Accountancy

and

Business Management

A General Reference Work on

BOOKKEEPING, ACCOUNTING, AUDITING, COMMERCIAL LAW, BUSINESS ORGANIZATION, FACTORY ORGANIZATION, BUSINESS MANAGEMENT, BANKING, ADVERTISING, SELLING, OFFICE AND FACTORY RECORDS, COST KEEPING, SYSTEMATIZING, ETC.

Prepared by a Corps of

AUDITORS, ACCOUNTANTS, ATTORNEYS, AND SPECIALISTS IN BUSINESS METHODS AND MANAGEMENT

Illustrated with over Fifteen Hundred Engravings

SEVEN VOLUMES

CHICAGO
AMERICAN TECHNICAL SOCIETY
1921

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Grateful acknowledgment is made also of the valuable service rendered by the many manufacturers and specialists in office and factory methods, whose coöperation has made it possible to include in these volumes suitable illustrations of the latest equipment for office use; as well as those financial, mercantile, and manufacturing concerns who have supplied illustrations of offices, factories, shops, and buildings, typical of the commercial and industrial life of America.

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Foreword

WITH the unprecedented increase in our commercial activities has come a demand for better business methods. Methods which were adequate for the business of a less active commercial era have given way to more elaborate systems and countless labor-saving ideas in keeping with the financial and industrial progress of the world.

¶ Out of this progress has risen a new literature—the literature of business. But with the rapid advancement in the science of business its literature can scarcely be said to have kept pace, at least, not to the same extent as in other sciences and professions. Much excellent material dealing with special phases of business activity has been prepared, but this is so scattered that the student desiring to acquire a comprehensive business library has found himself confronted by serious difficulties. He has been obliged, to a great extent, to make his selections blindly, resulting in many duplications of material without securing needed information on important phases of the subject, except at the sacrifice of much time and patience.

¶ In the belief that a demand exists for a library which shall embrace the best practice in all branches of business—from buying to selling, from simple bookkeeping to the administration of the financial affairs of a great corporation—these volumes have been prepared. Prepared primarily for home study, the authors have striven for simplicity and directness of style and have used a large number of practical problems to further illuminate the text. In addition to the purely accounting and management phases, the newly developed subject of Income Tax has received adequate treatment.

¶ Editors and writers have been selected because of their familiarity with, and experience in handling various subjects pertaining to Commerce, Accountancy, and Business Administration. Writers with practical business experience have received preference over those with theoretical training; practicability has been considered of greater importance than literary excellence.

¶ These volumes are offered with the confident expectation that they will prove of great value to the trained man who desires to become conversant with phases of business practice with which he is unfamiliar, and to those holding advanced clerical and managerial positions.

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THEORY OF ACCOUNTS

PART I

1. Objects of Bookkeeping. Bookkeeping is the art of recording the transactions of a business in a manner that makes it possible to determine the accuracy of the records.

The objects of bookkeeping are:

(*a*) To exhibit a record of the separate transactions of a business.

(*b*) To furnish statistical information in respect to any particular class of transactions.

(*c*) To exhibit the financial standing or condition of a business.

(*d*) To provide means whereby the manager of a business may determine with a reasonable degree of certainty what procedure promises best for the future.

When properly assembled the bookkeeping records become *accounts* (for definition, see Dictionary of Commercial Terms).

If correct methods are used, the bookkeeping records will be assembled or grouped in a manner to show their exact nature and their bearing on the status of the business, or the standing of the account.

2. Debit. The term *debit* designates those items in an account representing values with which we have parted, or transferred to another person or account. Debits are always placed on the left side (or in the left-hand column) of an account. Debits to persons are of the following classes: (*a*) The transfer of merchandise; (*b*) The rendering of services; (*c*) The use of something of value.

Examples.

(*a*) We sell to John Doe two tons of coal at $7.50 per ton. We *debit* his account with the amount.

(*b*) We render services to Thos. Ryan for which he is to pay us a stated fee. We *debit* his account with the amount of the fee.

(*c*) We are to pay rent for the use of our offices. Our landlord *debits* us with the amount.

3. Credit. The term *credit* designates those items in an account representing value which we have received or which has been transferred to us. Credits are always placed on the right side (or in the right-hand column) of an account. Credits to persons are: (*a*) The receipt of merchandise or money; (*b*) The rendering of services; and (*c*) The use of something of value.

Examples. (*a*) John Doe pays us $10.00 on account. We *credit* his account with the amount.

(*b*) Our attorney makes a charge for legal services. We *credit* his account with the amount.

(*c*) We rent or lease property to another; and when payment is made, we *credit* his account.

4. Determining Debit and Credit Items. The determination of when a debit or a credit entry is required in any case is best learned from studying standard entries. There is no reliable simple rule that will not prove more a snare than a help. In general, an account is to be debited for the value of whatever is invested or turned into it and to be credited for the value of whatever it yields or is taken from it.

5. Balance. When the two sides of an account differ in amount, it is said to show a balance. If the debit side of the account is the larger, the difference is a *debit balance.* If the credit side is the larger, the difference is a *credit balance.*

METHODS OF BOOKKEEPING

6. There are but two methods or systems of bookkeeping, and they are known as *single entry* and *double entry.* No matter in what form bookkeeping records are kept, the method must be either single or double entry.

7. Single Entry. Single entry is best adapted for use in small establishments where the proprietor can personally oversee and control the business in detail and where a meager education disqualifies him for handling the more complex double entry.

Single entry keeps account only *with persons* and makes only one entry, a debit or a credit, for each transaction with any person.

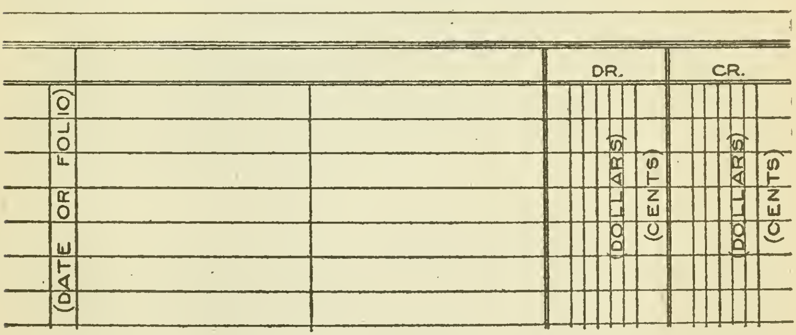
8. Double Entry. Double entry keeps account both with persons and with ventures. If we sell a given quantity of a commodity, we part with it, and the sale takes from or decreases the value of that particular commodity in our possession. If we sell for cash, the transaction adds to our cash possessions; while if the value of the commodity is debited or charged to the account of a customer, it adds to the amount we are to receive from that customer.

9. Principle of Double Entry. Double entry is a system of debits and credits. One writer expresses it as a system of opposing contra things.

The fundamental principle of double entry is that there must be a corresponding credit for every debit.

Example—When we sell John Doe two tons of coal, we debit his account; but we have decreased the value of our stock of coal, and to complete the double entry, we credit coal account (or *Merchandise*, as the account representing our stock in trade is sometimes known). When he pays us money, we credit his account, and debit cash.

10. Advantages of Double Entry. The principal advantages of double entry bookkeeping are that the system permits of making an accurate exhibit of the standing of the business; it exhibits the profits and losses; it shows the sources of profits and the causes of losses; it permits of proof of the accuracy of the records.



11. *Account books* are ruled with special forms which adapt them to bookkeeping records. The forms of ruling are many and varied to suit the requirements of different classes of business. Rulings for double entry bookkeeping do not differ materially from those used in single entry. For double entry, at least two amount columns must be provided—one for debits, and one for credits.

The most common form of ruling is known as *journal ruling.* A book with this ruling is also known as a *journal ledger.*

The words in parentheses explain the purpose of the different columns. The abbreviations *Dr.* (debit) and *Cr.* (credit) are sometimes written at the head of the amount column; but most bookkeepers omit them, as the position of the columns indicates their purpose. If it is desired, in any case, to keep record of the transactions pertaining to my account in chronological order, this may be accomplished by use of what is known as the journal form of ledger, as illustrated in the following examples.

For the standard form of ledger see bottom of page 8.

John Doe

Nov	*1*	*To Coal*	*2 tons @ 7.50*	*15 00*	
		(Example (a)	*article 2)*		
	15	*By Cash*			*10 00*
		(Example (a)	*article 3)*		
			(Single Entry)		

John Doe

Nov	*1*	*To Coal*	*2 tons @ 7.50*	*15 00*	
	15	*By Cash*			*10 00*
		(Example	*article 9)*		

Coal a/c

Nov	*1*	*By Sales*	*John Doe*		*15 00*
		(Example	*article 9)*		

Cash a/c

Nov	*15*	*To John Doe*	*Paid on account*	*10 00*	
		(Example	*article 9)*		

EXAMPLES FOR PRACTICE

1. On journal ruled paper, which can be procured at any stationer's, write up the account of John Doe as per example given in Articles 2 and 3.

2. Write up the account of John Doe, showing also the accounts necessary to complete the double entry, as per example in Article 11.

3. Write up the accounts covering the following transactions, by the single entry method:

Nov. 16. Sold to James Stevenson 4 cords of wood, at $4.75 per cord. Sold to Andrew White $2\frac{1}{2}$ tons of coal, at $6.00 a ton.

Nov. 17. Sold to Wm. Johnson 1 ton of coal, at $7.00 a ton.

Nov. 19. Received from James Stevenson $12.00 cash, to apply on account.

Nov. 20. Received from Wm. Johnson $7.00 in payment of account.

4. Write up the same accounts by the double entry method, using a merchandise account to represent all classes of merchandise sold.

CLASSES OF ACCOUNT BOOKS

12. Account books are of two classes: (*a*) those in which complete records of transactions, or complete accounts, are kept; (*b*) those which contain particulars of individual transactions which must afterward be transferred to books of the (*a*) class.

Books of the (*a*) class are known as *principal books* or *books of record*; that is, they contain the final or permanent record of an account.

Books of the (*b*) class are of two kinds: (*ba*) books of *original entry*; (*bb*) *auxiliary* books.

Any book which contains the first (or original) record of a transaction is a book of original entry (*ba*).

ORDER BOOK

DATE	QUANTITY	ARTICLES	PRICE	AMOUNT

Any book in which records contained in books of original entry (*ba*) are assembled, to be transferred later to principal books (*a*), is an auxiliary book.

Any book used for the purpose of assembling statistical information is an auxiliary book.

The books most commonly used in double entry bookkeeping are: *Order Book, Day Book, Cash Book, Journal, Sales Book, Purchase Book, Ledger.*

13. Order Book. An Order Book is a book of original entry in which is entered a record of each order or request for the shipment or delivery of merchandise. The record shows the name and address of the customer, the kinds and quantities of goods wanted, and the prices at which they are to be sold.

The ruling of the order book varies according to the nature of the business. A simple form of ruling is shown.

14. Day Book. A Day Book is a book of original entry in which are entered full particulars of each completed transaction. These records are afterwards assembled in auxiliary books, from which they are transferred to the principal books.

DAY BOOK

		(EXPLANATION)	(AMOUNT)

The use of the day book was formerly universal, but it has been discarded by modern bookkeepers as its use involves unnecessary labor. The records formerly kept in the day book are now made directly in certain books then known as auxiliary, which makes of them books of original entry. The ruling of the day book is shown

15. Cash Book. A Cash Book is a book of original entry containing records of all transactions which involve either the receipt or payment of cash. The records in the cash book are in fact a complete account with cash. We debit cash for all money received, and credit cash with all money paid out; therefore, the difference between the total footings of the debit and credit sides of the cash book shows the amount of cash which we should have on hand. Since we cannot pay out more than we receive, the debit side should be the larger, unless both sides are equal, which shows that we have paid out all the cash received.

The amounts entered on the debit side of the cash book are transferred (or *posted*) to the credit side of the account of the one from whom the cash is received.

The amounts entered on the credit side of the cash book are posted to the debit side of the account of the one to whom the cash is paid.

CASH RECEIVED

(DATE)	(FOLIO)	(FROM WHOM)	(EXPLANATION)	(ITEMS)	(TOTALS)

CASH PAID OUT

(DATE)	(FOLIO)	(TO WHOM)	(EXPLANATION)	(ITEMS)	(TOTALS)

There are many special forms of ruling for cash books, with separate columns for entering certain classes of receipts and payments of a special nature. The ruling of the cash book should be made to meet the requirements of the business in which it is to be used. A simple form of ruling is shown.

It will be noted that the left-hand page is used for the debit side, while the right-hand page is used for credits. This is the only account kept with cash. (See page 19.)

16. Journal. A Journal is a book in which separate transactions are entered in a manner to preserve the balance necessary in double entry—that is, showing the proper debit and credit for each transaction. The journal is used for making adjusting entries, and it was formerly the custom to copy into this book from the day book the particulars of every transaction. Records are now made in the journal directly, which makes it a book of original entry.

The records in the journal are transferred or posted to the debit and credit sides of the accounts which they represent.

The journal is frequently combined with the cash book, and is then called a *cash journal*. An ordinary form of journal ruling is shown with opening and other entries on page 18.

17. Sales Book. A Sales Book is an auxiliary book in which is kept a record of all goods sold, showing name of purchaser, quantity and kind of articles, prices, and amounts.

A sales book is a journal of sales. The amounts of individual sales are posted (transferred) to the debit side of the accounts of the purchasers. The footings of the sales book are carried forward until the end of the month, when the total amount is posted as one item to the credit side of the *merchandise* account, completing the double entry.

The merchandise account has been universally used in the past, all purchases being debited and all sales credited to this account. Certain other accounts (which will be explained later) are now recommended by leading accountants, to take the place of the merchandise account.

Sales books are usually ruled to meet the special needs of each business, separate columns being provided for a record of special classes of sales, or sales of special kinds of goods. (See page 30.)

18. Purchase Book. A Purchase or Invoice Book is the opposite of the sales book, being used for a record of all purchases made. Like the sales book, the totals are carried forward to the end of the

NAME OF ACCOUNT

DR.				CR.			
(DATE)	(ITEMS)	(FOLIO)	(AMOUNT)	(DATE)	(ITEMS)	(FOLIO)	(AMOUNT)

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month, and posted as one item to the debit side of the *merchandise* account. The amounts of the separate transactions are posted daily to the credit of the persons from whom the goods are purchased.

The purchase book is a purchase journal, and the ruling is the same as that of other journals. (See page 31.)

19. Ledger. The Ledger is the principal book, in which particulars of every transaction of every nature are summarized. It is, in fact, a transcript of all other books of the business except those used solely for statistical purposes.

The ledger is the book which contains the final or complete records of all dealings, either with an individual or with respect to a specific class of transactions—as expenditures for a certain purpose, or receipts of a given character, or sales of a given kind of goods.

A transcript of the ledger accounts exhibits the progress and standing of the business.

Like other books, ledgers are now made with special forms of ruling, depending on the purpose for which they are to be used. The old style or common form of ledger ruling is shown (p. 8).

20. Invoice or Bill. An Invoice or Bill is an itemized statement or record of goods sold by one person to another. The invoice or bill is used in every line of business. The conventional form of invoice is so well known that it needs no discussion.

RECORDING TRANSACTIONS

21. The records of transactions in the journal which show what accounts are debited and what accounts are credited are called *journal entries*. The act of making these entries is known as *journalizing*.

It was formerly the custom to journalize each individual transaction from the day book, but in modern bookkeeping the journal is used only for adjusting and special entries.

22. Posting. When the record of a transaction is transferred to the ledger from a book of Class (*b*), it is said to be *posted*. The act of making the transfer is called *posting*.

The original method was to itemize all transactions in the ledger, but the present custom is to post the totals only.

23. When a record is transferred from one book of Class (*b*) to another, or posted to the ledger, the page number of the book to or from which it is transferred or posted is entered in the column known as the *folio column*. This is done that the transaction may be traced from one book to another. The presence of the page number also serves as a check to show that the item has been posted.

Example—An item is to be posted from page 1 of the sales book to page 10 of the ledger. In the folio column of the ledger will be entered "S 1" indicating that the item will be found on page 1 of the sales book. In the folio column of the sales book will be entered "10" indicating that the item has been posted to page 10 of the ledger.

Too much care cannot be exercised in this matter of correct and timely indexing and in entering the proper cross references. A bookkeeper quickly comes to know the ledger page numbers of his principal accounts and the names of the different books from which postings are made. So long as that particular bookkeeper is in charge no serious difficulties arise; but when the bookkeeper is off for a day or longer, or the proprietor wishes to look up an item for himself, then trouble begins. More especially in the case of posting from specialized books of original entry, as from the Sales Book, or from the Purchase Book, etc., it is very important not only to give the proper page reference but also the initial letter of the book from which the posting is made; so likewise in the case of postings to different books it is important to designate the different books. It is the "stitch in time" which saves annoyance and, in the long run, is most economical.

24. Ledger Index. An index to the ledger is necessary to enable us to find the accounts. In small ledgers the index is placed in the front of the book itself, while for large ledgers a separate index book is used. There is a distinct advantage in this, as the index book can be kept open on the desk while posting is being done, and the names found much quicker than when it is necessary to turn the leaves of the ledger to find the index.

When an account is opened in the ledger, the name should be written in the index, followed by the page number. The names in the index are arranged in alphabetical order, each name being written under the letter of the alphabet corresponding to the first letter in the name. For example:

A	B	C
Adams, J. C..........11	Bacon, I. H.........2	Crandall, Jas........ 7
Andrews, Henry.....14	Brown, Henry........9	Campbell, Don.....12

In a large index, one or more pages are used for a letter; while in a small index, several letters may be placed on the same page.

PROMISSORY NOTES

26. A promissory note is a form of commercial paper much used in business. Goods are sold on specific terms—that is, to be paid for in a certain time after date. Profits are based on the supposition that the bills will be paid when due. When not so paid, the debtor is virtually borrowing money from the creditor, and should pay interest for the use of that money just as he would if he had borrowed it from a bank. To settle the account when it is not convenient to pay cash, it is customary to give a promissory note for the amount, plus interest, payable on a certain date. The promissory note is more convenient for the creditor; for when it bears his endorsement, his bankers will discount it, thus giving him the money for use in his business. Even though he may not discount it, the promissory note is better for the creditor, as it gives him a definite promise to pay, which he does not have when the debt is represented by an open account.

27. Bills Receivable and Bills Payable. The commercial term for promissory notes accepted by us is *Bills Receivable.* The commercial term for promissory notes given by us is *Bills Payable.* The term "bill" is used in this connection for the reason that a promissory note is a negotiable instrument, and when indorsed it becomes practically a bill of exchange. The accounts in the ledger which represent notes receivable and notes payable are called *Bills Receivable Account* and *Bills Payable Account.*

The bills receivable account is debited when a note is received, and credited when a note is paid. The balance of bills receivable account shows the amount of unpaid notes payable to us.

The bills payable account is credited when we give a note and debited when we pay a note. The balance of bills payable account shows the amount of the notes that we owe.

28. Bill Book. For the purpose of keeping a record of bills receivable and bills payable, a book known as a *bill book* is used. Any draft, note, due bill, or other written promise to pay a specified sum at a stated time, should be treated as a note or bill—receivable or payable, as the case may be. The bill book is an auxiliary book, and the record kept is usually treated as a memorandum only, records of each transaction being made in the journal. The form shown (p. 12) is one in common use.

BILLS RECEIVABLE

DATE RECEIVED	NO	FROM WHOM RECEIVED	MAKER	PAYABLE TO	WHERE PAYABLE	AMOUNT	DATE	TIME	WHEN DUE													WHEN *and* HOW DISPOSED OF
									YEAR	J	F	M	A	M	J	J	A	S	O	N	D	

BILLS PAYABLE

DATE RECEIVED	NO	TO WHOM GIVEN	MAKER	PAYABLE TO	WHERE PAYABLE	AMOUNT	DATE	TIME	WHEN DUE													WHEN *and* HOW DISPOSED OF
									YEAR	J	F	M	A	M	J	J	A	S	O	N	D	

29. Acceptances. A draft when accepted—that is, when it becomes an *acceptance*—has the same value as a promissory note, for it is a definite promise to pay on a specified date. Drafts are used for the collection of accounts in other cities than the one in which the creditor's place of business is located. A draft may call for payment a certain number of days after date, or it may call for payment at sight. The former is known as a *time draft*, while the latter is a *sight draft*.

30. Discount and Exchange. When a promissory note is taken to the bank for the purpose of raising money, it is customary for the banks to calculate the interest for the time the note is to run, and to deduct this from the principal, giving the borrower the net amount only. In other words, the interest is paid in advance, and such advance payment of interest is called *discount*.

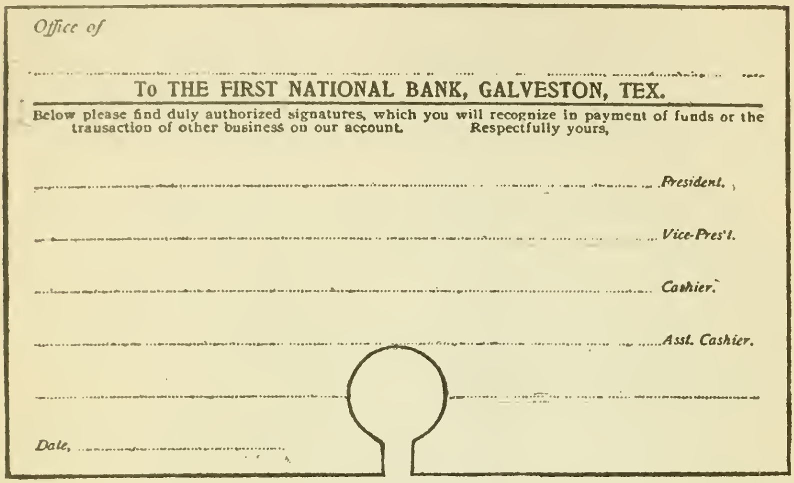
When a draft is collected through a bank, a small fee is charged, and this fee is called *exchange*. Exchange is also charged for the collection of out-of-town checks, especially if they are drawn on banks in small towns and cities.

BANK DEPOSITS

31. When money is deposited in a bank, a list of the items in the deposit is made on a blank known as a *deposit ticket* or *deposit slip*. These deposit tickets are furnished by the bank for the convenience of its customers.

32. Signature Card. Money deposited in a bank can be withdrawn only by presenting a written order or *check*, signed by the one in whose name the money is deposited. That the bank may know that money is not paid on checks that do not bear the correct signature, each depositor is required to leave at the bank the signature or signatures which are to be honored. These signatures are written on a card, known as a *signature card*, which the bank keeps for reference.

33. Check Books. Blank checks are usually bound in book form, the checks themselves being perforated so that they can be easily removed. These *check books* are in most cases furnished by the bank. The number of checks on a page varies, but is seldom more than four. When a check is written, the number, date, name, and amount should be written on the face of the stub. To keep a convenient record of the balance in the bank, it is well to enter a list of all checks and deposits on the back of the check stubs.


Office of

To THE FIRST NATIONAL BANK, GALVESTON, TEX.

Below please find duly authorized signatures, which you will recognize in payment of funds or the transaction of other business on our account. Respectfully yours,

President.

Vice-Pres't.

Cashier.

Asst. Cashier.

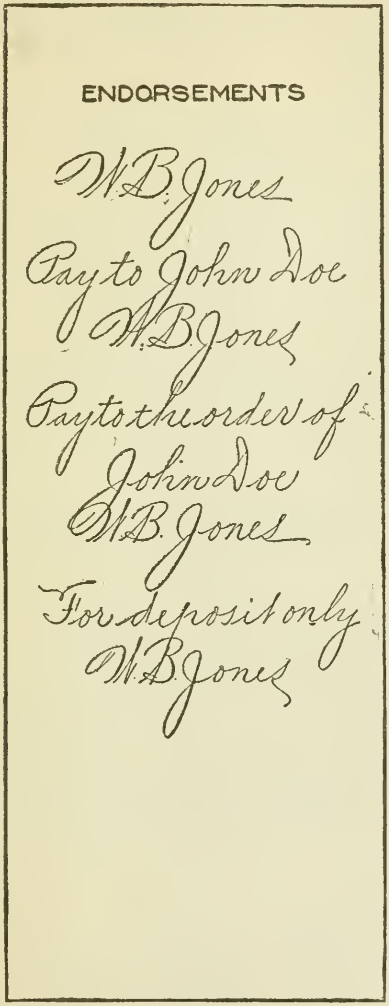
Date,

Signature Card

34. Pass Book. The bank *pass-book* should be taken to the bank whenever a deposit is made, as it contains the bank's receipt for all money deposited.

35. Indorsement of Checks. Before a check can be deposited in the bank, it must be indorsed by writing the name of the payee across the back. The indorsement should be on the back of the left end of the check—never on the right end. Several forms of indorsement are shown (p. 15). When the name only is written, it makes the check payable to the bearer, and is known as a *blank indorsement.* When the words "Pay to" are used, the check becomes payable to the one whose name appears immediately under the words. It can only be paid to him in person or credited to his account at any bank at which he may deposit the check. A check indorsed with the words "Pay to the order of" permits of a further transfer, and provides a receipt from the one to whom it is so indorsed. When a check is to be deposited, the proper indorsement is "For deposit only." This is of special importance when deposits are sent by messenger. Such indorsements usually include the name of the bank, and are made with a rubber stamp.

36. Depositing Cash. It is a good plan to deposit all cash received and to pay all bills by check, except such small items as are paid from petty cash. By doing this, all transactions pass through the bank, providing a receipt in every case in the form of a canceled check bearing the indorsement of the payee.


ENDORSEMENTS

W. B. Jones

Pay to John Doe
W. B. Jones

Pay to the order of
John Doe
W. B. Jones

For deposit only
W. B. Jones

Endorsement

37. Treatment of Petty Cash. It is customary in business establishments to keep on hand a certain sum of cash out of which to pay items of expense such as office supplies, etc., when the amount is too small or it is not convenient to write a check.

The best way to handle this is to draw a check for a certain amount, and keep this money separate from the cash received from day to day. At the end of the month, or sooner if the fund is low, draw a check payable to cash for the amount paid out and charge it to expense. This will leave the fund intact.

Example—We shall suppose the amount of petty cash to be kept on hand to be \$25.00; and the amount paid out, \$15.60, leaving \$9.40 on hand. A check will be made for \$15.60, to be charged to expense through the regular cash book. The cash will be drawn from the bank, and the amount added to the \$9.40, making a total of \$25.00.

A record of petty cash is usually kept in a small book called a *petty cash book*. This book has the regular two-column journal ruling. In handling petty cash, great care should be taken to secure a receipt in some form for every payment. See Form, p. 18.

SAMPLE TRANSACTIONS

38. The following sample transactions taken from the books of W. B. Clark, Ames, Ia., illustrate the use of the papers and accounts explained in this section, and show how the transactions would appear on the books.

Mr. Clark is a shipper of produce, and a retail dealer in coal. His assets and liabilities are as follows:

Assets

Cash in bank	$1,262.78	
Inventory, Produce	685.00	
" Coal	747.50	
Geo. White — Open account	21.00	
F. H. Russel " "	7.00	
Henry Brown " "	8.00	
O. L. Duncan — Note due Dec. 1	27.00	$2,758.28

Liabilities

Iowa Coal Co., Des Moines, Open acct.	$120.00	
Lehigh Coal Co., Chicago, Ill., Open acct.	325.00	
George Hardy, Open account	60.00	505.00

As he wishes to know how much business he is doing in each department of his business, he keeps accounts in the ledger with both produce and coal instead of one merchandise account. In the sales book, one column is used for coal sales, and one for produce sales. No purchase book is kept, all purchases being posted from the journal or cash book.

— Oct. 22 —

Bought from David Andrews, for cash			
200 bu. potatoes	@	.42c	$84.00
Paid by check No. 11.			

— 22 —

Sold to Albert Long on account		
2 tons run of mine coal	$3.25	6 50

— 23 —

Received from Geo. White on account		
Cash		10.00

— 24 —

Sold to Taft Produce Co., Des Moines, on account		
148 bu. beans	3.10	458.80

— 24 —

Drew from bank for petty cash	10.00	
Check No. 12.		

— 25 —

Sold to Geo. Hardy on account		
$1\frac{1}{2}$ tons nut coal	9.00	13.50
Gave him check No. 13.		46.50

— 27 —

Gave to Lehigh Coal Co., Chicago.		
60-day note		200.00
Check No. 14.		125.00

— 28 —

Taft Produce Co. paid sight draft through Iowa		
National Bank		458.80

— 29 —

Accepted 30-day draft made by Iowa Coal Co.		120.00
Payable at Ames State Bank		

— 30 —

Deposited in Ames State Bank		
Draft Iowa National Bank		458.80
Cash		10.00

— 30 —

Paid for repairs to stove, cash		1.20

— 31 —

Sold for cash, $\frac{1}{2}$ ton egg coal		4.50

Oct 22 1908					
		Assets			
	2	Bank	Bal. on deposit	1262 78	
	3	Produce	Inventory	685 00	
	4	Coal	"	747 50	
	5	Geo White	Open account	21 00	
	6	F.H. Russel	" "	7 00	
	7	Henry Brown	" "	8 00	
	8	Bills Rec.	O.L. Davis's note Due Dec 1	27 00	
		Liabilities			
	9	Iowa Coal Co.	Des Moines Open acct		120 00
	10	Lehigh Coal Co.	Chicago " "		325 00
	11	Geo Hardy	" "		60 00
	1	W.B. Clark	Net invest.		2253 28
		—22—			
	3	Produce		84 00	
	2	To Bank	Bought from D. Anderson		84 00
			200 bu. potatoes @ .42		
			Check No. 11		
		—25—			
	11	Geo Hardy		46 50	
	2	To Bank	Check No. 13		46 50
		—27—			
	10	Lehigh Coal Co.		325 00	
	12	To Bills Pay.	Gave 60 da note		200 00
	2	Bank	Check No. 14		125 00
		—29—			
	9	Iowa Coal Co.		120 00	
	12	To Bills Pay.	Accepted 30 day draft		120 00
			payable at Ames State Bk.		

PETTY CASH BOOK

Oct.	24	Check No. 12	Ames State Bk.	10 00	
	30	Paid for repairs	to stove C.B.		1 20
			Balance		8 80
				10 00	10 00
Oct.	31	Balance on hand		8 80	

CASH RECEIVED — CASH BOOK — CASH PAID OUT

Date		Received from	Explanation		Amount	Date		Paid to	Explanation	Amount	Total
Oct. 5		Geo White	On acct a/c		10 00	Oct.	2	Ames State Bk	Deposit Draft	458 80	
23									Cash	10 00	468 80
24	2	Ames State Bk	Petty Cash Ck No. 11		10 00	31	15	Expense	per Petty Ck.		1 20
									Balance		13 30
28	14	Taft Produce	At sight draft Iowa Nat Bk		458 80						
31	✓	Cash Sales	½ ton coal		4 50						
					483 30						483 30
31		Balance on hand			13 30						

SALES BOOK

	October 22, 1908		COAL	PRODUCE
13	Albert Long	2 tons R of M 3.25	6 50	
	-2	4-		
14	Taft Produce Co	Des Moines		
		148 bu beans 3.10		458 80
	-2	5-		
11	Geo Hardy			
		1½ tons Nut 9.00	13 50	
	-3	1-		
✓	Cash Sales			
		½ ton Egg	4 50	
			24 50	458 80
4	Credit	Coal a/c		24 50
3		Produce a/c		458 80

LEDGER PAGES

W. B. Clark, Ames, Ia. 1

					1908				
					Oct	22	Net invest J	1	2253 28

2 Ames State Bank

Oct	22	J	1	1262 78	Oct	22	J	1	84 00
	30	CB	1	465 80		25		1	46 50
						27		1	125 00
						24	CB	1	10 00

Produce 3

Oct	22	J	1	685 00	Oct	31	SB	1	458 80
	22	J	1	84 00					

4

Coal

Oct	22		J	1	747 50	Oct.	31		SB.	1	24 50

Geo. White

5

Oct	22		J	1	21 00	Oct.	22		CB.	1	10 00
							23				

6

F. H. Russel

Oct	22		J	1	7 00						

Henry Brown

7

Oct.	22		J	1	8 00						

8

Bills Receivable

Oct	22		J	1	27 00						

Iowa Coal Co. 9

Oct	29		J	1	120 00	Oct	22		J	1	120 00

10 Lehigh Coal Co.

Oct.	27		J	1	325 00	Oct.	22		J	1	325 00

Geo Hardy 11

Oct	25		J	1	46 50	Oct	22		J	1	60 00
	25		S.B.	1	13 50						
					60						60

12 Bills Payable

						Oct.	27		J	1	200 00
							29		J	1	120 00

Albert Long 13

Oct	22		S.B.	1	6 50						

Taft Produce Co.

Oct	24		S.B.	1	45 80	Oct	28		C.B.	1	45 80

Expense

Oct	31		C.B.	1	1 20						

TRIAL BALANCE

1	W B Clark		2253 28
2	Ames State Bank	1466 08	
3	Produce	310 20	
4	Coal	723 00	
5	Geo White	11 00	
6	F N Kassel	7 00	
7	Henry Brown	8 00	
8	Bills Receivable	27 00	
12	Bills Payable		320 00
13	Albert Long	6 50	
15	Expense	1 20	
	Cash on hand (C.B.)	13 30	
		2573 28	2573 28

The bookkeeper, in order to test the accuracy of his work, took off a Trial Balance of the Ledger. If you will check this against the accounts, you will see just how it was done.

THEORY OF ACCOUNTS

PART II

CLASSES OF ACCOUNTS

39. In double entry bookkeeping, the accounts used may be divided into the two general classes of *personal* and *impersonal.* For the purpose of more complete classification, the second class is further subdivided into *real, representative,* and *nominal* accounts.

40. Personal Accounts. A personal account is a record of transactions with a particular person or persons.

Examples—

A record of transactions with persons who buy goods from us.

A record of transactions with persons from whom we buy goods.

James E. Watson, 147 Niles Ave.

1909					1909				
Jan.	2		2	46 20	Feb.	1		14	64 10
	3		4	17 90					
	15		18	22 00					
Feb.	4		42	19 75					

41. Real Account. A real account is a record of transactions with respect to a particular property. Properties which we possess

Machinery

1909									
Jan.	2		1	1000 00					
	15		11	2000 00					
Feb.	10		20	1500 00					

are termed *resources* or *assets;* therefore all real accounts are also *asset accounts.*

Examples—

Real estate (land and buildings), Machinery, Furniture, Merchandise, etc.

42. **Representative Account.** A representative account is a summary of all debit or credit transactions of a particular class with respect to several personal accounts. The debit or credit to this account completes the double entry, and illustrates the rule that in double entry there must be a credit for every debit.

Example—

We sell goods to a number of customers, and the amounts of these sales are debited to their several accounts. To complete the double entry, we credit the total amount of these sales to an account called *sales account.* The total credits to this account during any given period *represent* the sales to all customers for the same period, and the sales account is a *representative* account.

The total debits to all customers' accounts for goods purchased in one month amount to $1,423.62. This amount is credited to the sales account. Likewise the purchases for the same period amount to $947.20, and the several amounts are credited to the personal accounts of those from whom the purchases were made, while a like amount is debited to a representative account known as a purchase account.

Sales

				1909 Jan	31		38	1465 00
				Feb	28		70	1291 50
				Mar	31		120	1679 75
				Apr	30		140	1720 00

43. **Nominal Account.** A nominal account is a record of transactions having to do with profit and loss; a record of a particular class of expenditures from which no direct returns are expected;

any impersonal account which does not come under the classification of real or representative accounts.

Example—

We buy coal to be used in heating our building. The coal is not to be re-sold, but its use is necessary; it is one of the expenses of conducting the business, and we charge the amount to an *expense* account. Expense is a *nominal* account kept for the purpose of showing the total expenses of the business.

Expense

1909 Jan	2		2	14	00				
	3		3	26	00				
	5		6	7	50				
	6		6	18	75				
	8		9	16	40				

44. Merchandise Account. The merchandise account is a real account formerly much used, but discarded by modern accountants. When used, this account is debited with all purchases of merchandise and credited with all sales. The account is also charged with all goods returned by our customers, and credited with all goods which we return to those from whom we have purchased them. Goods returned by our customers are charged at the prices at which they were purchased by the customers; consequently the debit side of the merchandise account does not furnish a true exhibit of our purchases; neither is the credit side a true exhibit of our sales. Since the merchandise account furnished no valuable information, other accounts which exhibit more vital statistics have been substituted.

45. *Purchase account* is one of the accounts substituted for the merchandise account. This account is charged with all purchases as represented by the footings of the purchase book or purchase journal. This completes the double entry, the separate purchases having been credited to the personal accounts of those from whom the goods were purchased. All returns or other similar deductions allowed on purchase invoices are charged to those from whom the purchases were made and credited to purchase account. The balance of the purchase account then shows the total net purchases.

46. *Sales account* takes the place of the credit side of the merchandise account. All sales as shown by the footings of the sales book are credited to the sales account, completing the double entry. All returns and allowances are likewise charged to the sales account. The balance of the sales account shows total net sales.

SAMPLE TRANSACTIONS

47. The following transactions, properly recorded in journal sales book, purchase book, and ledger, demonstrate the uses of the merchandise, purchase, and sales accounts explained in the preceding paragraphs:

— Sept. 20 —

Bought from American Furniture Co., Grand Rapids			
2 #four-drawer V F cabinets	$11.00	$22.00	
4 #35 card sections	4.20	16.80	
1 #35 top		1.75	
1 #35 base		1.25	$41.80

— 21 —

Bought from Morgan Printing Co., Chicago			
5,000 #1 plain ruled #35 cards	.90	4.50	
3,000 #1 ledger " #35 "	1.50	4.50	
2,000 #1 " " #46 "	2.00	4.00	13.00

— 22 —

Sold to Ackers & Co., 224 Randolph St.			
4 #35 sections	5.50	22.00	
1 #35 top		2.25	
1 #35 base		1.75	26.00

— 23 —

Sold to Thompson & Co., 94 Monroe St.			
2,000 #1 plain ruled 35 cards	1.25	2.50	

— 24 —

Received from Ackers & Co.

1 #35 section	5.50
(Damaged)	

— 25 —

Shipped to American Furniture Co.

1 #35 section	4.20
(Received in bad order)	

In the first demonstration, the footings of the sales and purchase books, as well as the returns entered in the journal, are posted to a merchandise account. It will be noted that the debit side of the merchandise account does not represent the actual purchases, and the credit side does not represent the sales.

In the second demonstration, the purchase and sales accounts are used. Total sales are credited to sales account from sales book, and returns debited from the journal. The balances of these accounts show actual net purchases and sales. For demonstration of the first method, see p. 32, ledger acct. No. 3. For demonstration of the second method see p. 32, ledger accts. Nos. 6 and 7.

Sales Book

Sept	22	Ackers & Co.	224 Randolph St			
		4 #35 sections	5 50		22 00	
		1 #35 top			2 25	
		1 #35 base		4	1 75	26 00
	23	Thompson & Co.	94 Monroe St			
		2000 #1 plain ruled 35 cards	1 25	5		2 50
		Credit Mdse (First demonstration)				28 50
		Credit Sales (Second demonstration)		7		28 50

Journal

Sept	24	Merchandise		3	5 50	
(First demonstration)		To	Ackers & Co	4		5 50
		1 #35 section returned—damaged				
	25	American Furniture Co.		1	4 20	
		To	Merchandise	3		4 20
		1 #35 section returned—damaged				
Sept	24	Sales		7	5 50	
(Second demonstration)		To	Ackers & Co	4		5 50
	25	American Furniture Co.		1	4 20	
		To	Purchases	6		4 20

Purchase Book 1

Sept	20	American Furniture Co. Grand Rapids		
		Invoice #1	1	41 80
	21	Morgan Printing Co. Chicago		
		Invoice #2	2	13 00
		Debit Merchandise (First demonstration)	3	54 80
		Debit Purchases (Second demonstration)	6	54 80

American Furniture Co. Grand Rapids 1

Sept.	25		J	1	41 20	Sept	20	1	41 80

2 Morgan Printing Co. Chicago

						Sept	21	1	13 00

Merchandise 3

Sept	24		J	1	5 50	Sept	25		J	1	4 20
	25		P	1	54 50		25		S	1	28 50
		First Demonstration									

4 Ackers & Co. 224 Randolph St.

Sept	22			1	26 00	Sept	24		J	1	5 50

Thompson & Co. 94 Monroe St 5

Sept	22			1	2 50						

6 Purchases

Sept	25		P	1	54 50	Sept	25		J	1	4 20
		Second demonstration									

Sales 7

Sept	25		J	1	5 50	Sept	25		S	1	28 50
		Second demonstration									

CLASSES OF ASSETS

48. Asset accounts are accounts representing resources or assets of the business. Assets are classified as *Fixed; Active* or *Floating; Passive* or *Speculative; Fictitious.*

Fixed assets are those permanent forms of property which are a necessary part of the equipment used for conducting the business—such as real estate, buildings, machinery, etc.

Active or *floating assets* are those forms of property of which the quantity in our possession varies from day to day—as merchandise, accounts, cash, etc.

Passive or *speculative assets* are those (*a*) whose values are not readily determined, or (*b*) whose values are subject to market fluctuations—as, for example, (*a*) franchises, copyrights, patents; (*b*) stocks, bonds, or other speculative securities.

Fictitious assets are those which are not represented by tangible property, or which are of value to a going business but would have no market value if the business were closed out or liquidated. These assets are frequently represented by an expense account on the books. The initial advertising expense necessary to launch the business successfully is frequently carried on the books as an asset. The amount of such advertising expense is spread over a stated period, a certain proportion being charged into the regular expense accounts each year until the entire amount is used.

49. Examples of Fixed Assets. The assets of an ordinary mercantile business are of the first two classes only—fixed and floating. The most common forms of fixed assets of such a business are:

Real Estate—generally understood to include land and buildings owned and used in the business.

Furniture and Fixtures—represented by office and store furniture, shelving, counters, stoves, furnaces or other heating appliances, lighting fixtures.

Horses and Wagons or *Trucks*—including all horses, wagons, trucks, harness, or motor-cars used for hauling goods.

If the business is one in which these classes of property are dealt in, they become active assets. Land, for example, would be one of the *active* assets of a business organized to buy and sell real estate.

50. Examples of Floating Assets. The active or floating assets of a mercantile business are:

Merchandise—meaning the stock in trade or goods dealt in.

Accounts—the open accounts of customers who owe for goods purchased.

Notes or *Bills Receivable*—all outstanding notes payable to the firm.

Cash—the amount of cash on hand and in the bank.

51. Examples of Passive Assets. Passive or speculative assets are more frequently found on the books of a manufacturing business, a corporation, or a business a part or whole of which has been sold by the original owners. Examples of these assets are:

Patents—A manufacturer owns a patent the value of which depends upon future profits resulting from the manufacture and sale of the article which it covers. It is customary to place a value on the patent, and to consider it an asset of the business.

Good-Will—A man has established a business which has become extremely profitable, and in selling the business he places a certain value on the reputation or good-will which he has built up.

Speculative—A firm having a surplus not required in the business sometimes invests it outside of the business with the expectation of realizing a profit by selling at an advanced price. They buy grain or provisions, mining or railway stocks, etc. Or an investment may be made in the stock of some manufacturing business to be established in the town, because such an enterprise, if successful, will naturally result in an increase in their own business.

52. Examples of Fictitious Assets. Fictitious assets are seldom found on the books of other than corporations where a large initial promotion expense is involved. A good example of a fictitious asset is:

Advertising—A business house may decide on an average annual expenditure for advertising; but to be effective, the expenditures for the first two or three years may necessarily exceed this amount. The excess is considered as an investment since it is expected that as the business becomes firmly established the annual expenditure can be reduced to an amount even less than that estimated, gradually reducing the amount carried on the books as an asset. To illustrate:

Annual advertising appropriation for ten years is $10,000.00.			
Expended first year	$18,000.00		
Deduct appropriation	10,000.00		
To advertising inventory		8,000.00	
Expended second year	15,000.00		
Deduct appropriation	10,000.00		
To advertising inventory		5,000.00	
Expended third year	10,000.00		
Deduct appropriation	10,000.00		
To advertising inventory	000.00		
Appropriation fourth year	10,000.00		
Expended " "	8,000.00		
To credit advertising inventory			2,000.00
Appropriation fifth year	10,000.00		
Expended " "	9,000.00		
To credit advertising inventory			1,000.00
Appropriation sixth year	10,000.00		
Expended " "	10,000.00		
To advertising inventory	000.00		
Appropriation seventh year	10,000.00		
Expended " "	9,000.00		
To credit advertising inventory			1,000.00
Appropriation eighth year	10,000.00		
Expended " "	8,000.00		
To credit advertising inventory			2,000.00

Appropriation ninth year	10,000.00		
Expended " "	7,000.00		
To credit advertising inventory			3,000.00
Appropriation tenth year	10,000.00		
Expended " "	6,000.00		
To credit advertising inventory			4,000.00
		$13,000.00	$13,000.00

REVENUE ACCOUNTS

53. The term *revenue* (synonymous with *income*) is used to designate those items which, when brought together in an account, exhibit the profit or loss of the business.

