

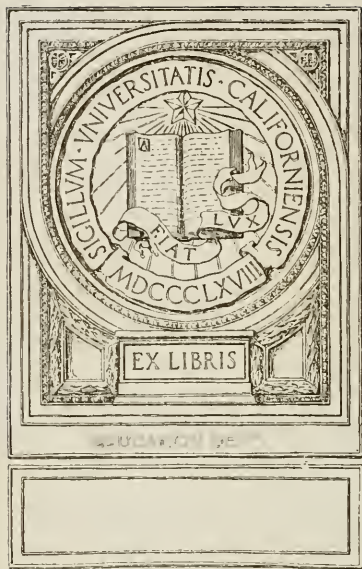
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Modern Accountant

REVISED EDITION



Page 14, 6th line from bottom. *Credited* should be *debited*.
Page 109, line 26. Interest on L. B. Austin's note should read "for 17 days at 6%, \$1.16."
Page 120, last line. \$1467.55 should be \$1218.60. \$2.20 should be \$1.83.
Page 121, line 14. \$10.00 should be \$7.50.

CORRECTIONS



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MODERN ACCOUNTANT

REVISED

BY

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PREFACE TO THE REVISED EDITION

This edition is a complete revision of the old *Modern Accountant*. It is not a revision in the common acceptance of the word, for the text has been entirely rewritten. The material used for the transactions is entirely new and has been brought up to date. But the method of presentation and the general plan of development, which users of the old edition have found so effective, have been retained.

Account study and journalizing are developed together from the start. Journalizing is made clear by an understanding of accounts, and the inter-relation of accounts is more readily appreciated when journalizing is understood. The point of attack is the account, but the early introduction of the journal brings the student quickly to the trial balance. The sales book and cash book are introduced simultaneously, at an early stage. The natural result of this plan of presentation is to greatly shorten the preliminary period during which it will be conceded that the student gets no comprehensive view of bookkeeping. The purchase book and the six-column cash book are introduced simultaneously, at a later stage.

Bookkeeping is a problem that is subdivided into many smaller problems. These problems are stated in the form of accounts. The facts from which the problems are formulated are the transactions of business.

The problems of bookkeeping are simple in themselves. Arithmetically they present no difficulties to the student of ordinary intelligence. If bookkeeping heretofore has been considered mysterious and difficult, it has been because the student has not been taught to see the simple underlying problem in each account, but has been confused by the form, and by the necessity for learning rules which he cannot understand.

The method of presentation in *Modern Accountant* is inductive. Each account is first presented as a simple problem, no technical language being used and no rule being given. The solution of this problem is easy and the student discovers the rule for himself, the text carefully guiding him toward a correct solution. The problem itself being understood by the student, he has no difficulty in learning the rule, which is then stated in a formal way.

Some of the forms and minor bookkeeping details have been changed slightly, in the revised edition, to conform to changing usage. Unnecessary ruling between entries in the journal and sales book is omitted, as well as unnecessary closing of personal accounts in the ledger. Trial balances are taken by differences. Provision is made for the use of the two-page statement forms instead of the one-page forms, if desired. Closing the ledger through journal entries, though not advised, is illustrated, and this method of closing can be used, if desired, in the last set.

The work of *Modern Accountant* is elementary. It brings the student up to the point where he is ready for *Wholesale Accounting*, the second part of the *Lyons Accounting Series*. It is believed that it lays a thorough foundation for this and the more advanced texts which follow in the series.

PRELIMINARY PROBLEMS

TO THE STUDENT: Bookkeeping is not a difficult and mysterious subject. It consists of simple arithmetical problems that any person of average intelligence and a common school education can solve without any knowledge of bookkeeping forms. It teaches you how to record the facts from which those problems are constructed in proper form and how to record the results in proper form. In short, it requires of you nothing that you do not already know except that records shall be made in certain customary forms, and those forms are taught as your work progresses. To show you that bookkeeping is very simple mathematically, we give herewith fourteen problems which present all there is to the mathematical side of Chapters I and II.

PROBLEM 1. During January, A took in \$873.50 in cash. During the same month he paid out \$542.65 in cash. How much cash had he left?

PROBLEM 2. B's cash receipts for February were as follows: \$42.56, \$53.75, \$61.38, \$82.43, \$194.79. He paid out in cash during February: \$23.62, \$35.00, \$10.50. How much cash had he left?

PROBLEM 3. C received \$100.00 in cash on Mar. 1; On Mar. 2 he paid out \$10.60 in cash; on Mar. 4 he received cash, \$22.89; on Mar. 7 he paid out cash, \$5.75; on Mar. 8 he paid out cash \$4.00; on Mar. 15 he received \$27.50 in cash; on Mar. 16 he received \$10.00 in cash; on Mar. 20 he paid out cash, \$8.76. How much cash had he left?

PROBLEM 4. D bought a house for \$4000.00 and sold it for \$4650.00. Did he gain or lose, and how much?

PROBLEM 5. During April, E purchased goods as follows: \$150.00, \$262.50, \$137.85. His sales for April were \$60.00, \$95.00, \$123.46, \$27.85, \$75.60, \$28.95, \$82.93, \$95.67, \$60.24. He had no goods remaining after the last sale. Did he gain or lose in his dealings in the goods, and how much?

PROBLEM 6. F bought goods during May amounting to \$7500.00. His sales for May amounted to \$3000.00 and on May 31 he had goods worth \$5600.00 remaining on hand. Did he gain or lose in his dealings in goods during May, and how much?

PROBLEM 7. On June 1, Mr. G had goods worth \$2000.00. During June he bought goods costing him \$1500.00. His sales for June were \$1800.00 and on June 30 he had goods remaining on hand worth \$2100.00. Did he gain or lose in his dealings in the goods during June, and how much?

PROBLEM 8. Mr. H, starting with \$1000.00 in cash on July 1, bought goods for cash on July 2 costing him \$250.00. On July 3 he sold goods for \$100.00, receiving cash in exchange. On July 6, he bought goods for cash, \$425.00. On July 8, he sold goods for cash, \$150.00. On July 10, he sold goods for cash, \$223.60. On July 31, he sold all goods remaining on hand for cash, \$351.40. What was his profit on goods for July? How much cash did he have on hand July 31?

PROBLEM 9. On Aug. 2, J bought from me on credit goods worth \$100.00. On Aug. 3 he paid me \$12.50. On Aug. 6 he bought from me on credit goods worth \$56.00. Later he made me the following payments: \$26.70, \$35.00, \$5.00. How much did he still owe me?

PROBLEM 10. Your employer bought goods from H & Co. amounting to \$150.00 on Sept. 5. On Sept. 15 he paid H & Co. \$100.00. Later he bought from H & Co. bills of goods as follows: \$225.00, \$260.00, \$123.40, and made the following payments: \$200.00, \$300.00, \$50.00, \$25.00. How much did your employer still owe H & Co.?

PROBLEM 11. On Oct. 4, I received K's note for \$100.00. On Oct. 6, I received L's note for \$57.50. On Oct. 24, K paid for his note and I gave it back to him. On Oct. 25, I received M's note for \$125.00. On Oct. 26, L paid me \$25.00 on his note. Now much was still due me on other persons' notes?

PROBLEM 12. N paid \$2.67 for interest on Nov. 2. On Nov. 3, he received \$3.50 from R for interest. Other receipts for interest: \$5.63, \$2.34, \$1.85. Other payments for interest, \$2.34, \$3.78, \$12.50. Did N lose or gain on interest, and how much?

PROBLEM 13. S invested \$5000.00 in business on Dec. 1. On the tenth of the month, he added \$1000.00 to his investment. On Dec. 15, he withdrew \$25.00. Other withdrawals: \$10.00, \$5.00, \$20.00. His gain for the month was \$540.00, which he added to his investment. What was the business worth on Dec. 31?

PROBLEM 14. T paid \$50.00 for January rent on Jan. 1. On Jan. 3 he paid \$10.00 for postage stamps. Other expenses during January were: \$12.60, \$1.50, \$2.75, \$18.00, \$5.00. On Jan. 20, he sold to W \$4.00 worth of postage stamps. What was the total of T's expenses for January? How much did his expenses cost him, allowing for returns from the sale of stamps on Jan. 20?

The student may be assured that he will encounter nothing more difficult in principle than the foregoing fourteen problems, throughout the first two chapters. Problems will be longer, but will not be difficult of comprehension.

Do not look for something hard. As you have seen, the mathematical side of bookkeeping is easy. All you must do is to learn the *proper forms*, and the work will not be difficult for you at any point unless you allow the forms to confuse you and thus lose sight of the simple problem presented by each account.

MODERN ACCOUNTANT

REVISED

CHAPTER I

ACCOUNTS

Lesson I. The Cash Account

Cash, as the word is used in bookkeeping, is money or the equivalent of money.

In its narrow sense, cash includes only currency and coin, but in practice checks and other orders for money payable instantly upon demand at banks, postoffices, and express offices are treated as cash.

Suppose that I have received and paid out cash as shown in the *Illustrative Exercise* below. As each receipt and payment has occurred, I have made a record of it, as shown in the *Illustration*. Trace each receipt and each payment from the *Illustrative Exercise* to the *Illustration*.

ILLUSTRATIVE EXERCISE

191—

Sept. 1.	Received cash, \$160.00	Sept. 7.	Paid out cash, \$142.30
2.	Paid out cash, \$ 80.45	10.	Received cash, \$ 76.20
4.	Paid out cash, \$ 25.43	11.	Paid out cash, \$ 26.10
5.	Received cash, \$ 40.60	16.	Paid out cash, \$ 65.00
6.	Received cash, \$128.30		

ILLUSTRATION

Cash

191—		191—	
Sept. 1	160	Sept. 2	80 45
5	40 60	4	25 43
6	128 30	7	142 30
10	76 20	11	26 10
		16	65

Explanation. The above form is called an account.

QUESTIONS

- Items of what kind are entered upon the left side of the cash account?
 Items of what kind are entered upon the right side of the cash account?
 How can you tell how much cash you received from Sept. 1 to Sept. 16 inclusive?
 How can you tell how much cash you paid out from Sept. 1 to Sept. 16 inclusive?
 How can you tell how much cash you should have on hand on Sept. 16?
 How much should you have on hand on Sept. 16?
 Which side cannot be the greater? Why?
 What would be the condition if the sides were the same?
 How can you determine whether the cash account is correct?

The facts as to cash receipts and cash payments having been stated in the form of an account, my problem as bookkeeper on Sept. 16 was to find out how much cash should have been on hand. I did this and then prepared the account to show the result secured. This is illustrated below. Study the form and its explanation carefully and answer the questions following.

ILLUSTRATION OF THE CASH ACCOUNT, CLOSED

<i>Dr.</i>	<i>Cash</i>		<i>Cr.</i>
<i>191-</i>	<i>191-</i>	<i>191-</i>	
<i>Sept. 1</i>	160	<i>Sept. 2</i>	80 45
5	40 60	4	25 43
6	128 30	7	142 30
10	76 29	11	26 10
		16	65 21
		16 <i>Balance</i>	✓ 65 82
	405 10		405 10
<i>Sept. 16 Balance</i>	✓ 65 82		

Explanation. The above is the same account which was illustrated on the previous page, but it has been *closed with a balance*. The left side is called the *debit* side (abbreviated *Dr.*). The right side is called the *credit* side (abbreviated *Cr.*). The small figure below the lowest item, or last entry, on each side, represents a lead pencil footing. Observe that nothing is written in the cents column when the amount is even dollars.

QUESTIONS

- How was the balance ascertained?
 What entry was then made? Red ink was used because the entry, though appearing on the credit side, does not as a matter of fact represent money paid out.
 Why does the credit footing now exactly equal the debit footing?
 On which side is the balance entered below the ruling? (This is called "bringing the balance down".)
 How much larger was the debit side than the credit side before closing? How much larger is it now? What do you think is the advantage of closing the account?

In order to fix the form of the account in your mind, write the heading *Cash* at the top of a loose sheet of paper ruled like the model (ledger paper) and make the entries required for the illustrative exercise. Note carefully across what columns in the illustration the single horizontal line (the line of addition) is ruled; make the same observations regarding the double line (used for balancing). Be sure to get the year dates in the right places. Be sure that the single vertical red ruling in each money column divides dollars from cents.

Order of Closing an Account with a Balance

1. Add each column. For convenience you may write the totals in the columns, making small, neat lead pencil figures.
2. Find the difference and enter it on the smaller side in red ink, dating the entry properly and writing the word "Balance" in the wide column. Place a check mark in the narrow column between the wide column and the money column.
3. Rule a single line across the debit and credit money columns and add each column. The totals must agree and must be on the same line.
4. Rule a double line across all but the two wide columns, on the first line below the footings.
5. Bring down the balance in black ink on the side opposite that on which it appears in red.

Summary of the Cash Account

Cash is money or its equivalent.

An account* headed *Cash* is kept by the bookkeeper.

Entries. All receipts and payments of cash are entered in the cash account.

Rule. Debit the cash account when cash is received. Credit the cash account when cash is paid out.

Result. The difference between the total of the debit side and the total of the credit side at any time, is the amount of cash which should be on hand at that time. This is called the balance.

NOTE. The cash account is one of several different kinds of account. The same ruled form is used for all, and all are ruled in the same way at the time of closing. The forms shown are known as "skeleton" or incomplete forms. Later you will learn the use of the columns which are not filled out in the skeleton forms. All accounts are kept in the ledger, or book of accounts.

Prepare Exercise 1 on a sheet of ledger ruled paper, or on the back of the sheet on which you copied the illustration of the cash account, and submit it to your teacher for approval. When Exercise 1 has been approved, prepare Exercise 2 on the same page, leaving six blank lines between the two exercises. Write the heading *Cash* again, and one line below it rule a double line across the page, so that it will look like the heading of a new page. See the illustration on page 9 of an account opened below the top of the page. After Exercise 2 has been approved, copy the page containing the two exercises on page 1 of your ledger (Blanks No. I, Book B). In preparing these exercises, enter cash on hand at the beginning on the debit side.

The following transactions contain the facts from which a cash account is to be constructed. Open an account headed *Cash*, and make the entries required. Then close the account as shown in the illustration on page 6.

*The student will have a better understanding of accounts if he will think of each account as a simple problem in arithmetic, in which certain facts are given from which he must determine certain results. The problem of cash, simply stated, is this: If I receive stated sums of money, and pay out stated sums of money, how much money have I remaining? In order to keep a record of the facts and at the same time have them arranged in convenient form for easy solution, they are entered in accounts.

EXERCISE 1

191—

- Jan. 1. I had cash on hand, \$500.00.
 3. I paid cash for insurance, \$57.50.
 3. I paid cash for taxes, \$101.76.
 5. I received cash for a horse which I sold, \$175.00.
 6. I paid a cash fee to a notary, \$1.25.
 7. I paid for merchandise in cash, \$84.63.
 8. I paid Smith & Co.'s bill in cash, \$31.71.
 9. I received cash from Brown & Co., which they owed me, \$42.75.
 10. I paid freight charges on merchandise in cash, \$12.67.
 13. I paid cash for harness, \$43.25.
 14. I received cash due me for interest, \$17.16.
 15. I paid C. E. Burton \$15.00 in cash, a part of what I owed him.
 17. I paid workmen in cash for painting my store, \$65.00.
 19. I donated cash to a charitable association, \$25.00.
 20. I paid the clerk's wages for one week in cash, \$12.50.
 21. I received cash for merchandise sold, \$73.56.
 21. Close the account with a balance Jan. 21, bringing the balance down as of Jan. 22 (That is, date the balance brought down Jan. 22, as it indicates the amount on hand on the morning of that day).

EXERCISE 2

191—

- Feb. 1. Cash on hand, \$103.09.
 1. I paid my store rent for February in cash, \$50.00.
 2. I sold merchandise for cash, \$35.25.
 4. I paid the clerk's wages for one week in cash, \$12.50.
 6. I received F. R. Wheeler's check for an amount due me, \$27.60.
 7. H. W. Roberts gave me his check for what he owed me, \$24.50.
 8. I paid for merchandise by check, \$32.50.
 10. My cash sales of merchandise today amounted to \$18.65.
 11. I paid the clerk's salary in cash, \$12.50.
 11. I paid the scrubwoman \$1.75.
 14. I sold Geo. N. Patten goods worth \$21.65 and received cash from him in payment.
 15. On opening my mail, I found a postal money order for \$15.00 sent by E. N. Harris in payment of my bill against him.
 16. I mailed to the First National Bank my check for \$6.00, due for interest on money borrowed.
 17. I bought merchandise for cash, \$23.78.
 18. I paid the clerk's salary as before.
 19. I received a check for \$40.00 from Harry N. Lawton, who owed me \$75.00.
 20. I paid for postage stamps in cash, \$5.00.
 21. I paid the drayman \$2.30 in cash.

LESSON II

THE MERCHANDISE ACCOUNT

Merchandise is the goods or wares bought and sold for profit in any certain line of business.

In the grocery business, groceries are merchandise. At the butcher shop, meats are merchandise. The coal man deals in coal as his merchandise. The clothier considers suits and overcoats merchandise. A man owning a hardware store might buy groceries, meats, coal, and clothes throughout the year, yet these things would not be merchandise to him. Why?

One of the problems of bookkeeping is to determine the amount of profit or loss in handling merchandise. To determine this, I must first know what the merchandise sold has cost me and what I have sold it for. I keep a record of these matters under the head *Merchandise* in the ledger, entering costs (amounts of purchases) on one side of the account, and entering returns (amounts of sales) on the other.

Trace the following transactions from the *Illustrative Exercise* to the entries in the *Illustration*. In tracing these transactions, you are to consider nothing but *merchandise*. Ask yourself in each case what Mdse. was bought or what Mdse. was sold. (Merchandise is abbreviated "Mdse." It is not customary to abbreviate it as a heading of an account.)

ILLUSTRATIVE EXERCISE

191—

Sept. 1.	I bought Mdse.,	\$720.00	Sept. 8.	I sold Mdse.,	\$140.00
2.	I bought Mdse.,	420.00	9.	I bought Mdse.,	300.00
3.	I bought Mdse.,	560.00	10.	I sold Mdse.,	750.00
5.	I sold Mdse.,	480.00	15.	I sold all Mdse. then	
6.	I sold Mdse.,	520.00		on hand for	640.00

There were no other transactions during September. Find the amount of my loss or gain on Mdse. for September.

ILLUSTRATION

Dr.	Merchandise		Cr.
191—		191—	
Sept 1	720	Sept. 5	480
2	420	6	520
3	560	8	140
9	300	10	750
30 Gain.	✓ 530	15	640
	2530		2530

A bookkeeper sometimes has to write more than one heading on a ledger page. The illustration shows how an account will appear which is opened below the top of the page.

Explanation. The foregoing is an illustration of a merchandise account as it appears when all goods have been sold. The small figures at the bottom of each column of black ink entries represent lead pencil footings. Study the form carefully and answer the following questions:

QUESTIONS

Entries of what kind are on the debit side?

Entries of what kind are on the credit side?

What was the selling price of all goods sold during September?

What was the cost of all goods sold during September?

What was the gain, and how was it found? Why?

What result would have been shown had the debit side been the greater?

What was the percent of profit; that is, at what percent above cost did the goods sell?

In order to fix the form of the account in your mind, prepare it on a loose sheet of ledger ruled paper. Do not copy from the model, but cover the model and do your work independently.

When this has been done, compare your work with the model as to every detail. Is the result correct and placed in the right place? Is your exercise ruled exactly like the model? Is there a year date at the top of each date column? Are dollars and cents separated by the single vertical red ruling in each money column?

Summary of the Merchandise Account

Merchandise is the goods or wares bought and sold for profit in any given business. A merchandise account* is usually kept in the ledger of a trading business.

Entries. All amounts of Mdse. bought and all amounts of Mdse. sold are entered in the merchandise account.

Rule. Debit the merchandise account when Mdse. is bought (that is, when Mdse. is received or costs value); credit the merchandise account when Mdse. is sold (that is, when Mdse. is disposed of or produces returns).

Result. When all Mdse. is sold, the difference between the debit and credit totals shows a gain, if the credit side be larger; or a loss, if the debit side be larger.

Prepare Exercise 3 on a loose sheet of ledger paper or on the back of the sheet you used for the illustration. Remember that you are considering only the purchases and sales of *Mdse.* Ask yourself in each case whether Mdse. is being *bought* or *sold*.

EXERCISE 3

191—

- March 1. I bought Mdse. for cash, \$1170.60.
 2. I paid \$45.37 in cash for Mdse.
 2. I purchased Mdse. valued at \$12.75.
 5. I sold Mdse. for cash, \$274.25.

*Remember that the Mdse. account is nothing but a problem in arithmetic. Simply stated, the problem is: I made certain purchases of Mdse. and certain sales. When all had been sold, what was my profit or loss?

- March 6. I sold Mdse. to W. J. Burnham on credit, \$157.20.
 7. I paid \$46.50 for Mdse. by check.
 9. I bought Mdse. for cash, \$215.46.
 10. F. H. Waddell gave me his note for Mdse., \$645.00.
 15. I sold all Mdse. then on hand for cash, \$625.00.

No other transactions took place during March. Find the amount of gain or loss for March.

THE MERCHANDISE INVENTORY

In the foregoing illustration and exercise it was assumed in each case that there was no Mdse. on hand when the account was opened and that all was sold before closing the account. This is seldom the condition. There is usually some Mdse. on hand at the beginning of the period which the account covers and some Mdse. on hand at the close of that period. The Mdse. on hand at any time is called the *Inventory*.

Trace the following transactions from the *Illustrative Exercise* to the *Illustration*.

ILLUSTRATIVE EXERCISE

191—

- Oct. 1. Mdse. inventory on hand, \$1275.00.
 2. I bought Mdse. of J. V. Farwell & Co. on credit, \$1324.50.
 3. I sold Mdse. to Harry N. Kirby on account, \$524.75.
 3. I sold Mdse. to Fred H. Pollard for cash, \$196.50.
 5. B. F. Dyer bought Mdse., giving me his note for it, \$243.60.
 6. D. H. Lloyd gave me his check for Mdse., \$245.00.
 15. I paid cash for Mdse., \$126.50.
 16. I sold Mdse. to H. B. Boyles on credit, \$405.00.

No further sales were made during the month. On Oct. 31 goods were on hand worth \$1200.00. What was the gain or loss for October?

ILLUSTRATION

Dr.		Merchandise		Cr.	
191—		191—		191—	
Oct. 1	Inventory	✓ 1275	Oct. 3		524.75
2		1324.50	3		196.50
15		126.50	5		243.60
31	Gain	88.85	6		245
			16		405.00
			31	Inventory	✓ 1200
		2814.85			2814.85
Nov. 1	Inventory	✓ 1200			

Explanation. The above is an illustration of a merchandise account closed with an inventory.

QUESTIONS

- What was the inventory of goods on hand Oct. 1?
 What was the total of goods purchased during October?
 What was the inventory of goods on hand October 31? Where and how was it entered?
 What was the cost of the goods sold during October?
 What was the total of sales during October?
 What was the gain on Mdse. for October?
 What was the per cent of gain, based upon the cost of goods sold?
 Could the amount of gain have been ascertained if the inventory had not been known?

NOTE. The inventory on hand Oct. 1 was not a part of the purchases for the month, nor was the inventory of Oct. 31 a part of the sales for the month. Yet these must be known before the Mdse. gain can be found. The inventory on hand at the first of the month must be added to the purchases, and from the sum the inventory on hand at the last of the month must be deducted, in order to arrive at the true cost of the goods sold. The former is added to the purchases by being placed in the debit column, but as there is no way to show subtraction in bookkeeping, the latter is entered on the opposite or credit side, and this has the same effect as a deduction from the debit side. It is entered in red ink because it is not a sale, though appearing in the sales column.

In bookkeeping, add the Mdse. inventory at the time of closing to the credit side; the difference between the total so secured and the debit total will be a gain or a loss and is entered on the smaller side in red ink. When will it be a gain? When a loss?

The account is then ruled and footed. The inventory is brought down into the debit side, to be added to the cost of Mdse. for the next month.

NOTE. Sometimes it is said that the bookkeeper is to imagine that all goods on hand are sold at inventory price at the end of the month and at once bought back. For several good reasons which you cannot at this time appreciate, this line of reasoning is false. However, you may treat it just as you would treat a sale and subsequent repurchase, so far as making the entries is concerned, and this will make the entries easy to remember.

Summary of the Merchandise Inventory

The gain (or loss) on Mdse. cannot be determined unless it be known how much unsold stock is on hand. The unsold stock is counted and a valuation (cost price or less) placed upon it. The list of quantities, kinds, and values of stock on hand is known as the inventory. The total of the inventory on hand at the beginning of a certain period must be added to the purchases for that period and the inventory at the end of the period deducted in order to find the cost of the goods sold. This deduction is accomplished by a red ink entry on the opposite or credit side.

Prepare Exercise 4 at the bottom of the same sheet on which you wrote Exercise 3, leaving at least six blank lines between the two accounts. Remember that you are considering nothing but purchases and sales of *Mdse.* When both exercises have been approved by your teacher, copy them or write them without copying (as your teacher shall direct) on page 2 of your ledger (Blanks 1, Book B).

EXERCISE 4

191—

- Apr. 1. I bought Mdse. amounting to \$1475.50.
 2. I purchased of C. B. Hawkins Mdse. invoicing at \$585.75.
 4. I sold to Jas. B. King, for cash, Mdse. invoicing at \$45.60.

- Apr. 7. H. M. Adams bought on credit a bill of goods worth \$20.50.
 9. Sold to G. J. Kingsbury, on his note, Mdse. worth \$75.62.
 10. Bought Mdse. billed at \$105.10, giving my check in payment.
 14. Sold Mdse. to H. M. Adams on account, \$241.26.

The stock of goods on hand April 15 was inventoried at \$1996.75 (cost price). Before closing the account answer the following questions:

QUESTIONS

- What was the cost of goods purchased?
 What was the value of goods remaining on hand?
 What was the cost of the goods sold?
 What was the total of sales?
 Was there a gain or loss, and how much?
 What was the percentage of profit or loss, based upon the cost of the goods sold?

Close the account as of April 15, proceeding as follows:

Order of Closing Accounts having Inventories

1. Foot the two sides, making a neat lead pencil footing close beneath the last item in each column.
2. Enter the inventory in red ink. (When it is an inventory of value belonging to the business, as in the foregoing instance, it is entered on the right-hand side.)
3. The difference between the two sides as they now stand is a loss or a gain. Enter it upon the smaller side in red ink with a proper explanation.
4. Rule the single lines of addition opposite each other on the same blue line and foot the two columns. The footings should be equal and just opposite each other.
5. Rule the double line of balancing, across all but the two wide columns.
6. Bring the inventory down in black ink upon the side opposite that on which it appears in red.

Continue the transactions of *Exercise 4—Continued*, on the same account, leaving no blank lines on either side below the rulings.

EXERCISE 4—Continued

191—

- Apr. 17. Bought Mdse. for cash, \$265.35.
 20. Sold Mdse. to B. C. Ordway for cash, \$36.79.
 21. B. F. Andrews bought Mdse. from me on credit, \$40.00.
 22. D. B. Renway & Co. sold me Mdse. on credit, \$75.60.
 24. Geo. H. Gibbs gave me his note for Mdse., \$65.63.
 25. Paid for Mdse. in cash, \$103.26.
 26. Sold B. F. Andrews on credit Mdse. invoicing at \$87.50.

On Apr. 30 the Mdse. inventory (taken at cost) amounted to \$2257.28. Answer the following questions before attempting to close the account:

QUESTIONS

- What was the cost value of goods on hand Apr. 15?
 What was the total of goods purchased between Apr. 15 and Apr. 30?
 What was the cost value of goods on hand Apr. 30?
 What was the cost value of goods sold between Apr. 15 and Apr. 30?
 What was the total of sales between Apr. 15 and Apr. 30?
 What was the amount of gain?
 What was the per cent of gain?
 Under what circumstances would a loss have been shown?
 Close the account.

LESSON III

ACCOUNTS WITH CASH AND MERCHANDISE

The one series of transactions following involves two separate accounts, one with cash and one with merchandise. Open an account headed *Cash* with a balance of \$5000.00 on May 1, and open an account with *Merchandise* with an inventory of \$7650.00 on May 1. Then enter the following transactions. Note that both accounts are affected in each transaction. When Mdse. is bought, cash is parted with. When Mdse. is sold or parted with cash is received. Make both the cash entry and the Mdse. entry for one day before proceeding to the next. Give each account a half page.

EXERCISE 5

191—

- May 2. Bought Mdse. for cash, \$256.25.
 3. Sold Mdse. for cash, \$54.60.
 4. Received cash for Mdse., \$45.75.
 7. Paid cash for Mdse., \$110.00.
 8. Sold Mdse. for cash, \$90.00.
 9. Sold for cash Mdse. amounting to \$33.63.
 10. H. C. Updike gave me his check for Mdse., \$25.00.
 12. Bought Mdse. invoicing at \$57.60, giving my check for it.
 14. Sold Mdse. for cash, \$110.65.

Goods on hand May 15 were valued at \$7884.25.

Close both accounts properly. When they have been approved, copy them (or again work them, if your teacher shall so direct) on page 3 of your ledger (Blanks No. 1, Book B).

Rule for Debiting and Crediting

You have learned that two of the accounts a bookkeeper has to keep are the cash account and the merchandise account; that an account headed *Cash* and an account headed *Merchandise* are opened in the ledger; that transactions involving cash received and cash paid out (or disposed of) are entered in the cash account and transactions involving Mdse. purchased (or received) and Mdse. sold (or disposed of) are entered in the Mdse. account. You have learned that the accounts are similar in form; that each has two sides, a left and a right; that the left side is called the debit side, and that the right side is called the credit side. You have learned that when cash is received the cash account is debited, and that when Mdse. is received the Mdse. account is ^{debited} credited. This is true of all accounts—whenever anything is received, the account of that thing is debited. Similarly, it is always true that whenever anything is disposed of or parted with, the account of that thing is credited. Hence the following rule, which you are now asked to learn:

Debit the account of that which is received; credit the account of that which is disposed of.

REVIEW QUESTIONS

What is cash?

How many sides has an account and what are they called?

What is the cash account and how is it kept?

What is meant by the "balance" of the cash account and how is it found?

How is the cash account closed?

What is Mdse.? Explain why what is Mdse. to one person may not be Mdse. to another.

What is the merchandise account and how is it kept?

What is a Mdse. inventory?

What is done with the inventory in closing?

What result is shown by the merchandise account?

Describe the closing of the merchandise account.

How can you find the cost of the goods sold during any certain period?

How must the percent of profit be found?

Can the merchandise account ever show any result but a gain? Explain fully.

CHAPTER II
JOURNALIZING

LESSON IV

THE JOURNAL. THE REAL ESTATE ACCOUNT

Examine the following transactions and see if you can tell what took place in each case. Then determine what it is that takes place whenever any transaction occurs.

191—

Sept. 1. I bought Mdse. for cash.

What thing was received or cost value? What thing did it cost? What thing was disposed of or produced returns? What thing did it produce?

Sept. 2. I sold Mdse. for cash.

What was received or cost value? What did it cost? What was disposed of or produced returns? What did it produce?

Sept. 3. I bought a store building (Real Estate) for cash.

What was received or cost value? What did it cost? What was disposed of or produced returns? What did it produce?

Sept. 4. I exchanged the store building for a stock of Mdse.

What was received or cost value? What did it cost? What was disposed of or produced returns? What did it produce?

Being engaged in the furniture business, I recorded all the transactions of my business in the order in which they occurred, in such a way that the *form* of the entries would show what was received (or cost value) in each case, and what was disposed of (or produced returns). Trace the following transactions from the *Illustrative Exercise* to the *Illustration* and see for yourself how this is done.

ILLUSTRATIVE EXERCISE

191—

- Sept. 1. I bought for cash 5 oak dining tables, at \$20.50, \$102.50.
2. I sold for cash 2 oak dining tables, at \$33.00, \$66.00.
3. I bought for cash 36 Mission oak dining chairs, at \$4.00, \$144.00.
4. I bought a store building and lot for cash, \$9500.00.
5. I sold for cash, 6 Mission oak dining chairs, at \$6.75, \$40.50.

Explanation. The form shown is a part of the journal. This form of journal is sometimes called the "explanatory journal" to distinguish it from the old-fashioned journal, which did not contain the explanatory matter. The old way was to write the history of the transactions, without journalizing them, in a "day book." This was done as¹¹¹

transactions occurred. Later each transaction was journalized, without explanation, in a separate book which might be called a non-explanatory or skeleton journal. The modern practice of combining both books in an explanatory journal is certainly more economical of time and space.

ILLUSTRATION

DATE

September 1, 191-

Dr. Cr.

NAME OF ACCOUNT TO BE DEBITED	NAME OF ACCOUNT TO BE CREDITED	AMOUNT DEBITED	AMOUNT CREDITED
Mdse.	Cash	102.50	102.50
Bought for cash 5 oak dining tables at 20.50			
	2		
Cash	Mdse.	66	66
Sold for cash 2 oak dining tables at \$33.00			
	3		
Mdse.	Cash	144	144
Bought for cash 36 Mission oak dining chairs, at 4.00			
	4		
Real Estate	Cash	9500	9500
Bought a store building & lot for cash			
	5		
Cash	Mdse.	40.50	40.50
Sold for cash 6 Mission oak dining chairs, at 6.75			

QUESTIONS: (To assist you in studying the above form.)

- What is the meaning of the abbreviation above the left-hand money column?
 What is the meaning of the abbreviation above the right-hand money column?
 Where is the year date written?
 Where is the date of each transaction written?
 Where is the name of the thing received (or which cost value) written in each case?
 On what line and in which column is the amount of the thing received (or which cost value) written in each case?
 Where is the name of the thing disposed of (or which produced a return) written in each case?
 On what line and in which column is the amount of the thing disposed of (or which produced a n) written in each case?
 Where is the explanation of what took place written in each case?

By inspecting the form shown, you will see that a journal entry consists of six parts, as follows: (1) The date. The date is written above each entry. At the top of each page the name of the month and the year date must appear, but the day of the month alone is sufficient above the other entries, except when a new month is begun. (2) The name of the account to be debited. (3) The amount of the debit item. (4) The name of the account to be credited. (5) The amount of the credit item. (6) A full and complete explanation of the transaction, from which no essential detail nor any fact that may be valuable for reference should be omitted.

Each part must be exactly in its proper position as shown by the model form. For uniformity of appearance, the date should be squarely in the center of the blank lines. Note carefully the indentation of the name of the account to be credited, and the indentation of the first line of the explanation. The amount of the debit item must be on the same line as the name of the account to be debited, and in the left-hand money column. The amount of the credit item must be on the same line as the name of the account to be credited, and in the right-hand money column. The explanation should always be worded as from the standpoint of the business; thus when money is received from Smith we would say "Rec'd from Smith" not "Smith paid," etc.

THE REAL ESTATE ACCOUNT

Among the things shown as received (or costing value) in the illustration of the journal, is real estate. You will naturally infer that it is desirable to keep records of real estate received (or which costs) and disposed of (or which produces returns), and that one of the problems of bookkeeping is to determine the gain or loss on real estate. An account is opened in the ledger under the head *Real Estate*, which is kept exactly like the Mdse. account. No special description or illustration of this account is necessary.

Entries. Amounts of all purchases and sales of real estate are entered in the real estate account.

Rule. Debit the real estate account when real estate is received (or costs value). Credit the real estate account when real estate is disposed of (or produces returns).

Result. When all real estate is disposed of, the difference between the debit and credit totals is a gain if the credit side be the larger. If the debit side be larger, a loss is shown.

Inventory. Real estate on hand at the time of closing the account* is always a credit inventory, as in the merchandise account, and is handled in exactly the same way.

Closing. Close the account, for the present, precisely as you have learned to close the merchandise account.

*Since the value of real estate is usually arrived at by deducting a certain per cent of its original value, for depreciation, it is sometimes contended that the inventory is the real *result* of the account, and that the loss or gain can be considered the result only when real estate is being traded in for profit. Two facts are certain, however:—(1) The real estate account does have an inventory, and (2) The real estate account does show a loss or gain (usually a loss, when it is an investment account and not a trading account). These two facts being true, some ground is furnished for either view of the case. It matters not, however, whether the inventory be considered the result, or the loss be considered the result, when the simple form above described is used, as the process of closing is the same in either case. It is easier for the student at this point to follow the line of reasoning suggested above in the text.

Summary of Journalizing

Business consists in the trading, or exchanging between the trading parties, of things having value. A business transaction consists of the equal exchange of things having value; one thing is received (or costs value), and some other thing is disposed of (or produces returns).

Separate accounts are kept in the ledger with things having value in which the business deals. Whenever any business transaction takes place, the account of the thing received (or which costs value) is debited, and the account of the thing disposed of (or which produces returns) is credited. These accounts in the ledger are not debited and credited *directly*, but a statement of the debits and credits arising in each transaction is made in the journal. You understand the cash, merchandise, and real estate accounts.

One entry is made in the journal for each transaction, and the transactions are entered in the journal at the time of their occurrence and in the order of their occurrence. Each entry in the journal shows what account is to be debited and how much, and what account is to be credited and how much. The journal must use the exact titles of the accounts to be debited and credited. It follows that in order to journalize correctly the bookkeeper must know what accounts are kept in the ledger and the rules for debiting and crediting each. These facts being known, all that is necessary is to determine in each case what is being received (or what costs value) and what is being disposed of (or what produces returns) and to note this information in the journal in proper form.

Journalize the following transactions taken from the furniture business. Your explanations should be full and complete. Be very careful in your writing. Make plain, neat, compact letters and be sure that your figures are clean-cut and easily read, and placed squarely in the column in which they should be. Be sure that dollars and cents in each column are separated by the single vertical red line. Avoid blots by being sure that your pen isn't too full of ink. Keep your hands clean and avoid soiling the page. Your writing should not be ornamental or shaded, but plain and business-like.

EXERCISE 6

191—

June 1. Bought from the Acme Furniture Co., for cash, 2 doz. elm kitchen chairs at \$14.70, \$29.40.

Since this is the furniture business, chairs, tables, beds, and other furniture bought and sold for profit must be considered Mdse. Mdse. was received; it cost value (that is, it cost you the cash paid out for it). Cash was disposed of; it produced returns (that is, the cash parted with produced in return the Mdse. received).

June 2. Bought from the Balkwill & Patch Furniture Co., for cash, 1 doz. cane seat oak dining chairs, \$27.00; 7 oak dining chairs at \$2.70 each, \$18.90; total \$45.90.

June 3. Sold to W. G. Black for cash, 3 elm kitchen chairs, at \$2.25, \$6.75; 3 oak dining chairs, at \$4.50, \$13.50; total, \$20.25.

What was received, or cost value? What was disposed of, or produced returns?

June 3. I sold to D. C. Gibbs, for cash, 6 cane seat oak dining chairs, at \$3.50, \$21.00.

June 4. Bought from Yawman & Erbe for cash, for office use, one sectional filing case, four sections and base, \$37.50. (See the note at the top of page 20.)

The thing received was not Mdsc. Why? You will have to consider this furniture. The *furniture & fixtures* account is handled exactly like the merchandise account with which you are familiar. Assuming that you are keeping an account with furniture and fixtures, make the proper journal entry, using the abbreviation *Furn. & Fix.* in the journal entry.

June 6. I bought from the Detroit Furniture Co., 15 weathered oak dining chairs, at \$3.70 each, \$55.50; 18 leather seat oak dining chairs, at \$7.50 each, \$135.00; total, \$190.50. Paid them by check.

June 7. I received a letter from F. J. Lane ordering 6 leather seat oak dining chairs, at \$11.25 each, and inclosing a postal money order for \$67.50 in payment.

If you cannot get all of the entry for the following transaction in the space remaining on page 1, turn the page at once; do not divide the entry. Write the full date, *June 9, 191—*, at the top of page 2.

June 9. I sold to W. F. Fuller for cash 4 cane seat oak dining chairs, at \$3.50 each, \$14.00; and 3 elm kitchen chairs, at \$2.25 each, \$6.75; total, \$20.75.

June 11. I bought from Jas. S. Spiegel & Sons 3 green fibre rush settees, at \$16.00 each, \$48.00; 2 kitchen cabinets, oak front, at \$36.00, \$72.00; total, \$120.00. I paid them by check.

June 13. I sold to F. J. Lane, for cash, 1 green fibre rush settee, \$24.75.

June 14. I bought from the Tobey Furniture Co., for cash, 1 revolving stool, birch, for office use, \$7.50.

This was not Mdsc. Why? What was it?

June 15. I bought a building and lot at 6914 Indiana Ave., the building being for use as a storehouse, and paid for it by check, \$4590.00.

June 16. I sold to W. F. Fuller 1 kitchen cabinet, oak front, \$47.50, and 1 green fibre rush settee, \$24.75, receiving his check for \$72.25 in payment.

June 17. I bought from Ford & Johnson 12 all iron bedsteads, at \$4.80 each, \$57.60; 6 cotton mattresses, at \$3.00 each, \$18.00. Total, \$75.60. Gave them my check in payment.

June 22. F. J. Lane returned to me 1 green fibre rush settee for which he had paid me \$24.75 in cash. I gave him his money back.

June 23. I sold to W. G. Black for cash 1 white wood kitchen table, \$10.75; 1 extension dining table, oak, \$37.50; 1 Mission china closet, quartered oak, \$56.50. Total, \$104.75.

June 24. John Smulski, a carpenter, built an addition to my storage building (Real Estate). He furnished all materials and labor, and submitted a bill for \$150.00, which I settled by delivering to him furniture as follows: 1 brass trimmed bedstead, \$15.00; 1 Turkish spring box mattress, \$37.50; 1 extension dining table, oak, \$47.50; 6 oak dining chairs, at \$4.50, \$27.00; 1 green fibre rush settee, \$23.00

Had the above work been for repairs, it would not have been proper to debit Real Estate.

June 24. I sold for cash 1 all iron bedstead, \$6.75; 1 Royal cotton mattress, \$4.50. Total, \$11.25.

June 26. I bought for office use, giving my check in payment, 1 oak desk, \$36.00.

June 28. I sold to F. J. Lane 1 quartered oak veneered dresser, \$39.75. He delivered to me in payment a United States Express money order for \$39.75 properly endorsed.

When your work has been approved, copy it carefully in your journal (or rework it, as your teacher shall direct). The journal is Book A of Blanks No. 1. The exercise will require three pages of the journal.

LESSON V

PROMISSORY NOTES

Below is shown a printed business form which has been filled out in writing. Read every word of it, both printed and written. Then answer the questions which follow:

FORM OF A PROMISSORY NOTE

\$200.00 Chicago, Ill., Sept. 2, 1911
 Ninety days after date I promise to pay to
 the order of Samuel Stewart
 Two Hundred ^{no}/₁₀₀ Dollars
 payable at Union Trust Co.
 Value received with interest at 6% per annum.
 No _____ Due _____ Geo. R. Davis

QUESTIONS

Who promises to pay?

When did he make the promise, and where was he when he made it?

To whom did he make the promise?

How much did he promise to pay?

When is the money due? How is this date determined?

Where does the promisor agree to meet the promisee to pay it?

May Davis give Stewart Mdse. worth \$200.00 instead of the money?

To whom is the above a note for money receivable?

To whom is it a note for money payable?

Explanation. The words "Value received" constitute an acknowledgment that value has been received for which the note was given. It is not necessary, in most States, that these words appear.

Parties to a Note. There are two parties, originally, to a note, called the *maker* and the *payee*. The *maker* is the person who signs it and becomes responsible for its payment. He is the payer. The *payee* is the person to whom the note is payable.

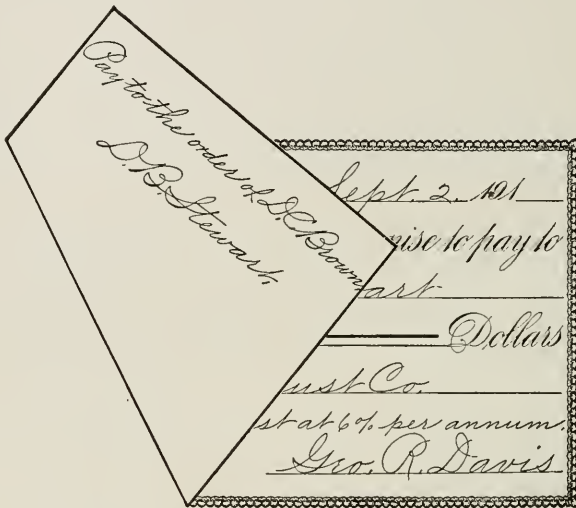
The *date of maturity* is the due date. This must be fixed definitely and usually is so fixed by its dating and words showing how many days or months after that date it is payable. Notes may be payable "on demand."

The *principal* is the amount due as written in the note. The principal is sometimes referred to as the "face" of the note. The *amount due* is the principal plus the amount accrued for interest up to the date of payment.

A note may be transferred by the payee to some one else. This transfer must be evidenced by endorsement. The person owning the paper at any time is called the *holder*.

An *endorsement* is the signature of some person other than the maker, made either for the purpose of guaranteeing the note or transferring it, usually both. The endorsement is usually written across the back of the left end of the note and when it is so written it means that the person signing the paper transfers it to some one else, and guarantees it. Thus the payee of a note could transfer it to some other person by endorsing it as shown in the following illustration.

ILLUSTRATION



The above is an illustration of a note endorsed *in full*. There are several other kinds of endorsement. Endorsement *in blank* (the signature only) is very common. Endorsement in full is better for the endorsee than any other kind.

LESSON VI

THE NOTES RECEIVABLE ACCOUNT

Payments are not always made in cash. Sometimes notes are given instead of money. When a note is in favor of the business, it is said to be a "note receivable."

One of the problems of the bookkeeper is to determine the total of notes receivable which should be on hand at any time. In order to do this he must keep a record of notes receivable received and disposed of. He therefore opens an account in the ledger headed *Notes Receivable*.

Trace the following transactions from the *Illustrative Exercise* to the *Illustration*.

ILLUSTRATIVE EXERCISE

191—

- Sept. 1. Received W. H. Stedman's note for \$160.00. .
 2. Received a note from B. V. Giles for \$225.00.
 3. C. D. Norton gave me his note for \$57.50 for Mdse.
 12. Disposed of B. V. Giles' note for \$225.00 by selling it to the bank.
 14. Geo. H. Rogers gave me Richard Roe's note for \$100.00 in exchange for Mdse.
 16. W. H. Stedman paid me \$160.00 in cash and I gave him back his note.
 18. C. D. Norton paid for his note in cash and I returned the note to him.
 19. Received B. H. Patterson's note for \$160.40.

No notes were received or disposed of during the rest of September. Find the balance of notes on hand Sept. 30.

ILLUSTRATION

Notes Receivable

191—		191—		
Sept 1		160	Sept 12	225
2		225	16	160
3		57.50	18	57.50
14		100	30	Balance ✓ 260.40
19		160.40		
		<u>702.90</u>		
Oct. 1	Balance	✓ 260.40		<u>702.90</u>

Explanation. The above is a notes receivable account. The explanations *Dr.* and *Cr.* are not written above the left and right sides, respectively, of the account, because it is assumed that by this time the student is familiar enough with the form of an account to make these explanations unnecessary.

QUESTIONS

- Items of what kind are entered upon the debit side of the account?
 Items of what kind are entered upon the credit side of the account?
 What does the total of the debit column indicate?
 What does the total of the credit column indicate?
 What does the difference between the two totals indicate?
 How can I tell whether the result of the account is correct or not?
 Which side of the account can never be the larger?
 How is the account closed?

What is done with the balance after closing? Why?

How can notes receivable come into my possession except when they are made out in my favor?

How can I dispose of a note receivable without waiting for it to be paid by the person who made it?

You have now studied the cash, Mdse., real estate, and furniture & fixtures accounts. Which one is the notes receivable account like?

Summary of the Notes Receivable Account

A note is a written promise to pay a certain sum of money on a certain day to a certain person or his order. When notes are in favor of the business, they are notes receivable. An account is kept in the ledger with notes receivable.

Entries. The notes receivable account contains records of all notes receivable received and all notes receivable disposed of, at face value.

Rule. Debit the notes receivable account when a note receivable is received either from the person who made it or from some other person. Credit the notes receivable account when a note receivable is disposed of either to the person who made it or to some other person.

Result. The difference between the total of debits and the total of credits is the balance on hand, and should agree with the notes in the drawer or safe. Items always appear on the debit side first. The debit side is always the larger.

Closing. The account is closed just as you learned to close the cash account.

Write the heading *Notes Receivable* at the top of a loose sheet of ledger paper and make the entries required for the following transactions:

EXERCISE 7

191—

- July
1. I have on hand notes amounting to \$1256.50.
 2. I bought P. A. Quigley's note. Face of note, \$420.75.
 3. I sold to Jacob Kern Mdse. invoicing at \$120.60, and received his note in payment.
 5. One of the notes I had on hand July 1 was paid in cash, \$250.00, and I returned the note to the person who made it. (It is always assumed that a note is returned to the maker when it is paid.)
 6. Andrew J. Hitchcock gave me his note for \$50.00 which he owed me.
 8. Received R. H. Lowden's note for \$116.75
 12. P. A. Quigley paid his note in cash, \$420.75.
 13. Sold Mdse. to H. A. Babcock on his note, \$126.45.
 14. Received cash from Perry & Co. for their note due this day, \$76.95.
 16. R. L. McGuire, who had owed me \$70.00 for some time, gave me his note to cover the amount due me.
 18. Jacob Kern gave me his check for \$120.60, in settlement of his note due today.

No other notes receivable were received or disposed of during the month. Balance the account, dating the balancing entry July 31 and bringing down the balance as of Aug. 1.

LESSON VII

THE NOTES PAYABLE ACCOUNT

When a person issues a note and becomes responsible for its payment, it is a *note payable*, as far as that person is concerned.

The terms *notes receivable* and *notes payable* define themselves, and need no special explanation except to remind you that in using these expressions you are always viewing the notes from the standpoint of the proprietor of the business—for what is a note receivable to him will be a note payable to the other party to the transaction, and *vice versa*.

ILLUSTRATIVE EXERCISE

191—

- Oct. 1. I issued my note for \$125.50.
 2. I bought Mdse. invoicing at \$160.00 and gave my note in payment.
 3. I mailed a promissory note to Brown & Co. for the amount I owed them, \$250.75.
 11. I paid \$125.50 in cash for the note issued Oct. 1, and received it back, canceled.
 12. I gave Jacobs & Holmes my 60-day note for \$200.00 due them.
 17. I redeemed in cash the note issued on Oct. 2.
 18. I bought Mdse. on my 15-day note, \$136.75.
 19. I paid Brown & Co. \$250.75 in cash in settlement of the note they held against me.

ILLUSTRATION

Notes Payable

191—		191—		
Oct. 11		125.50	Oct. 1	125.50
17		160	2	160
19		250.75	3	250.75
31	Balance	✓ 336.75	12	200
			18	136.75
		873.00		873.00
			Nov. 1	Balance ✓ 336.75

Explanation. The above is an illustration of the Notes Payable account.

QUESTIONS

- Items of what kind are entered upon the credit side of the account?
 Items of what kind are entered upon the debit side of the account?
 What does the total of the credit column indicate?
 What does the total of the debit column indicate?
 Which side can never be the larger?
 What does the difference between the two sides indicate?
 How is the account closed?
 What is done with the balance after closing? Why?
 On which side is the red ink balance entered?
 On which side is the balance brought down in black ink?
 What is the advantage of balancing the account? Can you think of any disadvantage?

Summary of the Notes Payable Account

A record of notes issued and redeemed is kept in the ledger under the heading *Notes Payable*. This is called the notes payable account. It is the exact reverse of the notes receivable account, in which are kept records of the notes received and disposed of.

Entries. The notes payable account contains records of all notes payable issued and all notes payable redeemed.

Rule. Credit the notes payable account when we issue notes. Debit the notes payable account when we redeem notes issued by us.

Result. The result is a balance which is the amount of our notes outstanding. Items always appear on the credit side first. The credit side is always the larger.

Closing. The balance is entered on the debit side in red ink and brought down on to the credit side in black ink.

Prepare Exercise 8 (an account headed *Notes Payable*) on the same page with Exercise 7, leaving six blank lines between the two. When both have been approved, copy them (or work them again, as your teacher shall direct) on page 4 of your ledger (Blanks 1, Book B).

