless it has been presented at the office at least three clear days previous to the next meeting, so as to allow time for any notice being lodged against it.

After the board meeting the registration clerk should place the transfer deeds in a Guard Book, the pages of which should agree with the numbers of the transfers in the Transfer Register. The old certificate should be attached to its proper counterfoil after filling up columns 4, 5 and 6 in the slip affixed. Should there be, however, a balance of shares left and no balance certificate made out, it then should be placed on a file marked "III. Balance on "Certificates"; or, if there be still any transfer outstanding, and not yet passed by board, the certificate should be replaced on File I. In the example given (see slip, page 86) a transfer for thirty shares is supposed to be still unpresented. *So long as there is a transfer unregistered, no balance certificate should be issued.*

The counterfoil of the new certificates should be headed in red ink. "Issued in lieu of Certificate No. cancelled "by Transfer Nos. , and Balance Certificate No. " "; while the counterfoil of Balance Certificate should be headed "Balance. In lieu of Certificate No. , "cancelled by Transfer Nos. ."

The necessary entries would then be made in the Share Ledger and thus complete the transfer of the shares.

An endeavour has been made to make the *transfer of shares* such as will prevent the occurrence of errors or serious mistakes, and will at the same time *avoid useless waste of time.*[1] This has been the intention in recommending the form of receipt given here (page 88). Some companies have a lengthy form which takes time to fill up, and when done, no object, it is conceived, is to be thereby gained. The form here adopted is one similar to that used by the banks as a receipt for coupons presented for payment. The number on receipt agrees with transfer No. in Register as well with the page in the Guard Book and the No. of the deed, thus making reference to all or either a very simple matter.

Share Ledger.

On page 75 it was promised that further details of the form of Share Ledger recommended would be given before this chapter was brought to a close. This promise is now redeemed.

It will be seen, on reference to the rulings for Share Ledger and the examples of entries, that the upper portion forms a part of the financial books of a company, and that each shareholder is debited with the total amount called up on his shares, or considered to be called up on the shares held by him, and that he is credited with the cash paid or with what is considered equivalent to a cash payment.

Some secretaries and bookkeepers prefer to debit each shareholder's account with the total amount represented by his shares, crediting a "Sundry Shareholders' Account" with the aggre-

[1] This is of moment in a company where there is a large dealing in its shares, and when on the fortnightly account days of the Stock Exchange the transfer office of the company is besieged as it were by a numerous body of brokers' clerks.

gate amount of the Shares issued, and *debiting* this account and crediting Share Capital Account with the total amount called up. This, besides duplicating the entries, has the great objection of not permitting what is *due by the individual shareholder* on his shares to be easily seen, whereas the debit balance of the accounts in the form recommended gives it at once. Moreover, there is no material object to be gained by adopting such a method, there being no necessity to debit the Shareholders' Account with more than the amount called up on his respective holding. As long as a company is solvent and not being wound up a shareholder is only *legally liable* for the *amount called up on his shares*, and no more. With the *nominal capital issued the financial books have nothing to do*, it is only with the *called-up capital* that they have to deal and for which they have to account.

The statistical portion of the Share Ledger has been so arranged that the total holding of a shareholder can be seen at a glance, the number of shares in balance column being added to or deducted from as other shares are acquired or transferred.

Upon a transfer of shares the amount paid up per share on those transferred is recorded in the column so headed, both in the account of the transferor and that of the transferee, thus showing, in the case of a future call, what is due upon shares acquired by transfer.

A column is also provided for the Share Ledger folio so that, in case of shares transferred, it may be seen without reference to the Transfer Register from or to whom they were transferred.

At the period of sending in the Annual Summary to the Registrar of Joint Stock Companies each Ledger Account is ruled off, the date to which the Summary is made up, the total holding of shares at the prescribed date, and the capital called up on such shares being shown in red ink (black type in the examples given). The total number of shares held in each account agrees with the annual list, while the aggregate of the balance columns equals the number of shares taken up and the capital called-up which appears on the front page of the Summary.

The index to the Share Ledger should be in a separate book, arranged alphabetically and ruled to show full name, address, and description of each shareholder, with his folio in the Ledger. In the case of any ceasing to be a member the name should be ruled out. The index thus becomes a complete list of shareholders, irrespective of the number of shares held, and can be used as an address book or for the purpose of compiling a list of members where same is requested without having recourse to the more cumbersome Ledger, except it be that the holding of each is required, which is seldom, however, the case.

The index to the Transfer Guard Book should also be alphabetical, but with the names of *transferors* in a separate column to that of the *transferees*, so as to make it easier in case of reference, it frequently happening that the name of the same person appears, sometimes as the one and sometimes as the other.

A few words upon forfeited, lapsed, or surrendered shares.

Among the persons holding shares in a company there may sometimes be defaulters. In the event of non-payment of calls the proper course for the directors to pursue, they not having, it would seem, power to compound with members for calls (the shares of the company being issued subject to the payment of the whole amount thereof in cash), would be to proceed to forfeit the shares.

But a forfeiture to be valid must be made by a properly appointed and constituted Board, and all provisions in the articles respecting forfeiture must be strictly complied with (*Garden Gully Company v. McLister*, 1 App. Cas. 39; *Alma Spinning Company*, 16 Ch.D. 681).

How will such a decision of the Board affect the Books of the company, and what are the necessary entries required to record same?

The Board having passed a resolution to forfeit the shares of a defaulting member, entries would have to be made through the Journal (page 85, Journal entries 5) writing off to a "Forfeited Shares Accounts" whatever amounts had been paid upon the shares; and writing back the calls outstanding and so closing the Share Ledger (Cash) Account. In the regisration portion of the Share Ledger an entry would have to be made recording the fact, and would appear (in red ink) somewhat in this form:—

July 28 1892. Shares forfeited, as per resolution of Board Minute. No. . (This comes in columns 1-3 of Share Ledger (page 76), the remaining entries appearing in columns 4, 5, 6, 12, and 13 respectively):

4	5	6	12	13
—Shares	*Nos.—to—*	*£—*	*Nil*	*Nil*

The amounts credited to Forfeited Shares Account must not be taken to the credit of Profit and Loss Account, as it is not a legitimate profit. The shares forfeited should, if not re-issued, be separately stated in the Balance Sheet on the Liabilities side, as a dividend declared would not be payable in respect thereof. When these shares are re-issued, thus restoring the Share Capital Account to its original amount, the amount already paid may be conveniently dealt with as a premium upon issue, and would be best credited to Reserve

Fund, or be applied towards the liquidation of a fictitious Asset Account, such as that of "Preliminary Expenses." This, however, would require the approval of the shareholders.

It is conceived that shares which have lapsed to the company by disclaimer, under Section 55 of the Bankruptcy Act 1883, or by surrender to the company, can be similarly treated.

With regard to Preference Shares, Debentures, etc., separate Application and Allotment Books and Ledgers should be kept for each, the forms being somewhat similar to those already given.

On page 97 a ruling for the purpose of recording the half-yearly or yearly interest on Preference Shares or on Debentures is given. Form No. 1 is also suitable for dividends due to shareholders on their respective holdings; or for dividends or a composition payable in the winding up of a company or of a bankrupt's estate.

For a more comprehensive and detailed account of the work to be undertaken in a company with limited liability, the reader is referred to the exhaustive and excellent lecture on "Company Work," delivered by Mr. Gerard van de Linde at Liverpool, to the Chartered Accountants' Students of that city on the 17th January 1889.[1]

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[1] *The Accountant*, Vol. XV. 1889. Messrs. Gee & Co., 34 Moorgate Street, E.C.

INTEREST SHEETS.—I.

(1) .... INTEREST ON .... DEBENTURES OF £ ...... EACH TO .... 189.. PAYABLE .... 189..

1 No.	2 Deb. Ledger Fo.	3 Name & Address of holder	4 No. held	5 Value	6 Date of allotment (2)	7 No. of Days (2)	8 Interest at ....% per annum	9 Less Income Tax ..d. in the £	10 Net amount of Interest payable	11 Date when paid	12 C.B. fo.	13 Remarks (3)

(1) "Yearly" or "half-yearly."
(2) These two columns would only be required on the first payment of interest—the debentures probably not having been taken up and allotted at the same date.
(3) This column could be used for signature of recipient when the payment was not made through banker.