Revenue receipts are the receipts which originate exclusively from the sale or exchange of the commodities or things of value for the handling of which the business has been organized.

Revenue expenditures are those expenditures connected with the expense of operation or administration of a business, including such items of expense as postage, printing, salaries, rent, etc.

Revenue accounts is a term used to designate those accounts that represent revenue receipts or revenue expenditures.

54. Revenue Receipts. The account representing revenue receipts in all lines of business (though it may sometimes be known by another name) is the *sales account*—a representative account showing net sales. Net sales, less cost of goods sold, represent gross profits. Gross profits, less cost of conducting the business (revenue expenditures) represent net profits.

55. Expense. The broad term *expense account* represents all revenue expenditures; but in modern bookkeeping the amounts of the different classes of expense are kept separate as far as possible.

Some of the most commonly used divisions of expense are: Rent; Insurance; Taxes, Interest and Discount; Out Freight and Express; Heat and Lights; Labor; Salaries, etc. It is customary to open one account in the name of *General Expense*, to care for expenditures not included in special accounts.

56. *Insurance*—A nominal account to which is charged all sums paid to insurance companies (called *premiums*), in consideration of which our property is insured against loss by fire, cyclones, or other disaster.

57. *Rent*—A nominal account to which is charged all sums paid for use of property which we rent or lease from others for the benefit of our business—usually the buildings in which our business is transacted or in which our goods are stored.

58. *Taxes*—A nominal account to which are charged all taxes and license fees paid on account of property owned or business transacted.

59. *Interest*—This is a nominal account which should include only interest charges paid or interest earned on account of capital. When we borrow money or discount a note, we do it because we need cash capital, and the interest paid is a capital expense or a direct source of loss. Exchange charged for the collection of notes and drafts belongs in the same class. All interest paid for the use of money, and exchange paid for the collection of notes, drafts, and checks, should be debited to interest account. When we save the discount by prepayment of bills, the discount is earned by the use of capital. All such earnings are a direct source of profit and should be credited to interest account. Discount paid on notes is interest paid in advance, and should not be confused with discounts allowed to customers for the prompt payment of bills; the latter is a reduction in the price received for our goods, and reduces trading profits. This question is discussed under the head of *Cash Discounts*.

60. *Out Freight and Express*—A nominal account which is debited with all transportation charges paid on goods that we ship, whether sales are made at delivered prices or freight is paid as an accommodation to the customer. When goods are sold at f. o. b. prices, and the freight is paid by us as an accommodation to the customer, out freight should be credited and the customer debited.

This should not be confused with *in freight*, or freight paid on goods received, as such charges add to the cost of the goods and should be charged to the account representing that particular class of goods.

61. *Heat and Light*—This account is debited with all sums paid for fuel, heating bills, lighting bills, and lighting supplies.

62. *Labor*—A nominal account which is debited with all sums paid as wages to mechanics or laborers employed by the business.

63. *Salaries*—A nominal account which is debited with all salaries paid to managers, salesmen, clerks, and others employed in the administration of the business.

RULES FOR JOURNALIZING

64. Journalizing is one of the most important operations in bookkeeping, since journalizing a transaction involves the selection of the proper accounts to be debited and credited completing the double entry. With the use of separate sales and purchase records, the journal itself is used principally for those entries involving a transfer of values from one account to another. These are frequently referred to as *cross entries*. The number of possible entries of this class is practically unlimited, and they require careful study on the part of the bookkeeper.

Rules for journalizing are frequently referred to in bookkeeping textbooks; but, since the custom of journalizing every transaction is now obsolete, the term is no longer sufficiently descriptive. A better term to use would be *rules for debit and credit*, for it is the rules of debit and credit that must be followed when a journal entry is to be made.

			DR.	CR.	SALES

65. Three-Column Journal. A three-column journal suitable for a small business is shown above. The third column is used for sales only, while the first two columns are used for regular journal entries. The use of the column for sales answers the same purpose as a sales book, and total sales are posted to the credit of sales account at the end of the month.

SAMPLE TRANSACTIONS

66. For the purpose of demonstrating the principles of debit and credit as exemplified in the journal, the following transactions except those involving cash are *journalized* in a three-column journal. The third column is used for sales, and it is to be understood that a cash account is kept in a separate cash book.

— April 2 —

Sold to Hiram Watson on account			
10# gran. sugar	5½c.	$.55	
3 bars soap		.25	
2# starch	5	.10	
2 cans corn		.25	$1.15

— 2 —

Paid electric light bill—cash	4.75

— 2 —

Sold for cash sundry merchandise	8.60

— 3 —

Bought from Eureka Milling Co. on account		
5 bbls. XXX flour	3.75	18.75

— 4 —

Sold to J. L. Jarvis on account			
¼ bbl. flour		1.25	
2# butter	.32	.64	
1# coffee		.30	
10# lard	.11	1.10	3.29

— 4 —

Bought from J. L. Jarvis on account	
Fire Insurance on stock and fixtures, $3,000.00 for one year from date	18.00

— 5 —

Paid Eureka Milling Co. cash	18.75

— 6 —

Sold to J. L. Jarvis on account			
1# cheese		.16	
1 doz. eggs		.22	
1# baking powder		.50	
3 bu. potatoes	.65	1.95	2.83

— 6 —

Bought from Atlas Safe Co. on account	
1 office safe	50.00
Paid cash for repairs to door lock	.40
Sold for cash sundry merchandise	16.70

				Dr	Cr	Sales
Apr	1	Hiram Watson		1.15		
		To 10# Gran Sugar .05½	55			
		2 bars Soap	25			
		2# starch .05	10			
		2 cans corn	25			1.15
	✓	Cash Sales				8.60
3	6	Purchase a/c		18.75		
	4	To Eureka Milling Co.			18.75	
		5 bbls flour 3.75	18.75			
"	2	J L Jarvis		3.29		
		To ¼ bbl flour	1.25			
		2# butter .32	64			
		1# coffee	30			
		10# lard .11	1.10			3.29
	8	Expense		18.00		
		To J L Jarvis			18.00	
		$3000.00 fire insurance				
		on stock & fixtures				
6	2	J L Jarvis		2.83		
		To 1# cheese	16			
		1 doz eggs	22			
		1# baking powder	50			
		3 bu potatoes .65	1.95			2.83
	3	Furniture & Fix		50.00		
	5	To Atlas Safe Co.			50.00	
		1 office safe				
	✓	Cash Sales				16.70
		Cr.				32.57
	7	Sales a/c			32.57	

Cash Received

Apr.	-	Cash sales		8	60
6	-	" "		16	70

Cash Paid

Apr.	9	Heat & Light	Electric light bill	4	75
5	4	Eureka Milling Co.		10	75
6	8	Expense	Repair to door lock		40

EXAMPLES FOR PRACTICE

1. After you become familiar with each entry and the nature of the accounts to be debited or credited, journalize the transactions given in Article 66, then compare with the model journal, and see if your work is correct.

2. Journalize the following transactions:

— April 10 —		
Bought from David Cole & Son on account		
100 bbls. flour at	$4.60	$460.00
— 10 —		
Sold to L. H. Stebbins on account		
20 bbls. flour at	5.10	102.00
— 10 —		
Sold to Henry Waterbury on account		
30 bu. beans	2.00	60.00
20 " oats	.37	7.40
— 11 —		
Paid to David Cole & Son		
Cash on account		160.00
Gave them my note for 30 days		300.00
— 11 —		
Received note from L. H. Stebbins for 30 days to balance account		102.00
— 12 —		
Paid cash for harness oil		.35
— 12 —		
Henry Waterbury paid cash on account		40.00

RULES FOR POSTING

67. The act of transferring all items from the journal, sales book, purchase book, cash book, or other books to the ledger is called *posting*. All items relating to one account are posted to that account in the ledger; thus all sales are posted to the sales account, and all transactions with a person are posted to the account of that person. Every debit must be posted to the debit side of the corresponding account in the ledger.

68. **Routine.** The first operation in posting is to open an account in the ledger by writing the name of the account on the line at the head of the ledger page. The month and day are then written in the date column; the page of the book from which the item is posted is written in the folio column, and the amount is placed in the money column. The final operation is to place the number of the ledger page in the folio column of the book from which the item was transferred, directly opposite the item posted.

Posting from Journal. In posting from the journal, all items in the left or debit columns are posted to the debit side of the corresponding ledger accounts, while all items in the credit column are posted to the credit side of the ledger accounts.

The first item in the journal in the preceding section is a debit to Hiram Watson, amount $1.15. It is necessary to open an account in the ledger, which is done by writing Hiram Watson's name at the head of the page, above the date column on the left side of the page; in the date column we write the date, April 2; in the folio column we write the journal page, 1; and in the money column we write the amount, $1.15. The number of the ledger page is now written in the folio column in the journal, directly opposite the name of Hiram Watson.

The second transaction recorded in the journal is a purchase which makes it necessary to open a purchase account in the ledger, to which is debited the amount of the purchase $18.75. The first transaction recorded in the journal is a sale, therefore the credit is to the sales account. Since we are placing all sales in a special column, the amount will not be posted until the end of the month, when the total sales will be posted to the credit of the sales account as one item. In the second transaction, the credit is to a personal account, and we open an account in the ledger with Eureka Milling Co., following the same routine in posting as with debit items, except that the item is posted to the credit side of the account.

Posting from Cash Book. When posting from the cash book, it must be remembered that all items on the left-hand page (which debit cash) must be posted to the credit of some other account; and that all items on the right-hand page (which credit cash) must be posted to the debit of an account in the ledger.

Why cash received is entered on the left-hand page of the cash book, and cash paid out on the right-hand page, is a point not always clear to the bookkeeper. To obtain a clear view of this point, it should be remembered that the cash book is nothing more or less than a ledger account with cash, and cash received is entered on the left-hand page (or debit side) for the reason that any account is debited for what is received or is added to it.

We sell merchandise, for example, and the person is debited because he receives it. We buy real estate; the real estate account is debited because our real estate possessions are added to. Broadly speaking, we (the business) receive the real estate; but, instead of charging the amount to ourselves (the person), we charge it to *Real Estate*, that we may know the amount of our real estate investment.

A customer pays us cash; cash is debited because our cash possessions are added to. We might charge the amount to our account; but we prefer to charge it to a cash account that we may know how much cash we have on hand. We pay out cash; cash is credited because cash has gone out of our possession. The main point of difference is that we post to other ledger accounts direct from the cash book, which is itself a ledger account, instead of journalizing cash transactions.

If cash transactions were journalized—

Cash
  To Person
Person
  To Cash

the amounts would be posted to the debit or credits of the cash account in the ledger; but for convenience we keep the cash accounts in a separate book. Journalizing a few of the transactions given will clearly demonstrate the point.

TRIAL BALANCE

69. A *trial balance* is a list of the balances of all accounts remaining open in the ledger, together with the balance shown by the cash account. On journal paper, all open accounts are listed by name; the debit balances are placed in the debit column, and credit balances are placed in the credit column; the pages of the ledger are placed in the folio column, opposite the names of the account. Both debit and credit columns are footed, and the footings of the two columns should agree.

A trial balance is taken for the purpose of testing the accuracy of the postings to the ledger; to find out if the ledger is in balance. The trial balance can be taken without considering the balances, by taking the total debit and credit items posted to all open accounts.

While the trial balance shows that for every debit posted to the ledger a corresponding credit has also been posted (double entry principle), it does not absolutely prove the accuracy of the work. If a debit item of $100.00 were posted to the debit of the wrong account, it would not affect the balance of the ledger; but if the item were posted to the credit instead of to the debit of the account, the ledger would be out of balance and the amount that it was *out* would be shown by the trial balance.

CLASSIFICATION OF ACCOUNTS

70. The arrangement of the accounts in the ledger is of considerable importance. Since one of the objects of bookkeeping is to exhibit the standing or condition of the business, the accounts should be classified in a manner that will make easiest the assembling of important statistics.

The accounts in the ledger represent either *Assets* (resources), *Liabilities*, *Profits* (gains), or *Losses*. Every account having a debit balance represents either (*a*) an asset or (*b*) a loss. (*a*) A personal account having a debit balance represents an asset; (*b*) any expense account having a debit balance represents a loss, as it reduces the chance for profit.

Every account having a credit balance represents either (*c*) a liability or (*d*) a profit. (*c*) A personal account having a credit balance represents a liability—that is, something we owe; (*d*) a sales account having a credit balance represents a profit because it increases our chance of gain.

71. Arrangement in Ledger. The foregoing classifications should be kept in mind in arranging the accounts in the ledger. First provide space for the asset and liability accounts; then follow with the profit and loss (or revenue) accounts. As far as possible, keep all asset accounts together, following the same plan with liability and profit and loss accounts.

The accounts are arranged in the trial balance in exactly the same order as they appear in the ledger; and if correctly classified they will show at a glance the assets (except inventories of merchandise) and liabilities of the business. Likewise the profit and loss accounts (also known as revenue accounts—see Article 53) will show total sales, purchases, and expense of conducting the business.

SAMPLE LEDGER ACCOUNTS

72. The ledger accounts shown on pages 80-81, representing the transactions given in the preceding set of sample transactions, demonstrate the proper arrangement of accounts, manner of posting, and the trial balance.

EXAMPLES FOR PRACTICE

1. From the copy of the journal (Article 66) which you have made, post the transactions to the ledger.
2. Post the transactions from the journal you have made (Exercise 2, preceding section) to the ledger.
3. Make a trial balance of the ledger accounts

Hiram Watson 1

Apr.	2		J	1	1	75							

2 J. L. Jarvis

Apr.	4		J	1	3	29	Apr.	4		J	1	18	00
	6			1	2	83							

Furniture & Fixtures 3

Apr.	6		J	1	50	00							

4 Eureka Milling Co.

Apr.	5		CB	1	18	75	Apr.	3		J	1	18	75

Atlas Safe Co. 5

							Apr.	6		J	1	50	00

6

Purchases

Apr	3		J	1	18 75				

Sales

7

					Apr.	6	J	1	32 57

8

Expense

Apr	4		J	1	18 00				
	6		C.B.	1	40				

Heat and Light

9

Apr	2		C.B.	1	4 75				

10

TREATMENT OF CASH DISCOUNTS

73. *Cash discounts* are discounts allowed for prepayment of bills. They are frequently confused with bank discounts (or interest collected in advance when notes are discounted), but are of an entirely different character.

When the price is made, the profits are calculated with the idea that the customer may take advantage of the cash discount; that is, the price after the discount is deducted includes a legitimate profit. We cannot debit the customer with the amount of the bill less the discount, for we do not know that he will take advantage of the discount; and so, the charge to the customer and credit to sales account is an amount which may never be received.

If the bill is paid less the discount, the amount deducted reduces our profit on the sale. It is not an allowance for the use of capital, for we can probably borrow money at 6 per cent, while the discount may be 5 per cent or more for anticipating payment 30 days or less.

74. **Discounts Allowed.** Cash discounts allowed must eventually come out of the profits arising from the sale of the commodities in which we are trading. There are two methods of charging cash discounts, either of which is considered correct:

(1) Open an account called *Discounts on Sales*, and charge to it all discounts allowed for the prepayment of bills. When the books are closed, the total will be charged against trading profits. This method is coming into general use, and may be considered standard.

(2) Charge to *Sales Account* directly all discounts allowed, treating them as allowances. The balance of the sales account will then represent net sales after returns, rebates, and cash discounts have been deducted. One feature to recommend this plan is that sales account does not show a fictitious volume of sales.

75. **Entering Cash Discounts in Cash Book.** When we receive payment from a customer who has deducted the cash discount, the discount must be taken account of in entering the payment, as the customer is to receive credit for the full amount. We might enter the cash payment in the cash book, and make a journal entry of the cash discount, but this would necessitate two postings from separate books.

A better method, and one which has become standard, is to provide a *cash discount column* in the cash book. When a column has not been provided for this purpose, a narrow column can be ruled in on the cash received or debit side of the cash book. This is carried as a memorandum until the end of the month, when the total is posted to the debit of discount on sales. Two ways of making the entry are shown (p. 52).

In Example No. 1, the cash discount is entered in the discount column, and the net cash received is entered in the cash column. When the payment is posted, two entries are made in the ledger. One advantage in this is that reference to the account of R. L. Brown & Co. shows at a glance whether they are taking advantage of cash discounts.

In Example No. 2, the cash discount is entered in the proper column, but the gross amount is entered in the cash column. The payment is then posted in one item, and reference to the ledger account does not show whether the payment of $100.00 is all cash or part discount. It is necessary, also, to deduct the footing of the discount column from the footing of the cash column to ascertain the amount of cash received. For these reasons the method shown in Example No. 1 is recommended.

76. Cash Discounts Earned. When we take advantage of the discount offered for the prepayment of bills, the discount earned can be considered a legitimate source of profit. Our own selling prices for goods purchased to be resold are based on the prices at which they are billed to us, without considering a possible saving by discounting our bills. Whether or not we discount our bills is largely a question of capital, and such earnings are legitimate profits entirely outside of regular trading profits. Discounts earned should be treated as interest earned and credited to interest account, from which they will find their way into profit and loss account.

CASH BOOK

Sept 12

				C.D.	Dr.
	3	R L Brown & Co (Example 1)		2 00	98 00
	5	W L White & Co (Example 2)		2 00	100 00

LEDGER PAGES

R L Brown & Co — 3

Sept	7		2	100 00	Sept	12		1	98 00
							Discount		2 00

W L White & Co — 5

Sept	7		2	100 00	Sept	12		1	100 00

PROFIT AND LOSS

77. The *profit and loss account* is a summary account made up of the balances of all income and expenditure (revenue) accounts in the ledger, the balance of this account representing the *net loss* or *net gain* of the business.

It is advisable to show the net profits for each year; and to accomplish this, it is customary to transfer the balance of profit and loss account at the end of the year. In single proprietorships and partnerships, the net gain is transferred to proprietor's or partner's investment accounts, while in a corporation it is usually transferred to a surplus account. A loss is transferred to a deficiency account.

78. **Trading Account.** This is a subdivision of profit and loss account intended to exhibit the gross profit derived from the manufacture or purchase and sale of goods in which the business is organized to trade. These profits are known as *trading profits*. Just what items of income and expenditure enter into trading profits or losses is an important question in the science of accounts. A safe rule to follow is to debit trading account with the cost of goods sold, including cost of preparing them for sale. In a manufacturing business the cost represents cost of raw materials and cost of manufacture. Credit the account with net income from sales, arrived at by deducting from gross sales all returns, allowances, rebates, and cash discounts.

All expenses incurred in selling the goods, and all expense of administration of the business, should be charged to profit and loss account proper. All profits arising from other transactions than trading should be credited to profit and loss. These include interest received on past due accounts, on notes, or for money loaned; discount earned by the prepayment of bills; profits from the sale of real estate or any property other than that in which the business is trading.

Trading Account, How Constructed. The trading account is made up by charging total inventory at the beginning of the year and purchases during the year; crediting net sales and inventory at the close of the year, the balance representing the gross profit.

TRADING ACCOUNT

Inventory Jan. 1		$ 8,500 00	Sales		$16,000 00
Purchases		12,000 00	Inventory Dec. 31		9,000 00
		20,500 00			25,000 00
Gross Profit		4,500 00			
		$25,000 00			$25,000 00

Turnover. It is desirable to know the cost of goods sold. This is known as the *turnover*, on which percentages of profit are based. The turnover may be found by deducting the present inventory from the debit side of the trading account.

TRADING ACCOUNT

Inventory Jan. 1		$ 8,500 00	Sales		$16,000 00
Purchases		12,000 00			
		20,500 00			
Less inventory Dec. 31		9,000 00			
Turnover		11,500 00			
Gross profit		4,500 00			
		$16,000 00			$16,000 00

79. Manufacturing Account. In a manufacturing business it is very desirable to know the cost to produce the goods; and for this purpose a subdivision of profit and loss, called *manufacturing account,* is used. The manufacturing account is debited with inventory of materials at the beginning of the year; purchases of material; labor or wages in factory, and all other expenses of manufacture; and credited with inventory of materials at the close of the year. The balance represents cost of manufactured goods to the trading division.

The principal value of these subdivisions of profit and loss lies in the fact that they reveal not only the *amount* but the *sources* of profits and losses, which is one of the important functions of accounting.

MANUFACTURING ACCOUNT

Inventory materials Jan. 1		$4,000	00	Inventory materials Dec. 31		$4,100	00
Purchases		6,000	00	Trading Account		11,300	00
Labor		5,000	00				
Rent, taxes, etc.		400	00				
		$15,400	00			$15,400	00

The profit and loss account of a professional or other non-trading concern need not be subdivided as explained for a trading concern. In a non-trading business, all accounts representing revenue receipts or revenue expenditures are transferred direct to profit and loss account.

80. Transfer of Gross Profit. The gross profit from trading is now transferred to the credit of profit and loss account, and this account is debited with the balances of all revenue expenditure accounts. Continuing the illustration from Article 78, we have:

PROFIT AND LOSS ACCOUNT

Rent		$300	00	Trading a/c		$4,500	00
Clerk		520	00				
Taxes		20	00				
Insurance		14	00				
Misc. expense		162	40				
Net gain		3,483	60				
		$4,500	00			$4,500	00

81. Transfer of Net Profit. The net gain is transferred to the credit of proprietor's account in a single proprietorship.

PROPRIETOR'S ACCOUNT

				Net investment Jan. 1		$6.475	00
				Profits		3,483	60
				Net investment Dec. 31		$9,958	60

MERCHANDISE INVENTORY ACCOUNT

82. The accounts now open in the ledger, other than proprietor's account, exhibit all assets and liabilities of the business with the exception of the present inventory, which is included in the trading account. The amount of the inventory is transferred to the debit of a merchandise inventory account.

MERCHANDISE INVENTORY

Dec. 31 Trading %		$9,000	00				

The books are now said to be *closed,* there being no open accounts except those representing assets or liabilities of the business.

BALANCE SHEET

83. A statement of the assets and liabilities of a business is called a *balance sheet.* If the assets exceed the liabilities, the difference is the *present worth.* If the liabilities exceed the assets, the business is *insolvent,* and the difference or balance shows the amount of insolvency.

The balance sheet is prepared from the ledger balances after the books have been closed. In arranging the accounts on a balance sheet, the assets should be listed first, followed by the liabilities. The balance will agree with the balance shown in the proprietor's or investment account.

For the business of a single proprietor, it is customary to list the accounts in the following general order:

First—Cash in bank and office.

Second—Open accounts and bills receivable.

Third—Merchandise per inventory, store fixtures, etc.

Fourth—Real estate.

The first two classes are termed *active* or *quick* assets, as they can be most readily converted into cash.

The liabilities represented by credit balances, are listed in the order of their urgency:

First—Open accounts due others.

Second—Bills payable.

Third—Mortgages or bonds payable.

The third class represents secured liabilities, while the first two represent unsecured liabilities.

Continuing the previous illustration, we find the balance sheet of our imaginary ledger to be as follows:

BALANCE SHEET DEC. 31

ASSETS						
Cash in Office	$ 24	50				
Cash in Bank	525	90	$ 550	40		
Open Accounts Receivable	647	10				
Bills Receivable	276	00	923	10		
Merchandise Inventory			9,000	00		
Total Assets					$10,473	50
LIABILITIES						
Open Accounts Payable	214	90				
Bills Payable	300	00	514	90		
Total Liabilities					514	90
Net Worth					$9,958	60

SAMPLE TRANSACTIONS

84. At the end of the first year, the trial balance of a single proprietorship was as follows:

DEBIT BALANCES

Bank Account	$ 764.20
Sundry Open Accounts Receivable	1,127.30
Bills Receivable	475.00
Furniture and Fixtures	325.00
Cash in Office	68.50
Purchases	9,571.40
Expense	675.00
Discount on Sales	96.75
Interest	72.10
	13,175.25

Credit Balances

Proprietor (Investment)	2,500.00
Bills Payable	2,000.00
Sundry Accounts Payable	1,761.60
Sales	6,913.65
	$13,175.25

The inventory at the end of the year was $4,962.30; at the beginning of the year, there was no merchandise in stock. The books are to be closed into trading and profit and loss, and a balance sheet prepared.

When closing the books, all entries necessary to adjust the balances of ledger accounts should be made through the journal. When an audit is made, it is difficult to trace the entries unless they are plainly stated in one group, which is provided when they are made in the journal. The making of entries in the ledger directly, also increases the opportunity for fraudulent entries. *Never make original entries in the ledger.*

EXAMPLE FOR PRACTICE

From the following trial balance prepare trading account; profit and loss account; and balance sheet.

Trial Balance

Proprietor (Investment)		$ 7,600.00
Bills Payable		4,000.00
Accounts Payable		1,470.00
Bank	$ 1,262.84	
Accounts Receivable	2,693.11	
Bills Receivable	4,360.00	
Merchandise Inventory	6,277.76	
Furniture and Fixtures	750.00	
Purchases	7,105.78	
Expense	1,416.30	
Discount on Sales	112.65	
Interest		44.20
Sales		10,985.70
Cash	121.46	
	$24,099.90	$24,099.90

Inventory at end of year $6,493.06.

Proprietor (Investment) 1

					Dec.	31			2500 00
						31	Net profit	1	1460 70

2 Bank

Dec.	31			764 20					

Accounts Receivable 3

Dec.	31			1127 30					

4 Bills Receivable

Dec.	31			475 00					

Merchandise Inventory 5

Dec.	31			4962 30					

6

Furniture & Fixtures

Dec.	31			725 00					

Bills Payable

7

					Dec.	31			2000 00

8

Accounts Payable

					Dec.	31			1761 60

Purchases

9

Dec.	31			9571 40	Dec.	31			9571 40

10

Sales

Dec.	31		J 1	6913 65	Dec.	31			6913 65

Expense 11

Dec.	31			675 00	Dec.	31			675 00

12 Discount on Sales

Dec.	31			96 75	Dec.	31			96 75

Interest & Discount 13

Dec.	31			72 10	Dec.	31			72 10

14 Trading a/c

Dec.	31	Purchases J	1	9571 40	Dec.	31	Sales J	1	6913 65
		Disc on sales	1	96 75			Mdse. Invt.	1	4962 30
		Profit & Loss		2207 80					
				11875 95					11875 95

Profit & Loss 15

Dec.	31	Expense J	1	675 00	Dec.	31	Trading J	1	2207 80
		Int & Disct	1	72 10					
		Net profit		1460 70					
				2207 80					2207 80

Dec.	14	Trading a/c		9665.15	
	9	To	Purchases		9571.40
	12		Discount on Sales		96.75
	10	Sales		6919.65	
	5	Merchandise Inv.		4962.30	
	14	To	Trading a/c		11875.95
	14	Trading a/c		2207.80	
	15	To	Profit & Loss		2207.80
	15	Profit & Loss		747.10	
	11	To	Expense		675.00
	13		Interest & Disct.		72.10
	15	Profit & Loss		1460.70	
	1	To	Proprietor (Invest)		1460.70

Balance Sheet Dec. 31

Assets				
Cash				
In Bank	764.20			
" Office	68.50	832.70		
Bills & Accts. Rec.				
Bills Rec.	475.00			
Accounts Rec.	1127.30	1602.30		
Inventory				
Merchandise	4962.30			
Furniture & Fix.	325.00	5287.30		
Total Assets			7722.30	
Liabilities				
Bills & Accts. Pay.				
Bills Pay.	2000.00			
Accounts Pay.	1761.60	3761.60	3761.60	
Present Worth			3960.70	

JOURNALIZING NOTES

85. When a note is received by us or we give our note to another, it is necessary to make a journal entry in order that there may be a proper record of the transaction on our books. Careful study is sometimes necessary to determine just how the entry should be made, and the following illustrations will serve as a guide.

86. **When Received.** When we receive a note, we debit bills receivable and credit the maker—that is, the person who gives us the note.

We receive a note from Samuel Smart for $100.00 payable in 30 days. The journal entry is:

Bills Receivable	$100.00	
Samuel Smart		$100.00
30-day note dated Sept. 10		

87. **When Paid.** When this note is paid, we debit cash and credit bills receivable. The entry is made in the cash book on the debit side which debits cash and credits bills receivable.

Bills Receivable	Samuel Smart's note due Oct. 10th	$100.00

88. **When Collected by Bank.** Perhaps the note was collected through our bank; in that case, the bank, instead of sending us the cash, will credit the amount to our account. The bank may, also, charge a small fee for collecting the money; consequently the amount placed to our credit will be the sum collected, less their fee. The entry in the journal would then be:

Bank	$99.85	
Interest and Discount	.15	
Bills Receivable		$100.00
Smart's note due Oct. 10th		
Collected by bank.		

89. **When Discounted.** At the time we received Samuel Smart's note, we may have needed the money for immediate use in our business. We would then take the note to the bank, endorse it payable to the bank, when they would discount it, giving us credit for the net proceeds. Since the money is advanced to us, the bank would charge us interest for its use, which amount would be de-

ducted from the whole amount, leaving the net proceeds. This amount would then be available for immediate use. The note is then the property of the bank; it has gone out of our possession and we have received the cash. The note is not paid, and in discounting it we have created a liability to the bank. Remembering that one of the functions of bookkeeping is to exhibit the true nature of our assets and liabilities, we open a *Bills Discounted* account in the ledger. The entry is:

Bank	$99.50	
Interest	.50	
Bills Discounted		$100.00
Discounted Smart's note due Oct. 10th.		

90. When a Note Drawing Interest is Discounted. The above transaction presupposes that the note is given *without* interest; but if it were given *with* interest, the bank would simply add the interest to the principal and deduct the discount from the total. In the case the sum of the principal and interest ($100.00 + .50 = $100.50) is $100.50, and the discount $ .50, which would leave $100.00 as the net proceeds. If the amount of the note were larger or the interest was figured for a longer time, it would make a difference. Suppose the amount of the note to be $2,000.00, time 30 days, interest 6% per annum.

Principal	$2,000.00
Interest 30 days	10.00
Total	$ 2,010.00
Less interest on $2,010.00 for 30 days	10.05
	$ 1,999.95

Since the net amount realized is less than the face of the note, we need not consider the interest earned, but the entry would be:

Bank	$ 1,999.95	
Interest and Discount	.05	
Bills Discounted		$ 2,000.00

91. When a Note Drawing Interest is Paid. But suppose Samuel Smart's note is $100.00 for 30 days, with 6% interest, and that the note is kept by us and the money is paid directly to us when due. We shall then receive the interest, in addition to the face of the note, making a total of $100.50. The entry would then be made in the cash book on the debit side, and would be:

Bills Receivable	$100.00	
Interest and Discount	.50	
Samuel Smart's note due Oct. 10, paid to-day.		

92. When a Discounted Note is Not Paid. When we discounted Samuel Smart's note of $100.00 for 30 days without interest at the bank, we were obliged to endorse it, which had the effect of a guarantee of payment. If not paid when due, the amount would be charged to our account at the bank. The note would again come into our possession, and the amount must be debited to some account, the credit being to the bank.

We have previously credited the amount to bills discounted, and our entry is:

Bills Discounted	$100.00	
Bank		$100.00
Samuel Smart's note not paid at maturity.		

But suppose the transaction to have been the one described in Article 90. The note returned to us is $2,010.00, that being the amount of principal and interest. Our bills receivable and bills discounted accounts show the item as $2,000.00 only. Therefore we must include the $10.00 in our adjusting entries which will be:

Bills Receivable	$10.00	
Interest added to Smart's note not paid when due		
Bills Discounted	$2,000.00	
Bank		$2,010.00
Smart's note not paid at maturity.		

93. When a Note is Past Due. The above entries leave this unpaid item in the bills receivable account. If the business is one in which a large number of bills are discounted, it will be advantageous to show past due bills receivable by themselves, leaving bills receivable account to represent only paper not due. The entry for a bill unpaid at maturity would be:

Bills Receivable Past Due	$2,010.00	
Bills Receivable		$2,010.00
Smart's note past due.		

94. When a Note is Renewed. We shall now suppose that Samual Smart finds that he will be unable to pay his note when due. He comes to us and offers a new note for 30 days, which we accept. He prefers to add the interest due on the original note to the principal, and makes his note for $100.50. We then return the original note and the entry is:

Bills Receivable	$100.50	
Interest and Discount		.50
Bills Receivable		$100.00

New note given by Samuel Smart to cover note due Oct. 10, with interest.

The effect of this transaction is that we have received a new note for $100.50, and we debit bills receivable. This new note pays an older one which goes out of our possession, so we credit bills receivable. The amount of the new note includes the interest on the old, and we credit interest.

We might have gone about this in a roundabout way by making these entries:

To cancel the old note:

Samuel Smart	$100.50	
Bills Receivable		$100.00
Interest and Discount		50

Note due Oct. 10th.

To enter the new note:

Bills Receivable	$100.50	
Samuel Smart		$100.50

New note 30 days to take up note due Oct. 10th.

These entries would leave the accounts in exactly the same condition as our first entry, and would serve no useful purpose. This is given as an illustration of how several entries may be made when the transaction could be as clearly explained in one.

95. When Renewed Note Has Been Discounted. If the note which Samuel Smart has renewed has been discounted at the bank, we must reimburse the bank in some manner before we can obtain possession of the original note. The most simple way to handle this transaction will be to give the bank our check to pay the note. The entry is:

Bills Discounted	$100.00	
Interest and Discount	.50	
To Bank		$100.50

Gave check to take up Samuel Smart's note.

We shall then treat the new note as previously explained. If, after getting it recorded on the books, we wish to discount this note, the entries will be exactly the same as when we discounted the original note.

96. When We Give or Pay a Note. When we give our note, the effect of the transaction is just the opposite of the receipt of a note. Instead of adding to one class of our resources we are increasing one class of our liabilities, in return for which we either receive something of value or reduce our liabilities of another class. When we give our note in payment of a loan, we receive cash; if we buy goods and give a note in payment, we receive merchandise; if we give a note in payment of an account, we simply reduce our liabilities of one class and add to those of another.

The entries necessary to properly record transactions involving notes given or bills payable, are not so complex as is the case with transactions involving bills receivable. The following illustrations cover transactions likely to arise in the average business:

We give our note for $100.00 payable in 30 days, without interest, to Western Grocer Co. in settlement of an account. The entry is:

Western Grocer Co.	$100.00	
Bills Payable		$100.00

Note 30 days without interest

When we pay the note the entry is:

Bills Payable	$100.00	
Bank		$100.00

Check to Western Grocer Co. to pay note due Oct. 10.

97. When Our Note Has Been Discounted. The Western Grocer Co. has either discounted the note or placed it in the bank for collection, and it is presented for payment by the Merchants Bank. We give them a check in payment, and the entry is:

Bills Payable	$100.00	
Bank		$100.00

Check to Merchants Bank to pay our note to Western Grocer Co., due Oct. 10.

The entry in this case is the same as in the previous illustration, with the exception of the explanation.

98. When We Pay Our Note With Interest. We give our note to Western Grocer Co. for $100.00 payable in 30 days, with interest at 6%. We pay the note by check, and the entry is:

Bills Payable	$100.00	
Interest and Discount	.50	
Bank		$100.50

Paid Western Grocer Co. note due Oct. 10, by check No. 10.

99. When We Discount Our Note. We wish to borrow $100.00 from the bank, and give our note for the amount, payable in 30 days. The bank discounts the note, placing the proceeds to our credit. The rate of interest charged is 6%. Our entry is:

Bank	$99.50	
Interest and Discount	.50	
Bills Payable		$100.00

Note for $100.00, 30 days discounted at bank.

100. When We Pay for Goods With Our Note. We buy goods from Michigan Milling Co. to the amount of $100.00, and tender our note at 30 days with interest, in payment. This makes it unnecessary for us to open an account with Michigan Milling Co. and the entry is:

Purchases	$100.00	
Bills Payable		$100.00

Invoice #16 from Michigan Milling Co.
Gave note for 30 days with interest at 6%.

101. When We Renew a Note. When this note is due, we find it inconvenient to pay, and give a new note for 30 days, adding the interest now due to the face of the original note. The amount of the new note is $100.50, and the entry is:

Interest and Discount	$ .50	
Bills Payable	100.00	
Bills Payable		$100.50

New note given Michigan Grocer Co. to renew note due Oct. 10, $100.00, interest $ .50, 30 days, with interest.

102. When We Renew Our Discounted Note. When our note given to the bank is due, we find it inconvenient to pay the entire amount. We give the bank a check for $50.00, and a new note at 30 days for the balance. The bank always collects interest in advance, so we shall be obliged to give them our note for $50.00 plus the interest, or $50.25. In effect, the bank discounts our note for $50.25, the proceeds, $50.00, paying the balance of our note now due. The entry is:

Bills Payable	$100.00	
Interest and Discount	.25	
Bank		$50.00
Bills Payable		50.25

Gave check for $50.00 to apply on note due at bank to day.
Discounted new note for $50.25, payable in 30 days.

JOURNALIZING DRAFTS

103. When a draft has been accepted, it should be treated the same as any other form of bill receivable or bill payable. If we make a draft on a customer, which he accepts, it becomes a bill receivable. If we accept a draft drawn on us, it becomes a bill payable.

Sight drafts are frequently made use of as a convenient means of collecting an account. Such drafts are taken to our bank for collection, but they do not give us credit for the amount until the draft is paid. Drafts of this kind, which are placed with the bank for collection only, are not treated as bills receivable, as we do not credit the account of the one on whom it is drawn until payment is received.

104. When Our Sight Draft is Paid. We draw on Samuel Smart at sight for $50.00 through our bank. When paid, we receive credit at the bank for the amount, less collection charges. The entry in our journal is:

Bank	$49.90	
Interest and Discount	.10	
Samuel Smart		$50.00

Paid sight draft

105. When Discounting Time Draft. Samuel Smart owes us $100.00, and while the amount is not due for 30 days, we have reason to believe that he will accept a draft payable in 30 days. We accordingly draw on him through our bank. Our reason for doing this is that his acceptance will be a promise to pay, and our bank will then discount the draft. The draft is accepted, and our bank notifies us that the proceeds have been placed to our credit, the draft being discounted at 6%. The entries are:

Bills Receivable	$100.00	
Samuel Smart		$100.00
Samuel Smart accepted our 30-day draft		
Bank	99.50	
Interest and Discount	.50	
Bills Discounted		$100.00
Discounted Samuel Smart's 30-day acceptance.		

106. When We Accept. When we accept a draft payable at a future date, it immediately becomes a bill payable and should be so treated.

We accept the 30-day draft of the Western Grocer Co. for $200.00. Our journal entry is:

Western Grocer Co.	$200.00	
Bills Payable		$200.00
Accepted 30-day draft.		

107. When We Pay an Acceptance. When this draft is due, we pay it, giving our check to the bank. The entry is:

Bills Payable	$200.00	
Bank		$200.00
Gave check to pay draft of Western Grocer Co.		

108. When We Pay a Sight Draft. Instead of accepting a time draft, we pay a sight draft of Western Grocer Co. for $200.00. In this case it has not become a bill payable, and our entry is:

Western Grocer Co.	$200.00	
Bank		$200.00
Check to Merchants Bank to pay sight draft.		

EXAMPLES FOR PRACTICE

The following examples are to be journalized by the student after he has become thoroughly familiar with the transactions previously explained:

— Nov. 6 —

Received from Jackson & Co. their note for $214.00 without interest, payable in 30 days, in full settlement of account.

— Nov. 6 —

Received from David Newman his note for $650.00 with interest at 6%, payable in 30 days, in settlement of account. We discounted this note at First National Bank.

— Nov. 7 —

Paid our note given Oct. 6, to National Spice Co., amount $150.00 with interest at 6%. This note was paid by check #11 to Mechanics Bank.

— Nov. 8 —

Bought from Valley Mills on our note for 30 days with interest at 6%, 100 bbls. flour at $5.25 per bbl.

— Nov. 9 —

Discounted our note for $1,000.00, 30 days, at First National Bank.

— Dec. 6 —

Jackson & Co., paid their note due to-day, $214.00.

— Dec. 6 —

David Newman paid $300.00 on his note due to-day. Gave new note for balance due, payable in 30 days with interest at 6%.

— Dec. 8 —

Paid our note to Valley Mills by check #11.

— Dec. 9 —

Paid $500.00 on our note to First National Bank by check #12. Gave new note for $500 payable in 30 days, interest at 6%.

— Dec. 9 —

Andrew White paid sight draft, $42.60, through First National Bank, exchange $ .10.

— Dec. 9 —

J. D. Jenks accepted our 30-day draft for $140.00, which we discounted at First National Bank at 6%.

— Dec. 10 —

Accepted a 30-day draft for $75.00 drawn by Eastern Woodenware Co.

— Dec. 11 —

Gave First National Bank our check for $90.00 to pay 60-day draft of Farwell & Graves accepted by us Oct. 11.

— Dec. 12 —

Gave First National Bank our check for $41.00 to pay sight draft of Dun & Co.

SINGLE-ENTRY BOOKKEEPING

INTRODUCTION

1. Single-entry Bookkeeping is adapted to personal accounts and to most small businesses where the proprietor is able personally to oversee and to manage the establishment. And, in its appropriate field, it is as superior to the more complex double-entry methods as they are to single entry for use in the larger establishments where the manager must see the workings of the business in hand through the reports of assistants.

2. Theoretically, single-entry books keep account only with persons.

3. The books essential for single-entry accounting vary with the nature of the business in hand. In any case, a ledger (see a standard form, pages 13–15), is required; and, if the pages are broad enough to permit of details being written in, this one book might well be sufficient. Each ledger page, as shown in the illustrations, is divided into two parts. Charges *against* the person whose name heads the page are entered, by custom, on the left-hand side; credits are entered on the right-hand side. The difference between the total of the left-hand (debit) items and the total of the right-hand (credit) items shows the balance still due *to* or *from* the person whose name heads the account.

4. Ordinarily, however, transactions are entered, in detail, in a separate book (usually called the Day Book), in order of occurrence and under their respective dates; and afterward posted, or transferred in summary, to the proper ledger accounts with references back to the page of the book of original entry where the details may be found. Sometimes, also, a cashbook is kept and used partly as a perpetual inventory of cash and partly, also, as a book of original entry; and postings of personal account items are made from it. (See page 12.)

Other books are the bill book, the sales book, etc., according to the needs of the particular business.

5. If the books are correctly kept, the condition of a business at any date can be as accurately told by the single-entry as by the customary double-entry method; because, in each case, all property values are determined by inventory. Moreover, the advantage of comparing conditions at one date with conditions at a different date (known in double-entry work as a comparative Balance Sheet) can be had as well by the one method as by the other and the loss or gain between any two dates can be as certainly told by the one as by the other method. But errors are more likely to pass unnoticed in single entry and there are fewer internal checks and certain other results and advantages arising out of keeping a record of *the sources* of losses or gains, so prominent a feature in double-entry bookkeeping which cannot be secured at all by the single-entry method. Neither is it possible by single entry to tell what property *ought to be* on hand at any date. Sometimes this factor is determined in single entry, for cash and less frequently for merchandise, by the keeping of a Cash or a Merchandise account. But it must be remembered that such accounts are no part of single-entry bookkeeping.

6. A Journal may be, but very seldom is, used in single-entry work. More commonly the journal feature is introduced into the day book by means of an extra money column, one being reserved for debit items and the other for credit items, thus making a day-book-journal (See pages 9–11); but ordinarily a day book has only *one* money column. The method of proof of single-entry work varies with the form of day book and whether posting is made from the cashbook; but ordinarily a checking or review of the work is accepted as sufficient.

SAMPLE TRANSACTIONS

7. In the following pages there is presented first, a statement of an investment made by one Wm. Webster in the grocery business and a record of his subsequent transactions for a short period, sufficient to illustrate the system of single-entry account keeping. The style of books used is not the simplest form but presents a combined day-book-journal, that is, an itemized record of the several transactions in order of occurrence together with a showing, by use of different money columns, of whether the

several transactions require a debit or a credit in the ledger, or book of accounts; and a cashbook which is used also as a book of original entry and postings made from it as from the day-book-journal.