EXERCISE 8

191—

- Aug. 1. Outstanding notes at this time amounted to \$1250.65.
 2. Issued my 15-day note to W. H. Chapman for Mdse., \$215.20.
 3. Paid cash for my note in favor of W. G. Simpson, \$162.75.
 4. E. L. Travers, to whom I owed \$100.00, presented a note for the amount, which I signed at his request.
 5. Borrowed \$500.00 from the First National Bank, giving my 60-day note for the amount.
 6. Redeemed my note for \$240.70 which matured today, in cash.
 9. Gave Jerome B. Howard my 30-day note for \$169.37, to cover an amount due him.
 17. Jesse A. Baldwin presented a note signed by me, for \$215.20. This note had been sold to him by W. H. Chapman. After making certain that the note was properly indorsed, and was due this day, I paid it in cash.
 18. Bought a National Cash Register for \$225.00 on my 30-day note.

Close the account as of Aug. 31.

LESSON VIII

TRANSACTIONS TO BE JOURNALIZED

Before proceeding with the work of journalizing the transactions stated below, please consider the following in review.

In every transaction there is an equal exchange of values; one thing is received (or costs value), and another thing is disposed of (or produces returns).

Whenever anything is received, it costs value. Whenever anything is disposed of, it produces returns. A little reflection will show you that the expressions "received" and "cost value" can be used interchangeably. They do not mean the same, but when one is true the other is also true. The same may be said of the expressions "disposed of" and "produced returns," because when a thing is disposed of in trade it produces returns.

In journalizing the following, apply the rule for journalizing in its more extended form, thus:

Debit the account of that which is received (or costs value). Credit the account of that which is disposed of (or produces returns).

The accounts with which you are now familiar are the *cash*, *merchandise*, *real estate*, *furniture and fixtures*, *notes receivable*, and *notes payable* accounts.

When journalizing notes ask yourself in each case: First, was it a note receivable or a note payable? Second, was it received or parted with?

EXERCISE 9

191—

Sept. 1. I bought from the John V. Farwell Co., for cash, 4 Bagdad Wilton rugs, at \$22.50, \$90.00; 8 Bagdad Wilton rugs, at \$37.50, \$300.00; total, \$390.00.

Sept. 2. I bought from Marshall Field & Co. 5 Royal Wilton rugs, at \$40.00, giving them in payment my non-interest-bearing note for \$200.00 due in twenty days.

Sept. 3. I sold for cash 3 Kordo velvet rugs, at \$9.50, \$14.00, and \$18.50 respectively.

Sept. 5. I sold to Arthur A. Lyons 2 Saxony Axminster rugs, at \$14.90 and \$16.90 respectively. He gave me in payment his 15-day note, without interest, for \$31.80.

Sept. 7. I purchased from the Indiana Carpet Co. 100 sq. yds. Jap matting, at 18½¢, \$18.50; 250 sq. yds. H. E. China matting, at 12¢, \$30.00; total, \$48.50. Gave them my 20-day note, without interest, for the amount.

Sept. 9. J. E. Silver & Co. invoiced to me 400 sq. yds. E quality printed linoleum, at 25¢, \$100.00. I gave them my check for the amount.

Sept. 10. The Derby Desk Co. delivered, for office use, 1 desk and stool, \$45.00; 1 3-section filing case, \$32.50; 1 typewriter desk and stool, \$27.50; total, \$105.00. I gave them \$50.00 in currency and my check for \$55.00.

Sept. 11. I bought from the Studebaker Mfg. Co. an auto-truck for delivery purposes, \$1250.00, giving in exchange my 60-day note bearing interest at 6%.

Assume that you are keeping an *Auto-truck* account in your ledger. This account is kept just like the real estate account.

Sept. 11. I bought the garage and lot located at 7269 Parnell Ave., paying for it by check, \$1875.00.

Sept. 14. I sold to S. N. Webster, accepting his 10-day note without interest in payment, 4 Smyrna rugs, at \$4.40, \$17.60; 40 yds. body Brussels carpet, at \$1.30, \$52.00; total, \$69.60.

Sept. 15. Received J. H. Kimmons' check for \$82.95 in payment for 3 seamless Wilton rugs, at \$27.65 each.

Sept. 16. R. H. Rennie gave me his note for \$25.30 due in 30 days, at 6% interest, for 1 Saxony Axminster rug.

Sept. 20. Arthur A. Lyons paid me by check \$31.80, to cover the amount due on his note of Sept. 5.

Sept. 22. I redeemed my note of Sept. 2 in favor of Marshall Field & Co. for \$200.00, by a cash payment.

Sept. 22. Sold to S. R. Lawton 40 sq. yds. E quality printed linoleum at 40¢, \$16.00, receiving his five-day note without interest in payment.

Sept. 24. S. N. Webster paid his note due today in cash. This was the note I received from him Sept. 14.

Sept. 24. I bought from John V. Farwell Co., on my 30-day note without interest, 4 Bagdad Wilton rugs, at \$15.00, \$21.25, \$24.50, and \$27.50 respectively; total \$88.25.

Sept. 27. I remitted to the Indiana Carpet Co. \$48.50 in payment for my note dated Sept. 7 and due today.

Sept. 27. S. R. Lawton paid me in cash the amount due me on his 5-day note dated Sept. 22.

Sept. 28. I sold half of the lot at 7269 Parnell Ave. to W. E. Lowe for \$800.00, accepting his 30-day note at 6% interest in payment.

Sept. 28. I bought an assorted lot of window fixtures from the Central Window Display Co. for \$125.00, giving in exchange my 60-day note at 5%.

Sept. 29. I sold to Arthur A. Lyons 36 sq. yds. Jap matting at 30¢, \$10.80; and 36 sq. yds. H. E. China matting, at 20¢, \$7.20; total, \$18.00. He gave me his 30-day note at 6%.

Sept. 30. I received from Marshall Field & Co. 24 jute rugs, at 80¢, \$19.20; 30 jute rugs, at \$1.42½, \$42.75; total, \$61.95. They accepted my 30-day note, at 6%, in payment.

LESSON IX

ENTRIES HAVING MORE THAN ONE DEBIT AND ONE CREDIT

Trace the following transactions from the *Illustrative Exercise* to the *Illustration*.

ILLUSTRATIVE EXERCISE

191—

Sept. 1. I sold to Wm. H. Morrison 90 brls. Winesap Apples, at \$5.00, \$450.00. In exchange he gave me his 60-day note at 6% for \$250.00 and his check for \$200.00.

Sept. 3. I received \$201.67 in cash from Geo. W. Wilkins in settlement of his 60-day note due today for \$200.00, and interest which had accrued on it at 5% amounting to \$1.67.

Sept. 5. I bought from Jas. King the store building and lot located at 4726 Michigan Ave. for \$7750.00, and paid for it by giving my 90-day note at 6% for \$5000.00, merchandise worth \$250.00, and cash for the balance.

Sept. 6. My note in favor of H. K. Jones fell due today. The face of the note was \$100.00 and interest had accrued for 60 days at 6% amounting to \$1.00. I delivered in payment 1 Morris chair at \$35.50, and cash for the balance.

ILLUSTRATION

September 1, 191-

Notes Rec.	250	
Cash	200	
Mdse.		450
Sold to Wm. H. Morrison 90-dls. Winesaps, at \$5 ⁰⁰ . Rec'd his 60-day note at 6% for \$250 ⁰⁰ and cash for bal.		
		3
Cash	20167	
Notes Rec.		200
Interest		167
Rec'd cash from Geo. H. Wilkins in settlement of his note due today and interest for 60 days at 5%		
		5
Real Estate	7750	
Notes Pay.		5000
Mdse.		250
Cash		2500
Bought from Jas. King, the store & lot located at 4726 Michigan Ave. Gave him my 90-day note at 6%. Mdse. worth \$250 ⁰⁰ , and cash for the balance		
		6
Notes Pay.	100	
Interest	1	
Mdse.		3550
Cash		6550
Paid my note in favor of N. K. Jones and interest for 60 ds. at 6%. Gave him 1 Morris Chair, \$35.50, and cash for bal.		

After carefully examining the foregoing transactions and tracing them to the illustration as suggested, study the model, especially noting the exact position of each item in each entry. Then, covering the model, write the transactions independently on a sheet of loose journal paper, afterward comparing your work in every detail with the model.

Summary

Every transaction consists of an equal exchange of values, but there may be more than one thing received or more than one thing given. There may be two or more debits, or two or more credits, or both. The debits and credits must exactly equal each other, however, in every transaction. In the journal entry, the debits must be all in the same relative position, and the credits must be all in the same relative position.

THE INTEREST ACCOUNT

Interest is the use of money for which consideration is paid. When one party uses money belonging to another, he should pay for that use. The amount of the payment for interest depends upon the length of time the money is held by the borrower or user and the rate per cent agreed upon. When one party makes an interest-bearing note in favor of another, it is an acknowledgment that he is holding (receiving the use of) money belonging to that other and an agreement to pay for its use at a certain rate. The rate is customarily stated as a certain per cent of the principal *per annum*.

ILLUSTRATIVE EXERCISE

191—

- Sept. 1. Received the use of money for which use I paid \$5.76.
2. The use of money borrowed from John Smith cost me \$2.35.
3. The First National Bank loaned me \$1000.00. I paid them \$8.33 for the use of this money for sixty days.
4. I loaned H. E. Hill \$200.00 and the loan brought me returns for interest, \$2.50.
5. John Doe borrowed \$500.00 from me and paid me \$4.50 for the use of the money.
6. I paid \$7.50 for interest on money borrowed from H. E. Kessler.
8. John Castle paid me \$303.50 for his note due this day, \$300.00, and interest, \$3.50 (consider only the amount collected for interest, in making the entry in the interest account).
9. I redeemed my note in favor of C. H. Harris, \$400.00, on which \$8.75 had accrued for interest, by giving him my check for \$408.75.

No other transactions involving interest took place during the month. On Sept. 30, \$16.75 had accrued for interest on my money held by others, and I owed \$12.60 for interest on money belonging to others and being used by me.

ILLUSTRATION

Interest

191-		191-		
Sept 1		576	Sept 4	250
2		235	5	450
3		833	8	3.50
6		750	30 Inventory	✓ 1675
9		575	30 Loss	1804
30 Inventory	✓	1260		
		4529		4529
Oct 1 Inventory	✓	1675	Oct 1 Inventory	✓ 1260

Explanation. The above is an account with interest, with both debit and credit inventories, closed.

QUESTIONS

- On which side are costs of Mdse. entered in a Mdse. account?
- On which side are entered costs of interest in the above illustration?
- On which side are entered returns for interest?
- On which side are entered costs which have accrued but are not yet paid? What are these called?
- On which side are entered returns which have accrued but are not yet paid? What are these called?
- What does the lead pencil total on the debit side show?
- What does the first lead pencil total on the credit side show?
- What does the second lead pencil footing on the credit side show?
- After the inventories have been entered, what does the excess of the debit side over the credit side show? Had the credit side been the larger, what result would have been shown?
- How are the inventories brought down?

Summary of the Interest Account

Interest is the use of money for which consideration is paid. When I receive the use of Smith's money I should pay for that use. When I give Smith the use of my money he should pay me for that use. When I receive the use of others' money, therefore, and give value for it, interest costs me. When I part with the use of my money, and receive value in exchange, interest produces returns to me.

Entries. The interest account contains records of all items of cost of our use of money belonging to others, and all returns to us from others for their use of our money. (Stated more briefly, the *costs* and *returns* arising from interest.)

Rule. Debit the interest account when interest costs us. Credit the interest account when interest produces us returns.

Result. When all amounts due for interest from us and to us are paid, the interest account shows a loss if the debit side be larger, or a gain, if the credit side be larger.

Inventories. Costs for interest which have accrued up to the time the account is closed, but have not yet been paid or otherwise adjusted, are entered upon the debit side in red ink and added to the costs which have been actually paid or otherwise adjusted. Returns for interest which have accrued up to the time the account is closed, but have not yet been paid, are entered on the credit side in red ink and added to the returns which have been actually made.

Closing. The loss or gain is entered upon the smaller side in red ink, and the account is ruled and footed. The inventories are brought down, each being entered in black ink upon the side opposite that on which it was entered in red.

EXERCISE 10

Open an interest account by writing the heading *Interest* on a sheet of ledger paper and make entries in this account for the transactions following. *Do not attempt to journalize.* Enter the interest items only and enter them direct in the ledger account.

191—

Oct. 1. Received \$10.00 in cash from L. L. Snell for interest due me on money borrowed.

Oct. 4. Paid \$6.50 to the First National Bank for interest on my note in their favor.

Oct. 7. I held a note against S. S. Parkinson for \$100.00 due this day. Interest had accrued amounting to \$1.60, and he gave me his check for \$101.60 in settlement. (Enter the item of interest only.)

Oct. 12. The Citizens Bank presented a note signed by me for \$250.00, due this day, with \$2.67 interest accrued. I paid it by check.

Oct. 16. The semi-annual interest on a mortgage which I held against Fairview Farm fell due and was paid to me in cash, \$45.00.

Oct. 18. I held a note against Harold E. Smith due today with \$7.50 interest accrued. Smith could not pay the note, but he paid me \$7.50 for interest and secured an extension of the note.

Oct. 20. S. T. Herman gave me his check for \$152.25, for his note due today, \$150.00, and interest, \$2.25.

Oct. 24. I paid E. E. Trotter \$263.00 in cash for my note in his favor, due today, \$257.50, and interest, \$5.50.

Oct. 31. Interest accrued on my money being used by others, \$23.50. (Red ink entry of inventory, on credit side.)

Oct. 31. Interest accrued on money of others being used by me, \$17.60. (Red ink entry of inventory, on debit side.)

Find the gain or loss for interest for October and enter it on the smaller side in red ink. Rule the account and foot the columns. Bring the inventories down below the double rulings, each on the side opposite that on which it was entered in red. When your work has been approved, copy the account (or work it again, as your teacher shall direct) on page 4 of your ledger, leaving four blank lines below the notes payable account.

LESSON X

ACCOUNTS WITH PERSONS

Trace the following transactions from the *Illustrative Exercise* to the *Illustration*.

ILLUSTRATIVE EXERCISE

191—

- Sept. 1. I sold B. L. Thompson, 3346 Indiana Ave., Mdse. invoicing at \$47.50, for which he did not pay me at the time.
 Sept. 2. I sold B. L. Thompson on account a bill of goods, \$23.76.
 Sept. 3. I received B. L. Thompson's note in part payment of what he owed me, \$25.00.
 Sept. 14. Sold B. L. Thompson on account goods invoicing at \$17.75.
 Sept. 15. B. L. Thompson paid me \$20.00 in cash.
 Sept. 26. B. L. Thompson returned Mdse. which I had sold him, \$2.30.
 Sept. 27. Sold Mdse. to B. L. Thompson on credit, \$12.50.

ILLUSTRATION

B. L. Thompson

191—		191—		3346 Indiana Ave.	
Sept. 1		47.50	Sept. 3		25
2		23.76	15		20
14		17.75	26		2.30
27	Bal. due	12.50			
		127.51			

Explanation. The above is an account with a person,* or personal account. When persons get something of value from us without making settlement at the time, a claim against them is established in our favor. When we get something of value from others without making settlement at the time, a claim is established against us in their favor. An account is opened with each person against whom we receive such claims or to whom we give such claims against us and the amounts of these claims and of payments made in settlement or reduction of them are entered in the account. All such dealings with persons are said to be "on account" because they are to be recorded in the account with the person. A personal account should always be headed with the name and address of the person. A person who owes us is our debtor; one whom we owe is our creditor.

The terms *debtor* and *creditor* apply to persons only, not to the sides of an account. The left side of an account is the *debit* side, and the right side is the *credit* side.

*The word "person" as used throughout this lesson, will be understood to mean *person, firm, or corporation*.

Accounts of this class far outnumber all other accounts in the ledger of an ordinary concern doing a credit business.

QUESTIONS

With what person does the above account show that I have had business dealings?

What is his address?

Upon which side was the entry made when I received a claim against him?

Upon which side was the entry made when he paid me and thus reduced the amount of my claim?

What was the total of claims against B. L. Thompson received by me during September?

What was the total of B. L. Thompson's payments in reduction of my claims against him?

How much does he still owe me?

NOTE. The foregoing illustration is an account with a customer. The debit entries or claims against him (charges) amount to more than do the credit entries, which represent his payments. An account with a person from whom I buy would probably show a larger credit side than debit side and its balance would be payable rather than receivable.

Summary of Personal Accounts

Entries. Claims against others on account, claims of others against us, and payments by or to us on account are entered in personal accounts.

Rule. Debit the account of a person when we receive a claim against that person on account; credit the account when he pays. Credit the account of a person when we give that person a claim against us on account; debit the account when we pay him.

Result. The difference between the two sides shows whether the person owes us or we owe him, and how much. If the debit side be the larger he owes us; if the credit side be the larger, we owe him. A neat lead pencil footing is placed close beneath the last item in each column. The difference between these two footings is then ascertained and written in small lead pencil figures at the left of the larger footing, just outside of the money column.

Closing. Personal accounts are not customarily ruled, except when they are paid in full and the two sides are equal; in forwarding, the better plan is to forward the balance only.

NOTE. It will be observed that the rule for personal accounts is not different from every other rule you have learned; nor will you ever learn any different rule. The rule "Debit what is received; credit what is disposed of" is of universal application. In the case of a personal account, it is apparent that we are keeping records of claims against and in favor of persons, and that this record is debited when a claim is received and credited when a claim is disposed of. It follows naturally that when payments are made in reduction of claims the entries are made on the side opposite that on which the claim was entered; so we credit the accounts of persons who make payments on account and debit the accounts of persons to whom we make payments on account.

NOTE. Accounts with persons to whom we sell can be compared to the account with notes receivable, and accounts with persons from whom we buy can be compared to notes payable. In the case of notes, the promise to pay is always written, whereas in the case of personal accounts the promise to pay is either a verbal promise or an implied promise, but the accounts are handled in the same way. One form of dissimilarity is that a personal account may contain items both payable and receivable, so that sometimes the balance is on the opposite side from what would ordinarily be expected. Sometimes two accounts are kept with the same person, one account showing what we have bought from him, and payments thereon; the other showing what he has bought from us, and payments thereon.

Open accounts with McNeil & Co., 569 S. Water St., L. W. Sherman, 4827 Yale Ave., and R. L. Peterson, 5132 Princeton Ave. Give each account one-third of a page. Write the names in a bold, strong hand; the addresses should be written neatly and legibly, but very small, on the next line. Do not attempt to journalize. Simply enter the debits and credits of personal accounts directly into the accounts.

191—

EXERCISE 11

- Nov. 1. Bought Mdse. from McNeil & Co. on account, \$276.28.
 2. Sold Mdse. to L. W. Sherman, on account, \$10.52.
 3. Sold Mdse. to R. L. Peterson, on account, \$8.93.
 4. Purchased from McNeil & Co., on credit, Mdse. invoicing at \$153.65.
 5. Sold on credit to L. W. Sherman, goods billed at \$22.50.
 6. Sold a bill of goods on credit to R. L. Peterson, invoicing at \$12.75.
 8. Paid McNeil & Co. cash on account, \$100.00.
 9. Received from L. W. Sherman cash on account, \$15.00.
 10. Received from R. L. Peterson cash on account, \$10.00.
 11. McNeil & Co. billed to me Mdse. on credit, \$87.50.
 13. L. W. Sherman bought Mdse. on account, \$5.67.
 14. R. L. Peterson purchased Mdse. from me on account, \$7.87.
 14. I returned Mdse. to McNeil & Co., \$12.60.
 16. L. W. Sherman returned Mdse. to me, \$2.22.
 17. R. L. Peterson gave me his note, \$15.00.
 18. I gave McNeil & Co. my note for \$100.00.
 19. Sold L. W. Sherman Mdse. on account, \$11.34.
 20. R. L. Peterson bought Mdse. from me on credit, \$4.86.
 22. I purchased Mdse. from McNeil & Co., on account, \$23.65.
 22. R. L. Peterson paid me cash in full of account, \$——.
 After making the entry rule and foot the account.
 23. I paid McNeil & Co. cash on account, \$50.00.
 24. I collected cash from L. W. Sherman, \$15.00.
 25. Sold to R. L. Peterson Mdse. billed at \$15.62.
 26. Paid cash to McNeil & Co. to balance our account with them, \$——.
 After making the entry, rule and foot the account.
 28. Sold to L. W. Sherman Mdse. billed at \$6.73.

Show the amount due from L. W. Sherman, making neat lead pencil figures in the wide column on the debit side, as shown in the illustration on page 33.

THE PROPRIETOR'S ACCOUNT

The proprietor's account is the account in which are shown the investments in the business made by the proprietor, and the withdrawals from the business made by him. The net gain of the business, as periodically determined, is usually allowed to remain in the business as an additional investment; if a net loss be shown instead of a net gain, the net loss is treated as a withdrawal.

Entries. These are the investments made by the proprietor and his withdrawals, as described above.

Rule. Debit the account for amounts invested by the proprietor. Credit it for his withdrawals.

Result. The difference between the two sides of the account shows the amount of the proprietor's net investment (the net capital of the business) if the credit side be the larger; if the debit side be the larger, a net insolvency is shown.

Closing. The proprietor's account is closed with a balance, at the time of closing other ledger accounts.

NOTE.—The business itself is the property of the proprietor. Hence it cannot be said, in a logical sense, that the business owes the proprietor anything. In a strictly formal bookkeeping sense, however, the books appear to show that the business owes the proprietor the balance of the proprietor's account. This is sometimes referred to as an "inside" liability. The proprietor cannot be sure of that balance, however, until all debts to outside creditors are paid, and even then the business would not owe it to him, because he owns the business, and therefore has the assets of the business in his own possession. The resemblance between the proprietor's account and an account with a creditor is close enough, however, to permit of a comparison of the rules for debit and credit, thus:

Credit the account of the	{ creditor }	}	for what he	{ gives }
	{ proprietor }	}		{ invests }
Debit the account of the	{ creditor }	}	for what	{ we pay him }
	{ proprietor }	}		{ he withdraws }

The resemblance above noted is so evident that it is not considered necessary to give an illustration of the proprietor's account here. Sufficient instruction has been given to enable the student to make the entries required before he reaches page 68, where there is shown a full form of the proprietor's account.

THE EXPENSE ACCOUNT

Items of expenditure for the conduct of the business* are called expense. This includes such items as rent, coal, salaries and wages, non-productive labor, and all smaller incidental expenses. An expense account is usually kept in the ledger.

ILLUSTRATIVE EXERCISE

191—

- Sept. 1. Paid rent for September in cash, \$75.00.
 Sept. 2. Bought postage stamps for cash, \$20.00.
 Sept. 4. Bought from Smith & Co., on account, 4 tons coal at \$3.60, \$14.40.
 Sept. 6. Paid the clerk's salary in cash, \$14.00.
 Sept. 8. Sold for cash 200 2¢ stamps.
 Sept. 13. Paid the clerk's salary in cash, \$14.00.
 Inventories Sept. 30. Coal on hand, 2 tons at \$3 60, \$7.20. Salary due clerk, \$30.00

ILLUSTRATION

Expense

191—		191—		191—	
Sept. 1		75		Sept. 8	4
2		20		30 Inventory	7 20
4		14 40		30 Loss	156 20
6		14			
13		14			
30	Inventory	30			
		167 40			
Oct. 1	Inventory	720	Oct. 1	Inventory	30
					167 40

* "Expenditure for the conduct of the business" must be understood as exclusive of outlay for trading and investment items. This does not include interest, however, or any other class of expenditure for which an independent account is kept. Items of tangible property are not usually considered expense unless they are consumed in the using.

Entries. Items of cost incurred in running the business and rebates or returns from such items, are entered in the expense account.

Rule. Debit the expense account for all items of cost incurred in running the business; credit the expense account for rebates or returns from such items, if any (as when postage stamps, the cost of which has been charged to expense, are sold for cash).

Inventories. Anything remaining on hand at the time of closing the account which has been charged to expense (e. g., coal, postage stamps, floor oil, etc.), must be entered as an inventory on the credit side in red ink before closing. Any obligations for expenses which have accrued but have not yet been met, such as clerks' wages or salaries earned and unpaid, must be entered as an inventory on the debit side before closing.

Result. When the account contains none but debit items, the total of the debit side shows the cost of expense for the period covered by the account. If there are any credit items these must be deducted.

Closing. The account closes with a loss. Inventories must be brought down in red ink, in each case onto the side opposite that on which it was entered in red.

LESSON XI

EXERCISE 12

REVIEW EXERCISES IN JOURNALIZING

Journalize the following transactions, beginning on a new page of the journal. 191—

- Dec. 1. Paid cash for December rent, \$75.00.
 Dec. 2. Bought for cash 12 brls. Washburn-Crosby Superlative flour, at \$4.50, \$54.00.
 Dec. 3. Paid the bookkeeper's salary for the week in cash, \$12.50.
 Dec. 5. Sold to J. W. Swinton on his 20-day note at 6%, 225 bu. oats, No 2 white, at 32¢ a bushel, \$72.00.
 Dec. 6. Sold to W. S. Rankin, 383 La Salle St., on account, 4 brls. Washburn-Crosby Superlative flour, at \$5.60, \$22.40.

When a personal account is opened, the person's address must appear in the first entry that is made, as shown in the illustration herewith.

ILLUSTRATION

<p style="text-align: center;">6</p> <p><i>W. S. Rankin</i> <i>Mdse.</i> <i>4 brls. W. C. Superlative flour at</i></p>	<p><i>383 La Salle St.</i></p> <p style="text-align: right;"><i>5.60</i></p>	<p style="text-align: right;"><i>22.40</i></p> <p style="text-align: right;"><i>22.40</i></p>
--	--	---

- Dec. 6. Bought from B. F. Harman the building and lot located at 1231 State St. for \$12,000.00, giving in payment our check for \$7000.00 and our 15-day note at 6% for \$5,000.00.
 Dec. 6. Sold for cash 75 bu. No. 3 yellow corn, at 49¢, \$36.75.

- Dec. 7. A. J. Brock, 4265 N. Robey St., invoiced to us, terms cash 10 days,* 300 bu. wheat, at \$1.02, \$306.00.
- Dec. 8. Sold to H. B. Pitton 100 bu. wheat, at \$1.07½, \$107.50, receiving his check in payment.
- Dec. 10. Gave the bookkeeper a check for his salary, \$12.50.
- Dec. 12. B. F. Wylie, 7647 Peoria St., ordered by telephone 50 bu. No. 3 yellow corn, at 56¢. We delivered this to him and charged the amount of the bill to his account.
- Dec. 13. Bought for cash 400 bu. wheat, at 95¢, \$380.00.
- Dec. 13. Paid the drayman \$12.50 for deliveries made for us during November.
- Dec. 16. W. S. Rankin gave us his note for \$22.40 to cover his bill of Dec. 6. The note was a 30-day note at 6%, and was dated Dec. 6.
- Dec. 17. In accordance with the terms of our agreement with A. J. Brock we gave him our check for the amount due on his bill of Dec. 7.
- Dec. 18. Paid the bookkeeper's salary, \$12.50, giving him \$2.50 in cash and our check for \$10.00.
- Dec. 20. Sold 100 bu. oats, No. 2 white, to C. J. Andrews, at 32¢. He gave us in payment his 60-day note at 5%, for \$32.00.
- Dec. 20. Bought from Farson and Son on our 60-day note without interest 500 bu. corn, No. 4 white, at 44½¢, \$222.50.
- Dec. 21. Our 15-day note dated Dec. 6 fell due this day, and we paid for the note, \$5000.00, and interest accrued on it for 15 days at 6%, \$12.50, by giving our check for \$5012.50.
- Dec. 24. B. F. Wylie claimed that part of the corn we sold him on Dec. 12 was not up to grade, and returned 10 bu., for which we gave him credit at the purchase price, 56¢ (Dr. Mdse. \$5.60; Cr. B. F. Wylie, \$5.60).
- Dec. 24. Saturday the 25th being a holiday, we paid the bookkeeper's salary tonight in cash.
- Dec. 27. The 25th being a holiday, and the next day being Sunday, J. W. Swinton's 20-day note of Dec. 5 was not paid until the 27th. He gave us his check to cover the note for \$72.00, and interest at 6% for 22 days, 26¢. Total of check, \$72.26.
- Dec. 27. Borrowed \$1000.00 from the Second National Bank on our note for 30 days at 6%. As customary in such cases the bank deducted the sum due for interest, \$5.00, in advance, paying us \$995.00 in cash.
- Dec. 28. Sold to T. J. Hart on his 30-day note without interest, 100 bu. wheat at \$1.09, \$109.00.
- Dec. 29. Bought from Carson, Pirie, Scott & Co., cor. Adams and Market Sts., for cash, 1 No. XX98 display case, oak, for \$4.25.
- Dec. 30. Discounted at 6% our 60-day note for \$222.50 in favor of Farson and Son dated Dec. 20. This means that we paid it 50 days before it was due in order to secure a discount. Farson and Son allowed us to deduct for 50 days' interest at 6%, \$1.85, paying them \$220.65 in cash.

*This means he allowed us ten days in which to pay the bill.

Dec. 31. T. J. Hart discounted at 6% his 30-day note for \$109.00 in our favor dated Dec. 28. This means that he paid it 27 days before it was due, in order to secure a discount. We allowed him to deduct for 27 days' interest at 6%, \$.49, paying us \$108.51 in cash.

Journalize the transactions for June given below, which assume the following accounts to be kept in P. S. Spangler's ledger: Cash, Mdse., Real Estate, Furniture & Fixtures, Interest, Expense, Notes Receivable, Notes Payable, personal accounts, P. S. Spangler-Proprietor.

EXERCISE 13

191—

June 1. P. S. Spangler has this day invested in business cash, \$12500.00 (Debit Cash; credit P. S. Spangler-Proprietor).

June 1. Bought from R. E. Morris the retail grocery business located at 2113 Broad St., Your City, paying in cash for the following properties: Mdse., \$3750.00; building and lot, \$6500.00; store furniture and fixtures, \$550.00; and a 30-day note for \$200.00 signed by G. C. Claybaugh, dated May 9, on which interest had accrued at 6% amounting to 77¢. (The explanation should make a complete statement of what took place and no important detail should be omitted.)

June 2. Bought from H. T. Jett, 2738 Topeka St., on account, 100 doz. cans No. 2 Telephone peas, at \$1.10, \$110.00.

June 3. Purchased from F. E. Lakey, 1816 Michigan Ave., on our 10-day note at 6%, 144 doz. cans No. 2 extra standard apricots, at \$1.50, \$216.00.

June 4. Sold to H. S. Clay, 1312 Lexington St., on account, 90 lbs. California prunes, at 17¢, \$15.30; 3 boxes Muscatel raisins, 150 lbs. at 9¢, \$13.50; total, \$28.80.

June 6. Bought from the Remington Typewriter Co., 154 Wabash Ave., on our 15-day note at 6%, 1 No. 10 machine, \$105.00; 1 8-drawer typewriter desk, \$15.00; 1 stenographer's chair, \$6.75; total, \$126.75.

June 6. Paid the clerk's salary for the week ending today, in cash, \$15.00.

June 8. G. C. Claybaugh paid cash for his note due today, \$200.00, and interest, \$1.00.

June 9. Bought from B. J. Still & Bros., 1625 Rolfe Boul., on account, 66 lbs. Santos coffee, at 20¢, \$13.20; 150 lbs. finest Mexican coffee, at 18¢, \$27.00; total, \$40.20.

June 10. Sold to Geo. H. Zinnel, 1927 Nicolet Ave., 50 lbs. extra choice Formosa tea, at 70¢, \$35.00. Received in exchange his 15-day note, at 6%.

June 11. Sold to C. C. Parlin, 2536 Wausau Ave., on account, 70 lbs. fine Japan tea, basket fired, at 40¢, \$28.00.

June 12. Paid H. T. Jett in cash the amount of his invoice of June 2, \$110.00.

June 13. Paid in cash for our note in favor of F. E. Lakey, \$216.00, and interest for 10 days, \$.36.

June 13. H. S. Clay paid cash to settle our bill of June 4, \$28.80.

June 13. Paid the clerk's salary for the week in cash, \$15.00.

June 15. Paid the scrubwoman cash for services, \$3.50.

June 16. C. C. Parlin paid us \$10.00 in cash to apply on account.

June 18. Sold to H. S. Clay on account, 9 doz. bottles Mammoth olives, at \$7.50, \$67.50.

June 19. Sold to Geo. H. Zinnel, 1927 Nicolet Ave., on account, 90 lbs. imported Westphalia ham, at 35¢, \$31.50; 4 boxes Kingsford's Silver Gloss starch, at \$4.75, \$19.00; total, \$50.50.

- June 20. Paid the clerk's salary in cash as before.
- June 21. Received from H. S. Clay on account his 60-day note, at 6%, for \$50.00.
- June 21. Paid by check our note in favor of the Remington Typewriter Co., \$126.75, and interest for 15 days at 6%, \$.32.
- June 22. Sold to C. C. Parlin on account 3 boxes Fels Naphtha soap, at \$4.25, \$12.75.
- June 24. Geo. H. Zinnel paid in cash his note in our favor dated June 10, \$35.00, and interest for 14 days at 6%, \$.08.
- June 24. Petty (small) sales of Mdse. for cash amounted to \$69.43.
- June 24. P. S. Spangler, the proprietor, withdrew cash for private use, \$25.00.
- June 26. Received \$18.00 in cash from C. C. Parlin for the balance due on the invoice sold to him June 11.
- June 27. Paid the clerk's salary in cash as before.
- June 27. Received \$12.50 cash from Geo. H. Zinnel on account.
- June 29. Sold to H. S. Clay, on account, 8 doz. cans clam chowder (quarts), at \$3.00, \$24.00; 6 doz. cans chicken gumbo soup (quarts), at \$3.25, \$19.50; total, \$43.50.
- June 30. Bought a straight-backed chair for the stenographer, for cash, \$2.25.
- June 30. Sold the stenographer's old chair at second hand for \$4.25 cash.

INVOICES

An *invoice* is a written list of the items of some particular sale of goods, showing the quantity, name, price, and amount of each item sold, and the total of the sale. It is

NEW YORK, <u>April 30</u> , 191 <u> </u>	
Messrs. <u>John King & Co.</u>	
<u>1133 Broadway, City.</u>	
BOUGHT OF MASON & OSGOOD	
TERMS: 30 DAYS	
32 lbs. <u>Y. H. Tea</u>	.45 14.40
75 " <u>Java Coffee</u>	.20 15.00
25 lbs. <u>Mackerel</u>	1.50 45.00
48 lbs. <u>Herring</u>	.275 13.20
15 " <u>Val Raisins</u>	1.40 21.00
	108.60

prepared at the time of the sale or shipment and is submitted to the customer as a memorandum of the sale. Invoices are usually prepared on printed forms, the headings of which contain the name and address of the seller, with blank spaces in which the name and address of the buyer, the date of the sale, and perhaps other important data, may be inserted.

The student should be careful not to confuse invoices with statements. Statements of account are made periodically (usually monthly) to customers, and a statement may cover a number of invoices. Only the total amount and date of each invoice appears on the statement.

Avoid indiscriminate use of the word "bill." This is a word which is loosely used to mean an invoice, a statement, a dun, a piece of currency, a bill of exchange, or a proposed legislative enactment. Because it has many meanings, the word "bill" should be avoided and the more specific word used whenever possible. Sometimes, as when a charge for services rendered is submitted in writing, the word "bill" seems to be the only one which can be used.

LESSON XII

DEFINITIONS AND PRINCIPLES

Review

TO THE STUDENT: It is assumed that you have now an understanding of the nature of an account and of the rule of debit and credit. An intelligent grasp of these two fundamental things must precede any comprehensive view of double entry bookkeeping. You are now ready to undertake the study of the definitions and principles which follow, as you can now read them with understanding. Learn them thoroughly. The success of your work depends largely upon your early mastery of the definitions and principles here laid down. If you learn them well, you will get a broad grasp of the entire subject of bookkeeping that will make your future work doubly effective, and you will get from it the satisfaction and pleasure that always accompany work well understood and well done.

A Business Transaction is a single exchange or trade.

Money is the medium of exchange in business transactions. That is, things are exchanged on the basis of their values expressed in terms of money.

A thing has *value* if its possession is a benefit or convenience to the party receiving it (or if a loss or inconvenience is occasioned to the party giving it) which can be expressed in terms of money.

Things having value may be: (1) cash; (2) property; (3) claims; (4) services; (5) uses or privileges.

In every transaction there must be an *equal exchange*. It takes two to make a bargain and without agreement as to equality of values there would be no trade. (The profit in business arises from the fact that we consider the value of a thing sold as greater than the value of the same thing when it was bought.)

Transactions are recorded in bookkeeping at the values agreed upon between the parties trading

Bookkeeping is the science and art of keeping records of business transactions and the accounts arising from them.

These records may be kept in bound books, or they may be kept on loose sheets or cards and filed. For the present, assume that they are kept in bound books.

A Set of Books includes all the books in which the transactions of a certain business are recorded. The person who makes these records is called a *bookkeeper*.

The kind and number of books kept depends upon the nature and extent of the business and upon what the proprietor wishes to know about the business.

The terms *accountant* and *bookkeeper*, while often applicable to the same person, convey different meanings. A bookkeeper is one who keeps a set of books, making the entries, posting, taking trial balances and preparing statements. He may understand the principles of the science of bookkeeping or he may do his work by rote. An accountant is one thoroughly versed in the science of accounts, capable of analyzing statements, devising systems, auditing the bookkeeper's work; his knowledge is not limited to but one system. In general, his sphere may be said to begin where that of the bookkeeper ends. The bookkeeper is the workman. The accountant is the master of the science, under whose direction, directly or indirectly, the bookkeeper labors.

Kinds of Books. In general, there are three kinds of books. (a) Books of original entry, (b) The book of final entry, (c) Auxiliary books.

Books of Original Entry are those in which transactions are recorded at the time of their occurrence. Of this kind is the journal.

Ledger. The book of final entry is the ledger. This contains the accounts arising from the transactions as recorded in the journal and other books of original entry. You will learn later how to transfer these entries from the journal to the ledger.

Auxiliary Books are books of memorandum. The facts kept in them are often important and always interesting, but they are not an essential part of the bookkeeping scheme. Typical auxiliary books are the Notes Receivable Book and the Notes Payable Book, which as ordinarily kept are merely books of memorandum, the principal purpose of which is to remind the bookkeeper when the notes fall due.

There are two principal problems which it is the province of the bookkeeper to solve. One problem is: Is the business being conducted at a profit or a loss, and how much? The other problem is: What is the business worth—that is, what does it owe and what does it own?

In order to solve these two great problems, the bookkeeper must first solve many smaller individual problems.

Every transaction consists of an exchange of values. The things of value in which the business deals in its transactions must be classified under separate headings, all receipts and payments of cash under one heading, all purchases and sales of Mdse. under another, all expense items under another, all costs and returns for interest under another, all dealings with any certain person under another, and so on.

When all entries are correctly classified it is found that each group of entries constitutes a separate problem. How much cash is on hand? What has been the gain or loss on Mdse.? What has been the gain or loss for interest? How much does Smith owe us? What do we owe Jones? And so on. After these separate problems have been solved, the bookkeeper is in a position to solve the two principal problems of the business, mentioned above.

Accounts are the separate records, kept in the ledger, of things having value in which the business deals.

For a definition of value, see page 41.

You have studied the following accounts: *Cash, merchandise, real estate, furniture and fixtures, notes receivable, notes payable, personal accounts, expense, interest.* Answer the following questions in regard to each:

1. What is the purpose of the account?
2. What is the method of handling it?
3. What result does it exhibit at closing?
4. May it have an inventory or inventories?
5. How is it closed?
6. What is brought down?
7. What kind of value is recorded in the account—*cash, property, claims, services, or uses?* (Note:

The expense account ordinarily records *services*, but certain kinds of *property* are charged to the expense account, when they are to be used in conducting the business (i. e. coal, postage stamps, etc.), so that this is in this sense a mixed account.

Each account, as previously stated, constitutes a separate problem. The problem of the account may be to determine the amount of something on hand, the extent of some obligation, or the amount of loss or gain on some particular thing of value dealt in.

In solving the problem presented by any account not only is its principal result shown, but a number of lesser problems are solved in the process. For instance, in solving the cash problem, the bookkeeper finds out not only how much cash should be on hand, but how much was received during a certain period and how much was paid out during a certain period. In solving the problem of gain or loss on Mdse., he finds out incidentally what were the total purchases, total sales, cost of goods sold, etc.

Summary of Rules for Journalizing

<i>Debit</i>	<i>Credit</i>
Debit the cash account when cash is received.	Credit the cash account when cash is paid out.
Debit the merchandise account when Mdse. is received or costs value.	Credit the merchandise account when Mdse. is disposed of or produces returns.
Debit the real estate account when real estate is received or costs value.	Credit the real estate account when real estate is disposed of or produces returns.
Debit the furniture & fixtures account when furniture & fixtures are received or cost value.	Credit the furniture & fixtures account when furniture & fixtures are disposed of or produce returns.
Debit the notes receivable account when other persons' notes are received or cost value.	Credit the notes receivable account when other persons' notes are disposed of or produce returns.
Debit the notes payable account when we redeem notes issued by us.	Credit the notes payable account when we issue notes.
Debit the interest account when we receive the use of other persons' money and it costs us value.	Credit the interest account when we part with the use of our money and it produces us returns.
Debit a personal account when we receive a claim against the person or the person costs us value. (When we sell to a customer on credit or pay a creditor on account.)	Credit a personal account when we give another a claim against ourselves or the person produces value to us. (When we buy from a creditor on account, or receive pay from a customer.)
Debit the proprietor's account for amounts withdrawn by him and for the net loss of the business as periodically determined.	Credit the proprietor's account for amounts invested by him and for the net gain of the business as periodically determined.
Debit the general expense account for all items of cost incurred in running the business or which are consumed in the using except for such items as are kept in some separate expense account.	Credit the general expense account for rebates and returns on items which have been debited to it.

The Journal is a book of original entry. When it is the only book of original entry, all business transactions are recorded in it in the order of their occurrence. A record of a single transaction is called an entry.

A Journal Entry consists of a statement of the debits and credits arising from a single transaction; that is, it states what account or accounts are to be debited, and what account or accounts are to be credited, and how much. The journal entry must use the exact names of the accounts affected in each transaction.

The General Rule for Debiting and Crediting is: Debit the account of the thing which is received or costs value. Credit the account of the thing which is disposed of or produces returns.

The thing which is received always costs value (since something has to be given in exchange for it). The thing which is disposed of always produces returns (since something is received in exchange for it).

Double Entry Bookkeeping is that method which requires entries on both the debit and credit sides of the ledger for every transaction. This is the scientific method, the method in general use by those who wish their bookkeeping to guide them in the conduct of their business, and it is the method you will study chiefly in this text.

Single Entry Bookkeeping is a simple device for keeping accounts (usually) with persons and cash only. A single entry set is presented on page 150.

CHAPTER III

POSTING—THE TRIAL BALANCE

LESSON XIII.

EQUALITY OF DEBIT AND CREDIT

How much is a man worth? Mr. Black has \$1000.00 in cash. He owns nothing else and owes nothing. This is the simplest case imaginable, and we say

\$1000.00 = What Mr. Black is worth.

PROBLEM 1. A has \$86.75 in his cash register and \$500.00 on deposit at the bank. He owns nothing else and owes nothing. How much is he worth?

PROBLEM 2. B has \$50.75 in his cash drawer, \$226.65 on deposit at the First National Bank, and \$500.00 deposited in the savings bank. He owns nothing else and owes nothing. How much is he worth?

In bookkeeping we deal with the affairs of a business, not a man. Mr. Black may have part of his thousand dollars invested in one business and part in another. Let us assume that he has \$500.00 invested in a certain business. This case is also simple, and we say

\$500.00 cash = Mr. Black's investment in the business, \$500.00.

It is not necessary that an investment be entirely cash. It may consist of or include anything of value which the proprietor owns and wishes to put into the business. Suppose that Mr. Black had put into the business a stock of merchandise worth \$200.00, furniture and fixtures worth \$100.00, a note against Mr. Brown for \$100.00, and only \$100.00 in cash. His investment would have been just the same as in the preceding illustration, but would have been expressed thus:

Cash,	\$100.00	} = Mr. Black's investment, \$500.00.
Mdse.,	\$200.00	
Furn. & Fix.,	\$100.00	
Notes Rec.,	\$100.00	

PROBLEM 3. C invests \$225.00 in cash, Mdse. worth \$526.70, furniture and fixtures which he values at \$175.00, and an account against X for \$120.60. He owns nothing else and owes nothing. How much is the business worth? Prepare your statement in the form shown above.

PROBLEM 4. D has \$96.50 in his cash register and \$452.60 on deposit at the bank. He owns a store and lot valued at \$8600.00, Mdse. inventoried at \$2346.75, and fixtures valued at \$236.50. He holds a note against X for \$100.00, and an account against Z for \$76.90. He owns nothing else and owes nothing. If this is all invested in a business, how much is the business worth?

It will be noted that the total of the items on the left-hand side in the illustration above are exactly equal to the amount of Mr. Black's investment, as shown at the right. If a journal entry were made, the four items on the left would be entered as debits and

the amount of Mr. Black's investment would be entered as a credit. State the reason in each case.

If such a journal entry were made and posted, the four items on the left, showing as debits in the journal entry, would be posted to the left-hand or debit side of the ledger. Similarly the item on the right, showing as a credit in the journal entry, would be posted to the right-hand or credit side of the ledger. It is apparent that there would then be \$500.00 on the debit side of the ledger and \$500.00 on the credit side of the ledger. This equality between the debit and credit sides of the ledger is always maintained to the cent. To further illustrate this point, let us again take up Mr. Black's business.

As Mr. Black's ledger now stands the debit and credit sides are exactly equal, as follows:

Debit Side	=	Credit Side
\$500.00		\$500.00

Suppose that Mdsc. is sold for cash, \$100.00. The journal entry for this transaction would debit cash \$100.00 and credit Mdsc. \$100.00. This debit and credit would be posted to the ledger, without disturbing the equality of the debit and credit sides, as the following will show:

Debit Side	=	Credit Side
\$500.00		\$500.00
100.00		100.00
\$600.00		\$600.00

Assuming that other transactions take place as noted below, trace the effect of each transaction upon the ledger, particularly noting that since the debit side and the credit side are increased by the same amounts each time, the equality between the two sides is not disturbed.

TRANSACTIONS	JOURNAL ENTRY	LEDGER	
		Debit Side	Credit
		\$500.00	\$500.00
		100.00	100.00
Bought Mdsc. for cash, \$50.00	Dr. Mdsc., \$50.00, Cr. Cash, \$50.00	\$600.00	\$600.00
		50.00	50.00
Sold Mdsc. to Geo. Green on acct. \$75.00	Dr. Geo. Green, \$75.00, Cr. Mdsc., \$75.00	\$650.00	\$650.00
		75.00	75.00
Rec'd cash \$101.00, for note, \$100.00, and Int. \$1.00	Dr. Cash \$101.00, Cr. Notes Rec. \$100.00, Cr. Int. \$1.00	\$725.00	\$725.00
		101.00	100.00
		\$826.00	\$826.00
		1.00	1.00
		\$826.00	\$826.00

And so this exercise might be continued indefinitely without disturbing the equality between the two sides of the ledger. The original investment consists of equal debits and credits, so that the footings of the ledger are equal to start with. Every transaction consists of equal debits and credits. The two sides of the ledger are therefore increased equally for each transaction, leaving the total footings equal at all times.

Posting

From what has preceded, the relation between the journal and the ledger is perfectly clear. Let us briefly review the situation: The journal is the book of original entry. The debits and credits arising from the transactions of the business are stated in the journal just as they must appear in the ledger. These debits and credits are written in the journal at the time of their occurrence and in the order of their occurrence. Later they are transferred to the ledger, each item being written in its own account.

The process of transferring items of debit and credit from the journal to the ledger is called "posting." Before you can be taught to post you must have something to post. You will therefore journalize the following transactions.

Your only considerations at this time relate to the journalizing itself. Be sure to state correctly the names of accounts to be debited and credited, and the amounts. Be sure the debits in each entry exactly equal the credits in that entry. Be sure that each part of each entry is exactly in its position. Let your explanation for each entry be full and complete, omitting no essential detail. Write neatly and plainly, being especially careful to make your figures distinct, each squarely in its own column. This work may be prepared first on loose sheets.

LESSON XIV

A MODEL SET

TRANSACTIONS

191—

- Jan. 1. F. R. Elliott has this day engaged in business at 7741 Union Ave., Auburn, Ill., investing as follows: Cash on hand, \$176.25; cash in the First National Bank, \$4500.00.
- Jan. 2. Bought from H. B. Doan & Co., 1439 Market St., for cash, 6 doz. men's woolen gloves at \$4.50, \$27.00; 9 doz. men's fleeced-lined kid gloves, at \$6.00, \$54.00; total, \$81.00.
- Jan. 3. Bought for cash from the Acme Furniture Co., 423 W. 43d St., City, 4 plate glass show cases, at \$56.50 each, \$226.00.
- Jan. 4. Bought from Dale & Allen, Gloversville, N. Y., on account, 3 doz. men's cape gloves, at \$15.00, \$45.00; 5 doz. men's suede gloves, at \$13.50, \$67.50; total, \$112.50.
- Jan. 4. Paid the bookkeeper's salary for the week ending Jan. 4, in cash, \$15.00.
- Jan. 6. Sold to C. E. Rayburn, 4856 S. Drexel Boul., 1½ doz. men's silk-lined mocha gloves, at \$15.00, \$22.50, receiving in exchange his 20-day note at 6% for the amount.
- Jan. 7. Received from F. White & Co., 469 Madison St., 2 doz. ladies' 16-inch mocha gloves, at \$24.00, \$48.00; 1 doz. ladies' long kid gloves, \$27.50; total, \$75.50. Gave them our 15-day note at 6% for the amount.
- Jan. 8. Sold to H. E. Runyon, 7626 Lowe Ave., on account, 1½ doz. men's cape gloves, at \$18.00, \$27.00; 2 doz. mens' suede gloves at \$16.25, \$32.50; total, \$59.50.
- Jan. 9. Sold for cash 1 doz. ladies' 16-inch mocha gloves, \$27.50.

- Jan. 11. Paid the bookkeeper's salary, \$15.00, in cash, deducting \$1.25 for a pair of men's cape gloves at cost price.
- Jan. 13. Sold to L. V. Bradley, 6361 Yale Ave., on account, 1 doz. ladies' 16-inch mocha gloves, \$27.50; 1½ doz. men's silk-lined mocha gloves, at \$18.00, \$27.00; total, \$54.50.
- Jan. 14. Bought from Yawman & Erbe, Rochester, New York, a complete filing case for office use, \$187.50, giving them our 60-day note without interest for the amount.
- Jan. 15. Sold to H. E. Runyon, on account, 3 doz. men's woolen gloves, at \$5.75, \$17.25; 2 doz. men's fleece lined kid gloves, at \$9.50, \$19.00; total, \$36.25.
- Jan. 18. Paid the bookkeeper's salary in cash, \$15.00.

LESSON XV

POSTING

Having written all of the above transactions in your journal, it now becomes necessary to get the entries into the ledger. This is accomplished by the process of *posting*, as suggested on a previous page.

Before posting to the ledger, it will be well to write the headings of the different ledger accounts, so that your posting will not be interrupted. Allow for each account one line for the heading, one line for the year date, and the number of lines indicated in the following list.

Page 6. F. R. Elliott, Proprietor,	7 lines	Cash,	12 lines
Merchandise,	15 lines	Notes Receivable,	10 lines
Furniture & Fixtures,	7 lines	Page 8. H. E. Runyon, 7626 Lowe Ave.,	10 lines
Expense,	8 lines	L. V. Bradley, 6361 Yale Ave.,	9 lines
Page 7. Interest & Discount,	7 lines	Notes Payable,	7 lines
Loss & Gain,	8 lines	Dale & Allen, Gloversville, N. Y.,	7 lines

Write the ledger headings in a bold, strong, plain hand, somewhat larger than your ordinary writing. The address should always show as a part of the heading of a personal account. It should be written on the year date line, a little to the right, and in a smaller hand. Rule a double red line across the page one line below the heading, on the year date line. See illustrations on pages 9 and 33. When all the ledger headings have been written, proceed to post the journal entries to the ledger, as follows:

The first item of the first transaction is "Cash, Dr., \$4676.25." Enter this in the cash account in the money column on the debit side, using the date shown in the journal and being careful to place the year date at the top of the date column. The narrow column at the left of the money column is for the journal page; place in this column the figure 20*, which shows the page of the journal *from which* the item was posted. Last, write the amount, being careful to get each figure squarely in its own column. Then, in the journal, in the narrow column at the left of the word "cash," write the number of the ledger page *to which* the item was posted (7). This completes the posting of the first item of the first transaction.