INTEREST SHEETS.—II. (1)

(2) .... INTEREST TO .... 189 .. PAYABLE .... 189 ..

1 No. of War-rant	2 Name of Shareholder	3 Shares held	4 Amount at £.. per share paid up	5 No. of days	6 Interest at ...% per annum	7 Amount at £.... per share paid up	8 No. of days	9 Interest at....% per annum	10 Gross amount of Interest payable	11 Less Income Tax at.. in the £	12 Net amount of Interest payable	13 Date when paid	14 (3) Amount outstanding at....year ending.... 189..	15 Date when paid	16 Remarks

(1) This form is intended for interest payable out of capital on the capital called up, as in the case of a railway during construction, columns 7, 8, 9, are a repetition of columns 4, 5, 6, and are necessary on account of the amount called up being increased by calls at subsequent dates to that from which the interest is calculated (thus 4, 5, 6, represent the amount paid up on allotment, and interest calculated from that date to due date of first call; 7, 8, 9, represent the total amount paid up after first call, and the interest calculated from due date of call to end of the year or half-year, when interest is due). This Form is taken, with the kind permission of Mr. Gerard van de Linde, from his pamphlet "Company Work."
(2) "Yearly" or "half-yearly."
(3) This column is provided to show any amounts outstanding at the date of balancing the books.

CHAPTER VIII.

TABULAR BOOKKEEPING.

The system of Tabular Bookkeeping has, until recent years, been little known in England, and at the present time is more in vogue on the Continent and in America than in this country. The use of the system in Great Britain has to a great extent been confined to hotels; hence, it has acquired here the name of the *Hotel system of Bookkeeping*, a title that is somewhat misleading, for the *system* is one that may, *with great advantage*, be adapted to many other businesses of totally different character.

The Tabular system not only lightens the labour of posting, but permits the income or expenditure of a business (either in the aggregate or in part) to be shown with far greater facility than can be done by the ordinary method. The results of a day or any other period are readily found without the necessity of an analysis; and the earnings or spendings of any particular department can be watched and regulated with the greatest ease. It is a system of continuous analysis and dissection, introducing at every turn an intermediate check on the accuracy of the entries made, so that before the final balancing the books can be proved, as it were, page by page; and, moreover, does not involve any increase of clerical labour.

The principle of the system is the writing up of the transactions of a day in a series of columns under suitable headings, the cross cast of which gives the total result of the day's business, the several columns affording at the same time full information as to what has been done in the various departments of the concern.

Perhaps the most simple form in the Tabular system, and the one that probably was first adopted, is that of the Cash Book now found in general use.

CASH BOOK. (1)

Dr. CASH. CONTRA. *Cr.*

			Dis-count	Bank (2)	Office				Dis-count	Bank	Office
			£ s d	£ s d	£ s d				£ s d	£ s d	£ s d

A Cash Book so ruled permits the balance at the bank and the cash in hand to be readily found and agreed, which, in a business where payments are made either by cheque or from cash in hand, could not so easily be done in the old-fashioned Cash Book with a single ruling.[2]

The next step in the adoption of the system was the tabulating of the Petty Cash Book, so as to avoid the monthly or other periodical analysis of that book, or the still more laborious posting of the separate entries to their proper accounts in the Ledger. Subjoined is a form of such a Petty Cash Book :—

[1] For another form of Tabular Cash Book, see page 49.

[2] This method of not banking everything as it is received, but keeping back a portion of the cash in hand, and out of it paying accounts in cash instead of paying everything by cheque, is not recommended, but is to be considered as very objectionable.

Dr. 189..		Month....................							*Cr.*
Date	Cheque received	Particulars	Total	Stationery	P'stages Telegrams	Gas Office cleans	Fares	Salaries	Office expenses
	£ s d		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

Other columns can be added,[1] or other headings substituted to meet the exigencies of any particular business, but the above are those generally required. The cross casts of the totals of the columns to the right of the "Total" column should agree with the summation of that, and the difference between the "Total" column and that of the "Cheques received" column should be the amount of petty cash in hand.

When the completeness of detail thus afforded and the saving of labour to be attained were observed and appreciated, the system was adapted to the Day Books (both sale and purchase) of such businesses, where invoices had to be dissected and the amounts allocated to different departments. This would apply to most manufacturing concerns and to such commercial and trading businesses as drapery, shipping, co-operative stores, &c., &c. Form for a Tabular Sold Book is given below, and for an Invoice Book on page 101.

SALES DAY BOOK.

Date	No. of Invoice	Name	Ledger fo.	(1) Total	(2) Goods	Cases and Packing	Carriage	(3) Miscellaneous
				£ s d	£ s d	£ s d	£ s d	£ s d
		Forward ..						
		Forward ..						

(1) This column may be divided into two; one for details, the other for total of each invoice.
(2) This may be subdivided for different classes of goods, if necessary.
(3) This is intended for such sales as old machinery, old stores, horses, stable refuse, &c., &c., and would be summarised at end of month or quarter.

[1] Where personal accounts are paid through petty cash, a column can be added provided with extra space for the writing in of the Ledger folio.

INVOICE BOOK.

Date	No. of Invoice	Name	Ledger fo.	Total	(1) Goods	Packing Materials	Stores	Fodder &c.	Horses and Vehicles	New Plant & Machinery	Repairs to Machinery	General repairs	Printing and Stationery	Carriage	(2) Miscellaneous
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
		Forward ..													
		Forward ..													

(1) This can be subdivided for different classes of goods or materials, if necessary.

(2) This would be summarised at end of month or quarter.

Accounts in the Ledger, in some cases, may with advantage be also tabulated. For example, with mining companies, where more than one mine is being worked, a single account being opened for the working expenses of each mine, columns being provided for: "Wages," "Contracts," "Stores," "Loose Tools," "Cartage," "Sundries," and "Total."

Another useful adaptation to the Tabular system would be the "Customers' Ledger" in a banking establishment, constructed to show each customer's daily transactions, as in the forms submitted below :—

Dr. CUSTOMERS' LEDGER (Form I.). *Cr.*

Date	Particulars	Withdrawals	Interest	Charges and Commission	Total of Debits	Payings in	Interest	Total of Credits	Balance	Overdraft
		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

CUSTOMERS' LEDGER (Form II.).

Date	Particulars	Debit	Credit	Credit Balance unless otherwise stated
		£ s d	£ s d	£ s d

The daily totals of each account kept in the above forms would agree with the casts of each customer's Pass Book, and thus form a verification of its correctness. The daily difference between the debit and credit totals would show the balance in customer's favour, or the amount of his overdraft; the whole proving a ready means of information.

The system, however, is the more especially adapted for businesses where results have to be arrived at, or accounts have to be made out on very short notice. Such would be the case in hotels, where visitors are coming and going daily, and bills have to be prepared at all hours and with the least possible delay.

The only books it is necessary to go into any explanation of here are the "*Visitors' Ledger*," the "*Rough Day Book*," and the "*Invoice Book*," the other books being, more or less, in the ordinary form.

Rulings for these three books are given on pages 104—8.

HOTEL VISITORS' LEDGER.—(FORM I.).

FLOOR.. ..... SCALE........

..............day.......................189....

	(a)	2	3	4	5	6	7	8	9	10	11 (a)	12 (a)	13 (a)		14 (a)
													Accounts Settled		
Room*	Amount brought forward	Bed	Private Room or Suite	Break-fast	Luncheon	Dinner	Supper	Wines, Spirits, Minerals, Cigars, &c.	Extras	Attend-ance	Day's Total	Amount carried forward	Allow-ances	C.B. folio	Cash
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d
1 2 3 4 (b) 5 &c. &c.	6 3 0	0 3 6	..	0 2 0	0 1 6	0 5 0	..	0 9 0	..	0 1 0	..	..	..	..	7 5 0
Total..	6 3 0	0 3 6	..	0 2 0	0 1 6	0 5 0	..	0 9 0	..	0 1 0	1 2 0	..	..	..	7 5 0
Brought forward..	..	1 1 0	..	0 12 0	0 4 6	1 7 0	0 3 0	2 3 0	0 6 6	0 6 0	..	..	..	..	..
Carried forward..	..	1 4 6	..	0 14 0	0 6 0	1 12 0	0 3 0	2 12 0	0 6 6	0 7 0	..	..	..	..	7 5 0

* This column could be sub-divided, if desired, to admit of name of visitor.

a As a check—the totals of columns Nos. 1 and 11 should together equal the sum of the totals of columns Nos. 12, 13 and 14.

b See example of Hotel Bill, page 109.

