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115073

BUCK SLIP

NOTE: Use this slip for notes in connection with this paper. All notes will be NUMBERED CONSECUTIVELY, top bottom. All records necessary for intelligent action should be attached. A line will be drawn the full width of the slip below each note. Both sides will be used before additional sheets are added.

NO.	DATE/TIME	FROM	TO	REMARKS
	95/49	5-1	Mag MG	this is info for the operation of Funds Jem
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GO	<input checked="" type="checkbox"/>			
X-O	<input checked="" type="checkbox"/>			
GOVT	<input checked="" type="checkbox"/>			
PW	<input checked="" type="checkbox"/>			
PH	<input checked="" type="checkbox"/>	Capt FNGER E		
EDUG	<input checked="" type="checkbox"/>			
INFO	<input checked="" type="checkbox"/>			
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H34R
Form #4

Accounting for Officers and Noncommissioned Officers Club Fund.

Paragraph 23a(1), AR 210-60, 3 April 1947, requires that all officers and noncommissioned officers clubs will initiate and maintain a double entry accounting system.

Such a system requires that each transaction have two entries; a debit and credit. These entries are made in a journal which is known as the book of original entry.

The simplest form of journal is the general journal containing a daily record of current transactions recorded in chronological order.

General Journal				
Date	Account Title and Explanation	LP	Debit	Credit
June 8	Purchases	12	127 25	127 25
	Cash	1		
	Purchased merchandise for cash			

In recording these entries it should be remembered that items being received are debited and items going out are credited. In the foregoing entry merchandise purchased is being received therefore the "Purchases" account in the ledger is debited. Cash is paid out therefore the "Cash" account is credited. The year is entered under the heading "Date". The month is entered in the first column, with the entry, on the extreme left and the day is entered in the second column. The day of each transaction is entered on the first line. It is entered for each transactions completed. The name of the month is repeated only at the top of a new page or at the beginning of a new month.

In the "Account Titles and Explanations" Column, the account names and an explanation of the transaction are written. The debit account is written on the first line and the credit account indented about one half inch, is written on the following line. An explanation of the transaction is written on the third line and indented about one inch. The amount of the debited account is written in the debit column on the same line as the account debited and the credit amount is written in the credit column on the same line as the account credited. The number in the "LP" column indicates the number of the page on which the account will be found in the ledger. This column is used when posting from the journal to the ledger and this process will be explained later. The second transaction may be recorded in the journal on the line immediately below the first transaction and it is suggested that a blank space be left between each transaction.

The general journal should be used for transactions that cannot be entered in a special journal which journals will be explained later.

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Debits and credits in the journal are transferred to their proper ledger accounts by a process called "posting". Each amount in the debit column of the journal is transferred to the debit side of the account in the ledger and each amount in the credit column is transferred to the credit side of an account in the ledger. The account to which each item is to be posted may be determined from the title of the account as stated in the journal. Post all debit items before posting credit items. In this way an item is less likely to be posted to the wrong side of an account. After an item has been posted the number of the page in the ledger containing the account to which the item has been transferred is placed in the Ledger Page (LP) Column of the journal. This process facilitates reference from the journal to the ledger and viceversa.

To show how this process operates the following transactions are illustrated from journal to ledger:

- March 1, 1946 Received \$5.00 Membership Fees from 50 members \$250.00
- March 1, 1946 Purchased merchandise for cash amounting to \$175.00
- March 3, 1946 Cash received from sales amounted to \$219.25
- March 4, 1946 Purchased furniture for club for \$25.00

These entries would appear in the journal as follows:

General Journal				
Date 1946	Account Titles and Explanations	LP	Debit	Credit
March	1 Cash	1	250 00	
	Membership Fees	2		250 00
	Received Membership fees from 50 members @ \$5.00			
	2 Purchases	3	175 00	175 00
	Cash	1		175 00
	Purchased Merchandise for Cash			
3	Cash	1	219 25	
	Sales	5		219 25
	Cash received from sales			
4	Furniture and Fixtures	4	25 00	
	Cash	1		25 00
	Purchased furniture for club.			

These accounts would appear in the ledger as follows:

Cash (1)		Membership Fees (2)		Purchases (3)	
1946	1946	1946	1946	1946	1946
Mar 1 250.00	Mar 2 175.00	Mar 1 250.00	Mar 2 175.00		
3 219.25	4 25.00				
Furniture and Fixtures (4)		Sales (5)			
1946	1946			1946	1946
Mar 4 25.00				Mar 3 219.25	

Each transaction requires entries to both debit and credit accounts. If all entries are posted correctly the total of the debit balances will equal the total of the credit balances. If these totals are not equal it indicates that an error has been made somewhere in the bookkeeping cycle. After all the entries for the month have been posted a trial balance is taken. This is prepared on a sheet of journal paper with the names of the accounts listed under the column used for account titles and explanations in the general journal and entering the debit balances in the debit column and the credit balances in the credit column. A trial balance for the accounts shown above would be as follows:

HOO CLUB
TRIAL BALANCE OF 31 MARCH 1946

Cash	269 25	250 00
Membership Fees		
Purchases	175 00	
Furniture and Fixtures	25 00	
Sales		219 25
	469 25	469 25

It is to be noted that the debit and credit columns are equal. These columns should equal no matter how many accounts appear on the trial balance. If these columns do not equal a mistake has been made somewhere in the records. Great care should be exercised in transferring entries from the journal to the ledger. Finding unequal totals in the trial balance necessitates checking every entry until the error is found. This means much extra work which can be avoided if proper care is exercised in the recording of the journal entries and this subsequent posting to the ledger.

Because there are so many entries involving cash a cash book may be used for all transactions that involve cash. This tends to keep all cash transactions in one record.

The use of a cash book conserves space and labor. When transactions are recorded in a general journal, a rather complete explanation of each entry must be written. The record of an ordinary transaction requires several lines in the general journal. When transactions are classified and all those of one kind are recorded in a separate book, it is possible to avoid repeating such information that is the same in all cases. The record can therefore be made much briefer, and a great amount of labor eliminated in journalizing and posting. Only a minimum of accounting training is necessary to keep these special journals.

Since the cash journal may be ruled to record Sales and Purchase transactions, Sales and purchase Journals will not be dealt with in these instructions.

In the Cash Journal the left hand page is used to record Cash Receipts and the right hand page is used to record Cash Payments. The Cash Receipt Page may be ruled as follows.

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CASH RECEIPTS

IS: ACCOUNT CREDITED ; EXPLANATION ; VOU NO ; LP ; SALES CREDIT ; CASH DEBITS:

To illustrate the operation of the Cash Receipts Journal, the following transactions are recorded as an example:

- May 1, 1946 Received dues from 20 members @ \$3.00
- May 2, 1946 Received \$125.00 from Sales
- May 10, 1946 Received Membership Fees from 3 new members @ \$5.00
- May 12, 1946 Received \$86.00 from Sales

CASH RECEIPTS

DATE 1946	Account Credited	Explanation	Vou No	LP	Sales Cr	Cash Dr
May 1	Membership Dues	20 Membership Dues @ \$3				60 00
2	Sales	Cash Sales			125 00	125 00
7	Sales	Cash Sales			72 00	72 00
10	Membership Fees	3 New Members @ \$5				15 00
12	Sales	Cash Sales			86 00	86 00
					<u>283 00</u>	<u>358 00</u>
31	Cash Dr					358 00
31	Cash Cr					283 00
	Sales					

Since Cash is the debit in each of the above entries it is not necessary to write it in for each entry. The Cash debit is picked up in the "Cash Dr" column and the total of that column is the cash debit for the month. This figure is transferred to the debit side of the cash account in the ledger. In this manner only one debit to cash for any one month is made thereby saving the time and work it would take to debit each cash item from the general journal.

Sales may be recorded in this journal by entering the amount received from Sales in the "Sales Cr" column and entering the same amount in the "Cash Dr" column. Each time a sale is entered in this journal a check mark is placed in the ledger page column. This is done so these entries will not be posted to the Sales account in the ledger. At the end of the month the "Sales Cr" column in the journal is totalled and one entry for the total amount is made in the Sales Account in the ledger. This is the same procedure that is followed for cash except that cash is debited and sales is credited. For the other entries in the Cash Receipts Journal, the ledger page number will be entered in the "LP" Column.

The cash Payments Journal is ruled in the same manner as the Cash Receipts Journal, but the columns have different headings. The following is an example of a Cash Payments Journal:

CASH PAYMENTS

DATE ; ACCOUNT DEBITED ; EXPLANATION ; VOU NO ; LP ; PURCHASES DR ; CASH CR

To illustrate the operations of the Cash Payments Journal the following transactions are recorded as an example:

- May 2, 1946 Purchased Merchandise from Post Exchange for \$115.00
- May 5, 1946 Paid Club Salaries \$30.00
- May 8, 1946 Paid \$75.00 for Club Furniture
- May 12, 1946 Purchase Merchandise from Post Exchanges \$75.00
- May 15, 1946 Paid orchestra for services rendered

CASH PAYMENTS

Date 1946	Account Debited	Explanation	Vou No	LP	Purchases	Dr Cash	Cr
May 2	Purchase	Misc Purchases FX			115 00	115 00	
5	Salaries	Paid Club Salaries				30 00	
8	Furniture & Fixtures	Pur Furn for Club				75 00	
12	Purchases	Misc pur FX			75 00	75 00	
15	Entertainment Expense					25 00	
31	Cash Dr	Total Cash Recd					320.00
31	Purchases Dr	Total Purchases					190 00

The entries are the opposite of the entries in the Cash Receipts Journal. In the above entries, "Cash" is the account to be credited. As in the Cash Receipt Journal it is not necessary to write it in for each entry. The Cash credit is picked up in the "Cash Cr" column and the total of that column is the cash receipt for the month.

Purchases are recorded in the Journal by entering the amount paid for the merchandise in the "Purchase Dr" column. The same amount is entered in the "Cash Cr" column to decrease the balance of the Cash Account by the amount paid out. The check marks appear in the "LP" column for the same reason they appear against entries for sales in the Cash Receipts Journal; to prevent double posting of Purchases. The total of the "Purchases Dr" column is the only amount entered in the Purchases account in the ledger for any month. The cash total is entered on the credit side of the cash account in the ledger. The Purchases total is entered in the debit side of the Purchases account.

Each account is divided into three parts; a space for the name of the account and two separate sections below the name. The left section of the account is called the debit side, and the right section is called the credit side. When items are entered on the left of the account, they are called debits and the account is said to be debited. When items are entered on the right side of the account, they are called credits and the account is said to be credited. The difference between the total debits and the total credits of an account is called the balance of the account regardless of whether that difference is a debit or a credit.

The total of an asset is entered on the left side, on the debit side of the account at the time the asset is acquired. All increases in the value of the asset are shown as an additional debits. Decreases in the asset are the opposite of increases and are therefore entered as credits on the right side of the account.

A transaction affects not less than two accounts. If only two accounts are affected, one must be debited and the other must be credited for a like amount. This equality of debit and credit is inherent in the equation Assets - Liabilities & Proprietorship and is the basis of what is known as the double entry system of recording. In the double entry system the sum of the debit entries in the ledger equals the sum of the credit entries.

All asset accounts, such as cash, have additions on the left (debit) side of the account and subtractions on the right (credit) side. Cash should never have a credit balance. If chits are used by the Club, the chit account will be a liability account with additions on the right side and subtractions on the left side. Income and expense accounts commonly have entries on one side. Sales, an income account has only additions on the credit side and salaries, and expense account, has only additions on the debit side.

The account serves as a mathematical device for showing increases and decreases in values. When items are to be added, they are placed on the same side of an account, when items are to be subtracted from an item or items previously entered in the account they are placed on the opposite side. The balance of the account is obtained by adding the two columns of figures and deducting the smaller from the larger.

To show the application of the theory of debit and credit to items appearing on complete statements, the transactions for an NCO Club are given below in "T" or skeleton accounts. Each entry in each account is numbered with the transaction number to facilitate comparison of the entries.

1. The HCC Club receives \$500.00 from members for membership fees.

ASSET		INCOME	
PLUS	MINUS	MINUS	PLUS
<u>CASH</u>		<u>MEMBERSHIP FEES</u>	
1 500 00			1 500 00
<u>CASH</u>		<u>FURNITURE</u>	
1 500 00	2 100 00	2 100 00	

Transaction No 2, represents the exchange of one asset, cash, for a second asset, furniture. The furniture account is debited for the increase and the cash account is credited for the decrease in the cash account.

3. Purchased merchandise for \$100.00

CASH		PURCHASES
1 500 00	2 100 00	3 100 00

This purchase is of a different nature than the one in transaction No 2. Transaction No2 was the purchase of an asset. Transaction No 3 is an expense. Cash has been paid for merchandise which is to be sold for cash. The expense account, Purchase is therefore debited because it is increased, and the asset account, Cash is credited because it is decreased.

4. Sold Merchandise for \$200.00

CASH		SALES	
1. 500 00	2 100 00		4 200 00
4. 200 00	3 100 00		

Since both cash and sales are increased by this transaction, Cash is debited and sales (an income account) is credited.

5. Pays salaries of help \$35.00

CASH		SALARIES	
1. 500 00	2 100 00		5 35 00
4. 200 00	3 100 00		
	5 35 00		

In this case cash is reduced \$35.00 and Salaries, and expense, is increased by a like amount. Salaries is debited; Cash is credited.