*This and other folios used in the model forms on pages 50, 51, and 52 are not necessarily the same as you will use.

The second item of the first transaction in the journal is: "F. R. Elliott, Cr., \$4676.25." Enter this in F. R. Elliott's account on the credit side. Show in the narrow folio column in the ledger the page of the journal (20) *from which* the item was posted. Last, write the amount in the money column. Show in the narrow folio column in the journal the page of the ledger *to which* the item was posted (6).

Post the rest of the transactions, observing carefully the following points:

(1) Each debit item in the journal must be posted to the debit side of the ledger; each credit item in the journal must be posted to the credit side of the ledger.

(2) The dates and amounts in the ledger must agree with the dates and amounts in the journal.

(3) Each ledger item must show in its folio column the page of the journal from which the item was posted. Each journal item must be similarly postmarked to show the ledger page to which it was posted. *These folios must be entered at the exact instant of posting in each case*, as their presence shows that posting has been done and their absence shows that posting has not been done.

(4) The year date must show at the top of every date column in the ledger. This applies to both sides of each account; a year date at the top of each page only is not sufficient if there are more than one account on the page.

When you have posted all journal entries, the folio column on the first page of your journal will be filled, as in the model journal page 20 shown herewith. The posted entries will appear as in the model ledger forms shown. Trace the entries from the journal to the ledger in the models, noting especially the folios used. The full ledger is not shown.

NOTE: Do not get the idea that in business posting is left undone for several weeks and then done all at once, as it is in this model set. This plan is followed in teaching beginners the elements of book-keeping, so as not to confuse them, but in business the bookkeeper must post as he gets opportunity. Each entry could be posted as soon as made, and the alert bookkeeper always tries to keep his books posted up to the minute. The entries in the journal (and other books of original entry) must be made as the transactions occur, but as often as there comes a lull in the entering of new business, he seizes the opportunity to post as many entries as he can, beginning at the point where he last left off, as shown by the folio column of the journal (and other books of original entry).

LESSON XVI

THE TRIAL BALANCE

Beginning with the thought that the total of things invested is exactly equal to the capital of the business at the beginning and the fact that in every journal entry the debit item (or items) exactly equals the credit item (or items), let us see how these things affect the condition of the ledger.

It is apparent that the debits in the ledger exactly equal the credits at the beginning, since the only debit is that in the cash account and the only credit is that in the proprietor's account. Starting with equal debits and credits, and posting equal debits and credits from the journal to the ledger for every transaction, nothing is more clear than that the ledger must always be in equilibrium, or, as commonly said, "in balance."

You are now to demonstrate the fact that the ledger is in balance. To do this make a list of all ledger accounts and write opposite the name of each account the amounts of total debits and credits, as ascertained from the ledger. This is a full trial balance by

20.

January 1, 191-

7	Cash		4676	25	
6	F. R. Elliott, Proprietor				4676 25
	F. R. Elliott has this day engaged in business at 77 1/2 Union Ave., Auburn, Ill., investing as follows: Cash on hand, \$176. ²⁵ ; cash in First Nat'l Bank, \$4500. ⁰⁰				
		2			
6	Merch.		81		
7	Cash				81
	Bot. from H. B. Doan & Co., 1439 Market St.				
	6 doz. men's woolen gloves, at \$4. ⁰⁰	\$27. ⁰⁰			
	9 doz. men's fleece-lined kid gloves, at \$6. ⁰⁰	54. ⁰⁰			
		3			
6	Furn. & Fix.		226		
7	Cash				226
	Bot. from the Amer. Furniture Co., 423 W. 43d St., 4 plate-glass show cases, at \$56. ⁰⁰				
		4			
6	Merch.		112	50	
8	Dale & Allen, Gloversville, N. Y.				112 50
	3 doz. men's cape gloves, at \$15. ⁰⁰	\$45. ⁰⁰			
	5 doz. men's suede gloves, at \$13. ⁰⁰	67. ⁰⁰			
		4			
6	Expense		15		
7	Cash				15
	Phys. Sal'y for wk. ending Jan. 4				
		6			
7	Notes Rec.		22	50	
6	Merch.				22 50
	Sold to C. E. Rayburn, 4856 S. Drexel Bou't on his 20-day note at 6%, 1 1/2 doz. men's silk-lined mocha gloves at \$15. ⁰⁰				
		7			
6	Merch.		75	50	
8	Notes Pay.				75 50
	Bot. from F. White & Co., 469 Madison St., on our 15-day note at 6%				
	2 doz. ladies' 16-in. mocha gloves, at \$24. ⁰⁰	\$48. ⁰⁰			
	1 doz. ladies' long kid gloves	27. ⁵⁰			

F. P. Elliott, Proprietor

6.

				Jan. 1		20	4676	25
--	--	--	--	--------	--	----	------	----

Merchandise

191-				191-				
Jan. 2		20	81	Jan. 6		20	22	50
4		20	112	8		21	??	??
7		20	???	9		21	??	??
			???	11		21	??	??
			???	13		21	??	??
			???	15		21	??	??

Furniture & Fixtures

191-								
Jan. 3		20	226					
14		21	???					
			???					

Cash (from Page 7)

191-				191-				
Jan. 1		20	4676	25	Jan. 2		20	81
7		21	???	3		20	226	
			???	4		20	15	
			???	11		21	??	??
			???	18		21	??	??

Dale & Allen (from Page 8)

				191-				
				Jan. 4		20	112	50

Gloversville, N.Y.

THE TRIAL BALANCE

Trial Balance, Jan. 18, 191-

6	<i>F. R. Elliott</i>			467625
6	<i>Merchandise</i>	269		???
6	<i>Furniture & Fixtures</i>	???	??	
6	<i>Expense</i>	??		
7	<i>Cash</i>	???	??	???
7	<i>Notes Receivable</i>	22	50	
8	<i>H. C. Runyon</i>	??	??	
8	<i>L. V. Bradley</i>	??	??	
8	<i>Notes Payable</i>			???
8	<i>Dale & Allen</i>			11250
		???	??	???
				???

footings.* When all amounts are entered in it, the total of its debit column and credit column should exactly agree.

At the top of the page write the heading *Trial Balance, Jan. 18, 191-*. For convenience, and to save yourself the trouble of again adding the ledger columns down to this point, you may now foot all columns in the ledger, making small, neat lead-pencil figures just below the last item in each column, as shown in the models of ledger accounts, being careful in each case to leave room for the item that is to be written later on the next line below. In the folio column at the left of the names of the accounts listed in the trial balance, write the page on which the account is found in the ledger, for reference. A model form of trial balance is shown above. Your trial balance will be like it in form, but you will have to determine the correct amounts yourself and your folios may be different. When your trial balance has been approved, copy it, or prepare it again independently, as your teacher shall direct, on page 1 of Book 3, Blanks No. I.

Checking the Trial Balance

It may be that the debit and credit footings of the trial balance you prepare will not agree. If so, some mistake has been made. They must agree exactly. You will have to check over your work in order to find your mistake. This checking is done in an order exactly reverse to that in which the work was done, for reasons which you will readily understand: (1) You are more likely to discover an error if you check over your

*Trial balances are usually taken by differences; i. e., the difference between the two sides of each account is shown only, instead of the full footings, both debit and credit. You will learn about this later.

work in an order different from that in which it was done. If you should go over your work in the same way you went over it the first time, you might make the same mistake. (2) The error will probably be discovered more quickly, because the chances are that the error was in the latter part of the work.

Note that you are to *check* the work, not merely to *inspect* it. It seems slower to check work than to glance over it, but experience has proved that the discovery of errors is much more sure and quick when the checking is done. Proceed as follows:

(1) Again add the columns of the trial balance, adding in the direction reverse to the direction in which you first added them. (Whenever you have occasion to test your own addition, add downwards if you added upwards before, or *vice versa*.) Check the footings as you find them correct.

(2) Check back from the trial balance items to the ledger footings, placing a check mark opposite each trial balance item and a dot opposite the ledger footing which it represents as you find them to be in agreement.

(3) Again add the ledger columns, verifying the accuracy of your first addition. Check the footings as you find them to be correct.

(4) Check back from the ledger to the journal, placing a check mark opposite each ledger item and another check mark opposite its corresponding journal entry as you find them to be in agreement.

(5) Inspect the journal to see that every item has been checked once, and no item checked twice.

(6) Inspect the journal to be certain that the separate entries contain equal debits and credits. When there are many complicated entries in the journal, this may be done more readily by adding the debit and credit columns for an entire page than by the slower process of inspecting each entry.

As soon as an error or errors are discovered which will account for the discrepancy in your trial balance, your search is at an end. Further checking would be to no purpose.

In checking, form the habit of placing the check marks (✓) neatly in a column, always making them the same size and shape. They are more easily seen if they are in a neat column, and need not be large or made heavily. Nothing looks worse than a ledger covered with scrawling checkmarks of various sizes and shapes.

Enter the remaining transactions for the month of January, as shown below. The transaction dated Jan. 20 is entered just below the last entry in the journal as though there had been no interruption for posting.

LESSON XVII

TRANSACTIONS FOR JANUARY—Continued

- Jan. 20. Sold to L. V. Bradley, on account, 3 doz. men's suede gloves, at \$16.50, \$49.50; 3 doz. men's woolen gloves, at \$6.50, \$19.50; 1 doz. ladies' long kid gloves, \$32.50; also one of our plate glass show cases, second hand, for \$52.00; total charged to him, \$153.50.
- Jan. 22. Redeemed our note in favor of F. White & Co. The note was dated Jan. 7 and was for 15 days at 6%. Face of note, \$75.50; interest, 19¢; amount of our check, \$75.69.

- Jan. 23. H. E. Runyon gave us his check for \$59.50, in full settlement of our bill against him dated Jan. 8.
- Jan. 24. We discounted our note dated Jan. 14 in favor of Yawman & Erbe, mailing them our check for the net amount due. This note was for \$187.50, and was due 60 days from its date without interest. Discount for 50 days at 6%, \$1.56; amount of our check, \$185.94.*
- Jan. 25. Paid the bookkeeper's salary in cash, \$16.00.
- Jan. 27. C. E. Rayburn paid us in cash for his note of Jan. 6, \$22.50, and 8¢ for interest for 21 days at 6%; total cash received, \$22.58.
- Jan. 27. Bought from Dale & Allen, on account, 10 doz. men's silk-lined kid gloves, at \$9.50, \$95.00; 9 doz. men's silk-lined suede gloves, at \$9.50, \$85.50; total, \$180.50.
- Jan. 28. Sold to H. K. Armstrong, 4759 S. Park Boul., on his 60-day note at 6%, 5 doz. men's silk-lined kid gloves, at \$12.50, \$62.50.
- Jan. 29. Sold to H. E. Runyon, on account, 4 doz. men's silk-lined suede gloves, at \$12.75, \$51.00.
- Jan. 30. L. V. Bradley gave us his 30-day note at 6% for \$153.50, the amount of our bill against him of Jan. 20. The note was dated as of Jan. 20.
- Jan. 31. Bought from the Etna Woolen Mills, 7548 Emerald Ave., 3 doz. men's woolen sweaters, at \$9.75, \$29.25; 3 doz. Juvenile sweater coats, at \$12.00, \$36.00; 2 doz. ladies' knit golf vests, at \$15.00, \$30.00; total, \$95.25. Gave them our 60-day note at 6% for the amount of the bill.

Post all the transactions from Jan. 20 to Jan. 31 inclusive and take a trial balance.

In adding the columns in your ledger it will only be necessary to foot the amounts entered since Jan. 18, including the lead pencil footings entered at that time. The trial balance of Jan. 31 can be written on the lower half of page 1 of the Trial Balances and Statements Book—Book 3 of Blanks No. I.

*The student will note that interest and discount, being similar in nature, are recorded in the same account. Discount of this kind must not be confused with cash discount, about which you will learn later.

CHAPTER IV

STATEMENTS*

LESSON XVIII

THE FINANCIAL STATEMENT

Two principal facts about his business which a man wishes to be in a position to ascertain are (1) Its condition; (2) Its progress.

By "condition" is meant the worth of the business at a given time. "Progress" refers to the gain or loss, as the case may be, during a certain period, or from one date to another.

Neither condition nor progress can be determined entirely from the ledger, as the inventories must be known before condition and progress can be determined, and the ledger does not show present inventories. Most of the necessary facts, however, are shown in the ledger.

The condition of the business is shown by a specially prepared statement of the business called the Financial Statement. Before proceeding to analyze this statement or to study its form, solve the following problems. If you do this work thoughtfully, you will be led unconsciously into an understanding of the principles underlying the Financial Statement, though its form will still be unfamiliar to you.

PROBLEMS

Problem 1. On Jan. 31, 191—, A's ledger showed investments as follows: Cash, \$5464.75; Notes Receivable, \$560.50; due from B, \$225.00. What was the condition of the business (what was it worth)?

Problem 2. On Feb. 28, 191—, Mr. B's ledger showed: Cash, Dr \$5000.00, Cr. \$2673.40; Notes Receivable, Dr. \$650.00, Cr. \$325.40; A. R. Barnes, Dr. \$450.75, Cr. \$225.90; E. G. Holm, Dr. \$226.76, Cr. \$59.72. He had on hand furniture and fixtures valued at \$475.50 and a stock of goods worth \$4376.80—facts not shown in the ledger. What was the worth of the business?

Problem 3. Mr. C., desiring to ascertain the condition of his business, told his bookkeeper: "Our merchandise inventory on Mar. 31, 191—, was \$7560.00, our furniture and fixtures inventory was \$740.69, and I valued this store and lot, which I own, at \$15,000.00. Make me a statement showing the condition of this business on Mar. 31." The bookkeeper referring to the ledger found that on Mar. 31 the accounts had stood as follows. Cash, Dr. \$4560.70, Cr. \$2389.60; Notes Receivable, Dr. \$789.20, Cr. \$384.50; I. J. Green, Dr. \$326.07, Cr., \$100.00. What was the worth of the business on Mar. 31, as reported by the bookkeeper?

Problem 4. On April 30, 191—, D had \$167.20 in the cash drawer and \$3000.00 in the bank. He held a note against W for \$450.00, and X owed him \$224.67 on account. He owed Y \$370.60, and there was outstanding against him a note in favor of Z for \$275.75. He valued his furniture and fixtures at \$780.93 and his stock of Mdse. at \$3467.25. What was D's business worth?

Problem 5. Accounts in E's ledger stood as follows on May 31:

Cash	\$5467.20	\$2869.46
Notes Receivable	482.29	321.40
B. F. Adams	300.50	210.00
H. A. Dow	250.00	105.50
Notes Payable		200.00
R. L. McNeal	100.00	640.76

Inventories: Mdse., \$4756.82; Real Estate, \$6500.00; Furniture & Fixtures, \$295.00. How much was E's business worth?

*Teachers who prefer to use the two-page statement forms will instruct students to study pages 144 to 148 of the appendix at this time, omitting Lessons XVIII and XIX, except as reference to parts of these lessons is made in the corresponding lessons of the appendix.

Study carefully the illustration below and the explanation accompanying it, and make a financial statement for F. R. Elliott's business as it stood on Jan. 31. It is assumed that all the accounts in your ledger are correct, and that your trial balance of Jan. 31 has been approved by your teacher.

In order to make the financial statement, you must know the inventories, which are as follows: Mdse., \$314.56; Furniture & Fixtures, \$350.00. (Accrued interest on notes receivable, being very little, is not taken into consideration here as an inventory.)

In form, your statement will be like the model shown herewith. The amounts will have to be supplied by you.

FORM OF FINANCIAL STATEMENT

Financial Statement, Jan. 31, 191-

		<u>Assets</u>			
7	Cash	????	??		
	Merchandise				
	Inventory	314	56		
	Furn. & Fix.				
	Inventory	350			
7	Notes Receivable	???			
8	H. E. Runyon	??	??		
8	L. V. Bradley	??	??		
	Total assets			????	??
		<u>Liabilities</u>			
8	Notes Payable	??	??		
8	Dale & Allen	???			
	Total liabilities			???	??
	Net capital			????	??

Explanation. To determine the condition of a business two things must be known. (1) What things of value does the business own (assets)? (2) What does the business owe (liabilities)? The difference between the total of assets and the total of liabilities is the net capital or present worth of the business. In order to know what the assets and liabilities are, the bookkeeper must have a complete list of all inventories and all open accounts in the ledger, and he must know which accounts show assets, which accounts show liabilities, and which accounts show neither assets nor liabilities, but something else.

In the above case, the first asset is cash. The amount of cash on hand is the difference between the debit and credit sides of the cash account. Next come the inventories

of property. These must be known by the bookkeeper; they are matters of fact, not ascertainable, ordinarily, from the ledger. The next asset listed is the total of notes receivable on hand; this is found by comparing the two sides of the ledger account. Next come the balances due from H. E. Runyon and C. V. Bradley; these are also found by comparing the two sides of each of the ledger accounts.

The first liability shown is the total of notes payable outstanding; this is found by taking the difference between the two sides of the ledger account. Next comes the balance due Dale & Allen, which is found by comparing the two sides of the ledger account.

It will be noted that the total assets and total liabilities are shown in the extreme right-hand column. The difference is the net capital of the business.

The financial statement of Jan. 31 should be written on page 2 of your Trial Balance and Statement Book.

Prepare and rule your financial statement exactly as shown in the model form unless otherwise instructed. There are several forms in use besides the form shown. One places all the assets in the left-hand column and all the liabilities in the right-hand column, footing them as in the trial balance and deducting the smaller total from the larger. Another makes use of two pages, placing the assets on the left-hand page and the liabilities just opposite on the right-hand page. Any of these forms are good, but unless specifically instructed otherwise, you will use the form shown, for the present.

NOTE. The student should bear in mind that the financial statement is after all nothing but a problem, in which it is required to find the net capital of the business, all of the assets and liabilities being known. He must exercise his judgment in determining what the result of each ledger account and each inventory shows, but once having determined what the assets are and what the liabilities are, the problem of determining net capital is a very simple one, involving addition and subtraction only.

LESSON XIX

THE LOSS AND GAIN STATEMENT

One of the two principal statements which the bookkeeper has to prepare relates to the progress of the business. How much has the business gained or lost during the period of time between two certain dates? The statement showing this is called the Loss and Gain Statement. As in the case of the Financial Statement, the facts from which it is compiled are found in the different accounts of the ledger and the inventories. Before proceeding to analyze this statement or to study its form, solve the following problems. If you do this work thoughtfully you will be led unconsciously into an understanding of the principles underlying the Loss and Gain Statement, though its form will still be unfamiliar to you.

PROBLEMS

Problem 1. On Jan. 1, 191—, A began business with a capital of \$5672.60. On Jan. 31, he found from the Financial Statement that the business was worth \$6134.95. Had the business gained or lost during January? How was the amount of gain or loss determined?

Problem 2. B's gains from Jan. 31 to Feb. 28 were \$650.00. His losses during the same period were \$327.60. Did the business show a gain or loss for February, and how much? How was the amount of gain or loss ascertained?

What two ways are shown, in the two problems above, for determining loss or gain?

Problem 3. C's Merchandise account showed a gain of \$326.50 during the month of March, 191—. His interest account showed a gain of \$23.45. His expenses for the month were \$125.60, and his office furniture, which he had invoiced on Feb. 28 at \$276.50, he now valued at only \$272.00. What was the net gain or loss of the business for March? What plan did you use to determine this?

Problem 4. D began business on April 1, 191— During April he bought \$1250.00 worth of Mdse., and on April 30 he had Mdse. remaining on hand valued at \$750.00. The sales for the month amounted

to \$725.25. The gain on interest for the month was \$17.50. The estimated depreciation in the value of Furniture & Fixtures was \$5.00. Expenses totaled \$126.75. What was the net gain or loss for April?

Problem 5. On May 1, E's Mdse. inventory was \$6728.50; on May 31 it was \$6326.53. No Mdse. was purchased during May. Sales for May were \$683.47. The total cost of interest during May was \$15.62; total returns, \$29.50. Total expenses for May were \$137.82. The furniture and fixtures inventory on May 1 was \$365.00; on May 31 it was \$357.50. What was the gain or loss for May?

Problem 6. Determine the gain or loss for June, 191—, from the following facts taken from F's business for the period between May 31 and June 30:

Mdse. Invty. May 31	\$7865.90	Furniture & Fixtures Invty. May 31,	\$493.27
Mdse. Purchases during June	3460.27	Furniture bought during June	127.50
Mdse. Invty. June 30	9253.60	Furniture & Fixtures Invty. June 30	612.00
Mdse. Sales during June	1567.24	Expenses for June	226.26
Interest Dr. \$27.36, Cr.	43.25		

Study carefully the illustration below and the explanation accompanying it and make a loss and gain statement for F. R. Elliott's business for January, 191—, securing the necessary facts from your ledger and from the Jan. 31 inventories as previously given.

FORM OF LOSS & GAIN STATEMENT

Loss & Gain Statement Jan. 31, 191—

		<u>Gains</u>			
6	Mdse.	Total cost	???.??		
		Invty. Jan. 31	314.56		
		Cost of goods sold	???.??		
		Total sales	???.??		
		Cost of goods sold	???.??	???.??	
7	Int. & Dis.	Cr.	???		
		Dr.	??	???	
		Total gains			???.??
		<u>Losses</u>			
6	Turn. & Fix.	Dr.	???.??		
		Cr.	??.		
			???.??		
6	Expense	Invty. Jan. 31	???	?? ??	
		Dr.		??	
		Total losses			?? ??
		Net gain		?? ??	

The model statement given herewith will show you the proper form, but the proper amounts will have to be determined by you. The loss and gain statement for January should be written on page 2 of your trial balance and statement book, four lines below the financial statement.

Explanation: As previously stated, there are some accounts which do not show an asset or a liability. These show either gains or losses. The amount of gain or loss in each case can be determined from the footings of the ledger and the inventories. The gains are shown in the first group. Open your ledger to the first page of F. R. Elliott's business (page 6), and consider the accounts in their order. Omitting F. R. Elliott's account, which is the capital account, the first account you come to is Mdse. The footings tell you that the purchases amount to \$544.75, and the sales, \$416.50. It is apparent that when the inventory, \$314.56, is taken into consideration, a gain will be shown. List this account then, as showing a gain. The form is as follows: First write the total cost, which is the debit footing of the account, and deduct from it the amount of the inventory. This gives the cost of the goods sold. Beneath this write the total of sales (the credit side of the account) and deduct from it the cost of the goods sold as just ascertained. The result is a gain, which is carried into the left-hand money column, on the same line with the last item.

The next account in the ledger (Furniture and Fixtures) is a loss or gain account, and an inspection shows that it exhibits a loss. The expense account also shows a loss. Pass both of these for the present.

The next account in the ledger is the interest and discount account. It shows a gain. Subtract the debit total from the credit total, as shown in the form, and enter the amount of the gain on interest and discount in the left-hand money column below the amount of gain on Mdse., on the same line with the last item in the explanatory column.

No other accounts show gain. Add the two items of gain, as shown in the form.

It has been previously noted that the furniture and fixtures account and the expense account each show a loss. The loss on furniture and fixtures is found thus: First subtract the credit footing from the debit footing. This gives the net outlay for furniture and fixtures. Subtract the inventory of Jan. 31. The result is a loss and is written in the left-hand money column. Write beneath this the loss for expense. Add the losses and write the total of losses in the right-hand money column beneath the total gains. Subtract. The difference is the net gain for the month.

LESSON XX

THE PROOF

You recognize it as true that the total of things invested equals the capital of the business (the investments being debits and the capital a credit). You have learned, further, that every business transaction consists of an equal exchange of values, the thing or things received being exactly equal to the thing or things disposed of (the former being credits and the latter being debits). The logical conclusion is that the ledger, if correct, must always be in balance.

Starting with the same truth (Total of things invested = capital of the business) let us see how each transaction affects the business, and trace these transactions from the

journal into the statements. For simplicity substitute the word "assets" for the expression "things invested." We now have the equation

$$\text{Assets (say \$5000.00 cash)} = \text{Capital (\$5000.00)}$$

CASE 1. A transaction may be a simple exchange of assets, as when \$1000.00 cash is given for Mdse. worth \$1000.00. This changes only one side of the equation thus:

$$\text{Cash \$4000.00} + \text{Mdse. \$1000.00} = \text{Capital \$5000.00}$$

CASE 2. Instead of parting with some asset for another, we may receive an asset (say Mdse. \$1000.00), creating a liability to offset it. (Let us say that in this case we become indebted to Smith for \$1000.00). The liabilities are placed upon the credit side (with the capital account, which is in a bookkeeping sense a liability of the business to the proprietor) as an offset to the assets, which as you have seen are debits. We now have

$$\text{Cash \$4000.00} + \text{Mdse. \$2000.00} = \text{Capital \$5000.00} + \text{Smith \$1000.00}$$

CASE 3. We may part with an asset in order to reduce or settle a liability. Suppose we pay half of what is due Smith in cash. We part with an asset and reduce a liability. The equation now stands

$$\text{Cash \$3500.00} + \text{Mdse. \$2000.00} = \text{Capital \$5000.00} + \text{Smith \$500.00}$$

CASE 4. We may discharge one liability by the creation of another. Suppose we issue a note in favor of Smith to cover the amount due him. The change is all on one side, and the equation now stands

$$\text{Cash \$3500.00} + \text{Mdse. \$2000.00} = \text{Capital \$5000.00} + \text{Notes Pay. \$500.00}$$

All of the four cases above assume changes in assets and liabilities, but there has been no change in capital. There have been no gains or losses.

Since business is conducted for profit, the four cases following are of especial importance. Gains are: (a) Increases in total assets; (b) Decreases in total liabilities. Losses are: (a) Decreases in total assets; (b) Increases in total liabilities. Mere changes in assets and liabilities which do not change the amount of the capital show neither gain nor loss.

CASE 5. When assets are increased without a corresponding increase of liabilities, a gain is made. Suppose we sell for \$500.00 cash, Mdse. which cost \$400.00. This increases the cash on hand \$500.00 and decreases the Mdse. on hand \$400.00. This being the case, the assets amount to \$100.00 more than before. A gain of \$100.00 has been made, and the capital account must be increased accordingly. The equation now stands

$$\text{Cash \$4000.00} + \text{Mdse. \$1600.00} = \text{Capital \$5100.00} + \text{Notes Pay. \$500.00}$$

NOTE. Gains of this kind are not recorded separately as shown above. The gain on Mdse. is computed in one sum when the Mdse. account is closed. The principle is the same, however. A gain is realized in fact whenever Mdse. is sold for more than it cost, even though no separate record of the amount of the gain is made at the time the sale is made.

CASE 6. When liabilities are decreased without a corresponding decrease of assets, a gain is made. Suppose that we pay the note for \$500.00 sixty days before it is due, securing a discount of \$5.00. This decreases the amount of cash on hand only \$495.00, whereas the liability on notes payable is decreased \$500.00. A gain of \$5.00 has been made, and the capital must be increased accordingly. The equation now stands:

$$\text{Cash \$3505.00} + \text{Mdse. \$1600.00} = \text{Capital \$5105.00}$$

CASE 7. When assets are decreased without a corresponding decrease in liabilities, a loss is incurred. Suppose we spend \$50.00 for expenses. This decreases the amount of cash on hand. Naturally the capital becomes less. The equation now stands

$$\text{Cash } \$3455.00 + \text{Mdse. } \$1000.00 = \text{Capital } \$5055.00$$

NOTE. The student understands, of course, that the capital account is not changed in the ledger after every transaction. The expense account is kept, and is periodically footed and the total deducted from the capital. The loss was incurred, nevertheless, when the \$50.00 was spent.

CASE 8. When liabilities are increased without a corresponding increase in assets, a loss is incurred. Suppose we have some work done for us by Brown for which he submits a bill for \$150.00 which we do not pay at the time. We have incurred a liability without increasing our assets, and there is a loss. This loss is charged to expense, thus reducing the amount of our capital, as previously shown. The equation now stands

$$\text{Cash } \$3455.00 + \text{Mdse. } \$1600.00 = \text{Capital } \$4905.00 + \text{Brown } \$150.00$$

It will be noted that in all of the four last cases a gain or loss has occurred, and that the amount of the gain or loss agreed in each case with the amount of the increase or decrease of some asset or liability. Since gains increase capital and losses decrease capital, and since the increase or decrease of capital exactly agrees with the increase or decrease of net assets, therefore the net gain of a business always agrees exactly with its increase of net assets, or the net loss exactly agrees with its decrease of net assets. The proposition that Assets = Capital has no exceptions. The amount of net assets changes from time to time, but as has been shown, the capital is also changed in each case, in the same way, and by the same amount.

Classification of Accounts

Every account exhibits certain facts and from these facts a certain final result is determined.

Accounts are divided as to results shown, into two classes. An account of one class shows as its result either an asset or a liability; an account of the other class shows either a loss or a gain. We call the former *financial accounts*. The latter we call *loss or gain accounts*. Every account with which you are familiar at this time falls into one of these classes and no account falls into both.*

The financial statement is made up from the results of financial accounts and inventories. The loss and gain statement is made up from the results of loss or gain accounts. From what has been shown, you will have no difficulty in deducing the following truth:

The net gain as shown by the loss and gain statement agrees exactly with the increase of net assets as shown by the financial statement, or if a loss be shown it agrees exactly with the decrease of net assets which the financial statement will show.

The Proof.† On the same sheet with your loss and gain statement, two or three lines below it, show a proof the form of which (but not the results) is shown on page 62.

*As elsewhere explained, inventories are *written in* loss or gain accounts, but these inventories, though they are exhibited in the accounts, are not *results*. An inventory is not a result of an account but is secured by an independent count and valuation. In the Mdse. account, for instance, the inventory after being ascertained is written in the account as one of the facts necessary for determining the final result of the account.

† This form to be omitted by students who use the two-page statement forms.

<u>Proof</u>	
Net capital Jan. 1, 191-	4676 25
Net gain as per Loss & Gain Stmt	?????
Net capital as per Financial Stmt	??????

PROBLEMS

1. Mr. A's capital on Jan. 1 was \$5768.50. During January he gained \$237.50. What was his capital on Jan. 31?
2. On Feb. 1 Mr. B was worth \$6725.90. During February he lost \$216.50. What was he worth on Feb. 28?
3. Mr. C's financial statement of Feb. 28 showed a net capital of \$7869.23. His financial statement of Mar. 31 showed a net capital of \$8123.65. What should his loss and gain statement for March show?
4. Mr. D's financial statement of Mar. 31 showed a net capital of \$9267.20. His financial statement of Apr. 30 showed a net capital of \$8923.67. What should his loss and gain statement for April show?
5. Mr. E's financial statement of Apr. 30 showed a net capital of \$10625.50. His financial statement of May 31 showed a net capital of \$11625.92. His total gains for May were \$1562.59. What were his losses for May?
6. Mr. F had total assets on June 30 amounting to \$18647.62. His financial statement of May 31 showed a net capital of \$11546.72. His loss and gain statement for June showed his net gain for June to be \$346.70. What were his liabilities on June 30?
7. Mr. G's net capital on June 30 was \$12650.75. His net capital on July 31 was \$13273.87. His losses for July were \$275.83. What was the total of his gross gains for July?
8. On Aug. 31, Mr. H's loss and gain statement showed a net loss for August of \$242.60. His financial statement of the same date showed assets amounting to \$10763.45. His net capital on July 31 was \$6746.32. What was the total of his liabilities on Aug. 31?
9. On Aug. 31, Mr. J's net capital was \$450.67. His loss and gain statement taken Sept. 30 showed gains amounting to \$343.60 and losses totaling \$987.56. His net capital on Oct. 31 was \$726.45. What net result was shown by his loss and gain statement for October?
10. Mr. K's net capital Oct. 31 was \$5467.80. On Nov. 15 he added \$1250.00 to his investment, and on Nov. 25 he withdrew cash, \$78.00. His net gain for November was \$462.75. His assets on Nov. 30 amounted to \$9467.20; what were his liabilities on Nov. 30?

LESSON XXI

CLOSING ONE ACCOUNT INTO ANOTHER

Open an Expense account on a loose sheet of ledger paper. Enter the following items directly in the account, without journalizing or posting. Omit explanations except in the closing entry:

Jan. 1, 191—. Paid by check for January rent, \$50.00. Jan. 2. Paid scrubwoman \$1.50 for work today. Jan. 3. Paid \$5.00 for postage stamps. Jan. 4. Paid the Daily News cash for advertising, \$15.50. Jan. 5. Paid for letter heads and envelopes, \$7.90. Jan. 5. Paid the clerk's salary for the week, \$10.50. Jan. 7. Bought postage stamps for cash, \$5.00. Jan. 8. Paid the janitor for extra work, \$4.50. Jan. 9. Inserted an advertisement in the Post for which we paid \$10.75 in cash. Jan. 12. Paid the clerk's salary for the week, \$10.50. Jan. 14. Bought \$5.00 worth of stamped envelopes. Jan. 15. Paid the printer cash for advertising circulars, \$12.50. Jan. 16. Railroad fare and other cash expenses on business trip, \$22.50. Jan. 17. Paid cash for new glass for broken show-case, \$8.00. Jan. 19. Paid the clerk's salary for the week, \$10.50. Jan. 21. The Daily News submitted a bill for advertising, which we paid in cash, \$14.00. Jan. 22. Paid for new locks for front and back door, \$2.60. Jan. 23. Paid boy for distributing circulars, \$1.50. Jan. 26. Paid the clerk's salary for the week, \$10.50.

After making all of the entries required for the foregoing transactions, close the expense account as of Jan. 31.

QUESTIONS

What was the total of expenses for January?

How much of this was spent for Advertising?

How much was spent for Stationery and Postage?

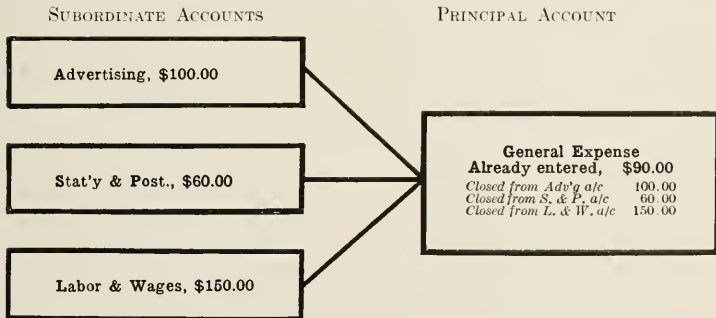
How much was paid out for Labor and as Wages?

How much was spent for items other than Advertising, Stationery & Postage, and Labor & Wages?

Sometimes when it is considered desirable to know the exact cost of Advertising, Stationery & Postage, Labor & Wages, or any other distinct part of the expense of a business, separate accounts are opened in the ledger with these special titles. Items belonging in these special accounts are entered in them and not in the expense account. The title of expense account is changed to General Expense, and it receives only those items that can not be entered in one of the special accounts.

On another sheet of ledger paper, open four accounts, as follows, giving each one-fourth of a page: Advertising, Stationery & Postage, Labor & Wages, General Expense. Number the accounts 1, 2, 3 and 4, as if each were on a separate page. Make the entries in these four accounts for the January transactions previously given, entering each item directly in the account in which it belongs. (The item on Jan. 23 should be charged to Advertising.)

If these four accounts were each closed independently, each would show a loss. Each is an expense account, but in each is recorded only a part of the expenses. In order to find the total of all expenses for the month it would be necessary to add the four results. This result is secured in bookkeeping by *closing into* General Expense, which we call a *principal* account, the results of the other accounts, which we call *subordinate* accounts. Before considering the process by which this is accomplished, study the following diagram:



Supposing that the results of the above accounts are as shown in the diagram, it is apparent that when the subordinate accounts are closed and their results transferred to the principal account, General Expense, that account, which now shows a loss of \$90.00, will then show a loss of \$400.00, which sum represents the total expense of the business.

Process of Closing the Subordinate Accounts. Foot the debit side of the advertising account. Transfer the footing from the advertising account to the general expense account, as follows: Enter on the credit side of the advertising account, in red ink, the

amount transferred, with the explanation "General Expense," which shows the account to which the amount is transferred. This red ink entry should be dated to indicate the day the transfer was made (in this case, Jan. 31) and the folio column should show the ledger page to which the amount was transferred (L4). The amount transferred should then be entered in the general expense account, in black ink, with the same date (Jan. 31) and this entry should show in the folio column the ledger page from which the entry was posted (L1).

The two entries you have made, one on the debit side of the general expense account and another of exactly the same amount on the credit side of the advertising account, have not disturbed the balance of the ledger. Rule and foot the advertising account; its two sides just balance and it is now disposed of as far as your bookkeeping up to date is concerned.

The effect of this procedure has been to transfer to the debit side of the general expense account the exact amount which formerly appeared on the debit side of the advertising account.

191-		Advertising		191-		1.	
Jan. 4			15 50	Jan. 31	Gen'l Exp.	L4	54 25
9			10 75				
15			12 50				
21			14				
23			1 50				
			54 25				54 25

191-		General Expense		191-		4.	
Jan. 1			50				
16			22 50				
17			8				
22			29 60				
31	Advg	L1	54 25				
31	Staty & Postg	L2	?? ??				
31	Labor & Wages	L3	??				

Close Stationery & Postage and Labor & Wages in exactly the same way. When all three accounts have been thus closed into General Expense, the latter will contain all the expenses of the business for the month, its last three items being in condensed form.

LESSON XXII

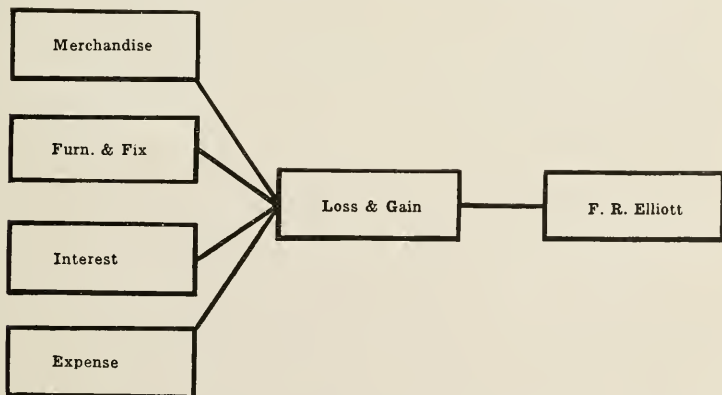
CLOSING THE LEDGER

If your financial statement and your loss and gain statement for F. R. Elliott's business have been approved, you are now ready to close the ledger.

Closing Financial Accounts. Close the following accounts with a balance: Cash, Notes Receivable, Notes Payable. Personal accounts, unless the debit and credit sides are equal, are left open. You are already familiar with the process of closing these accounts. Do not fail to bring all balances down in black ink, in each case onto the side opposite that on which the red ink entry appears. Use the date Jan. 31 for every closing entry and bring all balances down as of Feb. 1.

It should be noted that in each case the red ink entry on one side is exactly offset by the black ink entry brought down onto the opposite side. This preserves the balance of the ledger and leaves the preponderance of balance on each particular account just the same as it was before the closing was effected.

Closing Loss or Gain Accounts. Close the following accounts into the loss and gain account which you have already opened on page 7 of your ledger, after entering the inventories in red ink: Merchandise, Furniture & Fixtures, Expense, Interest. Use the date Jan. 31 for all closing entries, and bring all inventories down as of Feb. 1. These four loss or gain accounts are subordinate to Loss & Gain and are closed into it by the process explained in the special exercise in Lesson XXI. The loss and gain account is in turn closed into the proprietor's account. Study the following diagram:



In the special exercise in closing, Lesson XXI, there were entries on one side of the subordinate account only, in each case. When there are entries on both sides, as in F. R.

Elliott's interest account, the process of closing is the same as that formerly studied, but the amount transferred is the difference between the two sides. The red ink entry is always made on the smaller side of the account closed, thus balancing it; and the amount transferred to Loss & Gain is entered therein in black ink on the side opposite that on which the red ink entry was made, thus preserving the balance of the ledger. The result of the transfer is to take to the debit or credit side as the case may be, of the loss and gain account, the exact amount by which that side of the subordinate account exceeded the other before the closing. Ultimately, all the separate losses and gains are gathered into Loss & Gain, the result of which then exhibits the net loss or net gain of the business for the period of time since the ledger was last closed, or, in this case, since the beginning of business.

Since the various loss or gain accounts are being closed into the loss and gain account, the explanation "Loss & Gain" should be used in closing each of them and the ledger page upon which the loss and gain account is to be found should be written in the folio column. In making each entry in the loss and gain account, use as an explanation the name of the account transferred, and enter in the folio column the ledger page on which the closed account is to be found.

NOTE. Up to this point all entries in the ledger have been transferred from the same book (the journal), and for this reason nothing has been needed in the folio column except the page number, as it has always been understood that the entry originated in the journal. The entries in the loss and gain account, which do not originate in the journal, but are transferred from another page of the ledger, should be postmarked so as to indicate that they came from the ledger. The initial L. is used to indicate this.

Closing an Account Which Has an Inventory. If the account has a resource inventory (which is the only kind of an inventory you know anything about at this time) the inventory is entered on the credit side of the account before closing and after closing it is brought down upon the debit side. This is fully treated and illustrated in the exercise on the Mdse. account in Chapter I. It will be observed that the red ink inventory entered before closing and the black ink inventory brought down are of the same amount and on opposite sides of the ledger, thus preserving the equilibrium of the ledger.

Unless there are unposted items a correct ledger is never out of balance. For every debit (or debits) there is a credit (or credits) of equal amount. For every credit (or credits) there is a debit (or debits) of equal amount. This is true of closing entries as well as of entries for current transactions.

The separate losses and gains closed into the loss and gain account should correspond in detail with the separate losses and gains shown by the loss and gain statement.

Close the loss and gain account into the account of the proprietor, F. R. Elliott. The amount transferred should be the same as the net gain shown by the loss and gain statement. In making the red ink entry in the loss and gain account use as an explanation the name of the account to which the amount was transferred (F. R. Elliott) and write in the folio column the ledger page to which the amount is transferred. In making the black ink entry in F. R. Elliott's account use as an explanation the name of the account from which the amount is transferred (Loss & Gain) and write in the folio column the ledger page from which the amount is transferred.

Close F. R. Elliott's account with a balance. This balance should agree with the net capital shown by the financial statement.

Merchandise (Page 6)

191-			191-			
Jan. 2		20	81	Jan. 6	20	22 50
4		20	112 50	8	21	?? ??
7		20	275 50	9	21	?? ??
27		22	?? ??	11	21	?? ?
31		23	222 50	13	21	?? ??
	Loss & Gain	27	186 31	15	21	?? ??
				20	21	?? ??
				28	22	?? ??
				29	22	?? ??
			731 06	Inventory	27	214 50
						731 06

Feb. 1 Inventory ✓ 314 56

Furniture & Fixtures (Page 6)

191-			191-			
Jan. 3		20	226	Jan. 20	21	52
14		21	?? ??	31 Inventory	✓	350
				31 Loss & Gain	27	11 50
			413 50			413 50
Feb. 1	Inventory	✓	350			

Expense (Page 6)

191-			191-				
Jan. 4		20	15	Jan. 31	Loss & Gain	27	61
11		21	??				
18		21	??				
25		22	??				
			61				61

Interest & Discount (Page 7)

191-			191-			
Jan. 22		22	??	Jan. 24	22	?? ?
31	Loss & Gain	27	146 50	26	22	??
			164			164

Loss & Gain (Page 7)

191-			191-			
Jan. 31		L6	11 50	Jan. 31	L6	186 31
		L6	61 00	31	L7	117 45
31	F. R. Elliott	L6	?? ??			
			187 76			187 76

PROPRIETOR'S ACCOUNT, CLOSED

F. R. Elliott (Page 6)

191-	Jan. 31	Balance	✓	??????	191-	Jan. 1		20	4676 25
						31	Loss & Gain	57	222 22
				222222					2222 22
						Feb. 1	Balance	✓	??????

The explanation "Net capital" or "Net investment" or "Present worth" may be used in closing the proprietor's account, if desired, instead of the explanation "Balance" as shown in the above form.

BALANCE OF BALANCES

The ledger was in balance before closing. The equality of debit and credit was not departed from in a single instance in making the closing entries. Whenever any account was ruled, equal debit and credit totals were eliminated. It follows logically that the ledger is now in balance after closing. To test this, take a balance of balances in the form shown below. Note that although the personal accounts were left open, the balances only are shown. Write this on page 3 of your trial balance and statement book.

Balance of Balances, Feb. 1, 191-

6	F. R. Elliott		4791 51
6	Mdse.	314 56	
6	Furn. & Fix.	3 50	
7	Cash	??????	
7	Notes Rec.	???	
8	H. E. Runyon	???	
8	L. V. Bradley	???	
8	Notes Payable		????
8	Dale & Allen		???
		517 97 6	517 97 6

If the total of debit balances does not exactly equal the total of credit balances, some mistake has been made. To find it, check your balance of balances with the assets and

liabilities shown by your financial statement. The debit balances should correspond in detail with the assets shown in the statement. The credit balances should correspond in detail with the liabilities shown by the statement and the net capital (which, as has been remarked, is in a bookkeeping sense a theoretical liability). Even though your balance of balances shows the ledger to be in balance, it will be well to check it with your financial statement, as this will help you to see the resemblance that should exist between them.

The loss or gain accounts have all been closed into Loss & Gain, and that account closed into the proprietor's account. Since the net gain must agree with the increase of net assets, as you have learned, it is apparent that the proprietor's investment (net assets at the beginning) plus his gain (increase of net assets) must equal his net assets at present, as shown by the financial statement; or, in other words, the balance of the proprietor's account, or capital account, must equal the net capital shown by the financial statement. See the "proof" on page 62.

Since the ledger is in balance after closing, the balances of the different accounts are included in the next trial balance.

LESSON XXIII

SUMMARY AND CLASSIFICATION OF ACCOUNTS

The ledger is the book of accounts. Each account in it shows the result of some one part of the business. Accounts are of two classes as to result shown: (a) Financial Accounts; (b) Loss or Gain accounts.

Financial accounts are those which individually show the condition of certain parts of the business; collectively they show the condition of the business as a whole. The result of an account of this class is a balance, and when closed it is closed with a balance, which is either an asset or a liability.* Cash, Notes Receivable, Notes Payable, and personal accounts belong in this class. The results of the separate financial accounts, together with the inventories, constitute the data from which the financial statement is constructed.

Assets are things of value belonging to the business. An asset may be cash, property, or claims against others. Claims against others may be written (notes receivable) or on account. Liabilities are debts. They may be written (notes payable) or on account.

Loss or gain accounts are those which individually exhibit as a result the progress (loss or gain) of some particular part of the business; collectively they show the net loss or net gain of the business as a whole. Accounts of this kind close with either a loss or a gain.† Merchandise, Furniture & Fixtures, Expense, and Interest are accounts which belong in this class; there are many others.

*The Cash account must show an asset, unless it closes without a balance. The same is true of Notes Receivable. Notes payable must show a liability, if anything. A personal account may show either an asset or a liability.

†The expense account always shows a loss. The Mdse. account ought to show a gain in every case. A property account will usually show a loss, because property is subject to wear and tear. Interest, in an ordinary business, is much more likely to show loss than gain. Except as to the expense account, however, there can be no certainty (as far as the bookkeeper may know) that the result will be one way or the other. Other loss or gain accounts may be kept such as the character of the business may require or the desires of the proprietor may suggest. In this beginning course, only a few typical loss or gain accounts are kept.

While Cash, Notes Receivable, Notes Payable and personal accounts cover the financial accounts usually kept in an ordinary mercantile business, the loss or gain accounts vary widely in different lines of business. The expense account, as you learned in a previous chapter, is often subdivided, many subordinate expense accounts being kept in connection with a general expense account. In a mercantile business, a merchandise account is always kept, but it may be kept under some specific title, such as Boots & Shoes, Groceries, etc.; it may be subdivided to show separate results for separate departments, such as Green Groceries, Dried and Canned Goods, Staples, Bakery Goods, Meats, and Sundries, all closing into a general Mdse. account; or it may be subdivided into Mdse. Purchases, Mdse. Sales, and Mdse.-General; or in any other way which suits the particular requirements of the business or the wishes of the proprietor. What property accounts are kept will depend primarily upon what property is owned and secondarily upon how the proprietor may wish to classify it; he may consider it perfectly satisfactory to keep it all in one general Property account, or he may wish to keep a number of independent accounts.

Inventories must be taken into consideration in finding the results of loss or gain accounts. Whether or not there is an inventory for any particular account is a matter of fact, and what the amount of that inventory is, is a matter of fact or opinion. The books do not show these facts as to inventories. Their existence must be known, and their amount must be determined by count and valuation, estimation, or computation, as the case may be. You will learn more about inventories later, and in the meantime inventory figures will be given whenever necessary.

The results of the loss or gain accounts constitute the data from which the loss and gain statement is constructed.

The financial statement shows the separate assets and liabilities of the business and from these the condition of the business at the time of taking the statement is determined. If the assets exceed the liabilities, the amount of the excess of assets is the net capital, or net assets of the business. Should the liabilities exceed the assets, the business would obviously be unable to pay its debts—it would be *insolvent*. The result of the financial statement would be a net insolvency.

The loss and gain statement shows the separate losses and gains of the business and from these the net loss or net gain of the business is determined. This net loss or net gain is for the period of time between the last closing of the books and the date of the statement. If the gains exceed the losses, a net gain is shown for the period. If the losses exceed the gains, a net loss is shown for the period.

The net gain of a business always corresponds exactly with the increase of net assets, as is fully proved in Lesson XX. Consequently when the net gain for a certain period is added to the net capital at the beginning of the period, the result is the net capital at the end of the period, provided the proprietor has not increased his investment nor withdrawn any part of it.

The net loss of a business always corresponds exactly with the decrease of net assets. Consequently, when the net loss for a certain period is subtracted from the net capital at the beginning of the period, the result is the net capital at the end of the period, provided there have been no additions to or withdrawals from investment in the meantime. Should the net loss for the period exceed the net capital at the beginning of the period, the result would be an insolvency.

Should there be an insolvency at the beginning of a period, instead of a net capital, the gain for the period would decrease the amount of the insolvency; if there were a loss for the period, the amount of the insolvency would be increased. If the gain for the period were larger than the insolvency at the beginning of the period, the result would be the net capital at the end of the period.

Loss and gain statements are usually made annually or semi-annually in business; if made oftener, the burden of extra work would usually be too great considering the benefits derived; if made less frequently, the proprietor would not be kept in touch with the condition and progress of the business as closely as he should be. Such a statement could be made every month if desired.

It is customary to close the ledger after taking a loss and gain statement. If this were not done, the work would have to be done over again when the next statement was made. Suppose that a loss and gain statement were made on Jan. 31, for instance, covering the period from Jan. 1 to Jan. 31, and the books were not closed. If another loss and gain statement were made on Feb. 28, this statement would have to cover the period from Jan. 1 to Feb. 28. Naturally more time and labor would be required to prepare a statement covering two months than one. It is also apparent that the figures for January would have been gone over twice.

The ledger is closed as follows:

First: The financial accounts (all except the personal accounts*) are closed, the balances being brought down.

Second: The loss or gain accounts are closed into Loss & Gain.

Third: The loss and gain account is closed into the proprietor's account.

Last: The proprietor's account is closed with a balance.

Closing the loss or gain accounts in the ledger is sometimes accomplished through journal entries. To illustrate: Instead of closing the expense account with a red ink entry on the credit side and making a black ink entry of the same amount on the debit side of the loss and gain account an entry is made in the journal debiting the loss and gain account and crediting the expense account. When this entry is posted it is found that the expense account balances, and it is ruled to close. The debit item being posted to the loss and gain account, the condition of the ledger is the same as though the closing had been done directly in the ledger, as is the more general custom. State what you consider to be the advantages and disadvantages of both plans. Closing through the journal is more fully discussed on page 125.