Note.—Columns 2-10 inclusive should be carried forward daily and posted to the *Cr.* of their respective Ledger Accounts once a month or quarterly, as may be arranged, and should equal the combined totals of Nos. 12, 13, and 14.

The items are more numerous in actual practice—want of space precludes more being given. Compare with Form II.

4 HOTEL VISITORS' LEDGER. (FORM II.). 4

JULY 7TH 1892.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	
DEBITS	1	2	3	4	5	6	7	8	9	10	Daily Total	Brought forward	Carried forward	Ledger folio
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	
Forward				6 3 0							6 3 0			
Apartments				3 6							3 6	1 1 0	1 4 6	
Breakfast				2 0							2 0	12 0	14 0	
Luncheon				1 6							1 6	4 6	6 0	
Dinner				5 0							5 0	1 7 0	1 12 0	
Supper												3 0	3 0	
Soups and Sandwiches ..														
Tea, Coffee														
Dessert														
Boarders														
Servant's Board														
Wines				6 0							6 0	2 0 0	2 6 0	
Spirits, Liqueurs.. ..				2 0							2 0	1 0	3 0	
Ale, Stout				6							6	6	1 0	
Minerals				..							..	6	6	
Cigars				6							6	1 0	1 6	
Billiards												..	..	
Laundry												2 0	2 0	
Baths												1 6	1 6	
Fires, Lights														
Paid out														
Billiards												2 0	2 0	
Carriage														
Postages, &c.												6	6	
Newspapers												6	6	
Attendance				1 0							1 0	6 0	7 0	
Total Debits ..				7 5 0							7 5 0	6 3 0	7 5 0	
CREDITS														
Allowances				..										
Cash received				7 5 0							7 5 0			
Carried forward .. .				..							..			
Total Credits ..				7 5 0										

The amounts in column 14 are carried forward to end of month, when they are posted to their respective Ledger Accounts.
The total of debits of columns 2-12 inclusive should agree with the totals of the credits of same.
The items in column 1 may, with advantage, be repeated between 11 and 12.

HOTEL ROUGH DAY BOOK [1] (FORM I.).

JULY 7TH 1892

	ROOMS											
Details	4											
	£ s d											
Lunch 1/6, Bass 6d. ..	2 0											
Dinner 5/-	5 0											
Bottle No. 6	6 0											
Whiskey	6											
Chartreuse..	6											
Brandy	1 0											
Cigar	6											
	15 6											
	SUMMARY											
Lunch	1 6											
Dinner	5 0											
Wines, &c..	9 0											
V. L. fo. 4	15 6											

[1] This Book is written up from tickets obtained by servants from kitchen, still-room, cellar, and office, and afterwards verified by the counterfoils kept in those departments.

HOTEL ROUGH DAY BOOK (1) (Form II.).

July 7th 1892.

Room 4	£	s	d	Room ..	£	s	d	Room ..	£	s	d
Bed 3/6, Breakfast 2/-		5	6								
Lunch 1,6, Bass		2	0								
Dinner		5	0								
Wine No. 6		6	0								
Whiskey			6								
Liqueur			6								
Brandy 1/-, Cigar 6d.		1	6								
Attendance		1	0								
V.L. fo. 4 ..	1	2	0								
Room ..	£	s	d	Room ..	£	s	d	Room ..	£	s	d
Room ..	£	s	d	Room ..	£	s	d	Room ..	£	s	d

(1) *Vide* note to Form I.

Note.—This Form, as well as Form I., represents the rulings for a book, foolscap size.

HOTEL INVOICE BOOK.

Date	No. of Invoice	Name	Ledger fol.	Totals £ s d	Provisions £ s d	Wines £ s d	Ale, Stout, Minerals	Spirits and Liquers	Cigars	Bedding and Linen	Plate and Cutlery	China and Glass	Furniture	Culinary Plant and Utensils	Sundries
		Forward													
		Forward													

The form of Visitors' Ledger given provides an opening for a day, the columns being headed with the general items of a hotel bill. The horizontal lines are numbered to agree with the numbers of the rooms. (In large hotels different sets of books([1]) would be an advantage where the scale of charges varies according to the floors or situation of the rooms.) Columns are provided for amounts brought and carried forward, so that, in the event of a visitor staying beyond the one day, the final total may agree with the account rendered. It is customary, when visitors are staying any length of time, to render the hotel bill weekly and to stipulate for a similar settlement.

Columns Nos. 8, 9 (*vide* page 104) would be posted up from a rough Day Book([2]), as would Nos. 4, 5, 6, and 7, where there was no stated charge, or where extras had been had (for form see pages 106-7).

An example of a hotel bill is given below, from which it may be seen by reference to the Visitors' Ledgers (pages 104-5), which has been filled in to agree with the last day, with what celerity the bill may be prepared and the total verified.

Bone's Hotel, Dover,
July 8th 1892.

....................Esq.,
Dr. to Chas. Sievel.

Room 4.

Week ending July 7th	1st	2nd	3rd	4th	5th	6th	7th	Total £	s	d
								£	s	d
Account rendered	..	..	..	..	..	.	..		..	
Bed	3/6	3/6	3/6	3/6	3/6	3/6	3/6	1	4	6
Sitting Room										
Breakfast	2/-	2/-	2/-	2/-	2/-	2/-	2/-		14	0
Luncheon	1/6	..	1/6	1/6	..	..	1/6		6	0
Table d'Hote	5/-	..	5/-	..	12/-	5/-	5/-	1	12	0
Supper	..	..	1/6	1/6	..	..	..		3	0
Wines, Spirits, Minerals, &c.	10/-	6/-	..	4/-	20/-	3/-	9/-	2	12	0
Extras	3/-	..	2/-	..	..	1/6	..		6	6
Attendance	1/-	1/-	1/-	1/-	1/-	1/-	1/-		7	0
								7	5	0
Less Allowances	..	..	..	..	..	..	..		..	
								£7	5	0

[1] A separate Visitors' Ledger being used for the different prices charged for the rooms (*i.e.*, all rooms on the same scale being contained in one book).

[2] Rough Day Book (Form II.) contains all the items for the day, the totals of each room for the day agreeing with the total of the same in Visitors' Ledger.

In a firm having numerous branches or agencies, which are liable to be closed at very short notice, or where it is desirable to know almost daily the position of such branches or agencies, the accounts would have to be kept on similar lines to those just previously given. The Agency or Branch Ledger should have the debits and credits on an opening in tabular form, with extra columns to show the daily balance in favour of or against each agency.

Again, Theatrical Accounts are the more easily kept by the Tabular system. Indeed, a more satisfactory method, it is submitted, could not be conceived.

The books principally required are a Cash Book, a Ledger, a Production Ledger, and the monthly statement of Profit and Loss Book.

The *Cash Book* (see page 111) is ruled with nine money columns (or more if required) on the debit side; Nos. 4, 5, 6, 7, and 8 being appropriated for royalties on proprietary pieces produced at other theatres, and for the proceeds arising from sales of old scenery, properties, dresses, orchestral music, &c., &c., the *monthly totals* of which are posted into the Ledger to accounts of the same name. There are sixteen money columns on the credit side; Nos. 1 to 14 being for expenses in connection with pieces running or in course of preparation; No. 15 for the amounts paid into the private account of the proprietor or lessee. This last is necessary in order to clear the Cash Book so that it may be balanced, and the balance agreed with cash at bank. The Cash Book should be balanced at the end of each month.

THEATRE'S CASH BOOK.

Dr. CASH.

				1	2	3	4	5	6	7	8	9
Date	From whom received	On what Account	Ledger Folio	Agents, Box Office and Doors	Bookings in advance	Receipts of Company on tour	Royalties	Wardrobe	Orchestra	Scenic Department	Properties	Total
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

Extra columns may be required for Sale of Programmes and Cloak Room fees; as also for Bar takings or Rent of Refreshment Counters, &c.