Since the debit resulting from each transaction is equal to the credit resulting from that transaction, it follows that, if a correct record is made in the account, the total of the debits in all the accounts will be equal to all the credits in all the accounts. A test of the equality of all the debits and the credits is made at intervals, usually at the end of each month. Such a test is known as a trial balance.

The trial balance serves to summarize the information shown in detail in the ledger. This summary is always prepared at the end of a fiscal period and provided most of the information needed to prepare the balance sheet and the statement of profit and loss.

A trial balance is taken by listing all the debit balances in the debit column and the credit balances in the credit column of the trial balance. If the sum of the debit balances equals the sum of the credit balances, it is evident that the debits and credits in the ledger are equal. A trial balance of the foregoing transactions follows:

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MOO CLUB
Trail Balance, 30 April 1946

Cash	465.00		
Furniture	100.00		
Purchase	100.00		
Sales		200.00	
Membership Fees		500.00	
Salaries	35.00		
	700.00	700.00	

The trial balance does not give a complete proof of the book keeper's work. It shows only that the debits and credits are equal. This is valuable information since errors frequently affect the equality of the debits and credits, and are indicated by a trail balance that is out of balance. The trial balance does not prove that the proper account has been debited or credited or that the debits and credits are for the proper amounts. It is therefore important that the accuracy of the figures be determined before they are entered in the bookkeeping record and that care be taken to record the entries in the proper accounts.

The financial statements are prepared from the information in the trial balance. In order to get as accurate a financial statement as possible, it is necessary to adjust certain accounts by making adjusting entries. The adjusting entries are those entries needed to bring the accounts up to date. They record the decrease of the asset and the increases in the expense that were not recorded currently.

During the month \$100.00 worth of supplies were purchased. At the end of the month a count of the supplies shows that there is \$75.00 worth on hand. The supplies on hand is an asset and the difference of \$25.00 is an expense. The Supplies Account in the ledger looks like this:

SUPPLIES	
April 3	60.00
10	30.00
17	10.00

In order to show the true value of the Supplies account, the following adjusting entry is made:

	DR	CR
Supplies Used	25.00	
Supplies		25.00

To adjust the Supplies Account to the value shown by inventory

The account in the ledger now looks like this.

SUPPLIES		SUPPLIES EXPENSE	
Apr 3	60.00	Apr 30	25.00
10	30.00		
17	10.00		

At the beginning of the month the value of the glassware was \$122.50. During the month \$12.75 worth was broken. The asset count has to be adjusted to show the new value by dropping the amount of breakage. Before the adjusting entry is made, the glassware account looks like this:

GLASSWARE	
Apr 1	122.50

In order to show the expenses of the broken glassware, the following entry is made:

	DR	CR
Loss Due to Breakage	12.75	
Glassware		12.75

To reduce the Glassware account by the amount of the breakage

When this entry is posted the account looks like this:

GLASSWARE		LOSS DUE TO BREAKAGE	
Apr 1	122.50	Apr 30	12.75

The balance of the Glassware account goes in the balance sheet under "Assets". The Loss Due to Breakage account goes in the Profit and Loss Statement under "Operating Expenses". The broken glass decreases the value of the glassware, therefore the cost of the broken glass is charged off as expense.

After the adjusting entries have been made, the monthly statements can be prepared. In operating a club profit or loss results in the buying and selling of merchandise. The Profit and Loss Statement shows the amount of sales, the cost of producing and selling the goods, and the difference, which is the profit or loss. It is usually prepared at the same time as the balance sheet and shows the results of operations for a definite period of time.

The simplest form of the statement of profit and loss is the one that shows the results of the purchases and the sale of one unit of property. If a man purchases a house for \$5000.00 and immediately sells it for \$6000.00.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Profit	\$1000

If he paid a real estate agent a commission of \$250 for selling the house, his profit would be shown in the following manner.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Gross Profit	\$1000
Commission	<u>\$ 250</u>
Net Profit	\$ 750

If he continues to buy and sell property, he can determine his profit on each transaction in this manner. It is not practicable, however, to use this method in determining the profit on each sale, because ordinarily a large number of sales are made, many of which are for small amounts and information about the exact profit on each sale is not usually needed. The needs of a business man are adequately served if he knows the net results of his operations at the end of the fiscal period. The statement of Profit and Loss gives him a summary of his operations during each period in terms of profit and loss.

If a Club during a month purchased merchandise for \$2000.00 and sold it for \$2750.00, the Club makes a gross profit of \$750. Commodities and services, such as supplies and wages, when consumed in operation of the club, are known as expenses. If the club consumed commodities and services that cost \$425 the net profit would be \$325. The Clubs statement of profit and loss for the month would be:

Sales	\$2750
Cost of Goods Sold	<u>2000</u>
Gross Profit	\$ 750
Expenses	<u>425</u>
Net Profit	\$ 325

The period commonly covered by a statement of profit and loss is a month because information about the results of operations is needed at frequent intervals. The amounts shown on the statement of profit and loss must conform to the length of the accounting period. Thus a statement of profit and loss for the month of May, sales, purchases, cost of goods sold, expenses, and all other items must apply to that month alone. None may apply to April, which has passed on to June, which is to come.

The number of units sold in a given accounting period does not correspond to the number of units purchased in that period. A portion of the purchases of the previous period is included in the sales of the current period. Likewise, a portion of the purchases of the current period may still be on hand at the end of the period, and may therefore not be included in the sales of the current period. It is necessary, therefore, in determining the cost of sales, to take into consideration the lag between purchases and sales.

The Gross Sales are the total amount customers have paid for merchandise sold to them. The first item listed on the statement of profit and loss represents the gross return from operations.

The cost of the goods sold is the purchase price paid by the club for the goods it has sold. It is the purchase price as distinguished from the sales price. Since the lots of goods sold ordinarily do not correspond to the various lots of goods purchased, it is necessary to calculate the amount of the inventory to determine the cost of goods sold. In the preceding illustration it was assumed that all the merchandise purchased during the month had been sold during the same month. In other words, the purchases were equal to the cost of goods sold. This is not usually the case. A club ordinarily carries a stock of goods on hand at all times. If there is an inventory at the beginning of the fiscal period and one at the end of the fiscal period, both inventories must be taken into consideration when the cost of goods sold is determined.

If a club began its fiscal period with an inventory of \$1200 and purchased merchandise amounting to \$2100, the total cost of goods available for sale would be the sum of these two items, or \$3300. If the merchandise still on hand at the end of the month was \$1375, the cost of the goods sold would be the difference between \$3300 and \$1375, or \$1925.

This information would be shown on the statement of profit and loss in the following manner:

Cost of Goods Sold.

Merchandise Inventory, April 1, 1946	1200
Purchases	<u>2100</u>
Cost of Merchandise Available for Sale	3300
Less: Merchandise Inventory, April 30, 1946	<u>1375</u>

Cost of Goods Sold.

1925

The value of the inventory is ascertained by making a physical count of the stock and by valuing each item at the cost price, or the price to replace, whichever is the lower.

When the cost of merchandise is subtracted from the total sales, the difference represents the profit that would be made if there is no expenses. Since expenses are always incurred they must be considered in determining the profit. The difference between the amount received from the sales and the cost of merchandise sold is termed "gross profit on sales". It is called the gross profit because the expense of operating the club must be deducted to obtain the final or net profit.

The difference between the cost price and the selling price is known as "margin". "Margin" is the amount in dollars and cents, or in percentage of sales, that the club receives for rendering service. The club must keep its operating cost within this margin if it is to gain a net profit as a result of its operation.

Commodities and services of various kinds are consumed in the operation of a club. Supplies and other commodities are consumed in the operation of a club. All commodities and services purchased are assets before they are consumed. When consumed, they become expenses and must be deducted from the gross profit.

All expenses may be shown as one item on the statement of profit and loss, but this method does not supply adequate information concerning their nature. It is good practice to know the amount of each commodity, or service consumed so that it can be ascertained whether the amount is too large and, if it is, take measures to reduce it.

The profit and loss statement would look like this:

WCO Club
Statement of Profit and Loss
For the Month Ending 30 April 1946

Sales		1015
Less: Cost of Goods Sold		
Inventory 1 April 1946	1000	
Purchases	<u>690</u>	
Cost of Goods Available for Sale	1690	
Less: Inventory 30 April 1946	<u>1200</u>	
Cost of Goods Sold		<u>490</u>
Gross Profit of Sales		525
Less: Operating Expenses		
Supplies Used	125	
Wages	<u>215</u>	
Total Operating Expenses		<u>340</u>
Net Profit		185

The balance sheet shows the amounts and the nature of the Club's assets, liabilities, and the proprietorship. By comparing the present balance sheet with the one prepared at the beginning of the period, changes in financial condition may be determined.

If a club has assets worth \$6500 and liabilities amounting to \$2500, the financial condition may be expressed by the equation:

Assets - Liabilities and Proprietorship

$$\$6500 - \$2500 = \$4000$$

In preparing the balance sheet, the equation sign is omitted and the assets are shown on the left of a double vertical line and the liabilities and capital are shown at the right. The balance sheet for the above equation is, then, as follows:

Assets	\$6500		
	<u> </u>	Liabilities	\$2500
	\$6500	Capital	<u>4000</u>
			\$6500

This statement does not satisfy the need of the club because it does not show the information as to the nature of the assets or the liabilities. It doesn't show whether there is sufficient cash to meet the needs of the obligations or whether there is sufficient merchandise to satisfy the wants of the customers.

An examination of the ledger shows that the assets consist of Cash \$2200, Merchandise \$2500, Deposit to Locker fund \$1500, and Supplies \$300. The liabilities consist of outstanding chits, \$2500. The financial condition would be expressed as follows:

ASSETS

Cash	\$2200	Outstanding Chits	2500
Merchandise Inventory	2500	Capital	
Deposit to Locker Fund	1500		
Supplies	300		
		WCO Club Capital	<u>4000</u>
Total Assets	\$6500	Total Liabilities & Capital	\$6500

Certain terms are used on balance sheets to describe the assets, liabilities, and capital. Since these terms will be used frequently, they will be discussed briefly here.

CASH Cash includes currency, checks, bank drafts, and money orders. Any medium of exchange that a bank will accept at face value on deposit may usually be shown on the balance sheet as cash.

MERCHANDISE Merchandise consists of the goods purchased or produced for sale. Food offered for sale in a grocery store and clothing produced for sale in a clothing factory are examples of merchandise. The merchandise on hand at any specified time is referred to as the merchandise inventory. The inventory is usually determined by a physical count of the merchandise on hand.

EQUIPMENT Equipment includes assets purchased to be used in the operation of the club and are not intended for resale. It is expected that they will be worn out in the operation of the club, although they may be sold when they no longer serve the purpose for which they were purchased. Because they are not bought for the purpose of sale at a profit, they can not be classified as merchandise.

LOCKER FUND Locker fund is money paid for merchandise to be received at a later date. Since the merchandise paid for is not received, the person to whom the money is paid owes it to the club until the merchandise is delivered. Purchases is debited and Locker Fund is credited.

SUPPLIES: Supplies are consumed in the operation of the Club and are considered as assets until they are consumed. The amount of such supplies on hand must be ascertained at the time each balance sheet is prepared.

LIABILITIES: Are financial obligations incurred by the Club.

ACCOUNTS PAYABLE: An Accounts Payable arises from a Purchase on account.

OUTSTANDING CHITS: Outstanding Chits are the amount chits notturn in for Sales at the end of each month. The cash received for chit books is not income until they have been used by the buyer. As long as a buyer has any chits in his book the club owes him the value of his chit book.

CAPITAL: Capital is the interest of the club in the assets of the club. If the club has no liabilities, the capital is the total of the assets; otherwise it is the difference between the assets and the liabilities.

The balance sheet is usually prepared in the following manner:

NGO CLUB
Balance Sheet
30 April 1946

ASSETS		
Cash	\$ 530	
Inventory	2150	
Supplies	<u>120</u>	
<u>Total Assets</u>		<u>\$ 2800</u>
LIABILITIES		
Outstanding Chits		260
CAPITAL		
NGO Club, Capital, 1 April 1946	2300	
Add: Net Profit for April 1946	<u>240</u>	
NGO Club, Capital 30 April 1946		<u>2540</u>
<u>Total Liabilities and Capital</u>		<u>2800</u>

An illustration of the cycle from ledger balances to trial balance, adjusting entries, statement, and closing entries follows:

The ledger balance of the HCO Club as of 31 May 1946 are:

<u>CASH</u>		<u>INVENTORY</u>		<u>DEPOSIT ON BOTTLES</u>	
2077.02		1348.09		194.24	
<u>DEPOSIT TO LOCKER FD</u>		<u>UNIFORMS & TOWELS</u>		<u>GLASSWARE</u>	
2600		108.65		234.04	
<u>SUPPLIES</u>		<u>OUTSTANDING CHITS</u>		<u>PURCHASES</u>	
71.09		325	744.41	1426.82	
<u>SALES</u>		<u>ENTERTAINMENT EXP</u>		<u>UNIFORMS & TOWEL EXP</u>	
	2264.10	285.15		5.10	
<u>MEMBERSHIP FEES</u>		<u>MEMBERSHIP DUES</u>		<u>PROFIT AND LOSS</u>	
	12		40		5614.69
<u>SUPPLIES USED</u>		<u>LOSS DUE TO BREAKAGE</u>		<u>PROFIT AND LOSS</u>	

The last three accounts do not enter the trial balance. They are used for adjusting and closing the account.