To begin with, the proprietor is assumed to be investing, in the grocery business, all his assets and liabilities; hence such entries must be made in his day-book-journal and in his cashbook as will provide for opening in his new books a full record of the assets and liabilities existing on the date of opening; because no entries are to be made in the ledger unless details of same are to be found either in the day-book-journal or in the cashbook. Hence the simple statement of assets and liabilities found at the top of page 9 and from which accounts are opened in the ledger with the different persons from whom money is due to Webster and to whom money is due from him and also a credit to Wm. Webster's account for his net worth.

No account is opened with Merchandise or with Cash but in this case a memorandum of receipts and disbursements of cash is kept in the cashbook: hence the check (√) mark opposite these titles in the day-book-journal. This check mark means "*not to be posted.*"

8. Now, taking the first transaction of Mr. Webster as a grocer, we have a sale of goods to Henry Norton. Since Norton does not pay for the goods, he is to be charged and entry is made accordingly in the day-book-journal, giving details of the transaction and entering the sum to be charged in the left-hand money column to indicate that it is to be carried into the ledger as a charge (or debit) item. Dates are given as of course. Posting to the ledger is usually done after close of business for the day.

The sale to John Smallwood is handled in like manner.

On the 21st we have notice of cash sales $14.10. Some person or persons bought goods to that amount and paid for them so no account is to be opened and the only entry required is one in the cashbook to record the amount of cash received.

On the 22nd cash was given out for goods. No person is to be either debited or credited but we do wish to record the disbursement of cash and hence the entry in the cashbook.

On the 24th there is record of $25.00 paid to John Smallwood on account. An entry of $25.00 in the money column on the right hand side of the cashbook will record the payment and keep the cashbook balance in agreement with the actual amount of cash on hand; the entry of the date when it was paid, and the name of the person to whom it was paid, standing only as memoranda accounting for the payment of the money. But this is not sufficient. We must credit John Smallwood's account for the money paid. This can be done either through an entry in the day-book-journal, which means extra work — practically making the same entry over again with only a slight change in form — or by using the memorandum entry in the cashbook as the "original entry" of the transaction and posting direct from the cashbook to the ledger. This latter method is to be used in the Wm. Webster set.

The receipt of $26.25 from Henry Norton on the 25th is handled in like manner only it is a receipt instead of a payment of cash and involves a credit instead of a debit ledger entry.

Watch the different transactions that require a debit or a credit to some person and trace their entry through the day-book-journal or cashbook into the ledger. It is not a difficult proposition and you will readily learn the method used.

The business is opened by Wm. Webster on the 21st day of November, 190–. He is to conduct a retail grocery business and has rented a store from Wm. Bristol at a monthly rental of $30.00. His resources consist of cash, $600.00; a stock of groceries, $946.50; personal accounts due him as follows: Henry Norton $25.00, L. B. Jenkins $22.70. His liabilities consist of two accounts, as follows: Brewster & Co., $115.20; Warsaw Milling Co., $64.00. The opening entry recording the above, is made in the journal as in double entry, but only personal items are posted. Cash is transferred to the cash book.

— Nov. 21 —

Sold to Henry Norton on account

10# sugar	5½¢	$ .55
2 cans corn		.25
1 can peas		.15
3# rice		.30
		1.25

— 21 —

Sold to John Smallwood on account		
5# butter		$1.00
4# lard		.50
1 doz. eggs		.25
		1.75

— 21 —

Cash sales		14.10

— 22 —

Sold to Harry Webster on account		
7 bars Lenox soap		.25
1 pkg. gold dust		.20
1 pkg. matches		.15
¼ bbl. flour		1.35
		1.95

— 22 —

Bought for cash		
10 doz. eggs	.21	2.10

— 23 —

Bought from H. Kling & Co. on account		
244# hams	.12½	22.50
201# lard	.07½	15.08
		45.58

— 23 —

Sold to F. W. Bradley on account		
2 bu. potatoes		1.60

— 23 —

Sold to C. D. Glover on account		
1 bbl. apples		3.25
5 gal. vinegar		1.25
		4.50

— 23 —

Cash sales		13.20

— 24 —		
Sold to A. C. Maybury on account		
1# bkg. powder		$ .50
1# corn starch		.10
1# soda		.10
1 pkg. jello		.20
		.90
— 24 —		
Sold to John Smallwood on account		
2# cheese		.32
1 bottle vanilla		.35
1# coffee		.35
1# tea		.60
		1.62
— 24 —		
Bought from John Smallwood on account		
100 bu. potatoes	.60	60.00
— 24 —		
Paid John Smallwood		
Cash on account		25.00
— 24 —		
Cash sales		15.00
— 25 —		
Paid Brewster & Co.		
Cash on account		115.20
— 25 —		
Sold to L. B. Jenkins on account		
½# pepper		.20
12# ham	.14	1.68
		1.88
— 25 —		
Received from Henry Norton		
Cash		26.25
— 25 —		
Cash sales		13.00

— 26 —

Credited Wm. Bristol		
for one month's rent		$30.00

— 26 —

Sold to Wm. Bristol on account		
11# ham	.14	1.54
1 qt. bottle olives		.50
2# coffee		.70
20# sugar	.05½	1.10
		3.84

— 26 —

Sold to C. D. Glover on account		
¼ bbl. flour		1.35
1# bkg. powder		.50
7 cks. borax soap		.25
		2.10

— 26 —

Paid cash for clerk hire	8.00

— 26 —

Cash sales	18.70

— 28 —

Sold to H. N. Shaw on account	
1 bu. potatoes	.80
1 doz. cans corn	1.50
	2.30

— 28 —

Sold to Watkins Hotel Co. on account		
10 bu. potatoes	.75	7.50
50# lard	.10	5.00
20# ham	.13½	2.70
		15.20

— 28 —

Cash sales	9.45

	— 29 —	
Bought from Lowell & Sons on account		
500# sugar	$.04\frac{3}{4}$	$23.75
50 gal. molasses	.30	15.00
		38.75
	— 29 —	
Bought from Star Salt Co. on account		
10 bbls. salt	.80	8.00
	— 29 —	
Sold to R. H. Sherman on account		
1# coffee		.25
1# chocolate		.45
1 qt. olive oil		1.35
$\frac{1}{4}$# ginger		.15
$\frac{1}{4}$# pepper		.15
1 pkg. mince meat		.10
2# lard		.25
		2.70
	— 29 —	
Cash sales		14.35
	— 30 —	
Received from F. W. Bradley on account		
Cash		1.60
	— 30 —	
Paid Warsaw Milling Co. on account		
Cash		64.00
	— 30 —	
Sold to John Smallwood on account		
1 bbl. salt		1.10
	— 30 —	
Sold to D. E. Johnson on account		
10# lard	.10	1.00
1# bkg. powder		.50
1 pk. apples		.35
		1.85

—30—

Bought for cash		
5 bu. apples	1.00	$ 5.00

—30—

Cash sales	$17.90

To determine the loss or gain for the period in business, find from the ledger the amount of the balances due to or from the various persons with whom dealings have been had on credit. Take into account the cash on hand as shown by the cashbook and the value of the merchandise as shown in sec. 9. Make up a statement as illustrated on page 16 and compare the result with the net worth at beginning.

			Dr.	Cr.
	Nov. 21			
	My Resources are			
✓	Cash	600.00		
✓	Mdse., groceries	946.50		
2	Henry Norton Acct due me Dr.		25.00	
3	L. B. Jenkins Acct due me Dr.		22.70	
	My Liabilities are			
4	Brewster & Co. Acct due them Cr.			115.20
5	Warsaw Milling Co. Acct due them Cr.			64.00
✓	Wm Webster Net Invest. Cr.			1415.00
	-21-			
2	Henry Norton Dr.			
	To 10# sugar 5½	.55		
	2 cans corn	.25		
	1 can peas	.15		
	3# rice	.30	1.25	
	-21-			
6	John Smallwood Dr.			
	To 5# butter	1.00		
	4# lard	.50		
	1 doz eggs	.25	1.75	
	-22-			
7	Harry Webster Dr.			
	To 7 bars lenox soap	.25		
	1 pkg. gold dust	.20		
	1 " matches	.15		
	¼ bbl flour	1.35	1.95	
	-23-			
8	H. Kling & Co. Cr.			
	By invoice			45.58
	-23-			
9	D. W. Bradley Dr.			
	To 2 bu potatoes		1.60	
	-23-			
10	C. D. Glover Dr.			
	To 1 bbl apples	3.25		
	5 gal vinegar	1.25	4.50	
	Forward		58.75	1639.78

Single-Entry Day-book-Journal

	Nov. 24			
11	A. C. Maybury	Dr	58 75	1659 78
	To 1# bkg. powder	.50		
	1# cornstarch	.10		
	1# soda	.10		
	2 pkg. jello	.20	90	
	-24-			
6	John Smallwood	Dr		
	To 2# cheese	.32		
	1 bottle vanilla	.35		
	1# coffee	.35		
	1# tea	.60	1 62	
	-24-			
6	John Smallwood	Cr.		
	By 100 bu potatoes	.60		60 00
	-25-			
3	L. B. Jenkins	Dr		
	To ½# pepper	.20		
	12# ham .14	1.68	1 88	
	-26-			
12	Wm Bristol	Cr.		
	By 1 months rent			30 00
	-26-			
12	Wm Bristol	Dr		
	Fo 11# ham .14	1.54		
	1 bottle olives	.50		
	2 lbs. coffee	.70		
	20 " sugar	1.10	3 84	
	-26-			
10	C. D. Glover	Dr.		
	To ¼ bbl. flour	1.35		
	1# bkg. powder	.50		
	7 cks. borax soap	.25	2 10	
	28			
13	H. N. Shaw	Dr.		
	To 1 bu potatoes	.80		
	1 doz cans corn	1.50	2 30	
			71 39	1749 78

Single-Entry Day-book-Journal

	Nov. 28				
14	Watkins Hotel Co. Dr			71 39	1727 78
	To 10 bu. potatoes	75	7.50		
	50# lard	10	5.00		
	20# ham	13½	2.70	15 20	
	-29-				
15	Lowell & Sons Cr				
	By invoice				38 75
	-29-				
16	Star Salt Co. Cr				
	By invoice				8 00
	-29-				
17	R. H. Sherman Dr.				
	To 1# coffee		.25		
	1# chocolate		.45		
	1 qt. olive oil		1.35		
	¼# ginger		.15		
	¼# pepper		.15		
	1 pkg. mince meat		.10		
	2# lard		.25	2 70	
	-30-				
6	John Smallwood Dr.				
	To 1 bbl. salt			1 10	
	-30-				
18	D. E. Johnson				
	To 10# lard	.10	1.00		
	1# bkg. powder		.50		
	1 pk. apples		.35	1 85	
				92 24	1774 53

Cash Dr. Cash Cr.

Nov. 21	✓	Cash invested		600 00	Nov. 21	✓	Bought for cash 10 doz eggs		2 10
	✓	Cash sales		14 10	24	6	John Smallwood on acct.	25 00	
23	✓	" "		13 20	25	4	Brewster & Co. on acct.	115 20	
24	✓	" "		15 00	26	✓	Paid for clerk hire		8 00
25	2	Henry Norton on acct.	26 25		30	5	Warsaw Milling Co on acct.	64 00	
	✓	Cash sales		13 00		✓	Bought for cash 5 bu apples		5 00
26	✓	" "		18 70				204 20	204 20
28	✓	" "		9 45			Balance		524 25
29	✓	" "		14 35					
30	9	F. W. Bradley, on acct.	1 60						
	✓	Cash sales		17 90					
			27 85	27 85					
				743 55					743 55
Nov. 30		Cash on hand		524 25					

Single Entry Cash Book

Wm Webster

					Nov.	21		1	1415 00

2

Henry Norton

Nov.	21		1	25 00	Nov.	25	C	1	26 25
			1	1 25					
				26 25					26 25

3

L. B. Jenkins

Nov.	21		1	22 70					
	25		2	1 88					

4

Brewster & Co.

Nov.	25	C	1	115 20	Nov.	21		1	115 20

5

Warsaw Milling Co.

Nov.	30	C	1	64 00	Nov.	21		2	64 00

6

John Smallwood

Nov.	21		1	1 75	Nov.	24		2	60 00
	24		2	1 62					
	24	C	1	25 00					
	30		3	1 10					

7

Harry Webster

Nov.	22		1	1	95						

8

H. Kling & Co.

						Nov.	23		1	45	58

9

F. W. Bradley

Nov.	23		1	1	60	Nov.	30	C	1	1	60

10

C. D. Glover

Nov.	23		1	4	50						
	26		2	2	10						

11

A. C. Maybury

Nov.	24		2		90						

12

Wm Bristol

Nov.	26		2	3	84	Nov.	26		2	30	00

13

H. N. Shaw

Nov.	20		2	2 30					

14

Watkins Hotel Co.

Nov.	28		3	15 20					

15

Lowell & Sons

					Nov.	29		3	38 75

16

Star Salt Co.

					Nov.	29		3	8 00

17

R. H. Sherman

Nov.	29		3	2 70					

18

D. E. Johnson

Nov.	30		3	1 85					

Ledger Balances

	Nov. 30	Dr.	Cr.
1	Wm Webster		1415.00
3	L. B. Jenkins	24.58	
6	John Smallwood		30.53
7	Harry Webster	1.95	
8	H. Kling & Co.		45.58
10	C. D. Glover	6.60	
11	A. C. Maybury	.90	
12	Wm Bristol		26.16
13	H. N. Shaw	2.30	
14	Watkins Hotel Co.	15.20	
15	Lowell & Sons		38.75
16	Star Salt Co.		8.00
17	R. H. Sherman	2.70	
18	D. E. Johnson	1.85	
		56.08	1564.02
	Difference	1507.94	
		1564.02	1564.02

Proof	Dr.	Cr.
Postings from journal	92.24	1776.53
Postings from cash book	204.20	27.85
	296.44	1804.38
Difference	1507.94	
	1804.38	1804.38

Proof of Single Entry Ledger

Statement of Assets and Liabilities

Nov. 30			
Assets			
Cash	*Cash Book*	524.25	
Accounts Receivable	*Ledger*	56.08	
Merchandise	*Invty.*	1042.77	
Total assets			1623.10
Liabilities			
Accounts Payable, Ledger		149.02	
Total liabilities			149.02
Present Worth			1474.08
Investment			1415.00
Net Profit			59.08
Entry in Journal			
Wm Webster	*Cr*		
By net profit			59.08

Single Entry Profit and Loss Statement

DETERMINING THE PROFIT

9. Having no nominal accounts, we cannot close through trading account into profit and loss, but must use another method to find the profit or loss for a given period. It will be necessary to first ascertain the present worth of the business. Therefore the first step will be to take an inventory, just as we would if closing a double entry ledger. Our inventory shows merchandise \$1,042.77. Next we will make a statement of assets and liabilities, following the same form as the balance sheet when the books are kept by double entry. This will give us the present worth.

From the present worth, we will deduct the capital investment (or the present worth at the time of making the last statement) which will show the profit for the period. If the present worth is less than the capital investment, the business shows a loss.

It will be noted that while this method shows net profits, it does not show how those profits were made. Having no accounts with purchases and sales, we can have no trading account to show gross profits, and without expense accounts there is no data from which to make up a detailed profit and loss statement. Herein is one of the shortcomings of the single entry method of bookkeeping.

CLOSING THE BOOKS

10. To close a single entry ledger, all that is necessary is to credit the proprietor's investment account, or any account representing capital, with the net gain, or else to debit the account selected with the net loss.

EXERCISE

On a certain date the assets and liabilities of David Henry are as follows:

Assets	
Cash	$450.00
Due from sundry debtors	75.20
Merchandise per inventory	762.50
Liabilities	
Due sundry creditors	144.00

The following transactions are recorded:

Sales to sundry persons on account	44.71
Bought from sundry persons on account	337.54
Sold for cash	94.90
Received cash on account	62.00
Paid cash on account	132.50
Paid cash for rent	35.00
Paid cash for clerk hire	7.00

At the close of the period in which these transactions were recorded, the inventory of merchandise on hand was $987.75.

First. Open single entry books, entering these transactions in the journal and cash book.

Second. Post to ledger using the terms *Debtor* and *Creditor* to represent account of customers and those from whom goods were purchased.

Third. Prove the ledger.

Fourth. Make a statement of assets and liabilities.

Fifth. Has there been a gain or a loss, and how does it affect the account of the proprietor?

CHANGING TO DOUBLE ENTRY

11. How to change the method of keeping a set of books from single to double entry is an important question to the bookkeeper, for he may be called upon any time to do the work. When once understood, the change involves only very simple entries. The routine may be briefly described as follows:

First. Prepare a statement of assets and liabilities.

Second. Enter this statement in the journal and post to the ledger, debiting all accounts which represent assets and crediting all accounts which represent liabilites. Credit proprietor's account with the difference, which is the present worth.

If a new ledger is to be opened, new accounts will be opened for each form of asset or liability represented in the entry.

If the old ledger is to be used new accounts are to be opened with assets and liabilities not already represented by accounts in the ledger, and the net gain only will be credited to the proprietor's account. Check personal accounts, but do not post.

Third. Take a trial balance to see if the ledger is in balance, as it should be after posting these entries.

EXERCISE

Following the rules given, change the books of David Henry to double entry using the old ledger.

Show necessary journal entry and indicate what new accounts must be opened.

CHANGING PARTNERSHIP BOOKS TO DOUBLE ENTRY

12. We will suppose that the ledger illustrated in the following model set (pages 23 – 27) represents the business of Benton, Douglas, and Kemp, and that the books have been kept by single entry.

They wish to adopt the double entry method and call you in to make the necessary changes in their books.

Your first step is to make a statement of the ledger accounts, including all except the capital accounts of the partners. This statement gives you the following information:

Personal Accounts, *Debit Balances*	$ 189.25
Personal Accounts, *Credit Balances*	2,828.50
Cash in Bank	7,313.73

You also balance the cash book and compare the balance with the cash in drawer, and find that the amount shown, $21.60, is correct.

In the meantime an inventory is being taken. When completed, the results shown are:

Merchandise	$2,114.50
Furniture and Fixtures	2,000.00

The next step is to make a statement of assets and liabilities for the purpose of finding the present worth of the business.

STATEMENT OF ASSETS AND LIABILITIES

Assets		
Cash in Bank (Ledger)	$7,313.73	
Cash in Office (Cash Book)	21.60	
Personal Accounts (Ledger)	189.25	
Merchandise (Inventory)	2,114.50	
Furniture and Fixtures (Inventory)	2,000.00	
Total Assets		$11,639.08
Liabilities		
Personal Accounts (Ledger)		2,828.50
Present Worth		8,810.58

The capital accounts of the partners show the original investment to have been $9,000.00, which is more than the present worth. Deducting the latter from the former will give the net loss.

Investment	$9,000.00
Present Worth	8,810.58
Net Loss	189.42

The partnership agreement provides that profits and losses are to be shared equally, but contains no reference to the payment of interest on withdrawals, or allowance of interest on personal credits.

The statement of assets and liabilities is entered in the journal and accounts opened in the ledger with *merchandise inventory* and *furniture and fixtures*—the only items not already represented by ledger accounts. To complete the change and balance the ledger the following single entry is made in the journal and posted to partners' personal accounts.

James Benton	Dr.	$63.14
Horace Douglas	Dr.	63.14
Henry Kemp	Dr.	63.14

A trial balance will now show the ledger to be in balance.

You have followed the routine necessary to change the books of a partnership from single to double entry under the conditions given. A general rule to be followed is to ascertain the present worth, make the partnership adjustment as in single entry, and post as in changing books of a single proprietorship.

EXERCISE

The books of Lancaster, Jenkins, and Stubb have been kept by single entry, but they desire to change to double entry.

The partnership agreement provides that each partner shall share in the profits in proportion to his net investment. Separate accounts are kept with each partner to cover his investment and withdrawals.

The following is a statement of the ledger accounts as they appeared December 31st. The balances of partners' investment accounts are the same as when the last adjustment was made, no additional investments having been made during the present period.

STATEMENT OF LEDGER

Lancaster,	Investment	Credit	Balance	$2,000.00
Jenkins	"	"	"	1,500.00
Stubb	"	"	"	1,500.00
Personal Accounts		"	"	900.00
"	"	Debit	"	2,200.00
Lancaster,	Withdrawals	"	"	325.00
Jenkins	"	"	"	250.00
Stubb	"	"	"	175.00
Bank	"	"	"	2,150.00
Cash in office				50.00

An inventory is taken and shows the value of merchandise in stock to be $1,850,00, fixtures $300.00.

First. Transfer debit balances of partners' withdrawal accounts to investment accounts.

Second. Show entries to make the partnership adjustment and to change books to double entry.

Third. Indicate by check (✓) what accounts are not to be posted, the old ledger being used.

James Benton—Capital 1

					Mar.	1			3000 00

2

Horace Douglas—Capital

					Mar.	1			3000 00

Henry Kemp—Capital 3

					Mar.	1			3000 00

4

Second National Bank

Mar.	13			7745 00	Mar.	13			431 27

D. H. Lyon 5

Mar.	11			15 50					

6

R. H. Homans

Mar.	8			11 00					

Single Entry Partnership Ledger

7

H. J. Watson

Mar	3			20	50

8

H J Meyer

Mar	11			10	50

9

D. Andrews

Mar	4			12	50

10

Jas. Hayes

Mar	4			6	75

11

R. D. Nelson

Mar	5			11	00

12

D. Needham

Mar	5			7	50

When but one or two clerks are employed, it is possible to record these sales in a counter book or blotter; but in a larger business employing several clerks, this method would be extremely inconvenient. The bookkeeper would be obliged to wait for the books; and even if two sets of counter books were provided for use on alternate days, the work would always be at least one day behind.

The increase in the volume of business transacted, and the multiplicity of transactions in a retail store, have been responsible for the introduction of many labor-saving methods and devices. One of these now used in all large stores and in many small ones, is the *sales ticket.*

The sales ticket is to all intents and purposes a small invoice blank. Sales tickets are put up in pads or in book form, and are numbered in duplicate. The number is prefixed by a letter—as *H* 10—which is intended to indicate either the department or the sales person. When a sale is made, the ticket or bill is made in duplicate by means of carbon paper; one copy is given to the customer, and the other retained. If it is a cash sale, the copy retained goes to the cashier with the money; if a sale on account, to the bookkeeper to be charged.

These sales tickets are also used for taking orders for future delivery, both copies being retained until the order is filled. When delivery is made, one copy goes to the customer as a bill. Aside from the time saved, the sales ticket is a great convenience, as its use gives the customer a bill for every purchase.

DEPARTMENTAL RECORDS

24. When the goods sold are divided into departments, it is here customary to record carefully the purchases and sales for each department. These records are provided for by the use of purchase and sales books having as many columns as there are departments. Let us suppose that the business under consideration is a single proprietorship, and that the goods sold are clothing, shoes, and furnishings. Each class of goods is kept in a separate department, sales and purchases being recorded by departments.

25. Purchase and sales books of a special design are used, each having three special columns. It will be noted that neither purchases nor sales are recorded in detail, but that both purchase invoices and sales tickets are recorded by number, and only the totals extended in the proper column. The charges and credits are posted to personal accounts from the purchase and sales books. All purchase invoices are filed in numerical order. The sales tickets are kept in bundles, each day's tickets by themselves. The tickets of each department and each sales person are also kept by themselves. If it becomes necessary at any time to know the items of an invoice or sales ticket, it is an easy matter to refer to the files under the proper date and number for the desired information.

The combined totals of the three department columns must equal the footing of the total column. All footings are carried forward until the end of the month, when the totals are posted directly to purchase and sales accounts, completing the double entry. In the ledger, purchase and sales accounts are kept with each department; but when the books are closed, the results from all departments are combined in the trading account. Instead of recording cash sales in a special column in the cash book, all receipts of this kind are entered in the regular *cash received* column. These sales are not posted from the cash book, but are entered in the sales book daily. Thus they are carried forward in the footings, and at the end of the month the totals of the sales book represent all sales, both on account and for cash.

26. The cash book in this set presents some new features. Instead of using both pages of the book, one page is used for both debit and credit. The bank account is also kept in the cash book, debit and credit columns being provided for this purpose. Deposits are entered in the bank debit column and in the cash credit column. Checks are entered in the bank credit column and posted to individual accounts. The other books used are the journal and ledger. The journal is used only for adjusting entries which cannot be made through the other books.

SAMPLE TRANSACTIONS USING STANDARD LEDGER FORMS

27. The business is opened by C. D. Walker, who invests $3,500.00 cash, which he deposits in the bank. The following transactions are recorded:

— Jan. 12 —

Bought from Hart Schaffner & Marx, Chicago

50 suits	$13.30	$665.00
15 "	16.50	247.50
		$912.50

Net; 2% 10.
Invoice #1.

— Jan. 12 —

Bought from Hamilton Brown Shoe Co., St. Louis

30 pr. shoes	2.25	67.50
30 " "	4.25	127.50
10 " "	1.50	15.00
		210.00

Net 60; 2% 10.
Invoice #2.

— Jan. 14 —

Bought from Farwell & Co., Chicago

1 doz. shirts	13.50	13.50
2 " "	9.00	18.00
4 " "	6.25	25.00
2 " sox	1.50	3.00
1 " "	2.00	2.00
10 " underwear	6.50	65.00
5 " hdkfs.	1.10	5.50
		132.00

Net 60; 2% 10.
Invoice #3.

— Jan. 14 —

Bought from Barr Dry Goods Co., St. Louis

12 doz. collars	.75	9.00
12 " "	1.10	13.20
		22.20

Net 30.
Invoice #3.

— Jan. 15 —

Sold to S. W. Martin, 842 3d Av., on account	
Sales ticket A 4.	25.00
S. T. B 6	4.50
S. T. C 18	6.00
	35.50

— Jan. 15 —

Sold for cash	
Clothing	148.70
Furnishings	26.50
Shoes	54.00
	229.20

— Jan. 15 —

Paid Hart, Schaffner & Marx account	
Check #1	894.25
Discount	18.25
	912.50

— Jan. 16 —

Sold to A. R. Crane, 1162 Baker St., on account	
S. T. B 7	3.00

— Jan. 17 —

Sold to D. H. Whipple, 476 Lake St., on account	
S. T. A 12	27.50
Paid cash on account	10.00

— Jan. 17 —

Received from S. W. Martin	
1 shirt, for exchange	1.50
Sold him on account	
1 shirt	2.00
S. T. B 9	

— Jan. 17 —

Sold for cash	
Department A	200.00
" B	64.00
" C	87.50
	351.50

— Jan. 19 —

Sold to C. D. Lewis, 64 Ferry Av., on account	
S. T. B 11	6.50
S. T. C 23	3.50
	10.00

— Jan. 19 —

Paid Hamilton Brown Shoe Co., on account	
Check #2	205.80
Discount	4.20
	210.00

— Jan. 19 —

Paid clerk hire, cash	12.00

— Jan. 19 —

Paid store rent to D. C. Watson	
Check #3	50.00

— Jan. 19 —

Sold for cash	
Department B	37.50
" C	35.00
	72.50

— Jan. 19 —

Deposited in bank	550.00

— Jan. 20 —

Sold to B. E Johnson, 92 King St., on account	
S. T. A 15	20.00

— Jan. 20 —

Sold for cash	
Department A	75.00
" B	21.25
	96.25

— Jan. 20 —

Deposited in bank	100.00

—Jan. 20—

Paid freight bills			
Department A			8.75
" B			3.42
" C			4.20
Check #4 to C. D. Jenks, Agt.			16.37
The inventory on Jan. 20 is:			
Clothing			$ 487.00
Furnishings			30.50
Shoes			64.50

BALANCE SHEET, JAN. 20

Assets

Cash			
Bank	$2,983.58		
Office	97.45		
		$3,081.03	
Accounts Receivable			
Martin	36.00		
Crane	3.00		
Whipple	17.50		
Lewis	10.00		
Johnson	20.00		
		86.50	
Merchandise (Inventory)		582.00	
			$3,749.53

Liabilities

Accounts Payable			
Farwell	132.00		
Barr	22.20	154.20	154.20
Present Worth			$3,595.33

Jan.	17	18	Furnishing Sales	1 50	
		7	S. W. Martin, Ret'd Goods		1 50

PURCHASES

DATE		INV. NO.	FOLIO	FROM WHOM	ADDRESS	TOTAL	CLOTHING	FURNISHINGS	SHOES
Jan.	12	1	2	Hart Schaffner & M.	Chicago	912 50	912 50		
		2	3	Ham. Brown Shoe Co.	St. Louis	210 00			210 00
	14	3	4	Farwell & Co.	Chicago	132 00		132 00	
	14	4	5	Barr Dry Goods Co.	St. Louis	22 20		22 20	
						1276 70	912 50	154 20	210 00
	20		12	Clothing	Purchases	912 50			
			13	Furnishing	"	154 20			
			14	Shoe	"	210 00			
						1276 70			

DATE		SALE NO.	FOLIO	TO WHOM	ADDRESS	TOTAL	CLOTHING	FURNISHINGS	SHOES
Jan.	15	A4	7	S.H. Martin	842-3rd Ave	35 50	25 00		
		B6	✓	" "				4 50	
		C11	✓	" "					6 00
			✓	Cash Sales		229 20	148 70	26 50	54 00
	16	B7	8	A.R. Crane	1162 Baker St	3 00		3 00	
	17	C12	9	D.H. Whipple	476 Lake St.	27 50	27 50		
		B9	7	S.H. Martin		2 00		2 00	
			✓	Cash Sales		351 50	200 00	64 00	87 50
	19	B11	10	C.D. Lewis	64 Ferry Ave.	10 00		6 50	
		C23	✓	" "					3 50
			✓	Cash Sales		72 50		37 50	35 00
	20	A15	11	B.E. Johnson	92 King St.	20 00	20 00		
			✓	Cash Sales		96 25	75 00	21 25	
						847 45	496 20	165 25	186 00
			18	Clothing	Sales	496 20			
			19	Furnishing	"	165 25			
			20	Shoe	"	186 00			
						847 45			

Departmental Sales Book

Cash

DATE		FOLIO		DISCOUNT DR.	DISCOUNT CR.	CASH DR.	CASH CR.	BANK DR.	BANK CR.
Jan	11	1	C.D. Walker, Prop.			3500.00			
		✓	Deposit				3500.00	3500.00	
	15	2	Hart, Schaffner & Marx ch1		18.25				894.25
	15	✓	Cash Sales			229.20			
	17	9	D.H. Whipple on a/c			10.00			
		✓	Cash Sales			351.50			
	19	3	Hamilton Brown S Co. ch2		4.20				205.80
		15	Expense Clerk hire				12.00		
		16	Rent, D.C. Watson ch3						50.00
		✓	Cash Sales			72.50			
		✓	Deposit				550.00	550.00	
	20	✓	Cash Sales			96.25			
		✓	Deposit				100.00	100.00	
		✓	C.D. Jenks, agt. Freight ch4						16.37
		12	Clothing Purchases 8.75						
		13	Furnishing 3.42						
		14	Shoe 4.20						
		✓	Cash Balance				97.45		
		17	Interest—Disc. earned	22.45	22.45	4259.45	4259.45	4150.00	1166.42
		6	Bank Deposits	4150.00					
		6	" Withdrawals		1166.42				
Jan.	20		Cash Balance			97.45			

Cash Book Including Bank Account

Proprietor 1

					7500 00	1		Jan	12
					95 33	22	Profit & Loss Acct	Jan	20

2 Hart Schaffner & Marx Chicago

Jan	15	ck	1	894 25	912 50	1		Jan	12
	"	Disc	1	18 25					

Hamilton Brown Shoe Co. St Louis 3

Jan	19	ck	1	205 80	210 00	1		Jan	12
	"	Disc	1	4 20					

4 Farwell & Co Chicago

					132 00	1		Jan	14

Barr Dry Goods Co. St Louis 5

					22 20	1		Jan	14

6

Bank

Jan	20		1	4150 00	1166 42	1		Jan	20

S. W. Martin 842-32nd Ave. 7

Jan	15		1	35 50	1 50	1	J	Jan	17
	17		1	2 00					

8

A. R. Crane 1162 Baker St

Jan	16		1	3 00					

D. H. Whipple 476 Lake St. 9

Jan	17		1	27 50	10 00	1		Jan	17

10

C. D. Lewis 64 Ferry Ave

Jan	19		1	10 00					

Center Ruled Ledger

B. E. Johnson 92 King St. 11

Jan	21		1	20 00					

12 Clothing Purchases

Jan.	20		1	912 50	921 25	21	L.F. Trading	Jan.	20
	20	c	1	8 75					

Furnishing Purchases

Jan	20		1	154 20	157 62	21	L.F. Trading	Jan	20
	20	c	1	3 42					

14 Shoe Purchases

Jan.	20		1	210 00	214 20	21	L.F. Trading	Jan.	20
	20	c	1	4 20					

Expense 15

Jan	19		1	12 00	12 00	22	L.F. Profit & Loss	Jan.	20

17

Interest

Jan	20	Profit & Loss LF	22	22 45	22 45	1		Jan	20

18

Clothing Sales

Jan	20	Trading LF	21	496 20	496 20	1		Jan	20

16

Rent

Jan	19		1	50 00	50 00	22 LF	Profit & Loss	Jan	20

19

Furnishing Sales

Jan	17	J	1	1 50	165 25	1		Jan	20
Jan	o	Trading LF	21	163 75					
				165 25	165 25				

20

Shoe Sales

Jan	20	Trading LF	21	186 00	186 00	1		Jan	20

Trading

Jan	20	Clothing Purch	11	921 25	496 20	18	Clothing Sales	Jan 20
		Furnishing "	12	157 62	163 75	19	Furnishing "	
		Shoe "	13	214 20	186 00	20	Shoe "	
		Profit & Loss	22	134 88	582 00		Inventory	Jan 20
				1427 95	1427 95			

22

Profit & Loss

Jan	20		15	12 00	134 88	LF 21	Trading	Jan 20
	20		16	50 00	22 45	17	Interest	20
		Proprietor LF	1	95 33				
				157 33	157 33			

Merchandise Inventory

23

Jan.	20	Clothing		487 00				
		Furnishings		30 50				
		Shoes		64 50				

Center Ruled Ledger

Trial Balance

		Dr.	Cr.
1	Proprietor		3500 00
4	Farwell & Co.		192 00
5	Barr Dry Goods Co.		22 20
6	Bank	2983 58	
7	S. W. Martin	36 00	
8	A. R. Crane	3	
9	D. H. Whipple	17 50	
10	C. D. Lewis	10 00	
11	B. E. Johnson	20 00	
12	Clothing Purchases	921 25	
13	Furnishing "	157 62	
14	Shoe "	214 20	
15	Expense	12 00	
16	Rent	50 00	
17	Interest		22 45
18	Clothing Sales		496 20
19	Furnishing "		163 75
20	Shoe "		186 00
	Cash	97 45	
		4522 60	4522 60

Trial Balance

EXERCISE

28. Take a trial balance of the ledger accounts as they appear after the books are closed Jan. 20.

At the close of business, Feb. 28, we find that the following transactions have been recorded:

Purchased clothing from Hart, Schaffner & Marx, $1,500.00; from Brokau Bros., $720.00.

Purchased furnishings from Barr Dry Goods Co., $60.00; from Rosenthal & Co., $437.50.

Purchased shoes from Brown Shoe Co., $460.00.

Sold on account, clothing, $600.00; furnishings, $224.40; shoes, $112.00.

Sold for cash, clothing, $789.50; furnishings, $302.90; shoes, $447.25.

Received cash on account, $672.20.

Received returned goods: clothing, $15.00; shoes, $7.00.

Deposited cash in bank, $2,230.00.

Paid cash for expenses, $10.00.

Gave checks as follows: Hart, Schaffner & Marx, $1,176.00; Brokau Bros., $705.60; Brown Shoe Co., $294.00; Farwell & Co., $132.00; Barr Dry Goods Co., $22.20; Rosenthal & Co., $428.75; rent, $50.00; expenses, $100.00.

Cash discounts earned on accounts paid as follows: Hart, Schaffner & Marx, $24.00; Brokau Bros., $14.40; Brown Shoe Co., $6.00; Rosenthal & Co., $8.75.

Take a new trial balance as the ledger accounts appear after posting these transactions.

The inventory, Feb. 28, is:

Clothing	$1,790.50
Furnishings	176.40
Shoes	136.25
	$2,103.15

Close the books, make statement of trading and profit and loss account. Make a balance sheet.

What were the gross profits for this period?

What were the net profits?

What is the proprietor's present worth?

PARTNERSHIP

29. Legal authorities define a partnership as a combination by two or more persons, of capital, labor, or skill, for the transaction of business for their common profit.

Partnerships may be formed for the purpose of conducting any legitimate business or undertaking, and are created by contract, expressed or implied, between the parties. Partnership agreements need not be in writing, but may be made by oral assent of the parties. Even though they are legal if made orally, partnership agreements should always be made in writing.

30. Partnership Agreements. These should state the date on which the agreement is entered into, the name of the contracting parties, the name by which the partnership is to be known, and the address of the place of business. Following should be a statement of the nature of the business, the amount and form of investment of each partner, the duration of the partnership, the basis of division of profits, provisions for the dissolution of the partnership, definition of the duties of active partners, and a provision for the division of the assets in the event of dissolution or at the termination of the partnership.

31. Kinds of Partners. Partners are of different kinds, depending on the nature of the partnership agreement and the extent of their liability, expressed or implied, as between themselves or in respect to third persons. The usual classification of partners is as follows: *ostensible, secret, nominal, silent,* and *dormant.*

Ostensible partners are those whose names are disclosed to the public as actual partners.

Secret partners are those whose names are not disclosed to the public, though participating in the profits.

Nominal partners are those who allow their names to be used as partners, though they may have no actual interest in the business. The fact of their being known as partners makes them liable to third parties.

Silent partners are those who, while sharing in the profits, take no active part in the management of the business. Their names may or may not be known. Silent partners may also be secret partners.

Dormant partners are those who are both silent and secret partners. They are usually included in a general term like *Company*, *Sons*, or *Brothers*.

32. **Participation in Profits.** The most simple partnership from an accounting standpoint is one in which the investments of the several partners are equal, and profits are to be divided equally.

This condition does not exist in all partnerships. The members of the partnership may invest unequal amounts and share in the profits on the basis of their investment. The investment may be equal, but one partner may receive an extra share of the profits in return for work performed in lieu of a salary. The investment may be unequal, but the one with the smaller investment may share equally in the profits in return for work performed. It is not unusual for a silent partner to furnish all of the capital and share equally in the profits with an ostensible partner who assumes full responsibility for the management of the business.

33. **Interest on Investment.** When the investment of the partners is unequal, it is customary to allow interest on the capital invested and to charge interest on all withdrawals. The interest on capital must be credited, and the interest on withdrawals must be charged, before profits can be distributed.

34. **Capital and Personal Accounts.** In a partnership a special account should be opened in the name of each partner to represent his investment (for example, John Smith, Capital). To this account is credited his net investment. When the books are closed, the account is credited with his share of the profits, and debited with his withdrawals.

A personal account should be opened in the name of each partner, to which is debited all withdrawals, either of money or goods. Even when the capital invested is equal, some partnership agreements provide that interest shall be charged on all withdrawals, particularly when the business is of such a nature that goods traded in are likely to be withdrawn by the partners, or when, for any reason, withdrawals are likely to be unequal. The balance of the partner's personal account is closed into his capital account when the books are closed. Before closing this account, it should be credited with interest on capital account and charged with the interest provided on withdrawals.

35. Opening the Books. When the books of a partnership are opened, the essential features of the partnership agreement should be written at the top of the first page of the journal. Next following the partnership agreement, are the entries showing the nature and amount of the investment of each partner, the amounts being posted to the credit of partners' capital accounts.

36. Closing the Books. When the books of a partnership are to be closed, the revenue accounts are closed into trading and profit and loss, the same as in any other form of business organization. The net profit is then apportioned according to agreement, the share of each partner being credited to his capital account. The balance of his personal account is then carried to his capital account; the balance of that account will then show his net investment.

Illustration of Closing Entries. A, B, and C form a partnership, each investing $1,000.00, profits to be shared equally. When the books are closed, the net profits are found to be $909.60. A's personal account shows a debit balance of $46.50; B's personal account shows a credit balance of $100.00; C's personal account shows a credit balance of $52.00. The entries are as follows:

Profit and Loss	$909.60	
To A, Capital %		$303.20
" B, " "		303.20
" C, " "		303.20
A, Capital %	46.50	
A, Personal %		46.50
B, Personal %	100.00	
B, Capital %		100.00
C, Personal %	52.00	
C, Capital %		52.00

The capital accounts after closing are:

A, Capital %

Dec. 31,	Bal. personal %	$ 46.50	$1,000.00		Jan. 1
	Balance	1,256.70	303.20	($\frac{1}{3}$ profits)	Dec. 31
		$1,303.20	$1,303.20		
			$1,256.70	net invest.	Dec. 31

B, Capital %

Dec. 31,	Balance	$1,403.20	$1,000.00		Jan. 1
			303.20	($\frac{1}{3}$ profits)	Dec. 31
			100.00	pers. %	Dec. 31
		$1,403.20	$1,403.20		
			$1,403.20	net invest.	Dec. 31

C, Capital %

Dec. 31,	Balance	$1,355.20	$1,000.00		Jan. 1
			303.20	($\frac{1}{3}$ profits)	Dec. 31
			52.00	pers. %	Dec. 31
		$1,355.20	$1,355.20		
			$1,355.20	net invest.	Dec. 31

SAMPLE TRANSACTION

37. The first business taken up for consideration under the head of partnerships is a retail shoe business. The stock is kept in three classes: men's, women's, and children's shoes. Purchase and sales books, ruled to segregate transactions of each class, are used. The bank account is kept in the cash book, which is also provided with two columns for discount. All sales, whether for cash or on account, are recorded on sales tickets.

James Benton, Horace Douglas, and Henry Kemp form a partnership under the firm name of Benton, Douglas & Kemp, for the purpose of conducting a retail shoe business in Buffalo, N. Y. The date of the agreement, which is to continue for ten years, is March 1, 1908. James Benton invests $1,000.00 in cash and a stock of shoes inventorying $2,000 00 as follows: men's, $800.00; women's, $700.00; children's, $500.00. Horace Douglas and Henry Kemp each invest $3,000.00 in cash. The three partners are to share equally in the profits and each is to receive a salary of $100.00 per month. The books are to be closed and net profits divided at the end of each three months' period counting from Jaunary 1, which brings the first distribution on March 31.

The following transactions are recorded during the month of March:

— March 1 —

Deposited in Second National Bank	$7,000.00

— March 1 —

Bought from National Fixture Co.	
Store fixtures	2,000.00
Invoice #1	

— March 1 —

Bought from John C. Morrison, Buffalo	
Men's shoes	135.00
Invoice #2	

— March 1 —

Bought from Hoyt & Co., Rochester, N. Y.	
Women's shoes	127.50
Children's shoes	84.00
	211.50
Net 60; 2% 10.	
Invoice #3	

— March 2 —

Sold to R. H. Wallace, 842 Delaware Av.	
1 pr. men's shoes	6.00
1 pr. men's slippers	2.50
	8.50

— March 2 —

Sold to D. H. Lyon, 416 Niagara St.	
1 pr. women's	3.50
1 pr. women's	4.00
1 pr. children's	2.00
	9.50

— March 2 —

Sold to Henry Norris, 297 Madison Av.	
1 pr. men's	5.00
1 pr. children's	1.25
1 pr. children's	1.50
	7.75

— March 2 —

Sold to R. H. Homans, 427 Lafayette Av.	
1 pr. women's	5.00

— March 2 —

Sold for cash	
Men's	44.00
Women's	37.50
Children's	22.00
	103.50

— March 3 —

Sold to H. J. Watson, 197 Locust St.	
2 pr. men's	15.00
1 pr. women's	5.50
	20.50

— March 3 —

Sold to H. J. Meyer, 82 Bennett St.	
1 pr. children's	1.50
1 pr. children's	2.00
1 pr. women's	3.50
	7.00

— March 3 —

Paid Hoyt & Co. bill by check
Less cash discount.