Before making any further entries in it, the balance of the ledger should be verified either by taking a balance of balances, or by checking its balances as they stand with the separate assets and liabilities shown by the financial statement.

LESSON XXIV

EXERCISES IN MAKING STATEMENTS

Exercise 1

From the following amounts taken from D. B. Fisk's ledger and inventories, prepare a financial statement as of Jan. 31, 191—. Also make a loss and gain statement and proof. Use loose sheets.

*Some bookkeepers prefer to leave the notes receivable and notes payable accounts open, ruling them only when they balance, or when they are to be forwarded, treating them in this respect just as personal accounts are treated.

FOOTINGS FROM D. B. FISK'S LEDGER, JAN. 31, 191—

D. B. Fisk, Proprietor.....		5726 45
Furniture & Fixtures.....	500 00	
Merchandise.....	2390 00	560 00
Interest.....	43 55	69 33
Expense.....	275 44	
Cash.....	3203 25	
Notes Receivable.....	1900 25	
C. A. Faust.....	125 00	
H. J. Holm.....	56 50	
Notes Payable.....		459 00
Miner & Co.....		1159 21
Stephens & Hill.....		520 00
	8493 99	8493 99

Inventories: Mdse., \$2090.00. Furniture & Fixtures, \$485.00.

If the losses exceed the gains, the result is a net loss. In preparing the proof this must be deducted from the investment in order to find the net capital Jan. 31.

Exercise 2

From the balances and footings following, taken from the ledger of C. V. Rousch, Feb. 28, 191—, and the inventories below, prepare statements. Write a proof at the bottom of the loss and gain statement.

FOOTINGS FROM C. V. ROUSCH'S LEDGER, FEB. 28, 191—

C. V. Rousch, Proprietor.....		14134 45
Real Estate.....	10000 00	
Merchandise.....	4256 35	1253 75
Expense.....	272 65	
Interest.....	43 50	10 25
Cash.....	2405 65	1000 00
Notes Receivable.....	500 00	
H. A. Wasson.....	245 40	
Notes Payable.....		725 10
J. R. Hadley.....	50 00	650 00
	17773 55	17773 55

Inventories: Real Estate, \$9875.50; Mdse., \$3579.36; interest due on our notes payable, \$16.79.

Note that the interest inventory is an inventory of debt. This is called a liability in the financial statement. It is added to the debit side of the interest account in making the loss and gain statement.

Exercise 3

FOOTINGS FROM H. T. ADAMS' LEDGER, MAR. 31, 191—

H. T. Adams.....		12500 00
Real Estate.....	8500 00	
Merchandise.....	43000 00	44000 00
Expense.....	1260 00	
Interest.....	320 00	254 00
Cash.....	36000 00	33000 00
Notes Receivable.....	6460 00	
Accounts Receivable.....	5994 00	
Notes Payable.....		6000 00
Accounts Payable.....		5780 00
	101534 00	101534 00

Observe that the personal accounts are not listed separately. The accounts receivable have apparently been scheduled separately and the total only listed in the above trial balance. The same is true of the accounts payable.

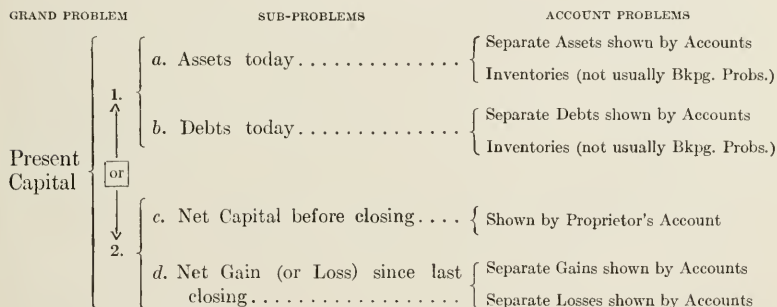
Inventories: Store and Lot (Real Estate), \$8000.00; Mdse., \$6000.00; Unexpired Insurance (which had been charged to Expense), \$125.00.

NOTE. Unexpired insurance is a resource inventory. It represents something of value which we still own, as it has never been used.

NOTE. It is not to be inferred that it is customary in business to prepare statements from the trial balance and inventories, for such is not the case. Careful accountants prefer to go back to the ledger for the information, thus avoiding one chance of error. Furthermore, the trial balance which is taken by differences (the customary plan) lack the necessary information as to amounts of purchases and sales of Mdse., totals of costs and returns on interest, etc.

The Problems of Bookkeeping

Bookkeeping consists of problems. Each account constitutes a separate problem. The results of these separate problems (and the inventories) furnish the data for the construction of larger problems, which in turn furnish the data necessary for the solution of the "grand problem," which is the present capital of the business. The outline below shows the relation of these problems to each other and to the grand problem.



Explanation. The results of the "account problems," combined with the inventories, constitute the data for the "sub-problems." The result of the "grand problem" can be determined from the data furnished by sub-problems *a* and *b* or from the data furnished by sub-problems *c* and *d*, and in double entry bookkeeping it is determined in both ways, the result being the same in either case.

CHAPTER V

SET TWO

LESSON XXV

TRANSACTIONS FOR FEBRUARY—RETAIL

Following are two months' transactions. Enter the transactions for February in your journal, post, and attend to the other duties of the bookkeeper, proceeding as follows:

1. Journalize the transactions of Feb. 1 to Feb. 13 inclusive. 2. Post the foregoing. 3. Take a trial balance as of Feb. 13. 4. Journalize the transactions of Feb. 16 to 27 inclusive. 5. Post the foregoing. 6. Take a trial balance as of Feb. 27. 7. Prepare statements. 8. Close the ledger. 9. Take a balance of balances.

Unless your teacher shall instruct otherwise, have your work approved at each of the above points before proceeding with the next step.

The accounts kept and the number of lines allowed for each, in addition to the line for the heading and the line for the year date, are as follows:

First Page	A. B. Moore, Proprietor	11 lines	Fifth Page		
	Real Estate	7 lines	Mrs. C. S. James, 6432 Yale Ave.		13 lines
	Furniture & Fixtures	10 lines	Mrs. T. J. Foster, 7221 Lowe Ave.		13 lines
	Horse & Wagon	9 lines	South Side Bakery, 7920 Normal Ave.		13 lines
Second Page	Merchandise	1 page	Sixth Page		
Third Page	Expense	15 lines	Mrs. Geo. E. Weeks, 5429 Drexel Boul.		9 lines
	Interest	12 lines	Notes Payable		9 lines
	Loss & Gain	12 lines	Jas. P. Smith & Co., 59 S. Water St.		10 lines
Fourth Page	Cash	30 lines	Sprague, Warner & Co., 600 W. Erie St.		9 lines
	Notes Receivable	11 lines			

The headings for the above accounts may be written in the ledger at this time, or you may do this just before posting on Feb. 13, as your teacher shall direct.

Condition of the Ledger at Beginning

Feb. 1, 191—. A. B. Moore is engaged in business at 6327 Englewood Ave. On this date his assets and debts are as follows: Cash on hand, \$1200.75; real estate, \$7500.00; furniture and fixtures, \$826.50; horses and wagons*, \$1627.50; Mdse. Invty., \$4326.75; he holds a 30-day note against F. A. Bright, dated Jan. 17, for \$250.00, with interest at 6%†; and accounts are due him as follows: Mrs. C. S. James, \$27.50; Mrs. T. J. Foster, \$36.25. There is outstanding against him a 60-day note in favor of Dan J. Hartnett & Co. for \$263.50, dated Jan. 19, with interest at 6%†; and he owes Jas. P. Smith & Co. on account \$275.00.

The foregoing assets and liabilities should show on A. B. Moore's ledger; and as you have learned, the balance of the capital account should be the difference between the assets and liabilities. Make the necessary entries in the ledger, dating all of them Feb. 1,

*If the delivery service were by Auto-truck or Delivery Auto, an account could be opened with either of these headings, instead of the Horse & Wagon account. At the present time, automobile delivery service by retail Houses is mostly confined to Houses having a large number of long hauls.

†Strictly speaking, accrued interest should be computed on both the note receivable and the note payable. Since these items amount to about the same, however, they are here omitted for the sake of simplicity and in order not to confuse the student at this early stage.

in each case using the explanation "Balance" or "Inventory," as may be proper. When this has been done, test the balance of the ledger before proceeding further.

TRANSACTIONS—SET TWO

191—.

Feb. 1. Sold to Mrs. C. S. James, 6432 Yale Ave., on account:*

2 lbs. golden Rio coffee, at 13¢	\$0.26	
1 lb. Orange Pekoe Ceylon tea	.80	
1 tin Bakers' Breakfast cocoa	.25	
1 bottle India curry powder	.14	\$1.45

The explanation in the journal consists of a list of the items and prices as shown above. The total shows in the money columns only. The words "Sold on account" may be omitted as superfluous, since the journal entry shows clearly what has taken place.

Feb. 3. Sold on account to Mrs. T. J. Foster, 7221 Lowe Ave.:

2 lbs. Penang cloves, at 55¢	\$1.10	
2 cans Royal Dutch mustard, at 12¢	.24	
2 bottles vanilla, at 20¢	.40	\$1.74

Feb. 4. Received a check from C. S. James for \$27.50, in settlement of the account against Mrs. C. S. James up to Feb. 1. You understand that this check is received as cash.

FORM OF CHECK

<i>(City and State)</i> Oct 28, 19	
FIRST NATIONAL BANK	
Pay to the order of	<i>E. C. Davis</i> \$ 1800. ⁰⁰
	<i>Eighteen Hundred and ⁰⁰/₁₀₀</i> Dollars.
No. <i>248</i>	<i>Wm. Wilson</i>

A check is a demand to pay money, drawn upon a bank by a person who has funds in the bank against which he is entitled to draw, made payable to a certain person named therein, or to bearer. Checks made payable to a certain person or his order must be endorsed by the person when they are transferred by him to another. Checks made payable to bearer need not be endorsed in order to be valid in the hands of a transferee, but often they are endorsed nevertheless; banks usually require endorsement of all checks deposited with them, whether they are drawn in favor of some certain person or in favor

*For variable price lists, see page 167. Make a copy of the prices in the list assigned you, and keep it before you for reference.

of the bearer. In the foregoing illustration Wm. Wilson, the drawer, orders the First National Bank to pay \$1800.00 to E. C. Davis or some one Davis may name.

Feb. 6. Bought from Jas. P. Smith & Co., 59 S. Water St., on account, 50 lbs. Orange Pekoe Ceylon tea, at 50¢, \$25.00.

Feb. 6. Cash sales for the week amounted to \$243.26. Make the entry as you would make it for a single cash sale, but with a proper explanation*.

Feb. 6. Paid salaries as follows in cash: Harry J. Myers, bookkeeper, \$18.00; Geo. N. Weber, salesman, \$12.00; Willie Smith, delivery boy, \$7.00†.

Feb. 9. The South Side Bakery, 7920 Normal Ave., bought on credit:

3 bottles Snyder's catsup, at 22¢	\$0.66	
2 lbs. Young Hyson tea, at \$1.00	2.00	
3 lbs. finest Santos coffee, at 17¢	.51	
12 lbs. Bakers' No 1 Premium cooking chocolate, at 38¢	4.56	
12 cakes Magic yeast, at 3¢	.36	\$8.09

Feb. 9. Bought from Sprague, Warner & Co., on ten days credit:

40 lbs. Arabian Mocha coffee, at 19¢	\$7.60	
20 lbs. Young Hyson tea, at 66¢	13.20	
24 bottles India curry powder, at 10¢	2.40	\$23.20

The terms of purchase must be given in the explanation. This rule must be observed whenever goods are purchased or sold on definite terms as to when or how settlement shall be made.

Feb. 9. Charged Mrs. C. S. James for goods delivered to her today as follows:

2 lbs. best Ceylon tea, at \$1.00	\$2.00	
2 lbs. Arabian Mocha coffee, at 27¢	.54	\$2.54

Feb. 10. Paid cash for postage and stationery as follows. Stamps, \$10.00; 2 M letter heads, \$8.50; 2 M No. 6 envelopes, printed, \$2.50.

Feb. 10. Received a check for \$7.00 from the South Side Bakery, to be applied on account.

Use the explanation "On account." When cash is received on account it is important to know whether the money was intended to cover some particular bill or not. In this case, it was not.

Feb. 11. Received cash from Mrs. C. S. James to pay for the goods bought by her on Feb. 1, \$1.45.

Use the explanation "Our bill of Feb. 1."

*In a business having a large number of small cash sales (called petty cash sales) separate entries of each of such sales are not usually made. Instead the cash is rung up in a cash register as received and at the close of the day (not usually weekly as above) the total is entered as a single cash sale would be. Sometimes (especially when there is no cash register) the amounts of the petty sales are entered in a petty cash book, the total of which is periodically entered in the general books.

Mr. Moore sells mostly for cash, his only charge accounts being with a few boarding-house keepers and others who would buy in quantity the kind of goods he has for sale.

†This is charged to Expense, because we have but one general expense account. Many business men, wishing to know the exact cost of delivery service, would open a Delivery Expense account, charging to it all such items as feed for horses (or gasoline for auto), expenses for repairs, horse shoeing and veterinary's bills, and the salary of the delivery boy. This account would be subordinate to the general expense account, closing into it. Several subordinate accounts could be kept, if the business were large enough to justify it. One plan would be to keep the items of current expense in an account called "Delivery Expense," and the items of repairs and replacements in another account properly headed.

Feb. 12. Bought for cash one roll-top desk and one swivel chair, \$45.00.

Feb. 13. Finding that the deliveries can be taken care of with fewer horses and wagons, we sold the gray mare Nellie and one old delivery wagon (described as a Studebaker 1896 model, Style No. 23) to Robert Burnett for cash, \$450.00.

A bill of sale is usually given when property of this kind, to the value of a certain amount (the amount varies in different states), is sold. This is a formal document stating the terms of sale and describing the property sold.

Feb. 13. Cash sales for the week, \$236.75.

Feb. 13. Paid the salaries of the bookkeeper, salesman, and delivery boy in cash as on Feb. 6.

At this point you are to post and take a trial balance. This trial balance and all you will take hereafter will be taken by differences, not by footings. After posting all transactions up to this point proceed as follows: Foot each side of each ledger account, writing the total in small lead pencil figures just below the last item and close enough to it to leave room for what must be written later on the next line; then find the difference between the two totals and write it in the explanatory column, in small lead pencil figures, just opposite the footing of the column which shows the greater total; all as shown in the illustration of a personal account on page 33.

When all the ledger accounts have been footed in lead pencil in this manner, prepare your trial balance, listing the differences only. Thus, opposite the name of Mrs. C. S. James do not write the debit and credit totals of the account, but write the amount \$2.54, which is the difference between the two totals, in the debit column, since it represents the excess of the debit side.

The balance of the ledger has not been disturbed by the foregoing process, for it will be observed that in the case of each ledger account listed in the trial balance an equal amount has been deducted from each side.

Feb. 16. Delivered the following to Mrs. T. J. Foster, charging her account:

1 3-lb. tin Phillips' Digestible cocoa	\$2.00	
2 lbs. paprika, at 80¢	1.60	\$3.60

Feb. 16. Collected \$251.25 in cash from F. A. Bright, for his note due today, \$250.00, and interest for 30 days at 6%, \$1.25.

How to Forward an Account

When the money column on either side of a page becomes filled it becomes necessary to forward that account to some other page. You will use the following forms in forwarding accounts:

MERCHANDISE

(Page 77)

191—							191—				
Jan.	1	Inventory	✓	4250	65	Jan.	2		18	100	48
	5		23	250			8		29	56	72
	6		27	56	78		12		32	45	50
							15		35	29	62
							17		38	10	25
		Footing For'd	78	4557	43				78	242	57
								Footing For'd			

191—

191—

	Footing Brot. For'd	77	4557	13			Footing Brot. For'd	77	242	57
--	---------------------	----	------	----	--	--	---------------------	----	-----	----

In forwarding a personal account, close the account with a balance, forwarding the balance only. When forwarding a balance in this way, red ink is used for the balancing entry and black ink for the entry on the page to which the account was forwarded. In forwarding footings, no red ink is used, ordinarily.

Feb. 17. Bought from Sprague, Warner & Co., 600 W. Erie St., on account:

20 lbs. Penang cloves, at 36¢	\$7.20	
12 cans Royal Dutch mustard, at 8¢	.96	
24 bottles Snyder's catsup, at 14¢	3.36	\$11.52

Feb. 17. Gave Jas. P. Smith & Co. our 30-day note for \$300.00, dated today and bearing interest at 6%, to cover our account with them up to and including their bill of Feb. 6.

When this entry is posted it will be observed that Jas. P. Smith & Co.'s account exactly balances. Rule and foot the account at once, and hereafter follow the plan of ruling and footing personal accounts whenever they balance. Some bookkeepers simply rule a single line across the account, and omit the footings and double ruling, but you will close such accounts in the usual way until differently instructed.

Feb. 18. T. J. Foster gave us his 30-day note dated today, and bearing 6% interest, for \$41.59, the balance of his wife's account to date. Before making this entry, consult the ledger and the unposted items of the journal to see that the amount is correct.

When this entry is posted, it will be observed that Mrs. T. J. Foster's account balances. Rule and foot the account at once, as you did in the case of Jas. P. Smith & Co.'s account after posting the last entry.

When a note is received to cover the balance of a customer's account, the account itself is closed in the ledger, but the customer's obligation to pay is the same as ever. The note is a written acknowledgment of indebtedness and names a date on which payment will be made. The creditor can discount the debtor's note if he wishes to realize on it before the date of maturity. For these reasons the note is preferable to the account. The student must not get the impression that giving a note operates in the slightest degree to relieve the debtor, for on the contrary it makes his obligation even more definite.

Feb. 19. Paid Sprague, Warner & Co., in cash, the amount of their bill of Feb. 18, \$23.20.

Feb. 19. The South Side Bakery had the following goods delivered and charged to its account:

10 pkgs. Arm & Hammer brand soda, at 6¢	\$0.60	
3 lbs. cinnamon, at 60¢	1.80	
3 tins Van Houten's cocoa, at 73¢	2.19	\$4.59

Feb. 20. Bought on 30 days' credit from Jas. P. Smith & Co., 24 tins Van Houten's cocoa, at 56¢, \$13.44.

Feb. 20. Cash sales for the week, \$256.28.

Feb. 20. Paid the salaries in cash as on Feb. 6.

Feb. 23. Sold to G. E. Harms for cash 100 2¢ stamps. (This is a return on the expense account.)

Feb. 23.	Sold to Mrs. T. J. Foster, on account:		
	2 bottles grated horseradish, at 12¢	\$0.24	
	1 lb. best Ceylon tea	1.00	
	3 lbs. golden Rio coffee, at 13¢	.39	\$1.63
		<hr/>	

Feb. 24. Sold to Mrs. T. J. Foster on account 2 lbs. Orange Pekoe Ceylon tea, at \$1.00 a pound.

Feb. 25 Bought 50 bushels of oats, for horse feed, at 48¢, paying cash. (Debit Expense).

Feb. 25. Received \$1.63 in cash from Mrs. T. J. Foster to cover the bill against her of Feb. 23.

Feb. 26.	Bought from Sprague, Warner & Co., on account:		
	20 lbs. cinnamon, at 40¢	\$8.00	
	36 lbs. Baker's No. 1 Premium cooking chocolate, at 26¢	9.36	\$17.36
		<hr/>	

Feb. 27. Paid Sprague, Warner & Co. \$11.52 in cash to cover the bill of goods bought from them ten days ago.

Feb. 27. Cash sales for the week, \$264.36.

Feb. 27. Paid the salaries in cash as on Feb. 6.

Inventories Feb. 28: Real Estate, \$7500.00; Furniture & Fixtures, \$867.50; Horse & Wagon, \$1170.00; Mdse., \$3879.23; accrued interest* on the following notes: T. J. Foster's note in our favor, \$41.59 from Feb. 18 to Feb. 27, 9 days at 6%, \$.06; our note of Jan. 19 in favor of Dan J. Hartnett & Co., \$263.50, 39 days at 6%, \$1.71; our note of Feb. 17 in favor of Jas. P. Smith & Co., \$300.00, 10 days at 6%, \$.50. The last two items of accrued interest are liability inventories, so called because they are inventories of debt. Their effect is to decrease the apparent gain of the interest account. You will learn more about liability inventories later. For the present treat them as follows: (1) List them among the liabilities in the financial statement. (2) Add them to the debit total of the account affected, when preparing the loss and gain statement. (3) In closing the interest account in the ledger, enter the total of interest liabilities on the debit side in red ink as an inventory before closing, and bring the same amount down below the rulings on the credit side.

Note that the inventory of real estate is unchanged. The real estate account will not affect the loss and gain statement, therefore, and nothing will be done to it in closing the ledger.

In preparing the financial statement, list the assets in the following order: Cash, Real Estate, Furn. & Fix., Horse & Wagon, Mdse., Notes Rec., Interest, Mrs. C. S. James, Mrs. T. J. Foster, South Side Bakery. This arrangement is in the order of *availability*, those assets being listed first which can the most quickly be made available as cash. The liabilities should be listed in the order of their *urgency*, those liabilities being listed first which are deemed the most pressing. List the liabilities as follows: Notes payable, Interest, Jas. P. Smith & Co., Sprague, Warner & Co. In preparing the loss and gain

*Some accountants prefer to call entries of interest inventories "adjustment" entries, since they represent items not now due us, but accrued interest which will be paid at a later date; and the purpose of such entries is simply to adjust the interest account so that it will accurately show the losses and gains for the period. Since these items are in effect the same as inventories, and are treated in the books just as inventories are treated, it is better for your present purposes to place them in the same class with property inventories. Throughout this text we shall refer to them as inventories.

statement, show the inventory of Mdse. Feb. 1 and the purchases for February as separate items, their sum being the total cost of Mdse.

The arrangement of accounts in the ledger is as follows*: Proprietor's account (the capital account); accounts showing loss or gain; the loss and gain account; asset accounts; liability accounts.

After taking a balance of the March 1 balances, check its items with the results shown by your financial statement.

PROBLEMS

1. On Jan. 1, 191—, Mr. A. invested \$10,000.00 in business. On Jan. 5 he withdrew \$50.00. His gain for January was \$217.65. What was the balance of the capital account on Jan. 31?

2. Mr. B. began business on Feb. 1, 191—, with an investment of \$5000.00. On Feb. 15 he increased his investment \$2500.00. His gain for the month being \$276.82, what was the business worth on Feb. 28?

3. Mr. C. invested \$7500.00 on Mar. 1, 191—. On the 10th of the month he added \$2100.00 to his capital. On Mar. 20 he withdrew \$125.00 for personal use. The net loss of the business during March was \$325.60. What was the balance of the capital account on Mar. 31?

4. On April 1 Mr. D. began business with \$6500.00 cash. He withdrew \$75.00 on April 5. He added \$1000.00 to his investment on April 20. On April 22 he withdrew \$65.70 for personal use. On April 30 his financial statement showed that the business was worth \$7500.00. Was there a loss or a gain during April, and if so how much?

5. On May 31, Mr. E.'s loss and gain statement showed a profit of \$364.50 for the month. His financial statement showed that the business was worth \$8346.75 on May 31. During the month of May his personal withdrawals amounted to \$137.28, and the ledger shows that on May 15 he had put an additional \$1000.00 into the business. What was the balance of the proprietor's account on May 1?

LESSON XXVI

Continue the transactions of March, proceeding as follows:

(1) Journalize the transactions of Mar. 1 to Mar. 13 inclusive. (2) Post the foregoing. (3) Take a trial balance as of Mar. 13. (4) Journalize the transactions of Mar. 15 to Mar. 31 inclusive. (5) Post the foregoing. (6) Take a trial balance as of Mar. 31. (7) Prepare statements. (8) Close the ledger. (9) Take a balance of balances.

Unless your teacher shall instruct otherwise, have your work approved at each step before proceeding with the next step.

TRANSACTIONS

191—.

March 1. A. B. Moore withdrew \$1000.00 cash for his personal use.

Mar. 1. Bought from Sprague, Warner & Co., for cash:

20 lbs. Penang cloves, at 36¢	\$ 7 20	
30 lbs. cinnamon, at 40¢	12 00	
30 lbs. Orange Pekoe Ceylon tea, at 57¢	17 10	
25 lbs. best Ceylon tea, at 68¢	17 00	\$53.30

We have an open account with Sprague, Warner & Co. and it is better to run this transaction through the ledger, even though it is for cash, so that the ledger will show all our transactions with them. You will therefore make two entries in your journal, one crediting Sprague, Warner & Co. for the amount of the purchase, the other debiting them for the payment. Since these entries will both be posted, Sprague, Warner & Co.'s account will show the complete transaction.

* Some accountants prefer to list the proprietor's account last, because it is in a bookkeeping sense a liability, and is the least urgent of the liabilities. Again, some accountants prefer to put the assets first in the ledger and the liabilities last, the loss or gain accounts coming between. In any case, it is customary to divide the ledger into sections, one section for each group, with plenty of blank pages in each section for new accounts.

Mar. 1. Sold to Mrs. C. S. James, on account:

3 lbs. Young Hyson tea, at \$1.05	\$3.15	
5 lbs. golden Rio coffee, at 25¢	1.25	
1 3-lb. tin Phillips' Digestible cocoa	2.00	
1 lb. paprika	.80	\$7.20

Mr. Moore opened an account with the First National Bank today and made a deposit of \$1000.00 of the cash on hand. This will not affect your bookkeeping. It simply means that from now on the cash will be kept in two places—part of it will be in the cash drawer and part of it will be in the bank. When checks are drawn against the money in the bank, this diminishes the cash on hand and you will make the entry for cash paid out, just as you would have made it had the cash been paid out from the cash drawer.

Mar. 2. Sold to Mrs. T. J. Foster, on account:

2 lbs. best Ceylon tea, at \$1.00	\$2.00	
6 lbs. Arabian Mocha coffee, at 27¢	1.62	
4 tins Baker's breakfast cocoa, at 25¢	1.00	
1 lb. cinnamon	.60	\$5.22

Desiring to determine whether it is economical for him to attend to his own deliveries, Mr. Moore asks you to prepare for him a statement showing all facts bearing upon the question. You find that the delivery boy makes on an average 30 deliveries a day; that feed for the horses costs 80¢ a day; that \$10.00 a month is paid for stable rent; that the salary of the delivery boy is \$7.00 a week; that the City Delivery Co., will contract to deliver all packages for 7½¢ each. Mr. Moore has an offer of \$1150.00 for his horses and wagons. Prepare a statement that will show him whether he should continue to make his own deliveries or not, assuming that the interest on money tied up in horses and wagons is worth 6%, and that the extra expense of maintaining horses and wagons is costing on an average at least \$10.00 a month.

Mar. 3. After considering the statement you prepared for him yesterday, Mr. Moore has decided to sell his horses and wagons, and to dispense with the services of the delivery boy after this week. He receives H. K. Wagner's 15-day note for \$1150.00 at 6% for the horses and wagons.

Mar. 4. Received \$2.54 from Mrs. C. S. James in settlement of the balance due us on Mar. 1.

Mar. 5. Charged Mrs. T. J. Foster, for Mdse. sold to her today,

4 bottles India curry powder, C. & B., at 15¢	\$0.60	
1 lb. Penang cloves	.55	
3 bottles Snyder's catsup, at 22¢	.66	
3 tins Van Houten's cocoa, at 73¢	2.19	\$4.00

Mar. 6. Cash sales for the week, \$227.50.

Mar. 6. Paid salaries as follows in cash: Harry J. Myers, bookkeeper, \$20.00; Geo. N. Weber, salesman, \$12.50; Willie Smith, delivery boy, \$7.00; total, \$39.50. Dismissed Willie Smith with a letter of recommendation, to which he was entitled, as he had always been a faithful and diligent worker, and only left because we had no further need of a delivery boy*.

*The practice of giving letters of recommendation to employees who have been discharged for incompetency, laziness, or unfaithfulness cannot be too strongly condemned. The employer who does this imposes on some other business man who hires the incompetent one on his recommendation; he does the worst thing in the world for the employee, who should understand that if he wants a recommendation, he should be worthy of it; and he proves himself unworthy of belief.

Mar. 8.	Sold to the South Side Bakery on account,		
	12 cakes Magic yeast, at 3¢	\$0.36	
	4 bottles vanilla, at 18¢	.72	
	12 lbs. Baker's No. 1 Premium cooking chocolate, at 38¢	4.56	\$5.64

Mar. 8.	Sold on account to Mrs. C. S. James,		
	3 bottles India curry powder, C. & B., at 15¢	\$0.45	
	2 cans Royal Dutch mustard, at 12¢	.24	
	3 pkgs. Arm & Hammer soda, at 6¢	.18	
	3 bottles vanilla, at 18¢	.54	\$1.41

Mar. 8. Paid Sprague, Warner & Co., by check, the amount due them for Mdse. sold us on Feb. 26. This is a cash payment, as formerly explained. It settles our account with them in full.

Mar. 8.	Sold to Mrs. T. J. Foster, on account,		
	3 lbs. Young Hyson tea, at \$1.05	\$3.15	
	4 lbs. Arabian Mocha coffee, at 27¢	1.08	
	5 3-lb. tins Phillips' Digestible cocoa, at \$2.00	10.00	
	6 cakes Magic yeast, at 3¢	.18	
	4 pkgs. Arm & Hammer soda, at 6¢	.24	\$14.65

Mar. 10.	Sold on account to Mrs. Geo. E. Weeks, 5429 Drexel Boul.,		
	1 3-lb. tin Phillips' Digestible cocoa	\$2.00	
	3 lbs. golden Rio coffee, at 13¢	.39	
	1 lb. cinnamon	.60	\$2.99

Mar. 11. T. J. Foster gave us his 30-day note, bearing 6% interest, for the balance due us on our account against his wife, \$25.87.

After posting, rule up the account.

Mar. 12.	Bought from Jas. P. Smith & Co. on 10 days credit,		
	12 doz. bottles India curry powder, at \$1.10	\$13.20	
	6 doz. cans Royal Dutch mustard, at 90¢	5.40	
	60 1-lb. pkgs. Arm & Hammer soda, at 4¢	2.40	\$21.00

Mar. 12. Sold to the South Side Bakery on account, 3 lbs. paprika, at 80¢, \$2.40.

Mar. 13.	Bought from Reid, Murdock & Co., on our 30-day note at 6%,		
	60 lbs. Young Hyson tea, at 66¢	\$39.60	
	64 lbs. best Ceylon tea, at 68¢	43.52	
	120 lbs. finest Santos coffee, at 17¢	20.40	\$103.52

Mar. 13. Cash sales for the week, \$232.65.

Mar. 13. Paid the salaries of the bookkeeper and the salesman in cash as on Mar. 6. Deposited \$500.00 (no bookkeeping entry).

As previously noted, the deposit does not affect your bookkeeping, and no entry of it is made in your ledger. Records of deposits and checks are kept on the stubs of the check book, from which the balance in the bank may be determined at any time, and this added to the cash in the drawer will give the balance of cash on hand, which should agree with the balance of the cash account.

A bank account is sometimes kept in the ledger, and when so kept cash in bank is not considered the same as cash on hand. This plan is not often used, however.

NOTE.—Compare funds in the bank and in the cash drawer to money in the right-hand pocket and money in the left-hand pocket. Whenever money is received, whichever pocket it goes into, the cash on hand is increased. Whenever money is paid out, whichever pocket it is paid out from, the cash on hand is decreased. When money is transferred from one pocket to the other, the cash on hand is neither increased nor decreased. The sum of the amounts in the two pockets at any time is the cash on hand.

Mar. 15. Received \$5.00 cash from the South Side Bakery on account.

Mar. 16.	Sold on account to Mrs. Geo. E. Weeks,		
	2 lbs. cinnamon, at 60¢	\$1.20	
	3 bottles Snyder's catsup, at 22¢	.66	\$1.86
		<hr/>	

Mar. 17.	Sold to Mrs. C. S. James, on account,		
	3 lbs. finest Santos coffee, at 25¢	\$0.75	
	1 lb. Van Houten's cocoa	.73	
	3 bottles Snyder's catsup, at 22¢	.66	\$2.14
		<hr/>	

Mar. 18. H. K. Wagner's note for \$1150.00 falls due today with 6% interest. Mr. Wagner is unable to take up the entire note at this time, but he pays the interest and \$650.00 of the principal by check, also giving his new note for \$500.00 for 60 days at 6%. We deposited the check.

Mar. 19. Bought on account from Jas. P. Smith & Co., 72 lbs. Van Houten's cocoa, 1 lb. tins, at 56¢, \$40.32.

Mar. 19. Paid by check our 30-day note in favor Jas. P. Smith & Co., due today, \$300.00, with interest at 6%, \$1.50. Amount of check, \$301.50.

Mar. 20. T. J. Foster paid his note of Feb. 18, \$41.59, and interest for 30 days at 6%, \$.21, in cash. Amount of cash received, \$41.80.

Mar. 20. Received a check for \$7.20 from Mrs. C. S. James in settlement of our bill against her of Mar. 1.

Mar. 20. Paid our note of Jan. 19 in favor of Dan J. Hartnett & Co., \$263.50, and interest for 60 days at 6%, \$2.64, by check. Amount of check, \$266.14.

Mar. 20. Cash sales for the week, \$241.63.

Mar. 20. Paid the salaries for the week as on Mar. 13.

Mar. 20. Mr. Moore deposited in the bank \$600.00 in cash and the check for \$7.20 received today.

Mar. 22. Gave Jas. P. Smith & Co. our check for \$34.44, to cover two bills due today.

Mar. 23. Sold to Mrs. Geo. E. Weeks on account 3 lbs. Young Hyson tea, at \$1.05, \$3.15.

Mar. 24.	Purchased from Sprague, Warner & Co. on 10 days time,		
	24 lbs. Penang cloves, at 36¢	\$8.64	
	20 lbs. cinnamon, at 40¢	8.00	\$16.64
		<hr/>	

Mar. 24. Sold to the South Side Bakery on account, 12 cakes Magic yeast, at 3¢, \$.36.

Mar. 25. Mrs. C. S. James paid her account in full in cash. To determine the amount due from her at this time refer to the ledger; then carefully inspect the unposted items in the journal.

After posting, rule up the account.

Mar. 26. Sold to Mrs. Geo. E. Weeks on account 5 lbs. Arabian Mocha coffee, at 27¢, \$1.35.

Mar. 27. Cash sales for the week, \$246.72.

Mar. 27. Paid the salaries as on Mar. 13.

Mar. 29. At Mr. Moore's request you paid by check Jay E. Emerson, agent for the Mutual Benefit Life Insurance Co., \$60.78, the amount of the premium due today on Mr. Moore's life policy No. 213469.

Mar. 31. Paid the City Delivery Co. in cash for 542 deliveries at $7\frac{1}{2}\text{¢}$ each, \$40.65. Most of these deliveries were of goods sold for cash.

Mar. 31. Cash sales to date, \$132.56.

If you have trouble with your trial balance go over your work very carefully as suggested on page 52. If the error still remains undiscovered, it may be that your balances were not brought down correctly on Mar. 1. Check over your balances of Mar. 1 to see whether your error lies here. Unless your ledger was in balance at the first of the month, you cannot expect it to be in balance at the end.

Inventories, Mar. 31: Real Estate, \$7480.00; Furniture & Fixtures, \$860.00; Horse and Wagon, no inventory—close account to Loss & Gain; Mdse., \$3482.45; Expense, one-half of the weekly salaries of the bookkeeper and salesman, earned by them but unpaid, \$16.25—a liability inventory,* interest receivable accrued on T. J. Foster's note for \$25.87, dated Mar. 11 and bearing interest at 6%, \$.09; interest receivable accrued on H. K. Wagner's note for \$500.00, dated Mar. 18 and bearing interest at 6%, \$1.08; interest payable accrued on our note for \$103.52 in favor of Reid, Murdock & Co. dated Mar. 13, at 6%, \$.31.

Note that there are both resource and liability inventories of interest. Follow the instructions given at the end of the transactions for February, in handling these items in the statements and in closing the ledger.

The item of salaries earned and unpaid is a liability inventory to expense, or more exactly speaking, an adjustment entry the purpose of which is to make the expense account exhibit the exact cost of expenses for the month. When the red ink entry of \$16.25 is added to the debit side of the account, the total is the real total of expenses for the month. The \$16.25 is brought down onto the credit side of the expense account below the rulings and this acts as an offset to the \$32.50 that will be entered on the debit side on Apr. 3. The effect of this adjustment entry is to throw \$16.25 of the amount paid out for salaries for the week ending Apr. 3 into the month of March, where it belongs, while the rest of it (\$16.25, represented by \$32.50 on the debit side offset by \$16.25 on the credit side) appears as a charge against the month of April.

The "proof" which you prepare to show the agreement of the two statements should analyze the capital account, appearing in the following form:

PROOF			
Investment	March 1, 191—		\$***** **
Withdrawals	March 1	\$1000.00	
	March 29	** **	**** **
Net investment			\$***** **
Net gain for March			*** **
Net capital March 31, 191—			\$***** **

*This should be listed first among the liabilities, as obligations of this kind take precedence over ordinary liabilities for goods purchased.

Prepare a record of transactions with the bank that will show what the balance in the bank should be at this time. From this and your cash account you can determine how much cash should be in the cash drawer.

LESSON XXVII

JOURNALIZING

Interest and Discount

Interest is the use of money for which consideration is paid. When one has the use of money belonging to another he must pay for that use. For convenience the money paid for interest is called interest money, or interest.* Discount is an allowance made for the prepayment of a debt not yet due. Thus, if A owes B \$1000.00 due on April 1, he should pay for interest if he allows the debt to run to May 1, but is entitled to discount if he pays it on March 1. There is no difference, as far as the bookkeeping is concerned, between the two, but it should be noted that interest paid in advance, or discount, is more expensive to the person making the allowance, because it is paid at an earlier date. If A borrows \$1000.00 from the bank for 60 days, allowing the bank to deduct \$10.00 at the time of the loan, he is not making as good a bargain as if he had borrowed \$1000.00 from some one who would permit him to keep the entire \$1000.00 for 60 days and then return it with \$10.00 for interest, because in the latter case A would have had the use of the \$10.00 for 60 days.

Do not forget, however, that there is no difference, as far as the bookkeeping entry is concerned, between interest and discount. When interest (or discount) costs the business, debit the interest account. When interest (or discount) produces returns or effects a saving for the business, credit the interest account. Interest and discount items are properly kept in the same account in the ledger, which may be called *Interest* or *Interest & Discount*.

An important source of revenue for banks is the loaning of money. The bank usually takes the note of the borrower, which must ordinarily be secured. The note is made out for the face of the loan and the borrower receives this amount less a discount. Again, a borrower instead of giving his own note may endorse to the bank a note which he holds signed by some other person, whereupon the bank will deliver to him or credit to his account the amount which the note calls for, less a discount. If the note is interest-bearing, the full amount of the note (face plus interest for the full time of the note) should be discounted. The interest may be computed at one rate and the discount at another.

Whether interest is due or not is a matter of agreement and of law; that is, interest accrues whenever there is an agreement, or a custom, or a law that demands it. Sometimes interest is due on accounts that are not paid on a certain date. When the rate of interest is not agreed upon, the legal rate will apply. This rate varies in different states. Interest at higher than a certain rate (which rate varies in different states) is called usury and a penalty for usury is usually provided by the law which defines it.

Do not confuse interest and discount with cash discount, which is an allowance for the prepayment of trading bills and is usually an arbitrary percentage deducted from the amount of the bill for payment before a given date. Cash discount is allowed not only that the seller may have the use of the money,

*This is not a correct use of the word interest, in a bookkeeping sense, for interest is the use of money, not the money paid for the use of money. Interest is a privilege for which money is paid. Thus, money is paid *for* interest, or money is reserved *for* interest, just as money is paid *for* rent, money is paid *for* insurance. We commonly say that we pay rent, pay insurance, or pay interest, but none of these expressions is correct. We pay cash (or something else of value) for rent, for insurance, or for interest.

but in order to reduce his risk in carrying accounts, and is comparatively liberal. Ordinary interest and discount is a small allowance based on use of money only, and time is an essential in computing it, whereas cash discount is not based upon exact time of use.

Journalize the following transactions. For convenience, you may omit the explanations in making these entries:

191—.

Jan. 1. Paid cash for my 6-month note in favor of Graham & Welsh for \$500.00 due today with interest at 6%.

Jan. 2. Henry E. Adkins paid cash for his note for \$450.00 in our favor due today with interest for 90 days at 6%.

Jan. 3. Received from the City Railways Co. semi-annual interest on \$1000.00 worth of 3% coupon bonds, in cash.

Jan. 4. Paid the quarterly interest on a \$5000.00 mortgage on our building, at 5%, in cash.

Jan. 5. Borrowed \$8000.00 from the First National Bank for 60 days. We gave them our note for the amount, and they discounted the note at 6%.

Jan. 6. Jas. E. Hawley discounted his 60-day note in our favor for \$400.00. The note was dated Dec. 7. It bore interest at 6% and was discounted at 5%.

First compute the interest for 60 days at 6% and add it to the face of the note. The amount so resulting is now to be discounted for 30 days at 5%. The result is the cash received. The difference between the cash received and the face of the note is to be credited to the interest and discount account.

Some accountants prefer to make two entries for interest in such a case, one crediting the interest and discount account for the full amount of the interest, and the other debiting the interest and discount account for the amount of the discount.

NOTE.—The verb “to discount” may be used in either two ways. It may mean “to sell at a discount” or it may mean “to buy at a discount.” Thus we may say we discounted our note at the bank, or we may say the bank discounted our note, both expressions referring to the same transaction. This is a peculiarity of the language.

Jan. 16. We discounted at the bank H. N. Cannon's note in our favor. The note was for \$600.00, dated Jan. 1, bearing interest at 7%, and maturing 90 days from its date. Rate of discount, 4%.

Jan. 20. Paid C. L. Masters & Co.'s invoice of Dec. 6, \$180.00. The invoice was sold to us on 30 days' time, with interest at 6% payable after maturity.

Jan. 21. The Standard Mfg. Co. sent us its check in satisfaction of a judgment against it in our favor. We had brought suit for \$500.00 due us April 1 of last year on account. The court had allowed our claim and interest at 6% from April 1. Count time by exact days and figure interest on the basis of 365 days to the year*.

Jan. 23. Received cash from Howe & Watson for their note in our favor. The note was for \$625.00. It was dated November 24 and bore 6% interest.

Jan. 25. Received Geo. W. Booker's check for \$250.00 to apply on his note in our favor. The note was for \$680.00 at 5% and was dated Jan. 25 of last year, interest being payable annually. The payment was applied first to the interest due and then to the principal. The old note was taken up by Mr. Booker and a new note issued by him for the balance due.

*One of the most perplexing questions to the student is whether to count time by exact days or by compound subtraction and whether to compute interest on the basis of 360 or 365 days to the year. It is impossible to lay down a rule for this, because local customs govern and these customs differ in different localities. In general, the custom is to count by exact days on short loans (up to 90 days, or even longer periods of time when the time is expressed in days) and by months when the time is expressed in months. Custom requires that interest be computed on a basis of 360 days to the year ordinarily (12 months of 30 days each) as this makes computation easier. The policy of the law is usually that of exact justice to the cent, and for that reason interest on judgments and on obligations adjudicated in the courts is usually computed on a basis of 365 days to the year, time being counted exactly.

General Review of Journaling

Journalize the following transactions. For convenience, you may omit the explanations in making these entries:

EXERCISE 1

191—

- Feb. 1. M. R. Greenleaf invested in business \$2500.00 in cash.
 Feb. 1. Paid cash for February rent, \$75.00.
 Feb. 2. Bought from J. N. Kimball on account Mdse. invoicing at \$560.00.
 Feb. 3. Sold Mdse. for cash, \$56.50.
 Feb. 5. Issued our note for \$150.00, due in 10 days at 6%, in favor of J. N. Kimball, to be applied on account.
 Feb. 6. Sold to H. K. Watts on account, goods billed at \$73.50.
 Feb. 8. Bought furniture and fixtures, including glass show-case for store, \$750.00. Paid \$250.00 in cash, and gave a 15-day note at 5% for the balance.
 Feb. 9. Paid J. N. Kimball \$125.00 in cash, on account.
 Feb. 10. H. K. Watts paid \$45.00 on account, in cash.
 Feb. 11. M. R. Greenleaf took \$25.00 in cash to pay a personal bill.
 Feb. 12. Sold L. A. Rochelle Mdse. on his 15-day note at 6%, \$165.50.
 Feb. 12. Paid in cash for 750 2¢ stamps.
 Feb. 15. Redeemed our note of Feb. 5 with accrued interest, in cash.
 Feb. 16. Sold three glass showcases, second-hand, to T. J. Murray for \$110.00. He paid \$10.00 in cash, and gave his 10-day note for the balance.
 Feb. 17. H. K. Watts returned Mdse. which we had sold to him for \$5.00, and we gave him credit.
 Feb. 18. Accommodated a friend with 100 2¢ stamps for which he paid in cash.
 Feb. 19. M. R. Greenleaf invested \$2000.00 more in the business, in cash.
 Feb. 20. Sold to B. M. Miller on account goods invoiced at \$135.00.
 Feb. 23. Our note dated Feb. 8 fell due this day. Redeemed it by giving a new note to cover the amount of the old note and interest.
 Feb. 27. L. A. Rochelle paid in cash the amount due on his note Feb. 12 and accrued interest.

EXERCISE 2

191—

- March 1. C. D. Ross invested in business as follows: Cash, \$1750.00; stock of goods, \$1560.50; H. E. Randall's note in his favor, dated Jan. 20, for 60 days at 6%, \$780.50.
 Mar. 2. Bought from G. F. Harms Mdse. invoicing at \$472.00. Issued two notes to cover the amount due, as follows: Our 10-day note at 6%, \$250.00; our 30-day note at 6%, \$222.00. Enter the notes payable as two separate items. Why?
 Mar. 3. Sold to W. A. Hatfield on account Mdse. invoicing at \$387.50.
 Mar. 4. Discounted to Harris & Co. on account, J. E. Randall's 60-day note dated Jan. 20, for \$780.50. The note bore 6% interest, and was discounted at 5%.
 Mar. 5. Redeemed our 30-day note dated March 2 by paying Mr. Harms in cash the face of the note and interest to date at 6%.
 Mar. 6. Bought Mdse. on account from Parlin & Co., \$420.00.
 Mar. 8. Received W. A. Hatfield's 10-day note at 6%, for \$200.00, and cash for balance to cover our bill of Mar. 3.
 Mar. 9. Marshall Higgins, 6509 Ellis Ave., opened an account with us today by the purchase of Mdse. invoicing at \$126.75 on credit.
 Mar. 10. Borrowed \$2000.00 from the Second National Bank for 60 days, discounting our note at 6%.
 Mar. 11. Marshall Higgins delivered to us on account a note for \$100.00 which he held against W. H. Jones, dated Mar. 1, on which interest had accrued for 10 days at 6%.
 Mar. 12. Redeemed our 10-day note of Mar. 2 as follows: Paid Mr. Harms \$125.00 in cash to be applied first against the accrued interest and the balance against the principal; issued our new note for 30 days at 7% for the balance.

Mar. 13. Marshall Higgins returned for credit merchandise we had sold him for \$6.50, and gave his check for the balance due on the bill sold him Mar. 9. (Remember to allow for the note delivered to us Mar. 11 with accrued interest.)

Mar. 15. Gave Parlin & Co. our 15-day note at 6% for the invoice bought of them on Mar. 6.

Mar. 16. Borrowed \$1200.00 from the First National Bank on our 60-day note at 6%. The bank required us to pay the interest in advance; we paid this out of the \$1200.00.

Mar. 17. Discounted at the Second National Bank our 60-day note for \$800.00. Rate of discount, 6%.

Mar. 18. Presented for payment W. A. Hatfield's note of Mar. 8, and payment was refused. We had the note pretested, for which service paid a notary public 25¢ as a protest fee. Debit W. A. Hatfield's account for the amount of the note, \$200.00, and credit the notes receivable account, thus taking the item off of the notes receivable account and putting it back into the personal account. Debit Hatfield's account for the 25¢. Make one entry for the entire transaction.

A protest is a formal statement, signed by a notary, to the effect that he has personally presented a paper for payment and that payment was refused. This definitely establishes the fact that the paper has been dishonored; it is usually necessary that protest be made and the endorser be notified before an endorser can be held liable.

Mar. 22. We secured a judgment against W. A. Hatfield for the amount due us, \$200.00 and interest for 14 days at 6%, plus 25¢ protest fee, and foreclosed on some property owned by him to satisfy our claim. The property was sold by an officer of the court for \$215.00, and of this amount \$30.00 was taken for court costs and legal fees. The remainder was turned over to us. There was no other property on which we could levy. This closes our account with W. A. Hatfield. The difference between the amount of the debt and the amount finally realized, is a loss, and the loss and gain account must be debited.

Mar. 30. Redeemed our note of Mar. 12 and interest to date, in cash.

EXERCISE 3

191—.

Apr. 1. Discounted at the bank a non-interest-bearing 90-day note which we held against B. F. Adams. The note was for \$750.00 and was dated Mar. 14. The rate of discount charged by the bank was 6%.

Apr. 2. Discounted to R. L. McNeal a 90-day note in our favor dated Mar. 1 and signed by Robt. M. Halsted. The note was for \$625.00 and bore 6% interest. The rate of discount was $4\frac{1}{2}\%$.

Apr. 3. Redeemed in cash our note for \$500.00 in favor of Henry Van Vleet. The note was dated 90 days ago and bore 5% interest.

Apr. 4. On Feb. 3 we issued a note in favor of M. J. Morris for \$750.00 at 6% maturing May 4. Mr. Morris offered to allow us to discount this at 5% and we gave him our check for the amount due.

Apr. 5. Sold to D. C. Brown for cash a 60-day note which we held against S. W. Baxter. The note was for \$750.00, was dated Mar. 2, and bore 6% interest. Mr. Brown charged for discounting it at the rate of 5% a year.

Apr. 6. Harry K. Johns endorsed over to us on account a 60-day note signed by E. B. Hamilton. The note was for \$370.00, was dated March 17, and bore 7% interest. We accepted it at its face plus interest to date.

Apr. 7. Paid in cash F. O. Markham's invoice for merchandise amounting to \$285.50. The invoice was dated Feb. 1 and was sold on 10 days' time with the understanding that interest would be charged at the rate of 6% per annum after maturity.

Apr. 8. Our account against C. J. McAllister, amounting to \$163.50, fell due on Feb. 26 last, but we extended the time for payment on condition that Mr. McAllister would pay us 7% interest after maturity. McAllister paid his account and interest today.

Apr. 10. Discounted at the bank our 60-day note for \$920.00. Rate of discount, 5%.

Apr. 11. Loaned W. J. Castle \$100.00, accepting his 90-day note at 7%.

Apr. 11. Discounted for cash the note received from W. J. Castle today. The rate of discount was 4%.

Apr. 12. Bought from C. C. McLain merchandise invoiced at \$430.00. In exchange we transferred to him an account which we held against D. B. Potter, \$115.00, gave him our 30-day note at 6% for \$80.00, and paid him cash for the balance.

Apr. 13. W. F. Witmer transferred to us an account against Jackson & Co., \$78.20, and gave us his 60-day note at 6% for \$56.00, to apply on account.

Apr. 16. Bought from G. R. Tyrrell for cash a note which he held against Keefer & Co. for \$175.00. The note was dated Apr. 1 and bore 6% interest. We accepted it at its face plus interest accrued to date.

Apr. 17. Bought the business owned by Geo. W. McCaskrin paying him in cash the value of his total assets. His assets were: Store and lot, \$4900.00; stock of goods inventoried at \$4736.85; an account against L. O. Sherman, \$175.00; and a note signed by Jas. King, \$96.50, upon which interest had accrued for 97 days at 5%.

After completing the foregoing problems, prepare monthly statements for all accounts due March 31.