HCO
Trial Balance
31 May 1946

Cash	1	2077	02		
Inventory	2	1348	09		
Deposit on Bottles	3	194	24		
Deposit to Locker Fund	4	2600	00		
Uniforms and Towels	5	108	65		
Glassware	6	234	04		
Supplies	7	71	09		
Outstanding Chits	8			419	41
Purchases	9	1426	82		
Sales	10			2264	10
Entertainment Expense	11	285	15		
Uniform and Towel Expense	12	5	10		
Membership Fees	13			12	00
Membership Dues	14			40	00
HCO Club, Capital	15			5614	20
		8350	20	8350	20

115013

The posting of the adjusting and closing entries affects the ledger accounts as follows:

<u>CASH (1)</u>		<u>INVENTORY (2)</u>		<u>DEPOSIT ON BOTTLES (3)</u>	
2077.02		<u>1348.09</u>	(3) Pur 1348.09	194.24	
		Closing Inv			
		(4)			
		1527.00			
<u>DEPOSIT TO LOGIER FD (4)</u>		<u>UNIFORM & TOWEL SER (5)</u>		<u>GLASSWARE (6)</u>	
2600		108.65		234.04	(2) 24.04
<u>SUPPLIES (7)</u>		<u>OUTSTANDING CHITS (8)</u>		<u>PURCHASES (9)</u>	
71.09	(1) 22.09	325.00		1426.82	Close Inv (4) 1527.00
				Open Inv	COS
				(3) 1348.91	(5) 1247.91
				<u>2774.91</u>	<u>2774.91</u>
<u>SALES (10)</u>		<u>ENTERTAINMENT EXP (11)</u>		<u>UNIFORM & TOWEL EXP (12)</u>	
COS		285.15	(7) 285.15	5.10	(7) 5.10
(5) 1247.91	2264.10				
GPS					
(6) 1016.19					
<u>2264.10</u>	<u>2264.10</u>				
<u>MEMBERSHIP FEES (13)</u>		<u>MEMBERSHIP DUES (14)</u>		<u>MCO CLUB CAP (15)</u>	
(8) PL 12.00	12.00	(8) PL 40.00	40.00		5614.69
				(9) NP	713.81
<u>SUPPLIES USED (16)</u>		<u>LOSS DUE BREAKAGE (17)</u>		<u>PROFIT & LOSS (18)</u>	
(1) 22.09	(7) PL 22.09	(2) 24.04	(7) 24.04	Expense	GPS
				(7) 336.38	(6) 1016.19
				NP	Other Inc.
				(9) 731.81	(8) 52.00

The merchandise on hand 31 May 1946 was found to be worth \$1527. Supplies on hand were worth \$49, and the glassware was worth \$210. This information is necessary to adjust the accounts to show the amount of expense from supplies used and glassware broken during the month.

ADJUSTING ENTRIES
31 May 1946 (1)

Supplies Used	22.09	
Supplies		22.09
To adjust the Supplies Account show the amount used during the month.		
	31	(2)
Loss Due to Breakage	24.04	
Glassware		24.04
To take from the Glassware account the amount of glass broken during the month.		

In the first entry \$22.09 is deducted from the supplies account and put in the supplies used account. The balance of the Supplies Account is an asset and goes in the balance sheet. The Supplies Used account is an expense and goes in the statement of profit and loss under Operating Expense. The same is true for the second entry. After these entries are made the statements may be prepared. The following is a statement of profit and loss:

HCO CLUB
STATEMENT OF PROFIT AND LOSS
MONTH ENDED 31 MAY 1946

<u>Sales</u>			2264 10
Less: <u>Cost of Goods Sold:</u>			
Inventory 1 May 1946	1348 09		
Purchases	1426 82		
Cost of Goods Available for Sale	<u>2774 91</u>		
Less: Inventory 1 May 1946	<u>1527 00</u>		
<u>Cost of Goods Sold</u>			<u>1247 91</u>
<u>Gross Profit on Sales</u>			1016 19
Less: <u>Operating Expenses:</u>			
Entertainment Expenses	285 15		
Uniform and Towel Expenses	5 10		
Supplies Used	22 09		
Loss Due to Breakage	<u>24 04</u>		
Total Operating Expense			<u>336 38</u>
<u>Net Profit on Sales</u>			679 81
Add: <u>Other Income:</u>			
Membership Dues	40 00		
Membership Fees	<u>12 00</u>		
Total Other Income			52 00
<u>Net Profit</u>			<u>731 81</u>

Note that in the statement of profit and loss the inventory as of 1 May 1946 and the inventory as of 31 May 1946 were used. In the balance sheet only the inventory at the end of the accounting period is used. The inventory as of 1 May has been sold and is now part of the cost of goods sold during the month. The inventory as of 31 May is the value of merchandise still on hand.

NCO Club
Balance Sheet
31 May 1946

ASSETS				
Cash	2077	02		
Inventory	1527	00		
Deposit on Bottles	194	24		
Deposit on Locker Fund	2600	00		
Uniforms and Towels	108	65		
Glassware	210	00		
Supplies	49	00		
Total Assets			6765	91
LIABILITIES				
Outstanding Chits				419 41
CAPITAL				
NCO Club Capital 1 May 1946	5614	69		
Add: Net Profit for Month	731	81		
			6346	50
Total Liabilities and Capital			6765	91

After the financial statements have been prepared, the closing entries are recorded in the journal. These entries summarize in the profit and loss summary account the income and expense of the period. By means of these entries the net profit is transferred from the profit and loss account to the Capital account.

CLOSING ENTRIES
31 May 1946 (3)

Purchases	1348.09	
Merchandise Inventory		1348.09
To transfer the inventory of 1 May to the Purchase Account		
Merchandise Inventory	1527.00	
Purchases		1527.00
To record the inventory of 31 May		
	31 (5)	
Sales	1247.91	
Purchases		1247.91
To close the purchase account by transferring the cost of goods sold to Sales.		
Sales	1016.19	
Profit and Loss		1016.19
To close the Sales Account by transferring the gross profit on sales to Profit and Loss		
	31 (7)	
Profit and Loss	336.38	
Entertainment Expenses		285.15
Uniform and Towel Expense		5.10
Supplies Used		22.09
Loss Due to Breakage		24.04
To close each expense account by transferring their balance to profit and loss.		
	31 (8)	
Membership Dues	40.00	
Membership Fees	12.00	
Profit and Loss		52.00
To close other income accounts by transferring their balance to Profit and Loss		
	31 May 1946 (9)	
Profit and Loss	731.81	
BOO Club Capital		731.81
To close the Profit and Loss account by transferring the net profit to the Capital Account		

The only accounts that remain open in the ledger are the Assets, liabilities, and capital accounts.

NSO Club
Post Closing Trial Balance 31 May 1946

Cash	2077	02		
Inventory	1527	00		
Deposit on Bottles	194	24		
Deposit on Lecker Fund	2600	00		
Uniforms and Towels	108	65		
Glassware	210	00		
Supplies	49	00		
Outstanding Chits			419	41
NSO Club Capital			6746	50
	6765	91	6765	91

Chits may be handled in the records by setting up a double column in the Cash Receipts Journal. When chits are sold the amount of cash received goes in the Cash Dr column and the same amount goes in the credit column of the chits column. When chits are received for sales the amount received goes in the debit column of the chits column and the same amount is entered in the Sales column. At the end of the month the difference between the debit and the credit columns in the chits columns is the amount of chits outstanding.

CASH RECEIPTS

Date 1946	IP	Account Credited	Dr	Cr	Sales Cr	Cash Dr
Apr 2	x	Chits		150 00		150 00
Apr 5	x	Chits		95 00		95 00
Apr 7	x	Sales	78 60		78 60	
Apr 9	x	Sales	41 70		41 70	
			120 30	245 00		
Apr 30	x	Chits Balance	124 70			
			245 00	245 00		
Apr 30	x	Chits Cr		124 70		
Apr 30	x	Sales Cr			120 70	
Apr 30	x	Cash Dr				245 00

Accounting for Officers and Noncommissioned Officers Club Fund.

Paragraph 23a(1), AR 210-60, 3 April 1947, requires that all officers and noncommissioned officers clubs will initiate and maintain a double entry accounting system.

Such a system requires that each transaction have two entries; a debit and credit. These entries are made in a journal which is known as the book of original entry.

The simplest form of journal is the general journal containing a daily record of current transactions recorded in chronological order.

General Journal						
Date	Account Title and Explanation	LP	Debit		Credit	
June 8	Purchases	12	127	25		
	Cash	1			127	25
	Purchased merchandise for cash					

In recording these entries it should be remembered that items being received are debited and items going out are credited. In the foregoing entry merchandise purchased is being received therefore the "Purchases" account in the ledger is debited. Cash is paid out therefore the "Cash" account is credited. The year is entered under the heading "Date". The month is entered in the first column, with the entry, on the extreme left and the day is entered in the second column. The day of each transactions is entered on the first line. It is entered for each transactions completed. The name of the month is repeated only at the top of a new page or at the beginning of a new month.

In the "Account Titles and Explanations" Column, the account names and an explanation of the transaction are written. The debit account is written on the first line and the credit account indented about one half inch, is written on the following line. An explanation of the transaction is written on the third line and indented about one inch. The amount of the debited account is written in the debit column on the same line as the account debited and the credit amount is written in the credit column on the same line as the account credited. The number in the "LP" column indicates the number of the page on which the account will be found in the ledger. This column is used when posting from the journal to the ledger and this process will be explained later. The second transaction may be recorded in the journal on the line immediately below the first transaction and it is suggested that a blank space be left between each transaction.

The general journal should be used for transactions that cannot be entered in a special journal which journals will be explained later.

Debits and credits in the journal are transferred to their proper ledger accounts by a process called "posting". Each amount in the debit column of the journal is transferred to the debit side of the account in the ledger and each amount in the credit column is transferred to the credit side of an account in the ledger. The account to which each item is to be posted may be determined from the title of the account as stated in the journal. Post all debit items before posting credit items. In this way an item is less likely to be posted to the wrong side of an account. After an item has been posted the number of the page in the ledger containing the account to which the item has been transferred is placed in the Ledger Page (LP) Column of the journal. This process facilitates reference from the journal to the ledger and vice versa.

To show how this process operates the following transactions are illustrated from journal to ledger:

- March 1, 1946 Received \$5.00 Membership Fees from 50 members \$-50.00
- March 1, 1946 Purchased merchandise for cash amounting to \$175.00
- March 3, 1946 Cash received from sales amounted to \$219.25
- March 4, 1946 Purchased furniture for club for \$25.00

These entries would appear in the journal as follows:

General Journal

Date 1946	Account Titles and Explanations	LP	Debit	Credit
March 1	Cash	1	250 00	
	Membership Fees Received Membership fees from 50 members @ \$5.00	2		250 00
2	Purchases	3	175 00	
	Cash Purchased Merchandise for Cash	1		175 00
3	Cash	1	219 25	
	Sales Cash received from sales	5		219 00
4	Furniture and Fixtures	4	25 00	
	Cash Purchased furniture for Club.	1		25 00

These accounts would appear in the ledger as follows:

	<u>Cash</u>	<u>(1)</u>		<u>Membership Fees (2)</u>	
1946		1946		1946	
Mar 1	250.00	Mar 2	175.00	Mar 1	250.00
3	219.25	4	25.00		

<u>Purchases (3)</u>	<u>Furniture and Fixtures (4)</u>	<u>Sales (5)</u>
1946	1946	1946
Mar 2	Mar 4	Mar 3
175.00	25.00	219.25

Each transaction requires entries to both debit and credit accounts. If all entries are posted correctly the total of the debit balances will equal the total of the credit balances. If these totals are not equal it indicates that an error has been made somewhere in the bookkeeping cycle. After all the entries for the month have been posted a trial balance is taken. This is prepared on a sheet of journal paper with the names of the accounts listed under the column used for account titles and explanations in the general journal and entering the debit balances in the debit column and the credit balances in the credit column. A trial balance for the accounts shown above would be as follows:

NCO CLUB
TRIAL BALANCE OF 31 MARCH 1946

Cash	269 25	
Membership Fees		250 00
Purchases	175 00	
Furniture and Fixtures	25 00	
Sales		219 25
	<u>469 25</u>	<u>469 25</u>

It is to be noted that the debit and credit columns are equal. These columns should equal no matter how many accounts appear on the trial balance. If these columns do not equal a mistake has been made somewhere in the records. Great care should be exercised in transferring entries from the journal to the ledger. Finding unequal totals in the trial balance necessitates checking every entry until the error is found. This means much extra work which can be avoided if proper care is exercised in the recording of the journal entries and this subsequent posting to the ledger.

Because there are so many entries involving cash a cash book may be used for all transactions that involve cash. This tends to keep all cash transactions in one record.