— March 3 —

Deposited in Second National Bank	75.00

— March 3 —

Paid freight on shoes in cash	2.60

— March 3 —

Sold for cash	
Men's	30.00
Women's	24.00
Children's	15.00
	69.00

— March 4 —

Bought from Lee & Co., Rochester	
Women's shoes	140.00
Net 30.	
Invoice #4	

— March 4 —

Sold to D. Andrews, 84 Peck St.	
1 pr. men's	3.50
1 pr. men's	5.00
1 pr. women's	4.00
	12.50

— March 4 —

Sold to Jas. Hayes, 519 Washington St.	
1 pr. women's	3.50
1 pr. children's	2.00
1 pr. children's	1.25
	6.75

— March 4 —

Sold for cash	
Men's	27.00
Women's	32.00
Children's	12.50
	71.50

— March 5 —

Sold to R. D. Nelson, 842 Niagara St.	
1 pr. men's	6.00
1 pr. women's	5.00
	11.00

— March 5 —

Sold to D. Needham, 47 Ames St.	
1 pr. men's	3.50
1 pr. women's	2.50
1 pr. children's	1.50
	7.50

— March 5 —

Sold for cash	
Men's	31.50
Women's	26.00
Children's	11.00
	68.50

— March 6 —

Deposited in Second National Bank	200.00

— March 6 —

Sold to D. B. Wright, 47 Andrews St.	
1 pr. men's	5.00

— March 6 —

Sold to H. N. Hoyt, 821 Delaware Av.	
1 pr. women's	5.00
1 pr. children's	2.50
	7.50

— March 6 —

Sold to Amos Wiggins, 92 Prospect St.	
1 pr. men's	5.00
1 pr. women's	3.50
	8.50

— March 6 —

Sold for cash	
Men's	52.00
Women's	36.50
Children's	18.25
	106.75

— March 6 —

Paid clerk hire, cash	9.00

— March 6 —

Gave checks as follows:	
Horace Douglas	20.00
Henry Kemp	25.00

— March 8 —

Sold to D. Altman, 127 Wright St.	
1 pr. men's	6.00
Gave him check	44.00
Credited his account for 1 mo.'s rent	50.00

— March 8 —

Sold to R. H. Homans, 427 Lafayette Av.	
1 pr. men's	6.00

— March 8 —

R. H. Wallace paid his account in full.

— March 8 —

Paid account of John C. Morrison by check

— March 8 —

Sold for cash	
Men's	25.00
Women's	18.00
Children's	10.50
	53.50

— March 9 —

Sold to Walter Jenks, 87 South Av.	
1 pr. men's	6.00
1 pr. women's	4.00
1 pr. children's	2.00
	12.00

— March 9 —

Sold to D. W. Mantel, 419 Delaware Av.	
1 pr. women's	5.00
1 pr. children's	2.50
	7.50

— March 9 —

Sold to D. C. White, 1160 Main St.	
1 pr. men's	5.00
1 pr. men's	3.50
	8.50

— March 9 —

Sold to A. R. Crows, 40 Shaw St.	
1 pr. women's	3.50

— March 9 —

Sold for cash	
Men's	54.00
Women's	41.50
Children's	20.50
	116.00

— March 9 —

Deposited in Second National Bank	275.00

— March 10 —

Sold to Henry Brown, 87 Douglas St.	
1 pr. men's	6.00
1 pr. women's	4.00
	10.00

— March 10 —

Sold to D. L. Benedict, 80 Adams St.	
1 pr. women's	3.50
1 pr. children's	2.00
1 pr. children's	1.50
	7.00

— March 10 —

Sold for cash	
Men's	48.50
Women's	39.00
Children's	16.50
	104.00

— March 11 —

Sold to D. H. Lyon, 416 Niagara St.	
1 pr. men's	6.00

— March 11 —

Received from Henry Norris, cash	7.75

— March 11 —

Sold to D. B. Wright, 47 Andrews St.	
1 pr. women's	3.50
1 pr. children's	2.00
	5.50

— March 11 —

Sold to H. J. Meyer, 82 Bennett St.	
1 pr. men's	3.50

— March 11 —

Sold for cash	
Men's	42.00
Women's	39.50
Children's	11.00
	92.50

— March 12 —

Deposited in Second National Bank	195.00

— March 12 —

Sold to D. L. Benedict, 80 Adams St.	
1 pr. men's	5.00

— March 12 —

Sold to H. A. Fisher, 42 Lyons St.	
1 pr. women's	4.00
1 pr. children's	1.50
	5.50

— March 12 —

Sold to Andrew Winters, 476 Delaware Av.	
1 pr. men's	6.00
1 pr. children's	2.50
	8.50

— March 12 —

Sold for cash	
Men's	51.50
Women's	43.00
Children's	17.75
	112.25

— March 13 —

Bought from Rochester Shoe Co., Rochester

Men's shoes	265.00
Women's "	220.00
Children's "	98.50
	583.50

Net 30; 2% 10.

— March 13 —

Sold to D. Altman, 127 Wright St.

1 pr. women's	4.00
1 pr. children's	2.50
1 pr. children's	2.00
	8.50

— March 13 —

Sold to D. Alton, 46 Eastern Av.

1 pr. men's	5.00
1 pr. women's	3.50
	8.50

— March 13 —

Sold for cash

Men's	67.00
Women's	52.00
Children's	29.00
	148.00

— March 13 —

Paid clerk hire	9.00

Henry Kemp wishes to retire from the business. His partners, Benton and Douglas, agree to pay him cash for his interest. To close the books, each partner is credited with one-half a month's salary, and the amount is charged to expense. The inventory shows the stock to be:

Inventory

Men's shoes	$759.75
Women's	835.75
Children's	519.00
	$2,114.50

Mar.	1	Mdse Inventory — Stock of shoes put in	4		
		Men's Shoes as part investment in the	-	800.00	
		Women's " partnership of Benton	-	700.00	
		Children's " Douglas & Kemp.	-	500.00	
		To James Benton	1		2000.00
		Cash	✓	7000.00	
		James Benton Cash investment	1		1000.00
		Horace Douglas in the partnership	2		3000.00
		Henry Kemp of Benton Douglas & Kemp	3		3000.00
		Store Fixtures	5	2000.00	
		National Furniture Co. Inv. No. 1.	30		2000.00
	8	Expense	36	50.00	
		To D. Altman one mo. rent of store	20		50.00
		Salaries	42	150.00	
		To James Benton	43		50.00
		Horace Douglas	37		50.00
		Henry Kemp	38		50.00
		½ month salary credited.			

Journal Showing Opening Entries for a Partnership

Cash

BANK	DISC.	CASH	DATE	LF		LF	CASH	DISC	BANK
		7000 00	Mar 1	✓	Investment (J1)				
7000 00					Second Nat. Bank	✓	7000 00		
		103 50	2	✓	Cash Sales				
			3		Hoyt & Co ck	32		4 23	207 27
75 00					Second Nat Bank	✓	75 00		
					Freight-In	35	2 00		
		69 00		✓	Cash Sales				
		71 50	4	✓	Cash Sales				
		68 50	5	✓	Cash Sales				
200 00			6		Second Nat Bank	✓	200 00		
		106 75		✓	Cash Sales				
					Expense Paid clerk hire	36	9 00		
					Horace Douglas ck	37			20 00
					Henry Kemp ck	38			25 00
			8		D. Altman ck	20			64 00
		8 50		7	R. H. Wallace on a/c				
					Jno C Morrison ck	31			135 00
		53 50		✓	Cash Sales				
		116 00	9	✓	Cash Sales				
275 00					Second Nat Bank	✓	275 00		
		104 00	10	✓	Cash Sales				
		7 75	11	9	Henry Norris				
		92 50		✓	Cash Sales				
195 00			12		Second Nat Bank	✓	195 00		
		112 25		✓	Cash Sales				
		148 00	13	✓	Cash Sales				
					Expense paid clerk hire	36	9 00		
					Balance		296 15		
7745 00		8061 75					8061 75	4 23	451 27
		7745 00		6	Second Nat Bank	6	431 27		
					Interest-Disc earned	39	4 23		
		296 15		✓	Cash Balance				

Cash Book with Center Column for Particulars

DATE		AMOUNT	L.F.	TO	ADDRESS	L.F.	MEN	WOMEN	CHILDREN
Mar.	2	8 50	7	R. H. Wallace	842 Delaware Ave		8 50		
		9 50	8	D. H. Lyon	416 Niagara St.			7 50	2 00
		7 75	9	Henry Norris	297 Madison Ave.		5 00		2 75
		5 00	10	R. H. Homans	427 Lafayette Ave			5 00	
		103 50	✓	Cash Sales			44 00	37 50	22 00
	3	20 50	11	H. J. Watson	197 Locust St.		15 00	5 50	
		7 00	12	H. J. Meyer	82 Bennet St.			3 50	3 50
		69 00	✓	Cash Sales			30 00	24 00	15 00
	4	12 50	13	D. Andrews	84 Peck St.		8 50	4 00	
		6 75	14	Jas. Hayes	519 Washington St.			3 50	3 25
		71 50	✓	Cash Sales			27 00	32 00	12 50
	5	11 00	15	R. D. Nelson	842 Niagara St.		6 00	5 00	
		7 50	16	D. Needham	47 Ames St.		3 50	2 50	1 50
		68 50	✓	Cash Sales			31 50	26 00	11 00
	6	5 00	17	D. B. Wright	47 Andrews St.		5 00		
		7 50	18	H. N. Hoyt	821 Delaware St.			5 00	2 50
		8 50	19	Amos Wiggins	92 Prospect St.		5 00	3 50	
		106 75	✓	Cash Sales			52 00	36 50	18 25
	8	6 00	20	D. Altman	127 Wright St.		6 00		
		6 00	10	R. H. Homans	427 Lafayette Ave.		6 00		
		53 50	✓	Cash Sales			25 00	18 00	10 50
	9	12 00	21	Walter Jenks	87 South Ave.		6 00	4 00	2 00
		7 50	22	D. W. Mantel	419 Delaware Ave			5 00	2 50
		8 50	23	D. C. White	1160 Main St.		8 50		
		3 50	24	A. R. Crows	40 Shaw St.			3 50	
		116 00	✓	Cash Sales			54 00	41 50	20 50
	10	10 00	25	Henry Brown	87 Douglas St.		6 00	4 00	
		7 00	26	D. L. Benedict	80 Adams St.			3 50	3 50
		104 00	✓	Cash Sales			48 50	39 00	16 50
	11	6 00	8	D. H. Lyon	416 Niagara St.		6 00		
		876 25	✓	Forward			407 00	319 50	149 75

Departmental Sales Book

Sales

DATE		AMOUNT	L.F.	TO	ADDRESS	L.F.	MEN	WOMEN	CHILDREN
		876.25	✓	Forward			407.00	319.50	149.75
Mar	11	5.50	17	D.B. Wright	47 Andrews St.			3.50	2.00
		3.50	12	H.J. Meyer	82 Bennet St		3.50		
		92.50	✓	Cash Sales			42.00	39.50	11.00
	12	5.00	26	D.L. Benedict	80 Adams St.		5.00		
		5.50	27	H.A. Fisher	42 Lyons St			4.00	1.50
		8.50	28	Andrew Winters	476 Delaware Ave		6.00		2.50
		112.25	✓	Cash Sales			51.50	43.00	17.75
	13	8.50	20	D. Altman	127 Wright St			4.00	4.50
		8.50	29	D. Alton	46 Eastern Ave		5.00	3.50	
		148.00	✓	Cash Sales			67.00	52.00	29.00
		1274.00					587.00	469.00	218.00
				Sales	– Men's	41	587.00		
				"	– Women's	✓	469.00		
				"	– Children's	✓	218.00		

Purchases

DATE		INV NO.	FROM	ADDRESS	L.F.	DUE		AMOUNT	MEN	WOMEN	CHILDREN
Mar	1	2	Jno. C. Morrison	Buffalo	31	Apr.	1	135.00	135.00		
		3	Hoyt & Co.	Rochester	32	May	1	211.50		127.50	84.00
	4	4	Lee & Co.	"	33	Apr.	4	140.00		140.00	
	13	5	Rochester Shoe Co.	"	34	"	12	583.50	265.00	220.00	98.50
								1070.00	400.00	487.50	182.50
			Purchases	Men's	40			400.00			
				Women's	✓			487.50			
				Children's	✓			182.50			

Department Sales and Purchase Books

1

James Benton—Capital

					Mar	1	Mdse Invest	J 1	2000 00
						1	Cash Invest	J 1	1000 00

2

Horace Douglas—Capital

					Mar	1	Cash Invest	J 1	3000 00

3

Henry Kemp—Capital

					Mar	1	Cash Invest	J 1	3000 00

4

Merchandise Inventory

Mar	1	Mens	J 1	800 00					
		Women's		700 00					
		Children's		500 00					

5

Store Fixtures

Mar	1		J 1	2000 00					

6

Second National Bank

Mar.	13	C.B.	1	7745 00	Mar.	13	C.B.	1	431 27

R. H. Wallace 842 Delaware Ave. 7

Mar.	2	S.B.	1	8 50	Mar.	8	C.B.	1	8 50

8

D. H. Lyon 416 Niagara St.

Mar.	2	S.B.	1	9 50					
	11		1	6 00					

Henry Norris 227 Madison Ave. 9

Mar.	2	S.B.	1	7 75	Mar.	11	C.B.	1	7 75

10

R. H. Homans, 427 Lafayette Ave.

Mar.	2	S.B.	1	5 00					
	8		1	6 00					

Classified Ledger Accounts

11

H. J. Watson 197 Locust St.

Mar	3	S.B.	1	20 50				

12

H. J. Meyers 82 Bennet St.

Mar	3	S.B.	1	7 00				
	11		2	3 50				

13

D. Andrews 84 Pick St.

Mar	4	S.B.	1	12 50				

14

Jas. Hayes 519 Washington St.

Mar	4	S.B.	1	6 75				

15

R. D. Nelson 842 Niagara St.

Mar	5	S.B.	1	11 00				

Classified Ledger Accounts

16 — *D. Needham 47 Ames St.*

Mar	5	S.B.	1	7 50					

D.B. Wright 47 Andrews St. — 17

Mar	6	S.B.	1	5 00					
	11		2	5 50					

18 — *H. N. Hoyt 821 Delaware*

Mar	6	S.B.	1	7 50					

Amos Wiggins 92 Prospect — 19

Mar	6	S.B.	1	8 50					

20 — *D. Altman 127 Wright*

Mar	8	S.B.	1	6 00	Mar	13	J	1	50 00
	13		2	8 50					
	8	C.B.	1	44 00					

21

Walter Jenks 87 South Ave.

Mar	9	S.B.	1	12	00

22

D.W. Mantel 419 Delaware Ave

Mar	9	S.B.	1	7	50

D.C. White 1160 Main St. 23

Mar	9	S.B.	1	8	50

24

A.R. Crows 40 Shaw St.

Mar	9	S.B.	1	7	50

Henry Brown 87 Douglas St. 25

Mar	10	S.B.	1	10	00

Classified Ledger Accounts

26 D. L. Benedict 80 Adams St.

Mar.	10	S.B.	1		7 00						
	12		2		5 00						

H. A. Fisher 42 Lyons St. 27

Mar.	12	S.B.	1		5 50						

28 Andrew Winters 476 Delaware

Mar.	12	S.B.	2		8 50						

D. Alton 46 Eastern Ave. 29

Mar.	13	S.B.	2		8 50						

30 National Furniture Co.

						Mar.	1	J	1		2000 00

31

John C. Morrison, Buffalo

Mar	8		C.B.	1	135 00	Mar	1	P.B.	1	135 00

32

Hoyt & Co. Rochester

Mar	3	Disct	C.B.	1	4 23	Mar	1		P.B.	1	211 50
		Ck			207 27						

33

Lee & Co. Rochester

						Mar	4	P.B.	1	140 00

34

Rochester Shoe Co. Rochester

						Mar	13	P.B.	1	513 50

35

Freight In

Mar	3		C.B.	1	2 60					

36

Expenses

Mar	6	C.B.	1	9 00					
	12		1	9 00					
	13	J	1	50 00					

37

Horace Douglass-Personal

Mar	6	C.B.	1	20 00	Mar	13	J	1	50 00

38

Henry Kemp-Personal

Mar	6	C.B.	1	25 00	Mar	13	J	1	50 00

39

Interest & Discount (Earned)

					Mar	13	C.B.	1	4 23

40

Purchases

Mar	13	Men P.B.	1	400 00					
		Women	1	487 50					
		Children	1	112 50					

Classified Ledger Accounts

Sales 41

					Mar	1	Men's S.B.	2	587 00
							Women's		469 00
							Children's		218 00

42 Salaries

Mar.	13	J	1	150 00					

James Benton Personal 43

					Mar.	13	J	1	50 00

44

45

EXERCISE

38. 1. Submit a trading account, and a profit and loss account as shown by the books at the close of the day's business, March 13.

2. Submit a balance sheet.

3. Submit the journal entries to be used in apportioning the profits, and in closing partners' personal account. Show partners' capital accounts after final closing.

4. Submit proper entries when Kemp's interest is purchased, assuming that he is paid by check from the funds in hand.

5. Submit trial balance of ledger of Benton & Douglas as the accounts appear after the purchase of Kemp's interest. Remember that no additional capital is invested.

39. Sale of Partnership. The sale of a partnership involves, of course, a closing of the partnership books and a settlement of partnership affairs. Ordinarily, if the sale is for a lump sum, there is nothing to do but to make a new balance sheet showing the asset of cash and the unpaid liabilities together with a statement of losses or gains since the last settlement and to charge or credit the several partners' accounts according to the articles of copartnership. This being done, each partner's account will show the portion of the net worth due him and the distribution can be made to the firm creditors and to the partners according to their several accounts. Complications may arise, however, when a partner has made loans to the firm or when partners have personal liabilities in excess of the value of their private holdings. In general firm creditors have precedence in the distribution of firm assets but a partner who is also a firm creditor must defer to other firm creditors but takes firm assets ahead of personal creditors of his associate partners.

40. Dissolution. A partnership may be dissolved in any one of a variety of ways. In general, anything which changes the original contract relation effects a dissolution. So, the death of a partner means a dissolution of the partnership and a winding up of its business unless the articles of copartnership provide for its further continuance. So, also, the admission of a new partner is a dissolution of the old and may quite materially affect the rights of creditors of the old firm—some decisions going so far as to hold that the new partner, in the absence of an express negation duly called to the attention of creditors of the old firm, becomes liable for the debts of the old as well as of the new firm. So a sale by one partner of his interest in a partnership, to any one, effects a dissolution of the partnership.

When the business of a partnership is dissolved, the accounting which necessarily results must depend upon the mode of dissolution. The establishment may be put in charge of one or more of the partners who will dispose of the assets, pay the firm's debts, and apportion the profits or losses; or the establishment may be placed in the hands of a trustee who shall settle the company's affairs; or, the partners may divide the assets at agreed prices.

41. Benton and Douglas agree to continue the business and to share profits equally. At the close of business, Dec. 31, their balance sheet showed the following:

Balance Sheet, Dec. 31

	Assets		
Cash			
In office	$ 144.60		
In bank	1,287.20	$1,431.80	
Accounts Receivable	810.00		
Inventory, Merchandise	3,769.50	4,579.50	
Inventory, Fixtures	2,000.00	2,000.00	
Total Assets			$8,011.30
	Liabilities		
Accounts Payable			925.20
Present Worth			$7,086.10
Benton's present worth			$3,543.05
Douglas's present worth			3,543.05

They accept an opportunity to sell for cash the stock and fixtures, the buyer agreeing to pay 15% above cost price for the merchandise, and cost price for the fixtures. The money received from this transaction, and the money in the office at time of sale, are deposited in the bank. Checks are drawn to settle all accounts payable, $7.22 discount being earned. In liquidating the business of the firm, Benton agrees to accept the accounts receivable in part payment of his share, on condition that 10% be first charged off to cover uncollectable accounts.

EXERCISE

1. Show all entries required to complete the liquidation of this business.

2. At the final settlement, how much cash does each partner receive?

42. Division of Profits. When the investment of the several partners is unequal, the partnership agreement usually provides for the crediting of interest on capital, and the charging of interest on withdrawals.

A and B form a partnership, and commence business Oct. 1. A invests $7,000.00, and B invests $3,000.00. The agreement provides that interest at 6% shall be credited on capital and charged on withdrawals at the time of closing the books, profits to be shared on the basis of their investments.

The books were closed Oct. 31, with the following results:

TRADING a/c

Purchases	$6,450 00	Sales	$4,460 00
Profit	1,150 00	Inventory Oct. 31	3,140 00
	$7,600 00		$7,600 00

PROFIT AND LOSS

Expense	$ 116 00	Trading a/c	$1,150 00
Rent	30 00		
Profit	1,004 00		
	1,150 00		$1,150 00
		Balance	$1,004 00

A, CAPITAL

		Oct. 1, Investment	$7,000 00

B, CAPITAL

		Oct. 1, Investment	$3,000 00

A, Personal a/c

Oct. 15		$200 00

B, Personal a/c

Oct. 20		$100 00

The adjustment is made as follows:

A's investment,	$7,000.00	Interest for 30 days (1 month)	$35.00
A's withdrawals	200.00	Interest for 15 days	.50
		Net interest to be credited to A	$34.50
B's investment,	$3,000.00	Interest for 30 days	$15.00
B's withdrawals,	100.00	Interest for 10 days	.17
		Net interest to be credited to B	$14.83

The journal entry is:

Interest	$49.33	
A's personal a/c		$34.50
B's personal a/c		14.83

Net interest credited on capital accounts.

After posting the entry, our interest account shows the following:

Interest on capital	$49.33

This account is, of course, closed into profit and loss, leaving net profits to be divided, $954.67, of which A receives 70%, and B 30%.

For the final closing of the books, we would close the personal accounts of A and B into their capital accounts, and close profit and loss account into their capital accounts. In actual practice the interest on withdrawals and investment would be entered and charged to profit and loss through interest account, before the net profit is brought down. In our illustration we have first brought down what appears to be the net profit, for the purpose of emphasizing the fact that the interest must be considered before profits are divided.

WHOLESALE AND STORAGE ACCOUNTS

WHOLESALE BUSINESS

In this section complete methods of bookkeeping as practiced in wholesale houses are demonstrated. Numerous modern methods that are readily adaptable to other lines of business are illustrated and explained in detail.

DIVIDING THE LEDGER

1. There are many advantages in dividing the ledger into sections. The sub-divisions most commonly used are purchase ledger, sales ledger, and general ledger. Such divisions greatly facilitate posting and reduce the chances of error. While it is advisable in most cases to use a separate book for each division, the three ledgers may be combined in one book by setting aside a section for each. This practice is not recommended except where the number of accounts is small, when general and purchase ledgers or purchase and sales ledgers may be combined. The division of the ledger into three sections does not necessitate radical changes, either in form or method of handling, in the other books.

2. **Purchase Ledger.** The purchase ledger contains only accounts with those from whom we are making purchases. The balances of the accounts in this ledger will be on the credit side and represent a liability. The total balance of the purchase ledger is the amount we owe on open accounts. If, for example, our purchases on account during a stated period amount to $964.50, and the amount paid on account by us is $320.30, we still owe $644.20. If the work is correct the combined balances of all open accounts in the purchase ledger will exactly equal this amount.

3. **Sales Ledger.** The sales ledger contains only accounts with customers to whom goods are sold on account. The balances of the accounts in the sales ledger will be on the debit side and represent an asset. The total balance of the sales ledger is the amount that our customers owe us on open accounts. Suppose that a business is started with no open accounts receivable—during a stated period the sales on account amount to $1,427.75, and the total payments received on account are $965.50 — the amount still outstanding is $462.25, and this amount should exactly equal the combined balances of all the open accounts in the sales ledger.

The sales ledger is sometimes sub-divided into two or more parts. The divisions may be City and Country or they may be according to the letters of the alphabet—as A-K, L-Z, etc.

4. **Accounts in Both Ledgers.** Occasionally one from whom we are purchasing goods will also be a customer. For reasons which will appear later, accounts should, in these cases, be opened in both the purchase ledger and the sales ledger. When settlement of such an account is made, the necessary adjusting entries are made through the journal.

5. **General Ledger.** The general ledger contains the investment accounts of the proprietor or partners, and all real, representative, and nominal accounts. Accounts with the purchase and sales ledgers are also kept in this ledger. These are *controlling accounts* which represent at all times the total balances of the purchase and sales ledgers.

When statements of the other ledgers have been made and proved correct, a trial balance of the general ledger is made.

CONTROLLING ACCOUNTS

6. A controlling account is one which exhibits a summary of all of the accounts in a ledger, or of all accounts of the same class.

The sales account, with which the student has been made acquainted, exhibits net sales, while a *sales controlling account* exhibits a summary of all accounts in the sales ledger. The *debits* to the sales controlling account represent the total debits to customers' accounts as shown by the sales book or the journal. The *credits* to the sales controlling account represent the total credits to customers as shown by the cash book and the journal. This account is variously styled

Sales Ledger Account, Accounts Receivable Account, or Sales Controlling Account.

A *purchase controlling account* exhibits a summary of all accounts in the purchase ledger. It is called a Purchase Ledger Account, Accounts Payable Account, or Purchase Controlling Account.

These controlling accounts are kept in the general ledger and show at all times the totals of accounts receivable and accounts payable, without the necessity of listing the individual balances. At the end of the month statements of the balances of the accounts in purchase and sales ledgers are made, and the totals of these balances must agree with the balances of the controlling accounts.

The operation of these controlling accounts demonstrates one of the most apparent advantages of the division of the ledger. If an error is made in posting to an account in the sales ledger it is discovered as soon as the statement of the sales ledger is made, and can be located without referring to purchase or general ledger accounts. Without the ledger division and the use of controlling accounts, there would be nothing to assist in locating an error in the trial balance in any particular section of the ledger.

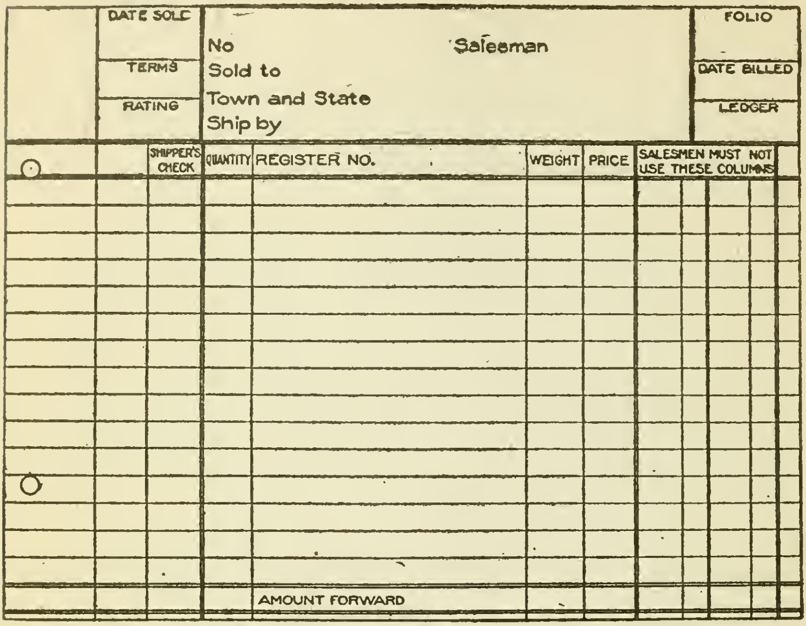
ORDER BLANKS

7. In a wholesale business it is customary to have all orders entered on specially ruled order blanks of a uniform size. These orders are filed in a binder designed for the purpose, which takes the place of the old style order book.

These order blanks are furnished to salesmen who send in their orders on them. When an order is received direct from the customer it, also, is transcribed on one of these blanks so that all order records will be uniform. One very appreciable advantage in the use of this loose sheet system of order blanks is that all unfilled orders are kept in a binder by themselves.

8. Filling Orders. Each day the orders to be filled should be placed in a temporary binder or holder and sent to the warehouse. The packer will check quantities shipped and return the order, together with the shipping receipt from the railroad or express company, to the bookkeeping department.

The amounts are extended, and the invoice is made out from this order blank. The sale is next recorded in the sales book. Instead of entering each item in the sales book the totals for each department are entered in the proper column. Each sale is numbered in the sales book and the same sales number is placed on the order.



Order Blank

These orders are then filed in the binder for filled orders in exact numerical order, which brings them also in the order of the dates of shipment.

SALES BOOK

9. The sales book used in this set exhibits some features not heretofore shown. At the right are three columns for the distribution of sales. At the left, in addition to columns for date and folio, are two columns headed cash and sales ledger. All cash sales are entered in the cash column, and all sales on account are entered in the sales ledger column. At the end of the week or month the total of the sales ledger column is posted to the debit of the *sales ledger account* in the general ledger, while the totals of the sales columns at the right are posted to the credit of the *sales account* in the general ledger.

INVOICE REGISTER

10. A form of purchase book, which also combines an invoice register, is shown in this set. Unlike the forms of purchase book with which the student has been made familiar, this invoice register gives full particulars as to terms, discount, when due, and when and how paid.

The combined footings of the two department columns must of course agree with the footing of the amount column. At the end of the month the total of the amount column is posted to the credit of *purchase ledger account* in the general ledger, and the totals of the department columns are posted to the debit of the *purchase account* in the general ledger.

The details of payment are kept in the invoice register as a memorandum only. This provides a convenient record of unpaid invoices, showing when each is due.

CASH BOOK

11. In this set we introduce a columnar cash book which also serves as a journal for cash transaction and is known as a cash journal. The principal advantage of a columnar book lies in the opportunity to introduce columns with special headings for accounts to which entries are frequent. Not only does this permit of carrying footings to the end of the month with one posting to the ledger account, but it provides a convenient classification of receipts and expenditures with a complete segregation of items of a given class.

In the form illustrated, columns are provided on the debit side for cash, purchase ledger (subdivided for discount and amount), bank deposits, and sundries; on the credit side, cash, sales ledger (subdivided for discount and amount), cash sales, bank withdrawals, and sundries. At first glance it might appear that this form is a departure from the regular form of cash book, but it should be remembered that the cash columns are the only ones having anything to do with the cash account. A cash receipt is entered in the cash debit column, but the amount is credited to its source through the proper credit column; thus a payment received on account is debited to cash and credited through the sales ledger column. A deposit is credited to cash and debited to bank deposits; the payment of a purchase ledger account by check is credited to bank withdrawals, and debited to purchase ledger account.

The discount columns are memorandum columns only, the net cash being entered in the amount columns under purchase and sales ledger. These columns are included that the total payment may be posted to personal accounts in purchase or sales ledger. The totals of these columns are to be posted to discount and interest accounts at the end of the month.

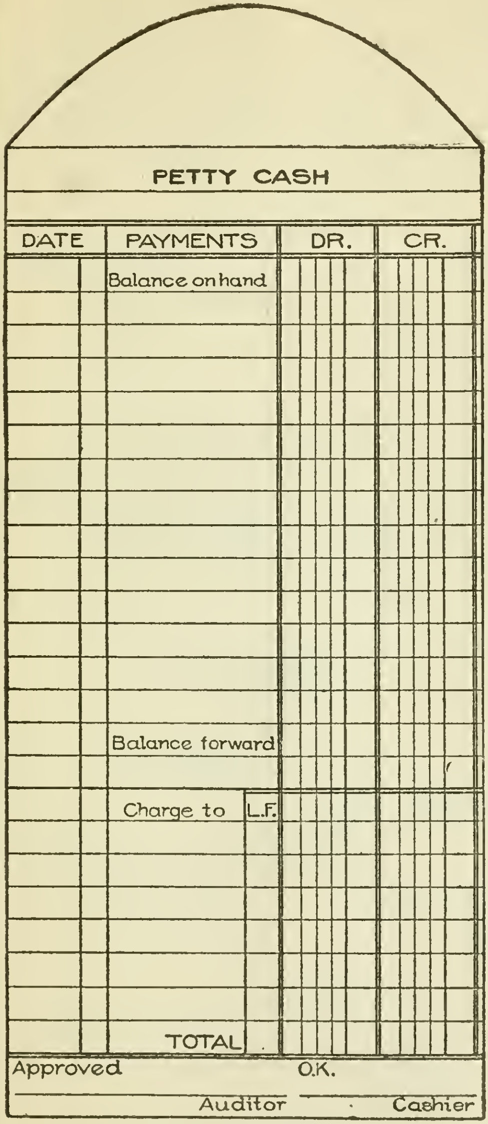
The total amount to be posted to the debit of the purchase ledger account and to the credit of sales ledger account is made up of the totals of the discount and amount columns.

The sundries columns are provided for all entries for which there are no special columns and are used principally for transactions affecting general ledger accounts. These columns are sometimes used for ordinary journal entries not involving an exchange of cash, but their use for this purpose is strongly advised against. The cash book should be used exclusively for recording cash transactions. When columnar purchase, sales, and cash books are used, the journal is only needed for adjusting and closing entries, and for this purpose it is best to provide an ordinary two-column journal.

SUBDIVISION OF EXPENSE ACCOUNT

12. In every business there are several classes of expense and it is very useful to know the exact amount of each class. When all expenses are charged under one head, it is impossible to determine without considerable checking, whether or not any particular class of expense is more than it should be. It is customary, therefore, to subdivide expense and to open accounts in the ledger for different classes of expense. Some subdivisions in common use are rent (paid), insurance, taxes, interest and discount, in freight, out freight, salaries, labor, fuel, office supplies, telegraph and telephone, postage, general expense, etc. The exact subdivisions used must of necessity be governed by the nature of the business. For instance, the item of telegraph and telephone charges may be of importance in one business, while in another, the number of such charges would be so small that a separate account is not warranted.

PETTY CASH VOUCHER



Petty Cash Voucher

13. A form of envelope voucher for petty cash is illustrated. A strong manilla envelope in what is known as size #10 takes the place of the petty cash book. It is ruled for a record of payments, and a receipt for each payment is placed in the envelope. At the bottom is a space for a distribution of the amounts to the proper accounts. When the petty cash fund is depleted—or at stated intervals—a check is drawn for the amount expended and it is charged through the cash book, leaving petty cash intact. The amount of the petty cash fund is considered as cash on hand, and the voucher envelope accounts for any part of the fund not actually in the cash drawer. Petty cash should be used sparingly, as it is intended only for small expense items when it is inconvenient to give a check. When the books are closed, the petty cash expenditures may be charged through the cash book as cash payments, instead of drawing a check.

TREATMENT OF PROTESTED PAPER

14. When a note, draft, or check is protested, the bank will charge us with the protest fee in addition to the face of the paper. The total amount must then be charged to the one from whom the paper was received. Suppose the check of Jones & Laughlin for $100.00 goes to protest and is returned to us with a protest fee of $2.50—the entry will be:

Jones & Laughlin	$102.50	
Sales Ledger		
Bank		$102.50
Check No. 16 given to First Nat. Bank to cover J. & L. check for $100.00, protest fee $2.50.		

WHOLESALE ACCOUNTING SET ILLUSTRATED

15. D. A. Hall is engaged in the business of a wholesale dealer in men's and boys' clothing. On Feb. 1st. his balance sheet is

Balance Sheet, Feb. 1st, 1909.

Assets

Cash			
In Bank		$1,765.20	
In Office		125.00	
Total Cash			$1,890.20
Accounts and Bills Receivable			
Bills Receivable		850.00	
Henry James, Due Feb. 5	350.00		
David Traver & Co., Due Feb. 15	500.00		
Accounts Receivable		1,124.00	
Frank Weitz	234.00		
John Gorham	150.00		
George Golden	300.00		
Clayton & Co.	275.00		
Henry Ames	165.00		
Total Accounts and Bills Rec.			1,974.00

Inventory				
Men's clothing		$2,240.00		
Boys' "		1,200.00		
Total Inventory			$3,440.00	
Total Assets				$7,304.20

Liabilities

Accounts and Bills Payable				
Bills Payable		650.00		
Henry Weir & Co., Due Feb. 7	450.00			
A. Stein & Co., Due March 1	200.00			
Accounts Payable		675.00		
D. Meyer & Bro.	150.00			
Altman & Sons	350.00			
Garson & Co.	175.00			
Total Accounts and Bills Payable			1,325.00	
Total Liabilities				1,325.00
Present Worth				5,979.20

The following transactions are entered on the books:

— Feb. 1st —

Sold to D. A. Marcus & Son			
10 overcoats	7.50	75.00	
10 men's suits	6.75	67.50	142.50

— 1st —

Sold to H. A. Branch		
15 boys' suits	3.50	52.50

— 1st —

Rec'd from Geo. Golden	
Cash on account	150.00

— 2nd —

Deposited in 1st Nat. Bank	150.00

	— 2nd —		
Sold to John Gorham			
10 men's suits	7.00	70.00	
10 men's suits	6.50	65.00	$135.00
	— 2nd —		
Sold to Larson & Anderson			
5 boys' suits	2.75	13.75	
10 men's suits	6.50	65.00	78.75
	— 2nd —		
Sold for cash			
Men's clothing		37.50	
	— 3rd —		
Sold to Tallman & Co.			
15 men's overcoats	7.25	108.75	
	— 3rd —		
Paid 1 month's rent, Ck. No. 1		75.00	
	— 3rd —		
Received from John Gorham			
Cash on account		150.00	
	— 4th —		
Bought from Carson & Scott			
36 men's corduroy coats	3.00	108.00	
12 men's corduroy coats	3.50	42.00	150.00
Terms 2/10, 1/30, n/60			
	— 4th —		
Deposited in 1st Nat. Bank		187.50	
	— 4th —		
Sold to Harris & Rogers			
12 men's corduroy coats	3.75	45.00	
5 overcoats	8.00	40.00	85.00
	— 4th —		
Received from Frank Weitz			
Note at 30 days, 6%		234.00	

— 5th —

Sent to D. Meyer & Bro. Ck.			
No. 2		$150.00	

— 5th —

Received from Henry James			
Cash to apply on note		200.00	
Cash for interest		1.75	$201.75
New note 30 days, 6%			150.00

— 5th —

Bought from Adler & Co.			
50 men's suits	6.25	312.50	
Terms 3/10, 1/30, n/60			

— 5th —

Paid salesman's salary Ck.			
No. 3		25.00	

— 5th —

Drew for personal use Ck.			
No. 4		50.00	

— 7th —

Sold to Henry Ames			
20 men's suits	7.50	150.00	
10 boy's suits	2.75	27.50	177.50

— 7th —

Sold to Ackley & Son			
10 boy's overcoats	3.00	30.00	
10 boy's suits	2.75	27.50	57.50

— 7th —

Received from Clayton & Co.			
Check to apply on acct.		200.00	

— 7th —

Deposited in 1st Nat. Bank		401.75	

— 7th —

Paid our note to H. Weir & Co.			
Check No. 5		450.00	

— 8th —

Sold to H. J. Andrews

10 men's overcoats	8.00	80.00	
12 men's corduroy coats	4.50	54.00	$134.00

— 8th —

Paid express on shipment from
Carson & Scott, Ck. No. 6 .90

— 8th —

Received from Henry Ames
Cash on account 165.00

— 8th —

Sold for cash
1 job lot boy's clothing 87.50

— 9th —

Deposited in 1st Nat. Bank 252.50

— 9th —

Received from bank, check of
Clayton & Co., protested
for non-payment.

Amount of check	200.00
Protest fees	2.50

— 10th —

Sold to Harris & Landis

10 men's overcoats	7.75	77.50

— 10th —

Sold to Frank Weitz

12 men's corduroy coats	3.75	45.00

— 10th —

Paid Carson & Scott

Check No. 7	147.00
Discount 2%	3.00

— 10th —

Paid electric light bill
Check No. 8 3.75

JOURNAL

DATE			F.	DR.	CR.
Feb.	1	Cash			
		Bank	2	1765 20	
		Cash	✓	125 00	
		Bills Receivable	3	850 00	
		Henry James 350 00	✓		
		David Traver & Co 4/10 500 00	✓		
		Sales Ledger	4	1124 00	
		Frank Weitz 234 00	1		
		John Gorham 150 00	2		
		Geo. Golden 300 00	3		
		Clayton & Co. 275 00	4		
		Henry Ames 165 00	5		
		Inventory	5	3440 00	
		Men's 2240 00	✓		
		Boy's 1200 00	✓		
		Bills Payable	6		650 00
		Henry Weir & Co 450 00	✓		
		A. Stein & Co 200 00	✓		
		Purchase Ledger	7		675 00
		D. Meyer & Bro. 150 00	1		
		Altman & Sons 350 00	2		
		Garson & Co. 175 00	3		
		D. A. Hall, Prop. Net invest.	1		5979 20

Opening Entry in Journal

JOURNAL

DATE			F.	DR.	CR.
Feb.	4	Bills Receivable	3	234 00	
		Frank Weitz, Note 30 days Int 6%	7		234 00
		Sales Ledger	4		
	5	Bills Rec. – New note from H. James	3	150 00	
		Bills Rec. 30 days, 6% in part payment of note now due	3		150 00
	9	Clayton & Co.	4	202 50	
		Sales Ledger Ch. of C&Co protested	4		
		First Nat. Bk. ch. 200.00 protest fee 2.50	2		202 50
	10	Trading a/c	14	3903 40	
		To Mdse. Inv. Inv. 2/1	5		3440
		Purchases To date	9		463 40
		Sales a/c To date	8	1219 00	
		Mdse. Inv. Inv. 2/10	5	3146 50	
		To Trading a/c	14		4365 50
		Profit & Loss	15	103 75	
		To Rent	11		75 00
		Salaries	12		25 00
		Expense	13		3 75
		Trading a/c Trading profit	14	462 10	
		Interest & Disct. earned	10	4 75	
		To Profit & Loss	15		466 85
		Profit & Loss	15	363 10	
		To D. A. Hall – Net profit	1		363 10

Adjusting Journal Entries

SALES BOOK

DATE		CASH	SALES LEDGER	L.F.	NAMES	TOTAL SALES	MENS	BOYS
Feb.	1		142 50	6	D. A. Marcus & Son	142 50	142 50	
			52 50	7	H. A. Branch	52 50		52 5-
	2		135 00	2	John Gorham	135 00	135 00	
			78 75	8	Larson & Anderson	78 75	65 00	13 75
		37 50		✓	Cash Sales	37 50	37 50	
	3		108 75	9	Tallman & Co.	108 75	108 75	
			85 00	10	Harris & Rogers	85 00	85 00	
	7		177 50	5	Henry Ames	177 50	150 00	27 50
			57 50	11	Ackley & Son	57 50		57 50
	8		134 00	12	H. J. Andrews	134 00	134 00	
	9	87 50		✓	Cash Sales	87 50		87 50
	10		77 50	13	Harris & Landis	77 50	77 50	
			45 00	1	Frank Weitz	45 00	45 00	
		125 00	1094 00	4	Sales Ledger	1219 00	980 25	238 75
				8	Cr. Sales	1219 00		

INVOICE REGISTER

NO.	L.F.	NAMES	DATE		TERMS	DUE		AM'T	MEN'S	BOY'S	PAYMENTS DATE		AM'T	DISC	CK
	4	Carson & Scott	Feb.	4	2/10 1/30 n/60	Apr.	4	150 00	150 00		Feb.	10	147 00	3 00	7
	5	Adler & Co.		5	3/10 1/30 n/60		5	312 50	312 50						
	9	Purchase % Dr.						462 50	462 50						
	7	Purchase Led Cr.													

Sales Book and Invoice Register

BANK DEPOSITS	PURCHASE LEDGER DISC.	PURCHASE LEDGER AM'T	PURCHASE LEDGER F.	SUNDRIES AM'T	SUNDRIES F.	TOTAL CASH	Feb. 1st	TOTAL CASH	SUNDRIES F.	SUNDRIES AM'T	SALES LEDGER F.	SALES LEDGER CASH P'M'T	SALES LEDGER DISC.	CASH SALES	BNK WTHDRLS CK.	BNK WTHDRLS AM'T
						123 00	on hand		✓	123 00						
						150 00	Geo Golden				3	150 00				
							—2—									
150 00							Deposit	150 00								
						37 50	Cash Sales							37 50		
							—3—									
				75 00	11		Rent								1	75 00
						150 00	John Gorham				2	150 00				
							—4—									
187 50							Deposits	187 50								
							—5—									
		150 00	1				D. Meyer & Bro.								2	150 00
						201 75	Bills Receivable		3	200 00						
							Interest & Discount		10	1 75						
							Rec'd from Henry James to apply on note.									
				25 00	12		Salesman's Salary								3	25 00
				50 00	1		D. A. Hall								4	50 00
							—7—									
						200 00	Clayton & Co.				4	200 00				
401 75							Deposit	401 75								
				450 00	6		Bills Pay. Weir & Co. Note								5	450 00
739 25		150 00		600 00		864 25	Forward	739 25		326 75		500 00		37 50		750 00

Columnar Cash Journal

CASH

BANK DEPOSITS	PURCHASE LEDGER DISC.	PURCHASE LEDGER AM'T	PURCHASE LEDGER F.	SUNDRIES AM'T	SUNDRIES F.	TOTAL CASH	Feb. 8th	TOTAL CASH	SUNDRIES F.	SUNDRIES AM'T	SALES LEDGER F.	SALES LEDGER CASH P'M'T	SALES LEDGER DISC.	CASH SALES	B'NK W'THDR'LS CK.	B'NK W'THDR'LS AM'T.
739 25		150 00	✓	600 00	✓	864 25	Forward	739 25	✓	326 75	✓	500 00		37 50		750 00
				90	9		Purchases								6	90
							Exp. on Carson & Scott Shipment									
						165 00	Henry Ames				5	165 00				
						87 50	Cash Sales							87 50		
							-9-									
252 50							Deposit	252 50								
							-10-									
	3 00	147 00	4				Carson & Scott								7	147 00
				3 75	13		Expense, Elec. Light								8	3 72
						202 50	Clayton & Co.				4	202 50				
991 75	3 00	297 00		604 65		1319 25	-10-	991 75		326 75		867 50		125 00		901 00
				300 00	7		Purchase Ledger 297.3									
							Interest		10	3 00						
							Sales Ledger		4	867 50						
				991 75	2		Bank		2	901 65						
						327 50	Cash Balance			327 50						

Columnar Cash Journal

Frank Weitz

Feb.	1	J	1	234 00	Feb.	4	J	2	234 00
	10	S.B.	1	45 00					

2

John Gorham

Feb.	1	J	1	150 00	Feb.	3	C.B.	1	150 00
	2	S.B.	1	135 00					

3

Geo. Golden

Feb.	1	J	1	300 00	Feb.	1	C.B.	1	150 00

4

Clayton & Co.