CONTRA. *Cr.*

					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Voucher No.	Date	To whom paid	On what Acct	Ledger Fo.	Artistes' Salaries	Chorus and Ballet	Orchestra	Stage	Properties	Scenic Department	Gas and Lighting	Bill Department	Printing and Stationery	Front of House	Author's Fees	Rent, Rates, and Taxes	Sundries	Wardrobe	Private Account	Total
					£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

The Ledger is in the ordinary form, and is for such accounts as do not appear in the *Production Ledger*.

The accounts in this book (see page 113) are for those having direct relation to the pieces produced, each production forming a Ledger Account, the unclosed accounts being represented by the piece running, pieces on tour, and pieces in preparation. The columns to the left of the total columns of both receipts and expenditure are cast up and ruled off monthly, the cross cast of these summations being carried to its proper total column. The difference between the monthly totals of receipts and expenditure is then carried to the profit or the loss column, as the case may be. When the piece is finally withdrawn, and all current outstanding accounts are settled, the Ledger Account is ready for closing. The monthly totals of the separate columns are added, and the difference between the cross casts of these will give the net profit or loss on a piece—this latter result should agree with the difference between the totals of the profit and loss columns. The net result is then posted to the General Profit and Loss Account in the Ledger.

The *monthly statement of Profit and Loss* (see page 114) is made up from the monthly totals of the Production Ledger and the monthly totals of columns 4-8 inclusive on debit side of Cash Book. It is compiled to show the result up to date and the result for the month of pieces running or withdrawn, and for the sake of comparison with other months and years.

PRODUCTION LEDGER.

Dr. ....produced.............189.... Withdrawn.............189.... *Cr.*

RECEIPTS.					EXPENDITURE.																		
Date	Particulars	Folio	Receipts (*a*)	Monthly Totals (*b*)	Date	Particulars	Folio	Artistes' Salaries	Chorus and Ballet	Orchestra	Stage	Properties	Scenic Depart-ment	Wardrobe	Gas and Lighting	Bill Depart-ment	Printing and Stationery	Front of House	Author's Fees	Rent, Rates and Taxes	Sundries	Monthly Total (*b*)	Monthly Profit (*b*) (if any)	Monthly Loss (*b*) (if any)
			£ s d	£ s d				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

a This column may be split up into "Bookings in Advance," "Agents, Box Office and Doors," "Programmes and Fees," "Bars," &c.

b The totals can be made "Weekly," if desired, and Profit or Loss calculated for same time.

STATEMENT OF PROFIT AND LOSS.

Dr. PROFIT AND LOSS ACCOUNT for the month[1] ending..................189.. *Cr.*

	L. fo.	Brought forward from previous month [1]	Present month [1]	Carried forward to next month [1]		L. fo.	Brought forward from previous month [1]	Present month [1]	Carried forward to next month [1]
		£ s d	£ s d	£ s d			£ s d	£ s d	£ s d
To Expenditure as follows:— .... produced.... withdrawn..........					By Receipts as follows:— .... produced.... withdrawn........				
.... produced.... still running........					.... produced.... still running				
..........on tour					........on tour				
					From other sources (2):— £ s d Royalties .. Sales of Music Properties .. Scenery .. Wardrobe .. &c., &c.				
Profit (if any)					Loss (if any)				
		£	£	£			£	£	£
To Expenditure (3) on...... ...... in preparation					To Bookings in advance for .... in preparation				

[1] Or weekly, if desired.
[2] The total of these need only be brought forward.
[3] It is not advisable to bring this into the Account, it being more in the light of an outlay of Capital at its present stage than an expenditure on account of Revenue.

It has been assumed that all indebtedness incurred in current month has been settled at the end of the month, if not before. If there were outstanding accounts a Day Book would be requisite, ruled similar to the credit side of Cash Book, with exception of columns No. 1, 11, and 15, which would have to be eliminated; and in the Cash Book an extra column would have to be provided for "outstanding accounts" in order to prevent the duplication of items in the Production Ledger. Further modifications would be required in a theatre where the change of piece was of frequent occurrence, as in country theatres, but the principle would remain the same.

Although the Tabular system is of much benefit in shortening the labour of posting, and in furnishing a great deal of useful information without the necessity of dissection or analysis, it still possesses some disadvantages; for it permits of errors that may not be easily noticed, especially if the tabulated columns be greatly extended, from the fact that such errors do not *affect the balancing of the books*. Nothing is more easy than for a careless clerk to carry out amounts into the wrong column, which might seriously affect the profit or loss of the period, if not, indeed, the accounts for subsequent periods; *e g.*, an item of capital expenditure carried into a column belonging to a Revenue Account, or *vice versa*.

Nevertheless, if the system of accounts for any particular business can be beneficially affected by the introduction of the Tabular method of Bookkeeping, the advantages to be derived therefrom will far outweigh the disadvantages, which, however, can be guarded against by a careful system of checking and calling over.

An objection to the Tabular system has been put forward by some on account of the difficulty found in making the cross casts. So were the first sums in compound addition to the schoolboy, but he overcame the difficulty by *practice.*

Before closing this chapter some remarks upon the use of the *Journal* are appended.

The original use of the Journal, as its name implies, was that of a Day Book, in which all transactions were entered day by day and from thence transferred to the Ledger. But in course of time, and as commercial transactions extended, it was found necessary to subdivide the Journal into Cash Book, Invoice Book, Sale Book, and Bill Book. The Journal was still retained, and became, as it were, a *Sub-Ledger*, its use being to collect the entries from the other books in order to facilitate their posting into the Ledger.

For a long time it was customary to pass periodically all the entries in the subsidiary books through the Journal into the Ledger. Then the Cash Book came to be considered, not only as a Ledger Account (in so far as it had relation to cash) that for convenience had been bound up separately, but also as a daily record of money received and paid away, from which it was more convenient to post direct into the Ledger without having recourse to the Journal. In the natural order of things it followed that the same course was pursued as regards the posting of the other subsidiary books. So that, at the present time, the Journal has ceased to be the posting medium, excepting so far as it relates to entries which cannot be passed validly through the others. Some accountants and bookkeepers have gone so far as to dispense with the Journal altogether. Attention has already been drawn to this, as well as to the fallacious practice of making the other books answer the purposes of a Journal (see chap. III., page 21).

The writer is quite in accord with those who maintain that the Journal need not be used as a posting medium from the subsidiary books, but that the Ledger may be written up from them direct. *Entries, however, that do not legitimately belong to the several subsidiary books should be passed through the Journal.* It is exceedingly bad bookkeeping to make use of the other books for such a purpose, or to make a transfer from one Ledger Account to another without recourse to the Journal as the posting medium.([1]) The latter is done to avoid trouble, but instead, it makes it--and to a greater extent—as such practice is, without doubt, a fruitful source of error.[2]

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[1] Mr. Gérard van de Linde, F.C.A., in his work entitled "Bookkeeping," page 4, pars. 9 and 10, strongly advises the use of the Journal for such purposes.

"Let me here impress upon you," he writes, "never to attempt a " cross or adjusting entry of any kind whatever, either from one Ledger " to another or from one folio of a Ledger to another folio of the same " Ledger, without first passing the entry clearly and fully in the " Journal . . . ."

"If you attempt any short cut you not only lose direct record of " the transaction (which is often most important), but you also run a " great risk of making the entry imperfectly, and in such a case " detection and correction become most difficult, for you do not know " where to look for the mistake. The Journal is the book specially " adapted for all such cross and adjusting entries, besides playing the " all-important part of being the medium for recording all opening and " closing entries. Those, therefore, who avail themselves of it will find " it a real friend in need, equal to every emergency, as also a credit to " themselves . . . ."

"On the continent, and elsewhere, where the *Code Napoleon* prevails, " the use of the Journal is imperative, and the law lays down stringent " and precise rules as to its issue, &c. . . . . In Russia and Poland, " also, the use of the Journal and correct bookkeeping are strictly " enforced by the Legislature, under very heavy penalties."

[2] Where the author has known such a custom to exist, and where, upon an audit, he has been unable to agree the Trial Balance, he has at once examined such transfers, with the result, more often than not, of discovering the error there.

It may, therefore, be laid down as a principle that the *Journal is to be used for all entries which do not belong to the other subsidiary books.*

Another fault among bookkeepers in the use of the Journal is a defective style of narration. No better criterion of a bookkeeper is there than the manner of his journalising.