The use of a cash book conserves space and labor. When transactions are recorded in a general journal, a rather complete explanation of each entry must be written. The record of an ordinary transaction requires several lines in the general journal. When transactions are classified and all those of one kind are recorded in a separate book, it is possible to avoid repeating much information that is the same in all cases. The record can therefore be made much briefer, and a great amount of labor eliminated in journalizing and posting. Only a minimum of accounting training is necessary to keep these special journals.

Since the cash journal may be ruled to record Sales and Prurchase transactions, Sales and Purchase Journals will not be dealt with in these instructions.

In the Cash Journal the left hand page is used to record Cash Receipts and the right hand page is used to record Cash Payments. The Cash Receipt Page may be ruled as follows.

CASH RECEIPTS

DATE: ACCOUNT CREDITED: EXPLANATION: VOU NO: LP: SALES CREDIT:
CASH DEBITS:

To illustrate the operation of the Cash Receipts Journal, the following transactions are recorded as an example:

- May 1, 1946 Received dues from 20 members @ \$3.00
- May 2, 1946 Received \$125.00 from Sales
- May 10, 1946 Received Membership Fees from 3 new members @ \$5.00
- May 12, 1946 Received \$86.00 from Sales

CASH RECEIPTS

DATE 1946	Account Credited	Explanation	Vou No	LP	Sales Cr	Cash Dr
May 1	Membership Dues	20 Membership Dues @ \$3				60 00
2	Sales	Cash Sales			125 00	125 00
7	Sales	Cash Sales			72 00	72 00
10	Membership Fees	3 New Member @ \$5				15 00
12	Sales	Cash Sales			86 00	86 00
					283 00	358 00
31	Cash Dr					358 00
31	Cash Cr					283 00
	Sale's					

Since Cash is the debit in each of the above entries it is not necessary to write it in for each entry. The Cash debit is picked up in the "Cash Dr" column and the total of that column is the cash debit for the month. This figure is transferred to the debit side of the cash account in the ledger. In this manner only one debit to cash for any one month is made thereby saving the time and work it would take to debit each cash item from the general journal.

Sales may be recorded in this journal by entering the amount received from Sales in the "Sales Cr" column and entering the same amount in the "Cash Dr" column. Each time a sale is entered in this journal a check mark is placed in the ledger page column. This is done so these entries will not be posted to the Sales account in the

ledger. At the end of the month the "Sales Cr" column in the journal is totalled and one entry for the total amount is made in the Sales Account in the ledger. This is the same procedure that is followed for cash except that cash is debited and sales is credited. For the other entries in the Cash Receipts Journal, the ledger page number will be entered in the "LP" Column.

The cash Payments Journal is ruled in the same manner as the Cash Receipts Journal, but the columns have different headings. The following is an example of a Cash Payments Journal:

CASH PAYMENTS

DATE: ACCOUNT DEBITED: EXPLANATION: VOU NO: LP: PURCHASES DR:
CASH CR

To illustrate the operations of the Cash Payments Journal the following transactions are recorded as an example:

- May 2, 1946 Purchased Merchandise from Post Exchange for \$115.00
- May 5, 1946 Paid Club Salaries \$30.00
- May 8, 1946 Paid \$75.00 for Club Furniture
- May 12, 1946 Purchase Merchandise from Post Exchanges \$75.00
- May 15, 1946 Paid orchestra for services rendered

CASH PAYMENTS

Date 1946	Account Debited	Explanation	Vou No	LP	Purchases Dr	Cash Cr
May 2	Purchase	Mdse Purchases PX		✓	115 00	115 00
5	Salaries	Paid Club Salaries		✓		30 00
8	Furniture & Fixtures	Pur Furn for Club				75 00
12	Purchases	Mdse pur PX		✓	75 00	
15	Entertainment Expense					25 00
31	Cash Dr	Total Cash Recd				320 00
31	Purchases Dr	Total Purchases				190 00

The entries are the opposite of the entries in the Cash Receipts Journal. In the above entries, "Cash" is the account to be credited. As in the Cash Receipt Journal it is not necessary to write it in for each entry. The Cash credit is picked up in the "Cash Cr" column and the total of that column is the cash receipt for the month.

Purchases are recorded in the Journal by entering the amount paid for the merchandise in the "Purchase Dr" column. The same amount is entered in the "Cash Cr" column to decrease the balance of the Cash Account by the amount paid out. The check marks appear in the "LP" column for the same reason they appear against entries for sales in the Cash Receipts Journal; to prevent double posting of Purchases. The total of the "Purchases Dr" column is the only amount entered in the Purchases account in the ledger for any month. The cash total is entered on the credit side of the cash account in the ledger. The Purchases total is entered in the debit side of the Purchases account.

In clubs when membership dues are charged, the membership dues may be recorded in a separate column in the Cash Receipts Journal. This would be handled in the same manner as Sales. Each amount entered in the "Membership Dues" column would also be entered in the "Cash Column". At the end of the month the "dues" column is totaled and the total credited to the "Membership Dues" account in the ledger. Other accounts which require a number of entries in a month may be recorded by adding another column in either the Cash Receipt or Cash Payment Journal, depending on whether it is Income or Expense.

Every transaction performed by a business procedures a change in one or more elements of the equation.

$$\text{or ASSETS} = \text{LIABILITIES} + \text{PROPRIETORSHIP}$$

$$(-) \qquad \qquad \qquad (=)$$

As the number of transactions completed by accordinary business is large, many changes take place in the assets, liabilities and proprietorship during the fisical period. If an accurate balance sheet and a statement of profit and loss are to be prepared at the end of the fisical period, it is necessary that the result of all changes be ascertained.

At the end of the period the proprietor can obtain the amounts of some of the items to be reported on the balance sheet, such as cash, by making a count. This method does not, however, provide a means of proff. Unless the proprietor knows the amount of cash received and the amount paid during the period, he does not have proof that the amount on hand is what it should be. A record showing the amount paid and the amount received should give the same balance as the amount of cash found by counting the cash at the end of the period. Counting alone is therefore insufficient. Accounting must provide the records to prove that the count is correct and that the result is what it should be. The club officer must also have a satisfactory method of arriving at some other assets, such as supplies. In order to determine the value of such assets, he must know the original cost and the increase or decrease in the value of these assets since their purchase. Also when the financial statements are prepared he will find it difficult to remember the total of his sales or expenses. The form

of record kept with each item is known as an account. A group of accounts is known as a ledger.

In the ledger, the title of each account is written over the horizontal line above the figures and is descriptive of the date in the account. Each account consists of two sides: The left and the right. Assets and additions to assets, are written on the left side of the asset accounts, and capital and additions to capital are written on the right side.

A separate account is constructed for each item on the balance sheet and the statement of profit and loss. Additional information is to be shown on either statement, additional accounts must be constructed to supply it. The number of accounts to be opened in the ledger depends on the nature of the transactions and the extent of detail desired on the accounting statement.

Each account is divided into three parts; a space for the name of the account and two separate sections below the name. The left section of the account is called the debit side, and the right section is called the credit side. When items are entered on the left of the account, they are called debits and the account is said to be debited. When items are entered on the right side of the account, they are called credits and the account is said to be credited. The difference between the total debits and the total credits of an account is called the balance of the account regardless of whether that difference is a debit or a credit.

The total of an asset is entered on the left side, on the debit side of the account at the time the asset is acquired. All increases in the value of the asset are shown as an additional debits. Decreases in the asset are the opposite of increases and are therefore entered as credits on the right side of the account.

A transaction affects not less than two accounts. If only two accounts are affected, one must be debited and the other must be credited for a like amount. This equality of debit and credit is inherent in the equation Assets-Liabilities & Proprietorship and is the basis of what is known as the double entry system of recording. In the double entry system the sum of the debit entries in the ledger equals the sum of the credit entries.

All asset accounts, such as cash, have additions on the left (debit) side of the account and subtractions on the right (credit) side. Cash should never have a credit balance. If chits are used by the Club, the chit account will be a liability account with additions on the right side and subtractions on the left side. Income and expense accounts commonly have entries on one side. Sales, an income account has only additions on the credit side and Salaries, and expense account, has only additions on the debit side.

The account serves as a mathematical device for showing increases and decreases in values. When items are to be added, they are placed on the same side of an account; when items are to be

subtracted from an item or items previously entered in the account they are placed on the opposite side. The balance of the account is obtained by adding the two columns of figures and deducting the smaller from the larger.

To show the application of the theory of debit and credit to items appearing on complete statements, the transactions for an NCO Club are given below in "T" or skeleton accounts. Each entry in each account is numbered with the transaction number to facilitate comparison of the entries.

1. The NCO Club receives \$500.00 from members for membership fees.

ASSET		INCOME	
PLUS	MINUS	MINUS	PLUS
<u>CASH</u>		<u>MEMBERSHIP FEES</u>	
1 500 00			1 500 00

2. Purchase Furniture for \$100.00

CASH		FURNITURE	
1 500 00	2 100 00	2 100 00	

Transaction No 2, represents the exchange of one asset, cash, for a second asset, furniture. The furniture account is debited for the increase and the cash account is credited for the decrease in the cash account.

3. Purchased merchandise for \$100.00

CASH		PURCHASES	
1 500 00	2 100 00	3 100 00	
	3 100 00		

This purchase is of a different nature than the one in transaction No 2. Transaction No 2 was the purchase of an asset. Transaction No 3 is an expense, Cash has been paid for merchandise which is to be sold for cash. The expense account, Purchase is therefore debited because it is increased, and the asset account, Cash is credited because it is decreased.

4. Sold Merchandise for \$200.00

CASH		SALES	
1.	500 00	2	100 00
			4 200 00
4.	200 00	3	100 00

Since both cash and sales are increased by this transaction, Cash is debited and sales (an income account) is credited.

5. Pays salaries of help \$35.00

CASH		SALARIES	
1.	500 00	2	100 00
			5 35 00
4.	200 00	3	100 00
		5	35 00

In this case cash is reduced \$35.00 and Salaries, and expense, is increased by a like amount. Salaries is debited; Cash is credited.

Since the debit resulting from each transaction is equal to the credit resulting from that transaction, it follows that, if a correct record is made in the account, the total of the debits in all the accounts will be equal to all the credits in all the accounts. A test of the equality of all the debits and the credits is made at intervals, usually at the end of each month. Such a test is known as a trial balance.

The trial balance serves to summarize the information shown in detail in the ledger. This summary is always prepared at the end of a fiscal period and provided most of the information needed to prepare the balance sheet and the statement of profit and loss.

A trial balance is taken by listing all the debit balances in the debit column and the credit balances in the credit column of the trial balance. If the sum of the debit balances equals the sum of the credit balances, it is evident that the debits and credits in the ledger are equal. A trial balance the foregoing transactions follows:

NCO CLUB
Trail Balance, 30 April 1946

Cash	465.00		
Furniture	100.00		
Purchase	100.00		
Sales		200.00	
Membership Fees		500.00	
<u>Salaries</u>	<u>35.00</u>		
	<u>700.00</u>	<u>700.00</u>	

The trial balance does not give a complete proof of the bookkeeper's work. It shows only that the debits and credits are equal. This is valuable information since errors frequently affect the equality of the debits and credits, and are indicated by a trial balance that is out of balance. The trial balance does not prove that the proper account has been debited or credited or that the debits and credits are for the proper amounts. It is therefore important that the accuracy of the figures be determined before they are entered in the bookkeeping record and that care be taken to record the entries in the proper accounts.

The financial statements are prepared from the information in the trial balance. In order to get as accurate a financial statement as possible, it is necessary to adjust certain accounts by making adjusting entries. The adjusting entries are those entries needed to bring the accounts up to date. They record the decrease or the asset and the increases in the expense that were not recorded currently.

During the month \$100.00 worth of supplies were purchased. At the end of the month a count of the supplies shows that there is \$75.00 worth on hand. The supplies on hand is an asset and the difference of \$25.00 is an expense. The Supplies Account in the ledger looks like this:

SUPPLIES		
April	3	60.00
	10	30.00
	17	10.00

In order to show the true value of the Supplies account, the following adjusting entry is made:

	Dr	Cr
Supplies Used	25.00	
Supplies		25.00

To adjust the Supplies Account to the value shown by inventory

The account in the ledger now looks like this.

SUPPLIES		SUPPLIES EXPENSES	
Apr 3	60.00	Apr 30	25.00
	10 30.00		
	17 10.00		

At the beginning of the month the value of the glassware was \$122.50. During the month \$12.75 worth was broken. The asset account has to be adjusted to show the new value by dropping the amount of breakage. Before the adjusting entry is made, the glassware account looks like this:

GLASSWARE	
Apr 1	122.50

In order to show the expenses of the broken glassware, the following entry is made:

	Dr	Cr
Loss Due to Breakage	12.75	
Glassware		12.75

To reduce the Glassware account by the amount of the breakage

When this entry is posted the account looks like this:

GLASSWARE		LOSS DUE TO BREAKAGE	
Apr 1	122.50	Apr 30	12.75
		Apr 30	12.75

The balance of the Glassware account goes in the balance sheet under "Assets". The Loss Due to Breakage account goes in the Profit and Loss Statement under "Operating Expenses". The broken glass decreases the value of the glassware, therefore the cost of the broken glass is charged off as expense.

After the adjusting entries have been made, the monthly statements can be prepared. In operating a club profit or loss results in the buying and selling of merchandise. The Profit and Loss Statement shows the amount of sales, the cost of producing and selling the goods, and the difference, which is the profit or loss. It is usually prepared at the same time as the balance sheet and shows the results of operations for a definite period of time.