Feb.	1	J	1	275 00	Feb.	7	C.B.	1	200 00
	9	J	2	202 50		10		2	202 50

5

Henry Ames

Feb.	1	J	1	165 00	Feb.	6	C.B.	2	165 00
	7	S.B.	1	177 50					

Sales Ledger

6

D. A. Marcus & Sons

Feb.	1	S.B.	1	142	50	

7

H. A. Branch

Feb.	1	S.B.	1	52	50	

8

Larson & Anderson

Feb.	2	S.B.	1	78	75	

9

Tollman & Co

Feb.	3	S.B.	1	108	75	

10

Harris & Rogers

Feb.	3	S.B.	1	85	00	

11

Ackley & Son

Feb.	7		S.B.	1	57 50				

12

H. J. Andrews

Feb.	8		S.B.	1	134 00				

13

Harris & Landis

Feb.	10		S.B.	1	77 50				

PURCHASE LEDGER

1

D. Meyer & Bro.

Feb.	5		C.B.	1	150 00	Feb.	1		J.	1	150 00

2

Altman & Sons

						Feb.	1		J.	1	350 00

Garson & Co.

					Feb.	1	J	1	175 00

4

Carson & Scott

Feb.	10	ck. CB.	2	147 00	Feb.	4	Inv.	1	150 00
	10	Disc.	2	3 00					
				150 00					150 00

5

Adler & Co.

					Feb.	5	Inv.	1	312 50

GEN'L LEDGER 1

D. A. Hall, Prop.

Feb.	5	CB.	1	50 00	Feb.	1	Investment J	1	5979 20
		Balance		6292 30		10	Net Profit	2	363 10
				6342 30					6342 30
					Feb.	10			6292 30

2

Bank

Feb.	1	J	1	1765 20	Feb.	9	J	2	202 [illegible]
	10	CB.	2	991 75		10	CB	2	901 [illegible]
							Balance		1652 80
				2756 95					2756 95
Feb.	10	To Balance		1652 80					

Bills Receivable

Feb.	1	Henry James J	1	350.00	Feb.	5	J	1	150.00
		D. Lawrence & Co. J	1	500.00		5	C.B.	1	200.00
	4	Frank Hertz J	2	234.00					
	5	Henry James J	2	150.00					

4

Sales Ledger

Feb.	1	J	1	1124.00	Feb.	4	J	1	234.00
	10	S.B.	1	1094.00		10	C.B.	1	867.50
	9	J	2	202.50			Balance		1319.00
				2420.50					2420.50
Feb.	10	To Balance		1319.00					

Merchandise Inventory

Feb.	1	J	1	3440.00	Feb.	10	J	2	3440.00
	10	J	2	3146.50					

6

Bills Payable

Feb.	7	C.B.	1	450.00	Feb.	1	H. Weir & Co. J	1	450.00
							A. Stein & Co.	1	200.00

Purchase Ledger

Feb.	10	C.B.	2	300 00	Feb.	1	J	1	675 00
		Balance		837 50		5	Inv.	1	462 50
				1137 50					1137 50
							By Balance		837 50

8

Sales

Feb.	10	J	2	1219 00	Feb.	10	S.B.	1	1219 00

9

Purchases

Feb.	5	Inv.	1	462 50	Feb.	10	J	2	463 40
	8	C.B.	2	90					
				463 40					463 40

10

Interest & Discount

Feb.	10	J	2	4 75	Feb.	5	C.B.	1	1 75
						10		2	3 00
				4 75					4 75

11

Rent

Feb.	3	C.B.	1	75 00	Feb.	10	J	2	75 00

Salaries

Feb.	5	C.B.	1	25.00	Feb.	10	J	2	25.00

13

Expense

Feb.	10	C.B.	2	3.75	Feb.	10	J	2	3.75

14

Trading a/c

Feb.	10	Inv. a/c J	2	3440.00	Feb.	10	Sales J	2	1219.00
		Purchases	2	463.40			Inv. a/c	2	3146.50
		Profit & Loss	2	462.10					
				4365.50					4365.50

15

Profit & Loss

Feb.	10	Rent	2	75.00	Feb.	10	Trading a/c J	2	462.10
		Salaries	2	25.00			Int & Dis.	2	4.75
		Expense	2	3.75					
		D.A. Hall	2	363.10					
				466.85					466.85

Statement of Sales Ledger Feb 10th

1	Frank Weitz	45 00	
2	John Gorham	135 00	
3	Geo Golden	150 00	
4	Clayton & Co	75 00	
5	Henry Ames	177 50	
6	D. A. Marcus & Sons	142 50	
7	H. A. Banch	52 50	
8	Larson & Anderson	78 75	
9	Fallman & Co.	108 75	
10	Harris & Rogers	85 00	
11	Ackley & Son	57 50	
12	H. J. Andrews	134 00	
13	Harris & Landis	77 50	
		1319 00	

Statement of Purchase Ledger Feb 10th

2	Altman & Sons		350 00
3	Garson & Co.		175 00
5	Adler & Co.		312 50
			837 50

Statement of Sales and Purchase Ledger

Balance Sheet, Feb 10th

	Assets			
	Cash			
	In Office	327.50		
	Bank	1652.80	1980.30	
	Accounts & Bills Receivable			
	Bills Rec.	884.00		
	Accts. Rec.	per Sales Ledger 1319.00	2203.00	
	Inventory			
	Merchandise		3146.50	
		Total Assets		7329.80
	Liabilities			
	Bills Payable	200.00		
	Accts Pay.	per purch. ledg. 837.50	1037.50	
		Total liabilities		1037.50
		Present Worth		6292.30
	Trial Balance Feb 10th			
1	D. A. Hall, Prop.			6292.30
2	Bank		1652.80	
3	Bills Receivable		884.00	
4	Sales Ledger		1319.00	
5	Merchandise Inventory		3146.50	
6	Bills Payable			200.00
7	Purchase Ledger			837.50
	Cash		327.50	
			7329.80	7329.80

Balance Sheet and Trial Balance of General Ledger

—10th—

Received from Clayton & Co.
Cash to redeem protested
check $202.50

—10th—

Inventory at close of business, Feb. 10
Men's clothing 1,898.75
Boys' clothing 1,247.75

Journal entries are to be made to get the accounts, as shown on Feb. 1st, recorded on the books. The transactions are properly entered in journal, cashbook, sales book, and invoice register, and posted to ledger. The accounts in the general ledger are closed into trading, and profit and loss—the net profit is credited to proprietor's account—a trial balance is taken after the ledger is closed, and a balance sheet is made. Statements are prepared from sales and purchase ledgers, which agree with the balances of their controlling accounts. All accounts in the general ledger are properly ruled and balances carried forward.

16. The following transactions are in continuation of the business written up on the preceding pages but using special books and blanks explained in sections 17–28.

D. A. Hall employs H. D. Snyder as traveling salesman for the purpose of increasing his business, agreeing to pay him a salary of $150.00 per month and expenses. He commences work on Feb. 11th. The amounts in the ledgers stand as shown in the last model set illustrated and these transactions are recorded:

—Feb. 11th—

Paid Altman & Sons
To balance account
Ck. No. 9 $350.00

—11th—

Paid Garson & Co.
To balance account
Ck. No. 10 175.00

— 11th —

Sold to Daniels & Dean, Boone, Ia.

10 men's suits	$7.50	$75.00
10 men's suits	6.75	67.50
20 boys' suits	2.00	40.00
		182.50

Terms 2/10 N/30

— 11th —

Sold to A. C. Petersen, Nevada, Ia.

10 men's overcoats	8.50	85.00
10 men's suits	7.00	70.00
		155.00

Terms 2/10 N/30

— 11th —

Received from D. A. Marcus & Son

Cash		139.65
Discount 2%		2.85

— 11th —

Sold for cash

20 boys' suits	1.75	35.00
20 men's pants	2.00	40.00

— 12th —

Received from John Gorham

Cash		132.30
Discount 2%		2.70

—12th—

Sold to Henry Cook, Iowa Falls, Ia.

5 men's suits	8.00	40.00
5 men's suits	5.75	28.75
5 boys' suits	2.00	10.00
5 boys' suits	1.75	8.75
		87.50

Terms 2/10, N/30

— 12th —

Sold to James Adams, Dennison, Ia.

15 men's suits	7.00	105.00

Terms 2/10, N/30

— 12th —		
Received from Geo. Golden		
Cash		$150.00
— 13th —		
Sold to D. A. Marcus & Sons		
10 men's pants	2.00	20.00
10 boys' suits	1.75	17.50
		37.50
Terms 2/10, N/30		
— 13th —		
Paid freight on shipment to		
Henry Cook		
Ck. No. 11		3.65
Charge to Cook		
— 13th —		
Deposited cash		824.45
— 13th —		
Sold to S. H. Allen, Mason City, Ia.		
30 men's pants	1.75	52.50
Terms 2/10, N/20		
— 14th —		
Paid Adler & Co.		
Ck. No. 12		303.12
Discount		9.38
— 15th —		
Sold to Marx & Sons, Charles City, Ia.		
10 boys' suits	2.00	20.00
10 men's suits	7.00	70.00
Terms 2/10, N/30		90.00
— 15th —		
Received from H. A. Branch		
Cash		52.50
— 15th —		
Received from Larson & Anderson		
Cash		78.75

DATE SOLD 2/10
TERMS 2/10 n/30
RATING

No. 1 Salesman Snyder
Sold to Daniels & Dean
Town and State Boone, Iowa
Ship by Freight

FOLIO
DATE BILLED 2/11
LEDGER

		SHIPPERS CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS				
		10	10	Men's Suits		7.50	75	00			
		10	10	" "		6.75	67	50			
		20	20	Boys' "		2.00			40	00	
							142	50	40	00	
				AMOUNT FORWARD							

DATE SOLD 2/10
TERMS 2/10 n/30
RATING

No. 2 Salesman Snyder
Sold to A C Petersen
Town and State Nevada, Iowa
Ship by Freight

FOLIO
DATE BILLED 2/11
LEDGER

		SHIPPERS CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS				
		10	10	Men's Overcoats		8.50	85	00			
		10	10	" Suits		7.00	70	00			
							155	00			
				AMOUNT FORWARD							

Order and Sales Records

DATE SOLD		FOLIO
2/11	No. 3 Salesman Hall	
TERMS	Sold to Cash Sale	DATE BILLED
Cash	Town and State	
RATING	Ship by	LEDGER

		SHIPPERS CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS				
			20	Boy's Suits		1.75			35	00	
			20	Men's Pants		2.00	40	00			
				AMOUNT FORWARD							

DATE SOLD		FOLIO
2/11	No 4 Salesman Snyder	
TERMS	Sold to Henry Cook	DATE BILLED
2/10 n/30	Town and State Iowa Falls, Iowa	2/12
RATING	Ship by Freight	LEDGER

		SHIPPER'S CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS				
		5	5	Men's Suits		8.00	40	00			
		5	5	" "		5.75	28	75			
		5	5	Boy's "		2.00			10	00	
		5	5	" "		1.75			8	75	
							68	75	18	75	
				AMOUNT FORWARD							

Order and Sales Records

DATE SOLD		FOLIO
2/11	No 5 Salesman Snyder	
TERMS	Sold to James Adams	DATE BILLED
[illegible]	Town and State Dennison, Iowa	2/12
RATING	Ship by Freight	LEDGER

SHIPPER'S CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS	
	15	Men's Suits		7.00	105.00	
		AMOUNT FORWARD				

DATE SOLD		FOLIO
2/12	No 6 Salesman Snyder	
TERMS	Sold to D. A. Marcus & Sons	DATE BILLED
2/10 n/30	Town and State City	2/13
RATING	Ship by	LEDGER

SHIPPER'S CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS	
10	10	Men's Pants		2.00	20.00	
10	10	Boy's Suits		1.75		17.50
		BROUGHT FORWARD				

Order and Sales Records

DATE SOLD		FOLIO
2/13	No. 7 Salesman Snyder	
TERMS	Sold to S.H. Allen	DATE BILLED
2/10 n/30	Town and State Mason City, Iowa	2/14
RATING	Ship by Freight	LEDGER

		SHIPPER'S CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS			
		30	30	Men's Pants		1.75	52	50		
				AMOUNT FORWARD						

DATE SOLD		FOLIO
2/14	No. 8 Salesman Snyder	
TERMS	Sold to Marx & Sons	DATE BILLED
2/10 n/30	Town and State Charles City, Iowa	2/15
RATING	Ship by	LEDGER

		SHIPPER'S CHECK	QUANTITY	REGISTER NO.	WEIGHT	PRICE	SALESMEN MUST NOT USE THESE COLUMNS			
		10	10	Boy's Suits		2.00			20	00
		10	10	Men's "		7.00	70	00		
				AMOUNT FORWARD						

Order and Sales Records

ABSTRACT
OF SALES

MONTH OF FEBRUARY

DAY	ON ACCOUNT MENS	ON ACCOUNT BOYS	ON ACCOUNT TOTAL	CASH MEN'S	CASH BOY'S	CASH TOTAL
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11	297 50	40 00	337 50	40	35 00	75 00
12	173 75	18 75	192 50			
13	20 00	17 50	37 50			
14	52 50		52 50			
15	70 00	20 00	90 00			
16						
17						
18						
19						
20						
25						
26						
27						
28						
29						
30						
31						
TOTAL	613 75	96 25	710 00	40 00	35 00	75 00

L.F				
	CREDIT SALES ACCOUNT - MENS	CASH	40 00	
		a/c	613 75	653 75
	BOYS	CASH	35 00	
		a/c	96 25	131 25
	TOTAL			785 00
	DEBIT SALES LEDGER			710 00

Departmental Abstract of Sales

BANK DEPOSITS	CASH TOTALS	SHIPMENT LEDGER	SUNDRIES	DATE	L.F.		L.F.	SUNDRIES	SHIPMENT EXPENSE	PURCHASE LEDGER	GEN'L EXPENSE	CASH TOTALS	BANK WITHDRWLS
	1000 00		1000 00	Nov. 1	1	John Doe							
						Investment							
					✓	Poultry Purchases	✓	36 00				36 00	
				2	✓	Richard Roe	1		2 25			2 25	
						Shipt #1, Ctg & Exp							
					✓	B&E. Purchases	✓	480 00				480 00	
				4	✓	Richard Roe	2		2 98			2 98	
						Shpt. #2, Frt.							
	47 73	47 73		5	1	Richard Roe							
						Shpt #1 Acct. Sales							
				6	✓	Labor	✓				9 00	9 00	
				4	✓	Richard Roe	4		1 80			1 80	
	1047 73	47 73	1000 00			Shpt. #3 Frt.		516 00	7 03		9 00	532 03	
			47 73	6	2	Shpt. Ledger	2	7 03					
					✓	Gen'l Expense	5	9 00					
						Cash Balance	✓	515 70					
			1047 73					1047 73					
	515 70			Nov. 6		Cash on hand	✓	515 70					

Shipper's Cash Journal

— 16th —

Paid H. D. Snyder 1 week's salary Ck. No. 13	$37.50

— 16th —

Paid H. D. Snyder Traveling expenses Ck. No. 14	17.65

— 16th —

Deposited cash on hand	131.25

— 16th —

Paid D. E. Jenkins For cartage on shipments Ck. No. 15	2.50

EXERCISE

1. Prepare a trial balance of the ledger as it would appear after posting these transactions.
2. Assuming that gross trading profits average the same per cent of selling prices as in former transactions of this business house, find approximate inventory at close of business Feb. 16th.
3. Prepare trading and profit and loss account, based on this inventory.

COMBINED ORDER AND SALES RECORD

17. The keeping of separate order and sales books involves a good deal of duplication and always with increased chance of errors. It is usually possible to provide for record of both these functions on one form. Either special columns may be provided for entry of goods ordered from the several departments and this form checked accordingly by the proper salesmen in the several departments as the orders are filled, or separate order blanks may be made out for the goods required from the several departments and the blanks so made out be forwarded to the several departments for filling and for report of sales. In this latter way, the several departments are prepared for a ready and accurate report

of sales for the day or other period as may be desired. When the orders are filled the proper extensions are made, after which the making of a proper invoice becomes very largely a matter of copying the sales-order.

Cash and credit items are most readily separated when a separate order blank is used for each department in which the separation of cash from charge sales is made by simply sorting the Sales-Order sheets and if, in addition, the forms are also sorted by departments, the total of cash and charge sales for each department is secured with comparatively little additional work.

The totals of the several recapitulation sheets compiled for the day, week, or month, give, directly, the amounts which are to be charged to the main ledger accounts of Cash and Accounts Receivable.

ABSTRACT OF SALES

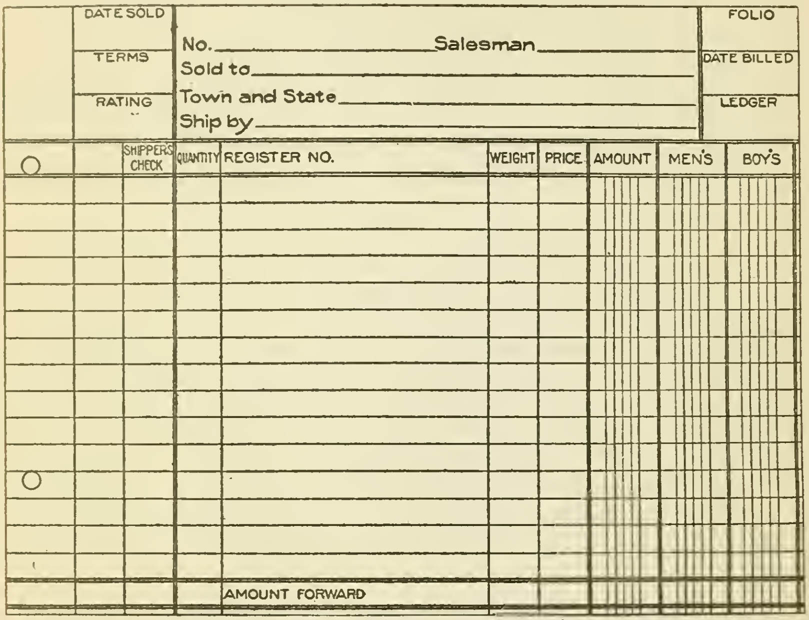
18. When separate order or sales slips are used for each sale, it is sometimes inconvenient to keep the file intact and also to determine the total sales for a week or month, according to the period between regular postings to the ledger. But these totals must be had because they are the amounts required for entry to the debit or credit of the main ledger accounts. The difficulty in this case is usually surmounted by making a recapitulation sheet for the record of each day's sales and then, at the close of the week or month, making an abstract from the daily recapitulation sheets.

Such an abstract can be made to show totals by departments and for every kind of transaction during the period covered, also whether for cash or on credit. One would hardly think to make up in this way a list of the persons who have bought on credit during the period, these names not being needed for entry in the main ledger; however, he should secure a total of the accounts receivable.

The work can be much facilitated by the use of different colored sheets for the original order, or sales sheet; for the recapitulation sheet; and for the final or abstract sheet. Ordinarily, the same sized sheets would be used in each case, but the abstract may well be larger since it is for office use only. Sales are recorded daily and footings carried forward to the end of the month, when the totals may be posted direct to the credit of the sales account in the general ledger. The totals of sales on account will be posted to the debit of the sales controlling account in the general ledger.

OUT FREIGHT

19. The proper treatment of freight paid on outgoing shipments is an important question in accounting. When goods are



Combined Order and Sales Record

sold at delivered prices, the freight paid is one of the items of expense in selling the goods, and when the books are closed the account will be closed into profit and loss. However, in a wholesale business, freight is sometimes paid as an accommodation to the customer when the goods have been sold at f. o. b. prices. Although the amount should be added to the invoice it should not be credited to the sales account as this would be taking credit for a fictitious trading profit. Such an item should be made a special charge against the customer by means of a journal entry.

Customer Dr.
Sales Ledger Dr.
Out Freight Cr.

ABSTRACT OF SALES

MONTH of __________ 19__

DAY	ON ACCOUNT				CASH				GRAND TOTAL
	DEP'T. A	DEP'T B	DEP'T. C	TOTAL	DEP'T. A.	DEP'T B	DEP'T. C	TOTAL	
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

		CREDIT SALES ACC'TS DEP'T. A. CASH		
		%c		
		DEP'T. B. CASH		
		%c		
		DEP'T. C. CASH		
		%c		
		TOTAL		
		DEBIT SALES LEDGER ACCOUNT		

Abstract of Sales by Departments

SALES EXPENSE

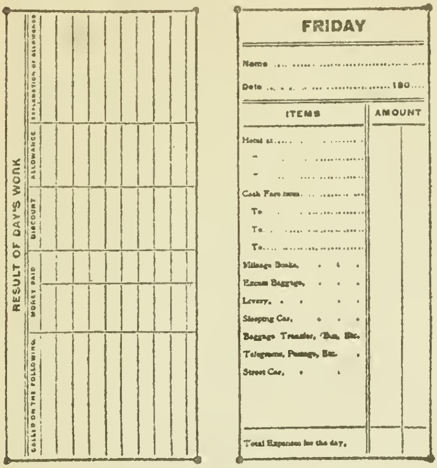
20. In a wholesale or manufacturing business it is very desirable that the exact cost of selling goods be known. Broadly, this cost is covered under the general head of sales expense, but this is usually divided into several classes of expenditures. The segregation of the various items of sales expense is desirable for the purpose of determining the percentage of each. The items which properly belong in sales expense depend somewhat on the nature of the business. For example, traveling expenses are usually a direct sales expense, but in some businesses they may be chargeable to the cost of purchases. The items entering into sales expense of the average business are: advertising, salaries of salesmen, traveling expenses of salesmen, commissions paid on sales, cost of packing and shipping, out freight.

21. Advertising. This account should be charged with all expenditures for publicity such as newspaper, magazine, street car, and bill board advertising, cost of printing catalogs, booklets, and circulars. Where there is any reason for so doing, the cost of the different classes of advertising can, of course, be kept in separate accounts. The aim and object of advertising being to increase the sale of goods, it is properly considered an item of sales expense.

22. Salaries of Salesmen. This account is charged with all salaries paid to salesmen whether traveling or working in the house. Commissions and bonuses are sometimes included in this account, but it is usually considered best to keep them in separate accounts.

23. Traveling Expenses of Salesmen. This account is charged with all legitimate traveling expenses of salesmen, the specific items included depending largely on the nature of the business. For example, in some businesses a liberal allowance is made for the entertainment of customers, while in others this item is never allowed. In any business the traveling expense account requires careful scrutiny. Salesmen should be required to furnish an itemized statement or voucher of expenses at stated intervals. For convenience, this should be made on a form specially provided for the purpose. One of the most convenient and popular expense vouchers is in the form of a book of a convenient pocket size, with a page for each day of the week and a summary of the week's expenses on the last page.

24. Packing and Shipping. This account is charged with the entire cost of packing goods for shipment. It includes such items as wages of shipping clerk and his assistants, crates, lumber, boxes, and all other packing materials.



Traveler's Expense Book

TRIAL BALANCE BOOK

25. To save rewriting the names of the accounts each month, a trial balance book can be used to good advantage. These books are made to accommodate six trial balances on a double page, and are sometimes made with alternate short leaves so that twelve trial balances may be made with one writing of the names. When the trial balance book is used, care must be exercised in providing space for the addition of new accounts in each section. Where separate sales and purchase ledgers are used, it is best to provide a trial balance book for each ledger.

THE CHECK REGISTER

26. Large check books are cumbersome to handle and necessitating the expenditure of much needless labor. Their use is rapidly giving way in modern offices to the check register. The check register has several distinct advantages. It exhibits, in compact form, a record of all checks issued and can also be arranged to show deposits and balance in the bank. Distribution columns can be provided with headings for the different expenditure accounts, which makes of the check register a cash expenditure book. The form should be varied to suit the business in which it is to be used. A typical form is illustrated on page 37.

27. Checks in Pads. When the check register is used it is the usual custom to have checks put up in pads. After the check is written, it is registered and numbered to correspond to the register

			JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE

CHECK REGISTER

CK. NO.	DATE		TO WHOM	FOR	FOLIO	AMOUNT	PURCHASE LEDGER AMOUNT	PURCHASE LEDGER DISCOUNT	SUNDRIES	OUT FR'GHT	SALESMENS SALARIES	TRAVELING EXPENSE	MISC. SALES EXP.	IN FREIGHT	EXPENSE	DEPOSITS	DAT
9	Feb.	11	Altman & Sons	Balance Acct.		350 00	350 00									1652 80	2/1
10		11	Garson & Co.	" "		175 00	175 00										
11		13	L.C.R.R.	Frt. Cook Shipt.		3 65				3 65						824 45	2/13
12		14	Adler & Co.	Account		303 12	303 12	9 38									
13		16	H. D. Snyder	Salary		37 50					37 50						
14		16	H. D. Snyder	Trav. Expense		17 65						17 65					
15		16	D. E. Jenkins	Ctg. on shipts.		2 50				2 50						131 25	2/1
						889 42	828 12	9 38		6 15	37 50	17 65				2608 50	
			Out Freight			6 15											
			Salesman's Salaries			37 50											
			Traveling Expense			17 65											

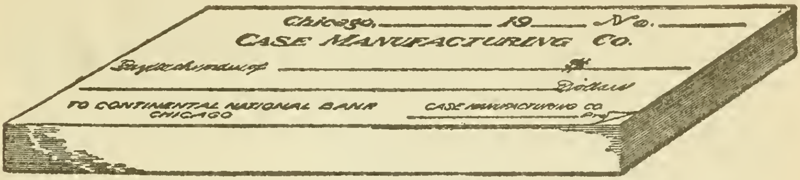
Check Register Combined with Cash Expenditure Book

CASH RECEIVED

DATE		ITEMS	FOLIO	SUNDRIES	SALES LEDGER FOLIO	SALES LEDGER DISCOUNT	SALES LEDGER CASH	CASH SALES	TOTAL	CREDIT
Feb.	11	Balance Forward	✓	327 50					327 50	
		D. A. Marcus & Son				2 85	139 65		139 65	
		Cash Sales	✓					75 00	75 00	
	12	John Gorham				2 70	132 30		132 30	
		Geo. Golden					150 00		150 00	
	13	Bank Deposit								824 45
	15	H. A. Branch					52 50		52 50	
		Larson & Anderson					78 75		78 75	
	16	Bank Deposits								131 25

Cash Received Book

number. With padded checks, it is not necessary for the clerk who writes the check to know anything about the bank balance.



Checks in Pads

CASH RECEIVED BOOK

28. A cashbook specially ruled for a record of cash received is used to supplement the check register or cash expenditure book. Columns are provided for the different classes of receipts, with one credit column. It is assumed that all cash received is deposited, payments being made exclusively by check. This does not refer to petty cash expenditures which should be kept in a petty cash book or on envelope vouchers.

STORAGE

29. Storage, as here used, is the business of furnishing storage for merchandise on its way to market until such time as it is sold and delivered to the purchaser. The source of supply and customs of the trade in certain classes of merchandise render the question of storage an important one. This is particularly true of the grain trade. Large buyers of grain, located in important distributing centers which have become the principal grain markets owing to their manufacturing or transportation facilities, locate their buyers in the grain producing sections to buy grain from the producers. At these points are located small elevators where the grain is received from the farmers and shipped to the distributing centers.

Here, extensive storage facilities must be provided, that these shipments, aggregating enormous quantities of grain, may be held until the condition of the market is favorable for selling. If it were not for this custom of storage it would be necessary to market all of the grain—except the small quantities stored by the farmers—soon after harvest, which would result in lowering prices to all concerned, from the farmer up.

These conditions have resulted in the organization of warehousing companies to provide storage for the owners. When grain, or other classes of merchandise, is received for storage a warehouse receipt is issued, and the merchandise will not be delivered without the presentation of the receipt. Warehouse receipts are negotiable and since they are evidence of the ownership of certain merchandise stored in a warehouse, bankers will loan money to the owner and accept the warehouse receipt as security.

Manufacturers and jobbers of certain products also find it necessary to store large quantities of their wares at distributing centers that they may promptly supply the trade. Another reason for this practice is a financial one. When a manufacturer exchanges his wares for a warehouse receipt, he can immediately borrow on its security, thus securing capital to carry on his business until the regular selling season for his particular product.

The merchandise broker and manufacturers' agent sometimes have their own warehouses and combine the business of buying and selling with that of storage and, if they possess sufficient capital, advance money to the manufacturer.

Perishable products handled by the produce commission merchant are also stored in cold storage warehouses, both to preserve them and to hold for more favorable market conditions.

STORAGE ACCOUNTS

30. Storage charges are usually based on a 30 day period, though sometimes for shorter periods, and any period less than a full month is charged for at the 30 day rate.

The storage is frequently charged for the exact time that goods are in the warehouse, that is, the amount is figured for each amount withdrawn. The following example demonstrates this, storage being charged on each quantity withdrawn at the rate of 10c per case per month.

Received			Delivered			Time	Rate	Amount	
Nav.	15	600 cs. eggs	Dec.	10	100 cs.	1 mo.	10c	10	00
			Jan.	6	300 cs.	2 mo.	20c	60	00
			Feb.	14	200 cs.	3 mo.	30c	60	00
					Total			130	00

This is known as simple storage.

Another method is to charge storage for the average time at a given rate per month of 30 days. This method is most commonly used when receipts and deliveries are frequent, and is called average storage. The following example demonstrates the method.

Date		Receipts	Deliveries	Balance	Time	Quantity Stored for One Day
Nov.	15	600 cs.		600 cs.	15 da.	9,000 cs.
Nov.	30	200 "		800 "	10 da.	8,000 "
Dec.	10		100 cs.	700 "	27 da.	18,900 "
Jan.	6		300 "	400 "	39 da.	15,600 "
Feb.	14		200 "	200 "	10 da.	2,000 "
Feb.	24		200 "	000 "		
		800	800			30)52,500
				Average for 1 mo.		1,750

1,750 cs. @ 10c $175.00 (Amt. of charges)

SPECIAL RECORDS REQUIRED

31. One of the most important records required is a storage record showing receipts and deliveries. A special form is necessary and should be adapted to the requirements of the particular class of storage business in which it is to be used.

The form illustrated is typical in that it provides for a record of storage of any class of goods handled in packages. The storage charges are always shown so that a statement of the account can be made at any time. At the end of each month the storage charges extended during the month are debited, through the journal, to the personal accounts of the owners. The total of all such storage charges is credited to a *storage account* in the general ledger.

When there are frequent receipts and deliveries, the owner should be given a detailed statement showing all changes in quantities and storage charges. Such a statement should be a transcript of the storage record. The form illustrated answers the requirements of simple storage.

RECEIPTS											DELIVERIES							
DATE	LOT NO.	W. H. RECEIPT NO.	PACKAGES						WEIGHT	ROOM NO.	DATE	LOT NO.	TO WHOM	WEIGHT	BALANCE	TIME	RATE	AMOUNT
			Bx's	Bbls	C's.	Crt.	Tubs											

Storage Record

Chicago____________19______

M____

____

To NATIONAL STORAGE CO. Dr.:

LOT NO.	IN	OUT	ARTICLE	QUANTITY	TIME	RATE	AMOUNT	TOTAL

Statement of Storage Charges

SHIPMENTS AND CONSIGNMENTS

1. Agency Sales. This discussion assumes that the reader has a working knowledge of both single- and double-entry bookkeeping and that he understands, also, the nature and function of controlling accounts.

We have to deal with accounting for goods sent by one party to another to be sold by that other in behalf of the sender. The sender is the principal and owner of the goods and retains title to them until, by contract of sale, the title passes to some third party. The party to whom the goods are sent—usually known as a commission merchant, or factor—is an agent, but only for the purpose of selling the specific goods so entrusted to him by the sender, and is responsible only for ordinary care in handling the goods. He is bound by the instructions of his principal and is personally answerable for any deviation from them; nevertheless, if he makes a sale in violation of such instructions, the purchaser takes a perfect title, as against the consignor.

2. Scope of Transactions. It will readily be recognized that the subject has to do only with sales of personal property. The farmer sending produce of any sort—garden truck, grain, wool, hogs, cattle, etc.—to any commission merchant for sale; the owner of shares of stock or other securities sending the same to a bond dealer for sale; the manufacturer or jobber sending merchandise of any sort to agents, or to local dealers, either in their own country or in a foreign country, for sale; *if they retain the title to the goods sent,* are all within the scope of our subject. It is a phase of accounting of great importance even now and, with increase in our foreign trade, promises to be of first rate concern. The transaction, on the part of the sender, is in any case a pure venture.

3. Terminology. At the outset, we are confronted with a question of terminology. The terms *consignor* and *consignee* are universally recognized as indicating, respectively, the party *by* *whom* the goods are sent and the party *to whom* they are sent. But what shall we call the transaction by which goods are thus sent and received? A consignment? The term seems most fitting, for the goods are indeed *consigned;* but when attempt is made to record the transaction on the books of the consignor and of the consignee, we at once discover that to the consignor consignment means one thing while to the consignee it means a wholly different thing. It is as if we were to keep only a "Notes" account and to depend upon the context in any particular case to determine whether Notes Receivable or Notes Payable is intended. English accountants surmount the difficulty by designating a consignment on the books of the consignor as a "Consignment Outward" and on the books of the consignee as a "Consignment Inward" and one recent American author (Kester) only abbreviates this when he suggests "Consignments Out" and "Consignments In."

Without wasting time in a fruitless discussion of the various possibilities, we shall adopt what is at least good practice in this country and designate the consignment on the books of the consignee as a *Consignment* with, of course, the serial number and the requisite qualifications as to "from whom received;" while on the books of the consignor it will be known as a *Shipment* with the serial number and the qualifications to indicate "to whom sent." According to this program, shipments come logically before consignments and will be so treated.

SHIPMENTS

4. **Simple Accounting Methods.** In practice, it appears that merchants and others, not infrequently, will make a shipment without any entry at all of the transaction on their books, their only record being, perhaps, a carbon copy of their letter of advice to the consignee and the *memorandum* copy of the bill of lading. The procedure is one stage better than keeping account "in one's head" and this is about all that can be said in its favor. It is very suggestive of the bank cashier's memo "Jones $500" which the teller is expected to treat as *cash.* More than likely too, in such cases, any packing, drayage, and freight expenses paid on account of the shipment will be charged to the general expense account. Later, when the consignee renders an "Account Sales"

the consignor will make entry as for goods sold in the regular way at the home store and from stock on hand. If, in the meantime, the books of the consignor are to be closed and a balance sheet made, it is only a chance whether the goods so out on consignment shall find place among the assets. To have such an element of chance in the accounts is poor business.

5. Accounting Purpose. Obviously the prime purpose of the consignor in making the shipment is to gain a profit and it should, therefore, be equally obvious that the accounting department should make it a matter of first importance to show what profit or loss, if any, results. That the procedure above outlined fails utterly in this respect must be self evident.

Determination of Loss or Gain. The simplest scheme of consignment accounting which, in any considerable degree, meets this prime requisite requires the keeping of accounts with the several shipments as ventures. Each account is charged with the value of the goods shipped and with all charges incidental thereto, against the total of which the proceeds may be so set that, when the consigned goods are all sold and the account credited with the proceeds, the balance of the account will show the net gain or loss. This balance is important for a shipment account is fundamentally a *cost accounting* proposition. At first glance such an account may appear to be a difficult one to keep but, in reality, it is most simple.

6. Procedure Illustrated. Let us suppose that Henry Carter, a farmer somewhere in the middle West, has a surplus of apples and potatoes for sale. The farm price of the apples (that is, the best price at which they would sell at the farm, the purchaser hauling them away) is, let us say, $1.20 per box; and of the potatoes, $1.00 per bushel. But Carter has been noting the prices of apples and potatoes on the Chicago market and knows the name and address of a commission merchant in that city; he therefore decides he can do better by sending these products for sale there. He provides boxes for the apples and bags for the potatoes and, when all are properly packed and the several parcels clearly marked, he ships them to A. R. Gibson, commission merchant, 192 N. Clark Street, Chicago, mailing to Gibson, at the same time, a letter somewhat as follows:

Dear Sir: I am sending you today by Union Pacific Fruit Express 75 boxes Jonathan apples and 50 sacks Early Ohio potatoes.

Please make sale as best you can and remit proceeds to,

Yours respectfully,

Henry Carter.

This letter of advice might name the home price, or any other price, and provide that sales should not be made at any less price or might even name the prices at which only sales should be made and whether for cash only or on other terms—for the owner of the goods may fix prices and terms at his pleasure; but otherwise,

Shipment to A. R. Gibson

1919 — 192 N. Clark st. Chicago.

Sept	1	75 Bx. apples @ 1.20	90	00						
		75 bu. Potatoes @ 1.00	75	00						
		75 boxes @ 10¢	7	50						
		50 sacks @ 6¢	3	00						
		Packing	6	50						
		Hauling	4	75						

Fig. 1. Shipment Account Opened

prices in a letter of advice, or in a *pro forma* invoice, are matter of no concern to the commission merchant.

Necessary Books. For his accounting record of this transaction, Carter needs only an ordinary daybook-ruled account book, across the top of the first double page of which he may write the title "Shipment to A. R. Gibson," with a note of the address, and underneath which, on the left-hand side, he may enter the home price, or inventory value, of the apples and potatoes shipped and a detailed statement of costs incurred in connection with them. His account as made up at time of shipment is illustrated in Fig. 1.

Account Sales. On September 10, Carter receives a letter from Gibson, enclosing check for proceeds of sales, less charges, and an Account Sales as in Fig. 2.

Calculating Loss or Gain. Upon receipt of this Account Sales, Henry Carter may now complete his shipment account record and determine his loss or gain on the venture. In doing this he may either enter the additional costs, shown in the Account Sales under the heading of *Charges,* and credit the Shipment account for the gross receipts; or he may enter a credit simply for the net proceeds. Either way will yield the same result. The latter way is shorter and usually to be preferred. Having entered credit for

CHICAGO, Sept 8 1919

ACCOUNT SALES, BY A.R. GIBSON, Commission Merchant
192 N. Clark street.

OF 75 Bx apples and 50 sacks Potatoes for account and risk of Henry Carter.

Sept	8	50 Bx apples @ 2.10	105	00		
		25 Bx " @ 2.15	53	75		
		50 sacks Potatoes @ 2.75	137	50	296	25
		Charges				
		Express & Cartage	10	50		
		Storage	3	00		
		Auction fees	1	45		
		Commission 4% on sales	11	85	26	80
		Net proceeds per check			269	45

Fig. 2. Account Sales

the net proceeds and closed the account to show the loss or gain, the shipment account then appears as shown in Fig. 3.

The foregoing simple presentation exhibits, substantially, all there is to shipment accounting. It is sales cost accounting. But it is not, ordinarily, so simple to determine the methods best adapted for carrying such accounts on the books of the consignor, according to the nature and extent of his business; the other accounts which he finds needful to keep; the many questions which may arise because of advances made by the consignee and of sales made on credit; and what to do when a Balance Sheet of the consignor's books is called for, in the matter of outstanding consignments upon which only partial or no Account Sales have been rendered.

7. Use of Controlling Accounts. About the first change introduced, by reason of increase in number of shipments, is the adoption of a single-entry daybook and single-entry ledger exclusively devoted to shipment transactions. These books may be kept entirely independent of, and in addition to, the regular books; or they may, *if the books of the business proper are kept by double entry*, be half "tied in" with its accounts through the medium of a *Shipment Ledger* controlling account in the main ledger.

Shipment to A. R. Gibson
192 N. Clark st Chicago

1919					1919				
Sept	1	75 Bx Apples @ 1.20	90	00	Sept	10	Net Proceeds	269	45
		75 bu Potatoes @ 1.00	75	00					
		75 boxes @ 10¢	7	50					
		50 sacks @ 6¢	3	00					
		Packing	6	50					
		Hauling	4	75					
		Net Gain	82	70					
			269	45				269	45

Fig. 3. Shipment Account Closed

"Tied In" Shipment Accounts. Such a result springs, ordinarily at any rate, not from the incorporation of a single-entry set bodily into the regular accounting scheme, but from an effort to relieve the main ledger of numerous shipment accounts that are fully "tied in" as main ledger accounts; it is accomplished in the same way and for the same reason as, with increase of accounts receivable or accounts payable, the individual accounts are transferred to subsidiary books and thenceforth accounted for in the main ledger only through the controlling accounts of *Accounts Receivable*, or *Sales Ledger*, and *Accounts Payable*, or *Purchase Ledger*. For the occasional shipment, however, the account is best carried as an ordinary ledger account.

Suppose in the case above set out, that Henry Carter kept a set of double-entry books with separate accounts for Apples and Potatoes; that the boxes and sacks were purchased from the Wilton Mercantile Company on account; and that the packing and hauling were paid for in cash. Then, accepting, as before, the home market price as the inventory value of the produce, he would, instead of opening the detailed and independent day book-ledger, record this transaction in his regular day book and make and post the items as in Fig. 4 to show the costs of shipment. Later, when he received the Account Sales with check from Gibson, he would record it on his day book and journalize and post as in Fig. 5. In such case the shipment account would become a main ledger account, and as fully "tied in" as any other account.

Sept	1	Shipment A. R. Gibson	186	75		
		Apples			90	00
		Potatoes			75	00
		Wilton Mercantile Company			10	50
		Cash			11	25

Fig. 4. Journal Entry Recording Shipment Costs

Sept	10	Cash	269	45		
		Shipment A. R. Gibson			269	45
		Final report on shipment				

Fig. 5. Journal Entry Recording Proceeds Received

Shipment A. R. Gibson									
							192 N. Clark st. Chicago		
1919					1919				
Sept	1	Sundries	186	75	Sept	10	Proceeds	269	45

Fig. 6. Shipment Account Before Closing

The resulting ledger account would show as in Fig. 6, and thus it would stand until time for closing the books, when the balance would be closed to the Shipment Sales division of the Loss and Gain account or it might be closed at once into a Shipments Loss and Gain account and thence, at the close of the year, into Shipment Sales division of the Loss and Gain account. The net result in either case would be the same.

Several Shipments to Same Consignee. In like manner, separate accounts would be opened covering each shipment, whether to Gibson or to other parties. If two or more shipments are made to any one consignee, the accounts should be serially numbered; Shipment, A. R. Gibson, No. 2; Shipment, A. R. Gibson, No. 3, etc., so as to avoid any possible confusion. At any time, whenever such accounts become too numerous for convenient handling in the main ledger, they may be set out and cared for in subsidiary books as above explained.

Shipment Account Shows Loss or Gain on Venture Only. It is to be noted that the loss or gain shown in the Shipment account is the loss or gain by reason of the venture alone and not necessarily the loss or gain on the produce. The cost of producing the apples or potatoes may have been more or less than the farm, or inventory, prices taken. The venture is independent of that. If the inventory price taken yielded a profit on the costs of production, that profit will be reflected in the loss or gain shown in the Apples or Potatoes account at time of closing the books.