Monthly Statements to Customers

STATEMENT			
CHICAGO, ILL. <u>Mar 31 19--</u>			
M <u>C. E. Birsch</u>			
<u>1224 Harrison St. City</u>			
IN ACCOUNT WITH H. T. RAYNOR			
364 WABASH AVE.			
19--			
Mar 10	To Mdse.	200 25	
28	" "	72	
			272 75

STATEMENT			
CHICAGO, ILL. <u>Apr 30 19--</u>			
M <u>C. E. Birsch</u>			
<u>1224 Harrison St. City</u>			
IN ACCOUNT WITH H. T. RAYNOR			
364 WABASH AVE.			
19--			
Mar 31	Stat rendered	272 75	
Apr 10	To Mdse.	66 50	
28	" "	327 50	
			666 75
	<u>Credits</u>		
Apr 10	By note	66 50	
25	" cash	272 75	
			339 25
	<u>Balance due</u>	327 50	

Test in Closing, No. 1

Accompanying your Blanks No. 1 you will find four pages of ledger accounts in the business conducted by T. J. Reeve.

1. Take a trial balance of this ledger as it stands.
2. Prepare statements, using the following inventories: Real estate, \$5450.00;

furniture and fixtures, \$720.00; merchandise, \$6577.52; wages unpaid (a liability inventory to expense), \$35.00; postage stamps on hand (a resource inventory to expense), \$4.00; interest due us on notes receivable, \$1.10; interest due others on notes payable, \$8.76.

3. Close all ledger accounts except the personal accounts.

4. Take a balance of the ledger as it stands after closing as above (balance of balances).

CHAPTER VI

CLASSIFICATION OF ENTRIES

LESSON XXVIII

THE SALES BOOK

If there were no other book of original entry than the journal, and if it were necessary to record in it separate debits and credits for each transaction, afterwards posting each one of these debits and credits separately to the ledger, bookkeeping would be a very monotonous thing and very tedious in a business of any magnitude. Fortunately, it is not necessary to adhere to this slow and tedious method. The great majority of transactions are not entered in the journal, but in some special book of original entry, transactions of the same certain kind being entered in the same book. This not only classifies the transactions, but through the arrangement of the entries in the books a great deal of the labor of writing and posting is saved. One book of original entry that helps the bookkeeper to classify his transactions and economize his labor, is the *Sales Book*.

An examination of your journal as you have conducted it up to date will reveal the presence of many entries in which the merchandise account is credited. This entry occurs whenever merchandise is sold. The account debited may be different in each case, but the merchandise account is always credited. When such transactions are entered in the journal there are at least two items written (a debit and a credit) and two postings. When a sales book is kept, however, these transactions are omitted from the journal and entered in the sales book. The form of the sales book is much more simple, and it requires less posting, as you shall see.

Journalize the following transactions on loose sheets of paper, without explanations:
191—.

Oct. 2. Sold to Jno. R. Thompson, 1234 State St., on account, 3 leather-seated dining chairs, at \$8.50, \$25.50; 1 pedestal extension table, oak, \$40.00, total, \$65.50.

Oct. 3. Sold to Gus E. Ericson, 3949 N. Robey St., on account, 1 extension dining table, oak, \$27.50; 1 oak writing table, \$20.00; total, \$47.50.

Oct. 6. Sold to Harry K. Feldman, on his 10-day note at 6%, 1 white maple bedroom set, 3 pcs., \$126.50.

Oct. 9. Sold to Geo. W. Chambers, 1239 Main St., on account, 1 Mission china closet, \$87.75; 6 Mission oak dining chairs, at \$6.00, \$36.00; total, \$123.75.

When you have journalized the four transactions, compare your journal entries with the sales book entries on page 91.

FORM OF SALES BOOK, UNPOSTED

October 2, 191-

(A/c)	(Account to be debited)	(Address)	(Terms)	(Items)	(Totals)
	Jno. R. Thompson	1234 State St.	On $\frac{a}{c}$		
	3 leather-seated dining chairs		\$8 ⁰⁰	25.50	
	1 pedestal extension table, oak			4.00	65.50
		3			
	Gus E. Ericson	3949 N. Robey St.	On $\frac{a}{c}$		
	1 extension dining table, oak			27.50	
	1 oak writing table			2.00	47.50
		6			
	Notes Rec.	Harry K. Feldman, 10 ds, 6%			
	1 white maple bedroom set, 3 pcs.				126.50
		9			
	Geo. W. Chambers	1239 Main St.	On $\frac{a}{c}$		
	1 Mission china closet			87.75	
	6 Mission oak dining chairs		6 ⁰⁰	3.60	123.75
		9			
	Mdse. Cr. for total				363.25

Explanation. In entering the sales in the sales book, it is always understood that *Merchandise* is the account credited. Hence it is only necessary to state the account to be debited without stating in each case that the merchandise account is credited. The form shown is self-explanatory. The separate amounts are later posted to the debit side of the accounts named, and the total posted to the credit of the merchandise account at the end of the month or other period. It is improper to insert folios except at the precise moment of posting, hence the folios are not shown in the above unposted form.

QUESTIONS

What is the amount of the debit to the account of Jno. R. Thompson as shown in your journal? In the sales book?

What is the amount of the debit to the account of Gus E. Ericson as shown in your journal? In the sales book?

What is the amount of the debit to the account of Notes Receivable as shown in your journal? In the sales book?

What is the amount of the debit to the account of Geo. W. Chambers as shown in your journal? In the sales book?

How do the debits in your journal compare with the debits in the sales book?

What four credits to the merchandise account are shown in your journal?

What is the amount with which the merchandise account is credited as shown in the sales book? How was this amount secured?

How does the single merchandise credit in the sales book compare with the total of the four merchandise credits in your journal?

Process of Posting from the Sales Book

The separate entries are posted to the debit side of the account named, the total only being entered in the ledger for each sale. As each is entered the ledger page to which it was posted is entered in the L. F. column of the sales book and the sales book page is noted in the ledger. Periodically, usually once a month, the sales book *Totals* column is footed, and the amount of the footing posted to the credit of the merchandise account. When this entry is made, the ledger page to which the item was posted is entered in the sales book, and the sales book page is noted in the ledger.

Form of Sales Book

This is usually as shown in the model. The dates are sometimes written in the narrow column at the extreme left. The student, unless otherwise instructed, will always follow the forms shown in this book.

QUESTIONS

How many debits are posted from your journal entries of the four transactions? How many credits? How many postings all told?

How many debits are posted from the sales book entries shown in the model form? How many credits? How many postings all told? How many postings saved?

How many debits would be posted from 100 journal entries of sales? How many credits? How many all told?

How many debits would be posted from 100 sales book entries? How many credits, if all were in the same month and the sales book total were posted monthly? How many postings all told? How many postings saved?

About what percentage of the labor of posting sales is saved when a sales book is used instead of a journal?

What line of writing is saved in every sales book entry? How many times is the total of a sale written in a journal? In a sales book?

It is not to be assumed that the saving in labor of writing and posting is the only advantage or even the principal advantage of a sales book. The total of the sales for the month is in itself information which is valuable and it would not always be easy to get this from the ledger if sales were posted separately. When a sales book is kept, the amount of sales for the month, week, or day can be very easily ascertained. Often the recording of sales is attended to by one person, and the general bookkeeping by another, either because the volume of transactions recorded requires the services of two persons, or for some other reason. In such a case, the advantages of a separate sales book are apparent.

Sometimes records of sales are kept on the original order sheet or sale ticket and posted from these slips to the debit side of the accounts of the individual purchasers, the total being computed on a separate sheet called the "recapitulation sheet," from which it is posted to the credit of the merchandise account.

Make the sales book entries for the following transactions, heading the page "Sales Book, November 1, 191—." Then post the entries and take a trial balance. As each item is posted, write in the L. F. column of the sales book the page of the ledger to which

it is posted, and in the ledger indicate the sales book page, using the abbreviation S (to indicate *Sales Book*) just to the left of the folio column, as shown in the following illustration:

<i>Geo. H. Hill</i>											
<i>191— 1239 S. Water St.</i>											
Nov. 1			S	49	6675						

TRANSACTIONS

191—.

Nov. 1. Sold to Geo. H. Hill, 1239 S. Water St., on account, 10 brls. winesap apples, at \$4.50, \$45.00; 5 brls. greenings, at \$4.35, \$21.75; total, \$66.75.

Nov. 2. Sold to H. G. Wells, 1436 Lake St., on account, 12 brls. Burbank potatoes, at \$3.90.

Nov. 3. Sold to J. R. Hadley, on his 30-day note without interest, 15 brls. northern spy apples, at \$5.50, \$82.50; 12 brls. Spitzenbergs, at \$6.00, \$72.00; total, \$154.50.

Nov. 4. Sold to H. G. Wells, on account, 9 brls. Ben Davis apples at \$4.75, \$42.75.

Nov. 5. Sold to G. C. Claybaugh, on his non-interest-bearing note at 15 days, 12 baskets California Bartlett pears, at \$1.10, \$13.20; 8 brls. maiden blush apples, at \$4.30, \$34.40; total, \$47.60.

Nov. 6. Sold to Geo. H. Hill, on account, 10 brls. Burbank potatoes, at \$3.90, \$39.00; 10 bu. Michigan peaches, at 75¢, \$7.50; total, \$46.50.

Nov. 8. Sold to H. G. Wells, on account, 8 brls. northern spy apples, at \$4.50, \$36.00.

Having posted all the above items to the debit of the individual accounts, and the total to the credit of the merchandise account, you will find that your ledger is in balance. Test this for yourself, using loose sheets.

LESSON XXIX

THE CASH BOOK, DEBIT SIDE

Journalize the following transactions on loose sheets of paper, without explanations: 191—.

Oct. 1. F. P. Norbury, proprietor, invested in business \$5000.00 in cash.

Oct. 5. Received from Jno. R. Thompson, on account, \$50.00 in cash.

Oct. 10. Gus E. Ericson paid us \$25.00 on account.

Oct. 16. Received cash from Harry K. Feldman to cover his note of Oct. 6 in our favor, \$126.50, and interest on it for 10 days at 6%, \$21.

Oct. 19. Received cash from John R. Thompson to complete the payment of our bill against him of Oct. 2, \$15.50.

When you have completed journalizing the foregoing transactions, carefully compare your journal entries with the entries shown in the form on page 94 headed "Cash Dr."

DEBIT SIDE OF THE CASH BOOK, UNPOSTED

		<i>Cash Dr.</i>			
(Date)	(P)	(Account to be credited)	(Explanation)	(Amount)	(Total)
Oct.	1	F. P. Norbury	Investment	5000	
	5	Jno. R. Thompson	On account	50	
	10	Gus E. Ericson	On account	25	
	16	Notes Rec.	Harry K. Feldman's note 10%	126 50	
	16	Interest	On above, 10 ds. at 6%	21	
	19	Jno. R. Thompson	Bal. of bill of Oct. 2	15 50	
			<i>Total receipts</i>		5217 21

NOTE—The second account credited on Oct. 16 may be called *Interest* or *Interest & Discount*.

Explanation. The above form is the left-hand page of the cash book, which extends across two pages, a left and a right. As you will note from the explanatory headings, items of Cash Dr. are entered on this page. Such items are omitted from the journal. We indicate in the cash book the name of the account to be credited. Cash is debited in each case, from the very fact of the entry of the amount on this page.

QUESTIONS

How much is the account of F. P. Norbury to be credited as shown by the entry in your journal? In the cash book?

How much is the account of Jno. R. Thompson to be credited as shown by the entry in your journal? In the cash book?

How much is the account of Gus. E. Ericson to be credited as shown by the entry in your journal? In the cash book?

How much is the Notes Rec. account to be credited as shown by the entry in your journal? In the cash book?

How much is the interest account to be credited as shown by the entry in your journal? In the cash book?

How much is the account of Jno. R. Thompson to be credited as shown by the entry in your journal? In the cash book?

How do the credits in the Cash Dr. form above compare with the credits in your journal?

What six debits to the cash account do you find in your journal? What is the sum of the six debits to the cash account which your journal shows?

What is the total of the six debits to the cash account in the form above?

Process of Posting from the Debit Side of the Cash Book

The separate entries are posted to the credit side of the accounts named. The total might be posted to the debit side of a *Cash* account in the ledger, thus preserving the

equality of debit and credit in the ledger, but this, though sometimes done, is not customary. The same result is secured by simply considering the cash book as a part of the ledger for the purpose of taking a trial balance.

Only one side of the cash book is shown above and this is self-explanatory as to form.

Make the cash book entries for the following transactions on the first left-hand page of your cash book, heading the page "Cash Dr." Then post the entries, using loose ledger sheets, and take a trial balance, which should include the Cash Dr. total. As each entry is posted, indicate in the L. F. column of the cash book the ledger page to which it was posted, and in the ledger indicate the cash book page, using the initial C to indicate "Cash Book." This initial should be written just to the left of the folio column in the ledger, as previously illustrated for the initial S used in posting from the sales book.

191—.

- Dec. 1. A. B. Doyle, proprietor, invested in business cash, \$7000.00.
- Dec. 2. Received from J. H. White, on account, his check for \$213.50.
- Dec. 3. G. V. Black gave us his check for \$42.75 in settlement of our bill against him of Nov. 23.
- Dec. 4. A. B. Doyle increased his cash investment \$1000.00.
- Dec. 5. J. H. White paid \$100.00 on account in cash.
- Dec. 6. Received G. V. Black's check for \$20.20 in settlement of our bill against him of Nov. 26.
- Dec. 9. Mr. Doyle took in a partner, C. V. Henley, who invested \$1000.00 in cash.
- Dec. 10. Received cash for Henry Altman's note of Nov. 10, \$500.00, due today with interest for 30 days at 6%, \$2.50.
- Dec. 11. Received a bank draft from G. V. Black on account, \$100.00.
- Dec. 12. J. H. White endorsed over to us on account an express money order for \$50.00.
- Dec. 13. Each partner increased his investment \$1000 00 in cash.
- Dec. 15. G. V. Black gave us his check for \$12.75 in full of his account to date.
- Dec. 16. Received W. L. Millard's check for \$202.00, in settlement of the note we held against him for \$200.00, maturing this day with interest accrued for 60 days at 6%.

LESSON XXX

THE CASH BOOK, CREDIT SIDE

Journalize the following transactions on loose sheets of paper, without explanations: 191—.

- Oct. 1. Paid the rent for October by check, \$70.00.
- Oct. 2. Bought from the Sterling Furniture Co., for cash, their invoice of merchandise No. 2675, \$276.60.
- Oct. 4. Bought merchandise for cash, Palmer & Anderson's invoice No. 927, \$364.20.
- Oct. 6. Paid in cash the bookkeeper's salary for the week ending today, \$18.00.
- Oct. 8. F. P. Norbury, the proprietor, withdrew in cash for his personal use \$25.00.
- Oct. 13. Paid the bookkeeper's salary in cash as on Oct. 6.
- Oct. 18. Paid cash for office letterheads and envelopes, \$7.50.

Oct. 19. Bought merchandise for cash from The Hoffman Co., their invoice No. 1348, \$225.60.

Oct. 20. Paid the bookkeeper's salary in cash as on Oct. 6.

When you have completed journalizing the foregoing transactions, carefully compare your journal entries with the entries in the form shown below headed "Cash Cr."

CREDIT SIDE OF THE CASH BOOK, UNPOSTED

		<i>Cash, Cr.</i>				
(Date)	(L.F.)	(Account to be debited)	(Explanation)	(Amount)	(Total)	
Oct. 1		Expense	Rent for Oct. 191-	70		
2		Merch.	Sterling Turn. Co's Inv. 247	276 60		
4		Merch.	Palmer & Anderson's Inv. 927	364 20		
6		Expense	Bkpr's Saly wks. ending 1/6	18		
8		F. P. Norbury	Withdrawal	25		
13		Expense	Bkpr's Saly wks. ending 1/13	18		
18		Expense	Office lettersheads & rent	7 80		
19		Merch.	The Hoffman Co's Inv. 1348	225 60		
20		Expense	Bkpr's Saly wks. ending 1/20	18		
			<i>Total payments</i>			1023 20

Explanation. The above is the right-hand page of the cash book, which as previously stated extends across two pages, a left hand and a right. As you will note from the explanatory headings, items of Cash Cr. are entered on this page. Such items are omitted from the journal. We indicate in the cash book the name of the account to be debited. Cash is credited in each case, from the very fact of the entry of the item on this page.

QUESTIONS

How much is the expense account debited, in the first entry in your journal? In the cash book?
 How much is the merchandise account debited, in the second entry in your journal? In the cash book?
 How much is the merchandise account debited, in the third entry in your journal? In the cash book?
 How do the separate debits as noted in the form above compare with the separate debits in your journal?

What is credited in each case in your journal?

What is the total of all the cash credits as shown by your journal?

What is the total amount credited to the cash account as indicated above?

Process of Posting from the Credit Side of the Cash Book

The separate entries are posted to the debit side of the accounts named. The total might be posted to the credit side of a *Cash* account in the ledger, thus preserving the equality of debit and credit in the ledger, but this, though sometimes done, is not customary. The same result is secured by simply considering the cash book as a part of the ledger for the purpose of taking a trial balance.

Make the cash book entries for the following transactions, on the first right-hand page of your cash book, that is, just opposite the "Cash Dr." page which you have written, heading the page "Cash Cr." Then post the entries to loose sheets and take a trial balance, which should include the Cash Cr. total. As each entry is posted, indicate in the L. F. column of the cash book the ledger page to which it was posted, and in the ledger indicate the cash book page, writing the initial C, to indicate the book from which the entry was posted, just to the left of the folio column.

191—.

Dec. 1. Paid the rent for December by check, \$85.00.

Dec. 2. Bought from Stearns & Morris, terms net cash, their invoice No. 3214, \$167.20.

Dec. 2. Harmison & Co. sold us Mdse. valued at \$265.20, as per their invoice No. 4576. We gave them our check in payment.

Dec. 4. Paid cash for 500 2¢ stamps.

Dec. 5. Paid the salary of the bookkeeper for the week ending Dec. 5, in cash, \$20.00.

Dec. 7. Paid by check for our note in favor of Hough & Co. and accrued interest. The note was for \$250.00 and interest had accrued on it for 60 days at 6%, \$2.50.

Dec. 8. The proprietor, A. B. Doyle, withdrew \$30.00 in cash for his personal use.

Dec. 10. Paid for 2 M letterheads and envelopes in cash, \$15.50.

Dec. 12. Paid the bookkeeper's salary as on Dec. 5.

Dec. 14. Bought Mdse. for cash, \$240.00. (Potash & Perrin's invoice No. 3261.)

Dec. 15. Paid the janitor in cash \$5.00, for special services.

LESSON XXXI

EXERCISE ON SALES BOOK AND CASH BOOK

Enter the following transactions in the sales book and cash book:

191—.

Oct. 1. F. P. Norbury, proprietor, invested in business \$5000.00 in cash.

Oct. 1. Paid rent for October in cash, \$70.00.

Oct. 2. Bought merchandise from the Sterling Furniture Co., for cash, their invoice No. 2675, \$276.60.

It is not necessary to itemize in the cash book the merchandise purchased, because we have the original invoice, which we will keep on file.

Oct. 2. Sold to Jno. R. Thompson, 1234 State St., on account, 3 leather-seated dining chairs, at \$8.50, \$25.50; 1 pedestal extension table, oak, \$40.00; total, \$65.50.

Oct. 3. Sold to Gus. E. Ericson, 3949 N. Robey St., on account, 1 extension dining table, oak, \$27.50; 1 oak writing table, \$20.00; total, \$47.50.

- Oct. 4. Bought merchandise for cash, Palmer & Anderson's invoice No. 927, \$364.20.
- Oct. 5. Received cash from Jno. R. Thompson on account, \$50.00.
- Oct. 6. Sold to Harry K. Feldman, on his 10-day note at 6%, 1 white maple bedroom set, 3 pcs., \$126.50.
- Oct. 6. Paid the bookkeeper's salary for the week ending today, in cash, \$18.00.
- Oct. 8. F. P. Norbury withdrew for his personal use \$25.00 in cash.
- Oct. 9. Sold to Geo. W. Chambers, 1239 Main St., on account, 1 Mission china closet, \$87.75; 6 Mission oak dining chairs, at \$6.00, \$36.00; total, \$123.75.
- Oct. 10. Received cash from Gus. E. Ericson, on account, \$25.00.
- Oct. 11. Sold to Jno. R. Thompson, on account, 2 brass beds No. 2104, at \$32.00, \$64.00; 2 hair mattresses, at \$17.25 each, \$34.50; total, \$98.50.
- Oct. 13. Paid the bookkeeper's salary in cash as on Oct. 6.
- Oct. 16. Harry K. Feldman gave us his check for \$126.71 to redeem his note of Oct. 6, \$126.50, and interest for 10 days at 6%, \$.21.
- Oct. 17. Sold to Gus. E. Ericson, on account, 1 colonial mahogany pedestal, \$52.50; 1 mission arm chair, \$24.25; total \$76.75.
- Oct. 18. Paid for office stationery and envelopes in cash, \$7.80.
- Oct. 19. Sold to Geo. W. Chambers, on account, 1 oak extension dining table, \$18.75; 6 oak dining chairs, at \$2.25, \$13.50; total \$32.25.
- Oct. 19. Received cash from Jno. R. Thompson to complete the payment of our bill against him of Oct. 12, \$15.50.
- Oct. 19. Bought merchandise for cash from The Hoffman Co., their invoice No. 1348, \$225.60.
- Oct. 20. Paid the bookkeeper's salary in cash as on Oct. 6.
- Oct. 22. Sold to F. N. Wright on his 30-day note at 6%, the following items for his new hotel:
- | | | | |
|-------------------------|-------------|---------|----------|
| 3 oak dining tables, | at \$12.25, | \$36.75 | |
| 12 oak dining chairs, | at 2.50 | 30.00 | |
| 4 pine kitchen tables, | at 2.75, | 11.00 | |
| 6 brass beds, No. 2675, | at 9.60, | 57.60 | |
| 6 cotton mattresses, | at 2.55, | 15.30 | \$150.65 |
- Oct. 23. F. P. Norbury withdrew \$25.00 in cash.
- Oct. 24. Sold to Jno. R. Thompson, on account, 1 colonial bedroom set, 3 pcs., \$137.75.
- Oct. 25. Received from Gus. E. Ericson cash to complete the payment of our bill against him of Oct. 3, \$22.50.
- Oct. 26. Bought merchandise from the Sterling Furniture Co., for cash, their invoice No. 2993, \$420.00.
- Oct. 27. Paid the bookkeeper's salary as on Oct. 6.
- Oct. 29. Sold to Gus. E. Ericson, on account, 1 Morris chair, oak, \$27.50.
- Oct. 30. Received Gus. E. Ericson's check to cover our bill against him of Oct. 17, \$76.75.

In connection with your study of the sales book and the cash book in preceding chapters, you were taught that in posting from either of these books the book from which an item was posted must be indicated by the use of the initial *S* or *C*, for *Sales Book* or *Cash Book*, as the case might be. The reason for this is that you are now using three

books of original entry (the journal, the sales book, and the cash book), and it is necessary in connection with each ledger entry that the book in which it originated should be indicated.

Explanations in the Ledger

Up to this point nothing has been said about explanations in the ledger for entries posted to it. This feature has not been mentioned, solely that you might the more easily learn the process of posting. You must now learn to make, in connection with the ledger entries posted, such explanations as are considered by practical accountants sufficient to indicate the nature of the entry in each case.

In posting from the sales book the use of the initial *S* as previously described, is ordinarily sufficient. The bookkeeper knows, when he sees the *S* written in the explanatory column near the folio number 49, that the entry was posted from the sales book, page 49. This shows him that the charge was for merchandise, since all sales book entries are alike in kind.

Ordinarily it also indicates the terms of sale, which usually are the same for all customers; but if the house sells a bill of goods on terms other than the regular terms, that fact should be noted in the sales book and then noted in the ledger when the entry is posted. Thus, if our regular terms are cash in ten days it is unnecessary to note this information in the ledger whenever a sale is made and posted; but if we sell a bill of goods on thirty days time, instead of the usual ten, this should be noted in the explanatory column of the ledger.

In posting from the cash book, the initial *C* is used as previously described. This is ordinarily sufficient, but there are some special cases in which it is customary to make special explanations. These will be described when you come to them; for the present the initial *C* is all the explanation you will use in posting from the cash book.

In posting from the journal, instead of writing the initial *J*, it is customary to write in the explanatory column of the ledger the name of the account affected on the other side in the same transaction—or as it is sometimes called, the *contra* account affected in the same transaction. For instance, in posting the journal entry.

Notes Rec.	\$100.00	
Jas. P. Smith		\$100.00

the explanation "Jas. P. Smith" would be written in the notes receivable account and the explanation "Notes Rec" would be written in Jas. P. Smith's account. Any one examining the notes receivable account would see that the note for \$100.00 was received from Jas. P. Smith; and an examination of Jas. P. Smith's account would show that the \$100.00 with which the account stood credited was for a note which he had given. The omission of an initial indicates that the entry was posted from the journal. The initial *J* may be used, however, if preferred.

The mere abbreviation *J* would never show the nature of the entry and this could not be determined without laborious reference to the journal, if there were no explanation other than the initial. When the bookkeeper sees the initial *S* or *C*, he knows what the transaction was, but in the case of entries posted from the journal a further explanation is customary.

Special explanations are customary in posting certain journal items, and in posting any items to certain accounts. To enumerate all of these at this time is unnecessary and might be confusing. Attention will be called to these as occasion arises in each case.

The following illustration will show the appearance of a ledger account containing entries posted from the journal, sales book, and cash book:

ILLUSTRATION OF A LEDGER ACCOUNT WITH EXPLANATIONS

J. E. Milton
2968 Western Ave.

191-		191-		191-	
		April Posting	42 15	April Posting	
May 3	S 125	24450	May 5	C 24	20
7	S 131	1536	10	C 26	5
14	S 136	3295	16	Notes Rec.	7 80
16	C 29	574			

QUESTIONS

What kind of an account is the above? Is it a customer's account or a creditor's account? What was due on the account on April 30? On May 4? On May 6? On May 8? On May 11? On May 15? How did Mr. Milton settle the account? Assuming that the two entries dated May 16 are for the same transaction, tell what must have taken place. What one of the above entries was posted from the journal?

Cash Dr.

(Date)	(L. F.) (Account to be credited)	(Explanation)	(Amount)	(Total)
Oct. 1	F. O. Norbury	Investment	5000	
5	Jno. R. Thompson	On account	50	
10	Lus. E. Ericson	On account	25	
16	Notes Rec.	Harry H. Feldman's note 1%	126 50	
16	Interest	On above, 10 ds. at 6%	21	
19	Jno. R. Thompson	Bal. of bill of Oct. 2	15 50	
		Total receipts		5217 21
Oct. 21	✓ Balance			4194 01

Open the following ledger accounts, allowing for each account the number of lines named: F. P. Norbury, 7 lines; Merchandise, 4 lines; Expense, 11 lines; Interest, 5 lines; Loss & Gain, 8 lines; Notes Receivable, Jno. R. Thompson, Gus. E. Ericson, and Geo. W. Chambers, one-fourth page each. Post, following the instructions for posting previously studied, from the sales book and from the cash book. Post from the sales book first, as it would not seem reasonable to post a payment from the cash book until the charge is posted from the sales book. When you have posted all the sales book items, post the sales book total to the credit of the merchandise account in the ledger. In posting the sales book total, use the date Oct. 31 and use the explanation "Total." Do not post the cash book footings. These cash book footings (or the cash balance, which amounts to the same thing), will be included in the trial balance.

Take a trial balance. Balance the cash book, following the form shown herewith. Date your balancing entry Oct. 31 and bring the balance down as of Nov. 1.

Prepare statements, using the following inventory: Mdse., \$742.66. Both of the statements and the proof may be written below the trial balance on page 1 of Book C, Blanks No. II, if no lines are left blank. Close the ledger.

		<i>Cash, Cr.</i>			
(Date)	(L.F.)	(Account to be debited)	(Explanation)	(Amount)	(Total)
Oct. 1	1	Expense	Rent for Oct. 191-	70	
2	1	Mdse.	Sterling Turnt. Co's Inv. 247	276 60	
4	1	Mdse.	Palmer & Anderson's Inv. 927	364 20	
6	1	Expense	Bkpr's Saly w/o. ending 1/10	18	
8	1	F. P. Norbury	Withdrawal	25	
13	1	Expense	Bkpr's Saly w/o. ending 1/10	18	
18	1	Expense	Office letters heads & enr.	7 80	
19	1	Mdse.	The Hoffman Co's Inv. 1348	225 60	
20	1	Expense	Bkpr's Saly w/o. ending 1/10	18	
			<i>Total payments</i>		1023 20
20	✓		<i>Balance (11/1 Nov)</i>		4194 01
					5217 21

LESSON XXXII

Partnership

When two or more persons unite their money, goods, labor, knowledge or skill in a business enterprise in which they mutually share profit or loss, the business organization so formed is a partnership. The relations between partners give rise to many of the most interesting problems of accounting.

PROBLEM 1. A and B are partners, under an agreement to share and share alike regardless of the amounts of their separate investments. The profit for the month of January is \$347.68. How much does each receive?

PROBLEM 2. Suppose that in Problem 1 the arrangement had been that Mr. A, being the senior partner, should always receive $\frac{2}{3}$ of the profits, and Mr. B, $\frac{1}{3}$. How much would the share of each have been?

PROBLEM 3. Suppose that in Problem 1, A's investment had been \$5000.00 and B's investment had been \$3000.00 and the agreement had been that they divide the profit or loss in proportion to their respective investments, what would the share of each have been?

PROBLEM 4. Suppose the investments have been as in Problem 3, but the agreement has been that the partners were each entitled to a salary of \$60.00 a month to be taken from the profits, the balance being divided in proportion to investments. How would the partners have divided the \$347.68?

PROBLEM 5. Suppose the investments had been as in Problem 3, but the agreement had been that each partner should be allowed interest on his investment at 6%, and that the profit remaining should be divided equally. How would the partners have divided the \$347.68?

PROBLEM 6. Harris, Dodd, and Winthrop are partners with respective interests on July 1, 1911, of \$9000.00, \$7500.00, and \$6000.00. During the year ending July 1, 1912, the profits of the business were \$7750.00. State how much profit each received, under the following conditions:

- Profits to be divided. Harris, 50%; Dodd, 30%; Winthrop, 20%.
- Profits to be divided in proportion to investments.
- Profits to be divided in proportion to investments after each partner has drawn a salary of \$100.00 a month.
- Profits to be divided share and share alike after each partner has been allowed interest on his investment at 6%.

PROBLEM 7. Suppose that the investment of Harris, Dodd, and Winthrop on July 1, 1911, were as in problem 6, but during the ensuing year the following changes in investment took place:

Oct. 1, 1911. Harris increased his investment \$1500.00.

Jan. 1, 1912. Dodd received \$1000.00 from Winthrop, and assigned to him in payment \$1000.00 of his interest in the firm.

Apr. 1, 1912. Harris withdrew \$1000.00.

Present solutions for cases *b*, *c*, and *d* as in problem 6, showing the amount of the interest of each partner on July 1, 1912, in each of the three cases. (The three accounts will have to be averaged before problems 7-b and 7-c can be solved. At the discretion of the teacher, these may be omitted.)

PROBLEM 8. W. H. Heckler's ledger shows that on Aug. 1, 191—, his inventories were as follows: Real Estate, \$7500.00; Furn. & Fix., \$650.00; Mdse., \$5000.00. During August his purchases of Mdse. amounted to \$2500.00, his sales of Mdse. amounted to \$4400.00, and his expenses were \$250.00. On Aug. 31 his inventories were: Real Estate, \$7450.00; Furn. & Fix., \$625.00; Mdse., \$3600.00. What was his net gain for August?

PROBLEM 9. On Aug. 31, 191—, W. H. Heckler's ledger showed the following assets: Cash, \$3400.00; Notes Rec., \$1500.00; due from J. G. Cameron, \$450.00. His liabilities on Aug. 31 were: Notes Pay., \$700.00; due Woodbury & Co., \$150.00. His inventories on Aug. 31 were as shown in problem 8. If his net capital on Aug. 1 was \$16,000.00, what was his net gain for August?

PROBLEM 10. What kind of a statement did you prepare in solving problem 8? In solving problem 9? From the data given in the two problems, construct a trial balance as of Aug. 31 before closing.

CHAPTER VII

SET THREE

LESSON XXXIII

TRANSACTIONS FOR APRIL

Make entries for the transactions of April, 191—, using the following books of original entry: The sales book, the cash book, and the journal. Periodically, as instructed throughout the transactions, you will post, take trial balances, prepare statements, etc.

As a matter of convenience, you may open the ledger at this time. Allow for each account one line for the heading, one line for the year date, and the number of lines indicated in the following list:

FIRST PAGE—	LINES	FIFTH PAGE—	LINES
John A. Colby, Partner.....	9	Blackstone Hotel, Michigan Ave. & Hubbard Pl.....	10
L. E. Stacey, Partner.....	10	LaSalle Hotel, 120 LaSalle St.....	9
Geo. N. Miller, Partner.....	8	H. E. Wendell, 1024 N. Robey St.....	10
Real Estate.....	9		
SECOND PAGE—		SIXTH PAGE—	
Store Furniture & Fixtures.....	9	Chas. E. Madson, 4279 Indiana Ave.....	7
Merchandise.....	21	L. B. Austin, 6679 Normal Ave.....	9
In-Freight.....	9	Notes Payable.....	7
THIRD PAGE—		Mortgages Payable.....	6
Interest.....	15	SEVENTH PAGE—	
Expense.....	26	Berkey & Gay, Grand Rapids, Mich.....	8
FOURTH PAGE—		Rockford Cabinet Co., Rockford, Ill.....	6
Loss & Gain.....	17	Imperial Furniture Co., Grand Rapids, Mich.	6
Notes Receivable.....	15	The Mayhew Co., Milwaukee, Wis.....	6
J. A. Stephens, 6941 Emerald Ave.....	7		

General Instructions: Post the entries from the sales book at frequent intervals throughout the set. A good bookkeeper always keeps his sales posted up to date. It is sometimes embarrassing to have to ask a customer after he has paid his account, thinking that he has paid it in full, to pay for items that were overlooked at the time settlement was made.

In posting to the accounts of the proprietors and to the expense account, write specific explanations in the column provided in the ledger for explanations; these will be suggested in connection with the transactions as your work progresses. This is in accordance with the general principle previously stated, that special explanations shall be written in the ledger when necessary in certain cases to make the meaning of an entry clear. When cash is paid for expense, for instance, it is desirable that the ledger show what the money was spent for, if items are posted in detail to the ledger.

Transactions

Apr. 1, 191—. John A. Colby and L. E. Stacey are partners in the furniture business at 148 Wabash Ave., Chicago, Ill., under the firm name Colby & Co. Profits are to be divided in proportion to investments. The assets and liabilities of the business and the investments of the proprietors, on Apr. 1, are as follows:

Cash	\$3246.78
Real estate	28000.00
Store Furniture & Fixtures	625.00
Mdse. Invty.*	10550.40
Notes Receivable	132.00
Interest on above	1.10
Blackstone Hotel	560.25
H. E. Wendell	400.75
Notes Payable	\$2000.00
Interest on above	7.50
Berkey & Gay	585.62
Rockford Cabinet Co.	195.30
Imperial Furniture Co.	225.46
John A. Colby	25314.00
L. E. Stacey	15188.40

INVENTORY OF STOCK APRIL 1, 191-. (Same for all lists.)

STOCK NO.	DESCRIPTION	BOT.	SOLD	LEFT	COST PRICE	AMOUNT
102E	refrigerator	6			\$10 75	*** **
1126	kitchen chairs, elm	7 dz.			10 50	** **
2936	kitchen table, pine	25			2 10	** **
No. 6	Hoosier kitchen cabinet.	8			24 00	*** **
2786	Colonial bedroom set, 4 pcs, mhgy.	6			92 50	*** **
396	mahogany dresser	11			36 50	*** **
4001	leather-covered mhgy. davenport	15			62 50	*** **
397	mahogany dressing table	13			18 00	*** **
20 B	mahogany phonograph record cabinet	12			12 50	*** **
2787	Circassian walnut dining room set, 4 pcs.	9			110 00	*** **
398	chiffoniers, Circassian walnut	21			25 00	*** **
483	Mission china cabinet, wea. oak	24			20 00	*** **
484	Mission dining table, wea. oak	28			15 00	*** **
486	Mission dining chairs, wea. oak	104			3 00	*** **
485	Mission buffet, weathered oak	30			15 00	*** **
Style E	auto-valet, quarter-sawed oak	6			30 00	*** **
425	cheval glass, white maple	24			18 00	*** **
526	Flanders bedstead, white maple	40			21 50	*** **
0016	brass bed	43			12 00	*** **
1006	iron bed	50			2 25	*** **
40 lb.	hair mattress	30			30 00	*** **
600 X	cotton mattress	100			4 00	*** **
2788	mahogany parlor set, 3 pcs.	9			90 00	*** **
						—
						\$***** **
						*** **
						—
						***** **
						—
						—

*It is customary in retail furniture stores to keep a record of each individual piece of furniture received. This record is kept in a stock book or stock register, which is an auxiliary book. The advantages of this plan are many: The salesman has a constant record of stock on hand, and this record may be extremely useful to him in making sales; the order clerk has no excuse for ever getting out of stock on any piece of furniture that should be kept on hand; the bookkeeper may secure an inventory from the stock records whenever he needs to know it, without an actual count of stock. In order that you may get some practice in keeping such a stock record, we present above a list of the furniture on hand at this time.

Copy the foregoing list, adding thereto as purchases are made and also recording the items sold, so that at the end of the month you can figure the inventory for yourself; or you may omit this feature of the work, as your teacher may instruct. The gross amount of the inventory will be given for the convenient use of those who do not keep the stock record. Note that every article of furniture has a stock number. This number is a factory number and constitutes a complete description. All items of furniture except cheap chairs are bought, sold, and inventoried by the piece, not by the dozen.

Enter the cash balance in the cash book, in the total column, and the other balances in the ledger, testing the ledger to make sure that it is in balance before proceeding further. Remember that the cash on hand and the sales book total must always be included in the trial balance. In making the entries in the ledger, use the explanation "Balance" or "Inventory" as may be proper in each case.

191—.

April 1. Received cash from the Blackstone Hotel, \$243.50, to settle our bill against them of Mar. 22.

The entry for this transaction is made on the debit side of the cash book, in the amount column, and omitted from the journal.

April 1. Paid the janitor \$2.00 in cash for work today.

The entry for this transaction is made on the credit side of the cash book, and omitted from the journal. In posting, write the word "Janitor" in the explanation column of the ledger.

April 2. Sold to the LaSalle Hotel, 120 La Salle St., on account 10 days,*

4 No. 484	Mission dining tables, weathered oak, at \$24.50	\$98.00	
2 No. 485	Mission buffet, weathered oak, at \$22.75	45.50	\$143.50

The entry for this transaction is made in the sales book, and omitted from the journal. The first line of the sales book entry should contain the name of the customer, the address, and in this case the terms "10 days" written just to the left of the first money column. Use a very narrow margin in writing the items, and abbreviate when possible. *Weathered* may be abbreviated *wea*.

April 3. Bought from The Mayhew Co., Milwaukee, Wis., on 10 days time, 24 Flanders arm-chairs, No. 527, fumed oak, at \$4.30, \$103.20.

The entry for this transaction cannot be made in either of the special books of original entry, so it must be made in the journal, which in this set receives all entries which cannot be made in the sales book or the cash book.

April 3. Paid in cash the freight bill for the Mdse. received from Milwaukee, \$5.75.

Make this entry in the cash book, charging In-Freight.

April 4. Sold to H. E. Wendell, 1024 N. Robey St., on account,

1 No. 102E	refrigerator	\$16.50	
4 No. 1126	kitchen chairs, elm, at \$1.50	6.00	
1 No. 2936	kitchen table, pine	3.75	\$26.25

April 4. Paid cash to the Rockford Cabinet Co., \$195.30, in settlement of a bill bought from them on Mar. 5, at 30 days net.

When this entry is posted, rule up the account, as this payment settles the account in full.

April 5. Sold to J. A. Stephens, 6941 Emerald Ave., on account 20 days, 1 No. 2786 Colonial bedroom set, 4 pcs., mahogany, \$145.00. (Abbreviate mahogany *mhgy*.)

April 6. Bought from Berkey & Gay, Grand Rapids, Mich., net 10 days, 8 No. 1625 library tables, mahogany, at \$17.50, \$140.00.

*For variable price lists, see page 167.

April 6. Paid the freight bill on the above in cash, \$6.50.

April 6. Received a check for \$316.75 from the Blackstone Hotel, to cover our bill of Mar. 27.

This balances the account. When this entry is posted, rule up the account.

April 6. Paid salaries for the week ending today as follows: Geo. N. Miller, book-keeper, \$20.00; Myra Keating, stenographer, \$15.00; H. R. Dunn, salesman, \$12.00; total, \$47.00.

The explanation should show that the salaries paid were for the week ending today, and should give the name of each employee and the amount paid to each. By writing small, and interlining, all this can be written on two lines. The total should be written in the money column opposite the last line of explanation, as shown in the illustration below. In posting, use the explanation "Salaries."

6	In-Freight	Ship't from Berkey & Gay	6 50
6	Expense	Salaries for wk. ending today Geo. N. Miller, 20 ⁰⁰ ; Myra Keating, 15 ⁰⁰ ; H. R. Dunn, 12 ⁰⁰	47
9	Berkey & Gay	This invoice of Mar. 31	285 62
9	Expense	Exch. on dfr. to Berkey & Gay	25

April 8. Sold to the LaSalle Hotel, on account,

6 No. 0016 brass beds, at \$18.00,	\$108.00	
18 No. 1006 iron beds, at \$3.75,	67.50	
24 No. 600 cotton mattresses, at \$6.50,	156.00	\$331.50

April 9. Received H. E. Wendell's 10-day note at 6% for \$427.00, the balance due on his account to date. By agreement the note was dated April 4, the date of Mr. Wendell's last purchase.

When this entry has been posted, rule and foot the account.

April 9. Remitted to Berkey & Gay by bank draft, \$285 62, to cover their 10-day invoice of Mar. 31. Cost of the draft, \$285.62 plus a fee of 10¢.

Use two lines in the cash book, for this transaction. On one line write the entry crediting cash and debiting Berkey & Gay; on the next line enter the 10¢, debiting the expense account, all as shown in the illustration following the last transaction on April 6. In posting to the expense account, use the explanation "Exchange."

Note. This is the same as a cash payment. To secure the draft, we have to pay cash or a check to the banker who issues it, including a small fee for exchange—in this case 10¢.

For a fuller description and illustration of a bank draft, see page 113, in the section on "Drafts."

April 11. Received a check from Henry M. Rand for \$133.32 to cover his note in our favor for \$132.00 and accrued interest at 6%. The note was dated Feb. 10, and interest was therefore due for 60 days.

Two entries are made in the cash book. In posting to the notes receivable account, use as an explanation the name of the person whose note was paid.

April 11. Paid the scrubwoman \$1.50 for work today.

April 11. Bought from The Mayhew Co., Milwaukee, Wis., on 30 days credit, the following:

6 No. 1346 extension dining tables, oak, at \$18.25,	\$109.50	
12 No. 625 mahogany serving tables, at \$7.50,	90.00	
3 No. 600 leather settees, at \$18 00,	54.00	\$253.50

April 11. Paid freight charges on the above in cash, \$11.50.

April 12. Sold to Chas. E. Madson, 4279 Indiana Ave., on account 10 days,

1 No. 102 E refrigerator	\$16 50	
1 No. 20 B mahogany phonograph record cabinet	20.00	\$36.50

April 12. Received a check from the LaSalle Hotel for \$143.50, in settlement of the invoice sold them on April 2.

April 13. L. B. Austin, 6679 Normal Ave., arranged with us for furniture as shown below, which we delivered to him. He paid us \$100.00 in cash and gave us his 30-day note at 6% for the balance.

1 No. 2788 mahogany parlor set, 3 pcs,	\$150.00	
1 No. 2787 Circassian walnut dining room set, 4 pcs,	165.00	
1 No. 2786 Colonial bedroom set, mahogany, 4 pcs,	142.50	
1 No. 2936 kitchen table, pine,	3.50	
6 No. 486 Mission dining chairs, wea. oak, at \$4.50,	27.00	
3 No. 1126 kitchen chairs, elm, at \$1.50 each,	4.50	
1 No. 102E refrigerator,	18.00	\$510.50

Charge the entire bill through the sales book, terms "Cash & note." Give credit for the cash, through the cash book; and for the note, through the journal. When all three items have been posted, rule and foot the account.

April 13. Mailed our check to The Mayhew Co., Milwaukee, Wis., for \$103.20 to cover their 10-day bill of April 3.

April 13. Paid the salaries in cash as on April 6.

April 13. H. E. Wendell paid us by check the amount due on his 10-day note in our favor dated April 4, \$427.00, and interest for 9 days at 6%, 64¢.

In posting this entry, use as an explanation the name of the person whose note was paid

April 13. Bought from The Macey Co., Detroit, Mich., for cash, 32 No. 7 bookcase sections, fumed oak, at \$2.00. (Describe this in the cash book as "The Macey Co's. Inv. No. 1429.") The freight charges on this shipment were paid by the shipper.

April 13. Sold to J. A. Stephens, on account,

1 No. 397 mahogany dressing table,	\$28.50	
1 No. 396 mahogany dresser,	56.50	
1 No. 2788 mahogany parlor set, 3 pcs,	145.00	\$230.00

Post, as follows: Post all the debits to personal accounts from the sales book. Make a lead pencil footing in the sales book, but do not post its total at this time. Post all the items on the debit side of the cash book to the credit side of the accounts named, except the first item, which is a balance brought down. In posting the items on Apr. 6 and Apr. 14, follow instructions as to the use of explanations. Foot the Cash Dr. column in lead pencil but do not post the footing. Post all the items on the credit side of the cash book to the debit side of the accounts named. In posting to the debit of the expense

account, make a proper explanation in the ledger for each item. Foot the credit column in lead pencil, but do not post the footing. Post the journal entries, remembering to use as an explanation for each item posted the name of the account or accounts affected on the other side in the same transaction.

Take a trial balance, which should include the total footing of the sales book and the balance of the cash book, which have not been posted to the ledger.

April 16. Mailed our check for \$140.00 to Berkey & Gay in settlement of their 10-day invoice of April 6.

April 17. Sold to Chas. E. Madson, on account, 1 No. 2787 Circassian walnut dining room set, 4 pcs., \$165.00.

April 17. Paid \$25.50 for 5M letterheads and envelopes, printed.

April 18. Bought from the Rockford Cabinet Co., Rockford, Ill., on 30 days time,
 6 No. 336 writing tables, mahogany, at \$11.00, \$66.00
 5 No. 6½ umbrella stands, walnut, at \$4.00, 20.00
 \$86.00

April 18. Paid freight charges on the above in cash, \$6.75

April 18. Sold to the Blackstone Hotel on account, 24 No. 486 Mission dining chairs, weathered oak, at \$4.50, \$108.00.

How to Forward the Sales Book Total

Forward the footing of the sales book from page 3 to the top of page 4 as follows: Rule a single line beneath the last entry in the Totals column of page 3. Foot the column, writing the total in ink below the ruling, with the explanation "Footing forwarded." Check in the folio column. Write the same total on the first line below the triple ruling at the top of page 4, in the Totals column with the explanation "Footing brought forward." Check in the folio column. The date of the next sale will head page 4.

April 18. Paid cash for 500 2¢ stamps.

April 18. Remitted \$300.00 to Berkey & Gay by bank draft, to cover their 30-day invoice of Mar. 19. Cost of the draft, 10¢.

April 19. Bought from the Imperial Furniture Co., Grand Rapids, Mich., on account 30 days, 12 No. 590 mahogany rocking chairs, at \$9.00, \$108.00.

April 19. Sold to H. E. Wendell, on account,

1 No. 0016 brass bed,	\$18.50	
1 40 lb. hair mattress at \$1.00 a pound,	40.00	\$58.50

April 20. Paid the salaries in cash as on April 6.

April 22. Sold to the LaSalle Hotel, on account,

12 No. 0016 brass beds, at \$18.50,	\$222.00	
12 No. 600X cotton mattresses, at \$6.50,	78.00	\$300.00

April 22. Received cash from Chas. E. Madson to settle our bill against him of April 12, \$36.50.

April 25. Remitted \$225.46 to the Imperial Furniture Co. by bank draft to cover their 30-day invoice of Mar. 26. Cost of draft, 10¢.

April 25. Received cash from J. A. Stephens to settle our bill against him of April 5, \$145.00.

April 26. Sold to Chas. E. Madson on account, 1 Style E auto-valet, quarter-sawed oak, \$47.50.

April 27. Paid the salaries in cash as on April 6.

April 29. Bought from Berkey & Gay, on account, 10 days net:

10 No. 4269 Princess dressers, birdseye maple, at \$21.00,	\$210.00	
8 No. 063 porch chairs, wicker, at \$4.75,	38.00	
5 No. 065 Spanish swinging settees, canvas, at \$9.25,	46.25	\$294.25

Abbreviate birdseye maple *B. E. maple*.

April 30. Sold to the Blackstone Hotel, terms 30-day note at 6%,

2 No. 102E refrigerators, at \$15.00	\$30.00	
2 Hoosier kitchen cabinets, No. 6, at \$36.00	72.00	
5 Auto-Valet, style E, at \$42.50	212.50	
2 No. 2788 mahgy parlor sets, 3 pcs. each, at \$125.00	250.00	
24 Flanders arm chairs, No. 527, at \$6.00	144.00	
8 library tables, mahgy, No. 1625, at \$25.00	200.00	
6 No. 336 writing tables, mahgy, at \$15.25	91.50	\$1000.00

Make two entries, one in the sales book debiting the account of the Blackstone Hotel, the other in the journal, crediting the account of the Blackstone Hotel.

April 30. Sold to L. B. Austin, on account,

1 No. 102E refrigerator	\$15.75	
5 No. 1126 elm kitchen chairs, at \$1.50	7.50	
3 No. 600 leather settees, at \$27.50	82.50	\$105.75

Post, following the instructions given on April 15, except that the sales book total is to be posted to the credit of the merchandise account, as previously described.

Take a trial balance, remembering to include the balance of the cash book.

Prepare statements, using the following inventories: Interest receivable on L. B. Austin's note for \$410.50, dated Apr. 13, ¹⁰~~18~~ days at 6%, ^{1.12}~~\$1.20~~. Interest payable on our note in favor of C. B. Churchill dated Mar. 4, for \$2000.00, 57 days at 5%, \$15.83. Salaries earned and unpaid, \$15.67. Real Estate, \$27850.00. Store Furn. & Fix., \$618.75. Mdse., \$9420.65. The inventories of interest and salaries should be verified by you before you enter them. You can verify the Mdse. Invty.* by preparing a stock record as previously described, adding 5% to cost for freight charges.

The loss and gain statement should be prepared in such form as to show In-freight as subordinate to Merchandise. The illustration at the top of page 110 will give you the proper form for the loss and gain statement.

Close the loss or gain accounts. These should be closed to conform with the loss and gain statement, which means that In-Freight should be closed into Merchandise before Merchandise is closed into Loss & Gain.

An Interesting Bookkeeping Device

Some bookkeepers like to make canceling entries in the notes receivable and notes payable accounts opposite each other. Thus a payment on Sept. 25 of a 10-day note for \$100.00 dated Sept. 15 would be written on the same line with the entry made Sept.

*Inventory all stock at last purchase price. If there were no purchases during April, use the cost prices of the Apr. 1 inventory.

LOSS & GAIN STATEMENT. APR. 30, 191-.GAINS

Merchandise	Invty Apr. 1	10550.40		
	Purchases April	xxxx.xx		
	In-Freight April	xx.xx		
	Total cost	xxxxx.xx		
	Invty Apr. 30	9420.65		
	Cost of goods sold	xxxx.xx		
	Sales April	xxxx.xx		
	Cost of goods sold	xxxx.xx	xxxx.xx	xxxx.xx

LOSSES

Real Estate	Dr	28000.00		
	Cr Invty	27850.00	xxx.xx	
Store Furn & Fix	Dr	625.00		
	Cr Invty	618.75	x.xx	
Interest	Dr	x.xx		
	Dr Invty	15.83		
		xx.xx		
	Cr	x.xx		
	Cr Invty	1.23	xx.xx	x.xx
Expense	Dr	xxx.xx		
	Dr Invty	15.67	xxx.xx	xxx.xx
	Net gain for April			xxxx.xx

PROOF

Jno. A. Colby	Investment	25314.00		
"	5/8 of net gain	xxx.xx		
"	share capital Apr.30		xxxxx.xx	
L. E. Stacey	Investment	15188.40		
"	3/8 of gain	xxx.xx		
"	share capital Apr.30		xxxxx.xx	
Net capital of firm Apr. 30				xxxxx.xx

15, although there might be a blank line just above it that could have been used. This plan is not a good one when there are many partial payments, as it would be necessary in this case to make several entries on one line. When this plan is followed, the account is never balanced, but whenever the items cancel down to a certain line, the bookkeeper rules off all above that line by single line rulings. This latter device can be applied to any account and will often be found of convenience, especially in reducing the amount of labor necessary to find the balances due on personal accounts. Following is an illustration of a notes receivable account which illustrates the various points of this paragraph. It is not advised that the student follow this form, which is shown simply in order that he may become familiar with it.