The simplest form of the statement of profit and loss is the one that shows the results of the purchases and the sale of one unit of property. If a man purchases a house for \$5000.00 and immediately sells it for \$6000.00.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Profit	\$1000

If he paid a real estate agent a commission of \$250 for selling the house, his profit would be shown in the following manner.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Gross Profit	\$1000
Commission	<u>\$ 250</u>
Net Profit	\$ 750

If he continues to buy and sell property, he can determine his profit on each transaction in this manner. It is not practicable, however, to use this method in determining the profit on each sale, because ordinarily a large number of sales are made, many of which are for small amounts and information about the exact profit on each sale is not usually needed. The needs of a business man are adequately served if he knows the net results of his operations at the end of the fisical period. The statement of Profit and Loss gives him a summary of his operations during each period in terms of profit and loss.

Of a Club during a month purchased merchandise for \$2000.00 and sold it for \$2750.00, the Club makes a goss profit of \$750. Commodities and services, such as supplies and wages, when consumed in operation of the club, are known as expenses. If the club consumed commodities and services that cost \$425 the net profit would be \$325. The Clubs statement of profit and loss for the month would be:

Sales	\$2750
Cost of Goods Sold	<u>2000</u>
Gross Profit	\$750
Expenses	<u>425</u>
Net Profit	\$325

The period commonly covered by a statement of profit and loss is a month because information about the results of operations is needed at frequent intervals. The amounts shown on the statement of profit and loss must conform to the length of the accounting period. Thus a statement of profit and loss for the month of May, sales, purchases, cost of goods sold, expenses, and all other items must apply to that month alone. None may apply to April, which has passed on to June, which is to come.

The number of units sold in a given accounting period does not correspond to the number of units purchased in that period. A portion of the purchases of the previous period is included in the sales of the current period. Likewise, a portion of the purchases of the current period may still be on hand at the end of the period, and may therefore not be included in the sales of the current period. It is necessary, therefore, in determining the cost of sales, to take into consideration the lag between purchases and sales.

The Gross Sales are the total amount customers have paid for merchandise sold to them. The first item listed on the statement of profit and loss represents the gross return from operations.

The cost of the goods sold is the purchase price paid by the club for the goods it has sold. It is the purchase price as distinguished from the sales price. Since the lots of goods sold ordinarily do not correspond to the various lots of goods purchased, it is necessary to calculate the amount of the inventory to determine the cost of goods sold. In the preceding illustration it was assumed that all the merchandise purchased during the month had been sold during the same month. In other words, the purchases were equal to the cost of goods sold. This is not usually the case. A club ordinarily carries a stock of goods on hand at all times. If there is an inventory at the beginning of the fiscal period and one at the end of the fiscal period, both inventories must be taken into consideration when the cost of goods sold is determined.

If a club began its fisical period with an inventory of \$1200 and purchased merchandise amounting to \$2100, the total cost of goods available for sale would be the sum of these two items, or \$3300. If the Merchandise still on hand at the end of the month was \$1375, the cost of the goods sold would be the difference between #3300 and \$1375, or \$1925.

This information would be shown on the statement of profit and loss in the following manner:

Cost of Goods Sold.

Merchandise Inventory, April 1, 1946	1200
Purchases	<u>2100</u>
Cost of Merchandise Available for Sale	
Less: Merchandise Inventory, April 30, 1946	<u>1375</u>

Cost of Goods Sold.

1925

The value of the inventory is ascertained by making a physical count of the stock and by valuing each item at the cost price, or the price to replace, whichever is the lower.

When the cost of merchandise is subtracted from the total sales, the difference represents the profit that would be made if there is no expenses. Since expenses are always incurred they must be considered in determining the profit. The difference between the amount received from the sales and the cost of merchandise sold is termed "gross profit on sales". It is called the gross profit because the expense of operating the club must be diducted to obtain the final or net profit.

The difference between the cost price and the selling price is known as "margin". "Margin" is the amount in dollars and cents, or in percentage of sales, that the club reveives for rendering service. The club must keep its operating cost within this margin if it is to gain a net profit as a result of its operation.

Commodities and services of various kinds are consumed in the operation of a club. Supplies and other commodities are consumed in the operation of a club. All commodities and services purchased are assets before they are consumed. When consumed, they become expenses and must be deducted from the gross profit.

All expenses may be shown as one item on the statement of profit and loss, but this method does not supply adequate information concerning their nature. It is good practice to know the amount of each commodity, or service consumed so that it can be ascertained whether the amount is too large and, if it is, take measures to reduce it.

The profit and loss statement would look like this:

NCO Club
Statement of Profit and Loss
For the Month Ending 30 April 1946

Sales		1015
Less: Cost of Goods Sold		
Inventory 1 April 1946	1000	
Purchases	690	
Cost of Goods Available for Sale	1690	
Less: Inventory 30 April 1946	1200	
Cost of Goods Sold		490
Gross Profit of Sales		525
Less: Operating Expenses		
Supplies Used	125	
Wages	215	
Total Operating Expenses		340
<u>Net Profit</u>		185

The balance sheet shows the amounts and the nature of the Club's assets, liabilities, and the proprietorship. By comparing the present balance sheet with the one prepared at the beginning of the period, changes in financial condition may be determined.

If a club has assets worth \$6500 and liabilities amounting to \$2500, the financial condition may be expressed by the equation:

$$\text{Assets} - \text{Liabilities and Proprietorship} \\ \$6500 - \$2500 \quad \quad \quad \$4000$$

In preparing the balance sheet, the equation sign is omitted and the assets are shown on the left of a double vertical line and the liabilities and capital are shown at the right. The balance sheet for the above equation is, then, as follows:

Assets	\$6500	Liabilities	\$2500
		Capital	4000
	\$6500		6500

This statement does not satisfy the need of the club because it does not show the information as to the nature of the assets or the liabilities. It doesn't show whether there is sufficient cash to meet the needs of the obligations or whether there is sufficient merchandise to satisfy the wants of the customers.

An examination of the ledger shows that the assets consist of Cash \$2200, Merchandise \$2500, Deposit to locker fund \$1500, and Supplies \$300. The liabilities consist of outstanding chits, \$2500. The financial condition would be expressed as follows:

ASSETS			
Cash	\$2200	Outstanding Chits	\$2500
Merchandise Inventory	2500	Capital	
Deposit to Locker Fund	1500		
Supplies	300		
	_____	NCO Club Capital	4000
Total Assets	\$6500	Total Liabilities & Capital	\$6500

Certain terms are used on balance sheets to describe the assets, liabilities, and capital. Since these terms will be used frequently, they will be discussed briefly here.

CASH Cash includes currency, checks, bank drafts, and money orders. Any medium of exchange that a bank will accept at face value on deposit may usually be shown on the balance sheet as cash.

MERCHANDISE Merchandise consists of the goods purchased or produced for sale. Food offered for sale in a grocery store and clothing produced for sale in a clothing factory are examples of merchandise. The merchandise on hand at any specified time is referred to as the merchandise inventory. The inventory is usually determined by a physical count of the merchandise on hand.

EQUIPMENT Equipment includes assets purchased to be used in the operation of the club and are not intended for resale. It is expected that they will be worn out in the operation of the club, although they may be sold when they no longer serve the purpose for which they were purchased. Because they are not bought for the purpose of sale at profit, they can not be classified as merchandise.

*

LOCKER FUND Locker fund is money paid for merchandise to be received at a later date. Since the merchandise paid for is not received, the person to whom the money is paid owes it to the club until the merchandise is delivered. Purchases is debited and Locker Fund is credited.

SUPPLIES: Supplies are consumed in the operation of the Club and are considered as assets until they are consumed. The amount of such supplies on hand must be ascertained at the time each balance sheet is prepared.

LIABILITIES: Are financial obligations incurred by the Club.

ACCOUNTS PAYABLE: An Accounts Payable arises from a Purchase on account.

OUTSTANDING CHITS: Outstanding Chits are the amount chits not returned in for Sales at the end of each month. The cash received for chit books is not income until they have been used by the buyer. As long as a buyer has any chits in his book the club owes him the value of his chit book.

CAPITAL: Capital is the interest of the club in the assets of the club. If the club has no liabilities, the capital is the total of the assets; otherwise it is the difference between the assets and the liabilities.

The balance sheet is usually prepared in the following manner:

NCO CLUB Balance Sheet 30 April 1946		
ASSETS		
Cash	\$ 530	
Inventory	2150	
Supplies	120	
<u>Total Assets</u>		<u>\$2800</u>
LIABILITIES		
Outstanding Chits		260
CAPITAL		
NCO Club, Capital, 1 April 1946	2400	
Add: Net Profit for April 1946	240	
NCO Club, Capital 30 April 1946		<u>2540</u>
<u>Total Liabilities and Capital</u>		<u>2800</u>

An illustration of the cycle from ledger balances to trial balance, adjusting entries, statement, and closing entries follows:

The ledger balance of the NCO Club as of 31 May 1946 are:

<u>CASH</u>	<u>INVENTORY</u>		<u>DEPOSIT ON BOTTLES</u>	
2077.02	1348.09		194.24	
<u>DEPOSIT TO LOCKER FD</u>	<u>UNIFORMS & TOWELS</u>		<u>GLASSWARE</u>	
2600	108.65		234.04	
<u>SUPPLIES</u>	<u>OUTSTANDING CHITS</u>		<u>PURCHASES</u>	
71.09	325	744.41	1426.82	
<u>SALES</u>	<u>ENTERTAINMENT EXP</u>		<u>UNIFORMS & TOWEL EXP</u>	
2264.10	285.15		5.10	
<u>MEMBERSHIP FEES</u>	<u>MEMBERSHIP DUES</u>		<u>PROFIT AND LOSS</u>	
12		40	5614.69	
<u>SUPPLIES USED</u>	<u>LOSS DUE TO BREAKAGE</u>		<u>PROFIT AND LOSS</u>	

The last three accounts do not enter the trial balance. They are used for adjusting and closing the account.

NCO
Trial Balance
31 May 1946

Cash	1	2077	02		
Inventory	2	1348	09		
Deposit on Bottles	3	194	24		
Deposit to Locker Fund	4	2600	00		
Uniforms and Towels	5	108	65		
Glassware	6	234	04		
Supplies	7	71	09		
Outstanding Chits	8			419	41
Purchases	9	1426	82		
Sales	10			2264	10
Entertainment Expense	11	285	15		
Uniform and Towel Expense	12	5	10		
Membership Fees	13			12	00
Membership Dues	14			40	00
NCO Club, Capital	15			5614	69
		8350	20	8350	20

The posting of the adjusting and closing entries affects the ledger accounts as follows:

<u>CASH (1)</u>		<u>INVENTORY (2)</u>		<u>DEPOSIT ON BOTTLES (3)</u>	
2077.02		<u>1348.09</u>	(3) Pur	1348.09	194.24
		Closing Inv			
		(4)			
		1527.00			
<u>DEPOSIT TO LOCKER FD (4)</u>		<u>UNIFORM & TOWEL SER (5)</u>		<u>GLASSWARE (6)</u>	
2600		108.65		234.04	(2) 24.04
<u>SUPPLIES (7)</u>		<u>OUTSTANDING CHITS (8)</u>		<u>PURCHASES (9)</u>	
71.09	(1) 22.09	325.00		1426.82	Close Inv
				Open Inv	(4) 1527.00
				(3) 1348.91	CGS
				<u>2774.91</u>	(5) <u>1247.91</u>
					<u>2774.91</u>
<u>SALES (10)</u>		<u>ENTERTAINMENT EXP(11)</u>		<u>UNIFORM & TOWEL EXP(12)</u>	
CGS					
(5) 1247.91	2264.10	<u>285.15</u>	(7) 285.15	<u>5.10</u>	(7) <u>5.10</u>
GPS					
(6) 1016.19					
<u>2264.10</u>	<u>2264.10</u>				
<u>MEMBERSHIP FEES (13)</u>		<u>MEMBERSHIP DUES (14)</u>		<u>NCO CLUB CAP (15)</u>	
(8) PL <u>12.00</u>	<u>12.00</u>	(8) PL <u>40.00</u>	<u>40.00</u>		5614.69
				(9) NP	713.81
<u>SUPPLIES USED (16)</u>		<u>LOSS DUE BREAKAGE(17)</u>		<u>PROFIT & LOSS (18)</u>	
(1) <u>22.09</u>	(7) PL <u>22.09</u>	(2) <u>24.04</u>	(7) <u>24.04</u>	Expense	GPS
				(7) 336.38	(6) 1016.19
				NP	Other Inc.
				(9) <u>731.81</u>	(8) <u>52.00</u>

The merchandise on hand 31 May 1946 was found to be worth \$1527. Supplies on hand were worth \$49. and the Glassware was worth \$210. This information is necessary to adjust the accounts to show the amount of expense from supplies used and glassware broken during the month.

ADJUSTING ENTRIES
31 May 1946 (1)

Supplies Used	22.09	
Supplies		22.09
To adjust the Supplies Account show the amount used during the month.		

31 (2)

Loss Due to Breadage		
Glassware	24.04	
To take from the Glassware account the amount of glass broken during month.		