The narration should be as precise and complete as possible, so that *a stranger could readily understand the reasons for such or such an entry without having to refer to other books or documents for enlightenment.* For instance, such a narration as the following is vague, and might lead to much annoyance and loss of time in seeking for the reasons.

JAMES SMITH, *Dr.*

To JONES BROTHERS,

for amount transferred, posted in error.

It should be in the style following, which would give all details without need of further reference.

JAMES SMITH, *Dr.*

To JONES BROTHERS,

for cash credited in error to the former on 16th June 1891, instead of the latter, now written back.[1]

A form of Journal on the Tabular system is given on page 119. It is not a form that can be recommended in preference to that of the ordinary Journal (see page 83), though it might be used in a business where the Journal entries were, with rare exceptions, of a continually recurring kind.

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(1) See the entry in form of Journal given on next page.

SPECIMEN FOR A JOURNAL (TABULAR SYSTEM).

JANUARY 1892.

Date	Narration, &c.	Folio	1 Personal A/cs. and Transfers Dr.		2 Bills Receivable Dr.		3 Interest Dr.		4 Discount Dr.		5 Commission Dr.		6 Bad Debts A/c. Dr.		7 Profit & Loss A/c. Dr.	
			Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
1892 Jan. 2	JAMES SMITH .. *Dr.*		50 0 0													
	To Jones Brothers ..		..	50 0 0												
	For cash credited in error to the former on 16 June 1891, instead of the latter, now written back															
" 4	BENTON & CO. .. *Dr.*		100 16 8													
	To Bills Receivable ..		..	..	..	100 0 0										
	For their Acceptance No 24, due this day, renewed for two months by No. 32 .. £100 0 0															
	To Interest ..		..	..	..	..	..	0 16 8								
	For Interest on Renewal 5% per ann. on £100 for two months from date . 0 16 8															
	£100 16 8															
" 6	COMMISSION .. *Dr.*		..	..	..	..	..	..	..	..	10 0 0					
	To Dedham & Son ..		..	10 0 0												
	For Commission of 1% upon amount realised upon sale of Manganese ore .. £1,000															
" 7	BAD DEBTS A/c. .. *Dr.*		..	..	..	..	..	..	..	..	..	..	33 6 4			
	To Mackreth & Paull ..		..	33 6 4												
	For balance written off to Bad Debts after payment of first and final dividend of 1/- in the £															
" 31	PALM OIL ADVENTURE A/c. ..		140 6 8													
	To Profit and Loss A/c. ..		..	..	..	..	..	..	..	..	..	..	..	..	..	70 3 4
	To Clinton & Co. Cape Coast.		..	70 3 4												
	For ½-share of Profit on Palm Oil Adventure A/c. (No. 24) £140 6 8															
			291 3 4	163 9 8		100 0 0		0 16 8			10 0 0		33 6 4			70 3 4

A few examples have been given, showing how such a form of Journal is written up. The sum of the debit entries agreeing with the sum of the credit entries would be proof that same had been correctly journalised. The headings 2-7 should be totalled monthly, and the amount carried to their proper accounts in the Ledger; the debit total to the debit side of Ledger Account, as "To Sundries"; the credit total to the credit side, as "By Sundries." The entries in heading 1 should be posted separately into the Ledger in the usual way.

Another form of Tabular Journal is one where the horizontal rows stand for credits and the vertical columns for debits. The Visitors' Ledger (Form I.) is based upon this method; in this case the horizontal lines being debits and the vertical columns credits, *i.e.*, the rooms occupied being debtors to the various charges contained in the vertical columns.

In dealing with the method of bookkeeping on the Tabular system, it has been assumed (as it has been throughout the whole work) that the principles of bookkeeping have been mastered by the reader, and that he has had some amount of practice.

CHAPTER IX.

CONCLUDING REMARKS.

THIS Chapter is devoted to such transactions and accounts that are to be met with in an accountant's career which have not received any particular attention in the foregoing pages. It has, moreover, been thought that a work of this description would not be complete without some such information being given that would be of use to the accountant student, and to him who is seeking for a fuller knowledge upon such subjects as may be considered to belong to advanced Bookkeeping.

Accrued Amounts — Outstanding Liabilities and Assets.—At the period of a general balancing of the books of a firm, it will frequently happen that a portion of the liabilities and income will have accrued, yet not be actually or legally due. In that case, so much of them as are accrued must be included in the Revenue Account, either as an expense or as a gain, and in the Balance Sheet as an outstanding liability or asset. Of these, dividends,[1] interest on mortgages and loans, rent, rates,

[1] Such as are derived from Government stock, railway debentures, or other investments that are little liable to uncertainty as a source of income.

taxes, insurance, discount on outstanding accounts, wages, salary, &c., &c., will form the principal.

Under this head would also come discount charged on bills discounted but not yet matured; or, in other words, upon which interest has been paid for the advance against same, but which has *not yet been earned : e.g.*, a firm discounts on the 15th of the month bills to the value of £6,000 which have three months to run—they are charged for the accommodation discount at 3 per cent.—viz., £45; on the 30th of the same month the books of the firm are closed. It would not be fair to saddle their Profit and Loss Account with the total of the three months' discount; had they been paying interest on the money, they would only have had interest accrued for the fifteen days, therefore the discount for the two months and a half still to run should be charged to the Revenue Account of the ensuing period.

There are two methods of dealing with these accrued amounts: in the first, to enter these amounts to the debit or credit of their respective accounts, opening a Suspense Account for the corresponding entry, this latter account being closed, by writing back, on the day succeeding that on which the books were balanced; in the second, to bring down these amounts to the opposite side of their respective Ledger Accounts in the same manner as the balance of a Personal or a Property Account is treated.

The first method is to be considered the more preferable, the latter being open to several objections; the balance is apt to be lost sight of, and, moreover, it may serve as a cover for fraudulent acts on the part of a dishonest bookkeeper.

"No *accruing profits* can, with safety, be taken credit for upon the uncompleted voyages of ships, or uncompleted contracts (except in special cases), nor for accruing dividends upon ordinary shares in companies, nor (under ordinary circumstances) for uncompleted consignments; the eventual result of all these transactions being generally of so speculative a nature that it is not safe to do more than carry forward whatever expenses may have been incurred." (Mr. L. R. Dicksee's *Auditing*, page 124.)

Bad Debts.—Attention has been drawn on page 33 to the desirability of providing a reserve fund for bad and doubtful debts, but no mention was there made as to *when* an account should be written off as bad.

No account should be considered as hopelessly lost until it is undoubtedly known to be irrecoverable either through being statute-barred, or through the payment of a composition, or a final dividend, or an unsatisfied execution. The closing of an account as bad requires careful consideration, for by so doing it is lost sight of and forgotten; whereas, had it been kept open, even with only a nominal amount as a remembrancer, some portions might eventually have been recovered. Perhaps the best method of treating bad and doubtful debts is that recommended by Mr. Lawrence R. Dicksee, F.C.A., in his work on *Auditing* (p. 45). "As soon as a debt," he says, "becomes at all doubtful, or sufficiently overdue to merit special attention, it is transferred to a Doubtful Debts Ledger, which is ruled as follows:—On the left-hand page are spaces for two or three ordinary Ledger Accounts, while the right-hand page is left blank for such memoranda as 'When applied for,' 'When sued,' 'When failed,' and full particulars as to progress of subsequent realisation of the estate."

When treating of Reserve and Sinking Funds in Chapter V., there was no mention of how a provision for bad and doubtful debts might be raised. The omission can, however, now be rectified. The reserve is best created by taking a percentage upon the gross amount of book debts, say 10 per cent., this reserve to be increased at each period of balancing the books by the percentage (previously fixed) on the excess of the current amount of book debts over the amount of the previous period. Of course, if the amount of book debts be less than the previous period the reserve must be correspondingly decreased. The reserve with the *net present value* of the Debts Receivable *must equal* the total amount of debts due as shown by the books.

A true estimate of the bad debts can only be formed by taking into consideration the losses that have taken place in previous years ; such information would be presented by the Bad and Doubtful Ledger mentioned above.

A *bad debt*, when actually made, should be debited to this reserve, *i.e.*, the Personal Account of the defaulting debtor is closed by crediting it with the amount of the balance and transferring that amount to the Reserve Account, thus decreasing that Account by the actual loss which has been provided for out of the profits of previous years.