Notes Receivable

191-				191-			
Sept. 1	15 ds	73	15060	Sept. 16		65	15060
3	10 ds	75	7575	13		64	7575
9	20 ds	77	50	19	25.00	67	
10	60 ds	77	16450	29	25.00	71	50
15	10 ds 162.50	79	100	25		69	100

NOTES: The credit on Sept. 13 was written on the second line though the first line was then blank. Later the credit on Sept. 16 was entered on the first line, opposite the item canceled by the payment. It was then observed that the items above a certain line canceled, and two single lines were ruled. These single rulings are on the same line in the form shown, but in ruling off personal accounts in the same way it seldom happens that the rulings are opposite each other. Part payments were made to cover the credit item of Sept. 9, and these are both written on the same line in small handwriting. The line on the credit side opposite the unpaid debit item of Sept. 10, is left blank. The balance is determined by inspection.

DRAFTS

A Draft is an order instructing one person to pay another person a certain sum of money at a certain time. It is assumed that the person who issues an order has a right to ask that the payment be made as ordered.

The person drawing (ordering that payment be made) is called the *drawer* of the paper. The person drawn upon (ordered to pay) is called the *drawee*. The person to whom payment is to be made is called the *payee*.

As to time of payment, there are *sight* drafts and *time* drafts, the former being payable at sight, the latter being payable at a future time. When payable at a future date, that date may be specified in the draft, it may be stated as a certain number of days or months after the date the draft bears, or it may be stated as a certain length of time "after sight"—that is, after the drawee sees it.

A draft does not become effective until the drawee has paid it or has agreed to pay it. If it be a sight draft it will be paid at once, or payment will be at once refused. If it be a time draft the drawee will indicate (usually in writing) his willingness to pay it when the time comes, or will refuse at once to be liable for it. Refusal to pay a sight draft or refusal to agree to pay a time draft is called "dishonoring," or refusing to honor, the paper.

The drawee usually indicates his willingness to pay a time draft on the date specified or indicated, by writing across the left end of the face of the draft the word "Accepted" or "Good" or some other word of similar import, with the date of acceptance, and his signature. The paper is then called an accepted draft, or acceptance.

FORM OF DRAFT, AFTER ACCEPTANCE

\$500.⁰⁰ Chicago, Ill., August 1, 1911

At thirty days' sight Pay to

James Anderson or order

Five hundred and no/100 Dollars

Value received, and charge the same to account of

To J. W. Hunter } M. Snowden.

No. Springfield, Ill.

Explanation: If the above draft had been written in the form of a letter, the letter would have read as follows:

Chicago, Ill., August 1, 1911.

J. W. Hunter,
Springfield, Ill.

Dear Sir:

At thirty days' sight (that is, thirty days after you see this) pay to James Anderson, or (to his) order, five hundred dollars. (This draft is given for) value (which has been) received (by me). (When you have paid the amount it calls for), charge the same to the account of

(Yours truly),

M. Snowden.

It must be assumed that Mr. Snowden had the right to draw against Mr. Hunter for this \$500.00, either because Mr. Hunter owed him money or because there was an agreement between the two that Mr. Snowden's drafts would be paid. Otherwise it would have been useless for Mr. Snowden to issue the draft.

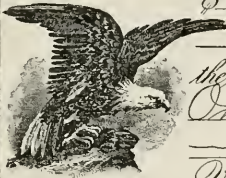
It must also be assumed that Mr. Snowden had some reason to give Mr. Anderson the paper. We shall consider three possible reasons: (a) Mr. Snowden owed Mr. Anderson \$500.00 which he wished to pay in this way. (b) Mr. Anderson, wishing to travel from Chicago to Springfield but unwilling to carry with him \$500.00 in cash, turned the money over to Mr. Snowden, receiving in exchange Snowden's order payable in cash in Springfield. (c) Mr. Snowden, wishing to collect \$500.00 from Mr. Hunter, used Mr. Anderson as his collector, expecting Mr. Anderson to return the proceeds of the collection.

Drafts all three parties to which are private individuals or firms are no longer common. Yet they are occasionally found and the relation of the parties should be familiar to all. Bank drafts, however, and drafts through the bank, are widely used.

Drafts through the bank are largely used for the collection of bills. A draft of this kind is one in which the bank is the payee, the creditor being the drawer and the

debtor the drawee. Following is a form of a draft through the bank. Drafts for collection are usually in this form. Mr. Raynor could have made out the draft in his own favor, however, and could then have endorsed it over to the Merchants Exchange Bank.


DRAFT FOR COLLECTION



\$114.⁰⁰ Chicago, Ill., Apr. 25, 19—
 At Sight ————— Pay to
 the order of Merchants Exchange Bk.
 One Hundred Fourteen ⁰⁰/₁₀₀ Dollars
 Value received, and charge the same to account of
 To A. F. Harvey } N. T. Raynor.
 No. # La Grange, Ill.

Bank Drafts are largely used for the transfer of funds from one locality to another. The drawer of a bank draft is a bank; the drawee is also a bank. The payee is a person.

FORM OF BANK DRAFT



J. C. Oxley & Co.
 BANKERS, Arcade Building.
 Chicago, DEC 30 19—
 No. 132945
 Pay to the order of Ray E Parker \$1800.⁰⁰
 Eighteen hundred & ⁰⁰/₁₀₀ DOLLARS.
 TO THE First National Bank, }
 New York } W. E. Adams Cashier

Bank drafts are usually payable at sight, or at least upon very short notice. If a person wishes to send or take \$285.62 from Chicago to New York, he will step into some Chicago bank, pay them \$285.62 (plus a possible exchange fee, for their trouble), and receive a draft for \$285.62 upon some New York bank. The

ENDORSEMENT

Pay to
 Western Grocery House
 or order
 Ray E Parker

buyer can take this draft to New York and have it cashed, or he may send it to some person or bank in New York to whom the bank drawn upon will pay the money. A draft may be made in favor of the buyer and by him endorsed over to a person to whom he wishes to send the money or the name of that person may be inserted by the bank from which the draft was bought. It is preferable for the buyer of a draft to have it made out in his own favor, for his endorsement on it when he transfers it to another will then be evidence that he has paid money to that other. The evidence will be in the hands of the bank drawing the draft, of course, as the canceled draft will eventually be returned to them as the issuing bank.

Explanation: Ray E. Parker has bought a draft for \$1800.00 from Oxley & Co. bankers, Chicago (or some one else has bought it, having it made out in Parker's favor). The draft is signed by F. W. C. Holtkamp, cashier of Oxley & Co.'s bank. It is drawn against the First National Bank, New York. Because it is drawn against a bank in New York, it is called a "New York draft." Parker's endorsement shows that he has transferred it to the Western Grocery House.

The transactions given on page 115 involve sight and time drafts, drafts for collection through a bank, and bank drafts.

Bank Drafts received are always assumed to be good, and entries are made immediately upon receiving them. They are entered as cash. Bank drafts bought and remitted are treated as cash payments to the persons to whom they are sent.

Rule: When you receive a bank draft, debit the cash account; credit the account of the person from whom, or the thing for which, the draft was received.

Rule: When you buy a bank draft for cash and remit it, debit the account of the person to whom, or the thing for which, the draft was given; credit the cash account.

Rule: When you pay exchange in cash, debit the expense account or a special account called Exchange; credit the cash account.

Drafts for Collection. These are sight drafts through the bank. Until paid by the person drawn upon, such a draft has no more significance than a dunning letter, and no entry is made except possibly a memorandum. If dishonored, no entry is made by either the drawer or drawee. When paid, the rules for the payment of sight drafts apply, as given below. The bank's fee for collection should be paid by the drawee, but sometimes the drawer is forced to bear them. Whoever pays such a fee should debit the expense account and credit cash.

Sight and Time Drafts. Except in case of bank drafts, as previously discussed, these should not be assumed to be good until honored (by payment, in the case of a sight draft; by acceptance, in the case of a time draft). If dishonored, no entries are required by either drawer or drawee. When honored, sight drafts are treated the same as cash and time drafts are considered the same as notes, and the following entries are made:

Rule: When you receive a sight draft and make collection of the cash, debit the cash account, credit the account of the person from whom, or the thing for which, the draft was received.

Rule: When you pay a sight draft in cash, debit the account of the person for whom, or the thing for which, the payment was made; credit the cash account.

Rule: When you receive a time draft (and after the acceptance of the drawee has been procured), debit the notes receivable account; credit the account of the person from whom, or the thing for which, the draft was received.

Rule: When you accept a time draft, debit the account of the person for whom (at whose order), or the thing for which, the acceptance was given; credit the notes payable account.

Rule: When either a sight draft or a time draft is drawn by you, upon receipt of notice that it has been honored debit the account of the person for whom or the thing for which it was drawn; credit the account of the person against whom it was drawn.

Rule: When you receive cash in payment for another's acceptance, debit the cash account and credit the notes receivable account.

Rule: When you pay cash to redeem your acceptance in favor of another, debit the notes payable account and credit the cash account.

Journalize the following transactions, using loose sheets. Assume that an expense account is kept, which is debited for exchange charges and for collection charges.

TRANSACTIONS TO BE JOURNALIZED

191—.

Jan. 1. Received from Homer E. Stillwell, on account, a draft on the Hanover National Bank, New York City, for \$432.65.

Jan. 2. Remitted \$625.00 to the Remington Typewriter Co., New York City, on account, by a draft on the Merchants Exchange Bank, New York City, bought at the Corn Exchange National Bank, this city. Exchange, 10¢.

Jan. 3. E. J. Harmon, who has an account with us, sent us his draft on R. W. Long of this city, payable at sight, for \$75.00 which Mr. Long owed him, asking us to collect it and credit his (Harmon's) account. When we presented the draft Mr. Long gave us his check for the amount.

Jan. 4. H. M. Waters of Cedar Rapids, Iowa, sent us on account his draft on G. E. King of this city, payable in 30 days, for \$126.50. We presented the draft to Mr. King and procured his acceptance. Make the entry. What would we have done had Mr. King refused to honor the draft?

Jan. 5. The bank returned Mr. Long's check of Jan. 3 marked "No funds." Make an entry which will adjust the matter on our books. What two letters shall we write and what enclosure shall we send in each letter?

Jan. 5. M. R. Brown and C. E. Smith both live in Indianapolis, Ind. We owe Mr. Smith \$50.00 and Mr. Brown owes us \$50.00. A few days ago we drew against Mr. Brown for \$50.00, payable at sight to Mr. Smith; today we received word from Mr. Smith that the draft had been honored.

Jan. 8. Desiring to collect \$78.50 from B. A. Strong, Champaign, Ill., we drew on him recently through the Citizens' Bank of that city for that amount. Today we received a remittance from the Citizens' Bank of \$78.20, the bank having deducted 30¢ for collection.

Jan. 9. Having learned a valuable lesson from the foregoing transaction, we drew on D. B. Willis, Onarga, Ill., for \$64.50 (the amount due us from him), writing on the draft the words "and collection charges." The bank collected the face of the draft plus its fee for collection from Mr. Willis, and on Jan. 11 returned to us \$64.50 by bank draft.

Jan. 12. C. R. Hall, the proprietor, wishing to take \$500.00 with him on a business trip, bought four bank drafts for \$125.00 each, paying 40¢ exchange. (Debit the \$500.00 to the account of the proprietor).

Jan. 13. Sold to A. C. Baldwin Mdse. invoicing at \$55.00. He endorsed to us a bank draft for \$75.00 and we gave him \$20.00 change.

Jan. 15. We bought Mdse. from Whitely & Co. invoicing at \$126.75, remitting in payment a bank draft for the amount. Exchange, 10¢.

Jan. 17. Adams & Co. drew upon us through the bank for \$140.00 which was overdue on account. We paid the draft plus 35¢ collection fee.

Jan. 18. Having ordered from Greenebaum & Sons Mdse. billed at \$720.00, terms cash upon receipt of bill of lading, we received notice today that the goods had arrived and that the bill of lading (which Greenebaum had sent to the First National Bank with sight draft on us attached) could be secured by calling at the bank and paying the draft. We paid for the draft and an 85¢ collection fee.

Jan. 20. Received and collected H. L. Morton's sight draft against P. D. Ogden for \$10.00 due us for interest on a mortgage.

NOTES

Date-Rec'd	Our No.	Maker or Acceptor (Payer)	In favor of (Payee)	Where Payable	Rec'd for	Date of Paper
191— Apr.	1	Henry M. Rand	Colby & Co.	Maker's Office		Feb. 10
	9	H. E. Wendell	Colby & Co.	Maker's Office	Bal. of acct. to date	Apr. 4
	13	L. B. Austin	Colby & Co.	Maker's Office	On bill of this date	Apr. 13
	30	Blackstone Hotel	Colby & Co.	Maker's Office	Bill of this date	Apr. 30
May	2	Chas. A. Madson	Colby & Co.	Maker's Office	In full of acct.	May 2

Transactions for May

The transactions for May are a continuation of the transactions for April. Continue the use of the same sales book, cash book, journal and ledger. Begin writing the May sales on a new page of the sales book. Continue the cash entries on the same pages of the cash book, below the double ruling. Write the date of the first journal entry in May in full, leaving about three blank lines between the April and May entries.

THE NOTES RECEIVABLE AND NOTES PAYABLE BOOKS

These two books are introduced as auxiliary books. Their purpose is to furnish records of important data concerning notes receivable and payable, for convenient reference. Whenever a note or acceptance receivable is received, a memorandum is written in the notes receivable book. Whenever a note is issued or a draft is accepted, a memorandum is written in the notes payable book. Whenever a note (or acceptance) receivable is disposed of or a note (or acceptance) payable is redeemed, notations are made in the proper columns. The notes receivable book therefore shows at all times what notes and acceptances are on hand, and the notes payable book shows at all times what notes and acceptances are outstanding against us. The ledger shows the same principal facts but in less detail. The column headed "Face" in the notes receivable book should show the same items as the debit column of the notes receivable account in the ledger; the "Disposed of" column should always agree with the credit column of the notes receivable account. In the notes payable book, the column headed "Face" should always agree with the credit column of the notes payable account in the ledger; the "Redeemed" column should always correspond with the debit column of the notes payable account. Notes are presumed to be payable at the maker's office, and drafts at the acceptor's office, unless otherwise specified on the face of the paper.

NOTES

Date Issued	Our No.	Maker or Acceptor (Payer)	In favor of (Payee)	Where Payable	Given for	Date of Paper
191— Apr.	1	Colby & Co.	C. B. Churchill	Our Office		Mar. 4

RECEIVABLE

Time	Rate of Int.	When due												Face	Disposed of				
		Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.		Dec.	When	How	Int. Recd.	Amt. Recd.
Days																			
60	6%	191-				11								132	191—				
10	6%	191-				14								427	Apr. 11	Check	1 32	133 32	
30	6%	191-												410 50	Apr. 13	Check	64	427 64	
30	6%	191-												1000					
30	6%	191-												212 50					

Some accountants prefer to use the notes receivable and notes payable books as books of original entry. This is done by omitting the journal entries altogether when notes are received or issued and posting from the notes receivable and notes payable books. This necessitates extra columns in these books for the name of the account to be posted to and for the ledger folio. The plan is not a good one, because of the great confusion that arises, as for instance when a note signed by one person is received from another.

The model forms shown on pages 116 and 117 contain the proper memorandums for April. Study these forms carefully, and write the memorandums for April in your notes receivable and notes payable books. Throughout May, you will make the proper memorandums in the notes receivable and notes payable books at the time of making the original entry in each case.

Transactions, Continued

191—

May 1. Geo. N. Miller, who has been in the employ of the firm for some time, has saved \$2000.00 out of his salary. He is permitted to invest this amount in cash and will share in the profits in the proportion which his investment bears to the entire investment. He will continue to draw his weekly salary as bookkeeper.

Make the entry in the cash book with the explanation "Investment, see Journal, page —." Then make a memorandum in the journal which will explain the transaction in detail.

May 1. Bought from Berkey and Gay, terms 10 days net, 10 No. 065 Spanish swing-settees, canvas, at \$9.25, \$92.50. Paid freight charges on this shipment in cash, \$3.65.

May 2. Sold to the LaSalle Hotel, on account,

12 No. 0016 brass beds, at \$17.50	\$210.00		
12 No. 1006 iron beds, at \$3.75	45.00		
24 No. 600X cotton mattresses, at \$6.50	156.00	\$411.00	

PAYABLE

Time	Rate of Int.	When due												Face	Redeemed				
		Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.		Dec.	When	How	Int.	Amt. Pd.
Days																			
60	5%	191-				3								2000	191—				
															May 3	Cash	16 67	2016 67	

May 2. Received from Chas. A. Madson his 30-day note at 6% for \$212.50, the balance of his account to date.

After making the required journal entry, make a proper memorandum in the notes receivable book.

May 3. Our note in favor of C. B. Churchill fell due today, and we paid it in full with interest. Face of note \$2000.00; interest for 60 days at 5%, \$16.67; cash paid, \$2016.67.

After making the required entry, make a proper memorandum of the payment in the columns at the right in the notes payable book.

May 3. Sold to J. A. Stephens, on account, one No. 2787 Circassian walnut dining room set, 4 pcs. \$175.00.

May 4. Sold to L. B. Austin, on account,

1 No. 1346 extension dining table, oak	\$31.50	
1 No. 20 B mhgy. phonograph record cabinet	20.00	\$51.50
	<hr/>	

May 4. L. E. Stacey, partner, withdrew \$1000.00 in cash.

In posting this entry use the explanation "Withdrawal" in the ledger.

May 4. Paid the salaries in cash as on April 6.

May 5. Sold to the Blackstone Hotel, on account,

2 No. 2786 Colonial bedroom sets, 4 pcs., at \$150.00	\$300.00	
4 No. 1346 extension dining tables, oak, at \$24.50	98.00	
12 No. 7 bookcase sections, fumed oak, at \$3.40	40.80	\$438.80
	<hr/>	

May 6. Bought 1000 2¢ postage stamps for cash.

May 7. Received a check for \$108.00 from the Blackstone Hotel in settlement of our bill of Apr. 18.

May 7. Sold to H. E. Wendell, on account,

1 No. 2787 Circassian walnut dining room set, 4 pcs.	\$175.00	
4 No. 7 bookcase sections, fumed oak, at \$3.60	14.40	\$189.40
	<hr/>	

May 8. Received a check for \$331.50 from the LaSalle Hotel to cover our bill of Apr. 8.

May 8. L. E. Stacey, partner, again made a withdrawal of cash. This time the amount withdrawn was \$1800.00.

May 9. Paid in cash Berkey & Gay's invoice of April 29, \$294.25, sending them a bank draft for the amount. Exchange on the draft, 10¢.

May 9. Sold to L. B. Austin on account,

1 No. 2788 mhgy. parlor set, 3 pcs.	\$145.00	
1 No. 6 Hoosier kitchen cabinet	37.50	
4 No. 7 bookcase sections, fumed oak, at \$3.50	14.00	\$196.50
	<hr/>	

May 10. Sold to the LaSalle Hotel, for cash,

5 No. 6½ umbrella stands, walnut, at \$6.75	\$33.75	
1 No. 2788 mhgy. parlor set, 3 pcs.	150.00	
8 No. 063 porch chairs, wicker, at \$7.90	63.20	\$246.95
	<hr/>	

Since the LaSalle Hotel has an account with us, the foregoing transaction should be carried through the ledger. Debit the account of the LaSalle Hotel through the sales book, and credit it through the cash book. When both entries have been posted, the entire transaction will appear in the ledger.

May 11. Paid the Mayhew Company in cash the amount due on their bill of April 11, \$253.50.

May 11. Paid the salaries in cash as on April 6.

May 11. Paid Berkey and Gay by bank draft the amount of their invoice of May 1, \$92.50. Exchange, 10¢.

May 13. Received cash from L. B. Austin for his note of April 13, \$410.50, and interest for 30 days at 6%.

May 13. Mr. Stacey having informed us that he would need about \$2500.00 in cash at once for his personal use, we borrowed \$3000.00 from the City National Bank for six months at 5%, giving a mortgage on our real estate to secure the loan. (Credit Mortgages Payable.)

Make a memorandum of this mortgage in the notes payable book. Strictly speaking, it does not belong there, but since we have only one mortgage payable it may be listed with the notes payable for convenience, in order that we may be reminded when it falls due. The notes payable book being only a memorandum book, no harm can be done by this procedure.

May 13. L. E. Stacey, partner, withdrew in cash all of his investment in excess of \$10,000.00.

May 13. Sold to H. E. Wendell, on his 15-day note at 6%, 1 No. 2788 mahogany parlor set, 3 pcs., \$150.00.

Follow the instructions given in connection with the sale to the Blackstone Hotel on April 30.

May 14. Sold to the Blackstone Hotel, receiving \$500.00 in cash to be applied on the bill,

2 No. 2786 Colonial bedroom sets, mhgy., 4 pcs. each, at \$147.50	\$295.00	
6 No. 396 mhgy. dressers, at \$51.75	310.50	
6 No. 625 mhgy. serving tables, at \$12.50	75.00	\$680.50

Charge them the amount of the entire bill. Give them credit for the cash payment.

May 14. Bought from The Mayhew Co., Milwaukee, Wis., 6 No. 2787 Circassian walnut dining room sets, 4 pcs. each, at \$110.00, \$660.00. Gave them our 10-day note at 6% for the amount of the bill. Paid the freight charges on the shipment in cash, \$12.78.

The purchase should be carried through the ledger, as previously described. After the required entries are made, make the proper memorandum in the notes payable book. Hereafter make memorandums in the notes receivable and payable book whenever necessary. Remember this instruction, as it will not be given again.

Forwarding the Cash Book Footings

The credit side of the cash book is now full. Forward both debit and credit footings to the next two pages of the cash book, as follows: Rule a single line across both money columns on both the debit page and the credit page, on the blue line on which the last credit item is written. Below this line write the footings of the three columns in which you have figures. Opposite the debit footings, write the explanation "Footings forwarded." Opposite the credit footing, write the explanation "Footing forwarded." Write the cash book headings for the next debit and credit pages and on the first line below the headings write in the proper columns the amounts forwarded, with the explanation "Footings brought forward" on the debit side, and the explanation "Footing brought forward," on the credit side. No entries after this date are to be written on either of the pages which have been ruled and footed.

NOTE. The debit and credit footings are forwarded at the same time as a matter of convenience. Each page could be forwarded as filled, without regard to the other page, but it is easy to see that this would occasion a great deal of extra turning of pages. Sometimes separate debit and credit books are kept.

May 15. Received a check from J. A. Stephens for \$230.00 in settlement of our invoice of April 15.

May 15. Sold to L. B. Austin, on his 10-day note at 6% (two entries).

1 No. 483 Mission china cabinet, weathered oak	\$32.50	
1 No. 484 Mission dining table, weathered oak	21.00	
1 No. 485 Mission buffet, weathered oak	23.75	
6 No. 486 Mission dining chairs, weathered oak, at \$4.50	27.00	\$107.25

Post all entries up to date, but do not post the footings of the sales book. Take a trial balance, which should include the sales book and cash book footings.

May 15. L. E. Stacey having announced that he would withdraw from the partnership, \$100.00 in cash was paid to him as his estimated share of the May profits to date. (Debit *Loss & Gain*; credit *Cash*.) In accordance with the terms of a private arrangement between L. E. Stacey, and Geo. N. Miller, the balance of Mr. Stacey's capital account was transferred to the credit side of Mr. Miller's account. Mr. Miller was paid his salary up to date in cash, \$10.00, and no further salary was to be paid to him.

May 16. Sold to the LaSalle Hotel the items listed below. Received their 10-day note at 6% to cover the balance of their account, including this invoice. (Two entries.)

4 No. 396 mhgy. dressers, at \$51.90	\$207.60	
2 No. 2788 mhgy. parlor sets, 3 pcs. each, at \$150.00	300.00	\$507.60

May 18. Received a check for \$58.50 from H. E. Wendell in payment of our invoice of April 19.

May 18. Mailed to the Rockford Cabinet Co. our 10-day note at 6% to cover their bill of April 18, \$86.00.

May 18. Remitted \$108.00 to the Imperial Furniture Co. by bank draft, to cover their bill of April 19. Cost of the draft, 10¢.

May 18. Paid salaries as follows: Myra Keating, \$15.00; H. R. Dunn, \$12.50.

May 20. Sold to H. E. Wendell on account,

2 No. 625 mhgy. serving tables, at \$12.75	\$25.50	
1 No. 1346 extension dining table, oak	27.25	\$52.75

May 20. Bought from the Rockford Cabinet Co., on account, 12 No. 336 writing tables, mahogany, at \$11.00, \$132.00. Paid freight charges in cash, \$5.25.

May 21. Bought from the Imperial Furniture Co. on our 30-day note at 6%, 48 No. 590 mhgy. rocking chairs, at \$9.00, \$432.00. Paid the freight bill in cash, \$14.40.

May 23. Received cash from H. E. Wendell in full of account.

To determine what H. E. Wendell's balance is it will be necessary to examine not only the ledger, but all books of original entry for transactions entered but not posted.

May 24. Sold to the Blackstone Hotel, on account, 3 No. 6 Hoosier kitchen cabinets, at \$37.50 each, \$112.50.

May 24. Paid The Mayhew Co. in cash \$661.10, the amount of our note in their favor dated May 14 and interest.

May 25. Received cash from L. B. Austin for his note of May 15, \$107.25, and interest for 10 days at 6%, 18¢.

May 25. Received a check from the LaSalle Hotel in settlement of their note in our favor dated May 16, \$465.55, and interest for 9 days at 6%, ~~\$2.26~~ 1.83

May 25. Paid salaries in cash as on May 18.

May 28. Received cash from H. E. Wendell in settlement of his note of May 13, \$150.00, and interest for 15 days at 6%, 38¢.

May 28. Remitted to the Rockford Cabinet Co., by bank draft, \$86.14 to cover our note of May 18 and interest. Cost of the draft, 10¢.

May 30. Received a check from the Blackstone Hotel for \$1005.00, to cover their note of April 30 and interest for 30 days at 6%.

May 30. Received L. B. Austin's check for \$105.75 in settlement of our bill of April 30.

May 31. Inventories: Real estate, \$27700.00; store furniture and fixtures, \$612.50; merchandise, \$8581 18*; interest on Chas. A. Madson's note for \$212.50, dated May 2, 29 days at 6%, \$1.03; interest on our note in favor of the Imperial Furniture Co. for \$432.00, 10 days at 6%, 72¢; interest on our mortgage in favor of the City National Bank, \$3000.00 for 18 days at 5%, ~~\$10.00~~, salaries earned and unpaid, \$22.92.

Take a trial balance and prepare statements. The net gain will be divided: Colby, 77%; Miller, 23%. Students who understand how to determine each partner's proportion when changes in investment are made during the month, should verify these percentages. Close the ledger. Prepare a balance of the closed ledger.

Test in Closing No. II

At this point perform the work of the second test in closing, as follows: (1) Take a trial balance. (2) Prepare statements, using the following inventories: Real Estate, \$13450.00; furniture and fixtures, \$1000.00; merchandise, \$9450.00; interest receivable, \$13.50; interest payable, \$10.20, salaries unpaid, \$8.00. The proprietors share gains and losses in proportion to investment. (3) Close the ledger (except personal accounts and the partners' accounts), dating the balances and inventories brought down as of Feb. 28 instead of March 1 as you ordinarily would. In preparing the loss and gain statement and in closing the ledger, In-Freight is to be treated as a part of the cost of Mdse. (4) Take a balance of the closed ledger.

Closing Out the Business

After your balance of the closed ledger has been proved, open a cash book with the proper balance and make entries for the following transactions, dating all transactions Feb. 28.

Sold all merchandise on hand for cash at the inventory price.

Paid in cash all accounts payable.

Collected cash in full of all accounts receivable.

Paid the mortgage and all notes payable, including accrued interest, in cash.

Sold the real estate on hand for cash, at the price at which it was inventoried.

Received cash for all notes receivable and accrued interest.

Divided the cash on hand between the partners in proportion to investment.

*The amount of the above inventory will vary for the different lists as follows:

List 1, as given,	\$8581.18	Lists 23 to 29, inclusive,	\$8532.88
Lists 2 to 8, inclusive	\$8510.83	Lists 30 to 36, inclusive,	\$8557.03
Lists 9 to 15, inclusive	\$8534.98	Lists 37 to 43, inclusive,	\$8581.18
Lists 16 to 22, inclusive	\$8559.13	Lists 44 to 50, inclusive,	\$8605.33

In verifying the inventory, use the last purchase price on articles purchased since May 1. On all other articles, use the costs given in the May 1 inventory.

Post all cash book entries and rule the cash book to close.

Rule all ledger accounts to close.

There being no assets or liabilities or investments, the business has ceased to exist.

The Loose-Leaf Ledger

The ledger sometimes consists of loose sheets which are fastened together in a binder and this kind of a book is just as satisfactory as any other if the loose sheets are not lost. The principal advantages of the loose-leaf ledger are: (1) The bookkeeper may arrange his accounts alphabetically, thus making it unnecessary to index the book and at the same time enabling the bookkeeper to save the time that under the bound book system would be lost in consulting the index. (2) Old accounts may be removed from the current binder, in which current (active) and open accounts are kept, and placed in a "transfer" binder, where they can be kept until opened again by new transactions. This materially reduces the number of accounts in the current binder, making it easier to handle, and easier to keep track of the open accounts.

Loose-leaf devices are not by any means confined to the ledger, but are used for many of the books of original entry, where they are often found to be even more effective in the saving of time and labor.

Special Ruled Ledgers

While the old-fashioned center ruled ledger is the best for general purposes, it is not unusual for ledgers to be specially ruled to suit peculiar needs in certain lines of business or to conform to the differing ideas of bookkeepers. One special form which is used considerably for personal accounts when cash discounts enter into the settlements, is a form which provides a narrow column at the left of the column in which the cash payments are entered. In this narrow column are recorded the cash discounts. Each payment and its corresponding discount are thus side by side the same as they are in the cash book. For accounts receivable, this extra column is on the debit side. For accounts payable, it is on the credit side. The cash payment and discount in each case may be written on the line on which the amount of the invoice appears, or this feature may be disregarded.

Discount

Trade Discount. When a certain per cent is deducted from the listed price of an article to arrive at the real selling price, such a deduction is called a trade discount. This deduction might indicate that the price has been lowered since the present list price was established; it might be a reduction made as an inducement for a sale; it might be that trade discounts are used merely as a means of regulating prices without changing the prices published in the catalog; or it might be that the same catalogs are sent to all kinds of firms and the prices to each regulated through trade discounts. Trade discounts are taken off the invoices when they are made out, and do not appear on the books.

Cash Discount. After an article has been sold at a certain price, the seller will often offer a cash discount in order to induce a payment of cash within a certain time. For instance, one might sell goods on 60 days time, but offer a special discount of 2% for spot cash or for cash in ten days. These items are entered in a "Cash Discount" account.

Discount for the Use of Money. This is classed with interest, the ledger account being named "Interest and Discount." You are already familiar with this kind of discount.

Some bookkeepers make no distinction between cash discount and discount for the use of money and in some lines of business it is extremely difficult to make this distinction, as when a cash discount is offered for payment within, say, 10 days from the date of a bill and, in addition to this, discount at regular rates is allowed if the customer wishes to pay even before the discount date. When bills are dated several months ahead a great deal of this extra discounting is done and it would require much extra figuring to keep the two kinds of discount separate. Failure to distinguish between these two kinds of discount is theoretically wrong, but the general custom in a given business should be followed.

Analyzing an Account

Often it is desirable to determine certain facts in regard to an account which are not shown in the footings and general result of the account. Suppose, for instance, that a general expense account is kept in which all expense items are entered, but for some particular reason it is desired to show the amounts of different kinds of expense items, as advertising, postage, etc., throughout a certain past period. In this case, an analysis sheet may be prepared which will show these facts.

Assume that the expense account in the ledger appears as follows for the month of October, 191—.

191—		EXPENSE					
Oct.	1	Rent	75				
	3	Advertising	10 50				
	4	Exchange	10				
	5	Salaries and wages	37 50				
	8	Collection	20				
	9	Advertising	8 75				
	10	Electric Light	3 50				
	12	Salaries and wages	39 25				
	14	Postage	10				
	16	Advertising	7 50				
	19	Salaries and wages	35 75				
	21	Advertising	12 90				
	23	Stationery	4 50				
	26	Salaries and wages	36 50				
	31	Advertising	6 25				
			288 20				

An analysis sheet might be prepared as illustrated below, assuming that this gives the desired information.

ANALYSIS OF EXPENSES FOR OCTOBER, 191—

ADVERTISING	SALARIES & WAGES	MISCELLANEOUS
10.50	37.50	75.00
8.75	39.25	.10
7.50	35.75	.20
12.90	36.50	3.50
6.25		10.00
	149.00	4.50
45.90		
		93.30
		Adv'g. 45.90
		S & W 149.00
		Total 288.20

Such an analysis can be made so as to give any information desired. If information as above were desired at every closing of the ledger, of course, it would be better to keep separate accounts in the ledger for advertising and for salaries and wages; so that a knowledge of the above form is of value, generally speaking, only when an analysis is desired of past expenses which have not been entered in separate accounts. The form has a wide application, however. It can be used for analyzing personal accounts to show what proportion of bills are discounted. The credit side of the merchandise account (or the sales book, if only one sales book be kept) can be analyzed to show how the sales compare in different departments of the business, in different states or other divisions of territory covered, or by salesmen. There are dozens of other ways in which such forms can be used.

When separate accounts are kept for advertising and for salaries and wages, or when analysis sheets are prepared every month, these can be recapitulated to show general results for the year, half-year, or quarter, as follows:

ANALYSIS OF EXPENSES FOR THE QUARTER FROM OCT. 1, 191— TO JAN. 1, 191—

	ADVERTISING	SALARIES & WAGES	MISCEL- LANEOUS	TOTAL
October	45 90	149.00	93.30	288.20
November	56.75	162.25	98.50	317.50
December	42.20	138.62	92.25	273.07
	144.85	449.87	284.05	878.77

The recapitulation form shown above, like the form of analysis sheet shown previously, may be adapted in dozens of ways to give valuable information. The bookkeeper should be clever in devising for his own use such supplementary forms as will set before his employer in graphic form any special information or summaries which may be requested or desired.

Exercise. Write the following in sales book form and prepare an analysis sheet showing the business done as by States. The separate items of each invoice are omitted for the sake of brevity.

191—	SOLD TO	TERMS	AMOUNT
Nov. 1.	H. K. Williams, Chicago, Ill.,	2/10 n/30	\$123.62
2.	E. C. Millard, Oskaloosa, Ia.,	3/10 n/30	243.72
3.	S. E. Walton, Indianapolis, Ind.,	1/10 n/30	326.29
5.	S. H. Block, Peoria, Ill.,	2/10 n/30	285.62
6.	K. V. Handel, Terre Haute, Ind.,	1/10 n/30	141.32
7.	E. B. Bayes, Dubuque, Ia.,	3/10 n/30	325.16
8.	T. B. Boyd, St. Louis, Mo.,	2/10 n/30	273.08
9.	H. E. Devore, Springfield, Ill.,	2/10 n/30	249.46
12.	R. L. McNeal, St. Joseph, Mo.,	2/10 n/10	387.65
13.	E. J. Sneed, Springfield, Mo.,	2/10 n/30	457.45
15.	T. J. Adams, Keokuk, Ia.,	3/10 n/30	386.23
16.	A. B. Dick, Charleston, Ill.,	2/10 n/30	299.71
19.	B. L. Admore, Gary, Ind.,	1/10 n/30	148.09
20.	H. K. Williams, Chicago, Ill.,	2/10 n/30	386.25
21.	F. E. Giles, Crawfordsville, Ind.,	1/10 n/30	243.96
22.	W. B. Cook, Jefferson City, Mo.,	2/10 n/30	129.45
26.	D. L. Dover, Cedar Rapids, Ia.,	3/10 n/30	256.24
27.	F. B. Boyd, St. Louis, Mo.,	2/10 n/30	393.26
28.	S. J. Stephens, E. St. Louis, Ill.,	2/10 n/30	245.50
30.	J. R. McCormick, Terre Haute, Ind.,	1/10 n/30	352.30

The concern making the sales listed in the foregoing form prepays freight charges and attempts to equalize the loss on this item by adjusting the discounts differently in different states. In what state do you think the business is located?

Closing the Ledger Through Journal Entries

Up to this time you have followed the plan of closing all ledger accounts through entries made directly on the face of the ledger. Another plan which accomplishes the same results in a different way is to make journal entries for all closings which when posted to the ledger will leave the affected accounts in exactly the same condition as though the entries had been made directly in the ledger.

When closings are made through journal entries, it is an entirely feasible plan and one often followed to dispense with red ink altogether in the ledger except for ruling purposes. The cash account is kept in a separate book, the notes receivable and notes payable accounts are left open, as you have learned to do in case of the personal accounts, and the closing entries are posted from the journal in black ink.

In performing the work required for the following exercises you will use no red ink except for ruling purposes.

Using loose sheets, spread on the ledger the facts shown in Exercise 1, and prepare statements. Then close the ledger by the journal method, proceeding as follows:

1. Open a temporary account called *Miscellaneous Inventories*.
2. Make journal entries debiting the miscellaneous inventories account for all asset inventories and crediting the several accounts in which the inventories belong. (If you prefer, you may combine all these in one entry.)
3. Make journal entries crediting the miscellaneous inventories account for all liability inventories and debiting the several accounts in which the inventories belong. (If you prefer, you may combine all these in one entry.)
4. Post all the foregoing entries.
5. Make journal entries debiting Loss & Gain and crediting the several accounts showing loss. (If you prefer, you may combine all these in one entry.)
6. Make journal entries crediting Loss & Gain and debiting the several accounts showing gain. (If you prefer, you may combine all these in one entry.)
7. Post all the entries you made in steps 5 and 6. The loss or gain accounts all balance now, and may be ruled.

The inventories are all represented in the miscellaneous inventories account at this time. To get them back in their proper accounts, proceed as described in steps 8, 9 and 10.

8. Make journal entries debiting the miscellaneous inventories account for all liability inventories and crediting the several accounts in which these inventories belong. (If you prefer, you may combine all these in one entry.)
9. Make journal entries crediting the miscellaneous inventories account for all asset inventories and debiting the several accounts in which these inventories belong. (If you prefer, you may combine all these in one entry.)
10. Post all the entries you made in steps 8 and 9.

11. Make journal entries debiting Loss & Gain and crediting each partner for one half of the net gain, and post them. (If you prefer, you may combine these in one entry.) If a net loss be shown, reverse the entries. Close Loss & Gain, but leave the accounts of the partners open.

The ledger should now be in exactly the same condition it would have been in had the closing been done directly in the ledger.

Exercise I

Chas. E. Woods, Partner.....			3020
Geo. R. Davis, Partner.....			1400
Furniture & Fixtures.....	500		
Merchandise.....	5508	95	2281 80
Interest.....		11 87	
Expense.....		105 20	
Cash.....	1241	68	
Notes Receivable.....	1587	50	
Jas. E. Ryan.....	115		
H. R. Smith.....	162	60	
A. M. Duncan.....	116		
Notes Payable.....			1339
J. E. Baker.....			414
Jerome B. Howard & Co.....			250
Alma Mfg. Co.....			644

Inventories: Mdse, \$4125.00; furniture & fixtures, \$450.00; coal on hand which had been charged to the expense account, \$12.50.

In performing the work of Exercise II, follow the instructions given above for Exercise I, except that you must divide the gain or loss between the partners in proportion to investment.

Exercise II

G. E. Albrecht, Partner.....			22000
John H. Stehman, Partner.....			15000
Real Estate.....	8800		
Furn. & Fix.....	1275	92	
Merchandise.....	52925	74	66040 11
Cash Discount.....			850 75
Interest & Discount.....			46 39
Expense.....	5216		
Cash.....	9060	24	
Notes Receivable.....	19510		
Accounts Receivable.....	13426		
Notes Payable.....			4500
Accounts Payable.....			1776 65

Inventories: Real Estate, \$8600.00; furniture and fixtures, \$1200.00; merchandise, \$15241.62; expense items on hand, \$350.00. Note that separate personal accounts are not shown, but that accounts receivable are shown in one item and accounts payable in one item.

Many things can be said in favor of the plan of journalizing the closing entries and against it. State what you consider to be the advantages and disadvantages of the plan, and why you consider it better or not so good as the plan of making the closing entries directly on the face of the ledger.

Closing all accounts directly in the ledger is one extreme; closing all through journal entries is another. Many bookkeepers take a half-way position in the matter, closing through journal entries the loss or gain accounts only, and using red ink for closing balance accounts (including personal accounts) and for entering inventories in loss or gain accounts before closing.

At the discretion of your teacher, you may employ either the journal method or the method to which you are accustomed, or the plan mentioned in the preceding paragraph, in closing the ledger for June and July.

CHAPTER VIII

SET FOUR

You are employed as bookkeeper for Masters & Co., 63 S. Clark St., dealer in boots and shoes. The firm does a jobbing business—that is, it both buys and sells at wholesale. It sells for cash and on account. Sales for cash or on a note to customers who have accounts are carried through the ledger.

The books kept are the journal, sales book, purchase book, six-column cash book, notes receivable and notes payable books, and a ledger.

THE SIX-COLUMN CASH BOOK

This book takes the place of the simple form of cash book you have been using. It has six columns and these might be put to various uses, but in this set they are used as shown in the illustration. The object of keeping the special columns is to classify items that are of a similar kind; and as was shown in connection with the sales book, much of the labor of posting is saved.

The left-hand column on the debit side is for cash sales, as the heading shows (it does not, however, include cash sales to persons who have accounts with us). Items in this column are not posted separately, but at the time of closing the cash book the column is footed and the total is written in the general cash column, from which it is posted to the credit side of the cash sales account in the ledger. A check mark is placed in the folio column opposite each cash sale to show that it is not to be posted separately.

Note that the June 1 balance is not written in the general column. When the total of cash sales is written in the general column, the general column then exhibits all cash receipts and its total is the total of cash receipts for June. Each item in this column is posted to the credit side of some ledger account.

The footing of the general column is written in the balance column and added to the June 1 balance.

Items of expense are omitted from the general column on the credit side and entered in the special column provided. A check mark is placed in the folio column opposite each of these to show that it is not to be separately posted. The total of the expense column is written in the general column and from there posted to the debit of the expense account.

When the total of expense has been entered in the general credit column, the latter exhibits all the disbursements for June. The cash balance is then ascertained and is written in the general column as shown.

The cash discount column is not a cash column. It is in the cash book simply for convenience. When we pay a creditor, the amount of the payment is entered in the

ILLUSTRATION OF A SIX-COLUMN CASH BOOK

18
191-

Cash, Dr.

		Cash Sales	General	Balance
June 1	✓ Balance			2432.39
3	✓ Cash sales June 1, 2, & 3	167.50		
6 12	Smith & Wellman Our Inv. of May 7		122.50	
6 12	Notes Rec. S. H. Watson May 7		???	
6 11	Int. & Dis. Int. on above 30 ds 6%		???	
7 13	Grant Butler & Co. Our Inv. of May 28		???	
9 13	E. W. Phillips Bal. as of June 1		???	
---		---	---	---
27 13	Oscar E. Hewitt Our Inv. of June 7		49.50	
30	✓ Cash sales For wk up to tonight	???	???	
30 10	Cash sales Ev. for total		1608.44	
	<i>Total cash receipts</i>		<u>1940.52</u>	2944.52
---		---	---	---
				5376.91
July 1	✓ Balance			3816.06

general column on the credit side. If we secure a discount the discount item is written beside the payment, in the cash discount column, which is conveniently near the general column. Both the payment and the discount are posted to the debit of the creditor's account. To balance these two items posted to the debit side of the ledger, we have (1) The credit to cash, from the fact that the amount of the payment is entered in the general column of the cash book. (2) The credit to the cash discount account—for the cash discount column is footed and its total posted to the credit of the cash discount account.

The cash book is ruled in closing as shown in the illustration. The balance is brought down on the debit side *in the general column*.

ILLUSTRATION OF A SIX-COLUMN CASH BOOK

Cash, Cr.

19

				Expense	Cash	Wic.	Cr.	General
June	1	11	Insurance	\$900 ⁰⁰ on Mdse. at 11 ²⁵				86 25
	2	14	Walker & Co.	Their Inv. of May 23			? ? ?	? ? ? ? ?
	2	✓	Expense	Exchange on above	??			
	3	✓	Expense	Salys for wks. ending 6				
		✓		H. R. Webster, 184 ⁰⁰ , 17 ⁵⁰				
				Ada Mount, 12 ⁰⁰ , 12 ⁰⁰	29 50			
	6	✓	Expense	500-2¢ stamps	??			
	7	11	Inv. Freight	From Walker & Co. Columbia				? ? ?
	20	14	Walker & Co.	Their Inv. of June 10			??	? ? ? ?
	24	✓	Expense	Salys. as on June 3	?? ? ?			
	29	14	Notes Pay	Carpenter Bros. May 30				? ? ? ? ?
	29	11	Int. & Dis.	Int. on above 30 ds 6%				? ? ?
	30	11	Inv. Freight	R. P. Smiddy & Co's				3 50
	30	✓	Expense	bill for June	18 95			
	30	11	Expense Dr. for total		18 95			147 15
	30	11	Cash Discount Cr. for total				22 71	5 60 15
	30	✓	Balance (1909)					3816 06
								5376 91

THE PURCHASE BOOK

Purchases of merchandise are entered in this book. Each purchase is posted to the credit of some ledger account (usually a personal account) and the total is posted to the debit of the merchandise account. It is not customary to itemize the goods bought; the general practice is for the purchaser to retain the invoices, and this of course makes it unnecessary to itemize the goods bought.

The form used in set four is very simple, and provides for the recording of only the bare essentials of each transaction. In practice, much more elaborate forms are often used, with special columns for such informational matter as may be deemed important. For instance, a special column may be kept for the seller's invoice number. Sometimes

incoming invoices are numbered by the bookkeeper as received and a special column is provided in which these numbers can be recorded. Again, the date of a bill is quite likely to be different from the date the invoice is received, and a separate column should then be kept in which the date of the bill would be shown, the discount date being figured from this date. Special columns may be provided for the discount date (or the different discount dates) and for the date of maturity, as in the notes payable book. All of these special columns are purely auxiliary, and are omitted from this form for the sake of simplicity.

THE PURCHASE BOOK

		<i>Purchases, June, 191-</i>					
(Date) 191-	(P.)	(Creditor's Name)	(Address)	(Terms)	(Amount)	(Total)	
June 2		Groves & Rood	175 Fifth Ave.	2/10 120	99 60		
7		Walker & Co.	Columbus, Ohio	2/10 120	??		
8		Carpenter Bros.	St. Louis, Mo.	2/10 120 120	?? ? ?		
10		Walker & Co.		2/10 120	?? ? ?		
13		Carpenter Bros.		2/10 120	?? ? ?		
16		Groves & Rood		2/10 120	?? ? ?		
25		Groves & Rood		2/10 120	?? ? ?		
30		<i>Wdse. Dr. for total</i>				?? ? ? ?	

Use the same notes receivable book and notes payable book you used for the furniture business, leaving a few blank lines below the May entries.

Accounts Kept. You will keep the following accounts in your ledger, allowing for each account one line for the heading, one line for the year dates, and for the entries the number of lines given in the following list:

Capital.....	10 lines	Grant Butler & Co., Peoria, Ill.....	9 lines
Real Estate.....	8 lines	E. W. Phillips, 2639 S. Halsted St.....	9 lines
Furniture & Fixtures.....	8 lines	Notes Payable.....	8 lines
Merchandise.....	13 lines	Groves & Rood, 175 Fifth Ave.....	10 lines
Cash Sales.....	4 lines	Walker & Co., Columbus, Ohio.....	10 lines
In-Freight.....	12 lines	Carpenter Bros., St. Louis, Mo.....	7 lines
Insurance.....	8 lines	C. E. Masters Estate.....	7 lines
Interest & Discount.....	13 lines	C. N. Masters, legatee.....	7 lines
Expense.....	9 lines	Mary B. Groves, legatee.....	7 lines
Cash Discount.....	8 lines	U. S. 4's 1921.....	7 lines
Loss & Gain.....	18 lines	Apartments, 1419 W. Madison St.....	7 lines
Notes Receivable.....	9 lines	Income from Apartments 1419 W. Madison St.....	7 lines
Smith & Wellman, 1349 S. Clark St.....	11 lines		
Oscar E. Hewitt, 209 S. Dearborn Ave....	8 lines		

The cash discount account is debited for cash discounts we allow, which are costs to us. It is credited for cash discounts allowed to us by others, which are returns to us. The student will have no difficulty with this account if he will imagine that when such bills are settled the entire amount of cash is paid and then a part of it is returned by the creditor.

The insurance account exhibits the costs for insurance, and the returns on this account, if any. It is treated just like the expense account.

The "U. S. 4's, 1921" account is an asset account like the notes receivable account. It exhibits the amounts of United States 4% bonds maturing in 1921 which have been received and disposed of.

"Apartments 1419 W. Madison St." is the title of a property account that is no different in its nature from the Real Estate account.

"Income from Apartments 1419 W. Madison St." is the name of an account in which we keep a record of costs and returns from that property. It is a loss or gain account.

The cash sales account is a temporary account which is debited for the amount of cash sales as entered in the sales book at the end of the month or whenever the cash sales column in the cash book is footed, and credited for the same amount as posted from the cash book. When both entries to it are posted, it balances, and should be ruled off.

One of the features of set four is a little "set within a set." S. D. Masters, the senior partner, is made executor of the estate of C. E. Masters, deceased, a brother, and rather than open a complete new set of books for the estate, he carries the accounts of the estate on the books of the firm. When the estate is distributed among the heirs according to law, it will be seen that all of these estate accounts have disappeared from the books.

Although there are several partners, only one capital account is kept. The investment accounts of the partners are kept in a private ledger to which they only have access. Whenever you have an entry which would ordinarily go into one of the investment accounts, you debit or credit *Capital*, at the same time handing S. D. Masters a memorandum which will enable him to make the proper entry in the private ledger. (You need not actually prepare these memorandums.) The sum of the balances of the private ledger should equal the balance of the capital account.

Transactions

191—

June 1. Enter in your ledger and cash book the following balances, which represent the condition of the business of Masters & Co. on this date.

Capital		26625.99	Oscar E. Hewitt	325.00
Real Estate	15250.00		Grant, Butler & Co.	69.70
Furniture & Fixtures	823.60		E. W. Phillips	125.60
Merchandise	8627.45		Notes Payable	500.00
Interest & Discount	.96	1.50	Groves & Rood	325.75
Expense		14.75	Walker & Co.	410.10
Notes Receivable	240.00		Carpenter Bros.	259.26
Smith & Wellman	242.65		Cash	2432.39

Explanation. The balance of the notes receivable account, \$240.00, is for a 30-day note at 6% dated May 7; it was received from S. H. Watson on account. Make a proper memorandum on the notes receivable book. The balance of the notes payable account is for our 60-day note for \$500.00 at 6% given to Holmes & Ferguson on May 13 to cover their invoice of that date. Make a proper memorandum in the notes payable book. Items of interest accrued on the note receivable and the note payable were included among the losses and gains at the time of the last closing and were brought down as inventories on June 1 as shown by the foregoing trial balance. Salaries earned but unpaid were also included among the losses for last month and the item was brought down on June 1 as an offset to the expenses for June as shown.

June 1. Insured our stock of merchandise for \$6900.00, paying the premium for one year in advance in cash. The premium paid was at the rate of \$1.25 per hundred. (Debit Insurance.)