In the first entry \$22.09 is deducted from the supplies account and put in the supplies used account. The balance of the Supplies Account is an asset and goes in the balance sheet. The Supplies Used Account is an expense and goes in the statement of profit and loss under Operating Expense. The same is true for the second entry. After these entries are made the statements may be prepared. The following is a statement of profit and loss:

115073

NCO CLUB
STATEMENT OF PROFIT AND LOSS
MONTH ENDED 31 MAY 1946

<u>Sales</u>			2264	10
Less: <u>Cost of Goods Sold:</u>				
Inventory 1 May 1946	1348	09		
Purchases	1426	82		
Cost of Goods Available for sale	2774	91		
Less: Inventory 1 May 1946	1527	00		
<u>Cost of Goods Sold</u>			1247	91
<u>Gross Profit on Sales</u>			1016	19
Less: <u>Operating Expenses:</u>				
Entertainment Expenses	285	15		
Uniform and Towel Expenses	5	10		
Supplies Used	22	09		
Loss Due to Breakage	24	04		
Total Operating Expense			336	38
<u>Net Profit on Sales</u>			679	31
Add: <u>Other Income:</u>				
Membership Dues	40	00		
Membership Fees	12	00		
Total Other Income			52	00
<u>Net Profit</u>			731	81

Note that in the statement of profit and loss the inventory as of 1 May 1946 and the inventory as of 31 May 1946 were used. In the balance sheet only the inventory at the end of the accounting period is used. The inventory as of 1 May has been sold and is now part of the cost of goods sold during the month. The inventory as of 31 May is the value of merchandise still on hand.

NCO Club
Balance Sheet
31 May 1946

ASSETS			
Cash	2077	02	
Inventory	1527	00	
Deposit on Bottles	194	24	
Deposit on Locker Fund	2600	00	
Uniforms and Towels	108	65	
Glassware	210	00	
Supplies	49	00	
	<hr/>		
Total Assets			6765 91
LIABILITIES			
Outstanding Chits			419 41
CAPITAL			
NCO Club Capital 1 May 1946	5614	69	
Add: Net Profit for Month	731	81	
	<hr/>		
NCO Club Capital 31 May 1946			6346 50
	<hr/>		
Total Liabilities and Capital			6765 91

after the financial statements have been prepared, the closing entries are recorded in the journal. These entries summarize in the profit and Loss summary account the income and expense of the period. By means of these entries the net profit is transferred from the profit and loss account to the Capital account.

CLOSING ENTRIES
31 May 1946 (3)

Purchases	1384.09	
Merchandise Inventory		1384.09
To transfer the inventory of 1 May to the Purchases Account		
Merchandise Inventory	1527.00	
Purchases		1527.00
To record the inventory of 31 May	31 (5)	
Sales	1247.91	
Purchases		1247.91
To close the purchases account by transferring the cost of goods sold to Sales.		
Sales	1016.19	
Profit and Loss		1016.19
To close the Sales Account by transferring the gross profit on sales to Profit and Loss	31 (7)	
Profit and Loss	336.38	
Entertainment Expenses		285.15
Uniform and Towel Expense		5.10
Supplies Used		22.09
Loss Due to Breakage		24.04
To close each expense account by transferring their balance to profit and loss.	31 (8)	
Membership Dues	40.00	
Membership Fees	12.00	
Profit and Loss		52.00
To close other income accounts by transferring their balance to Profit and Loss	31 May 1946 (9)	
Profit and Loss	731.81	
NCO Club Capital		731.81
To close the Profit and Loss account by transferring the net profit to the Capital Account		

The only accounts that remain open in the ledger are the Assets, liabilities, and capital accounts.

NCO Club
Post Closing Trial Balance 31 May 1946

Cash	2077	02			
Inventory	1527	00			
Deposit on Bottles	194	24			
Deposit on Locker Fund	2600	00			
Uniform and Towels	108	65			
Glassware	210	00			
Supplies	49	00			
Outstanding Chits				419	41
NCO Club Capital				6346	50
	6756	91		6756	91

Chits may be handled in the records by setting up a double column on the Cash Receipts Journal. When chits are sold the amount of cash received goes in the Cash Dr column and the same amount goes in the credit column of the chits column. When chits are received for sales the amount received goes in the debit column of the chits column and the same amount is entered in the Sales column. At the end of the month the difference between the debit and the credit column in the chits column is the amount of chits outstanding.

CASH RECEIPTS

Date		LP	Account Credited	Dr		Cr		Sales Cr		Cash Dr	
1946											
Apr	2	X	Chits			150	00			150	00
Apr	5	X	Chits			95	00			95	00
Apr	7	X	Sales	78	60			78	60		
Apr	9	X	Sales	41	70			41	70		
				120	30	245	00				
Apr	30	X	Chits Balance	124	70						
				245	00	245	00				
Apr	30	X	Chits Cr			124	70				
Apr	30	X	Sales Cr					120	30		
Apr	30	X	Cash Dr							245	00

Accounting for Officers and Noncommissioned Officers Club Fund.

Paragraph 23a(1), AR 210-60, 3 April 1947, requires that all officers and noncommissioned officers clubs will initiate and maintain a double entry accounting system.

Such a system requires that each transaction have two entries; a debit and credit. These entries are made in a journal which is known as the book of original entry.

The simplest form of journal is the general journal containing a daily record of current transactions recorded in chronological order.

General Journal

Date	Account Title and Explanation	LP	Debit		Credit	
June 8	Purchases	12	127	25		
	Cash	1			127	25
	Purchased merchandise for cash					

In recording these entries it should be remembered that items being received are debited and items going out are credited. In the foregoing entry merchandise purchased is being received therefore the "Purchases" account in the ledger is debited. Cash is paid out therefore the "Cash" account is credited. The year is entered under the heading "Date". The month is entered in the first column, with the entry, on the extreme left and the day is entered in the second column. The day of each transactions is entered on the first line. It is entered for each transactions completed. The name of the month is repeated only at the top of a new page or at the beginning of a new month.

In the "Account Titles and Explanations" Column, the account names and an explanation of the transaction are written. The debit account is written on the first line and the credit account indented about one half inch, is written on the following line. An explanation of the transaction is written on the third line and indented about one inch. The amount of the debited account is written in the debit column on the same line as the account debited and the credit amount is written in the credit column on the same line as the account credited. The number in the "LP" column indicates the number of the page on which the account will be found in the ledger. This column is used when posting from the journal to the ledger and this process will be explained later. The second transaction may be recorded in the journal on the line immediately below the first transaction and it is suggested that a blank space be left between each transaction.

The general journal should be used for transactions that cannot be entered in a special journal which journals will be explained later.

Debits and credits in the journal are transferred to their proper ledger accounts by a process called "posting". Each amount in the debit column of the journal is transferred to the debit side of the account in the ledger and each amount in the credit column is transferred to the credit side of an account in the ledger. The account to which each item is to be posted may be determined from the title of the account as stated in the journal. Post all debit items before posting credit items. In this way an item is less likely to be posted to the wrong side of an account. After an item has been posted the number of the page in the ledger containing the account to which the item has been transferred is placed in the Ledger Page (LP) Column of the journal. This process facilitates reference from the journal to the ledger and vice versa.

To show how this process operates the following transactions are illustrated from journal to ledger:

- March 1, 1946 Received \$5.00 Membership Fees from 50 members \$250.00
- March 1, 1946 Purchased merchandise for cash amounting to \$175.00
- March 3, 1946 Cash received from sales amounted to \$219.25
- March 4, 1946 Purchased furniture for club for \$25.00

These entries would appear in the journal as follows:

General Journal						
Date 1946	Account Titles and Explanations	LP	Debit		Credit	
March 1	Cash	1	250	00		
	Membership Fees Received Membership fees from 50 members @ \$5.00	2			250	00
2	Purchases	3	175	00		
	Cash Purchased Merchandise for Cash	1			175	00
3	Cash	1	219	25		
	Sales Cash received from sales	5			219	00
4	Furniture and Fixtures	4	25	00		
	Cash Purchased furniture for Club.	1			25	00

These accounts would appear in the ledger as follows:

	Cash (1)	Membership Fees (2)	Purchases (3)	
1946	1946	1946	1946	
Mar 1	250.00	Mar 2	175.00	
3	219.25	4	25.00	
	Furniture and Fixtures (4)		Sales (5)	
	1946		1946	
	Mar 4	25.00	Mar 3	219.25

Each transaction requires entries to both debit and credit accounts. If all entries are posted correctly the total of the debit balances will equal the total of the credit balances. If these totals are not equal it indicates that an error has been made somewhere in the bookkeeping cycle. After all the entries for the month have been posted a trial balance is taken. This is prepared on a sheet of journal paper with the names of the accounts listed under the column used for account titles and explanations in the general journal and entering the debit balances in the debit column and the credit balances in the credit column. A trial balance for the accounts shown above would be as follows:

NCO CLUB
TRIAL BALANCE OF 31 MARCH 1946

Cash	269 25	
Membership Fees		250 00
Purchases	175 00	
Furniture and Fixtures	25 00	
Sales		219 25
	469 25	469 25

It is to be noted that the debit and credit columns are equal. These columns should equal no matter how many accounts appear on the trial balance. If these columns do not equal a mistake has been made somewhere in the records. Great care should be exercised in transferring entries from the journal to the ledger. Finding unequal totals in the trial balance necessitates checking every entry until the error is found. This means much extra work which can be avoided if proper care is exercised in the recording of the journal entries and this subsequent posting to the ledger.

Because there are so many entries involving cash a cash book may be used for all transactions that involve cash. This tends to keep all cash transactions in one record.

The use of a cash book conserves space and labor. When transactions are recorded in a general journal, a rather complete explanation of each entry must be written. The record of an ordinary transaction requires several lines in the general journal. When transactions are classified and all those of one kind are recorded in a separate book, it is possible to avoid repeating much information that is the same in all cases. The record can therefore be made much briefer, and a great amount of labor eliminated in journalizing and posting. Only a minimum of accounting training is necessary to keep these special journals.

Since the cash journal may be ruled to record Sales and Purchase transactions, Sales and Purchase Journals will not be dealt with in these instructions.

In the Cash Journal the left hand page is used to record Cash Receipts and the right hand page is used to record Cash Payments. The Cash Receipt Page may be ruled as follows.

CASH RECEIPTS

DATE : ACCOUNT CREDITED : EXPLANATION : VOU NO : LP : SALES CREDIT : CASH DEBITS :

To illustrate the operation of the Cash Receipts Journal, the following transactions are recorded as an example:

- May 1, 1946 Received dues from 20 members @ \$3.00
- May 2, 1946 Received \$125.00 from Sales
- May 10, 1946 Received Membership Fees from 3 new members @ \$5.00
- May 12, 1946 Received \$86.00 from Sales

CASH RECEIPTS

DATE	Account Credited	Explanation	Vou No	LP	Sales Cr	Cash Dr
1946						
May 1	Membership Dues	20 Membership Dues @\$3				60 00
2	Sales	Cash Sales			125 00	125 00
7	Sales	Cash Sales			72 00	72 00
10	Membership Fees	3 New Members @\$5				15 00
12	Sales	Cash Sales			86 00	86 00
					283 00	358 00
31	Cash Dr					358 00
31	Cash Cr					283 00
	Sale's					

Since Cash is the debit in each of the above entries it is not necessary to write it in for each entry. The Cash debit is picked up in the "Cash Dr" column and the the total of that column is the cash debit for the month. This figure is transferred to the debit side of the cash account in the ledger. In this manner only one debit to cash for any one month is made thereby saving the time and work it would take to debit each cash item from the general journal.

Sales may be recorded in this journal by entering the amount received from Sales in the "Sales Cr" column and entering the same amount in the "Cash Dr" column. Each time a sale is entered in this journal a check mark is placed in the ledger page column. This is done so these entries will not be posted to the Sales account in the ledger. At the end of the month the "Sales Cr" column in the journal is totalled and one entry for the total amount is made in the Sales Account in the ledger. This is the same procedure that is followed for cash except that cash is debited and sales is credited. For the other entries in the Cash Receipts Journal, the ledger page number will be entered in the "LP" Column.

The cash Payments Journal is ruled in the same manner as the Cash Receipts Journal, but the columns have different headings. The following is an example of a Cash Payments Journal:

CASH PAYMENTS

DATE : ACCOUNT DEBITED : EXPLANATION : VOU NO : LP : PURCHASES DR : CASH CR

To illustrate the operations of the Cash Payments Journal the following transactions are recorded as an example:

- May 2, 1946 Purchased Merchandise from Post Exchange for \$115.00
- May 5, 1946 Paid Club Salaries \$30.00
- May 8, 1946 Paid \$75.00 for Club Furniture
- May 12, 1946 Purchase Merchandise from Post Exchanges \$75.00
- May 15, 1946 Paid orchestra for services rendered

CASH PAYMENTS

Date	Account Debited	Explanation	Vou No	LP	Purchases Dr	Cash Cr
1946						
May 2	Purchase	Merch Purchases PX		✓	115 00	115 00
5	Salaries	Paid Club Salaries		✓		30 00
8	Furniture & Fixtures	Pur Furn for Club				75 00
12	Purchases	Merch pur PX		✓	75 00	75 00
15	Entertainment Expense					25 00
31	Cash Dr	Total Cash Recd				320 00
31	Purchases Dr	Total Purchases				190 00

The entries are the opposite of the entries in the Cash Receipts Journal. In the above entries, "Cash" is the account to be credited. As in the Cash Receipt Journal it is not necessary to write it in for each entry. The Cash credit is picked up in the "Cash Cr" column and the total of that column is the cash receipt for the month.