8. **Shipment Account a Subdivision of Merchandise Account.** In the case of goods shipped from stock, the cost of which is known, the Shipment account should be charged *for cost,* neither more nor less. The entry

Shipment, A. R. Gibson	———	
Purchases (or Merchandise)		———

records only a transfer of goods from the home establishment to the custody of the consignee; and, until sale is made, the Shipment account should show the inventory value of the goods out on consignment just as the Merchandise account, until a sale is made, shows the inventory value of the goods in stock. The Shipment account is, in fact, only a subdivision of the Merchandise account;

and, if a mixed Merchandise account is kept, the corresponding credit must, of course, be posted to that account or to some fictitious account such as *Goods on Consignment.* This, on a Balance Sheet made prior to receipt of an Account Sales, would appear either on the credit side as an offset to Inventory or on the debit side as a deduction from that item in like manner as the balance of a *Notes Receivable Discounted* account is deducted from the total of Notes Receivable. Where, however, separate Purchase and Sales accounts are kept, the credit should be *not to Sales,* nor to Consignment Sales, but to Purchases; for such a credit to Sales not only fails to make the balance of Purchases account show the value of goods to be accounted for by the home establishment, but records a sale when, as a matter of fact, there has been no sale. Assuming that the Merchandise Inventory account has been closed into Purchases account at the beginning of the financial period, the balance of Purchases account will show the cost of the goods to be accounted for by the home establishment as the debit side of Shipment account will show the cost of goods to be accounted for by the consignee.

Advances by Consignee. When the consignee favors the consignor with an *advance* on his shipment, such advance should show on the consignor's books as a credit to the personal account of the consignee. It is a straight loan; and if, for any reason, the shipment should fail to reach the consignee or, having reached him, should prove worthless, the loan would have to be returned. Assuming, however, that the shipment reaches the consignee and that the goods are sold for a sum which calls for a further remittance from the consignee, this additional remittance should also be entered to the credit of the consignee's personal account and then, by closing this personal account into Shipment account, the balance of Shipment account will show the loss or gain on the venture.

9. Personification of Shipment Accounts. In view of the fact that, except under extraordinary circumstances, shipments may be counted upon to yield at least as much as the advance, it is quite common to credit Shipment account, instead of the consignee's personal account, when the advance, or loan, is received. This makes less work for the bookkeeper and, as it usually works out all right, many accountants seem to favor it, but a true balance sheet of the consignor's business, pending receipt of Account Sales, can be made only when the advance, as above stated, is credited to the consignee's personal account; the advance represents a liability of the consignor which, by being credited to Shipment account, is smothered and offset by assets which may possibly be at the bottom of the sea.

10. Procedure when Partial Account Sales Received. If a balance sheet of the consignor's books is to be made when only *a part* of the consigned goods have been sold and partial Account Sales made, it then becomes requisite to know the condition of the

Shipment A. R. Gibson									
							192 N. Clark st. Chicago		
1919					1919				
Sept	1	Sundries	186	75	Sept	5	Partial Acct. Sales	200	00
		Expense & Cartage	10	50					
		Storage	3	00		7	Inventory		
		Auction fee	7	15			1/3 shipment costs 62.25		
		Commission					1/3 express & cartage 3.50		
		4% on sales	8	00			1/3 storage 1.00	66	75
		Loss and Gain	57	35					
			266	75				266	75
Sept	8	Inventory	66	75					

Fig. 7. Shipment Account—Closed in Part

unsold portion. Presumably, the most saleable goods were first sold and the remainder may be worthless; but, assuming that the unsold goods are saleable, apportionment must be made, as between the sold and the unsold goods, of the costs accrued against the shipment as a whole. Let us assume, for the sake of illustration, that instead of waiting to make full Account Sales on September 8, Gibson had made a partial Account Sale on September 5, when only two-thirds of the goods had been sold, and that Carter's books are to be closed on September 7. In this case the Shipment account would be closed exactly as a mixed merchandise account, which it then is, and, after making the balance sheet and reversal of inventory entries, the account would stand as in Fig. 7. There is no occasion for the opening of a *new* shipment account.

11. Sales on Account, etc. Thus far we have assumed that all consigned goods are sold for cash and that Account Sales with remittance of proceeds is promptly made, as in the case of the Henry Carter shipment to A. R. Gibson. But such a clean cut procedure is by no means the rule. Many consignments must be sold on credit and the consignee, as the agent of the consignor, has authority so to make sales, unless forbidden by his instructions so to do. The consignee may make sale entirely, or in part, on notes or on open account and may forward the notes or report the accounts as his remittance of proceeds. In such case the consignor enters

Notes Receivable (or Accounts Receivable)	
Shipment, A. R. Gibson	———
Proceeds of Shipment	———

and closes his shipment account.

Del Credere Sales. In this connection it may be noted that frequently the consignee guarantees the collection of the notes or accounts. For this he charges an additional fee termed *del credere,* or sometimes *discount,* which is listed among his other charges sometimes separately, but more frequently covered in a higher commission rate.

Sales Instructions. Sometimes, instead of the instruction "for sale and remittance" we may find the instruction "for sale and credit to our account"; or the instruction may be altogether indefinite and the consignee may remit or credit at his option. Ordinarily, a failure to remit leads to nothing more serious than a delay; for the consignee is liable, not simply as a debtor, but also as an embezzler, if he fails to make due report and remittance. But suppose the instructions were "for sale and remittance," or that the instructions were open and the consignee, instead of remitting, entered a credit and so reported. If the consignor is satisfied with this, then the consignor's claim will, of course, appear on the books of the consignee as a general liability.

Suppose, however, that the consignor declines to accept the consignee as his debtor and demands remittance and the consignee becomes a bankrupt. In this state of affairs, the consignor, instead of standing only as a general creditor taking *pro rata* on a closing out of the bankrupt's stock, is a preferred creditor and may hold the money, notes, or accounts received by the consignee on sale of the consignor's goods against all other creditors; and it is sufficient in the case of a sale for money that the consignee shall have specified the sum. The identical cash received need not have been set apart.

Charging Consignee Personally. Some bookkeepers, acting on the principle that the consignee is responsible for the goods consigned, open an account with and charge the consignee for the value of the goods sent. The consignee is, indeed, liable; but his liability is that of a bailee, and not that of a debtor. Such an entry puts an asset account receivable on the books which does not exist; and, if the loss or gain on the particular shipment is to be shown on the books at all, requires the determination of the amount of the loss or gain entirely apart from the ledger accounts and the wholly indefensible procedure of closing a personal account to Loss and Gain when the party named has neither defaulted in his obligation nor made a gift to the business.

One author advocates the keeping of a memorandum of the shipment until an Account Sales is received and then to open an account charging the consignee personally with the net proceeds and crediting Sales. This procedure savors a good deal of the policy of locking the stable door after the horse is stolen.

12. Memorandum Accounts. Still another method even now being taught by a well-known accounting school is, on making shipment, to enter Consignment (meaning Shipment), A. R. Gibson Dr, and Goods on Consignment (or Consignment Sales) Cr, and to treat both these accounts as purely memorandum accounts—a sort of reminder that goods are out on consignment.

Costs as Items of General Expense. All costs of drayage, insurance, etc., are charged to General Expense or to Selling Expense account. If a balance sheet is required before Account Sales is received, these memorandum accounts are not shown, but the inventory value of the goods out on consignment is counted in with that of the goods on hand, or at most only separately noted under that head. When Account Sales is received the entry setting up the memorandum accounts is reversed and entry made as for a sale from the general stock at the price of the net proceeds. Thus, after having done all the work necessary for determining the loss or gain on the venture, all its possible benefits are put aside by mixing the returns with the regular sales. It is remarkable that Kester, in his recent work on "Accounting Theory and Practice," after giving an account of this procedure and saying of it (Vol. I., page 473) "The effect of this method is to merge consignment and regular sales transactions into one record, making impossible a separate showing of the profit or loss on consignments" should, farther on, recommend it for use in cases "where consignments are the regular means of sale, ... because under this method all consignment transactions are properly included in the regular sales and expense records." The procedure is as if a stockman, having many animals of different kinds and wishing to know how his business prospers, should keep them well sorted in separate fields until inventory time and then, just before beginning the count, should throw open all the gates and turn the animals into one common field. Such a method, if such it may be called, gives the bookkeeper something to do for his money and, whether intended or not, so beclouds the record that only an expert accountant can understand it.

CONSIGNMENTS

13. Consignee not a Debtor. Turning now to the consignee and to his accounting records, we find an entirely different situation. The consignor's goods are in the consignee's possession but he is in no sense indebted for them and his only responsibility is that of a bailee—to safe-guard them with ordinary care, that is, to care for them as an ordinarily prudent man would care for them if they were his own—and to make sale, or such other disposition of them, as the consignor may direct. He has a lien upon the goods, or upon the proceeds, for any necessary expenses incurred in taking care of and selling the same, such as freight, dock, wharfage, storage, or auction fees, insurance, etc., and for his reasonable commission; but this in no way affects the personal liability of the consignor to him for the amount of such charges and commissions.

Receiving Book. Upon receipt of a consignment, the consignee makes record, first of all, in some sort of Receiving Book in which a detailed statement is made setting out the different kinds and quantities of goods received; when received; from whom received; by what car or boat received; the amount of freight or other charges paid; and any further data that may seem needful for identification and separate accounting. For this, an ordinary day- book-ruled book is commonly used and this record, when made up and posted is substantially as in Fig. 8.

RECEIVING BOOK.

		Chicago Sept. 1 1919		
LOT NUMBER	L.F.	NAME AND EXPLANATION	CHARGES	
2542	126	Wallace & Jenkins Omaha		
		200 bu. potatoes		
		10 bu. onions Freight	10	50
		Car # 21642 U.P.		
2543	137	Henderson & Co. St Louis		
		42 crates tomatoes Express	12	60
		American Express Co.		
2544	138	No Name Alton Ills.		
		80 bu. potatoes		
		10 crates cucumbers Freight	6	75
		Steamer "Clyde"		
	16	Consignors		
	25	Freight & Cartage	29	85

Fig. 8. Receiving Book

Commonly two receiving books are used, one being used on one day at the receiving desk while the other is being used by the bookkeeper, and so on, alternately.

"No Name" Consignments. According to the entries in the Receiving Book, the bookkeeper, if he follows the logical and better way, will open accounts in the consignors ledger with the several parties from whom consignments are received and debit them as for charges paid. Frequently, goods are received without any evidence of ownership. Such consignments are numbered and handled as any other consignment under a "No name" title.

14. Handling Accrued Charges. If the consignee's accounts are kept in double entry, he may open a separate main-ledger account with each consignor and post the several debit and credit items accordingly; or he may use a main-ledger controlling account, debiting and crediting the consignors individually in a subsidiary ledger. In the latter case he will enter the charges paid in the main ledger to the debit of a *Consignors* account and to the credit of *Cash* or of *Freight and Cartage*, according as the charges are paid at once or later upon bills rendered by the transportation companies. If the actual payment is deferred, as is customary, the original credit to Freight and Cartage is cancelled by the later entry of

Freight and Cartage	——	
Cash		——

which yields the net result of

Consignors	——	
Cash		——
Accrued charges paid		

15. Consignments Kept Separate. The consignee must keep the goods of each consignment separate and apart from the goods of other consignments and from his own goods. To this end, as each consignment is recorded in the Receiving Book, it is given a number (Lot Number) and this number is marked on each package; or, if the goods are of such a nature that a lot number cannot conveniently be put upon them, they are placed in stalls, or otherwise apart from other goods, and a placard bearing the lot number is posted over them. Later, as sales are made, credits are entered to the credit of consignors' accounts according to these lot numbers as they will appear in the Sales Book.

16. Sales Book. About the most suitable form of Sales Book for a purely commission business, would be one with journal ruling in which the name and address of purchasers could be written, together with a detailed description of goods purchased and record made of the lot numbers from which the several commodities were taken. The left hand money column would serve as an *items* column and the right hand column for totals of sales. In such a case, the bookkeeper would make posting to the purchasers' accounts in the Sales Ledger, as from an ordinary Sales Book, and to consignors' accounts in the Consignors' Ledger as indicated by the lot numbers and the *items;* also, he would post in the main ledger the total sales.

Sales Ledger (or Accounts Receivable) ———
Consignors ———

SALES BOOK.

Chicago, Sept. 1, 1919.

Lot Number	L.F.	Items			Com. Sales		Mdse	
	162	Henry Morgan, 354 Ohio Ave.						
		Des Moines, Iowa						
2480		15 Bx. Oranges	6.	90.00				
2510		4 Crates Onions	2.50	10.00				
2508		3 Bx. Lemons	5.	15.00	115	00		
		1 Crate Cucumbers		2.50			2	50
				117.50				
	180	Stephens & Porter, Alton, Ills.						
2510		3 Crates Cucumbers	2.50	7.50				
		4 Bx. Lemons	4.75	19.00	26	50		
		2 Crates Tomatoes	2.50	5.00				
		6 Bx. Oranges	5.60	33.60			38	60
2518		20 Bu. Potatoes	3.75	75.00	75	00		
				140.10				
	157	J. D. Coombs, Culver, Ind.						
		5 Crates Tomatoes	2.15	10.75			10	75
2480		3 bbl. Sweet Potatoes	6.50	19.50	19	50		
				30.25				
	24	Sales Ledger Dr.		287.85				
	16	Consignors Cr.			236	00		
	18	Mdse. Sales Cr.					51	85

Fig. 9. Sales Book

But a purely commission business is hardly to be found, the commission merchants all but universally carrying goods of their own and making sales more or less in competition with the goods of their consignors. On this account, commission Sales Books are provided with a third money column for recording sales from stock and, when made up and posted, appear as in Fig. 9.

17. Cash Sales. Sales for cash may be entered as on account, with an off-setting credit run through the Cash Book; or the sale record, instead of being posted may be *checked* both in the Sales Book and in the Cash Book; or a *Cash Sales* column may be inserted in the Sales Book or in the Cash Book and adjusting entries made or posting made direct to the ledger. The particular procedure employed in any case is of small importance provided only the proper classification of accounts is maintained and the proper debit and credit entries made in the ledger.

Purchaser Deals with Consignee Only. So far as the purchaser is concerned, there is no distinction between goods sold to him from consigned stock and goods sold to him from the commission merchant's own stock. The purchaser buys as from the commission merchant only. But the commission merchant distinguishes by having no lot number opposite items sold from his own stock and by extending the sales price of such goods into the *Mdse* column; and, in posting to the main ledger, the amount of this *Mdse* column is credited to his own merchandise sales account.

Advances. Any *advances* which the commission merchant has made to the consignor is, of course, posted from the Cash Book and charged in the main ledger to Consignors' Account and, in the consignors' ledger, to the debit of the individual consignor's personal account. Expenditures for drayage, storage, insurance, auction fees, etc., are likewise charged against consignor personally. The consignee may make report to his principal when only a part of the consigned goods have been sold; that is, he may make a partial account sales. But, usually, the report is in full and substantially in the form shown on page 5, the commission merchant's commission on sales being charged, in like manner as other items are charged, to the consignor's personal account and, of course, included in the Account Sales, which is only a restatement of the consignor's account.

Consignee not an Adventurer. On the consignee's books, according to the method above described, there is no account with the venture but only with the consignor. The only record of the consignment is in the Receiving Book which is a pure memorandum record, except for the items of freight or other charges which had accrued prior to receipt of the goods. Any debit or credit balance in the account of a consignor on the consignee's books represents, therefore, a true asset or liability of the consignee and in the making of a Balance sheet accounts of consignors are to be treated as other personal accounts, but separately stated.

18. **Liability of Consignee.** The consignee becomes liable to the consignor for failure to take proper care of the goods consigned to him and for failure to obey instructions of the consignor; but this liability is no part of his liability as consignee. It arises from failure to do as a consignee should do. In other words, it is a liability in tort and not in contract. The consignee becomes a debtor only when some of the consigned goods are sold and the proceeds come into his possession. He holds such proceeds in trust for his principal and is bound to make prompt report with remittance or otherwise, according to his instructions and the character of the proceeds in his hands. His only venture is his service for which he is paid in a commission on sales.

Protecting Interest of Consignor. We noted on page 12 that, if the proceeds of sale of consigned goods were in cash, it was sufficient to protect the consignor's interest, as against other creditors of the consignee, if the consignee records the sum due to the consignor, even though the money be mixed with other money belonging to the consignee—as, for example, by deposit in bank to the consignee's credit. So too, it seems, if he holds the proceeds to the credit of the consignor, it will be sufficient if he enters the amount to the credit of his consignor as bailor. Open accounts receivable on the consignee's books, or notes springing from sale of consigned goods, belong, of course, to the consignor whether taken in his name or in the name of the consignee.

19. **Personification of Consignment Account.** Another method of keeping consignment accounts arises from a sort of personification of the consignment, as if the goods were not subject to a lien only, but were personally responsible for *advances*, for freight and other charges, and to be credited for proceeds of sales. Under this method, in a small-scale commission business, the functions of the Receiving Book and of the Sales Book are sup-

plied by the ordinary books of original entry; and, instead of an account with the consignor a ledger account is opened with, say, "Henry Carter Consignment No. 1." Expenditures for freight, insurance, commission, etc. are debited and receipts from sales are credited to this account, the balance, at any time, showing the amount due to or from the consignor. But this is clearly reading into the account something which is not there and if, after the consigned goods are disposed of, there remains any balance, one way or the other, it is regularly transferred from the consignment account to a personal account with the consignor.

Consignment Account—Contents. As ordinarily made up, the consignment account contains also a memorandum of the goods

Henry Carter's Consignment No. 1

1919						1919					
Sept	2	Express & Cartage	5	10	50	Sept	2	75 Bx. Johnathan Ap's			
	8	Storage	5	3	00			50 sacks E.O. Potatoes			
		Auction fees	10	1	45		5	50 Bx. J. Apples @ 2.10	2	105	00
		Com. 4%	7	11	85		6	25 Bx. " " @ 2.15	4	53	75
		Remitted	2	269	45		7	50 sacks E.O. Pot @ 2.75	5	137	50
				296	25					296	25

Fig. 10. Consignment Account Closed—Ledger Form

received and, when fully written up, would show items as in Fig. 10.

A copy of the consignment account would answer all the purposes of an Account Sales; but Account Sales is usually rendered in statement form as shown on page 5.

Memoranda Entry. There is a difference of opinion touching whether the memorandum of goods received should be entered on the debit or credit side of the account. Practically, it makes no difference; the memorandum may just as well be written on the clear space above the title of the account. It may academically be worthy of discussion, but we think not. We place it upon the credit side as being identical with that which later is entered on the credit side when sales are made, but which cannot be so entered at time of receipt because the sales value is then not known. Perhaps the best way is to keep the accounts on journal-ruled paper, in which case no one can tell whether the memoranda are debit or credit entries.

When consignment accounts become so numerous as to make the ledger unwieldy, they are set out in a separate and subsidiary ledger with a controlling account in the main ledger, as explained in the case of shipments. At the same time, there is introduced, also, separate Receiving and Sales books.

20. Combined Receiving and Sales Book. One much favored scheme provides for a Commission Sales book which serves both

		E. R. Jackson Consg. No. 1 Carthage, Mo.					
Oct.	5	60 bbl. Winter Apples					
		80 sacks Potatoes					
		Freight Charges		10	50		
	6	Advance N. Y. Exchange		450	00		
	8	40 bbl. Apples	10.50			420	00
		30 sacks Potatoes	3.50			105	00
	9	Storage		3	25		
	10	20 bbl. Apples	10.00			200	00
		50 sacks Potatoes	3.25			162	50
		Commission 5%		44	38		
		N. Y. Exchange for proceeds		379	37		
				887	50	887	50

Fig. 11. Consignment Account Closed—Statement Form

as a Receiving book and as a ledger for the individual consignment accounts. A page of such a book is shown in Fig. 11. Sometimes the page is divided into two parts—the upper part for memoranda of the goods received and for credits from sales, the lower part for charges and commission, etc. Essentially, however, it is the same as shown. It supplies all needed data for an Account Sales, which is seldom more than a transcript of the account.

Commission Sales Book a Memorandum Book. The Commission Sales book is not "tied in" with the main ledger but is carried purely as a memorandum book. When a consignment account is closed and Account Sales rendered, a summary record of results is entered in an Account Sales register which is simply a special column journal for distribution of the gross receipts from commission sales. Such modifications lead to elaborate and sometimes, fortunately, labor-saving methods, but they in no way affect general accounting principles.

If, pending remittance of proceeds of any consignment accounts, it is desired to make a Balance Sheet of the consignee's books, one must treat charges, or advances, against a consignment as resources and treat proceeds of sales for which no Account Sales has been rendered as liability inventory. No account is opened with the consignor unless the proceeds of his consignment are held to his credit or when there is not sufficient realized from sales to cover the consignee's charges.

While this method can hardly be defended logically, it answers every need in the great majority of cases because it is seldom, indeed, that a consignment does not yield sufficient proceeds to cover charges and it has the decided merit of keeping the records of different consignments from any one party entirely separate from each other.

Sales Sheets. By use of sales sheets, instead of a Sales Book, it is possible to make carbon copies so that one writing will serve for order book, shipping book, and for either cash or credit sales. This, also, is only a modification in form such as are commonly introduced to meet peculiar conditions.

JOINT VENTURES

21. Two Kinds of Joint Ventures. A joint venture may be simply a shipment by two or more parties who, for the purposes of the venture only, constitute a temporary partnership. In this case, the consignee is an outside party who, when properly advised, can make returns to each member of the partnership according to the partnership agreement and thus close the venture, as in the case of a consignment from one consignor, or he can make a report to any one of the partners and the partners can then make the necessary adjustment among themselves.

22. **Combined Shipment and Consignment.** More frequently, however, the joint venture is a shipment by the partnership made through one of its members at one point—say, Para, Brazil—to the partnership represented by another partner at another point—say, New York. In this case, it has the double aspect of both a shipment and a consignment. For illustration, let us assume that John Barrows, at Para, Brazil; Henry Wilson, of N. Y. City; and Roger Martin, of Chicago, agree to gather a quantity of rubber in Brazil and to ship it to this country for sale on their joint account and risk. Barrows on June 1 buys rubber in Brazil at a cost to him of $1000 and pays also various costs amounting to $150 before the rubber is finally loaded on a steamer and started to Wilson, at New York. Wilson on June 20 pays ocean freight, duties, etc., amounting to $75 and ships the rubber to Columbus, Ohio, in fulfillment of a contract of sale negotiated by Martin. Martin's expenses and commissions on this account amount to $95. The rubber is sold on July 2nd at a gross sale price of $1800. Assuming that the agreement is to share losses or gains equally, what accounts are needed and, disregarding interest, how shall settlement be made?

Methods of Accounting. Two methods of accounting are available. One method is by opening an independent set of books for the temporary partnership in all respects as if it were a permanent partnership with a Joint Venture, or Trading, account which is charged for all costs of goods or services of every kind and which is credited with all proceeds. The goods being sold, the difference between the two sides of this account must show the net loss or gain and the account is closed, according to the agreement for sharing losses or gains, either through a Loss and Gain account or directly into the partners' accounts. The several parties then withdraw the amounts standing to their credit and thus the books are closed and the business ended. If the money or goods so contributed by any member of the temporary partnership is drawn from his regular business, some record of the withdrawal must be made on the books of that business. This can be done by entry of

Barrows-Wilson-Martin Joint Venture ———

Cash (or Mdse, or services) ———

The B-W-M Joint Venture account will then correspond with that partner's investment account on the books of the temporary partnership. As returns are received from the temporary partnership, this B-W-M Joint Venture account will be credited and, upon final report, would show the net loss or gain resulting from the undertaking.

23. Consolidated Joint Venture Statement. But the keeping of an extra set of partnership books is usually considered too elaborate for the needs of so temporary an arrangement as that

B-W-M Joint Venture

June	1			100	00						
	2			150	00						

Fig. 12. Joint Venture Account—Barrows' Books

B-W-M. Joint Venture

June	20			75	00						

Fig. 13. Joint Venture Account—Wilson's Books

B-W-M. Joint Venture

July	1			95	00	July	2			1800	00

Fig. 14. Joint Venture Account—Martin's Books

of a joint venture and a simpler method is employed, as follows: Each partner, on his own books, opens only the B-W-M Joint Venture account, charging it for money, goods, or services ventured, and crediting it for returns, as above described; the report is made accordingly to the partner who, as consignee, holds the goods for sale and who is to render the final Account Sales. When the goods are sold, a consolidated Joint Venture account, or statement, is made up by the consignee and the net loss or gain on the venture, as a whole, determined and reported to the other partners. If the venture yields a gain, each partner will now debit his joint venture account and credit a "Joint Ventures, Loss and Gain" account for his share. The balances

B-W-M Joint Venture

June	1			1000 00	July	2			1800 00
	2			150 00					
	20			75 00					
July	1			95 00					

Fig. 15. Consolidated Joint Venture Account

of the several Joint Venture accounts will then show the sum due to or from the partner. The debit balances shown in the joint venture accounts of the different partners will always

B-W-M Joint Venture

June	1		1000 00				
	2		150 00				
July	2		160 00				

Fig. 16. Joint Venture Account—Barrows' Books, Showing Profits Apportioned

B-W-M Joint Venture

June	20		75 00				
July	2		160 00				

Fig. 17. Joint Venture Account—Wilson's Books, Showing Profits Apportioned

exactly offset the credit balances; and when these are adjusted by remittance from the consignee whose joint venture account normally shows a credit balance the business is at an end. By this latter method, the data recited above would show on Barrows' books as in Fig. 12; on Wilson's books as in Fig. 13; and on Martin's books as in Fig. 14. The consolidated Joint Venture account, or trading statement, will then show as in Fig. 15.

B-W-M Joint Venture

July	1		95 00	July	2		1800 00
"	2		160 00				

Fig. 18. Joint Venture Account—Martin's Books, Showing Profits Apportioned

The difference between the two sides of this statement shows a net gain of $480; or, in other words, that, by reason of change of place, the goods were increased in value by this amount. It is, therefore, proper that each partner should debit his joint venture account and credit his "Joint Ventures, Loss and Gain" account for his share of this increased value. Assuming that the partners

July	2	B-W-M Joint Venture	1545	00		
		Cash			1545	00
		Remittance to Wilson 235.00				
		" Barrows 1310.00				

Fig. 19. Journal Entry Closing Joint Venture Account—Martin's Books

share equally in this increase, the several accounts will then show on Barrows' books as in Fig. 16; on Wilson's books as in Fig. 17; and on Martin's books as in Fig. 18.

July	7	Cash	235	00		
		B-W-M Joint Venture			235	00
		Proceeds of Venture				

Fig. 20. Journal Entry, Closing Joint Venture Account—Barrows' Books

24. Closing Entries. The balance of Martin's account shows an excess credit of $1545, while those of Barrows and Wilson show debit balances which, together, equal this same amount. The

Aug.	2	Cash	1310	00		
		B-W-M Joint Venture			1310	00
		Proceeds of Venture				

Fig. 21. Journal Entry, Closing Joint Venture Account—Wilson's Books

affairs of the temporary partnership may, therefore, be closed by remittance of this excess from Martin to the other partners as their interests appear. On Martin's books the Venture account is closed as in Fig. 19; on Barrows' books the account is shown in Fig. 20;

while on Wilson's books the account is shown by Fig. 21. This latter method is clearly much the shorter and for the occasional joint venture, at any rate, is to be preferred.

COMMISSION MERCHANT PRACTICE

25. **Theory and Practice.** The subject of Shipments and Consignments cannot well be left without a word concerning the practice or methods of consignees in relation to the goods so entrusted to them for sale and remittance.

Accounting methods may faithfully present the theory according to which a business is supposed to proceed, but theory and practice are not always in accord. Especially has this been true in the marketing by consignment, of the more highly perishable garden products, where the commission merchant was also a regular merchant offering goods of his own in competition with those of his consignor. Theoretically, the consignee has been receiving the goods of his consignor and making sales to others as best he could in the interest of his consignor. Practically, the consignee of such commodities has been *taking the goods on account,* that is, has been selling them to himself and, naturally, at prices more favorable to his own interest than to that of his consignor. Moreover, he has been charging not only the customary commission but, frequently, also a *del credere* commission on such sales. Shippers, conscious of being defrauded but without proof of fraud and lacking means for enforcing honesty on the part of consignees, have gradually ceased to make consignments of such commodities and have come to make straight sales instead. Thus the business of marketing by consignment—while it has positively increased and is destined yet more, with development of foreign trade, to increase—has relatively declined.

Extent of Commission Business. At the present time, "live-stock is almost universally marketed by consignment to commission men located in the large live-stock markets, and this method appears to be satisfactory to all concerned." Also, "The great bulk of the grain marketed from the Northwest is sold in Minneapolis or Duluth on a commission basis." That the commission sales method of marketing grain and live-stock is still the most approved method is alone sufficient justification for this article.

The need for a knowledge of the subject in foreign trade relations makes it a matter of prime importance.

Why has the commission business kept up in the marketing of grain and live-stock while falling off in other lines? The answer is to be found in the fact that live-stock and grain commission men cannot well have the conflicting interests so common in the case of dealers in garden truck and other perishable commodities. The live-stock commission man cannot well keep live-stock of his own in the stock yards for sale in competition with those of his consignor and shippers of such goods have ready means of knowing just about what to expect on sale. The produce commission merchant is subject to no such monitor but is free to go his way, "actuated by two conflicting motives: first, to take them (i. e. the consigned goods) at as low a price as possible so that he can make a good profit; and second, to make as high a return as possible to the shipper and thus induce him to continue his consignments." The commission men have it in their power "to handle the goods in whichever way they please. On a gradually rising market, the commission man is more apt to buy the goods outright so as to get the profit from merchandising the goods himself. On a falling market, however, the commission man is more apt to handle on a strict commission basis, not caring to risk the loss involved in handling the goods."

26. Dishonest Practices. One whose experience and standing entitle him to speak with some degree of authority in such matters says, "a practice not infrequently resorted to . . . . . is to report goods sold, when Account Sales are rendered, at a price considerably below the actual price received; for instance a consignment of potatoes sold at a market price of 90c per bushel is reported as sold at 75c per bushel," thus giving the commission merchant a clear gain of 15c per bushel besides his charge of the regular commission on the 75c price per bushel reported to the consignor.

Taking "On Account." Another scheme is to "take the consignment on account" at a high valuation and then charge a commission sufficient to make the net price considerably below the market price.

"No man can serve two masters" and, as the natural consequence of such crooked methods, the produce commission merchants have largely forced themselves out of business as commission merchants and have become ordinary merchants, buying and selling at their own risk. That it is not a consequence of competition, as generally claimed, is shown by the fact that even "in those trades where the change is most pronounced, old established houses may be found who still specialize on the commission method of sale. Their reputation obtained through long years of honest service to satisfied and regular shippers enables them to continue to receive consignments." That "honesty is the best policy," even in the produce commission business, is indicated by the finding of another investigator that "one of the largest and strongest produce firms in Chicago relies exclusively on consignment business, basing its appeal upon the fact that they have 'no purchased goods to compete with your consignments—no bought goods of our own to claim *first* attention.'"*

Auction Market. In some trade centers, merchants associations forbid the taking of consignments *on account*, thus putting the practice in disrepute, with the result that those commission men who are anxious to avoid suspicion, market consigned goods through a Produce Exchange, or auction house, where, if they wish to buy their consignor's goods, they must buy them as anyone else would do in an open market. And this method of marketing is said to be cheaper than to market by private sale, so that the results are favorable both to the consignor and to the honest consignee.†

* Nourse; "The Chicago Produce Market," p. 62.
† Weld; "Marketing Farm Products," p. 90.

THE VOUCHER SYSTEM AND ACCOUNTING CHARTS

VOUCHER SYSTEM OF ACCOUNTING

1. *Voucher.* A document which vouches the truth of accounts.

Receipt. An acknowledgment of money paid.

The voucher system is sometimes referred to as a modern system of accounting, but a study of the above standard definitions indicates that it is modern only in respect to forms of records and routine.

In the nomenclature of accounting the term voucher is quite commonly used in the same sense as the term receipt. The only distinction appears to be that a voucher is usually understood to be an acknowledgment of the payment of a particular item on account, while a receipt may be an acknowledgment of the payment of money without reference to the item or items covered.

Since the transaction of business began receipts or vouchers in some form have undoubtedly been used. Some form of acknowledgment of money paid has always occupied a place in business. But at first, receipts were not required—they were incidental; given as a matter of courtesy; a "thank you" in written form.

When the first man, after paying his grocery bill, was forced to pay it a second time because the merchant had failed to mark his account "paid," he *demanded* a receipt. He learned then and there that accounts, and those who keep them, are not infallible. He told his neighbors, and the custom of demanding receipts for money paid, came into being.

The receipt was demanded as a matter of self-protection, to prevent the possibility of payment of an amount being successfully demanded a second time. But the receipt was not an integral part of the accounting records of a business; it might or might not be demanded without affecting the records. So long as business was conducted by single proprietors or small partnerships, this was satisfactory, since the receipt was not required as a record between partners.

With the advent of joint-stock companies and corporations, came ownership by a large number of investors. Having their capital invested, these owners had a right to know what was being done with their property, and there came a demand for a more strict accounting of money and property entrusted to the care of the managers of the business.

As business expanded and corporations grew in size and power, with wider spheres of activity, it became necessary to divide the operations of business concerns into departments, with corresponding divisions of authority. This meant the creation of a central authority to whom an accounting must be made by the departments or branches.

Audits were introduced. Not only did stockholders want to know that the business was honestly conducted, but the managers demanded proof that property entrusted to subordinates was accounted for and that the accounts were accurate—that is, truthful. Not satisfied with the evidence offered by entries in account books, auditors asked for further proof of the payments recorded; they demanded receipts, *vouchers*.

The voucher as used in modern accounting practice is then something more than a receipt for the payment of money; it is a proof that property has been administered as claimed by the accounting records. "A document which vouches the truth of accounts."

2. **Use of Vouchers.** The most general use of the voucher still is as an acknowledgment of the payment of money. In fact, when we speak of a voucher it is usually understood to mean a receipt or acknowledgment of the payment of money for a specific purpose.

A voucher states the exact purpose for which the money is paid, the items either being listed or reference made to a specific invoice or account. Then when receipted it becomes a voucher in fact and takes its place as an integral part of the accounting records. The voucher may be said to form a connecting link, furnishing proof that the money was expended as shown in the records and that it was received by the payee. In this respect it acts as a check against a misappropriation of funds.

As the system of vouchers for payment of money came into more general use, many accountants argued that it should be carried still further. Sales records were vouchered by original orders, shipping receipts, and invoice copies, and purchases by the regular vouchers, but there was no voucher for transactions involving transfers of values from one account to another. In making journal entries involving such transfers, many opportunities for fraud were opened. Just such entries have been frequently used to cover up fraudulent transactions.

The logical step to make the voucher system complete in every detail was the introduction of the journal voucher. If a voucher is provided for each journal entry, the bookkeeper can produce authority for every transaction recorded in his books.

The journal voucher is a voucher of authority, that is, it authorizes the entry involved and must be signed by an officer having power to make such authorization. To the bookkeeper, it is in many cases a protection, for if a question arises as to the legality of a transaction, he can produce his authority for the entry, which will place the responsibility where it belongs.

We have come in contact with cases in which the bookkeeper, following the explicit instructions of an officer of a company, has made entries clearly intended to defraud either creditors or stockholders, only to be later made the "scapegoat" and held jointly responsible with his superior officer.

Not all such entries show their clear intent, though their real purpose be fraudulent. Some of them are so ingenuous and supported by such plausible explanations, that the bookkeeper has no suspicion of their real nature. A case in point: a corporation was organized in a small town to engage in a manufacturing enterprise. Like many another corporation of similar character, the benefits which would accrue to the town, were dwelt upon at length by the promoters, and citizens were induced to invest their savings in small blocks of stock. Also, like many another enterprise entered into and managed by men with no technical training, this little factory struggled along for a few years, always operated at a loss. But a change came; an experienced manager was secured and the business began to exhibit symptoms of a healthy growth. The second year showed a profit; almost enough to wipe out the deficit. The third year the business outgrew the capacity of the plant, and $20,000.00 was invested in new machinery. Not an old machine was discarded. The manager instructed the bookkeeper to charge $15,000.00 of the amount to repairs, explaining that it would offset the amount which should have been charged off as depreciation in former years. Perhaps,—but it made the books show a small loss instead of a substantial profit for the year. And it is significant that several holders of stock, worth face value, and more, sold their holdings to the manager at an average price of .65. If no profit could be made on such a volume of business as had been transacted that year, what hope for the future?

VOUCHER NO. ________
CHECK NO. ________

THE AMERICAN TRADING CO. Dr.

To ________________________________

		For				

________________________ 19___
PLACE AND DATE

RECEIVED ________________________ Dollars $________

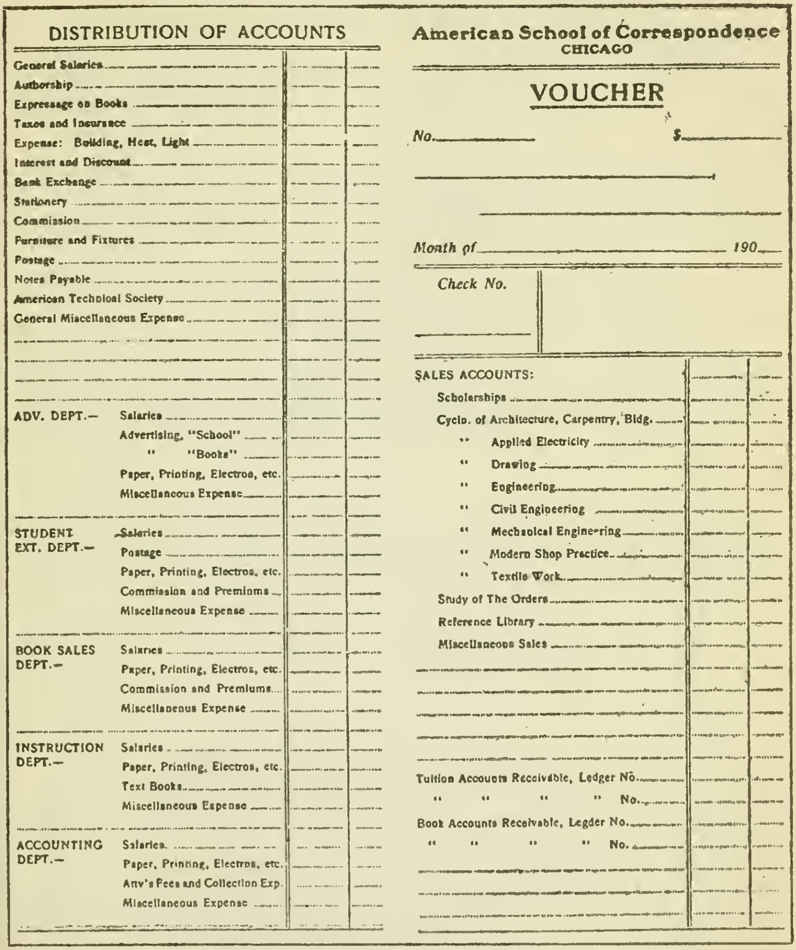
in full settlement of the above items.

SIGNED ________________________

Fig. 1. Voucher to be Receipted and Returned

To what extent a bookkeeper is justified in presuming to conserve the morals of his employer, is not a subject for present discussion. Just where the line should be drawn between moral and legal responsibility, is sometimes difficult to determine. But that bookkeeper innocently assisted in robbing unsuspecting stockholders. Had he insisted on the signed authority of the manager—that is, demanded a voucher—the entry might never have been made; he, at least, would have been freed from any possible charge of complicity.

3. Forms of Vouchers. The essential feature of a voucher is that it must show clearly the purpose for which it is drawn, and provide a proper form of receipt. There are many forms of vouchers designed to meet the requirements of different businesses.



DISTRIBUTION OF ACCOUNTS

General Salaries			
Authorship			
Expressage on Books			
Taxes and Insurance			
Expense: Building, Heat, Light			
Interest and Discount			
Bank Exchange			
Stationery			
Commission			
Furniture and Fixtures			
Postage			
Notes Payable			
American Technical Society			
General Miscellaneous Expense			
ADV. DEPT.—	Salaries		
	Advertising, "School"		
	" "Books"		
	Paper, Printing, Electros, etc.		
	Miscellaneous Expense		
STUDENT EXT. DEPT.—	Salaries		
	Postage		
	Paper, Printing, Electros, etc.		
	Commission and Premiums		
	Miscellaneous Expense		
BOOK SALES DEPT.—	Salaries		
	Paper, Printing, Electros, etc.		
	Commission and Premiums		
	Miscellaneous Expense		
INSTRUCTION DEPT.—	Salaries		
	Paper, Printing, Electros, etc.		
	Text Books		
	Miscellaneous Expense		
ACCOUNTING DEPT.—	Salaries		
	Paper, Printing, Electros, etc.		
	Att'y's Fees and Collection Exp.		
	Miscellaneous Expense		

American School of Correspondence
CHICAGO

VOUCHER

No.________ $________

Month of________ 190__

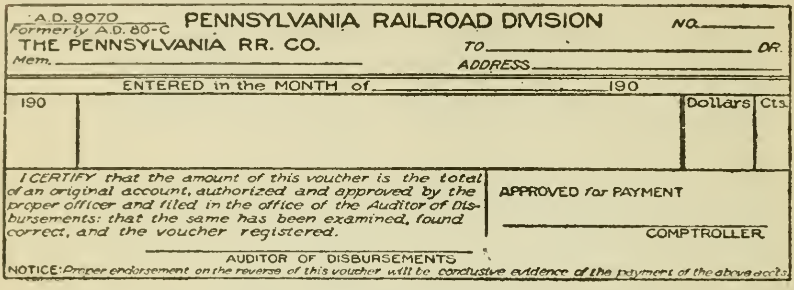
Check No.

SALES ACCOUNTS:		
Scholarships		
Cyclo. of Architecture, Carpentry, Bldg.		
" Applied Electricity		
" Drawing		
" Engineering		
" Civil Engineering		
" Mechanical Engineering		
" Modern Shop Practice		
" Textile Work		
Study of The Orders		
Reference Library		
Miscellaneous Sales		
Tuition Accounts Receivable, Ledger No.		
" " " " No.		
Book Accounts Receivable, Ledger No.		
" " " " No.		

Fig. 2. Back of Voucher Showing Distribution

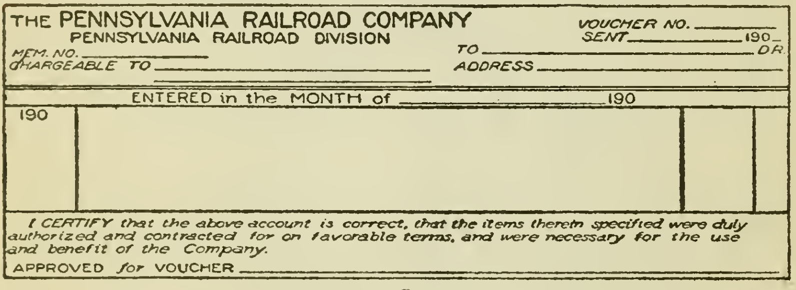
The most simple form of voucher is a statement of items paid, with a receipt to be signed by the payee. A remittance in the form of cash or a check accompanies the voucher, the receipted voucher being returned by the payee. A form of voucher of this class is shown in Fig. 1.

The items paid can be listed on the voucher, or there may be a reference to certain invoices included in the payment. Some accountants attach the original invoice to the voucher, but for certain reasons we do not advocate this practice. Until the receipted voucher



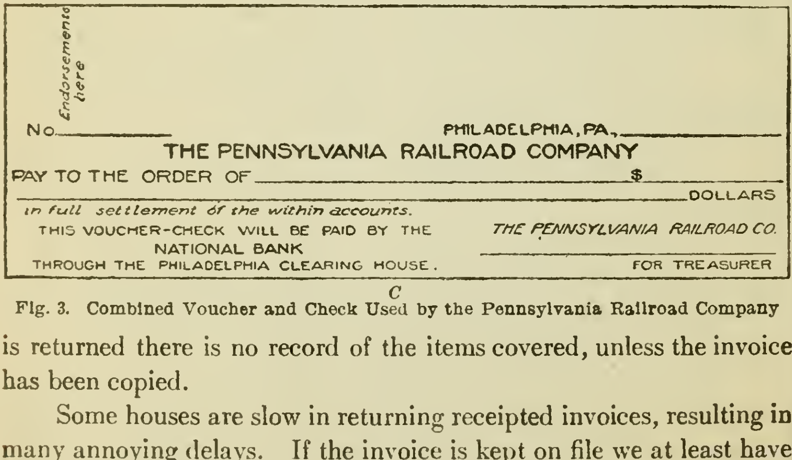
A.D. 9070
Formerly A.D. 80-C
PENNSYLVANIA RAILROAD DIVISION
NO.
THE PENNSYLVANIA RR. CO.
TO ________ DR.
Mem.
ADDRESS
ENTERED in the MONTH of ________ 190
190
Dollars | Cts.
I CERTIFY that the amount of this voucher is the total of an original account, authorized and approved by the proper officer and filed in the office of the Auditor of Disbursements: that the same has been examined, found correct, and the voucher registered.
AUDITOR OF DISBURSEMENTS
APPROVED *for* PAYMENT
COMPTROLLER
NOTICE: *Proper endorsement on the reverse of this voucher will be conclusive evidence of the payment of the above acc'ts.*

A



THE PENNSYLVANIA RAILROAD COMPANY
PENNSYLVANIA RAILROAD DIVISION
VOUCHER NO.
SENT ________ 190
MEM. NO.
CHARGEABLE TO
TO ________ DR.
ADDRESS
ENTERED in the MONTH of ________ 190
190
I CERTIFY that the above account is correct, that the items therein specified were duly authorized and contracted for on favorable terms, and were necessary for the use and benefit of the Company.
APPROVED *for* VOUCHER

B



Endorsement here
No.
PHILADELPHIA, PA.,
THE PENNSYLVANIA RAILROAD COMPANY
PAY TO THE ORDER OF ________ $
________ DOLLARS
in full settlement of the within accounts.
THIS VOUCHER-CHECK WILL BE PAID BY THE
NATIONAL BANK
THROUGH THE PHILADELPHIA CLEARING HOUSE.
THE PENNSYLVANIA RAILROAD CO.
FOR TREASURER

C

Fig. 3. Combined Voucher and Check Used by the Pennsylvania Railroad Company

is returned there is no record of the items covered, unless the invoice has been copied.