Cash Book and Bank Pass Book—Reconciliation of Balance.—When the Cash Book is balanced it should be reconciled with the balance appearing in the Bank Pass Book on the same date. It is seldom that they will be alike, on account of payments in not having been passed to credit, or cheques paid away being unpresented.

The *reconciliation* should be entered in short, be shown in *red ink*, and might take the form following :—

RECONCILIATION.

	£ s d	£ s d
Balance as per Bank Pass Book		
Add *Cheques as follows, not cleared and not credited*—		
T. Haines		
S. Davey		
Fry & Co.		
Less *Outstanding Cheques not debited*—		
A. Wilkins		
S. Soanes		
Balance as per Cash Book		£

Consignments, Adventures, Joint Accounts.—There is a class of accounts which, to some bookkeepers, present a certain amount of difficulty when first met with. These are consignments of commodities either inward or outward.

Consignments inward may be of two kinds—first, they may be for the merchant's own account, or he may have an interest in same; secondly, they may be on the account of another. In the one the merchant is the principal, or one of the principals, while in the other he acts as the agent.

Consignments outward are chiefly on account of the consignor, for himself solely, or as a co-partner with others.

Consignments for a merchant's own account are more properly termed *Adventures*, to distinguish them from consignments for the account of another. Similar transactions in which the merchant is interested with others are termed *Joint Accounts* or *Ventures*.

Consignments which are received to be realised *for and on behalf of another* are best treated in the manner following:— Upon receipt of the goods or invoice no entry is to be made in the books of account. They are the *property of the consignor*, and in no way form a portion of the assets of the consignee. They are simply to be noted in the Warehouse Stock Book, or where the transactions of this class are numerous, in a special Stock Book set apart for the purpose. All charges, however, paid on the consignment on behalf of the consignor are entered to the debit of a "*General Consignment Account*," as would also be any advance made to the consignor or to his order against same. All sales of the consignment are, on the other hand, credited to a General Account under the title of "*Consignment Sales Account*." When the consignee renders an account sales, the "*Consignment Sales Account*" is debited with the charges and the net proceeds, the "*General Consignment Account*" being credited with the amount of charges and advances transferred, while the "*Consignor's Account*" in the Ledger is credited with the *net proceeds*.

Adventures on the risk and for the behalf of the shipper are simply treated as any other special transaction would be. An account is opened in the consignor's Ledger under the heading of "*Adventure of......to.....* ": this account is debited with the cost of the goods and any charges paid thereon, such as freight, insurance, shipping charges, &c. And it is credited with the *net proceeds* upon the receipt of the account sales from the agent.

A *Joint Adventure* is when two or more parties combine to participate in profits or share losses in some particular transaction. For instance, a shipper may consign some special article in which he deals to a merchant in another country, in which shipment they both participate; or two or more merchants dealing in any particular commodity may combine to ship to another country this article on a joint account; or, again, where the number of persons dealing in a certain article are few, they may combine and import such article on a joint account for the purpose of preventing a keen competition in same, and to shut out a buyer from using one firm's quotation to cut down another's.

It is usual in a joint account—though all may supply goods—for only one (termed the manager) to have the handling of the transaction, and such a one is not infrequently allowed a small percentage on the sales as a remuneration for the time and trouble taken by him for the benefit of all concerned.

There are two methods of dealing with *joint transactions* in the books of the manager.

1. To open an account in the Ledger entitled "Joint Adventure Account to ——," and to debit it with the value of the goods, the shipping and other charges, the insurance, the commission, etc., and to credit it with the gross amount realised; the balance of this account being transferred to "Profit and Loss" and the partners' personal accounts for the respective shares of loss or gain.

2. To open an Adventure Account for the manager's *share* of the cost of the shipment and charges, and for *each partner* for his *share* of the cost and charges, and on realisation to divide the gross proceeds in a similar manner.

The skeleton form of the necessary Journal entries to record the three classes of consignments mentioned are given below.

Consignments where the merchant (consignee) acts as agent.

Consignment *Dr.*
To Shipping Agent or Broker for freight, duty, delivery, &c.

Purchases *Dr.*
To Sales of Consignment for amount realised.

Sales of Consignment *Dr.*
To Consignment (for charges).
To Commission.
To Interest.
To Consignor for net proceeds.

Adventures on Merchant's own Account.

Adventure to ——— *Dr.*
To Goods, if out of stock
or
To Seller, if bought specially.
or both, if supplied in part.
To Charges (freight, duty, &c.).
To Insurance.

Agent (Consignee) *Dr.*
To Adventure to ———, for net proceeds.

Adventures on Joint Account.

1st Method.

Adventure in Co. to ——— *Dr.*
To Goods, if out of stock
or
To Seller, if purchased specially
or
To Partner, if supplied by him.
or both, or all if supplied in part.
To Charges (freight, duty, &c.).
To Insurance.
To Commission.

Agent (if export) *Dr.*
or
Broker
or
Purchaser.
(if import) *Dr.*
To adventure in Co. for net proceeds.

(*If a gain.*)

Adventure in Co. to ——— *Dr.*
To each *inactive* Partner for his share.
To Profit and Loss for Manager's share.

(*If a loss.*)

Each inactive Partner for his share *Dr.*
Profit and Loss for Manager's share *Dr.*
To Adventure in Co. to ———

2nd Method.

Each *inactive* Partner for his share of cost *Dr.*
Adventure to ——— for Manager's share of cost *Dr.*

To Goods, if supplied out of stock
or
To Seller, if purchased specially
or
To Partner, if supplied by him
} or both, or all if supplied in part.

To Charges (freight, duty, &c.).
To Commission.
To Insurance.

Agent (if export) *Dr.*
or
Broker
or
Purchaser
} (if import) *Dr.*

To each *inactive* Partner for his share of net proceeds.
To Adventure Account for Manager's share of net proceeds.

Sometimes in Joint Accounts the *Shipper* may be a Partner in a joint transaction with the *Consignee* and others.

Advances are frequently made against Consignments—these are principally by bills. If the Merchant advances against a Consignment to him as Agent, the Journal entry will be

Consignor *Dr.*
To Bills Payable.

If, on the other hand, the Merchant obtains an advance against his own adventure, the Journal entry will be

Bills Receivable *Dr.*

To Lender (often the Consignee)
or
To Adventure Account direct for advance against shipping documents, &c.

If an inactive Partner in a joint adventure desires to post the joint transaction, or so much of it as refers to him, the Journal entries will be

Adventure to ——— *Dr.*

To the *active* Partner (*i.e.*, the Manager) for the owner of the books' share of costs and expenses ;

and, on receipt of account sales from the Manager,

The Manager ——— *Dr.*

To Adventure Account, for the owner of the books' share of profits.

In the case of Consignments and Adventures uncomplete at time of balancing, see Outstanding Assets and Liabilities, page 123.

Contingent Liabilities.—These should be notified on Balance Sheet. They are not to be incorporated in the figures, but should appear at the foot of the debit side.

The principal item coming under this designation is Bills under discount; others would arise from dilapidations upon leasehold premises, from claims in dispute not recognised as debts, from brokers' guarantees, etc.

Contracts.—Firms which undertake work of more or less of a speculative character require to exercise a special care and supervision over their system of accounts.

Among such are to be classed manufacturing engineers, builders, shipwrights, iron-founders, and contractors generally.

The basis of their calculations, when tendering for extensive undertakings, must be upon the market price of materials and the cost of labour, allowing for a sufficient margin to cover the incidental expenses of the business and to show a return upon the actual outlay. In these times of keen competition it is not only essential that the *prime cost* should be carefully computed, but that every precaution should be taken in the supervision of the expenditure so as to prevent any unnecessary waste of money and material in the execution of the work. Often, through looseness in calculating the cost or in keeping the expenditure within proper limits, a contract which should have shown a fair margin of profit has resulted in a loss.

The preparation of an estimate does not come within the province of the bookkeeper, but it is his duty, however, to see that the accounts of the contracts are so kept that they may clearly show the expenses for any period of the work, and may form a guide to the contractor when tendering for future undertakings, so that he may be able to make his estimate at a lower rate if large profits have been gained in a similar contract, or may take steps to prevent in fresh work the occurrence of a loss made on a prior occasion.