Purchases are recorded in the Journal by entering the amount paid for the merchandise in the "Purchase Dr" column. The same amount is entered in the "Cash Cr" column to decrease the balance of the Cash Account by the amount paid out. The check marks appear in the "LP" column for the same reason they appear against entries for sales in the Cash Receipts Journal; to prevent double posting of Purchases. The total of the "Purchases Dr" column is the only amount entered in the Purchases account in the ledger for any month. The cash total is entered on the credit side of the cash account in the ledger. The Purchases total is entered in the debit side of the Purchases account.

Each account is divided into three parts; a space for the name of the account and two separate sections below the name. The left section of the account is called the debit side, and the right section is called the credit side. When items are entered on the left of the account, they are called debits and the account is said to be debited. When items are entered on the right side of the account, they are called credits and the account is said to be credited. The difference between the total debits and the total credits of an account is called the balance of the account regardless of whether that difference is a debit or a credit.

The total of an asset is entered on the left side, on the debit side of the account at the time the asset is acquired. All increases in the value of the asset are shown as an additional debits. Decreases in the asset are the opposite of increases and are therefore entered as credits on the right side of the account.

A transaction affects not less than two accounts. If only two accounts are affected, one must be debited and the other must be credited for a like amount. This equality of debit and credit is inherent in the equation Assets-Liabilities & Proprietorship and is the basis of what is known as the double entry system of recording. In the double entry system the sum of the debit entries in the ledger equals the sum of the credit entries.

All asset accounts, such as cash, have additions on the left (debit) side of the account and subtractions on the right (credit) side. Cash should never have a credit balance. If chits are used by the Club, the chit account will be a liability account with additions on the right side and subtractions on the left side. Income and expense accounts commonly have entries on one side. Sales, an income account has only additions on the credit side and Salaries, and expense account, has only additions on the debit side.

The account serves as a mathematical device for showing increases and decreases in values. When items are to be added, they are placed on the same side of an account; when items are to be subtracted from an item or items previously entered in the account they are placed on the opposite side. The balance of the account is obtained by adding the two columns of figures and deducting the smaller from the larger.

To show the application of the theory of debit and credit to items appearing on complete statements, the transactions for an NCO Club are given below in "T" or skeleton accounts. Each entry in each account is numbered with the transaction number to facilitate comparison of the entries.

1. The HCO Club receives \$500.00 from members for membership fees.

ASSET		INCOME	
PLUS	MINUS	MINUS	PLUS
<u>CASH</u>		<u>MEMBERSHIP FEES</u>	
1 500 00			1 500 00

2. Purchase Furniture for \$100.00

CASH		FURNITURE
1 500 00	2 100 00	2 100 00

Transaction No 2, represents the exchange of one asset, cash, for a second asset, furniture. The furniture account is debited for the increase and the cash account is credited for the decrease in the cash account.

3. Purchased merchandise for \$100,00

CASH		PURCHASES
1 500 00	2 100 00	3 100 00
	3 100 00	

This purchase is of a different nature than the one in transaction No 2. Transaction No 2 was the purchase of an asset. Transaction No 3 is an expense. Cash has been paid for merchandise which is to be sold for cash. The expense account, Purchase is therefore debited because it is increased, and the asset account, Cash is credited because it is decreased.

115073

4. Sold Merchandise for \$200.00

CASH		SALES	
1. 500 00	2 100 00		4 200 00
4. 200 00	3 100 00		

Since both cash and sales are increased by this transaction, Cash is debited and sales (an income account) is credited.

5. Pays salaries of help \$35.00

CASH		SALARIES	
1. 500 00	2 100 00	5 35 00	
4. 200 00	3 100 00		
	5 35 00		

In this case cash is reduced \$35.00 and Salaries, and expense, is increased by a like amount. Salaries is debited; Cash is credited.

Since the debit resulting from each transaction is equal to the credit resulting from that transaction, it follows that, if a correct record is made in the account, the total of the debits in all the accounts will be equal to all the credits in all the accounts. A test of the equality of all the debits and the credits is made at intervals, usually at the end of each month. Such a test is known as a trial balance.

The trial balance serves to summarize the information shown in detail in the ledger. This summary is always prepared at the end of a fiscal period and provided most of the information needed to prepare the balance sheet and the statement of profit and loss.

A trial balance is taken by listing all the debit balances in the debit column and the credit balances in the credit column of the trial balance. If the sum of the debit balances equals the sum of the credit balances, it is evident that the debits and credits in the ledger are equal. A trial balance the foregoing transactions follows:

NCO CLUB
Trial Balance, 30 April 1946

Cash	465.00		
Furniture	100.00		
Purchase	100.00		
Sales		200.00	
Membership Fees		500.00	
<u>Salaries</u>	<u>35.00</u>		
	<u>700.00</u>	<u>700.00</u>	

The trial balance does not give a complete proof of the bookkeeper's work. It shows only that the debits and credits are equal. This is valuable information since errors frequently affect the equality of the debits and credits, and are indicated by a trial balance that is out of balance. The trial balance does not prove that the proper account has been debited or credited or that the debits and credits are for the proper amounts. It is therefore important that the accuracy of the figures be determined before they are entered in the bookkeeping record and that care be taken to record the entries in the proper accounts.

The financial statements are prepared from the information in the trial balance. In order to get as accurate a financial statement as possible, it is necessary to adjust certain accounts by making adjusting entries. The adjusting entries are those entries needed to bring the accounts up to date. They record the decrease or the asset and the increases in the expense that were not recorded currently.

During the month \$100.00 worth of supplies were purchased. At the end of the month a count of the supplies shows that there is \$75.00 worth on hand. The supplies on hand is an asset and the difference of \$25.00 is an expense. The Supplies Account in the ledger looks like this:

SUPPLIES		
April	3	60.00
	10	30.00
	17	10.00

In order to show the true value of the Supplies account, the following adjusting entry is made:

	Dr	Cr
Supplies Used	25.00	
Supplies		25.00

To adjust the Supplies Account to the value shown by inventory

The account in the ledger now looks like this.

<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">SUPPLIES</th> </tr> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 10px;"> Apr 3 60.00 10 30.00 17 10.00 </td> <td style="width: 50%; padding-left: 10px;"> Apr 30 25.00 </td> </tr> </table>	SUPPLIES		Apr 3 60.00 10 30.00 17 10.00	Apr 30 25.00	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">SUPPLIES EXPENSES</th> </tr> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 10px;"> Apr 30 25.00 </td> <td style="width: 50%;"></td> </tr> </table>	SUPPLIES EXPENSES		Apr 30 25.00	
SUPPLIES									
Apr 3 60.00 10 30.00 17 10.00	Apr 30 25.00								
SUPPLIES EXPENSES									
Apr 30 25.00									

At the beginning of the month the value of the glassware was \$122.50. During the month \$12.75 worth was broken. The asset count has to be adjusted to show the new value by dropping the amount of breakage. Before the adjusting entry is made, the glassware account looks like this:

GLASSWARE	
Apr 1 122.50	

In order to show the expenses of the broken glassware, the following entry is made:

	Dr	Cr
Loss Due to Breakage	12.75	
Glassware		12.75

To reduce the Glassware account by the amount of the breakage

When this entry is posted the account looks like this:

<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">GLASSWARE</th> </tr> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 10px;"> Apr 1 122.50 </td> <td style="width: 50%; padding-left: 10px;"> Apr 30 12.75 </td> </tr> </table>	GLASSWARE		Apr 1 122.50	Apr 30 12.75	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">LOSS DUE TO BREAKAGE</th> </tr> <tr> <td style="width: 50%; border-right: 1px solid black; padding-right: 10px;"> Apr 30 12.75 </td> <td style="width: 50%;"></td> </tr> </table>	LOSS DUE TO BREAKAGE		Apr 30 12.75	
GLASSWARE									
Apr 1 122.50	Apr 30 12.75								
LOSS DUE TO BREAKAGE									
Apr 30 12.75									

The balance of the Glassware account goes in the balance sheet under "Assets". The Loss Due to Breakage account goes in the Profit and Loss Statement under "Operating Expenses". The broken glass decreases the value of the glassware, therefore the cost of the broken glass is charged off as expense.

After the adjusting entries have been made, the monthly statements can be prepared. In operating a club profit or loss results in the buying and selling of merchandise. The Profit and Loss Statement shows the amount of sales, the cost of producing and selling the goods, and the difference, which is the profit or loss. It is usually prepared at the same time as the balance sheet and shows the results of operations for a definite period of time.

The simplest form of the statement of profit and loss is the one that shows the results of the purchases and the sale of one unit of property. If a man purchases a house for \$5000.00 and immediately sells it for \$6000.00.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Profit	\$1000

If he paid a real estate agent a commission of \$250 for selling the house, his profit would be shown in the following manner.

Sale Price of House	\$6000
Cost of House	<u>\$5000</u>
Gross Profit	\$1000
Commission	<u>\$ 250</u>
Net Profit	\$ 750

If he continues to buy and sell property, he can determine his profit on each transaction in this manner. It is not practicable, however, to use this method in determining the profit on each sale, because ordinarily a large number of sales are made, many of which are for small amounts and information about the exact profit on each sale is not usually needed. The needs of a business man are adequately served if he knows the net results of his operations at the end of the fiscal period. The statement of Profit and Loss gives him a summary of his operations during each period in terms of profit and loss.

If a Club during a month purchased merchandise for \$2000.00 and sold it for \$2750.00, the Club makes a gross profit of \$750. Commodities and services, such as supplies and wages, when consumed in operation of the club, are known as expenses. If the club consumed commodities and services that cost \$425 the net profit would be \$325. The Clubs statement of profit and loss for the month would be:

Sales	\$2750
Cost of Goods Sold	<u>2000</u>
Gross Profit	\$750
Expenses	<u>425</u>
Net Profit	\$325

The period commonly covered by a statement of profit and loss is a month because information about the results of operations is needed at frequent intervals. The amounts shown on the statement of profit and loss must conform to the length of the accounting period. Thus a statement of profit and loss for the month of May, sales, purchases, cost of goods sold, expenses, and all other items must apply to that month alone. None may apply to April, which has passed on to June, which is to come.

The number of units sold in a given accounting period does not correspond to the number of units purchased in that period. A portion of the purchases of the previous period is included in the sales of the current period. Likewise, a portion of the purchases of the current period may still be on hand at the end of the period, and may therefore not be included in the sales of the current period. It is necessary, therefore, in determining the cost of sales, to take into consideration the lag between purchases and sales.

The Gross Sales are the total amount customers have paid for merchandise sold to them. The first item listed on the statement of profit and loss represents the gross return from operations.

The cost of the goods sold is the purchase price paid by the club for the goods it has sold. It is the purchase price as distinguished from the sales price. Since the lots of goods sold ordinarily do not correspond to the various lots of goods purchased, it is necessary to calculate the amount of the inventory to determine the cost of goods sold. In the preceding illustration it was assumed that all the merchandise purchased during the month had been sold during the same month. In other words, the purchases were equal to the cost of goods sold. This is not usually the case. A club ordinarily carries a stock of goods on hand at all times. If there is an inventory at the beginning of the fiscal period and one at the end of the fiscal period, both inventories must be taken into consideration when the cost of goods sold is determined.

If a club began its fiscal period with an inventory of \$1200 and purchased merchandise amounting to \$ 2100, the total cost of goods available for sale would be the sum of these two items, or \$3300. If the Merchandise still on hand at the end of the month was \$1375, the cost of the goods sold would be the difference between \$3300 and \$1375, or \$1925.

This information would be shown on the statement of profit and loss in the following manner:

Cost of Goods Sold.

Merchandise Inventory, April 1, 1946	1200
Purchases	<u>2100</u>
Cost of Merchandise Available for Sale	3300
Less: Merchandise Inventory, April 30, 1946	<u>1375</u>

Cost of Goods Sold.

1925

The value of the inventory is ascertained by making a physical count of the stock and by valuing each item at the cost price, or the price to replace, whichever is the lower.

When the cost of merchandise is subtracted from the total sales, the difference represents the profit that would be made if there is no expenses. Since expenses are always incurred they must be considered in determining the profit. The difference between the amount received from the sales and the cost of merchandise sold is termed "gross profit on sales". It is called the gross profit because the expense of operating the club must be deducted to obtain the final or net profit.

The difference between the cost price and the selling price is known as "margin". "Margin" is the amount in dollars and cents, or in percentage of sales, that the club receives for rendering service. The club must keep its operating cost within this margin if it is to gain a net profit as a result of its operation.

Commodities and services of various kinds are consumed in the operation of a club. Supplies and other commodities are consumed in the operation of a club. All commodities and services purchased are assets before they are consumed. When consumed, they become expenses and must be deducted from the gross profit.

All expenses may be shown as one item on the statement of profit and loss, but this method does not supply adequate information concerning their nature. It is good practice to know the amount of each commodity, or service consumed so that it can be ascertained whether the amount is too large and, if it is, take measures to reduce it.