Some houses are slow in returning receipted invoices, resulting in many annoying delays. If the invoice is kept on file we at least have a record of the transaction, and it may be very necessary to refer to the invoice for prices or other information.

The back of the voucher is usually printed with a form for a distribution of the amount to the account or accounts to which it should be charged. A typical form is shown in Fig. 2. For permanent filing a voucher of this style is folded so that the number appears at the top, followed by the name of the payee, and the distribution record.

4. **Voucher Checks.** A step in advance of the early form of voucher with separate check is the voucher check. This is a form which combines the voucher and check.

Of voucher checks there are many forms, each designed to meet some special condition, or to conform with the ideas of the accountant. While these forms exhibit many variations in detail they may be divided into two general classes: folded voucher checks and single voucher checks.

The folded voucher check is usually twice the width of an ordinary check, making it regular check size when folded. This is intended to provide a receipt for the payment of items listed, by the endorsement of the check. Several such forms are illustrated.

Fig. 3 is a form of combined voucher and check used by the Pennsylvania Railroad Company, The account is transcribed on *A*, this being a sheet twice the width of a check. This form is made in duplicate, *B* being the carbon copy which is filed as a record of authority for the issuance of the voucher. The check itself, shown in *C*, is written on the back of the original voucher. *A*. When folded, this form is the size of a regular check and goes through the bank in the usual manner. The endorsement of the payee is a receipt in full for the items covered by the voucher.

This is a representative form of the folded voucher check. Naturally the details recorded will vary in different businesses, but the general plan is subject to slight changes. Some objection is raised by banks to the folded form. The claim is made that considerable inconvenience is caused in handling in the bank, by checks slipping between the folds.

Many of the earlier forms of voucher checks were not checks until certain conditions had been complied with. On the face of the voucher was printed "when properly receipted this voucher will be paid through.........Bank." This required a receipt in some special place, instead of the usual endorsement of a check, and it was not always easy to tell, at a glance, the amount to be paid.

Very naturally, objections were raised by the banks against the use of these complicated forms, but forms have been simplified in ways that have largely overcome these objections.

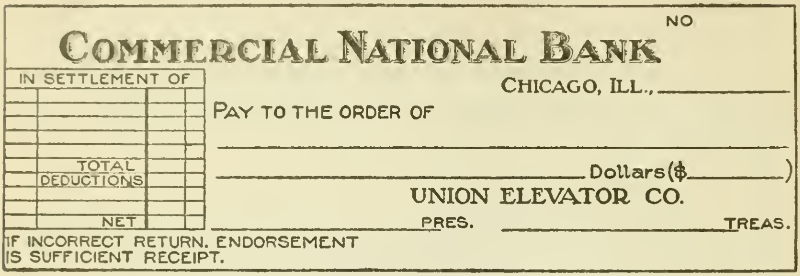
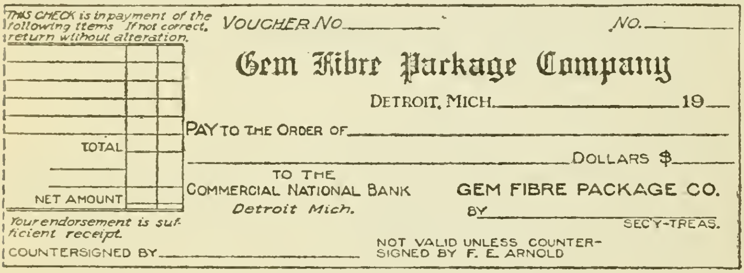
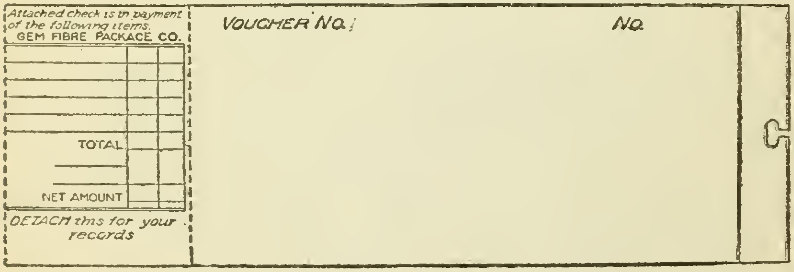

NO
COMMERCIAL NATIONAL BANK
IN SETTLEMENT OF
CHICAGO, ILL., ____
PAY TO THE ORDER OF
TOTAL
DEDUCTIONS
____ Dollars ($____)
UNION ELEVATOR CO.
NET
____ PRES. ____ TREAS.
IF INCORRECT RETURN. ENDORSEMENT IS SUFFICIENT RECEIPT.

Fig. 4. Form of Voucher Check that Requires no Folding

An improvement is the ordinary check form arranged to provide a valid receipt for stated items. Such a form is illustrated in Fig. 4. This is an ordinary check form of regulation size, on which is noted


THIS CHECK is in payment of the following items. If not correct, return without alteration.
VOUCHER No.____ NO.____
Gem Fibre Package Company
DETROIT, MICH.____19__
TOTAL
PAY TO THE ORDER OF____
____DOLLARS $____
TO THE COMMERCIAL NATIONAL BANK Detroit Mich.
NET AMOUNT
GEM FIBRE PACKAGE CO.
BY____ SEC'Y-TREAS.
Your endorsement is sufficient receipt.
COUNTERSIGNED BY____
NOT VALID UNLESS COUNTERSIGNED BY F. E. ARNOLD

A


Attached check is in payment of the following items.
GEM FIBRE PACKAGE CO.
VOUCHER No. NO.
TOTAL
NET AMOUNT
DETACH this for your records

B

Fig. 5. Duplicate Voucher Check in Loose Leaf Form

the item or items paid. The checks are put up in pads and numbered as used. When endorsed, the check provides a valid receipt for the items covered.

A voucher check with some advantageous features is shown in

Fig. 5. This is made in duplicate. *A* is the original voucher check, while *B* is the duplicate. When sent out, the stub shown in *B*, a duplicate of the statement on the original check, is attached to the check. This is detached by the payee for his records, and enables him to deposit the check without waiting to make the entry in his cash book.

These voucher checks are made in sheets and punched for filing in a loose-leaf binder. The balance of the form shown in *B*, the part remaining after the check and duplicate statement have been removed, is a copy of the check, and remains in the binder.

The checks are numbered consecutively, but the voucher number is entered when used and corresponds with the number of the voucher paid.

The office record of the items paid is made on the voucher form shown in Fig. 6. These are numbered consecutively, in the order in which they are approved, and when paid are filed in numerical sequence.

VOUCHER No. ________

IN FAVOR OF

____

FOR THE FOLLOWING ITEMS:

		Total		
		DEDUCTIONS		
		Net Amount		

Due ________

Paid ________

Check No. ________

Charge To		

Approved ________

Fig. 6. Voucher Distribution Sheet

Another style of loose-sheet voucher check is illustrated in Fig. 7. This form is made on the typewriter, in triplicate, and includes the original check, a receipt and a copy of the check. The forms are

CLEVELAND ________ 19____ No. 100

SECOND NATIONAL BANK

PAY TO THE ORDER OF ________

________ Dollars $ ________

IN PAYMENT OF ________

BAUMAN CLOTHING CO.

________ PRES.

ORIGINAL

________ 19____ No. 100

RECEIVED FROM BAUMAN CLOTHING CO.

________ Dollars $ ________

IN PAYMENT OF ________

DUPLICATE

________ 19____ No. 100

PAY TO THE ORDER OF

________ Dollars $ ________

IN PAYMENT OF ________

________ 19____ No. 101

PAY TO THE ORDER OF

________ Dollars $ ________

IN PAYMENT OF ________

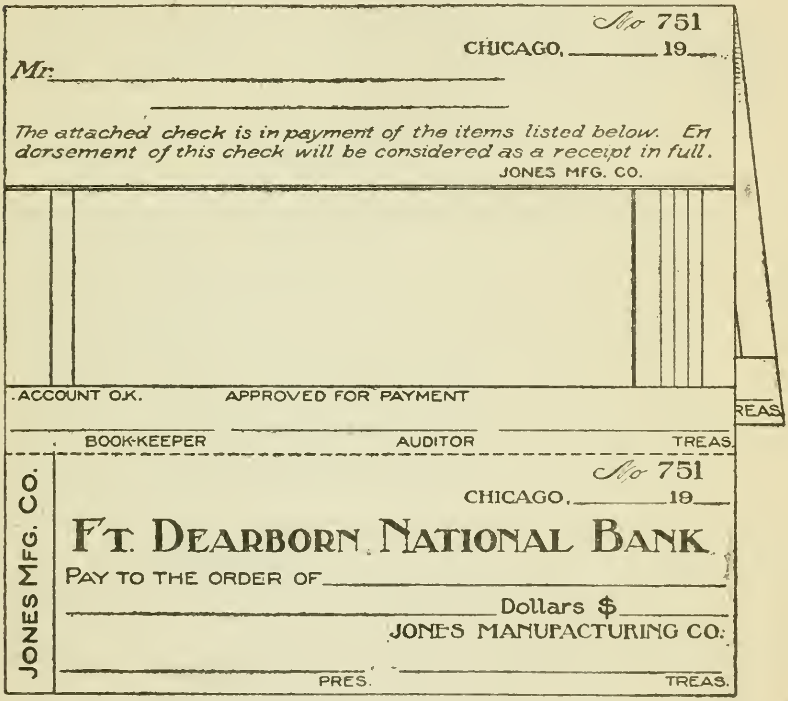
TRIPLICATE

Fig. 7. Triplicate Form of Voucher Check that Provides a Receipt and a Copy of the Check

made two to a sheet, and when a check is to be written the triplicate sheet is placed in the machine, three copies being made at one writing.

The triplicate form, or copy of the check, is the permanent record from which posting is done. Both the check and receipt are mailed and the payee is expected to return the receipt. If not returned within a reasonable time, the payee is followed up by letter and asked to return the receipt, as this becomes a part of the permanent office records.

An excellent form of voucher with check attached is shown in Fig. 8. The voucher is made in duplicate, the check being attached to the original. The duplicate is kept on file for the office record,


No 751
CHICAGO, ______ 19__
Mr. ______

The attached check is in payment of the items listed below. Endorsement of this check will be considered as a receipt in full.
JONES MFG. CO.

ACCOUNT O.K. APPROVED FOR PAYMENT
BOOK-KEEPER AUDITOR TREAS.

JONES MFG. CO.
No 751
CHICAGO, ______ 19__
FT. DEARBORN NATIONAL BANK
PAY TO THE ORDER OF ______
______ Dollars $______
JONES MANUFACTURING CO.
PRES. TREAS.

Fig. 8. Duplicate Voucher with Check Attached

while the original, with check attached, is mailed to the vendor. He detaches the check and deposits it, keeping the original statement in his files. In the event of discrepancies, the vendor is expected to return both voucher and check, endorsement being considered as a receipt in full for items included in the statement.

5. **Journal Vouchers.** As previously explained, a journal voucher is a properly signed authorization of a journal entry. Journal vouchers are not intended to be used for the ordinary journal entries of a business, as closing entries and ordinary adjusting entries. They

are more particularly intended for special credit items or allowances, and special transfer or adjusting entries.

Fig. 9 illustrates a convenient form of journal voucher. This form is intended to be filed in a loose-leaf binder, and when so filed, becomes the journal itself, posting being made direct to ledger accounts. The usual method, however, is to make the entry in the journal and file this voucher as an evidence of authority.

A journal voucher should require the final approval of some one man before it becomes valid. The head of a business can keep in touch with all special allowances by having the journal vouchers brought to him for his signature.

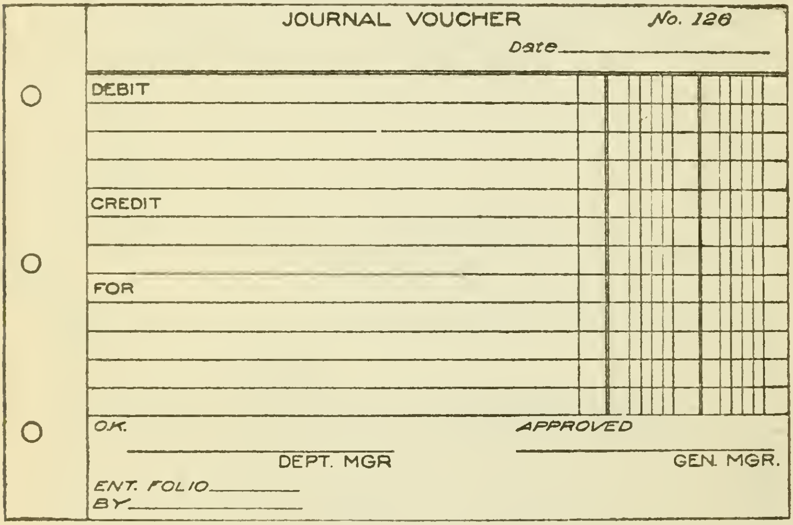

JOURNAL VOUCHER No. 126
Date
DEBIT
CREDIT
FOR
O.K.
APPROVED
DEPT. MGR
GEN. MGR.
ENT. FOLIO
BY

Fig. 9. Journal Voucher for Adjusting Entries

One reason for the use of journal vouchers in large establishments having several departments is that special credits and allowances are constantly coming up, with which only one department manager is familiar. His O. K. is obtained, and the voucher must be approved by the manager, which makes these men responsible for the transaction.

6. The Voucher Register. Though the form of voucher is of considerable importance, and should be designed to meet the requirements of the business, the keystone of the voucher system of accounting is the voucher register. Wherever used, the voucher register possesses certain uniform characteristics, but in each business the form takes on special features; in fact, the voucher register is distinctively a special form.

The voucher register is really a form of purchase book, with other features added, and takes the place of these records. In addition to the usual features of the purchase book or invoice register, the voucher register furnishes a complete record of payment of bills, and shows at all times the net amount of Accounts Payable. Another most important feature is that it exhibits all expenditures, for whatever purpose. A voucher is provided and properly registered for every check issued, insuring a receipt in proper form for every dollar paid out.

When properly handled, the voucher system does away with the purchase ledger, no ledger accounts with creditors being necessary. The register in connection with a file of unpaid vouchers, furnished a complete record of each individual creditor's account. At the same time, a controlling account is provided, which exhibits the total of outstanding accounts, and balances with the voucher register.

To furnish representative illustrations, we show several forms of voucher registers, which exhibit the special features usually found in such records. These may be used as guides in designing registers for any business.

Figs. 10 and 11 show forms identical in general arrangement, except that one is designed for a mercantile business, while the other is intended for a manufacturing establishment. The columns beginning at the extreme left are as follows: *Date Entered*, *Voucher Number*, *Name of Payee* and nature of account, *Date of Invoice*, *Vouchers Payable* (the total), and *Date Due*. The columns following are for distribution of the total to the different accounts. Columns are provided for those accounts in each group to which most frequent charges are made. The amounts of the vouchers are extended in these columns and footings carried forward to the end of the month.

In every business there are certain expense accounts to which charges are infrequent, not more than one charge a month, and in some cases one or two in a year. Examples of these accounts are insurance, taxes, rent, etc. To add columns to an already large voucher register for the accommodation of these few items is impractical, hence the Sundries column is provided for charges to accounts

DATE ENT'D	NO.	IN FAVOR	FOR	[illegible]	VOUCHERS PAYABLE	DATE DUE	SUNDRIES			PURCHASES			
							ACCOUNT	L.F.	AM'T	DEPT. A	DEPT. B	DEPT. C	DEPT. D

DATE	NO	IN FAVOR	FOR	DATE DUE	VOUCHERS PAYABLE	SUNDRIES			MANUFAC			
						ACCOUNT	L.F.	AM'T	MATERIAL	SUPPLIES	FACTORY EXPENSE	POWER

VOUCHERS PAYABLE MONTH of

DATE	NO	FAVOR OF	CREDITS							
			ACCOUNT	L.F.	PRIVATE LEDGER	GENERAL LEDGER	VOUCHERS PAYABLE	SUNDRIES		
								ACCOUNT	F	AM'T

AUDITED VOUCHERS MONTH of 19

DATE	NO	FAVOR OF	FOR	DATE DUE	VOUCHERS PAYABLE	SUNDRIES			PURCHASES	
						ACCOUNTS	L.F.	AMOUNT	MDSE.	IN FREIGHT

Fig. 13
Typical Forms of Voucher Registers

VOUCHERS PAYABLE. MONTH of 19

EXPENSE ACCOUNTS						WHEN & HOW PAID						UNPAID
TRAV. EXP.	SALESMENS SALARY	IN FR'T	SALARIES	OFFICE EXP.	GEN'L EXP.	DATE	HOW	CK NO.	NET	DISC.	TOTAL	VOUCHEF

VOUCHERS PAYABLE MONTH of 19

TURING				ADMINISTRATIVE				WHEN & HOW PAID					UNPAID
BLDG. REPAIRS	MCHY. PEPAIRS	TOOL REPAIRS	LABOR	SALARIES	OFFICE EXPENSE	GEN'L EXPENSE	COMM'N	TOTAL	DISC.	AM'T of CHECK	CK NO.	DATE	VOUCHEF

DEBITS									UNPAID VOUCHERS	PAYMENTS				
PURCHASES			SELLING			GENERAL				TOTAL	DATE	CK NO.	AM'T	DISC
DEPT A	DEPT B	DEPT. C	ADV'T'G	SALARIES	TRAV EXP.	WAGES	SALARIES	EXP.						

EXPENSE ACCOUNTS					PAYMENTS			SUSPENSE ACCOUNTS				REMARKS
CLERK HIRE	HEAT & LIGHT		ADVER-TISING	STABLE EXPENSE	CATE	AM'T of CHECK	DISC.	DATE	DEBIT	CREDIT	BALANCE	

Designed for Use in Different Businesses for which special columns are not provided. Space is allowed for entering the names of the accounts, and each item is posted direct to the ledger account.

The form of voucher register illustrated in Fig. 12 is designed for use where a complete voucher system, including the use of journal vouchers, is maintained. The special feature of this form is the addition of several columns for credit accounts. Space is provided for entering the names of the accounts to be credited, the amounts being carried to the proper ledger columns. This makes it possible to enter any journal voucher, and since full particulars are shown in the voucher itself, no explanations are required in the register.

At the right of these forms are columns for recording particulars of settlement. A column headed *Unpaid Vouchers* will also be noted. On the last day of the month, when all items have been entered, the amounts of all unpaid vouchers are extended in this column, and the total is carried forward to the next month's sheet, where it is entered in the *vouchers payable* column. When these vouchers are paid, particulars of payment are entered on the sheets containing the original record; as would have been done if they were paid in the month in which they were entered.

The footings of all columns are carried forward to the end of the month, when the totals of all distribution columns, excepting sundries, are posted to the debit of the corresponding ledger accounts. The footing of the *vouchers payable* column, less unpaid amount brought forward, must agree with the total footings of all distribution columns, since it represents the total of all vouchers registered. The net amount, that is, the footing of the *vouchers payable* column, less the amount of unpaid vouchers brought forward, is posted to the credit of a vouchers payable account.

On the credit side of the cash book, two columns headed *Vouchers Payable* are provided for the entry of payments. One column is headed *Discount* and the other *Amount of Check*, the discount column being a memorandum only. At the end of the month the total of these columns is posted to the debit of the vouchers payable account, the controlling account of the voucher register. When the footing of *unpaid vouchers* is brought forward at the end of the month, it should agree with the balance of the vouchers payable account.

Another method of handling unpaid vouchers is to provide both *debit* and *credit* columns on the voucher register, headed *Suspense Accounts*, as shown in Fig. 13. All unpaid vouchers are carried to the credit column at the end of the month, and when paid the entry is made in the debit column. Footings of the suspense columns are carried forward in pencil, for, when all amounts on one sheet have been paid, those items need not be considered in obtaining the balance. One advantage claimed for this method is that it keeps the *vouchers payable* column free of all but current items.

Another feature of this form, Fig. 13, is the absence of a check number in the *payment* column. In this case, a voucher check is used, which necessitates but one series of numbers. When bills are audited, the voucher checks are made out and numbered, but the dates are omitted until payment is made, when they are entered with other particulars under the head of *Payments*.

An objection is sometimes made that with the voucher system, allowing but one line to an invoice, no provision is made for partial payments. This can be easily overcome with this form of register. Any unpaid balance of a current item will be carried to the *suspense* column. If further partial payments are likely to be made, the amount should be entered in the *credit* column and the name of the payee in the *remarks* column. Several lines should then be allowed for the account, permitting the entry of as many separate payments.

When all bills are paid as soon as audited, taking advantage of cash discounts, there is no necessity for columns intended to care for suspense items. All vouchers will be paid not later than during the month next following the date of entry, and there will be no unpaid vouchers not found on the current or next preceding month's record.

7. Operation of Voucher System. While accountants have introduced many details into the operation of the voucher system, all intended to make the application of the system more nearly perfect in some particular business, the general routine of conducting the system is summed up in the following:

1. Auditing of invoices.
2. Executing and registering vouchers.
3. Filing audited vouchers.
4. Paying vouchers.
5. Filing paid vouchers.
6. Indexing paid vouchers.

8. **Auditing of Invoices.** When invoices are received they should immediately go to the purchasing agent. If there is no regularly appointed purchasing agent, or in a business like a department store where there are several buyers, the invoices should be kept by the auditor, comptroller, or chief accountant until the goods are received, when he will obtain the O. K. of the person who ordered the goods or incurred the obligation.

Pending the receipt of the goods, the invoices should be filed alphabetically, under the name of the vendor. The file may be one of the flat files which can be kept on the desk or if the number of invoices be large, a section of a vertical file drawer can be used.

When the goods have been received, which will be attested by a report in some form by the receiving clerk, the invoice is O. K.'d for quantities and prices by the buyer, and extensions are checked by the auditor or chief accountant.

9. **Executing and Registering Vouchers.** As soon as the invoices are audited, vouchers are executed and entered in the invoice register. Extensions are made to the proper columns, placing the accounts on the books, just as would be done if invoices were credited to accounts of the vendors in the general or purchase ledgers.

Vouchers should never be made for invoices in dispute, as to prices or on account of claims for shortage, damaged goods or other cause. Until such claims are adjusted, the invoices should be kept in a file reserved for items in suspense. When the books are closed, such items must be included under liabilities in the balance sheet. To avoid actually entering them on the books, they may be entered in the balance sheet under some such caption as "*Suspense Accounts.*"

10. **Filing Audited Vouchers.** The vouchers are now ready for filing until date of payment. This does not apply if invoices are always paid as soon as audited, but in the majority of business houses at least a part of the vouchers will not be paid until the last due date; or if discounts are taken, they will be paid on the last discount date.

Some provision must be made for bringing these vouchers to notice on the date at which they should be paid. For this purpose, a "tickler" or date file is used. This consists of a file with an index of 31 numbered index sheets, intended to represent the days of the month, and sometimes a set of twelve index sheets printed with the names of the months.

The audited vouchers are filed under the date when payment is to be made, either the discount date or the last due date, by placing them back of the index sheet bearing the corresponding number. To illustrate; if an invoice is dated the 2nd of the month, and terms are 2/10, the last discount day will be the 12th, and the voucher will be filed back of the No. 12 index sheet. If payment is due in a subsequent month, the voucher is filed back of the corresponding monthly index, then on the first of the month these vouchers are distributed under the proper dates.

11. Paying Vouchers. Each day the vouchers filed back of that day's index are removed from the file for attention. If for any reason they are not to be paid that day, they should be filed under the next date when it is desired to bring them to notice. It may be well to note at this point that the vouchers and invoices are usually filed together in the date file.

The check is now written and entered in the cash book or the check register, attached to the voucher, and mailed. Or if a voucher check is used it is only necessary to date and enter. These payments are posted from the cash book to the voucher register. It is not a safe plan to enter the voucher check direct in the voucher register, as postings to the cash book are liable to be overlooked. Payments in one day may be recorded on widely separated pages of the voucher register, while in the cash book or check register they would be entered consecutively, making posting much less difficult.

When the voucher and check have been mailed the invoices are placed in a temporary file, indexed alphabetically, where they are kept until the return of the receipted voucher. It will be noted that we do not advocate mailing the original invoice with the voucher. This temporary file is examined from time to time, and if any vouchers have been out an unreasonable length of time, the vendors are asked to sign and return them, or sign duplicates sent for the purpose.

When the voucher check is used, the temporary file for invoices is not required. The checks, if cashed, must be returned through the bank, and the invoices can be filed permanently.

12. Filing Paid Vouchers. On the return of the voucher, properly receipted, the invoices which it pays are removed from the temporary file, when all are ready for permanent filing.

The invoices are permanently filed in an alphabetically indexed file, under the names of the vendors, keeping all invoices from each firm together. At some time before filing, preferably when the voucher is executed, the voucher number should be entered on the invoice, and when several invoices are paid by one check, they should be fastened together with a staple or other suitable device.

The paid vouchers should be filed in numerical sequence, with indexes numbered by 100's and 20's to separate them and to assist in locating any desired number. If we want to find voucher No. 964, we turn to the index 900, constituting the main division, then to index 60, back of which the desired voucher will be quickly located.

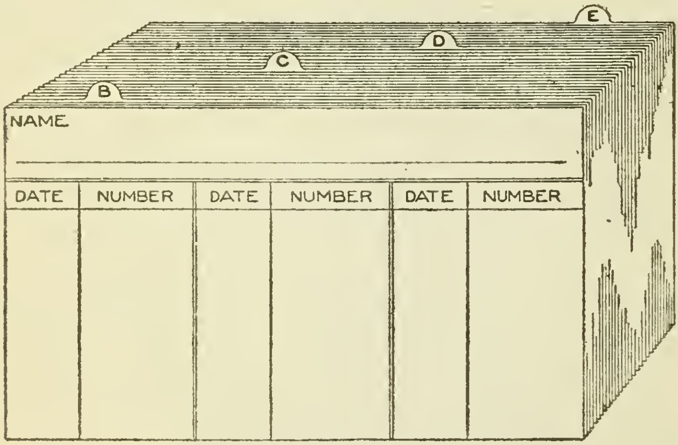


Fig. 14. Card Index of Vouchers Paid

A file should be procured of suitable size to accommodate the voucher to be filed.

13. Indexing Vouchers. With the permanent filing of the paid voucher the transaction is closed, with one exception. There must be another index to the voucher file. Knowing the number, we can quickly locate any voucher or find its record on the register, but if we want to locate the voucher paid to Jackson & Co.—without knowing the number—we have no guide.

Reference to the original invoices, filed alphabetically, on which the numbers are noted, will locate the voucher, but there are vouchers for which no invoices are on file. To locate these by name of payee, an alphabetical index is necessary, and it is advisable to include all vouchers even when invoices are on file.

For this purpose, a card index is recommended, and a suitable form is shown in Fig. 14. A card is used for each person or firm to whom vouchers are issued, and all vouchers are listed by date and number. The cards are filed alphabetically, making it easy to find any name.

14. Voucher File. The manner of filing and indexing invoices and vouchers, from the receipt of the invoices to the permanent filing of the paid voucher, has been explained. For the file itself, the vertical file is recommended.

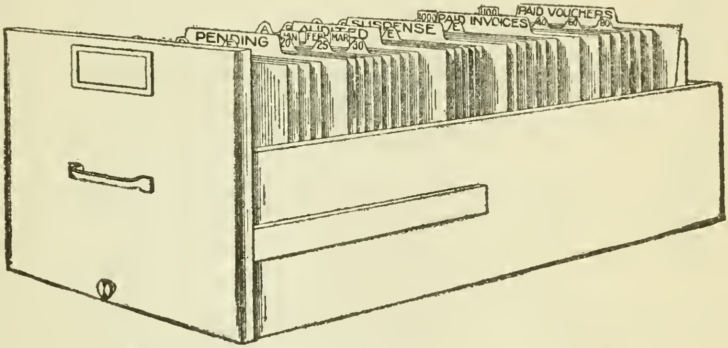


Fig. 15. File Showing Method of Indexing Vouchers

Fig. 15 illustrates one drawer of a vertical file, subdivided with the different indexes required, showing how in a small business a single drawer can be made to answer all purposes.

In a large business several drawers would be required. The first drawer would be for pending invoices, where would be filed invoices for which shipments have not been received. The second drawer would contain audited vouchers held for payment, and suspense items; the latter including invoices held for adjustment of claims. Paid invoices and paid vouchers would each require a separate drawer.

Files should be selected with reference to the size of the papers to be filed. Manufacturers of such equipment now supply cabinets in sections, in a great variety of sizes, making it possible to build up a filing cabinet with drawers to fit every paper of standard size.

DEMONSTRATION

15. The operation of the voucher system in respect to the

AUDITED VOUCHERS MONTH of January 1909

DATE	NO	IN FAVOR	ACCOUNT	DATE DUE DISC.	DATE DUE NET	VOUCHERS PAYABLE	SUNDRIES ACCOUNT	SUNDRIES L.F.	SUNDRIES AM'T	PURCHASES MDSE.	PURCHASES IN FR'GHT	EXPENSE ACCOUNTS OFFICE EXPENSE	EXPENSE ACCOUNTS OFFICE SALARIES	EXPENSE ACCOUNTS WAGES	EXPENSE ACCOUNTS STABLE EXP.	EXPENSE ACCOUNTS GEN'L EXP.	PAYMENTS DATE	PAYMENTS CK. NO.	PAYMENTS AM'T	PAYMENTS DISC.	PAYMENTS TOTAL	UNPAID VOUCHERS
Jan 12	1	National Mus. Co.	Purchases	Jan. 19	Feb. 9	425 00				425 00							Jan 15	1	416 50	8 50	425 00	
	2	Western Grocer Co.	"	18	8	105 00				105 00								2	102 90	2 10	105 00	
14	3	Morton Salt Co.	"	21	11	85 00				85 00							19	4	84 15	85	85 00	
16	4	Watson & Snow	"	22	12	420 00				420 00												420 00
17	5	Jennings Coal Co.	Gen'l Expense		17	19 50										19 50						19 50
18	6	Pay Roll				162 00							37 50	124 50			18	3	162 00		162 00	
							Mdse. Purch.		1035 00													
							Office Salaries		37 50													
							Wages		124 50													
							Gen'l Exp.		19 50													
Jan 20		Voucher Payable (Credit)				1216 50			1216 50	1035 00			37 50	124 50		19 50			765 55	11 45	777 00	439 50

Fig. 16. Voucher Register Showing Entries

records in the register is demonstrated in the illustration, Fig. 16, the record showing how the following transactions are handled. Invoices listed have been audited for payment.

— Jan. 12th —		
National Mercantile Co.		
100 bbls. flour	$4.25	$425.00
Dated Jan. 9th		
Terms 2/10, N/30		
— Jan. 12th —		
Western Grocer Co.		
50 cases soap	2.10	105.00
Dated Jan. 8th		
Terms 2/10, N/30		
— Jan. 14th —		
Morton Salt Co.		
100 bbls. salt	.85	85.00
Dated Jan. 11th		
Terms 1/10, N/30		
— Jan. 15th —		
Paid voucher No. 1 to National Mercantile Co.		
— Jan. 15th —		
Paid voucher No. 2 to Western Grocer Co.		
— Jan. 16th —		
Watson & Snow		
60 bbls. vinegar, 3000 gals.	14	420.00
Dated Jan. 12th		
Terms 2/10, N/30		
— Jan. 17th —		
Jennings Coal Co.		
3 tons coal	6.50	19.50
Dated Jan. 17th		
Terms N/30		
— Jan. 18th —		
Paid pay roll		
Wages of laborers		124.50
Office salaries		37.50

— Jan. 19th —

Paid voucher No. 3 to

Morton Salt Co.

The illustration, Fig. 16, shows the complete record of these transactions in the voucher register. The total footings of all distribution columns agree with the total of vouchers payable column, proving the extensions to be correct. The combined totals of checks and discounts equal the total payment column. Unpaid vouchers are extended, and the total of this column added to the total payments equals the total of vouchers payable.

CASH DISBURSEMENTS

DATE		TO WHOM	L.F.	VOUCH NO.	CK. NO.	VOUCHERS PAYABLE DISC.	VOUCHERS PAYABLE CASH	GEN'L LEDGER	TOTAL
Jan	15	National Misc Co.		1	1	8 50	416 50		416 50
		Western Grocer Co.		2	2	2 10	102 90		102 90
	18	Pay Roll		6	3		162 00		162 00
	19	Morton Salt Co.		3	4	85	84 15		84 15
						11 45	765 55		765 55
		Dr.							
		Vouchers Payable						777 00	
		Cr.							
		Disc on Purch.							11 45
		Bank							765 55

Fig. 17. Cash Disbursement Book

Our voucher register being in balance, footings are now posted. The total of *vouchers payable* column is posted to the credit of that account in the general or private ledger, and the footings of the distribution columns are posted to the debit of their respective accounts.

Fig. 17 illustrates how the payments are recorded on the disbursement or credit side of the cash book. When the checks are written they are entered in the cash book, from which they are posted to the voucher register. Voucher numbers are entered when the amounts are posted.

At the end of the month the columns are footed, and the totals of the discount and check columns are posted to the debit of vouchers payable. Footings of *discount* and *total* columns are posted to the credit of discount on purchases and bank accounts.

The vouchers payable account in the ledger would now appear as follows:

Vouchers Payable

Dr.	Cr.	Balance
$777.00	$1,216.50	$439.50

We have already seen that the voucher register balances, and turning to that record, we find the footing of the unpaid vouchers column to be $439.50, which agrees with the balance of vouchers payable account.

EXERCISE

Prepare a form of voucher register providing for distribution to the following accounts: Merchandise, Purchases, In-Freight, Expense, Salaries, and Sundries. One of the chief requisites of the accountant is the ability to prepare suitable forms for accounting records. Care should be used in preparing this form to omit no detail that should be included in such a voucher register.

When the register has been prepared, record the following transactions.

— Feb. 12th —	
Enter the following invoices	
#1 Jones & Laughlin	
For merchandise	$164.20
Date 2/10, Terms 2/10, N/30.	
#2 Francis & Roberts	
For expense	
Date 2/12, Terms cash	27.50
— Feb. 13th —	
#3 David Nelson & Sons	
For merchandise	239.80
Date 2/11, Terms 3/10, N/30	
Paid Henry Meyer	
For salary	25.00
Check #1	

— Feb. 14th —	
Paid Jones & Laughlin	
by check #2, Voucher #1	
less cash discount	
— Feb. 15th —	
Paid Francis & Roberts	
by Check #3, Voucher #2	
less cash discount	
— Feb. 16th —	
Paid David Newman	
for rent	$40.00
Check #4	
— Feb. 17th —	
Enter the following invoices	
#4 National Furniture Co.	
For office furniture	65.00
Date 2/16, Terms 2/10, N/30	
#5 Watkins & Hollister	
For merchandise	84.00
Date 2/15, Terms 2/10, N/30	
— Feb. 19th —	
Paid David Gillette, Agt.	
For in-freight	9.62
Check #5	

Foot all columns as for posting at end of the month.

UNIT SYSTEM OF VOUCHER ACCOUNTING

16. In all classes of accounting records, the unit system is rapidly gaining in popularity. The unit system, so called, consists of individual records of each transaction or each item recorded, instead of a combination of several transactions in one record.

The increase in the use of the unit system has been brought about very largely by the improvements in typewriters, which make it possible to produce several copies of a given document at one writing. An example of the application of the unit idea is seen in modern sales records, where duplicate invoices are made, one copy serving as a sales sheet and posting medium.

The unit system has been very successfully applied to voucher accounting, saving much time and resulting in very complete records. Compared with ordinary voucher systems, the most prominent feature of the unit system is a method of distribution by filing, rather than by means of a voucher register.

All vouchers are made on the typewriter, in manifold, one or more copies being used for record purposes only. The original is used exactly as described in the preceding pages.

An essential feature of the system is that a copy of the voucher is provided for each account to which it is to be distributed. When one account only is involved, the voucher is made in duplicate, but if the amount is to be distributed to two accounts an extra copy is required. The voucher should be so arranged that the distribution can be shown on the face of the duplicate and triplicate copies.

The duplicate voucher is filed according to its distribution, instead of recording the amount in the voucher register. A vertical file is used for this purpose. The index cards are headed with the names of the accounts, and are arranged in the order of the accounts in the ledger; this being the order in which the same accounts would be arranged in a voucher register. Back of each index is a folder in which the vouchers are filed.

Each voucher copy is filed in the folder representing its proper account, and is securely fastened to the folder with a staple or paper fastener. When this voucher is filed it is also recorded on the outside of the folder, which is printed as shown in Fig. 18.

This form is designed for a record of amounts, distributed under the proper monthly headings. The amount of each voucher is carried to the current month's column. At the end of the month, the footing of the column shows the amount to be charged to that particular account in the general ledger.

To arrive at the total of vouchers payable account, a recapitulation sheet, ruled as shown in Fig. 19, is used. This is an index card, and is placed in the front of the file. Totals of all account folders are entered in the proper columns of this sheet, at the end of each month. Payments are posted to this sheet at the end of the month, from the cash book, and the balance extended. This balance, of course, represents the unpaid vouchers and is checked against the unpaid voucher file.

The totals of the different account columns are posted to their

ACCOUNT

NO.	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.

Fig. 18. Front of Folder for Unit System of Voucher Accounting

MONTHLY RECAPITULATION VOUCHERS PAYABLE

MONTH	MATERIAL	MFG. GOODS	IN FREIGHT	LABOR	SUPPLIES	GEN'L MFG. EXP.	SALARIES	OFFICE EXP.	GEN'L EXP.	TOTAL	PAYMENTS	BALANCE
JAN.												
FEB.												
MARCH												
APRIL												
MAY												
JUNE												
JULY												
AUG.												

Fig. 19. Monthly Recapitulation for Unit System of Voucher Accounting

respective accounts in the general ledgers, either directly from the recapitulation sheet, or through the journal. The recapitulation sheet, as here shown, is a transcript of the vouchers payable account, and might be used as a ledger card, but it is generally considered better practice to carry the account in the general or private ledger, as usual.

Such a voucher system furnishes a complete record, with much less transcribing of items, than is involved in the use of the voucher register. The copy of the voucher is made at the same writing as the original, the amount of each individual voucher is entered but once, on the account folder, and monthly totals, only, are carried to the distribution columns on the recapitulation card.

This system is equally well adapted to the loose-leaf method. A sheet is used for each account, behind which the vouchers are filed, and a monthly recapitulation sheet is provided for distribution.

COMBINED PURCHASE LEDGER AND INVOICE FILE

17. Not every business readily adapts itself to a complete voucher system. Special conditions sometimes arise which make it seem advisable to keep ledger accounts with all firms from whom the business is making purchases. A case in point is a business, lacking capital to pay all bills promptly, necessitating payments on account, or by note, instead of payments covering certain invoices in full.

To obviate the difficulties, in maintaining a complete voucher record, under these and similar conditions, many substitutes have been devised. As an example of what may be accomplished in this direction, we illustrate a system which is in successful operation in a manufacturing business.

In the ledger, the usual nominal accounts are kept but no purchase or voucher register is used. Columns are provided on the credit side of the cash book for such expense accounts as are usually paid in cash, that is, for which no invoices are rendered, and for accounts payable.

For the purchase accounts with firms and individuals, a vertical file is used. Each creditor is assigned a folder, on the front of which a suitable record form is printed. This form is shown in Fig. 20. The name and address are written at the top, and the ledger account is kept in the columns at the extreme left of the form. All of the columns for distribution are left blank, it being seldom that purchases from one firm are distributed to more than a half dozen different accounts.

When an invoice has been O. K.'d it is immediately filed in the proper folder. The total is entered in the credit column and distributed to the proper accounts, the names of which are written at the head of the distribution columns. Payments on account are posted to these ledger accounts from the cash book.

If the distribution is properly made, the totals of all distribution columns will agree with the total of the credit column. At the end of the month the total of these distribution columns on the individual account folders are drawn off on the monthly recapitulation sheet illustrated by Fig. 21. The totals shown by the recapitulation are posted to the debit of the corresponding ledger accounts, while the grand total is posted to the credit of accounts payable account;—which is the controlling account of the purchase ledger. Totals of payments on account are posted to the controlling account from the cash book.

The proof of accuracy of the controlling account is found in the usual way, by checking against the balances of the individual purchase accounts.

With this system, invoices are filed, and the amounts posted, with practically one operation. The items which make up each ledger account are distributed as soon as posted, totals only being carried to the recapitulation sheet, from whence they reach the ledger.

Accounts are quickly located, as the folders are indexed alphabetically. When an account is balanced it must be left in its place until the end of the month, provided credits have been entered in the current month, so that totals of distribution will be carried to the recapitulation sheet. At the end of the month, all accounts which balance may be transferred to a section of the file reserved for closed accounts. Should any of these accounts again become active, they are transferred to the regular file without the slightest confusion.

For the purpose of saving time, the balances of all open accounts may be drawn off when the totals of the distribution columns are obtained.

While not recommended for general adoption this system has its points of merit, and in certain contingencies would undoubtedly prove very satisfactory. The main reason for its publication in this

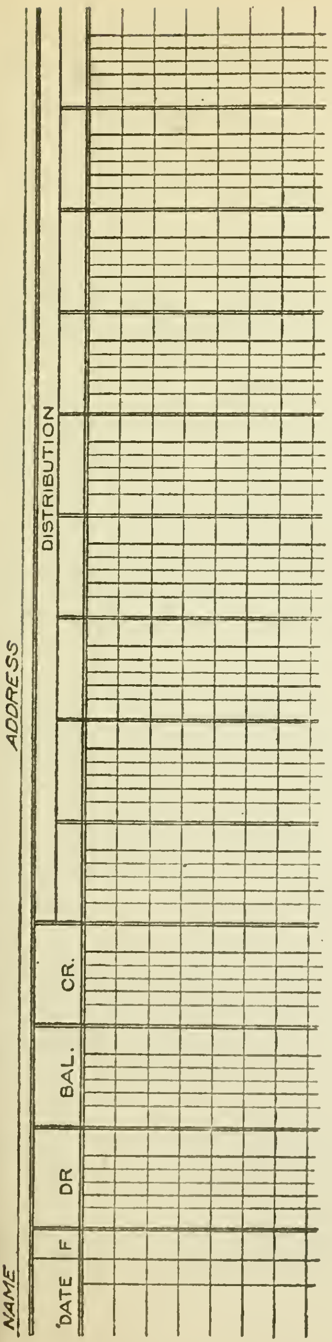


Fig. 20. Combined Purchase Ledger and Voucher System

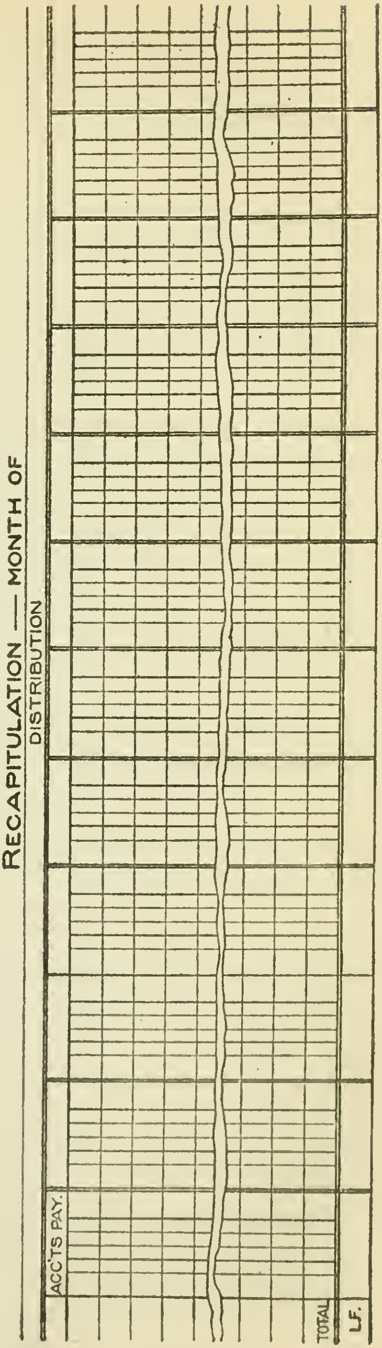


Fig. 21. Monthly Recapitulation and Distribution Sheet

work is to show the possibilities of modifying a system, in respect to details, without destroying its more important features. The voucher feature, the obtaining of a formal receipt for every payment, can be maintained just as effectively with this system as with a more formal voucher system.