The proper method of recording such transactions in the books of account so as to fulfil the above requirements would be to open in the Ledger a separate account for each contract, distinguishing same by a number. This account should be credited with the total of the accepted tender, the person or firm for whom the work is undertaken being correspondingly debited. The Contract Account should be debited with the cost of all materials used, and with all wages and charges paid in connection therewith. On completion of the work the balance of the Account would be transferred to the Profit and Loss Account. The instalments received during the progress of the work would be credited to the Personal Account of the parties for whom the work was being done.

At the balancing period any contracts uncompleted would be included in the Balance Sheet as an outstanding account; but if, however, a contract is near completion, and the extra expense can with any *reliability* be approximated, in that case this estimated expense may be debited to the Contract Account through a Suspense Account, and the resulting balance carried to Profit and Loss. Care must be taken in the subsequent period to charge the actual wages and cost of materials to the Suspense Account in order to adjust any difference in the anticipated profit or loss.

The plan to be adopted in dealing with the invoices so as to arrive at the prime cost is to enter them in a Day Book in tabular form so that each invoice may be "dissected" into the proper account or contract to be debited, while at the same time it provides for the crediting of the total amount to the supplier.

Extra work on contracts forms an important item as another source of profit, and, consequently, care should be exercised to see that these are properly charged on each contract to a separate account, to be called "Extras on Contract No.——." They might properly be recorded in the Day Book mentioned above, a separate column being provided for same.

Deficiency Account (Company Winding-up).—In Chapter III., when treating of Deficiency Accounts, that for companies winding up under the supervision of the Court was omitted; it is now given here. The Official Receiver requires a slightly different form for companies which have been in existence for more than three years prior to the date of the winding up to that of companies where the winding-up order is made *within* three years of formation of company. Both forms are given on pages 135-6; only one illustration is provided, however, with the view of showing how the same should be filled up.

Illustration.—The Axim Prospecting Company was formed in January 1891, and in May 1892 a compulsory order was made to wind up the company. The Balance Sheet and Revenue Account at date of winding-up order was as follows :

BALANCE SHEET, 25th May 1892.

Dr.	£ s d	£ s d	Cr.	£ s d
To Capital—			By International Mine Concession	425 10 0
Authorised 10,000 Shares of £1 each	10,000 0 0		" Machinery and Plant	6,245 13 10
7,850 Shares issued to the Public, on which the full amount has been called up	7,850 0 0		" Sundry Debtors	75 15 10
Less Calls unpaid	100 0 0	7,750 0 0	" Cash at London Bankers	264 6 10
To Creditors—			" Deficit on Revenue Account	7,566 6 8
Cape Coast Bank	921 2 1			
Sundry Persons on Open Accounts	4,979 11 4			
Directors' Remuneration	742 10 0			
Secretary's Salary	184 9 9	6,827 13 2		
		£14,577 13 2		£14,577 13 2

PROFIT AND LOSS ACCOUNT from 1st January 1891 to 25th May 1892.

Dr.	£ s d	£ s d	Cr.	£ s d
To Working and General Expenses—			By Proceeds of Gold	128 17 0
Axim:			" Balance carried to Balance Sheet.. ..	7,566 6 8
Mines, working expenses, including wages	3,102 8 6			
Crushings	245 5 0			
Rent, Exemptions, &c.	231 17 0			
Salaries..	560 6 6			
Travelling Expenses	293 12 5			
Law Charges	25 8 1			
Telegrams and Postages	267 10 11			
General Expenses	408 0 1	5,134 8 6		
London:				
Directors' Remuneration	742 10 0			
Secretary's and Clerks' Salaries ..	368 19 6			
Law Charges	122 17 6			
Cablegrams	150 5 3			
Stationery, &c.	46 1 7	1,430 13 10		
To Promotion Expenses—				
Incurred in endeavouring to float the Tarkwa Gold Fields	..	872 1 0		
To Remittance to Mines unaccounted for	..	184 2 6		
To Preliminary Expenses written off..	..	73 17 10		
		£7,695 3 8		£7,695 3 8

The deficiency would be made out from these, as shown on page 135.

The general remarks on the preparation of a Deficiency Account appearing in Chapter III. equally apply to the one given here. The only particular requiring any explanation is that relating to (VI. in Form 1, VII. in form 2) "Depreciation not written off in company's books." This refers to assets appearing in the company's books, which, upon winding-up the company, are unrealisable; such would probably be goodwill, development of mines, property, &c., concessions and unworkable patents, and the like.

It is also to be noted that the details of miscellaneous expenses (Form 1) are given, and are written in short on the left-hand side.[1] They should be written in red ink.

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[1] This is not mentioned in the directions appearing at foot of the form, but the Official Receiver, however, requires that same be so shown. The writer cannot allow the occasion to pass without testifying to the courtesy and readiness to give information he has met with from the officials of the Companies Winding-up and Bankruptcy Departments of the Board of Trade.

List "O. (1)" DEFICIENCY ACCOUNT.

(1) Deficiency Account where Winding-up Order made within three years of formation of Company.

		£ s d
I. Gross profit (if any) arising from carrying on business from date of formation of company to date of winding-up order: *Proceeds of Gold*		128 17 0
II. Deficiency as per Statement of Affairs		7,566 6 8
Miscellaneous Expenses (*Contra*).		
Mine Working Expenses	£3,102 8 6	
Crushings	245 5 0	
Travelling Expenses	293 12 5	
Law Charges	148 5 7	
Postages and Telegrams	417 16 2	
Stationery, Assays, and Cost of Remittances, &c.	454 1 8	
	£4,661 9 4	
Total amount to be accounted for .. .. (3)		£ 7,695 3 8

		£ s d
I. Expenses of carrying on business from date of formation of company to date of winding-up order, viz.:—		
Salaries and Wages	£929 6 0	
Rent, Rates, and Taxes	231 17 0	
Miscellaneous Trade Expenses.. ..	4,661 9 4	
Depreciation written off in Company's Books	—	
Interest on Loans	—	
		5,822 12 4
II. Bad Debts (if any) as per List "I." (1)		—
III. Directors' Fees from date of formation of company to date of winding-up order		742 10 0
IV. Dividends paid (if any) from date of formation of company to date of winding-up order..		—
V. Losses on Investments realised from date of formation of company to date of winding-up order (exclusive of depreciation written off as above), viz.:—(4)		—
VI. Depreciation on Property not written off in company's books, viz.:—(4)		—
VII. Other Losses and Expenses (if any) (2) from date of formation of company to date of winding-up order, viz.:—(4)		
Preliminary Expenses	£73 17 10	
Promotion Expenses incurred in endeavouring to float the "Tarkwa Goldfields Company"	872 1 0	
Remittance to Mines unaccounted for ..	184 2 6	
		1,130 1 4
VIII. Unpaid Calls, as per List "K."	£100 0 0	
Less Amount taken credit for in front sheet as estimated to be realised therefrom, as per List "K."	100 0 0	
Balance estimated as irrecoverable		—
Total amount unaccounted for .. .. .. (3)		£ 7,695 3 8

Notes.—(1) This list must show when debts were contracted.
(2) Here add particulars of other losses or expenses (if any), and liabilities (if any) for which no consideration received.
(3) These figures should agree.
(4) Where particulars are numerous, they should be inserted in a separate schedule.

Signature..............

Date............189..

List "O. (2)" DEFICIENCY ACCOUNT.

(2) Deficiency Account where Winding-up Order made more than three years after formation of Company.