June 2. Bought from Groves & Rood, 175 Fifth Ave., City, terms 2/10 n/30,

24 prs. youths' patent leather bluchers, at \$1.80	\$43.20	
36 prs. boys' kid bluchers, at 90¢	32.40	
24 prs. boys' gum overshoes, at \$1.00	24.00	\$99.60

June 2. Paid Walker & Co., by check, the amount of their invoice of May 23, \$142.50, less 2% discount which was allowed for cash in ten days. Included 10¢ exchange in the amount of the check.

Deduct 2% from the amount of the invoice. Enter the amount of cash paid (exclusive of the exchange) in the general column on the credit side of the cash book, and the amount of the discount in the cash discount column beside it. When you post these two items to Walker & Co.'s account in the ledger, use only one line, following the form shown. The exchange is entered separately in the cash book; the amount is written in the expense column and a check mark is placed in the folio column.

191-				191-		Columbus, Ohio			
June 2	Dr.	2.85	139.65	Cr	19	142.50	June 1 Balance	✓	410.10

June 3. Paid the salaries for the week ending today, in cash, as follows: H. R. Webster, bookkeeper, \$17.50; Ada Mount, stenographer, \$12.00.

Two lines are used in writing this entry. Check in the folio column on both lines.

June 3. Cash sales of Mdse. for June 1, 2, and 3 were \$167.50.

Enter this in the cash sales column, and place a check mark in the folio column.

June 5. Sold to E. W. Phillips, 2639 S. Halsted St., on account,

12 prs. men's box calf bluchers, at \$2.65	\$31.80	
12 prs. men's University patent bluchers, at \$2.95	35.40	\$67.20

To save time and space, use the following abbreviations in making sales book entries. These abbreviations are generally recognized in the boot and shoe business:

Blu. = Bluchers	O. G. = Oil Grain	Pol. = Polish
Pat. = Patent	Bals. = Balmorals	Russ. = Russet
Lea. = Leather	Kang. = Kangaroo	Wos. = Women's
Ox. = Oxfords	Vel. = Velour	Dong. = Dongola
Butt. = Button	Gr. = Grain	Cong. = Congress

June 6. Received cash from Smith & Wellman to cover our invoice of May 7, \$122.50.

June 6. Received cash from S. H. Watson for his note of May 7, \$240.00, and interest for 30 days at 6%, \$1.20.

June 6. Paid cash for 500 2¢ stamps for office use.

June 7. Sold to Oscar E. Hewitt, 209 S. Dearborn Ave., on account,

15 prs. men's oil grain No-Seam balmorals, at \$1.50	\$22.50	
12 prs. women's tan vici bluchers, at \$2.25	27.00	\$49.50
	<u> </u>	

June 7. Received Grant, Butler & Co.'s check for \$69.70, in settlement of our bill against them of May 28.

June 7. Bought from Walker & Co., Columbus, Ohio, terms 2/10 n/30,

30 prs. men's gun metal bluchers, at \$2.10	\$63.00	
20 prs. vici balmorals, old man's last, at \$1.40	28.00	\$91.00
	<u> </u>	

June 7. Paid the freight charges on the above shipment in cash, \$1.35.

June 7. Paid cash to Groves & Rood for their invoice of May 28, \$325.75 less 2% cash discount.

June 8. Sold to Grant, Butler & Co., on account, terms 2/10 n/30,

12 prs. men's kid balmorals, at \$2.50	\$30.00	
18 prs. men's University calf bluchers, at \$2.95	53.10	
24 prs. men's Para rubbers, "Wilhite," at 75¢	18.00	\$101.10
	<u> </u>	

June 8. Received from Oscar E. Hewitt on account his 30-day note at 6% for \$325.00, dated May 26, the date of the sale to him which the note covers.

June 8. Bought from Carpenter Bros., St. Louis, Mo., terms 3/10 1/30 n/60,

24 prs. women's Maxine button shoes, at \$2.10	\$50.40	
30 prs. ladies' Dongola C. S. balmorals, at \$1.00	30.00	
24 prs. ladies' Dongola patent tip bluchers, at \$1.10	26.40	\$106.80
	<u> </u>	

June 8. Paid the freight charges on the above shipment in cash, \$1.60.

June 8. Paid cash to Walker & Co., for their bill of May 29, \$267.60, less 2% cash discount.

June 9. Received from E. W. Phillips \$125.60 in cash to cover the balance of his account as of June 1, and his 15-day note at 6% dated June 5 for \$67.20 to cover the sale to him on that date.

June 9. Gave Carpenter Bros. our 30-day note at 6% for \$259.26, to cover their bill of May 30. We dated the note May 30.

June 10. Bought from Walker & Co., terms 2/10 n/30,

30 prs. men's kangaroo grain "Ripless," at \$1.15	\$34.50	
24 prs. men's American rubbers "Quaker," at .60	14.40	\$48.90
	<u> </u>	

June 10. Paid the freight charges on the above shipment in cash, \$1.00.

June 10. Paid the salaries for the week ending today in cash as on June 3.

June 10. Cash sales for the week, \$325.67.

June 12. Paid cash to Groves & Rood for their invoice of June 2, \$99.60 less 2% discount.

June 12. Sold to E. W. Phillips, on his 60-day note at 6%,

24 prs. men's oil grain No-Seam balmorals, at \$1.50	\$36.00	
20 prs. boys' kid bluchers, at \$1.35	27.00	
36 prs. women's tan vici bluchers, at \$2.25	81.00	\$144.00
	<u> </u>	

June 13. Bought from Carpenter Bros., terms 2/10 n/30,			
12 prs. women's Maxine button shoes, at \$2.10	\$25.20		
24 prs. infants' velour polish, patent tip, at \$.80	19.20		
30 prs. boys' kid bluchers, at \$.90	27.00		\$71.40
			<hr/>

June 14. Sold to Smith & Wellman, 1349 S. Clark St., on account,			
12 prs. men's American rubbers, "Quaker," at .90	\$10.80		
15 prs. men's oil grain "No-Seam" balmorals, at \$1.50	22.50		\$33.30
			<hr/>

Post and take a trial balance. In posting, use the initial *P* to indicate the purchase book. Do not post the totals of the sales book, purchase book or cash book, but these totals must be included in the trial balance with the following respective explanations: "Sales on account to date, not posted;" "Purchases on account to date, not posted;" "Cash sales to date, not posted;" "Expenses to date, not posted;" "Cash discount credit total to date, not posted." The cash book is not to be closed at this time, but the balance must be ascertained and included in the trial balance. It is ascertained as follows: Add together the cash balance June 1, general receipts, and receipts from petty cash sales; from the total secured, subtract the sum of the payments shown in the general and expense columns.

June 16. Bought from Groves & Rood, terms 2/10 n/30,			
24 prs. youths' patent leather bluchers, at \$1.80	\$43.20		
12 prs. boys' Para rubbers, at 40¢	4.80		
36 prs. boys' box calf bluchers, "Bulldog," at \$1.20	43.20		\$91.20
			<hr/>

June 17. Paid Walker & Co's. invoice of June 7, \$91.00 less 2%, by check, including 10¢ exchange in the check.

June 17. Paid Carpenter Bros., invoice of June 8, \$106.80 less 3%, by check, including 10¢ exchange in the check.

June 17. Paid the salaries for the week ending today in cash as on June 3.

June 17. Cash sales for the week were \$427.50.

June 19. Received Grant, Butler & Co.'s check for \$99.08, to cover our bill of June 8 less discount. The bill was due on June 18, but as that day was Sunday the discount was allowed on the 19th.

Make two entries, one in the cash book and one in the journal. If there were many transactions of this kind, it would be advantageous to have a special column for cash discounts on the debit side of the cash book.

June 19. Sold to Smith & Wellman on account,			
12 prs. youths' kangaroo grain high cut shoes, at \$1.85	\$22.20		
15 prs. men's Carey bluchers, at \$3.10	46.50		\$68.70
			<hr/>

June 20. Received cash from E. W. Phillips in payment of his note dated June 5, \$67.20, and interest for 15 days at 6%, \$0.17.

✓ June 20. Paid Walker & Co.'s bill of June 10, \$48.90, less 2%, in cash.

June 21. Smith & Wellman returned to us for credit 3 prs. men's Carey bluchers, which they had bought from us at \$3.10. We gave them credit for the goods returned.

A credit memorandum is usually sent to a customer who returns goods for credit. Debit the Mdsc. account and credit the account of Smith & Wellman.

Often when many transactions of this kind occur a separate account is kept for them under the title *Goods Returned to Us* or some other title meaning the same. Similarly a special account might be kept for goods returned by us. In some cases, where there are a vast number of returns, separate books are kept for goods returned to us and goods returned by us. The plan of posting from these books is similar to that employed in posting from the sales book and the purchase book.

June 22. Sold to Grant, Butler & Co., on account,

12 prs. men's kangaroo grain "Ripless," at \$1.75	\$21.75	
12 prs. misses' kid bluchers, patent tip, at \$1.42½	17.10	\$38.10
		<hr/>

June 23. Smith & Wellman claimed that 4 pairs of the youths' kangaroo grain high cut shoes sold them on June 19 were defective, and we allowed them a rebate of \$0.50 per pair.

Debit the Mdse. account and credit Smith & Wellman's account. A credit memo. is usually sent for such items. Separate accounts may be kept for claims allowed to us and for claims allowed by us, when there are many such items. Sometimes separate books are kept, as in the case of returned goods.

June 24. Sold to Oscar E. Hewitt, on account,

12 prs. men's box calf bluchers, at \$2.65	\$31.80	
12 prs. men's University patent bluchers, at \$2.95	35.40	
12 prs. youths' patent leather bluchers, at \$2.40	28.80	\$96.00
		<hr/>

NOTE.—Sometimes, instead of entering such items as the above in a sales book, a duplicate of the customer's order or of our invoice is kept and filed, posting to the customer's account being made direct from the duplicate order or invoice. This plan is followed in *Wholesale Accounting*, which is the second part in the series of accounting texts of which this is the first.

June 24. Paid the salaries for the week in cash as on June 3.

June 24. Cash sales for the week, \$410.54.

June 25. Bought from Groves & Rood, terms 2/10 n/30,

30 prs. boys' kid bluchers, at 90¢	\$27.00	
24 prs. youths' patent leather bluchers, at \$1.80	43.20	
18 prs. boys' gum overshoes, at \$1.00	18.00	\$88.20
		<hr/>

NOTE.—Sometimes, instead of entering such items as the above in a purchase book, the invoice itself is filed and the posting done direct from it; or the invoices are pasted in a book which is provided with a column at the side in which the totals only are entered, posting being done from this column. The latter plan is illustrated and taught in *Wholesale Accounting*.

June 25. Received cash from Oscar E. Hewitt for his note dated May 26, \$325.00 and interest for 30 days at 6%.

June 26. Sold to Smith & Wellman, on account,

12 prs. men's King George oxfords, at \$3.20	\$38.40	
12 prs. men's congress calf, at \$2.50	30.00	
12 prs. women's Maxine button, at 3.00	36.00	\$104.40
		<hr/>

June 27. Discounted at the bank E. W. Phillips' 60-day note of June 12 in our favor. The note was for \$144.00 and bore interest at 6%. Rate of discount, 5%. Net cash received, \$144.53.

Verify the above computation. Make only one entry for the interest. It is not at all unusual however, for two entries to be made, one for the full amount of the interest for 60 days and the other for the discount.

June 27. Received Oscar E. Hewitt's check for \$49.50 for our invoice of June 7.

June 28. Sold to Grant, Butler & Co., on account,

12 prs. men's Boston bluchers, at \$1.50	\$18.00	
20 prs. ladies' Dongola C. S. balmorals, at \$1.60	32.00	
12 prs. men's Para rubbers "Wilhite" at 75¢	9.00	\$59.00

June 29. Paid in cash our note dated May 30 in favor of Carpenter Bros., and interest. Face of note, \$259.26; interest, 30 days at 6%, \$1.30.

June 30. R. P. Smiddy & Co. presented a bill for drayage for the month which we paid in cash, \$22.45. Of this amount, \$3.50 was for delivering freight from the depot, and is chargeable to the In-Freight account. The balance was for deliveries to our customers, and is chargeable to the expense account. Make two entries in the cash book.

✓ June 30. Cash sales for the week up to and including today, \$367.20.

Inventories June 30: Real estate, \$15190.00; furniture and fixtures, \$817.50; Mdse., \$7375.62; insurance, 11 months' premium unexpired, \$79.06; interest accrued on our note for \$500.00 payable to Holmes & Ferguson, 48 days at 6%, \$4.00; salaries earned and unpaid \$24.58.

Post, take a trial balance, prepare statements, and close the ledger, proceeding as follows:

(1) Enter in the sales book, as its last item, the amount of cash sales for the month, as indicated by the footing of the cash sales column in the cash book. Post all unposted sales book items, the last item being posted to the cash sales account. Post the total of the sales book.

(2) Post all unposted purchase book items and post the total of the purchase book.

(3) Post all unposted journal items.

(4) Post all unposted cash book items, enter the footings of the special cash columns in the general columns and post them, and close the cash book with a balance, all as illustrated and described in detail on pages 128 and 129. Remember that the cash discount column is not a cash column.

(5) Take a trial balance, prepare statements, and close the ledger. The cash sales account will not appear in the trial balance, because the debit item posted to this account from the sales book and the credit item posted to it from the cash book just balance each other.

Transactions—Continued

191—

July 1. Received cash from Smith & Wellman to cover our invoice of May 30, \$120.15.

July 1. Sold to Oscar E. Hewitt, on account,

24 prs. women's tan vici bluchers, at \$2.25	\$54.00	
15 prs. men's gun metal bluchers, at \$2.85	42.75	\$96.75

July 1. Cash sales for the day, \$72.46.

July 1. Paid the salaries for the week ending today in cash as on June 3.

July 3. Sold for cash to E. W. Phillips,

12 prs. men's russet grain bluchers, at \$2.50	\$30.00	
20 prs. men's Congress calf, at \$1.75	35.00	
15 prs. boys' Para rubbers, at \$.65	9.75	\$74.75

The above transaction is to be carried through the ledger.

July 3. Accepted Carpenter Bros. draft on us at 10 days sight for \$71.40, the amount of their invoice maturing July 13.

July 3. Bought from Groves & Rood, terms 1/30 n/60,			
12 prs. men's high cut work shoes, at \$4.20	\$50.40		
20 prs. youths' kangaroo grain high cut, at \$1.25	25.00		
12 prs. men's kid bluchers, at \$2.20	26.40	\$101.80	

July 5. Paid Groves & Rood in cash for their invoice of June 25, \$88.20 less 2%.

July 6. Bought from Walker & Co., Columbus, Ohio, terms 3/10 1/30 n/60, invoice dated July 3,

24 prs. men's oil grain No-Seam balmorals, at \$1.10	\$26.40		
24 prs. men's gun metal bluchers, at \$2.10	50.40	\$76.80	

Write the date of the invoice just to the left of the terms in the purchase book. The dates for discounting and the date for maturity are determined from this date.

July 6. Paid freight charges on the above in cash, \$1.15.

July 7. Paid cash for 750 2¢ stamps.

July 7. Sold to E. W. Phillips on his 30-day note at 6%,

24 prs. men's kid balmorals, at \$2.50	\$60.00		
24 prs. men's University calf bluchers, at \$2.95	70.80		
12 prs. men's Para rubbers, "Willite," at \$.75	9.00	\$139.80	

July 8. Drew on Grant, Butler & Co. at ten days sight for the balance due on their account July 1, \$97.10. (No entry.)

July 8. Cash sales for the week ending today, \$410.25.

July 8. Paid the salaries for the week ending today in cash as on June 3.

July 10. S. D. Masters, senior member of the firm, was appointed executor of the estate of C. E. Masters, deceased, a brother. The estate consisted of an apartment building at 1419 W. Madison St. and 75 U. S. 4% bonds of 1921, par value \$100.00 each. The building and the bonds were to be sold and the returns, including income up to the time of the sale, were to be divided equally between C. N. Masters, a son, and Mary B. Groves, a married daughter, of the deceased.

The accounts of the estate are to be kept on the books of Masters & Co. Debit the *Apartments 1419 W. Madison St.* account and the *U. S. 4's 1921* account, and credit the *C. E. Masters Estate* account. Owing to uncertainty as to the value of the apartments, use a nominal valuation of \$1.00 for this item. The U. S. 4% bonds of 1921, including accrued interest to date, are worth \$121.60 each, and should be entered at this valuation.

✓ July 10. Bought from Groves & Rood, accepting their draft on us at 60 days, without interest, for the amount of the invoice,

18 prs. youths' patent leather bluchers, at \$1.80	\$32.40		
30 prs. boys' gum overshoes, at \$1.00	30.00		
24 prs. boys' kid bluchers, at \$0.92	22.08		
36 prs. youths' kangaroo grain high cut shoes, at \$1.25	45.00	\$129.48	

July 11. Received Grant, Butler & Co.'s acceptance dated July 10, due July 20, for \$97.10.

July 12. H. D. Berlin and L. W. Langley, both renters of apartments at 1419 W. Madison St., have paid their rent for June in cash, \$50.00 each.

Debit the cash account; credit the *Income from Apartments 1419 W. Madison St.* account. Write the entry in the balance column of the cash book, in order to separate it from the receipts of the business.

July 12. Paid cash for our note in favor of Holmes & Ferguson and interest for 60 days at 6%. The note was for \$500.00 and was dated May 13.

July 13. Bought from Carpenter Bros., terms 3/10 2/30 1/60 n/90,			
24 prs. women's American rubbers "Good-sense," at \$.45	\$10.80		
24 prs. women's rubbers, "No-Heel," at \$.40	9.60		
24 prs. men's American rubbers "Quaker," at \$.60	14.40		\$34.80
			<hr/>

July 13. Paid in cash Walker & Co.'s invoice dated July 3, \$76.80 less 3%. Included 10¢ exchange in the amount of the check.

July 13. Sold to E. W. Phillips, on account,			
12 prs. men's rubbers, "Stick-on," at \$.85	\$10.20		
24 prs. boys' gum overshoes, at \$1.40	33.60		
12 prs. men's kangaroo grain "Ripless," at \$1.75	21.00		\$64.80
			<hr/>

July 13. Redeemed our acceptance in favor of Carpenter Bros., maturing today, by a cash payment.

July 14. Received cash from Smith & Wellman to cover our invoice of June 14, \$33.30.

July 15. Cash sales for the week ending today, \$427.96.

July 15. Paid the salaries for the week ending today in cash as on June 3.

July 15. Repaired the plumbing in the apartment at 1419 W. Madison St. occupied by H. D. Berlin, paying the plumber's bill in cash, \$22.50.

Debit the *Income from Property 1419 W. Madison St.* account.

Post and take a trial balance, following the instructions on June 15.

July 17. Groves & Rood drew on us through the Harris Trust & Savings Bank for \$91.20, the amount of their invoice of June 16 without discount. Paid the draft in cash plus 20¢ collection fee. (Two entries in the cash book.)

July 18. Sold to Oscar E. Hewitt, for cash,			
18 prs. boys' box calf bluchers, "Bulldog," at \$1.75	\$31.50		
12 prs. misses' kid bluchers, patent tip, at \$1.45	17.40		\$48.90
			<hr/>

July 19. Received cash from Smith & Wellman to cover the balance due on our invoice of June 19. The amount of the invoice was \$68.70, but there was a return made on it of \$9.30 on June 21, and we allowed them a claim of \$2.00 on June 23.

July 19. Bought from Groves & Rood, terms 2/10 n/30,			
24 prs. infants' velour polish, patent tips, at \$.80	\$19.20		
24 prs. misses' Popular vici kid bluchers, at \$1.00	24.00		\$43.20
			<hr/>

July 20. Discounted at 6% our acceptance in favor of Groves & Rood for \$129.48 due Sept. 8, paying them in cash the amount due.

July 20. Bought from Walker & Co., Columbus, Ohio, on our 30-day note at 6%, their invoice dated July 16, our note having the same date as the invoice,

48 prs. men's King George oxfords, at \$2.60	\$124.80		
60 prs. women's Maxine button, at \$2.10	126.00		\$250.80
			<hr/>

July 20. Paid the freight charges on the above in cash, \$2.85.

July 20. Advanced to C. N. Masters \$500.00 in cash against his share of the C. E. Masters estate.

July 20. Received cash from Grant, Butler & Co. for their acceptance due today, \$97.10.

July 21. Sold Grant, Butler & Co., on account,		
12 prs. King George oxfords at \$3.20,	\$38.40	
12 prs. women's Maxine button shoes, at \$3.00	36.00	\$74.40

July 21. Bought from Carpenter Bros., terms 2/10 n/30,		
24 prs. men's Carey bluchers, at \$2.25	\$54.00	
24 prs. men's Boston bluchers, at \$1.10	26.40	\$80.40

July 22. Cash sales for the week ending today, \$396.27.

July 22. Paid the salaries for the week in cash as on June 3.

July 24. Received cash from Oscar E. Hewitt in settlement of our invoice of June 24, \$96.00.

July 25. Sold for cash, at \$121.83 each, the 75 U. S. 4% bonds of 1921 held in trust for the C. E. Masters estate.

July 26. Bought from Walker & Co., Columbus, Ohio, terms 2/10 n/30, invoice dated July 24,

30 prs. Dongola C. S. balmorals, at \$1.00,	\$30.00	
24 prs. ladies' Dongola patent tip bluchers, at \$1.10	26.40	\$56.40

July 26. Paid the freight charges on the above shipment in cash, \$1.85.

July 27. Sold for \$12,675.00 in cash the apartment building at 1419 W. Madison St., held in trust for the C. E. Masters estate. Paid 2% commission to B. R. Upham, the real estate agent who made the sale.

Credit the account of *Apartments 1419 W. Madison St.* for the full selling price and debit the same account for the amount of the commission, both items being carried through the cash book.

July 27. Sold to Oscar E. Hewitt, on account,		
12 prs. men's Carey bluchers, at \$3.10	\$37.20	
15 prs. men's Boston bluchers, at \$1.50	22.50	\$59.70

July 28. All the property of the C. E. Masters estate having been disposed of, S. D. Masters was allowed a commission of 1% of the gross cash returns, which returns amounted to \$21,658.75. Mr. Masters was entitled to this commission personally, but instead of withdrawing it in cash he allowed it to remain in the business as an addition to his investment.

Debit the account of the C. E. Masters estate. Credit the capital account.

July 28. Paid to C. N. Masters and Mary B. Groves, heirs of C. E. Masters, the amounts respectively due them.

Post all entries up to date. Close the *Apartments 1419 W. Madison St.* account, the *Income from Apartments 1419 W. Madison St.* account, and the *U. S. 4's, 1921* account into the *C. E. Masters Estate* account. The balance of the last named account is to be equally divided between the two heirs. This is done by two red ink closing entries.

Now pay to the heirs in cash the amounts shown by their accounts to be due them. When these two payments are posted, these two accounts, as well as all other accounts in which the affairs of the estate are recorded, will balance, and should be ruled to close.

July 28. Smith & Wellman having failed with liabilities amounting to \$14,500.00 and assets amounting to \$5800.00, we received a check for \$—— from the receiver, which we accepted in full of the account.

To determine the amount due from Smith & Wellman, you will have to post all items affecting that account. — Since you are receiving only a part in satisfaction of the entire claim, you will make an additional entry in the journal debiting the loss and gain account and crediting Smith & Wellman for the amount necessary to balance Smith & Wellman's account after it has been credited for the cash received. The journal entry should be followed by a detailed explanation of the entire transaction.

July 29. Paid cash to Groves & Rood to cover their invoice of July 19, \$43.20 less 2%.

July 29. Cash sales for the week ending today, \$456.29.

July 29. Paid the salaries for the week ending today in cash as on June 3.

July 31. Paid Carpenter Bros. in cash for their invoice of July 21, \$80.40 less 2%.

July 31. Paid in cash R. P. Smiddy & Co.'s bill for drayage, \$19.65, of which amount \$2.90 was for delivering freight to us, the rest being for deliveries to our customers.

July 31. Cash sales for the day, \$69.27.

Inventories July 31. Real Estate, \$15,135.00; furniture & fixtures, \$811.75; merchandise, \$6757.42; insurance, 10 months' premium unexpired, \$71.87; interest accrued on E. W. Phillips' note in our favor, \$139.80, for 24 days at 6%, \$.56; interest accrued on our note in favor of Walker & Co., \$250.80, 15 days at 6%, \$.63; salaries due and unpaid, \$4.92.

NOTE—The receipts for the C. E. Masters estate were kept separate from the business receipts by being placed in the balance column, so that the general column on the debit side of the cash book shows the total of business receipts. The payments for the estate were entered in the general column on the credit side, however, so that it would be necessary to make allowance for these items in compiling any report of cash disbursements for the business.

THE MERCHANDISE ACCOUNT SUBDIVIDED

The custom of subdividing the merchandise account is becoming more and more general. The extent to which it is practiced varies according to the extent and needs of the business and the wishes of the proprietor.

Let us first assume a very simple case. Mr. Smith, instead of keeping one merchandise account, keeps three, headed respectively, Purchases, Sales and Mdse-General, the purposes of each being indicated by its title. On June 30, 191—, these accounts appeared as follows:

PURCHASES

191—

June	30	Total purchases	26	1250						
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SALES

191—

					June	30	Total sales	32	1497	50
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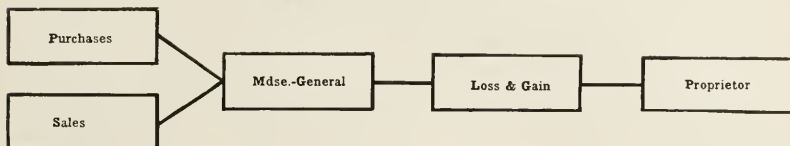
MERCHANDISE GENERAL

191—

June	1	Inventory		11500						
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The inventory of merchandise on June 30 is \$11,560.00. In closing his accounts, Mr. Smith first closes the purchases and sales accounts into the general merchandise account. Then he enters the June 30 inventory in the general merchandise account, after which he closes the latter into the loss and gain account, which in its turn is closed into the proprietor's account, all as shown by the following diagram:

DIAGRAM SHOWING PROCESS OF CLOSING



Problem 1. Open on a loose sheet of ledger paper the five accounts shown above. Write in them the following facts: Inventory July 1, \$15690.50; cash purchases during July, \$967.20; purchases on account during July, \$2367.70; cash sales during July, \$1560.45; sales on account during July, \$2769.38. In the loss and gain account the following losses for July are shown: Loss on real estate, \$250.00; loss on furniture and fixtures, \$78.50; loss on interest, \$21.63; net expenses, \$327.84. The balance of the proprietor's account July 1 was \$17680.00. The inventory on July 31 was \$15683.94. Close the accounts according to the diagram above.

Let us now assume a more extended subdivision of Mdse. Separate accounts are kept for *Goods Returned by Us* and *Goods Returned to Us*. The condition of these accounts and their relation to each other and to the other accounts of the business are shown in the analysis and diagram which follow.

ANALYSIS OF THE MDSE. ACCOUNT

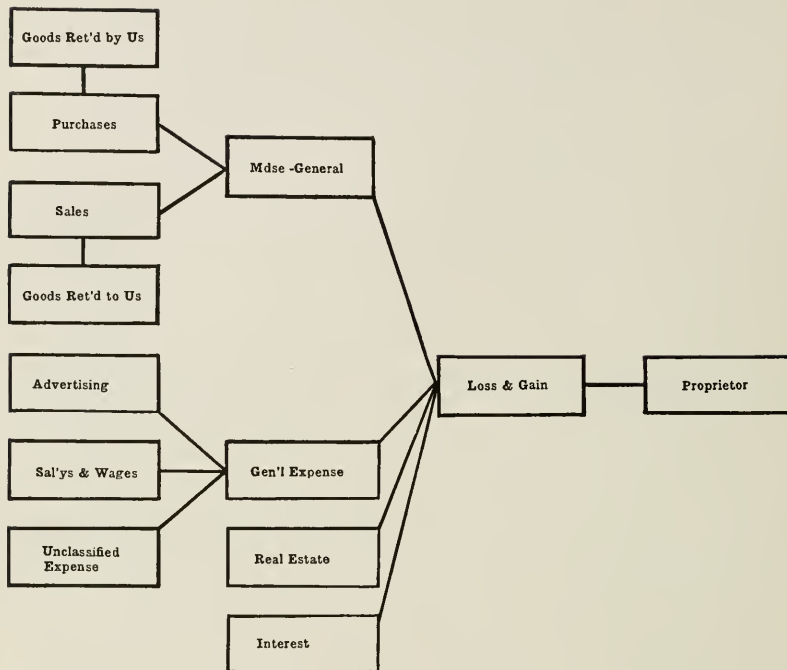
Inventory, Aug. 1, 191—,	\$13,426.75	Sales, August	\$4560.76
Purchases, August,	\$2500.00	Goods Ret'd to us	672.81
Goods Ret'd by us	426.50	Net sales	\$3887.95
Net purchases	2,073.50	Cost of goods sold	2749.50
	\$15,500.25	Gain (41 $\frac{2}{3}$ % of C. G. S.)	\$1138.45
Inventory Aug. 31	12,750.75		
Cost of goods sold	\$ 2,749.50		

ANALYSIS OF LOSSES AND GAINS

Advertising, August	\$ 24.50	Gain on Mdse as per analysis of merchandise account	\$1138.45
Salaries & Wages, Aug.	137.75		
Uclassified Expense, Aug. 99.60			
Total expenses	\$261.85		
Paid for Int.	\$42.60		
Rec'd for Int.	14.52		
Loss on real estate	150.00		
Total losses for August	\$439.93	Total losses for August as per <i>contra</i> *	439.93
		Net gain for August, 191—, (3% on capital of \$23284.00)	\$698.52

**Contra* means "opposite." In this case it means the other side of the analysis sheet.

DIAGRAM SHOWING PROCESS OF CLOSING



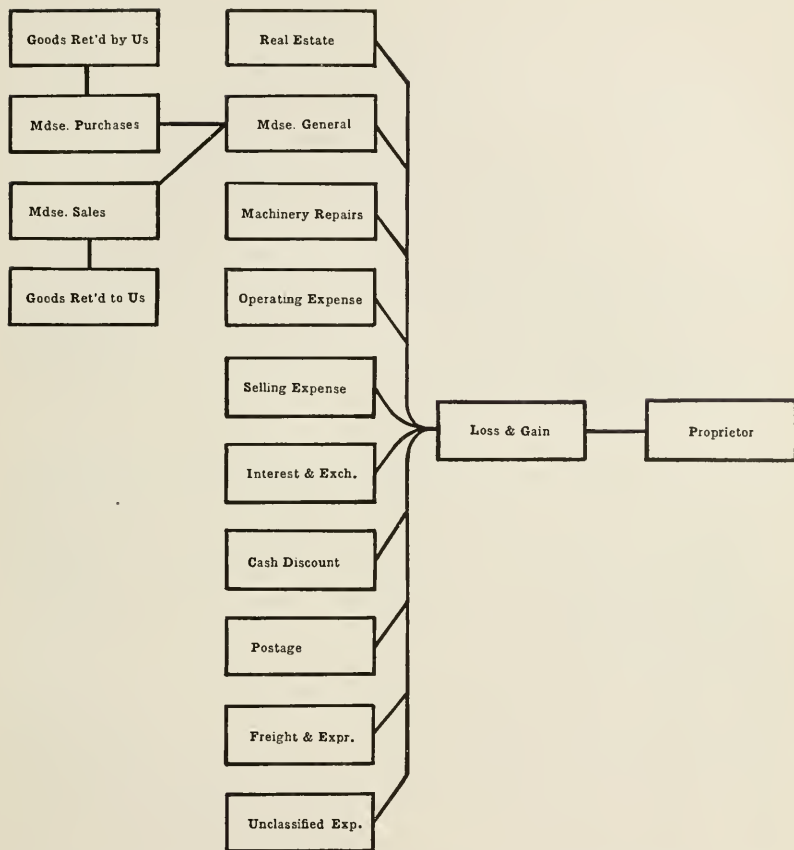
Problem 2. Open the accounts shown in the diagram above. Write in them the following facts. Prepare an Analysis of the Mdse. Account and an Analysis of Losses and Gains. Close the ledger as indicated by the diagram.

Inventory Sept. 1, 191—, \$17642.80; cash purchases during Sept., \$1026.70; purchases on account during Sept., \$2579.86; purchases on note as per journal during Sept., \$1500.00; goods returned by us during Sept., \$624.50; cash sales during Sept., \$1262.35; sales on account during Sept., \$3126.80; sales on note as per journal during Sept., \$1750.00; goods returned to us during Sept., \$1337.34; advertising during Sept., \$37.50; salaries and wages during Sept., \$350.00; other expenses during Sept., \$215.60; received for interest, \$27.68; paid for interest, \$75.00; depreciation in value of real estate, \$225.00. Inventory of Mdse. Sept. 30, 191—, \$18923.65.

Test in Closing—No. III

Accompanying your blank books is *Closing Test No. III*. Take a trial balance. Prepare an analysis of the trading account (Mdse.) and an analysis of losses and gains. Close the financial accounts. Then close the loss and gain accounts in the ledger as indicated by the following diagram. Take a trial balance after closing. Note that the ledger covers a full year, from Jan. 1 to Dec. 31 of the same year.

DIAGRAM SHOWING PROCESS OF CLOSING



Inventories Dec. 31, 191—, are as follows: Mdse., \$14189.38; items on hand charged to Unclassified Expense, \$551.61; accrued salaries and wages (liability), \$499.94; Real Estate & Equipment, \$26651.33.

APPENDIX

TWO-PAGE STATEMENTS

The six pages following are to be studied instead of Lessons XVIII and XIX, if the teacher so instructs.

Two principal facts about his business which a man wishes to be in a position to ascertain are: (1) Its progress; (2) Its condition.

By "progress" is meant the gain or loss, as the case may be, during a certain period, or from one date to another. By "condition" is meant the worth, or net capital of the business at a given time.

Neither progress nor condition can be determined entirely from the ledger, as the

Loss & Gain Statement

<u>Debits</u>				
Merch. Invty. Jan. 1, 191-				000 00
Purchases of Merch. during Jan.				544 75
Total cost of Merch. for Jan				544 75
Less Invty. Jan. 31				314 56
Cost of goods sold				230 19
Gain on trading ^(Red Ink)				222 22
				222 22
Furniture and fixtures	Dr.	???	??	
	Cr.	??		
		???	???	
	Invty. 1/31	350		?? ??
Expense				??
Net gain ^(Red Ink)				222 22
				222 22

inventories must be known before either can be determined, and the ledger does not show inventories. Most of the necessary facts, however, are shown in the ledger.

The Loss and Gain Statement

The progress of the business is shown by a specially prepared statement called the Loss and Gain Statement. The facts from which it is compiled are found in certain accounts of the ledger and the inventories. Before proceeding to analyze this statement or to study its form, solve the six problems on page 57. If you do this work thoughtfully, you will be led unconsciously into an understanding of the principles underlying the Loss and Gain Statement, though its form will still be unfamiliar to you.

Study carefully the illustration given herewith and the explanation accompanying it and prepare a loss and gain statement for F. R. Elliott's business as it stood on Jan. 31. It is assumed that all the accounts in your ledger are correct, and that your trial balance of Jan. 31 has been approved by your teacher. It is also assumed that you can determine which accounts show loss or gain and which do not.

In order to prepare the loss and gain statement, you must know the inventories, which are as follows: Mdse., \$314.56; furniture and fixtures, \$350.00. (Accrued interest on notes receivable, being very little, is not taken into consideration here as an inventory.)

for Month of January, 191-

		<u>Credits</u>		
	<i>Sales of Mdse. during Jan. 191-</i>			?????
				?????
	<i>Gain on trading brought down</i>			?????
	<i>Interest & Discount</i>			
		<i>Cr.</i>	???	
		<i>Dr.</i>	??	???
				?????

In form, your statement will be like the model shown herewith. The amounts will have to be supplied by you from your ledger footings and the inventories given above.

Explanation. To determine the progress of a business it is necessary to know the amounts of the separate losses and gains. The difference between the total of the losses and the total of the gains is the net loss or net gain for the period of time covered by the statement.

The form shown extends across two pages and is divided into two sections. The first section is called the trading section. It presents the facts as to the trading in merchandise that has been done, and its result is the net gain (or loss) on trading. This result is carried down into the second section. The second section exhibits all of the gains and losses of the business, including the gain on trading as brought down.

Sometimes a third section is added in which are shown gains and losses arising from outside business or investments, and a fourth section which shows how the net gain is disposed of. For present purposes, however, the simple form is entirely satisfactory.

Trading Section. The first item on the debit page is the amount of the inventory of merchandise at the beginning of the period covered by the statement (in this case, 0). Add to this the purchases of merchandise during the month as shown by the ledger, debit side, and any other items of cost chargeable to merchandise (in this case, there are no other items). From the total so secured subtract the inventory at the end of the period. The result is the cost of the goods sold. Write on the credit page the amount of the sales for the month as shown by the ledger, credit side. The difference between the total sales and the cost of goods sold is the gain on trading, which is entered in red ink on the debit page and brought down in black ink into the second section of the statement, on the credit page.

Loss and Gain Section. The debit page is for losses; the credit page is for gains. The first item on the credit page is the gain on trading, brought down from the trading section. The second item is the gain on the interest and discount account. This is determined by subtracting the debits from the credits shown by the account, the computation being written in the inner column on the credit page. The two items of gain are then added.

Financial Statement.

<u>Assets</u>		
<i>Cash</i>		??????
<i>Merch. Invty. Jan. 31, 191-</i>		314.56
<i>Furn. & Fix. Invty. Jan. 31, 191-</i>		3.50
<i>Notes Receivable</i>		???
<i>H. E. Runyon</i>		?? ??
<i>L. V. Bradley</i>		?? ??
		??????

The first item on the debit page, second section, is the loss on furniture and fixtures. This is ascertained by subtracting the credit footing of the account from the debit footing and from the result so secured subtracting the inventory at the end of the month. All this is done in the inner column and the result, the net loss on the account, is entered in the principal column. Below this item is written the item of loss on expense. All losses and gains have now been considered and the difference between the two sides as they now stand is the net gain of the business for January.

The Financial Statement

One of the two principal statements that the bookkeeper has to prepare relates to the condition of the business. This statement is called the Financial Statement. The facts from which it is compiled are found in certain ledger accounts and in the inventories. Before proceeding to analyze this statement or to study its form, solve the five problems on page 55. If you do this work thoughtfully you will be led unconsciously into an understanding of the principles underlying the Financial Statement, though its form will still be unfamiliar to you.

Study carefully the illustration given and the explanation accompanying it, and prepare a financial statement for F. R. Elliott's business as it stood on Jan. 31.

In form, your statement will be like the model shown. The amounts will have to be supplied by you from your ledger footings and the inventories which have already been given.

Explanation. To determine the condition of a business, two things must be known: (1) What things of value does the business own (assets)? (2) What does the business owe (liabilities)? The difference between the total of assets and the total of liabilities is the net capital or present worth of the business.

The assets are written on the left-hand page; the liabilities, on the right. It is the usual practice to list cash first among the assets. Determine the balance of cash by deducting the credit footing from the debit footing, and write this item on the first line on the left-

January 31, 191-

<u>Liabilities & Capital</u>			
Notes Payable			???
Dale & Allen			???
Net capital, Jan. 1, 191-	4676.25		
Net gain as per Loss & Gain Stmt.	???	???	
Net capital, Jan. 31, 191-			??????
			??????

hand page. Next list the inventories as given on page 145. Next examine your ledger to determine what other assets and liabilities the accounts show. The first account is F. R. Elliott's account, which is neither an asset nor a liability, but shows the proprietor's investment in the business. The next five accounts are loss or gain accounts and have already been used in the preparation of the loss and gain statement. Next is the cash account, which you have already entered as an asset. Next is the notes receivable account; enter its balance as an asset, as shown. The next two accounts are personal accounts with debit balances; these balances are assets, and should be entered as such. Finally, the notes payable account and Dale & Allen's account have credit balances; these balances are liabilities, and should be entered as such. The net capital is the difference between the total of the assets and the total of the liabilities.

Net capital is also the sum of the invested capital and the net gain for the month, and is so shown on the statement. The fact that the net capital shown by the latter method added to the liability side of the financial statement makes the two sides of the statement equal, constitutes a proof of the accuracy of the two statements.

Read the note at the end of Lesson XVIII.

Take up the regular lessons of the text beginning with Lesson XX, using the two-page forms in preparing all statements.

How to Read a Financial Statement

Financial statements are often submitted to bankers and others from whom it is desired to borrow money or to buy on credit. The relation between borrower and lender is not vastly different from that existing between buyer and seller, although a lender of money, because of the fact that his profit is usually less and his field of opportunity wider, is usually more cautious than the seller of goods, who makes more profit and whose customers are limited to those selling the line of goods he handles.

The banker or credit man should know how to read a statement, and this requires greater knowledge and keener insight than is required for the mere construction of the statement.

How to read a statement is too broad a subject to be treated in full in a beginner's text, but even the beginner should be able to arrive at certain reasonable conclusions from the examination of some of the simpler forms of statement.

Examine the following statements,* both of which are of mercantile concerns, and answer the questions.

*No attempt is made at a complete or in any sense adequate treatment of the subject *How to Read a Financial Statement*, or of credits. The sole purpose of this short exercise is to arouse the student's interest and to provide material for a class discussion in which all students may profit through interchange of ideas in answering questions on matters which are in most instances matters of individual judgment.

The estimation of a man's financial standing and how much credit he is entitled to receive is not an exact science and never can be, because credit is not determined alone from the showing of a set of books. Many things must be taken into consideration in the determination of credit. None the least of these in importance are the integrity and business ability of the person wishing credit. There are many large mercantile credit agencies, among whom are Bradstreet and Dun, which exist solely for the purpose of investigating the credit standing of business concerns, and there are many local concerns engaged in the same work. Every business house has at least one person upon whom it devolves to say whether a customer is entitled to the credit he desires, or not. Often there is a "credit man" who attends to this kind of work exclusively; and in many cases a large force of employees is kept busy in the credit department. The work of determining credits offers to the young man of ability, application, and intelligence a very attractive and remunerative field.

F. H. WILSON'S FINANCIAL STATEMENT,
JUNE 1, 191—

<i>Assets</i>	
Cash	\$10000.00
Real Estate	15000.00
Furn. & Fix.	2000.00
Mdse. Invty.	12000.00
Notes Rec.	2500.00
Interest Rec.	26.75
Accounts Rec.	7500.00
	<u>\$49026.75</u>

<i>Liabilities</i>	
Notes Pay.	\$2200.00
Interest Pay.	10.25
Accounts Pay.	7200.00
	<u>\$ 9410.25</u>
Net capital	\$39616.50

GEO. H. ROCKWOOD'S FINANCIAL
STATEMENT, JUNE 1, 191—

<i>Assets</i>	
Cash	\$750.00
Real Estate	7800.00
Furn. & Fix.	3500.00
Mdse. Invty.	35000.00
Notes Rec.	5000.00
Interest Rec.	567.20
Accounts Rec.	15000.00
	<u>\$67617.20</u>

<i>Liabilities</i>	
First Nat'l Bank Loan	\$5000.00
Notes Pay.	8000.00
Interest Pay.	750.00
Accounts Pay.	9500.00
	<u>\$23250.00</u>
	\$44367.20

NOTES: Real estate and furniture and fixtures are considered slow assets. Cash, notes receivable and accrued interest, and accounts receivable are considered quick assets. Merchandise in some lines of business is classed with quick assets, while in other lines it is classed with the slow assets. For the purpose of the present discussion consider Mdse. a quick asset. If the strength of the statement seems to depend too much upon one item in the statement, that item should be especially investigated. Notes payable and accrued interest, and accounts payable, are considered urgent liabilities. Long time loans and mortgages are not classed with urgent liabilities, and it is important to know when such items mature.

QUESTIONS ON F. H. WILSON'S STATEMENT

1. What per cent of the total assets are quick assets?
2. What per cent of the total assets are covered by capital?
3. What per cent of the total assets are covered by what is in reality borrowed capital though not so called?
4. What is the relation of quick assets to urgent liabilities?
5. What would happen if the creditors should all demand payment at once?
6. Barring loss of his cash, could any series of misfortunes bankrupt F. H. Wilson?
7. Assuming an average rate of 6% on notes, are the notes receivable of long standing? The notes payable? What inference can you draw from the conclusion reached in answer to the foregoing questions?
8. State how much credit you would extend to F. H. Wilson without special security. How much money would you loan him if he would assign all his assets to you as security?

QUESTIONS ON GEO. H. ROCKWOOD'S STATEMENT

- 1 to 5. Same as above.
6. Is there any item from which you might draw an inference as to whether the notes receivable are of long standing or not? The notes payable and loan?
7. Is the proportion of accounts receivable to total assets greater or less than in F. H. Wilson's business? What suspicion does this give rise to? How can you go about it to either verify or set at rest this suspicion?
8. In what one account is a very large proportion of the capital tied up? How should this account be investigated?
9. How much would you sell to Geo. H. Rockwood on credit? How much would you loan him if he would assign all his assets to you as security? Who would you probably wish to consult before making him any loan?

NOTE.—If personal property and homestead property are listed among the assets, the credit man should determine to what extent such property is legally exempt from execution. For this reason, credit rating agencies usually secure the names and addresses of the members of a firm, with information as to whether they are married or single. In case of corporations, the line of investigation is somewhat different.

SINGLE ENTRY

PRELIMINARY CONSIDERATIONS

You have now mastered the elementary principles of double entry bookkeeping. This will make the work of single entry very easy, as there is nothing in single entry that you have not already learned in double entry. Before proceeding with the single entry set, however, work the following problems:

Problem I. W. S. Ashby keeps a double entry ledger. On June 30, 1910, he attempted to take a trial balance but found that one page of the ledger, the page on which was his own account as proprietor, had been so defaced that the balance could not be read. Everything else was legible and correct. Make a copy of the partial trial balance shown below and complete it by inserting W. S. Ashby's balance and the footings:

W. S. ASHBY'S PARTIAL TRIAL BALANCE, JUNE 30, 1910

Cash	1526 72	
Real Estate	5000 00	
Furniture & Fixtures	670 00	
Mdse	4000 00	4250 60
Expense	500 00	
J. S. Dickey	500 00	
J. L. Harmon	363 50	
Cherry Bros.		1076 85
W. S. Ashby		*****
	*****	*****

Problem II. A. C. Minter keeps a single entry ledger. On July 31, 1910, he found that the page of his ledger on which his account as proprietor had been kept had been destroyed. Since a single entry ledger contains no accounts except with persons, the only information that can be secured from Mr. Minter's ledger is that personal accounts receivable and payable stand as follows: C. V. Burton, Dr., \$49.60; Cr., \$10.00. A. D. Taylor, Dr., \$175.60; Cr., \$62.50. H. P. Towers, Dr., \$265.00; Cr., \$125.50. Libby & Son, Dr., \$100.00; Cr., \$243.64. Manning & Martin, Cr., \$215.00

Your problem is to find Mr. Minter's present worth, or the net capital of the business. If there were no other assets or liabilities besides the personal accounts in the ledger, the problem would be simple. But you know that there are usually other assets, and you expect to find them in this case. You therefore question Mr. Minter and he replies, as follows:

You: "How much cash have you on hand?" Mr. Minter (indicating the cash drawer): "About \$480.00." Opening the cash drawer, you find in it \$457.63 in currency and coin, and R. D. Smith's check for \$25.00 payable to Mr. Minter. In taking out the cash to count it, you come across a note signed by T. J. Green in Mr. Minter's favor for \$500.00, and a list of goods on hand totaling \$5647.20. You: "I find here a note for \$500.00 signed by T. J. Green. Do you hold any other notes?" Mr. Minter: "No; but I owe \$1000.00 to the First National Bank on a note. There are no other notes either receivable or payable." You: "Do you owe any interest on the note in favor of the bank or is any interest due you on Mr. Green's note?" Mr. Minter: "Some interest has accrued on each note but the two interest items exactly cancel each other." You: "Is this list of merchandise on hand correct?" Mr. Minter: "Yes, it was taken yesterday." You: "Is there any other property belonging to the business?" Mr. Minter: "The store fixtures are mine, and I value them at \$500.00. There is no other property belonging to the business, and I do not owe a cent except for the accounts shown in the ledger and the note for \$1000.00."

Prepare a financial account, as you always have in previous sets. The only difference is that in this case less information can be secured from the ledger than from a double entry ledger. The net capital shown by the statement should appear in the ledger as the credit balance of the proprietor's account.

INTRODUCTION TO SINGLE ENTRY

Progressive business men prefer double entry because they find it desirable to know certain facts about their business affairs which a single entry system will not reveal. This is especially true when their business interests are large or extensive, in which case a double entry set of books is almost imperative.

While pure single entry is little used among the best houses, many retail concerns employ a combination of single and double entry, and for this reason, if for no other, it is well for the student to understand what the single entry method is. The work of this chapter will be of value to the student in teaching him the principles of single entry, not so much because he may be called upon to keep a set of single entry books, but because he is likely to come in contact with accounting in which some single entry features are incorporated in a double entry system, subordinate to the general double entry scheme.

Single entry bookkeeping is a method of keeping unrelated memorandums and records of business transactions such as the proprietor of a business may deem necessary for his protection and information.

The facts of which memorandums are usually kept in single entry are: (1) The receipts and payments of cash, (2) The charges against and credits to persons, on account. Sometimes the inventories of property owned are kept as a matter of record.

Single entry derives its name from the circumstance that each entry is a record of a single fact, either a debit or a credit, rather than a record of two or more facts affecting both sides of the ledger equally, as in double entry.

Comparison Between Single and Double Entry.

In Single Entry, accounts are kept only with persons, cash and sometimes property inventories, and since accounts with persons and cash, and inventories, must exhibit either assets or liabilities, and not losses or gains, it is apparent that separate losses and gains cannot be shown by the single entry method. This failure to show the separate losses and gains constitutes the chief disadvantage of single entry as a system, and is the principal reason for its inferiority to double entry.

In double entry, equal debits and credits are recorded for every transaction. These are posted to the ledger. As the debits posted are exactly equal to the credits posted, the equality of the two sides of the ledger is constantly preserved. If the trial balance fails to exhibit this equality, the bookkeeper at once knows (provided no original entry is out of balance) that there has been an error or omission in posting. When the single entry method is used, the bookkeeper has no such systematic, almost automatic, device for the detection of errors of this kind (errors in posting), which occur more frequently, probably, than all others combined.

Double entry is a scientific system of bookkeeping by which the chances of error are reduced to the minimum and under which it is possible to so classify and analyze the business transactions that almost any desired facts in regard to the progress or condition of the business can be ascertained. Single entry is an unscientific bookkeeping expedient by which only the barest facts as to the current assets and liabilities of the business are set forth with no further guarantee of their accuracy than the carefulness of the bookkeeper who made and posted the entries.

A SINGLE ENTRY SET

Since the facts which are to be recorded in single entry have to do with persons and cash only, as has been stated, it is only necessary that three books be kept, as follows:

- (a) The Cash Book, in which are kept the receipts and disbursements of cash.
- (b) The Day Book, in which debits and credits to personal accounts are recorded as they occur.
- (c) The Ledger, to which the items in the day book are posted.

Auxiliary books or books of memorandum of almost any kind can be kept if desired; as, the bill book, invoices payable register, etc.

THE CASH BOOK

The single entry cash book usually differs in form from the double entry cash book, though not necessarily so. The accompanying illustration shows the first few cash book entries and also shows the method of ruling for balancing the book. Note that the Debit and Credit columns are side by side on the same page. This arrangement affords a wide column for the explanatory matter and presents the debits and credits in the order in which they occurred. Note the placing of the dates, and do not forget the year dates.*

19—	CASH BOOK		Dr.	Cr.
Oct.	1	Cash invested as per Day Book entry	***	
	1	Paid rent for October, 1910, by check		***
	6	Paid The American Cereal Co. in full of account		***
	6	Paid Students' salary for week ending Oct. 6		***
	6	Received from cash sales as per Cash Reg.	***	
	6	<i>Balance</i>		***
			***	***
Oct.	8	Balance	***	

THE DAY BOOK

This book corresponds to the double entry journal in that it is the book in which the original entries of debits and credits are made which are later posted to the ledger, and in the fact that the entries are made as the transactions occur and in the order of their occurrence. It is also somewhat similar in form and ruling to the double entry journal. But here the resemblance ends. The single entry day book does not record equal debits and credits as does the double entry journal, but each entry records a single debit or a single credit, as the case may be. The separate items, if any, are written in the left-hand column and the total in the right-hand column. In this set the total only is posted, but the separate items could be posted instead, if preferred. The following form shows a few typical day book entries for the single entry set.