The profit and loss statement would look like this:

**NCO Club
Statement of Profit and Loss
For the Month Ending 30 April 1946**

Sales		1015	
Less: Cost of Goods Sold			
Inventory 1 April 1946	1000		
Purchases	<u>690</u>		
Cost of Goods Available for Sale	1690		
Less: Inventory 30 April 1946	<u>1200</u>		
Cost of Goods Sold		<u>490</u>	
Gross Profit of Sales		525	
Less: Operating Expenses			
Supplies Used	125		
Wages	<u>215</u>		
Total Operating Expenses		<u>340</u>	
Net Profit		<u>185</u>	

The balance sheet shows the amounts and the nature of the Club's assets, liabilities, and the proprietorship. By comparing the present balance sheet with the one prepared at the beginning of the period, changes in financial condition may be determined.

If a club has assets worth \$6500 and liabilities amounting to \$2500, the financial condition may be expressed by the equation:

Assets - Liabilities and Proprietorship

$$\$6500 - \$2500 = \$4000$$

In preparing the balance sheet, the equation sign is omitted and the assets are shown on the left of a double vertical line and the liabilities and capital are shown at the right. The balance sheet for the above equation is, then, as follows:

Assets	\$6500	Liabilities	\$2500
	<u> </u>	Capital	<u>4000</u>
	<u>\$6500</u>		<u>6500</u>

This statement does not satisfy the need of the club because it does not show the information as to the nature of the assets or the liabilities. It doesn't show whether there is sufficient cash to meet the needs of the obligations or whether there is sufficient merchandise to satisfy the wants of the customers.

An examination of the ledger shows that the assets consist of Cash \$ 2200, Merchandise \$2500, Deposit to locker fund \$1500, and Supplies \$300. The liabilities consist of outstanding chits, \$2500. The financial condition would be expressed as follows:

ASSETS			
Cash	\$2200	Outstanding Chits	\$2500
Merchandise Inventory	2500	Capital	
Deposit to Locker Fund	1500		
Supplies	300		
	-----	NGO Club Capital	<u>4000</u>
Total Assets	\$6500	Total Liabilities & Capital	\$6500

Certain terms are used on balance sheets to describe the assets, liabilities, and capital. Since these terms will be used frequently, they will be discussed briefly here.

CASH Cash includes currency, checks, bank drafts, and money orders. Any medium of exchange that a bank will accept at face value on deposit may usually be shown on the balance sheet as cash.

MERCHANDISE Merchandise consists of the goods purchased or produced for sale. Food offered for sale in a grocery store and clothing produced for sale in a clothing factory are examples of merchandise. The merchandise on hand at any specified time is referred to as the merchandise inventory. The inventory is usually determined by a physical count of the merchandise on hand.

EQUIPMENT Equipment includes assets purchased to be used in the operation of the club and are not intended for resale. It is expected that they will be worn out in the operation of the club, although they may be sold when they no longer serve the purpose for which they were purchased. Because they are not bought for the purpose of sale at profit, they can not be classified as merchandise.

LOCKER FUND Locker fund is money paid for merchandise to be received at a later date. Since the merchandise paid for is not received, the person to whom the money is paid owes it to the club until the merchandise is delivered. Purchases is debited and Locker Fund is credited.

SUPPLIES: Supplies are consumed in the operation of the Club and are considered as assets until they are consumed. The amount of such supplies on hand must be ascertained at the time each balance sheet is prepared.

LIABILITIES: Are financial obligations incurred by the Club.

ACCOUNTS PAYABLE: An Accounts Payable arises from a Purchase on account.

OUTSTANDING CHITS: Outstanding Chits are the amount chits not returned in for Sales at the end of each month. The cash received for chit books is not income until they have been used by the buyer. As long as a buyer has any chits in his book the club owes him the value of his chit book.

CAPITAL: Capital is the interest of the club in the assets of the club. If the club has no liabilities, the capital is the total of the assets; otherwise it is the difference between the assets and the liabilities.

The balance sheet is usually prepared in the following manner:

NCO CLUB Balance Sheet 30 April 1946		
ASSETS		
Cash	\$ 530	
Inventory	2150	
Supplies	<u>120</u>	
Total Assets		<u><u>\$2800</u></u>
LIABILITIES		
Outstanding Chits		260
CAPITAL		
NCO Club, Capital, 1 April 1946	2400	
Add: Net Profit for April 1946	<u>240</u>	
NCO Club, Capital 30 April 1946		<u>2540</u>
Total Liabilities and Capital		<u><u>2800</u></u>

An illustration of the cycle from ledger balances to trial balance, adjusting entries, statement, and closing entries follows:

The ledger balance of the NCO Club as of 31 May 1946 are:

<u>CASH</u>	<u>INVENTORY</u>	<u>DEPOSIT ON BOTTLES</u>
2077.02	11848.09	194.24
<u>DEPOSIT TO LOCKER FD</u>	<u>UNIFORMS & TOWELS</u>	<u>GLASSWARE</u>
2600	108.65	234.04
<u>SUPPLIES</u>	<u>OUTSTANDING CHITS</u>	<u>PURCHASES</u>
71.09	325 744.41	1426.82
<u>SALES</u>	<u>ENTERTAINMENT EXP</u>	<u>UNIFORMS & TOWEL EXP</u>
2264.10	285.15	5.10
<u>MEMBERSHIP FEES</u>	<u>MEMBERSHIP DUES</u>	<u>PROFIT AND LOSS</u>
12	40	5614.89
<u>SUPPLIES USED</u>	<u>LOSS DUE TO BREAKAGE</u>	<u>PROFIT AND LOSS</u>

The last three accounts do not enter the trial balance. They are used for adjusting and closing the account.

NCO
Trial Balance
31 May 1946

Cash	1	2077 02		
Inventory	2	1348 09		
Deposit on Bottles	3	194 24		
Deposit to Locker Fund	4	2600 00		
Uniforms and Towels	5	108 65		
Glassware	6	234 04		
Supplies	7	71 09		
Outstanding Chits	8		419 41	
Purchases	9	1426 82		
Sales	10		2264 10	
Entertainment Expense	11	285 15		
Uniform and Towel Expense	12	5 10		
Membership Fees	13		12 00	
Membership Dues	14		40 00	
NCO Club, Capital	15		5614 20	
		<u>8350 20</u>	<u>8350 20</u>	

The posting of the adjusting and closing entries affects the ledger accounts as follows:

CASH (1)		INVENTORY (2)		DEPOSIT ON BOTTLES (3)	
2077.02		1548.09	(3) Pur 1548.09	194.24	
		Closing Inv (4)			
		1527.00			
DEPOSIT TO LOCKER FD (4)		UNIFORM & TOWEL SER (5)		GLASSWARE (6)	
2600		108.65		234.04	(2) 24.04
SUPPLIES (7)		OUTSTANDING OATS (8)		PURCHASES (9)	
71.09	(1) 22.09	325.00		1426.82	Close Inv (4) 1527.00
				Open Inv (3) 1548.91	CGS (5) 1247.91
				<u>2774.91</u>	<u>2774.91</u>
SALES (10)		ENTERTAINMENT EXP (11)		UNIFORM & TOWEL EXP (12)	
CGS (5) 1247.91	2264.10	285.15	(7) 285.15	5.10	(7) 5.10
GPS (6) 1016.19					
<u>2264.10</u>	<u>2264.10</u>				
MEMBERSHIP FEES (13)		MEMBERSHIP DUES (14)		NGO CLUB CAP (15)	
(8) PL 12.00	12.00	(8) PL 40.00	40.00		5914.69
				(9) NP	713.81
SUPPLIES USED (16)		LOSS DUE BREAKAGE (17)		PROFIT & LOSS (18)	
(1) 22.09	(7) PL 22.09	(2) 24.04	(7) 24.04	Expense (7) 336.38	GPS (6) 1016.19
				NP (9) 731.81	Other Inc. (8) 52.00

The merchandise on hand 31 May 1946 was found to be worth \$1527. Supplies on hand were worth \$49. and the Glassware was worth \$210. This information is necessary to adjust the accounts to show the amount of expense from supplies used and glassware broken during the month.

ADJUSTING ENTRIES
31 May 1946 (1)

Supplies Used	22.09	
Supplies		22.09
To adjust the Supplies Account show the amount used during the month.		

31 (2)

Loss Due to Breakage	24.04	
Glassware		24.04
To take from the Glassware account the amount of glass broken during month.		

In the first entry \$22.09 is deducted from the supplies account and put in the supplies used account. The balance of the Supplies Account is an asset and goes in the balance sheet. The Supplies Used Account is an expense and goes in the statement of profit and loss under Operating Expense. The same is true for the second entry. After these entries are made the statements may be prepared. The following is a statement of profit and loss:

**WCO CLUB
STATEMENT OF PROFIT AND LOSS
MONTH ENDED 31 MAY 1946**

<u>Sales</u>			2264	10
Less: <u>Cost of Goods Sold:</u>				
Inventory 1 May 1946	1348	09		
Purchases	1426	82		
Cost of Goods Available for Sale	2774	91		
Less: Inventory 1 May 1946	1527	00		
<u>Cost of Goods Sold</u>			1247	91
<u>Gross Profit on Sales</u>			1016	19
Less: <u>Operating Expenses:</u>				
Entertainment Expenses	285	15		
Uniform and Towel Expenses	5	10		
Supplies Used	22	09		
Loss Due to Breakage	24	04		
<u>Total Operating Expense</u>			336	38
<u>Net Profit on Sales</u>			679	31
Add: <u>Other Income:</u>				
Membership Dues	40	00		
Membership Fees	12	00		
Total Other Income			52	00
<u>Net Profit</u>			731	31

Note that in the statement of profit and loss the inventory as of 1 May 1946 and the inventory as of 31 May 1946 were used. In the balance sheet only the inventory at the end of the accounting period is used. The inventory as of 1 May has been sold and is now part of the cost of goods sold during the month. The inventory as of 31 May is the value of merchandise still on hand.

NCO Club
Balance Sheet
31 May 1946

ASSETS			
Cash	2077	02	
Inventory	1527	00	
Deposit on Bottles	194	24	
Deposit on Locker Fund	2600	00	
Uniforms and Towels	108	85	
Glassware	210	00	
Supplies	49	00	
	<hr/>		
Total Assets			6765 91
LIABILITIES			
Outstanding Chits			419 41
CAPITAL			
NCO Club Capital 1 May 1946	5814	69	
Add: Net Profit for Month	731	81	
	<hr/>		
NCO Club Capital 31 May 1946			6546 50
			<hr/>
Total Liabilities and Capital			6765 91

After the financial statements have been prepared, the closing entries are recorded in the journal. These entries summarize in the profit and Loss summary account the income and expense of the period. By means of these entries the net profit is transferred from the profit and loss account to the Capital account.

CLOSING ENTRIES
31 May 1946 (3)

Purchases	1384.09	
Merchandise Inventory		1384.09
To transfer the inventory of 1 May to the Purchases Account		
Merchandise Inventory	1527.00	
Purchases		1527.00
To record the inventory of 31 May		
	31 (5)	
Sales	1247.91	
Purchases		1247.91
To close the purchases account by transferring the cost of goods sold to Sales.		
Sales	1016.19	
Profit and Loss		1016.19
To close the Sales Account by by transferring the gross profit on sales to Profit and Loss		
	31 (7)	
Profit and Loss	336.38	
Entertainment Expenses		285.15
Uniform and Towel Expense		5.10
Supplies Used		22.09
Loss Due to Breakage		24.04
To close each expense account by transferring their balance to profit and loss.		
	31 (8)	
Membership Dues	40.00	
Membership Fees	12.00	
Profit and Loss		52.00
To close other income accounts by transferring their balance to Profit and Loss		
	31 May 1946 (9)	
Profit and Loss	731.81	
NCO Club Capital		731.81
To close the Profit and Loss account by transferring the net profit to the Capital Account		

The only account that remain open in the ledger are the Assets, liabilities, and capital accounts.

NCO Club
Post Closing Trial Balance 31 May 1946

Cash	2077	02			
Inventory	1527	00			
Deposit on Bottles	194	24			
Deposit on Locker Fund	2600	00			
Uniform and Towels	108	65			
Glassware	210	00			
Supplies	49	00			
Outstanding Chits				419	41
NCO Club Capital				6346	50
	6765	91		6765	91

Chits may be handled in the records by setting up a double column in the Cash Receipts Journal. When chits are sold the amount of cash received goes in the Cash Dr column and the same amount goes in the credit column of the chits column. When chits are received for sales the amount received goes in the debit column of the chits column and the same amount is entered in the Sales column. At the end of the month the difference between the debit and the credit column in the chits column is the amount of chits outstanding.

CASH RECEIPTS

Date 1946	LF	Account Credited	Chits		Sales Cr	Cash Dr	
			Dr	Cr			
Apr 3	X	Chits		150 00			150 00
Apr 5	X	Chits		95 00			95 00
Apr 7	X	Sales	78 60		78 60		
Apr 9	X	Sales	41 70		41 70		
			120 30	245 00			
Apr 30	X	Chits Balance	124 70				
			245 00	245 00			
Apr 30	X	Chits Cr		124 70			
Apr 30	X	Sales Cr			120 30		
Apr 30	X	Cash Dr				245 00	