	£ s d		£ s d
I. Excess of Assets over Capital and Liabilities on the (1) ....day of............18.. (if any), as per Company's Balance Sheet		I. Excess of Capital and Liabilities over Assets on the (1) ......day of............18.. (if any), as per Company's Balance Sheet	
II. Gross Profit (if any) arising from carrying on business from the (1) ......day of............18..		II. Expenses of carrying on business from the (1) ......day of............18.., viz.:— (£ s d) Salaries and Wages .. .. ; Rent, Rates, and Taxes .. .. ; Miscellaneous Trade Expenses .. .. ; Depreciation written off in Company's Books ; Interest on Loans	
III. Deficiency as per Statement of Affairs		III. Bad Debts (if any) as per List "I." (2)	
		IV. Directors' Fees from the (1) ......day of............18..	
		V. Dividends paid (if any) since the (1) .... day of ....18..	
		VI. Losses on Investments realised since the (1) ...... day of..........18.., exclusive of depreciation written off as above, viz.:—(4)	
		VII. Depreciation of Property not written off in company's books, viz.:—(4)	
		VIII. Other Losses and Expenses (if any) (3) since the (1)...... day of............18.., viz.:—(4)	
		IX. Unpaid Calls, as per List "K." .. .. (£ s d) *Less* Amount taken credit for in front sheet as estimated to be realised therefrom, as per List "K."	
		Balance estimated as irrecoverable	
Total Amount to be accounted for (5) .. .. £		Total Amount accounted for (5) .. .. .. £	

Notes.—(1) Three years before date of winding-up order.
(2) This list should show when debts were contracted.
(3) Here add particulars of other losses or expenses (if any), and liabilities (if any) for which no consideration received.
(4) Where particulars are numerous, they should be inserted in a separate schedule,
(5) These figures should agree.

Signature..............
Date............189..

Income Tax, Average Profits.—The profits from any kind of property, wherever situate, and from any profession, trade, employment, or occupation, wherever carried on, may, for the purpose of income tax, be returned on an average of three years preceding the assessment (Schedule D). If, however, the profession or business has not been set up three years, then on an average from the period of commencing it, ending either the day the annual accounts are made up, or the 5th of April.

It is intended here to show how such an average may be made out for the purpose of assessment, or for a claim to be made for a repayment of over-charge.

Such a statement drawn out and certified to by a Chartered Accountant is generally accepted by the Inland Revenue officials.

It must be remembered, however, that what is considered net profit by the person interested is not so considered by the officials.

" Net profit for income tax purposes is the ordinary commercial net profit, except that the following deductions are not allowed :—

" (1) The income tax paid on the profits of the concern.

" (2) Interest on capital or any annuity, &c.

" (3) Improvements (not mere repairs) of premises, plant, &c.

" (4) Depreciation of leases.

" (5) Partners' salaries.

" (6) In colliery and other mining concerns, instalments written off cost of mine, or for exhaustion of minerals, or for cost of pit-sinking.

" (7) The amount of any embezzlement by a servant or other person.

"(8) Possibly not the whole of the amount of depreciation charged in the Profit and Loss Account on machinery—wear and tear only is allowed for; depreciation being of wider extent." (*Accountants' Manual*, Vol. II. B. 10.)

The statement of average profits for the three years would be made out somewhat in the manner following:—

STATEMENT OF PROFIT FOR THE PURPOSES OF ASSESSMENT (or for a Claim for repayment of Over-charge), on an average of the three years ending 31st December 1891.

Particulars	31st Dec. 1889			31st Dec. 1890			31st Dec. 1891			Total of the three years		
	£	s	d	£	s	d	£	s	d	£	s	d
Net Profit or Loss as shown by the Revenue Accounts for the respective years	9,685	0	0	**700**	**0**	**0**	**2,150**	**0**	**0**	6,835	0	0
Depreciation on Buildings	590	0	0	590	0	0	590	0	0	1,770	0	0
Partners' Salaries	500	0	0	500	0	0	500	0	0	1,500	0	0
Interest on Mortgages	340	0	0	380	0	0	500	0	0	1,220	0	0
Interest on Capital	260	0	0	320	0	0	300	0	0	880	0	0
Income Tax	250	0	0	230	0	0	190	0	0	670	0	0
Reserve	1,000	0	0	..			..			1,000	0	0
	12,625	0	0	1,320	0	0	**70**	**0**	**0**			
									3	13,875	0	0
Amount to be assessed for Income Tax for the year ending 5th April 1893										4,625	0	0

Note.—Losses are shown in red (heavy type).

STATEMENT OF PROFIT FOR THE PURPOSES OF ASSESSMENT (or for Claim for repayment of Over-charge), on an average of the three years ending 31st December 1892.

Particulars	31st Dec. 1890			31st Dec. 1891			31st Dec. 1892			Total of the three years		
	£	s	d	£	s	d	£	s	d	£	s	d
Net Profit or Loss as shown by the Revenue Accounts for the respective years	**700**	**0**	**0**	**2,150**	**0**	**0**	**640**	**0**	**0**	**3,490**	**0**	**0**
Depreciation on Buildings	590	0	0	590	0	0	590	0	0	1,770	0	0
Partners' Salaries	500	0	0	500	0	0	500	0	0	1,500	0	0
Interest on Mortgages	380	0	0	500	0	0	500	0	0	1,380	0	0
Interest on Capital	320	0	0	300	0	0	240	0	0	860	0	0
Income Tax	230	0	0	190	0	0	180	0	0	600	0	0
Reserve	—			—			—			—		
	1,320	0	0	**70**	**0**	**0**	1,370	0	0			
									3	2,620	0	0
Amount to be assessed for Income Tax for the year ending 5th April 1894										873	6	8

Note.—Losses are shown in red (heavy type).

It will be seen that the difference between the average profits for the years 1892-93 and 1893-94 is £3,751 13s. 4d., the Income Tax on which, at 6d. in the £, is £93 15s. 9d. Under the Acts 5 & 6 Vict., cap. 35, sec. 133, and 28 Vict. cap. 30, sec. 6, relief could be claimed on the score that the profits of the previous year of assessment have not reached the amount of the average profits of the last three years, including the said year of assessment. Repayment should, therefore, in a case like this, be claimed upon the difference of £3,751 13s. 4d. as shown above, the over-payment representing £93 15s. 9d.

Preliminary Expenses.—These are those expenses incurred in obtaining the share capital of a company, and are incidental thereto. The gradual extinction of such as an asset has been explained in the Chapter on Depreciation (page 28). It is only necessary here to give the principal disbursements that may be brought into the "Preliminary Expenses" Account. These would be the following:—

Advertising of prospectuses and notices; brokerage paid for placing shares; legal expenses for the preparation of the memorandum and articles of association, the necessary agreements for the purchase of any business or property, filing the necessary documents with the Registrar of Joint Stock Companies, and generally all legal work transacted on behalf of the company until the first allotment of shares; the cost of printing the memorandum and articles of association, prospectuses, notices, plans, books of account, &c.

Conclusion.—It is trusted that the information contained in the foregoing pages may be of beneficial service to the accountant student, as well as to those to whom a thorough knowledge of accounts is essential in order to properly undertake the duties required in a mercantile career. But it is not enough to be well posted in the treatment of complex accounts; a good bookkeeper must also be methodical and correct in his manner of transacting and recording business; and, above all, he must like and take an interest in his work. If he has any desire to rise and get beyond the general position of a mere mechanical cypher, who is only expected to get through a certain quantity of work in a given time without any thought of how the same is performed or with little care as to the results obtained, he must associate himself with the interests of his firm and let them become to him as if they were his own. Far from then finding an irksomeness in his duties he will realise a pleasure, and will have that feeling of self-consciousness which arises from a knowledge of having fulfilled his duties to the advantage of those to whom he is indebted for his livelihood.

The reader cannot do better than refer to the lecture of Mr. Edward H. Fletcher, F.C.A., on "The Method and Form in Bookkeeping and Accounts," ([1]) and Mr. Gérard van de Linde's pamphlet entitled "Secretarial," ([2]) both of which fully enter into the requirements for a good bookkeeper and business man; they both descend to petty details, and talk of matters which come before them every moment of their lives, remembering as it were, and impressing upon those whom they address, that success is dependent, in a great extent, on the observance and strict performance of the small things of our daily life.

---

[1] *The Accountants' Journal*, Vol. IV., No. 39. [2] *The Accountants' Journal*, Vol. X., No. 118. Messrs. Gee & Co., 34 Moorgate Street, London, E.C.

RECEIVER'S CASH ACCOUNT. (1)

Estate of.......... .... Cash Account of.............

Dr. RECEIPTS. PAYMENTS. *Cr.*

Date	No.	From whom received	For what Account	No. of Rec'pt	Cash	Bank	Total	Date	No.	To whom paid	On what Account	No. of V'cher	Cash	Bank	Total
					£ s d	£ s d	£ s d						£ s d	£ s d	£ s d

(1) Referred to in the Chapter on Adjustment of Partnership Accounts, page 68.

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