Note that opposite the name of each account debited or credited in the day book is placed the abbreviation *Dr.* or *Cr.* This is the means of indicating which side of the ledger the transaction is to be posted to, and *you must not forget to write it* as you make each entry.

*These and other forms shown in this chapter are intended as illustrations merely, and are **not** to be relied upon by the student in writing entries in his books.

Note that the transaction on Oct. 6 appears in both the cash book and the day book. Whenever any money is paid out, an entry is made in the cash book to show the payment of cash; if the payment is on account, another entry is made in the day book to show the debit of the personal account. When money is received on account, an entry crediting the person is made in the day book, and the cash received is recorded in the cash register, the total being periodically entered in the cash book as a receipt, as will be shown later.

DAY BOOK

October 1, 19—

F. P. Nissen, Proprietor	Cr.		
F. P. Nissen is engaged in the retail grocery business at 105 Oak Park Ave., Oak Park, Ill. His assets at this time are as follows:			
Cash in bank		***	**
Cash in cash register		**	**
Stock of groceries on hand valued at		*****	
Horse and wagon valued at		***	**
Furniture and fixtures valued at		***	**
Accounts receivable as follows.			
Mrs. Wm. Conant, 110 S. East Ave.		**	**
Mrs. Chas. P. French, 157 S. East Ave.		**	**
— 1 —			****
Mrs. Wm. Conant, 110 S. East Ave.	Dr.		
To groceries as per order slip No. 1			**
— 2 —			
Mrs. Chas. P. French, 157 S. East Ave.,	Cr.		
By cash on account			**
— 4 —			
H. J. Heinz Co., 1814 S. Clark St., Chicago	Cr.		
3 doz. Med. Baked Beans and Sauce	1.40	**	
1 doz. 10-oz. Royal Select Queen olives		**	
2 doz. 8-oz. Octagon Ketchup	1.35	**	**
— 6 —			
The American Cereal Co., 9 Jackson Boul., Chicago	Dr.		
To cash in full of account			**

THE LEDGER

The single entry ledger differs from the double entry ledger in form only, though it does not necessarily differ even in that respect, because a center-ruled ledger could be used as well for single entry as for double entry. Following is an illustration of the form used in this set.

MRS. WM. CONANT

110 S. East Ave.

		Dr.	Cr.
Oct.	1	Balance due	
	1	To groceries as per order slip No. 1	
	5	To groceries as per order slip No. 7	
	6	By cash as per Day Book	
		—	—
	8	To groceries as per order slip No. 15	
	12	To groceries as per order slip No. 22	

Order Slips

Your outfit contains a pad of blank order slips. These ordinarily come in duplicate and are filled out by the salesman, who sends one copy with the goods and one copy to the cashier's desk. Sometimes order slips come in triplicate, the third copy being put to some special use in connection with either the accounting of delivery system.

In order that you may get a comprehensive idea of the procedure in the retail grocery business, you are to perform a part of the duties of the salesman in addition to your work as bookkeeper and cashier. As salesman you are to fill out the order slips. As cashier, you have charge of the cash register. As bookkeeper you make the proper entries in the books for all transactions.

The duties of cashier and bookkeeper are so intimately connected that they are usually performed by the same person; and it is not unusual, especially in the smaller stores, for the bookkeeper and cashier to act as salesman as well, especially at times when there is no other salesman in the store, or when an order comes by telephone.

The pad of order slips which accompanies your outfit consists of single slips. It will be assumed that, as salesman, you have filled them out in duplicate and send both copies

to the cashier, who after stamping on the duplicate the date and number of the sale, the amount and kind of the sale, and the initial of the salesman (all done automatically by the cash register in one operation), has sent it with the goods. The original, which is the slip you fill out, is filed. When you fill out an order, write at the bottom the expression "Charged," "Paid," or "C. O. D.," as the case may be.

Filled orders are either taken away by the customer or sent to the delivery clerk to be delivered, but you will have nothing to do with this part of the work. The duplicate order slip accompanies the goods whether the goods are taken by the customer or sent to the delivery clerk.

The order slip must always contain the name and address of the customer, if it is a charge slip, whether the goods are taken by the customer or delivered. C. O. D. goods are always delivered; therefore the name and address must always be written on a C. O. D. slip. In the case of paid orders, the name and address of the customer must always be shown if the goods are to be delivered.

F. P. NISSEN				
105 OAK PARK AVENUE				
GROCERIES AND MEATS				
Oak Park, Ill.,		10/1	19...	
Sold to <i>Mrs. William Conant</i>				
Salesman <i>A</i>		Address <i>110 S. East Ave.</i>		
Quan.	ARTICLES	Price	Amount	
1	<i>Leg Spring Lamb 5 lb.</i>	20	1	00
2	<i>cans French Peas</i>	15		30
2	<i>heads Lettuce</i>	12		24
1	<i>bot. Olive Oil</i>			30
1	<i>lb. Butter</i>			58
			2	22
<i>Charge</i>				
1				

ORDER SLIP

Cash Slips

If the customer pays for the goods and takes them with him, an order slip is not made out. A cash slip is filled out. This does not contain the name and address of the customer, but is a mere list of the items sold, with the total, if more than one item is sold.

At the top of the slip are printed the words "Pay the Cashier"—a direction to the customer. The cash slips are numbered consecutively and each is attached to a stub which bears the same number, on which the amount of the sale must be noted at the time the slip itself is made out.

No. 1		\$ <u>.64</u>	
Perforated line			
F. P. NISSEN, Groceries and Meats			
Pay the Cashier			
Salesman <i>A</i>		OAK PARK, ILL., 10/1 19__	
Quan.	ARTICLE	Price	Amount
2	Bread	05	10
1	lb. Bacon		28
1	doz. Eggs		26
			64
1			

CASH SLIP

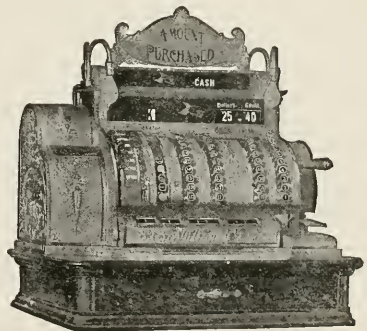
Customers' Receipts

When a customer makes a payment on account, a customers' receipt is issued for the amount recorded in the cash register as received. These are ordinarily issued in duplicate; one copy is given to the customer after being placed in the machine and stamped; the other copy is retained and filed.

The pad of customers' receipts which accompanies your outfit consists of single slips. These are to be filed by the cashier, it being assumed in each case that a duplicate has been made, stamped, and given to the customer.

The Cash Register

In connection with the retail grocery business which is illustrated in the following single entry set, it is assumed that the student as cashier uses a cash register, now considered to be an almost indispensable adjunct of an extensive retail business. The cash register is an automatically-locking device for holding money, which can be unlocked and opened only by pressing buttons or keys in front. There are five rows of these buttons consisting of nine buttons each. When the cashier presses the proper buttons, the money-drawer opens and at the same time the interior mechanism of the cash register automatically records upon a narrow roll of paper, called the "detail strip," the amount of the sale or payment together with the initial of the salesman and the kind of sale or payment. *Cash Sales, Cash Received on Account, C. O. D. Sales, C. O. D. Cash Returns, C. O. D. Goods Returned, Goods Returned on Account, Charge Sales and Cash Sales*, are all recorded on the detail strip in the order of their occurrence, and each kind indicated by a special abbreviation or sign. The machine constantly shows the number and the totals of each of the different kinds of transactions recorded. The cash register has one button marked "No sale" which can be



CASH REGISTER

pressed when the cashier wishes to open the register without recording a receipt or sale, as when it might be desired to accommodate some one by changing a bill.

Whenever any sale or payment is recorded, the cashier inserts in the machine the duplicate of the order slip or other voucher used, and the machine automatically stamps upon it the record of the transaction. Some machines issue little cardboard tickets properly stamped, instead of printing the record directly upon the voucher. These stamped records, whether they be printed upon the vouchers or upon separate tickets, constitute a check upon the accuracy and honesty of the cashier and show the customer that the proper records of transactions are being made.

Cash Register Sheets

As it is not practicable for each student to have a cash register, there are provided for each outfit several sheets of paper (Cash Register Sheets) ruled with columns to represent the different kinds of transactions for which the cash register shows separate totals. Instead of actually pushing the buttons of a cash register and thus making the records on the detail strip, you will make pen and ink records in the columns of the specially ruled sheets provided.

CASH REGISTER SHEET

	Cash Sales	Cash Rec'd on Acct.	C. O. D. Sales	C. O. D. Cash Returns	C. O. D. Goods Return'd	Goods Return'd on Acct.	Charge Sales	Cash Paid Out
Change in register Oct. 1, 19—	** **	** **	* **	** **			** **	** **
	**	** **					** **	** **
	**	** **					** **	** **
	** **	** **					** **	** **
	**						** **	** **
	** **						** **	** **
	**						** **	** **
	**						** **	** **
	** **						** **	** **
	** **						** **	** **
	** **						** **	** **
	** **	** **	** **	** **	0.00	0.00	** **	** **

File

Accompanying your outfit you will find a file containing three sections. This file is for your convenience in disposing of papers that you make out. In the first section C. O. D. sales slips are placed temporarily while the orders are being delivered. In the second section are placed the cash slips, the paid order slips (which are in effect the same as cash slips), the C. O. D. paid slips, and the customers' receipts. In the third section are placed the charge sale slips and also the goods returned slips. It is assumed that whenever any slip of any kind is issued one copy goes in our files and one copy goes to the customer. Note that the papers in the *Cash Sales and Cash Receipts* section of the file will exactly check with the total cash receipts as shown by the Cash Register Sheet.

YOUR DUTIES SUMMARIZED

- (1) Fill out the order slips, cash slips, and customer's receipts as these are required
- (2) Make pen and ink records on the Cash Register Sheets of amounts which would ordinarily be recorded in the cash register.
- (3) Make the bookkeeping entries.

Following is a list of the different kinds of transactions and the procedure in each case, except as to the filing, directions for which will be given in connection with specific transactions.

- (a) Cash sale, taken. Fill out a cash slip and record the amount received on the Cash Register Sheet.
- (b) Cash Sale, delivered. Fill out an order slip and record the amount received on the Cash Register Sheet.
- (c) Cash received on account. Fill out a customers' receipt, make a record on the Cash Register Sheet, and make an entry in the day book.
- (d) C. O. D. Sale. Fill out an order slip and make a record on the Cash Register Sheet.
- (e) C. O. D. Cash Returns. Make a record on the Cash Register Sheet.
- (f) C. O. D. Goods Returned. Make a record on the Cash Register Sheet.
- (g) Charge Sale. Fill out an order slip, make a record of the transaction on the Cash Register Sheet, and make an entry in the day book.
- (h) Goods Returned on Account. Make an entry on the Cash Register Sheet, and give the customer credit in the day book.
- (i) Cash Paid Out. Make a record on the Cash Register Sheet and an entry in the cash book. If the payment be on account, an entry in the day book is also necessary.
- (j) Purchases on account are entered in the day book as they occur.

At the end of the day, or whenever it seems desirable, the *Cash Sales* column, the *Cash Received on Account* column, and the *C. O. D. Cash Returns* column of the Cash Register Sheet are footed and added together and the grand total is entered in the cash book as a receipt, as shall be explained in greater detail hereafter.

In entering sales on account in the day book it is not necessary to itemize them, as we have itemized records on the order slips which are filed; nor is it necessary to itemize goods purchased, as these items would show on the invoices which would also be filed. Entries of purchases should show the date, the name and address of the person bought from, the terms of purchase and the amount.

In working the following transactions, remember that there are only two things we must keep account of in Single Entry: (1) Receipts and disbursements of cash, (2) Debits and credits affecting personal accounts. Also remember that no entry records anything but a single debit or a single credit.

Before beginning the work of the set, see to it that the charge slips are numbered consecutively from 1 to 30, that the cash slips and their corresponding stubs are numbered from 1 to 20, and that the customers' receipts are numbered from 1 to 10.

TRANSACTIONS

October 1, 19—. F. P. Nissen is engaged in the retail grocery business at 105 Oak Park Ave., Oak Park, Ill. His assets at this time are as follows:

Cash in bank*	\$500.00
Cash in cash register	67.60
Stock of groceries on hand valued at	5432.69
Horse and wagon valued at	275.00
Furniture and fixtures valued at	450.00
Customers owe him as follows:	
Mrs. Wm. Conant, 110 S. East Ave.	\$13.56
Mrs. Chas. P. French, 157 S. East Ave.	23.47
Mrs. Edwin C. Hedrick, Jr., 124 N. Kenilworth Ave.	5.89
Mrs. Louis N. Mellick, 364 S. Euclid Ave.	27.56
Mrs. Ward. N. Seabury, 175 Forest Ave.	16.27
Mrs. N. N. Richards, 154 Circle Ave., Forest Park	4.23
Mrs. Wm. Beye, 264 Wisconsin Ave.	12.50
Mrs. Phillip Furbeck, 1110 South Boulevard	6.78

His liabilities are as follows:

National Biscuit Co., 110 N. Morgan St., Chicago	\$27.60
The American Cereal Co., 9 Jackson Boul., Chicago	8.95
H. J. Heinz Company, 1814 S. Clark St., Chicago	23.42
Armour & Co., 239 S. Water St., Chicago	17.75
Washburn-Crosby Co., 145 Van Buren St., Chicago	124.68

Steps necessary to open the single entry books

1. Enter in the cash book the amount of cash on hand.
2. Open accounts in the ledger with the proprietor, all customers, and all creditors, in the order named, allowing one-third of a page for each account. Enter in the customers' and creditors' accounts the balances shown by the opening statement.

3. Make a day book entry crediting the proprietor with the total of the assets of the business, listing the items at the bottom of the entry. Make another entry debiting the proprietor with the total of the liabilities of the business, listing the items below. Post both of these entries to the proprietor's account on page 1 of the ledger.

After opening the books as above, enter the amount of change on hand (\$67 60) on one of the Cash Register Sheets, at the top of the left-hand column, with the explanation "Change on hand Oct. 1, 19—." Give the sheet the number 1. You are now ready for business.

OCTOBER 1, 19—

Transaction No. 1. Paid rent for October by check, \$100.00.

Enter this in the cash book only. As the payment was by check, the transaction is not recorded on the Cash Register Sheet.

Transaction No. 2. Sold for cash 2 loaves bread, at 5¢; 1 lb. bacon, 28¢; 1 doz. eggs, 26¢.

Make out a cash slip. Record the amount received on the Cash Register Sheet, in the left-hand column. File the cash slip in the section of the file marked *Cash Sales and Cash Receipts*.

*The student is not required to keep a bank pass book, but whenever necessary he will be told what the bank balance is.

Transaction No. 3. Sold to Mrs. Wm. Conant, 110 S. East Ave., on account, 1 leg of spring lamb, 5 lbs. at 20¢; 2 cans French peas, at 15¢; 2 heads lettuce, at 12¢; 1 bottle olive oil, 30¢; 1 lb butter, 38¢.

Make out an order slip, writing the word *Charge* or the abbreviation *Chg.* at the bottom of the slip. Then record the amount of the sale in the *Charge Sales* column of the Cash Register Sheet, and make the day book entry charging Mrs. Wm. Conant. When this has been done file the order slip in the section of the file marked *Charge Sales*.

Transaction No. 4. Sold for cash 1 can lobster, 25¢.

Proceed exactly as described in the note of explanation under Transaction No. 2.

Transaction No. 5. Sold to Mrs. Chas. P. French, 157 S East Ave., on account, 2 boxes soda crackers, at 10¢; 1 can French peas, 15¢; 1 box Coleman's mustard, 15¢; 2 heads cabbage, at 10¢; 1 sack salt, 10¢; 1 can salmon, 15¢; 3 loaves bread, at 5¢, 1 lb. imported Swiss cheese, 40¢.

Proceed exactly as described in the note of explanation under Transaction No. 3

OCTOBER 2

Transaction No. 6. Sold to Jas H. Greenman, 231 Woodward Terrace, for cash, to be delivered, 2½ lbs. halibut steak, at 18¢; ½ doz. Florida oranges, at 50¢; 2 cans Telephone peas, at 12½¢; 2 cans Cupid fancy tomatoes, at 12½¢; 1 8-lb. box prunes, 85¢.

Make out an order slip, writing the word *Paid* at the bottom. Record the amount of the sale in the left-hand column of the Cash Register Sheet. Place the order slip in the section of the file marked *Cash Sales and Cash Receipts*.

Transaction No. 7. Sold for cash 1 jar Southwell's imported marmalade, 23¢; 1 lb. creamery butter, 36¢; 2 boxes soda crackers, at 10¢.

Follow the instructions given in the note under Transaction No. 2, and in future always follow this procedure when a sale for cash is made which is not to be delivered.

Transaction No. 8. Sold on account to Mrs. Edwin C. Hedrick, Jr., 124 N. Kenilworth Ave., 3 lbs. Star ham, sliced, at 28¢; 1 box Coleman's mustard, 15¢; 3 loaves bread, at 5¢; 1 lb. creamery butter, 36¢; ½ lb. imported Swiss cheese, at 40¢; 2 pkgs. Uneda biseuit, at 5¢; 2 cans Heinz baked beans and tomato sauce, at 15¢.

Follow the instructions given under Transaction No. 3, and in future always follow this procedure when a sale on account is made.

Transaction No. 9. Sold to Mrs. Paul Peters, 740 Chicago Ave., for cash, to be delivered, 2 pkgs. Saratoga flakes, at 15¢; 2 pkgs. Quaker oats, at 10¢; 3 cans Monarch canned corn, at 15¢; 3 cans Monarch canned peas, at 15¢; 1 broom, 40¢; 1 bottle bluing, 10¢; 3 bars Naphtha soap, at 5¢.

Follow the instructions given in the note under Transaction No. 6, and in future always follow this procedure when a sale is made for cash to be delivered.

Transaction No. 10. Received of Mrs. Chas. P. French \$10.00 on account.

Fill out a customer's receipt. Enter the amount received on the Cash Register Sheet, in the column headed *Cash Received on Account*. Make a day book entry crediting the customer. Place the customer's receipt in the section of the file marked *Cash Sales and Cash Receipts*.

These slips are usually kept on a spindle until the cashier can find time to enter them, and the same thing is done with charge orders, receipts for or memorandums of cash paid out, etc., but the student will make all day book entries and cash credit entries as the transactions occur.

OCTOBER 3

Transaction No. 11. Sold to Mrs. C. V. Clark, 789 Lake St., C. O. D., the following groceries: 25 lbs. W. C. Superlative flour, at 5¢; 2 pecks apples, at 60¢, 3 lbs. Star bacon, sliced, at 28¢.

Fill out an order slip, writing C. O. D. at the bottom of it. Enter the amount of the sale on the Cash Register Sheet, in the column headed *C. O. D. Sales*, and place the order slip temporarily in the section of the file marked *C. O. D. Sales*.

Transaction No. 12. Sold for cash 2 pecks Irish potatoes, at 20¢; two cans Monarch canned corn, at 15¢; two cans Monarch canned peas, at 15¢.

Transaction No. 13. The delivery boy returns with \$3.29, as returns on the C. O. D. sale to Mrs. C. V. Clark.

If this is the correct amount, enter it on the Cash Register Sheet in the column headed *C. O. D. Cash Returns*. Take the C. O. D. slip from the section of the file marked *C. O. D. Sales*, write on it the word *Paid*, and place it in the section marked *Cash Sales and Cash Receipts*.

OCTOBER 4

Transaction No. 14. Bought of H. J. Heinz Company, 1814 S. Clark St., Chicago, Ill., on 30 days' time, the following bill of groceries:

3 doz. Med. Baked Beans and Sauce, at	\$1.40	\$4.20	
1 doz. 10-oz. Royal Select Queen Olives, for		2.75	
2 doz. 8-oz. Octagon Ketchup, at	1.35	2.70	\$9.65

Make an entry in the day book, crediting H. J. Heinz Company. This entry should contain the explanation "Terms, 30 days." No further instruction will be given as to the procedure in handling an entry of this kind.

Transaction No. 15. Sold for cash 2 cans Heinz medium baked beans and tomato sauce, at 15¢; 1 bottle Royal select queen olives, 25¢; 2 cans Monarch canned corn, at 15¢.

Transaction No. 16. Sold to Mrs. Wm. Conant, 110 S. East Ave., on account, 1 doz. eggs, 36¢; 1 leg of spring lamb, 4½ lbs. at 20¢; 2 cans French peas, at 15¢, 1 peck Irish potatoes, 20¢.

OCTOBER 6

Transaction No. 17. Sold to W. J. Frazer, 767 W. Madison St., for cash, to be delivered, 1 can lobster, 25¢; 1 bottle Queen Olives, 25¢; 2 loaves Quaker bread, at 5¢.

Transaction No. 18. Received \$5.00 from Mrs. Edwin C. Hedrick, Jr., on account.

Follow the instructions in the note under Transaction No. 10.

Transaction No. 19. Paid The American Cereal Co., 9 Jackson Boul., Chicago, \$8.95, the amount of their account against us, from the Cash Register.

Record this in the *Cash Paid Out* column of the Cash Register Sheet. Make a cash book entry at this time, and make an entry in the day book debiting The American Cereal Co.

Transaction No. 20. Sold for cash 6 cans Heinz baked beans and tomato sauce, at 15¢; 2 bottles Heinz tomato catsup, at 15¢; 5½ lbs. Star ham, sliced, at 28¢; 6 lbs. Star ham, butts, at 12¢; 6 lbs. Star bacon, sliced, at 28¢.

Transaction No. 21. Sold to Mrs. Ward N. Seabury, 175 Forest Ave., on account, 3½ lbs. shoulder lamb chops, at 14¢; 3 cans French peas, at 15¢; 3 heads lettuce, at 12¢; 50 lbs. W. C. Superlative flour, at 5¢.

Transaction No. 22. Sold to Mrs. Louis N. Mellick, 364 Euclid Ave., on account, one spring chicken, 4 $\frac{3}{4}$ lbs. at 20¢; 2 lbs. creamery butter, at 36¢; 2 loaves bread, at 5¢; 3 cans salmon, at 15¢; 1 broom, 40¢; 1 bottle bluing, 10¢; 3 bars Naphtha soap, at 5¢.

Transaction No. 23. Received of Mrs. Wm. Conant, 110 S. East Ave., cash in full of account, \$17.54.

Transaction No. 24. Sold to Jas. W. Wilson, 317 Clinton Ave., for cash, to be delivered, 4 grape fruit, at 20¢; 3 $\frac{1}{2}$ lbs. Malaga grapes, at 20¢; 3 pkgs. Cottage cheese, at 15¢; 6 cans assorted soups, at 30¢; 1 lb. Young Hyson tea, 80¢; 2 qts. Baltimore oysters, at 35¢; 6 pkgs. Saratoga flakes, at 15¢.

Transaction No. 25. Sold for cash 3 lbs. Finnan haddie, at 15¢; 2 lbs. creamery butter, at 36¢; 3 loaves rye bread at 10¢; 1 sack salt, 10¢; 3 heads cabbage at 10¢; 1 box Coleman's mustard, 15¢.

Transaction No. 26. Received from Mrs. Edwin C. Hedrick, Jr., 124 N. Kenilworth Ave., cash to balance her account, \$2.99.

Transaction No. 27. Paid the salary of the bookkeeper and cashier (yourself) for the week, \$12.50, from the Cash Register.

Record the payment on the Cash Register Sheet, in the column headed *Cash Paid Out*. Make the proper entry and explanation in the cash book.

Post to the ledger all day book entries that have not yet been posted; rule and foot all accounts that are paid in full. Close the Cash Register Sheet as illustrated and described below.

ILLUSTRATION OF CLOSING OF CASH REGISTER SHEET

Footings	*** **	*** **	* **	* **	0.00	0.00	*** **	*** **
Deduct change	*** **				* **		0.00	
Spot cash sales	*** **				* **		*** **	Net Chg. Sales
C. O. D. cash returns	* **						*** **	Cash Sales
Cash Rec'd. on Acct.	*** **						*** **	C. O. D. Sales
Total cash Rec'd.	*** **	Entered	in cash	book,	page —		*** **	Total Sales
Cash Pd. out	*** **							
Excess of receipts	*** **							
Change on hand	*** **							
Cash in register	*** **							
Deposit Oct. 6, 19—	*** **							
Change in register Oct. 8, 19—	*** **							

Rule a single line across the eight columns of the Cash Register Sheet, underneath the last item in the longest column, and add all columns. Then proceed as follows: (1) Deduct the amount of the change on hand Oct. 1 from the total of the first column. The result will be the total of cash sales. (2) Reconcile the three C. O. D. columns (i.e., determine whether the *C. O. D. Cash Returns* and the *C. O. D. Goods Returned* added equal the *C. O. D. Sales*). Rule these columns as shown in the model form and write the amount of the *C. O. D. Cash Returns* in the left-hand column of the Cash Register Sheet, beneath the total of spot cash sales. (3) Write in the left-hand column the amount of the cash received on account and rule a double line across the *Cash Received on Account* column. (4) Add the three totals now shown in the left-hand column. The result is the total of cash received. (5) Write beneath this the total of the cash paid out, and deduct it. The result is the excess of receipts over disbursements for the week. (6) Add the amount

of the change on hand, \$67.60, which will give you the total of cash in the cash register. (7) Deposit \$50.00, keeping \$**.** for change. Deduct the amount of the deposit, rule, and carry forward the amount of change on hand, all as shown in the model. (8) The only columns not yet ruled up are the *Charge Sales* and *Goods Returned on Account* columns. Deduct the total of the latter column from the total of the former. The result is the net charge sales. Add the total of cash sales and the total of C. O. D. paid sales to the net charge sales, to show the total of all kinds of sales for the week. (9) The total of cash received during the week must be entered in the cash book and a notation to the effect that this has been done should be made on the Cash Register Sheet, as shown. The cash payments, it will be observed, have already been entered in the cash book, these entries having been made separately as the transactions occurred.

In business, this closing of the cash register is usually done daily. The report on business done, as shown on your Cash Register Sheet between the two lines extending entirely across the form, is usually prepared on a special daily report blank, and summaries of these daily reports are prepared weekly or monthly.

When your Cash Register Sheet has been approved by your teacher, write the amount of change on hand at the top of another Cash Register Sheet, giving it the number 2, and enter the transactions for the week beginning Oct. 8.

OCTOBER 8

Transaction No. 28. Sold for cash 5 packages Saratoga Flakes, at 15¢; 3 packages Quaker oats, at 10¢; 4 cans Heinz baked beans and tomato sauce, at 15¢; 2 bottles Queen olives, at 25¢; 5 loaves bread, at 5¢.

Transaction No. 29. Bought for cash, from the Heissler & Junge Co., 301 W. 39th St., Chicago, 100 loaves Quaker bread, at 4¢, paying the money from the cash register.

Transaction No. 30. Sold on account to Mrs. Wm. Beye, 264 Wisconsin Ave., 2 bottles Heinz tomato catsup, at 15¢; 1 whole Star ham, 15 lbs. at 26¢; 3 lbs. Star bacon, sliced, at 28¢; 4 cans Monarch canned corn, at 15¢; 3 loaves bread, at 5¢; 3 bars Ivory soap, at 5¢.

Transaction No. 31. Paid \$3.00 from the cash register for one year's subscription to the Grocers' Guide and Holly Journal, the subscription to begin with the November issue.

Transaction No. 32. Sold on account to Mrs. Ward N. Seabury, 175 Forest Ave., 3 cans Monarch canned peas, at 15¢; 2 pks. Northern Spy apples, at 60¢; 4 pks. Irish potatoes, at 20¢ a peck; 25 lbs. W. C. Superlative flour, at 5¢; 1 bottle bluing, 10¢; 2 lbs. Oswego starch, at 5¢; 2 doz clothespins, 5¢.

Transaction No. 33. Bought on account of Reid, Murdock & Co., cor. Lake and Market Sts., Chicago, the following invoice (the explanations in parenthesis do not appear on the face of the bill):

	Doz.	Price	30 Days	60 Days	Total
5 cs. (cases) Monarch #2 corn (in tins, 2 dz. ea.)	10	\$1.20		\$12.00	
2 " " #2 E. J. (early June) peas (in tins, 2 dz. ea.)	4	1.75		7.00	
2 " " #1 Tall salmon (in tins, 4 dz. ea.)	8	2.10	\$16.80		
5 " " #3 Tomatoes (in tins, 2 dz. ea.)	10	1.35		13.50	
			\$16.80	\$32.50	\$49.30

Transaction No. 34. Bought of The American Cereal Co., Chicago, Ill., on account 30 days,

4 cases Quaker oats, at 3.00	\$12.00	
1 brl. Oatmeal	5.50	\$17.50

Transaction No. 35. Sold for cash 1 leg of spring lamb, 4½ lbs. at 20¢; 2 cans tall salmon, at 27½¢; 3 cans E J Peas, at 20¢; 2 heads lettuce, at 12¢; 3 loaves bread, at 5¢; 2 boxes B & C matches, at 5¢.

Transaction No. 36. Sold to Mrs. Louis N. Mellick, 364 Euclid Ave., on account, 2 cans lobster, at 25¢; 3 boxes soda crackers, at 10¢; 1 bottle olive oil, 30¢; 2 lbs. creamery butter, at 36¢; 1 loaf bread, 5¢; 1 sack salt, 10¢.

Transaction No. 37. Received of Mrs. Chas. P. French, 157 S. East Ave., cash in full of account.

Find the balance due as shown by the ledger. Note the date of the last purchase, and look through the day book, from that date on, to find whether there are any debits and credits to be posted to her account.

Transaction No. 38. Sold on account to Mrs. Wm. Conant, 110 S. East Ave., 2 lbs. creamery butter, at 36¢; 2 doz. eggs, at 36¢; 1 spring chicken, 5½ lbs. at 20¢; 6 grape fruit, at 20¢; 2½ lbs. Malaga grapes, at 20¢; 3 lbs. cottage cheese, at 15¢; 2 bottles Queen olives, at 25¢; 3 loaves bread, at 5¢.

OCTOBER 10

Transaction No. 39. Sold for cash, 5½ lbs. shoulder of lamb, at 12¢; 2 lbs. creamery butter, at 36¢; 3 cans E. J. peas, at 20¢; 1 sack salt, 10¢; 25 lbs. W. C. Superlative flour, at 5¢; 1 lb. India Ceylon tea, 60¢.

Transaction No. 40. Sold C. O. D. to Mrs. C. V. Clark, 789 Lake St., 4 lbs. smelts, at 14¢; 1 bottle Queen olives, 25¢; 1 lb. butter, 30¢; 3 loaves rye bread, at 5¢.

Transaction No. 41. Mrs. Louis N. Mellick, 364 Euclid Ave., returned 2 cans of lobster purchased Oct. 8, claiming both cans were spoiled.

Enter this amount in the *Goods Returned on Account* column of the Cash Register Sheet. Give Mrs. Mellick credit in the day book. Make out a credit memorandum as follows: "Oct. 10, 1910. Credit Memorandum. Mrs Louis N. Mellick, 364 Euclid Ave. We credit your account 50¢ for 2 cans lobster returned. F. P. Nissen by ———." Assuming that you have given Mrs. Mellick one copy of this, place the credit memo in the file with the *Charge Sales*.

Note: Many retail grocers keep the customers' charge tickets filed alphabetically under the customers' names. This makes reference easy in case of dispute. Some firms keep no ledger, but rely entirely upon the slips. This is not a very reliable plan, however, unless the balances are carried forward from one slip to the next, as in the system known as the McCaskey continuous account system. When this system is followed any payment made is deducted from the balance shown by the last order slip, so that the last slip made out always shows the balance due. The slips are filed alphabetically under the customers' names.

One system that is sometimes used by grocers who have a comparatively small number of customers is as follows: One charge order book with numbered pages is kept for each customer who has an account. When a charge order is to be made out, the clerk secures the customer's individual book and writes the order in it direct, or else he hands the cashier a memorandum of the filled order and the cashier writes in the customer's book. One copy of the charge slip goes with the goods, while the other copy stays in the book. The balance is carried forward from slip to slip, as in the system described in the last paragraph.

Transaction No. 42. Sold on account to Mrs. Chas. P. French, 157 S East Ave., 1 doz. eggs, 30¢; 2 lbs. Clover Leaf creamery butter, at 36¢; 1½ lbs. Wisconsin cream cheese, at 26¢; 2 cans Queen Maud sardines, at 25¢; 1 doz. oranges, 25¢; 8 qts. new Bermuda potatoes, at 9¢.

Transaction No. 43. Purchased on 30 days' credit from Armour & Co., 239 S. Water St., Chicago,

12 Star Hams, 180 lbs. at 15¢	\$27.00	
16 pcs. Star Bacon, 120 lbs. at 22¢	26.40	\$53.40
	<hr/>	

Transaction No. 44. Sold to Mrs. Phillip Furbeck, 1110 S. Boulevard, C. O. D., one Star ham, 15 lbs. at 25¢.

Transaction No. 45. Sold for cash 3 lbs. chopped beef, at 16¢; 1 doz. eggs, 30¢; 2 lbs. creamery butter, at 36¢; 25 lbs. W. C. Superlative flour, at 5¢.

Transaction No. 46. Sold on account to Mrs. N. N. Richards, 154 Circle Ave., Forest Park, 6½ lbs. Star ham butts, at 8¢; 1 can Monarch canned corn, 15¢; 3 loaves bread, at 5¢; ½ lb. butter, at 30¢; 2 lbs. sausage meat, at 20¢; 3 bars Naphtha soap, at 5¢.

Transaction No. 47. Mrs. N. N. Richards, 154 Circle Ave., Forest Park, paid \$1.00 on account.

Transaction No. 48. Sold for cash 3 lbs. smoked halibut, at 25¢; 2 lbs. imported Swiss cheese, at 40¢; 1 lb. creamery butter, 36¢; 3 loaves bread, at 5¢.

Transaction No. 49. The delivery boy returned with the correct amount of cash in payment of the C. O. D. order sold to Mrs. C. V. Clark, 789 Lake St.

(See the note under Transaction No. 13.)

Transaction No. 50. The delivery boy reported that no one was at home when he called at the residence of Mrs. Phillip Furbeck to deliver the C. O. D. order. He therefore brought the goods back.

Enter the amount of the order on the Cash Register Sheet in the column headed *C. O. D. Goods Returned*. In business the delivery boy would bring back the duplicate order slip with the goods. This would be marked "Goods Returned" and filed. You may make a memorandum of the goods returned (virtually a copy of the order slip) mark it "Goods Returned," and place it in the section of the file marked *C. O. D. Goods Returned*.

OCTOBER 12

Transaction No. 51. Sold to J. N. Ward, 679 Chicago Ave., for cash, to be delivered, 3 grape fruit, at 20¢; 1 doz. oranges, 40¢; 1 doz. eggs, 30¢; 2 lbs. creamery butter, at 36¢; 2½ lbs. Star bacon, sliced, at 28¢; 3 pkgs. Uneda biscuit, at 5¢; 2 loaves bread, at 5¢.

Transaction No. 52. Sold to Mrs. C. V. Clark, 789 Lake St., C. O. D., 2 cans Pride of Chicago tall salmon, at 18¢; 3 loaves bread, at 5¢; 1 8-lb. box prunes, 85¢; 1 lb. India Ceylon tea, 60¢.

Transaction No. 53. Sold for cash 2 pks. Northern Spy apples, at 60¢; 3 pks. Irish potatoes, at 20¢; 25 lbs. W. C. Superlative flour, at 5¢.

Transaction No. 54. Sold to Mrs. Wm. Conant, 110 S. East Ave., on account, 1 leg of spring lamb, 4½ lbs. at 20¢; 4 lbs. Star bacon, sliced, at 28¢; 3 heads lettuce, at 12¢; 3 cans E J. peas, at 20¢.

OCTOBER 13

Transaction No. 55. Sold for cash 1 lb. India Ceylon tea, 60¢; 10 lbs. sugar, at 5¢; 3 pkgs Nabisco, at 10¢; 3 pkgs. Uneda biscuit, at 5¢.

Transaction No. 56. Sold to Mrs. Chas. P. French, 157 S. East Ave., to be charged, 3 grape fruit, at 20¢; 20 lbs. sugar, at 5¢; 2½ lbs. Malaga grapes, at 20¢; 4 pkgs. Nabisco, at 10¢.

Transaction No. 57. Mrs. Ward N. Seabury, 175 Forest Ave., paid her account in full.

Read the note under Transaction No. 37 for directions for determining the amount of the balance due.

Transaction No. 58. Sold to Mrs. Edwin C. Hedrick, Jr., 124 N. Kenilworth, on account, to be delivered, 3½ lbs. smoked halibut, at 16¢, 1 whole Star ham, 15 lbs. at 27½¢; 1 bottle Heinz tomato catsup, 15¢; 1 bottle Queen olives, 25¢; 10 lbs. granulated sugar, at 5¢; 1 lb. butter, 30¢; 3 loaves bread, at 5¢.

Transaction No. 59. Bought of Reid, Murdock & Co., on thirty days' credit:

3 half-chests Young Hyson tea, 194#	at 35¢	\$67.90	
2 cases Monarch coffee, 2# cans, 96 lbs.	at 27¢	25.92	
2 cases " #2 E. J. peas, 4 doz.	at \$1.75	7.00	
3 cases " #10 peaches, 6 doz. cans	at \$2.50	15.00	\$115.82

Transaction No. 60. Sold for cash 3½ lbs. porterhouse steak, at 22¢; 2 lbs. creamery butter, at 36¢; 20 lbs. sugar, at 5¢; 3 loaves bread, at 5¢.

Transaction No. 61. Took from the cash register enough money to pay the National Biscuit Company's account in full.

This payment is recorded on the Cash Register Sheet and entries are made in the cash book and in the day book, as explained in connection with previous similar transactions.

Transaction No. 62. Sold on account to Mrs. Ward N. Seabury, 175 Forest Ave., 4½ lbs. rib lamb chops, at 22¢; 1 bottle mint sauce, 25¢; 2 cans E. J. peas, at 20¢; 3 loaves bread, at 5¢; 10 lbs. granulated sugar, at 5¢; 25 lbs. W. C. Superlative flour, at 5¢.

Transaction No. 63. Bought of H. J. Heinz Company, on account:

4 doz. cans apple butter, at \$1.50	\$6.00	
3 " " peach " at 1.50	4.50	
6 " small crocks strawberry preserves, at \$1.35	8.10	\$18.60

Transaction No. 64. Sold for cash 3 qts. Baltimore oysters, at 35¢; 4 lbs. oyster crackers, at 9¢; 2 bottles Heinz tomato catsup, at 15¢; 10 lbs. granulated sugar, at 5¢; 25 lbs. W. C. Superlative flour, at 5¢.

Transaction No. 65. Sold on account to Mrs. Phillip Furbeck, 1110 S. Boulevard, 1 doz. eggs, 30¢; 2 lbs. creamery butter, at 36¢; 1½ lbs. imported Swiss cheese, at 40¢; 2 loaves rye bread, at 5¢; 3½ lbs. Star bacon, sliced, at 28¢.

Transaction No. 66. Mrs. Ward N. Seabury, 175 Forest Ave., returned 1 bottle mint sauce purchased today.

See Transaction No. 41 for instructions.

Transaction No. 67. Paid the scrub-woman \$1.50 for her work today.

Transaction No. 68. Paid the bookkeeper's salary, \$12.50.

Post the entries in the day book, rule up any ledger accounts that balance, foot and close the Cash Register Sheet, and enter on the cash book the amount of cash received, as you did on Oct 6. Deposit \$50.00. Close the cash book.

Single Entry Statement

As has been previously explained, it is impossible to show the separate losses and gains in single entry. A loss and gain statement can not be made out. A financial statement can be made. The single entry statement sets forth the assets and liabilities of the business. The assets are listed and added. Beneath these the liabilities are listed and added. The difference between the total assets and the total liabilities is the net capital or present worth of the business. If the net capital at some previous time be known, the gain or loss of the business since that time can be determined by comparing the net capital today with what it was at that time.

Mr. Nissen asks you to prepare a single entry statement as of October 15. He tells you that the cash in the bank is \$500.00. You know how much money there is in the cash register. Mr. Nissen values his stock of groceries on hand at \$5817.36, his horse and wagon at \$270.00, and the furniture and fixtures in the store at \$450.00. The balances of all accounts receivable and payable can be determined from the ledger. Prepare a statement in the following form:

F. P. NISSEN'S SINGLE ENTRY STATEMENT, OCTOBER 15, 19—

<i>Assets</i>		
Cash in bank		\$500.00
Cash in cash register		** **
Stock of groceries on hand valued at		5817.36
Horse and wagon valued at		270.00
Furniture and fixtures valued at		450.00
Mrs. Wm. Conant, 110 S. East Ave.		** **
Mrs. Chas. P. French, 157 S. East Ave.		** **
Total Assets		\$****. **
<i>Liabilities</i>		
National Biscuit Co., 110 N. Morgan St., Chicago		\$** **
The American Cereal Co., 9 Jackson Blvd., Chicago		** **
Total Liabilities		***. **
Net capital or present worth		\$****. **
Assets October 1	\$****. **	
Liabilities October 1	***. **	
Net Capital October 1		****. **
Net gain		\$** **

In order that the proprietor's account in the ledger shall show what he is worth at all times it will be necessary to credit him with the amount of the net gain as shown by the foregoing statement. Therefore you will make a day book entry crediting the proprietor for the amount of his net gain. Post this immediately to the account of the proprietor in the ledger and close the account with a balance as of October 15.

Changing from Single Entry to Double Entry

The process is very simple. Open a double entry journal and let your first entry be a journal entry crediting the proprietor for his total assets and debiting each one of the items listed in the statement as assets. This will necessitate opening accounts with *Merchandise, Horse and Wagon and Furniture and Fixtures*. Make another journal entry debiting the proprietor for the total of his liabilities and crediting the accounts of the different creditor firms. Next open a double entry ledger and post the two journal entries. It will be observed that your double entry ledger balances will correspond in detail with the single entry ledger balances except that in the double entry ledger there will be added accounts with *Merchandise, Horse and Wagon and Furniture and Fixtures*. Take loose sheets of journal and ledger paper. Make the journal entries necessary to change F. P. Nissen's books from single to double entry on Oct. 15. Post. Take a trial balance.

In order to see even more clearly how single and double entry compare, rewrite F. P. Nissen's business in double entry form, proceeding as follows: (1) Journalize all entries appearing in the single entry day book except the last. It will not be necessary to perform the computations again, and explanatory matter may be omitted. (2) Journalize all entries appearing in the single entry cash book except the first, third, and eighth entries, which you have already journalized, as they appear in both day book and cash book. (3) Post all journal entries to regular double entry ledger sheets (center ruled). (4) Take a trial balance. (5) Make statements, using the inventories of Oct. 15 as given at the end of the single entry set. (6) Close the double entry ledger. (7) Now compare the double entry statement with the single entry statement. The single entry ledger should agree with the double entry ledger as far as it goes. Accounts of what class do not appear in the single entry ledger? Name them in detail.

VARIABLE PRICE LISTS

Students may all use the same price lists, or different price lists may be assigned to each student. Fifty different sets of results can be secured. List No. 1 is given in the text. List No. 2 consists of buying price list A and selling price list A. List No. 3 consists of buying price list A and selling price list B, and so on, all as shown by the following table:

LIST	BUYING PRICE	SELLING PRICE	LIST	BUYING PRICE	SELLING PRICE	LIST	BUYING PRICE	SELLING PRICE	LIST	BUYING PRICE	SELLING PRICE
No. 2	A	A	No. 15	B	G	No. 27	D	E	No. 39	F	C
No. 3	A	B	No. 16	C	A	No. 28	D	F	No. 40	F	D
No. 4	A	C	No. 17	C	B	No. 29	D	G	No. 41	F	E
No. 5	A	D	No. 18	C	C	No. 30	E	A	No. 42	F	F
No. 6	A	E	No. 19	C	D	No. 31	E	B	No. 43	F	G
No. 7	A	F	No. 20	C	E	No. 32	E	C	No. 44	G	A
No. 8	A	G	No. 21	C	F	No. 33	E	D	No. 45	G	B
No. 9	B	A	No. 22	C	G	No. 34	E	E	No. 46	G	C
No. 10	B	B	No. 23	D	A	No. 35	E	F	No. 47	G	D
No. 11	B	C	No. 24	D	B	No. 36	E	G	No. 48	G	E
No. 12	B	D	No. 25	D	C	No. 37	F	A	No. 49	G	F
No. 13	B	E	No. 26	D	D	No. 38	F	B	No. 50	G	G
No. 14	B	F									

SET TWO

ARTICLE	BUYING PRICE LISTS							SELLING PRICE LISTS						
	A	B	C	D	E	F	G	A	B	C	D	E	F	G
Orange Pekoe Ceylon tea, lb.	.51	.52	.53	.54	.55	.56	.57	.81	.82	.83	.84	.85	.86	.87
India curry powder, bot.	.11	.12	.13	.10	.11	.12	.13	.17	.16	.15	.18	.17	.16	.15
Penang cloves, lb.	.37	.38	.39	.40	.37	.38	.39	.62	.61	.60	.59	.58	.57	.56
Young Hyson tea, lb.	.62	.63	.64	.65	.64	.63	.62	1.05	1.10	1.15	1.20	1.05	1.06	1.07
Arabian Mocha coffee, lb.	.17	.18	.19	.20	.19	.18	.17	.28	.29	.30	.28	.29	.30	.29
Cinnamon, lb.	.41	.42	.40	.39	.38	.37	.36	.67	.66	.65	.64	.63	.62	.61
Arm and Hammer soda, pkg.	.05	.06	.05	.06	.05	.06	.05	.07	.08	.07	.08	.07	.08	.07
Finest Santos coffee, lb.	.14	.16	.15	.14	.13	.16	.15	.18	.19	.20	.18	.19	.18	.20
Royal Dutch mustard, can	.06	.07	.08	.06	.07	.08	.07	.12	.13	.14	.15	.14	.13	.12
Van Houten's cocoa, tin	.50	.51	.52	.53	.54	.55	.54	.74	.76	.79	.75	.78	.80	.77

SET THREE

No. 527 Flanders arm chair	4.00	4.05	4.10	4.15	4.20	4.25	4.15	6.00	6.05	6.10	6.15	6.20	6.25	6.30
No. 102E refrigerator	...	...	...	...	...	...	...	16.	17.	18.	16.	16.	17.	18.
No. 1625 library tables, mhgy	17.	18.	16.	17.	18.	19.	16.	24.	25.	26.	27.	24.	25.	26.
No. 2787 Cir. wal. d room set	105.	106.	107.	108.	109.	110.	111.	160.	161.	162.	163.	164.	165.	166.
No. 600 leather settees	15.	16.	17.	18.	19.	20.	17.	22.	23.	24.	25.	24.	27.	26.
No. 336 writing tables, mhgy	10.	11.	12.	9.	10.	11.	12.	17.	18.	19.	20.	16.	15.	17.

SET FOUR

Youths' pat. leather bluchers	1.75	1.70	1.75	1.80	1.85	1.75	1.70	2.45	2.50	2.55	2.60	2.65	2.70	2.75
Boys' kid bluchers	.85	.86	.87	.88	.89	.91	.92	1.40	1.45	1.50	1.45	1.40	1.45	1.45
Boys' gum overshoes	.90	.92	.94	.96	.98	.97	.99	1.45	1.30	1.40	1.45	1.50	1.45	1.40
Men's oil grain No-Seam bals.	1.00	1.05	1.10	1.08	1.06	1.04	1.02	1.55	1.56	1.57	1.58	1.59	1.60	1.55
Men's gun metal bluchers	2.05	2.10	2.15	2.10	2.05	2.00	2.10	2.75	2.80	2.85	2.90	2.85	2.80	2.90
Wos. Maxine button shoes	2.06	2.07	2.08	2.09	2.10	2.11	2.12	3.05	3.10	3.15	3.20	3.25	3.30	3.35
Ladies' Dongola C S bals.	.94	.95	.96	.97	.98	.99	1.00	1.61	1.62	1.63	1.64	1.65	1.66	1.67
Men's Kang. grain Ripless	1.10	1.15	1.20	1.10	1.15	1.20	1.15	1.90	1.88	1.87	1.86	1.85	1.80	1.75
Men's Am. rubbers Quaker	.55	.50	.45	.50	.55	.60	.55	.95	.90	1.00	.95	1.00	.95	.90
Boys' Para rubbers	.35	.36	.37	.38	.39	.40	.41	.60	.65	.70	.75	.60	.65	.70
Men's King George oxfords	2.50	2.55	2.60	2.65	2.50	2.55	2.60	3.20	3.15	3.05	3.00	3.10	3.15	3.20
Men's Boston Bluchers	1.00	1.05	1.10	1.15	1.05	1.10	1.05	1.50	1.40	1.60	1.45	1.50	1.55	1.60

INDEX

	PAGE		PAGE
Acceptance.....	112	Journal, defined.....	44
Accounts.....	5-15	Journal, models.....	17, 29, 37
Accounts, deferred.....	42	Journalizing.....	16-44
Accounts with persons.....	33-35	Ledger, defined.....	42
Analyzing an account.....	123	Ledger, loose leaf.....	122
Appendix.....	144-167	Ledger, special ruled.....	122
Auxiliary books, defined.....	42	Loss and gain account.....	67
Balance of balances.....	68	Loss and gain statement.....	57-59, 110
Bank account.....	81	Loss and gain statement, sectional form... 144-145	
Bank draft.....	113	Merchandise account.....	9-13
Bond account.....	131	Merchandise account subdivided.....	140-143
Bookkeeping, defined.....	41	Model set.....	47-69
Books of original entry, defined.....	42	Money, defined.....	41
Canceling entries.....	109	Notes payable account.....	25-26
Cash account.....	5-8	Notes, promissory.....	5-6
Cash book, debit side.....	93-94	Notes receivable account.....	22-24, 111
Cash book, credit side.....	95-98	Notes payable book.....	116-117
Cash book, complete form.....	100-101	Notes receivable book.....	116-117
Cash book, six column.....	127-129	Original entry, books of, defined.....	42
Changing from single to double entry.....	166	Partnership.....	102
Cash discount account.....	131	Personal accounts.....	33-35
Cash discount, how posted.....	132	Posting.....	47-48
Check, form of.....	75	Preface.....	3
Checking the trial balance.....	52	Preliminary problems.....	4
Classification of accounts.....	61-69	Problems of bookkeeping, the.....	73, 59-62
Closing one account into another.....	62-64	Proof.....	62
Closing the ledger.....	65-69	Promissory notes.....	5-6
Closing the ledger through journal entries.....	125	Proprietor's account.....	35
Closing out the business.....	121	Purchases account.....	140
Collection, draft for.....	113	Purchase book.....	129
Debit and credit, equality of.....	45-46	Real estate account.....	18
Debiting and crediting, rule for.....	14	Returned goods, how treated.....	135
Debiting and crediting, general rule for.....	44	Returned goods accounts.....	142-143
Definitions and principles.....	41-44	Review and rules for journalizing.....	41-44
Discount, three kinds.....	122	Sales account.....	140
Double entry bookkeeping, defined.....	44	Sales book.....	90-92
Drafts.....	111-115	Set four.....	127-140
Endorsement.....	22	Set three.....	103-121
Estate, accounts of an.....	131	Set two.....	74-85
Expense account.....	36-37	Single entry set.....	150-166
Explanations in the ledger.....	99	Statements.....	55-73
Financial statement.....	55-57	Statements, monthly.....	89
Financial statement, balanced form.....	146-147	Statements, two page forms.....	144-148
Financial statement, how to read.....	148	Stock record.....	104
Forwarding an account.....	77-78	Subordinate expense accounts.....	63-142
Forwarding the cash book footings.....	119	Test in closing, No. 1.....	89
Forwarding the sales book total.....	108	Test in closing, No. 2.....	121
Income account.....	131	Test in closing, No. 3.....	142
In-Freight account.....	103	Trial balance.....	49, 52
Insurance account.....	131	Value, defined.....	41
Interest account.....	30-32	Variable price lists.....	167
Interest and discount.....	85		
Inventory.....	11, 79		
Invoices.....	40		

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