THE PRIVATE LEDGER

18. A ledger, devised to contain such accounts as the principals of a business desire to keep from the knowledge of the bookkeeper or other office employes, is known as a private ledger. The title is also frequently used to designate an ordinary general ledger.

The accounts most frequently found in the private ledger are Capital accounts, Profit and Loss, Reserves, Surplus, Bills Payable, Bonds and Mortgages Payable, and Controlling accounts with the general or personal ledgers. It may also contain such accounts as Salaries of Officers, or Partners, Investment and Drawing accounts, and accounts with real or nominal assets. If it is desired to keep from the employes, knowledge of the exact nature of any transaction, or the standing of a particular account, it can be done by making use of the private ledger.

When both ledgers are used, the private ledger contains only those accounts which it is desired to keep *private*, while the general ledger is kept for all other accounts, except those included in the personal ledgers.

The private ledger is most commonly used in large businesses where, for various reasons, a number of employes have access to the books, and it is desired to keep them in ignorance of the private affairs of the concern. The private ledger is usually kept by one of the partners, an officer, the auditor, or the chief accountant.

19. Advantages of Private Ledger. The primary advantage of the private ledger to the principals of a business, is that by its use, they can keep to themselves all details of transactions of a special nature.

Some other advantages that accrue to the principal may be enumerated as follows:

He can, through the private ledger, keep an eye on the activities and condition of the business as a whole, or of any particular department or branch of that business.

He can keep in touch with the liabilities, or with the total amount of personal accounts outstanding.

He can absolutely control the distribution of expense in manufacturing operations.

He can keep from his employes, knowledge of the profits or losses of the business.

Partners can keep private the amount of their investments, or the salaries drawn.

Salaries paid to individual officers or employes can be kept private.

Dividends declared, capital subscribed, investments of a special nature, or amount of assets of any kind, can all be kept from the knowledge of employes.

20. How Operated. Accounts in the private ledger must not conflict with accounts in general or personal ledgers, and the fact that private accounts are kept should not interfere with the balance of the general books. To insure against any such conflict, a private ledger controlling account is kept in the general ledger.

In the general cash book, and sometimes in the journal, debit and credit columns headed *Private Ledger* are provided. All entries affecting private ledger accounts are extended in these columns, but no particulars are recorded. At the end of the month, the totals of these columns are posted to a private ledger account in the general ledger. This controlling account then appears in the general ledger trial balance, and must agree with the balance of accounts in the private ledger.

With the private ledger a private journal is used, in which entries affecting private ledger accounts are made, with explanations in detail.

As an example of the use of the private ledger we will suppose that a payment of $500.00 is to be made to a certain party, and it is desired to keep that transaction private. The bookkeeper is instructed to draw a check for the amount, to be charged to private ledger account. He enters the check in the general cash book, debiting private ledger and crediting cash or bank. The entry is posted from the general cash book to the private journal, where full particulars are recorded, from which it is posted to the private ledger. In the case referred to, the amount of the check is debited to the proper nominal account, and credited to a general ledger account.

The general ledger account in the private ledger is a controlling account which agrees with the private ledger account in the general ledger. Only entries affecting general ledger accounts are posted to this account. Entries involving changes in private ledger accounts only, are made in the private journal direct.

Some concerns keep the controlling accounts with the sales and purchase ledgers in the private ledger. At the end of the month, total debits and credits to accounts in these ledgers are entered in the private journal. These totals are obtained from the general cash book, sales book, purchase book, and any other books from which postings are regularly made.

When a private ledger is kept, it precludes the possibility of forced balances in the general ledger trial balance, since the balances of the private ledger accounts must agree with the private ledger controlling account in the general ledger, and if sales and purchase ledger controlling accounts are kept in the private ledger, these must balance with the personal accounts in those ledgers. The use of a private ledger not only acts as a check on trial balance errors, but simplifies the trial balance by making possible a proof of ledgers in sections.

DATE	ITEMS	L.F.	CASH		SALES LEDGER		PCHSE LEDGER		GEN'L LEDGER		PRVTE LEDGER	
			DR.	CR	DR	CR	DR	CR	DR	CR	DR	CR

Fig. 22. Cash Book with Columns for Private Ledger Accounts

Fig. 22 is an illustration of a cash book with columns for the private ledger account.

21. Manufacturing Accounts in the Private Ledger. Not infrequently, manufacturers find it advisable to keep private certain details which affect costs, or even all knowledge of the exact cost of their manufactured product. This may be done by keeping certain manufacturing controlling accounts in the private ledger.

In determining the cost of manufacture of any class of goods, three elements enter into the computation; material, labor, and expense. To determine the cost of the first two items is comparatively simple, requiring only an efficient system of records in the factory. But to determine the amount of expense of all classes, included in the cost of a given article, job, or operation, is more difficult.

A system of records that will show the exact cost of such items as power, heat, or taxes properly chargeable to an individual job or operation is obviously impossible, and it has been found necessary to apportion these, and all similar items of expense, on a percentage basis. Usually this percentage is based on some element of cost which can be determined with accuracy.

Cost accountants and engineers have worked out this percentage on the basis of various elements of cost, as direct labor, material, machine hour, man hour, or a combination of two or more of these elements. The exact method used, which must be adapted to the conditions existing in the individual factory, does not enter into this discussion.

Since there are numerous items of expense of the character referred to, it is customary to group them, for purposes of cost computation. Sometimes all such expense items are grouped under the one head of General Expense. It is by means of a controlling account in the private ledger, that the distribution of expense is made, thereby keeping private the exact cost of manufacture.

The known cost of a certain job or article—the cost of material and labor—is frequently referred to as the prime cost. The duties of the cost clerk may end with determining the prime cost, his computations not including expense items.

The total cost of material and labor for the month is charged to private ledger account, material and labor accounts receiving proper credit. The exact amounts of the various items of expense for the month are also charged to private ledger account, with credits to expense accounts.

In the private journal, these items are charged to various controlling accounts, and credited to the general ledger controlling account. The usual entries are:

Manufacturing Account		$______	
General Ledger			$______
For material	$______		
For labor	$______		
Expense Distribution		$______	
General Ledger			$______
For rent	$______		
For power	$______		
For repairs	$______		
Etc.	Etc.		

The percentage of expense for the current month on whatever element based, has been determined from the actual results of the preceding month. To illustrate, we will suppose that expense is apportioned on the basis of direct labor; the cost of this item during the month was $1,600.00, and the amount of expense charged to operation of the plant during the same period was $240.00;—which gives us a ratio of 15%.

We wish to determine the cost of jobs as they are completed during the current month. The records turned in by the cost department give us the actual cost of material and direct labor, but not knowing the exact ratio of expense to direct labor for this month, we use last month's ratio, and add an amount equal to 15% of the known cost of direct labor. When the actual results for the month are determined it is quite probable that the ratio will vary from last month's record, as either factor may change. It will be necessary to adjust this difference, which is the reason for an expense distribution or expense adjustment account in the private ledger.

By keeping the expense controlling account in the private ledger, the principal can keep private, not only the actual cost of an article, but the percentage of expense and the basis of the expense apportionment. If thought desirable, he can add further amounts for the purpose of establishing a selling price.

In actual operation, the amount of expense to be charged against completed work will be computed, and the following entry made:

Manufacturing Account	$______	
Expense Distribution		$______
The amount of expense charged to jobs completed.		

If the expense ratio used were exact, the expense distribution account would balance at the end of each month, but owing to the fluctuations, a balance will remain. This is adjusted by increasing or decreasing the percentage used during the following month, and in this way the accounts are kept in balance.

Manufacturing account has been charged with labor, material, and expense,—the total manufacturing cost. Completed goods are charged to a finished goods account, the entry being:

Finished Goods	$____	
Manufacturing Account		$____
Net cost of goods completed		

But manufacturing account will not balance, for there always will be work in process, and the balance of the account will be the cost to date of this work in process, a most important record.

This discussion is not intended to cover every possible use of the private ledger, but, by means of examples, to suggest its possibilities. The explanations and examples should afford the student many hints of value.

EXERCISE

On a certain date, the following transactions are recorded on the books of Carter & Adams:

Purchases on account	$560.00
Sales on account	420.00
Paid for rent	75.00
Sales for cash	82.00
Henry Carter (partner)	
Withdrew cash	50.00
John Adams (partner)	
Advanced to the business	300.00

What items in the above list of transactions should, in your opinion, be posted to the private ledger? On journal paper, make the entries and show necessary private ledger accounts.

CHARTING THE ACCOUNTS

22. The proper arrangement of the accounts of a business is best shown by a chart, in which the accounts to be kept are grouped according to their relative importance. In laying out a chart of accounts, they should be first separated into their proper divisions. The natural divisions are capital, trading, and profit and loss.

Each division contains only those accounts that naturally belong in that particular class. These divisions are then subdivided into groups containing specific kinds of accounts, the groups being arranged in logical sequence. As an example, the trading division of a manufacturing business is divided into manufacturing and trading. There may be several subdivisions of the manufacturing account; several classes of goods may be manufactured and a manufacturing account kept for each class, or it may be necessary to manufacture completed parts, each requiring a complete manufacturing process. Detailed costs being required for each of these completed parts, manufacturing accounts are kept for each, the main division representing the cost of the finished product, as a result of the assembling of the parts. The completed parts are treated as raw material, when drawn for use in the finished product, the total costs being finally absorbed by the main manufacturing account. One of the many examples that might be cited is a packing business, operating its own can factory and keeping a manufacturing account to show the cost of cans. Other accounts show the cost of the product packed in those cans, and both costs are absorbed in the cost of the commodity as marketed.

The trading account is similarly sub-divided. In a department store, the manager of a department may receive a certain percentage of the profits of his department. This necessitates trading accounts for each department. A mercantile concern may operate branch stores and keep trading accounts with each, on the books of the main office; a factory may produce several lines of goods, with a corresponding sub-division of trading accounts.

A chart of accounts not only furnishes a guide to the bookkeeper, but presents in the most logical form, the natural divisions of the business. It is both a working guide and a mirror of the accounting records.

23. Chart of Small Trading Business. The most simple chart of accounts is one for a small trading business conducted by a single proprietor. Following is a chart of the accounts of such a business.

CHART OF ACCOUNTS
- Capital Accounts
  - Assets (Debits)
    - Cash
    - Bills Receivable
    - Accounts Receivable
    - Merchandise
    - Fixtures
    - Horses and Wagons
    - Stable Supplies
  - Liabilities (Credits)
    - Accounts Payable
    - Bills Payable
    - Proprietor's Capital
- Trading Accounts
  - Purchases, In-Freight — Debits
  - Sales — Credits
- Profit and Loss
  - Interest and Discount Earned — Credits
  - Debits:
    - Salaries, Clerks
    - Store Expense
    - Insurance and Taxes
    - Wages
    - Stable Expense
    - Interest and Bank Discount

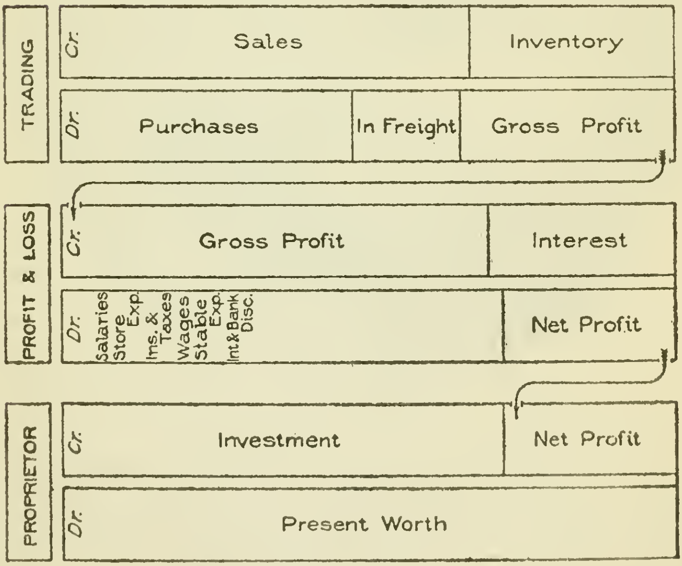


Fig. 23. Chart of Profit and Loss Accounts

A study of this chart will disclose the reasons for the general grouping of the accounts. The first general group, capital accounts is sub-divided into assets and liabilities. The assets are grouped in the order of their availability; the order in which they can most readily be converted into cash. The liabilities are grouped according to the security; unsecured, secured and capital.

There being but one trading account, it is represented by a single group, purchases and in-freight representing the cost of goods, and sales the gross proceeds. The balance of this account exhibits the gross profits.

We now come to the profit and loss account by which the trading or gross profits are absorbed. This group contains, first, the revenue

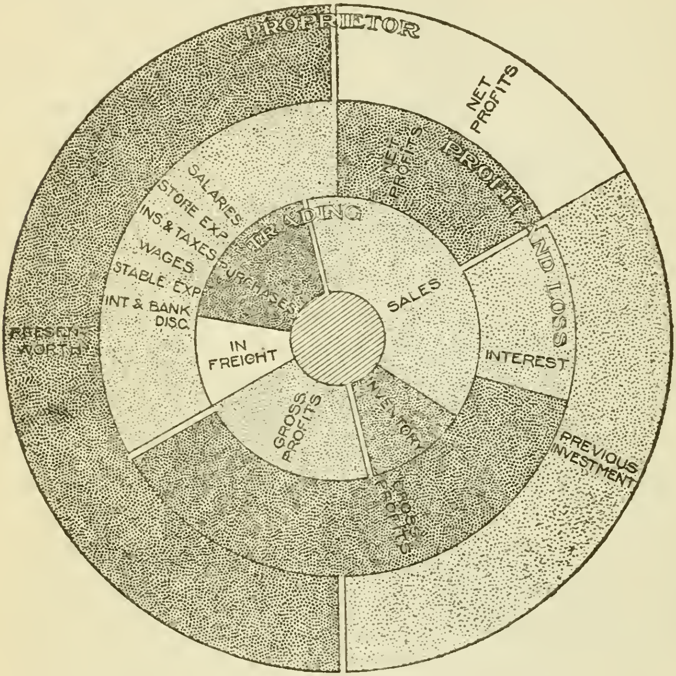


Fig. 24. Chart of Profit and Loss Accounts

producing accounts not represented in the trading account; second, the revenue expenditures or expense accounts. The outer brackets of the chart group all of the accounts under *Debit* and *Credit*. This shows that the balances of the accounts are debit or credit as the case may be.

We have traced the profits to the profit and loss account, but in closing the books they will finally be absorbed by the proprietor's capital account. The chart, Fig. 23, traces the profits from trading to proprietor's account. In the trading account, the gross profit completes the balance. This profit is now absorbed by the profit and loss account. Net profit completes the balance of profit and loss account, and is, in turn, absorbed by the proprietor's account. Here, the net profit added to previous investment, equals the present worth. The chart, Fig. 24, also traces profits to the proprietor's account.

24. Chart of Manufacturing Accounts. A chart of the accounts of a manufacturing business follows similar lines to that of a trading business, the only change being the addition of the accounts of the manufacturing group. The accounts of this group will depend both upon the nature of the business and the extent to which the details of operation are recorded.

A chart of the accounts of a harness and saddlery manufacturing business is given herein. This business is divided into three departments; harness, collar, and saddlery.

A record of the gross profits, resulting from the operation of each department, being desired, we have three manufacturing and three trading accounts.

The chart shows the accounts classified to exhibit detailed operations of each department. The number of accounts in this chart is 98. This is rather more than is required in the average business of this character, but the chart furnishes a good illustration of the possibility of segregating accounts of various classes.

Even so large a number of accounts, with the minute sub-divisions here shown, does not present the difficulties that might appear at first glance. The principal requirement is a thorough knowledge of the items entering into each account; the actual keeping of the accounts is a matter of close attention to these details. When an elaborate chart of accounts is laid out, it should be accompanied by detailed explanations and instructions. Some large concerns issue printed instructions which are given to all officers and employes who may be called upon to determine, to what account an item should be charged.

CHART OF ACCOUNTS—HARNESS MANUFACTURING

CAPITAL ACCOUNTS

Assets

1 Cash
2 Bills Receivable
3 Accounts Receivable

Inventories—Harness Department
4 Finished Stock
5 Leather
6 Hardware
7 Supplies

Inventories—Collar Department
8 Finished Stock
9 Leather
10 Hardware
11 Supplies

Inventories—Saddlery Department
12 Finished Stock
13 Leather
14 Hardware
15 Supplies

Inventories—Machinery
16 Machinery—Harness
17 Machinery—Collar
18 Machinery—Saddlery

Inventories—Tools
19 Tools—Harness
20 Tools—Collar
21 Tools—Saddlery

Inventories—General
22 Office Fixtures and Supplies
23 Delivery Equipment
24 Real Estate—Land and Buildings

Liabilities

25 Accounts Payable
26 Bills Payable
27 Mortgages

Reserves
28 Depreciation of Buildings
29 Depreciation of Machinery
30 Depreciation of Tools and Fixtures
31 Bad Debts
32 Capital Stock
33 Surplus

MANUFACTURING ACCOUNTS

A Harness Department
34 Purchases—Leather
35 Purchases—Hardware
36 Purchases—Supplies
37 In-Freight
38 Labor—Cutting Department
39 Labor—Manufacturing Department
40 Inventory Adjustment

B Collar Department
41 Purchases—Leather
42 Purchases—Hardware
43 Purchases—Supplies
44 In-frieght
45 Labor—Cutting Department
46 Labor—Manufacturing Department
47 Inventory Adjustment
C Saddlery Department
48 Purchases—Leather
49 Purchases—Hardware
50 Purchases—Supplies
51 In-Freight
52 Labor—Cutting Department
53 Labor—Manufacturing Department
54 Inventory Adjustment
D Manufacturing Expense Adjustment
55 Power, Heat and Light
56 Engine Room Supplies
57 Salaries—Superintendent and Factory Clerks
58 Wages Engineers and Miscellaneous
59 General Factory Expense
60 Repairs and Maintenance—Buildings
61 Repairs and Maintenance—Machinery
62 Repairs and Maintenance—Tools
Trading Accounts
E Harness Department
63 Sales
64 Returns and Allowances
65 Inventory Adjustment
F Collar Department
66 Sales
67 Returns and Allowances
68 Inventory Adjustment
G Saddlery Department
69 Sales
70 Returns and Allowances
71 Inventory Adjustment
H Profit and Loss
72 Interest Credits
73 Cash Discount Credits
74 Rent Credits
I Administration
75 Insurance and Taxes
76 Salaries—Officers
77 Salaries—Bookkeepers and Clerks
78 Printing and Stationery
79 Legal Expenses
80 Postage, Telegraph and Telephone

81 Office Expenses
82 Traveling Expense—Officers
83 Misc. General Expense
J Sales Expense
84 Advertising
85 Salaries—Salesmen
86 Commission
87 Traveling Expense—Salesmen
88 Trade Show Expense
89 Out-Freight and Express
K Collecting
90 Collection Fees
91 Cash Discounts Allowed
L Delivery Expense
92 Wages
93 Maintenance Horses and Wagons
94 Maintenance Motor Trucks
M Depreciation Adjustment
95 Buildings
96 Machinery
97 Tools and Fixtures
98 Bad Debts

25. Chart Explained. The following explanations will give the student a working knowledge of the operation of these accounts. Accounts, 1 to 33, inclusive, comprising assets and liabilities, are omitted, as no instructions will be required for keeping these accounts. All accounts are referred to by number.

34. *Purchases—Leather.* Charged with all purchases of leather for use in harness department. Credited with all leather transferred to other departments.

35. *Purchases—Hardware.* Charged with all purchases of hardware for use in harness department. Credited with all hardware transferred to other departments.

36. *Purchases—Supplies.* Charged with all purchases of supplies and materials, other than leather and hardware, for use in harness department. Credited with all transfers to other departments.

37. *In-Freight.* Charged with the cost of freight and cartage on all purchases for the harness department. Totals pro-rated to department purchase accounts at the end of each month.

38. *Labor—Cutting Department.* Charged with the wages of all men employed in cutting department, including foreman.

39. *Labor—Manufacturing Department.* Charged with the wages of all harness makers, and others employed in the harness manufacturing department.

40. *Inventory Adjustment.* An account used for the temporary adjustment of inventories for the purpose of obtaining monthly balances. At the end of the fiscal period, or whenever the books are closed, the balance of this account is transferred to inventory accounts.

Accounts 34 to 40, inclusive, are finally closed into a harness manufacturing account.

The same instructions apply to accounts 41 to 47, inclusive, in respect to the collar department, and to accounts 48 to 54, inclusive, in respect to the saddlery department.

55. *Power, Heat and Light.* Charged with all fuel and electric power, consumed for power, heat and light.

56. *Engine Room Supplies.* Charged with all oils, waste and other supplies, used in the engine room.

57. *Salaries—Superintendents and Factory Clerks.* Charged with salaries of general superintendent, superintendent's clerk and all clerks employed exclusively in the factory, as time keepers and clerks.

58. *Wages—Engineers and Miscellaneous.* Charged with wages of engineer and assistants, wages of shipping clerk and assistants, wages of receiving and stock clerks, wages of all general laborers whose time is not chargeable to a specific department.

59. *General Factory Expense.* Charged with all miscellaneous items of factory expense not provided for in other accounts.

60. *Repairs and Maintenance—Buildings.* Charged with all material and labor consumed in the repairs and maintenance of buildings.

61. *Repairs and Maintenance—Machinery.* Charged with same items as No. 60, as applied to machinery.

62. *Repairs and Maintenance—Tools.* Same as No. 61, applied to tools.

Accounts 55 to 62, inclusive, are closed into a manufacturing expense adjustment account, monthly. This account is credited with expense charged to each departmental manufacturing account, the distribution being made on a percentage basis.

63. *Sales—Harness Department.* Credited with the amount of all sales in the harness department.

64. *Returns and Allowances.* Charged with all returns and allowances on account of harness sales, except cash discount.

65. *Inventory Adjustment.* An account used for the temporary adjustment of inventories of finished stock, for the purpose of obtaining monthly statements of gross profits. At the end of the fiscal year, the balance of the account is transferred to inventory of finished goods account, through the trading account.

Accounts 63 to 65, inclusive, are closed into a harness trading account, at the end of the fiscal year. For purposes of comparison, monthly trading statements are made, leaving these accounts undisturbed until the end of the year.

Accounts 66 to 68, inclusive, and 69 to 71, inclusive, are handled exactly the same manner, in relation to the collar and saddlery departments.

72. *Interest Credits.* Credited with all interest collected on past due accounts, or received on outside investments.

73. *Cash Discount Credits.* Credited with all discounts earned by the prepayment of bills.

74. *Rent Credits.* Credited with all amounts received from rentals of property owned by the company, or as a result of subletting leased property.

75. *Insurance and Taxes.* Charged with all sums paid for fire, liability or other insurance, state and municipal taxes, and license fees.

76. *Salaries—Officers.* Charged with the salaries of all adminstrative officers, and directors' fees.

77. *Salaries—Bookkeeper and Clerks.* Charged with amounts of salaries of all bookkeepers, stenographers, and other office clerks.

78. *Printing and Stationery.* Charged with the cost of all stationery and printed matter used in the offices.

79. *Legal Expense.* Charged with attorney's fees and all expense of litigation.

80. *Postage, Telegraph* and *Telephone.* Charged with all sums paid for postage, and telegraph and telephone service.

81. *Office Expenses.* Charged with sundry items of office expense, not provided for in other accounts.

82. *Traveling Expense—Officers.* Charged with all legitimate traveling expenses incurred by officers in the interest of the company.

83. *Misc. General Expenses.* Charged with all expense items not otherwise accounted for.

Accounts 72 to 83, inclusive, are closed into an adminstration account.

84. *Advertising.* Charged with all sums paid for advertising, including periodical advertising, catalogs, circulars, and novelties.

85. *Salaries—Salesmen.* Charged with the salaries of all traveling salesmen.

86. *Commissions.* Charged with all commissions paid to brokers or salesmen.

87. *Traveling Expenses—Salesmen.* Charged with all legitimate expenses of salesmen, incurred in the interest of the company.

88. *Trade Show Expense.* Charged with all expenses incurred on account of exhibitions at trade shows. Sometimes treated as a part of advertising expense.

89. *Out-Freight and Express.* Charged with all freight and express paid on goods sold at delivered prices.

Accounts 84 to 89, inclusive, are closed into a sales expense account.

90. *Collection Fees.* Charged with all fees paid to banks, attorneys or others, for the collection of accounts.

91. *Cash Discounts Allowed.* Charged with all allowances to customers, for prompt payment of bills.

Accounts 90 and 91 are closed into a collecting account.

92. *Wages.* Charged with the wages of drivers and barn men.

93. *Maintenance.—Horses and Wagons.* Charged with cost of feed, stable supplies, repairs to harness and wagons, blacksmithing and horse-shoeing.

94. *Maintenance—Motor Trucks.* Charged with all expense of up-keep and repairs to delivery trucks.

Accounts 92 to 94, inclusive, are closed into a delivery expense account.

95. *Depreciation—Buildings.* Credited monthly with current charges for depreciation.

96, 97, and 98. Handled the same as No. 95.

Accounts 95 and 98 are closed into a depreciation adjustment account.

The illustrations (pp. 48–50) show how all of these accounts are

Harness Manufacturing (Account A)

To Acct # 34	By Acct # 40
" 35	" E
" 36	
" 37	
" 38	
" 39	
" D	

Collar Manufacturing (Account B)

To Acct # 41	By Acct # 47
" 42	" F
" 43	
" 44	
" 45	
" 46	
" D	

Saddlery Manufacturing (Account C)

To Acct # 48	By Acct # 54
" 49	G
" 50	
" 51	
" 52	
" 53	
" D	

Manufacturing Expense Adjustment (Account D)

To Acct # 55	By Accts A
" 56	" B
" 57	" C
" 58	
" 59	
" 60	
" 61	
" 62	

Manufacturing Ledger with Closing Entries

Harness Trading (Account E)

To Acct A	By Acct 63
" 64	" 65
" H	

Collar Trading (Account F)

To Acct B.	By Acct 66
" 67	" 68
" H	

Saddlery Trading (Account G)

To Acct. C	By Acct. 69
" 70	" 71
" H	

Adminstration (Account I)

To Acct # 75	By Acct H
" 76	
" 77	
" 78	
" 79	
" 80	
" 81	
" 82	
" 83	

Sales Expense (Account J)

To Acct # 84	By Acct H
" 85	
" 86	
" 87	
" 88	
" 89	

Manufacturing Ledger with Closing Entries

Collecting (Account K)

To Acct # 90	By Acct H
91	

Delivery Expense (Account L)

To Acct # 92	By Acct H
" 93	
" 94	

Depreciation Adjustment (Account M)

To Acct # 95	By Acct H
96	
97	
98	

Profit & Loss (Account H)

To Acct # I	By Acct # E
J	F
K	G
L	72
M	73
33	74

Manufacturing Ledger with Closing Entries

assembled into main groups, and finally closed into profit and loss, and capital accounts. An explanation of the accounts in the harness department will be sufficient to show how all of the accounts are treated.

Harness manufacturing, account A, is charged with accounts 34 to 39, inclusive, and the proper portion of account D. It is credited with the cost of all finished goods, the amount being transferred to account E, harness trading. It is credited with the increase in inventories over the preceding month, this amount being transferred to account 40; if inventories show a decrease, the amount is charged.

Harness trading, account *E*, is charged with cost of finished goods from account *A*; with account 64; with gross profits, transferred to profit and loss, account *H*. It is credited with sales, account 63; with increase in inventory, account 65.

Gross profits on account of trading are closed into profit and loss.

Inventory adjustment accounts Nos. 40 and 65, are still open and the balances show total inventories. The actual amounts of inventories are transferred to accounts 4 to 7, inclusive. This will leave a balance in inventory adjustment account No. 40, representing work in process in the harness factory. These inventory adjustment accounts are closed only at the end of the fiscal year, or when the books are closed. At the beginning of a new fiscal period the inventories are again charged to inventory adjustment accounts, and adjusting entries made monthly in manufacturing and trading accounts.

CORPORATION ACCOUNTS

CORPORATIONS

1. A corporation is an artificial body created by statute law and vested with power to act in many respects as an individual—in particular to acquire, hold, and dispose of property, real or personal; to make contracts; to sue and be sued, and the like.

It is a legal entity apart from its members. It may sue without joining its members, and may be sued by others without the necessity of joining its members. It may transfer property and transact all business, not inconsistent with the rights granted by its charter, in its own name. In the transaction of business it is regarded as an individual.

CLASSIFICATION OF CORPORATIONS

2. Corporations may be divided into two general classes—public and private. A *public* corporation is a political entity organized for the purposes of government—as a city, county, or village. A *private* corporation is one organized to further the interests of its members. These may be divided into two classes—stock corporations and non-stock corporations.

A *stock* corporation is one organized for the pecuniary gain of its members.

A *non-stock* corporation is one organized to further a particular object—as clubs, charitable associations, societies for scientific research, etc.

Stock or business corporations are the ones with which we are chiefly concerned. Such corporations are organized to enable several persons to unite their capital to conduct a legitimate business enterprise and such organization accomplishes two important results; the rights of the members to transfer their interest without affecting the standing of the business, and exemption from personal liability for contracts or acts of the corporation.

In a partnership, each individual partner is liable for the debts of the partnership, and any partner can make contracts in the name of the partnership, such contracts becoming obligations of not only the partnership but of each individual partner.

A member or stock holder in a corporation is, as a rule, liable only for the amount of his subscription to the capital stock of the corporation. The exception to this is the organization of certain classes of corporations in which it is provided that a stockholder shall be liable for twice the amount of his stock subscription. National Banks are examples of this class. No stockholder, as such, has the right to make contracts in the name of the corporation, and any contracts he may make are not binding on the corporation. Contracts made in the name of the corporation, to be binding, must be executed by an officer duly authorized to make such contracts.

3. Joint Stock Companies. *How distinguished from corporations.* A joint stock company is a large partnership in which the capital is divided into shares which are distributed among the partners in proportion to their interests. Joint stock companies differ from corporations and are like partnerships in the following respects:

Each member is liable for the debts of the company, and if he sells his shares he is still liable for the debts which were contracted while he was a shareholder.

Except when otherwise provided by statute, all members must join in any action at law by the company, and if another brings an action against the company he must join as many shareholders as he wishes to hold. In some states the law provides that an action against a joint stock company may be brought in the name of its president or other designated officer representing all the members.

4. Joint Stock Companies. *How like Corporations.* A joint stock company is like a corporation and differs from a partnership in the following respects:

The shares may be transferred. If a member dies his shares pass to his estate; if bankrupt they pass to his assignee; if he sells his shares they pass to the purchaser. Partners may withdraw and new partners may be admitted without the dissolution of the company. A partnership is dissolved by the withdrawal by death or otherwise of a single partner.

The shareholders do not manage the affairs of the company but elect directors or other officers in whom the management of the business is vested. Members, as such, have no authority to bind the company.

CREATION OF CORPORATIONS

5. A corporation is created by legislative act. Formerly each corporation received a special charter from the legislature of the state, but as the advantages of corporations began to receive universal recognition it was seen that the delays incident to the granting of special charters were bound to work a hardship on those desiring to incorporate. Partly to overcome this, but more particularly to insure uniformity in the rights and privileges of corporations, and to prevent the conferring of special privileges through special charters, the legislature of most states has enacted uniform corporation laws. These statutes prescribe uniform regulations for the organization of corporations. State constitutions now very generally prohibit the granting of special charters to private corporations.

6. **Requirements.** While every state has its own corporation laws, the requirements of corporations are in many respects uniform. The law usually provides that a certificate of incorporation shall be filed with the secretary of state, or some other designated officer. This certificate must as a rule state:

The name of the corporation;

The place of business, where its principal office is located;

The objects of the corporation, including a statement of the business in which it is to engage;

The amount of the capital stock, and the number and par value of the shares into which it is to be divided;

The period for which the corporation is organized;

The number of its directors and the names of those who are to serve at the outset;

The names and addresses of the original incorporators with the number of shares of the capital stock subscribed for by each.

The form of the certificate required in the state of Illinois is shown in the illustration, p. 4.

STOCKHOLDERS

7. The members of a business corporation are known as stockholders or shareholders. At the time of organization the members subscribe for the shares of the capital stock agreeing to take and pay

State of Illinois, } SS.
______________ County. }

INCORPORATION FEES:	
$2500 or less	$30.00
$2500 to $5000	50.00
Each additional thousand . .	1.00

To JAMES A. ROSE, Secretary of State:

We, the Undersigned, ______________________________

____

____

____

propose to form a Corporation under an act of the General Assembly of the State of Illinois, entitled "An Act Concerning Corporations," approved April 18, 1872, and all acts amendatory thereof; and for the purpose of such organization we hereby state as follows, to wit:

1. The name of such Corporation is______________________________

____

2. The object for which it is formed is______________________________

____

____

____

____

____

3. The Capital Stock shall be______________________________
4. The amount of each share is______________________________
5. The number of shares______________________________
6. The location of the principal office is in______________________________in the County of______________________________State of Illinois.
7. The duration of the Corporation shall be______________________________years.

____

____

____

____

____

____

____

Statement of Incorporation on the Stock Plan.

for them when issued. When the stock has been delivered and paid for, the stockholder is under no further obligation, unless the stock is by statute or contract subject to assessment.

8. Stock Certificate. When a stockholder has paid for his shares a certificate, known as a stock certificate, is issued to him. This certificate is the written evidence issued by the corporation that the person whose name appears therein is registered on the company's books as the owner of shares of the number and par value named.

The owner of a stock certificate can transfer it, and the one to whom it is transferred becomes a stockholder. Such transfers are not complete, however, until registered on the books of the company. A stock certificate is not, strictly speaking, a negotiable instrument, but it is the custom among business men to indorse stock certificates in blank and transfer them from hand to hand as negotiable instruments, until some one inserts his own name and has the transfer registered on the books of the company.

Such indorsement does not make a stock certificate a negotiable instrument, and the purchaser can acquire no better title than is possessed by the seller. Courts have held that the fact that a certificate of stock is not payable to bearer makes it non-negotiable.

CAPITALIZATION

9. This is the term commonly used to designate the amount of stock which the company is authorized to issue. It may have little reference to the amount subscribed or paid in, for most states authorize corporations to begin business as soon as a certain number of shares have been subscribed for, or even when only a small part of the subscriptions have been paid. For instance, a company with an authorized capitalization of $100,000 may be permitted to commence business as soon as $10,000 has been subscribed and $1,000 is actually paid in.

10. Capital and Capital Stock. The *capital* of a corporation is usually understood to mean its assets, and is a general term covering all of its property of every nature. It has no connection with the capital stock authorized or the number of shares subscribed.

Capital Stock is a term used in many ways each of which implies a different meaning. It may mean the amount which must be paid in before it can transact business as a corporation; it may mean the capital which the corporation is authorized to issue; it may mean the amount subscribed regardless of the amount actually paid in; or it may mean the amount actually paid in regardless of the amount subscribed.

11. Kinds of Stock. As a rule the capital stock of a corporation is of two classes—common and preferred—though not all corporations issue both classes.

Common Stock is the stock of a corporation issued to all stockholders under the same conditions, and which is to share equally in the dividends.

Preferred Stock is stock which gives its owner certain preferences over the owners of common stock. This preference usually consists of a provision for the payment of certain dividends out of the net earnings of the business before any dividends can be paid on common stock. The officers of a corporation have no power to issue preferred stock unless it is provided for in the charter. Preferred stock may, however, be issued with the consent of all common stockholders. Preferred stock falls into sub-divisions depending upon its provisions as follows:

Cumulative preferred stock is stock on which the payment of dividends is not dependent upon the earnings of one year. If a dividend is passed in one year or if not paid in full, it must be paid from future earnings before common stock can draw dividends.

Non-cumulative preferred stock is stock which carries a dividend preference only in respect to the earnings of the current year. While dividends are payable prior to dividends on common stock, no liability attaches to the corporation if earnings in any year are insufficient to pay dividends.

Guaranteed Stock is another name for cumulative or non-cumulative preferred stock—any stock on which the payment of dividends is guaranteed.

A corporation may issue more than one series of preferred stock, as *first preferred, second preferred,* etc. These issues take preference in the payment of dividends in the order of their priority. Dividends must be paid on *first preferred* before any surplus is available for the payment of dividends on *second preferred.*

12. Treasury Stock. This is stock subscribed for and issued which has been acquired by the corporation either by purchase or donation. The term is often erroneously applied to that part of the authorized capital stock which has never been issued, and the error has even been made of referring to it as unsubscribed stock. Treasury stock is an asset and should be so treated on the books of the corporation. Unsubscribed or unissued stock is in no sense an asset; or as one writer puts it, no more an asset than the power of a person to issue notes is an asset.

13. Watered Stock. Any stock which is not represented by actual assets is called watered stock. It is usually represented by fictitious assets—as patents, copyrights, franchises, promotion expense, good will, etc.

STOCK SUBSCRIPTIONS

14. It is customary for the first board of directors to state by resolution in what manner the stock is to be disposed of; if subscriptions are to be received; if subscriptions are to be paid immediately or in installments. When the certificate of incorporation has been filed the subscription list is opened. This may be in book form, or a written or printed list. The following is a common form of stock subscription:—

We, the undersigned, do hereby subscribe to the capital stock of the—————company, organized under the laws of the state of—————————in the amount set forth below, and severally agree to pay the amount of such subscription as follows:

When the board of directors shall, through its secretary or treasurer, certify that there has been subscribed——% of the authorized capital of $————, then we severally agree to pay———% of said subscriptions, and to pay a further ———% on the———day of each month thereafter, until the full amount of such subcriptions shall have been paid.

Date	Name	Address	No. of Shares	Amount

MANAGEMENT OF CORPORATIONS

15. The affairs of a corporation are managed by its directors who are elected by the stockholders. A director has no authority individually to bind the company. He can only act in conjunction with other directors in regular meeting as provided by the by-laws. The acts of the board are effected by orders or resolutions passed at such meetings. The number of directors constituting the board and the number required to form a quorum is specified in the by-laws. Directors must attend meetings in person to be entitled to vote. They cannot be represented by proxy. Since it is not practicable for the directors to attend to all of the details, they usually delegate to their officers authority to transact all of the every day business of the company. In larger corporations the directors organize themselves into subcommittees as executive committee, finance committee, etc. In small corporations these committees are unnecessary, their acts being performed by the board of directors.

16. **Powers of Directors and Officers.** The powers of the directors are extensive and are prescribed by the charter and by-laws. The directors have the power to bind the corporation in all its dealings with other persons or corporations. The powers of the stockholders are limited to the election of the directors; but as the directors are elected by a majority of the stockholders, the power to control the corporation through the election of a board of directors who will respect their wishes is thus conveyed to a majority of the stockholders.

Being representatives of the stockholders as a body, the directors must at all times be governed by what they honestly consider the wishes of the majority. Directors have the power to make contracts with the corporation only when they are manifestly fair contracts. For example, when not otherwise provided for, they may fix a fair compensation for their services and for the services of their officers. Except in cases of actual fraud, it is for the majority of stockholders to complain of such contracts, and they have the power to remove offending directors.

Officers of a corporation are its agents and have limited powers, usually prescribed by the by-laws. When not so specified, they are prescribed by the directors. It is not always necessary that all of the powers of an officer be specified in detail. If an officer has been accustomed to perform certain acts with the knowledge and consent of the directors, his acts become binding on the corporation. The title of an office does not necessarily convey any special powers. For example, while it is customary for the directors to confer special powers on the president, his title does not make him, in the corporation's dealings with the public, an agent of higher grade than the secretary, treasurer, or any other officer.

17. Powers of Corporations. As such, a corporation possesses certain necessary powers, and such other special powers as may be conferred by its charter.

To have a corporate name which can only be changed by law.

To sue and be sued.

To possess a corporate seal.

To appoint the necessary officers for the conduct of its business.

To enact by-laws necessary for the management of its business, for transferring of its stock, for calling of meetings, etc.

To acquire and dispose of such property as may be necessary for the conduct of the business for which it is organized.

To make contracts necessary for the carrying out of its purposes.

In general a corporation can engage in no other business than that specified in its charter, but it is granted certain incidental powers necessary to carry out its original purpose.

18. Stockholder's Rights. Each stockholder has the right to have a certificate of stock issued to him; to vote at meetings of stockholders; to inspect the books of the company; to participate in dividends; to invoke the aid of the courts in restraining the directors from committing a breach of trust.

DIVIDENDS

19. Every business corporation is conducted with a view to earning profits. When such profits are distributed to its stockholders they are called dividends, but stockholders cannot participate in the profits until a dividend has been declared by the directors. The law specifies that dividends must be paid out of the net surplus of the company, and provides a penalty for their payment out of capital. Therefore, before declaring a dividend, the directors must be provided with a balance sheet and use every care to determine that a surplus actually exists. For dividend purposes, surplus is usually considered that part of the profits remaining after paying expenses and providing the necessary reserve to cover depreciation of machinery and buildings and losses from uncollectable accounts. Sometimes a further provision is made in the by-laws for the creation of a sinking fund for the payment of bonds.

The times for the payment of dividends are fixed in the certificate of incorporation or the by-laws. Provision is usually made for the payment of dividends either quarterly, semi-annually, or annually.

Directors have full discretion in the declaration of dividends and, so long as they are acting in good faith, may add profits to capital instead of declaring a dividend. When the directors have, by proper resolution, stated that the surplus, or a part of the surplus, shall be distributed to the stockholders, a dividend is said to have been declared. When declared, a dividend becomes a debt of the corporation to its stockholders. It is not necessary that the directors declare dividends of all the surplus or net profits. Frequently the by-laws provide that a certain amount be reserved as working capital, and under any circumstances the questions of the advisability of declaring a dividend rests with the directors. They cannot be compelled to declare a dividend unless it can be shown that, in declining to do so, they are acting in bad faith.

20. Stock Dividends. At their discretion, the directors may, instead of paying a dividend in cash, declare what is known as a stock dividend. When there remains certain unsubscribed stock, or when the corporation is in possession of treasury stock, this stock may be issued to stockholders in payment of dividends. A stock dividend cannot, however, be declared when it would not be proper to declare a cash dividend. The assets must exceed all liabilities, and in determining the existence of a surplus available for dividends, all capital stock that has been issued must be considered as a liability.

CLOSING TRANSFER BOOKS

21. In large companies it is customary for the board of directors to close the stock transfer books a certain number of days prior to the date of payment of a dividend, for the purpose of obtaining the names and addresses of all stockholders. Notices are then sent to all stockholders that a dividend will be paid on a certain date and that the transfer books will be closed for a stated period. Transfer books are also frequently closed for a certain period prior to the annual meeting of the stockholders. The laws of some states provide that only those stockholders whose names have appeared as stockholders on the books of the company for at least thirty days prior to the date of the annual meeting, shall be entitled to vote at said meeting.

STOCKHOLDERS' MEETINGS

22. Meetings of stockholders are, as a rule, held annually, and the date of such meeting is usually specified in the charter. At the annual meeting the board of directors presents, through its president or other officer, a report of the business for the year, accompanied by a financial statement. At this meeting the stockholders elect directors to take the place of those whose terms of office have expired. A stockholder may vote at stockholders' meetings either in person or by proxy, and is entitled to one vote for each share of stock registered in his name at the time of the meeting. Notice of a stockholders' meeting must in all cases be mailed to each stockholder at his last known address, a certain number of days prior to the date of the meeting. This notice is mailed by the secretary of the company.

SALE OF STOCK BELOW PAR

23. Many corporations formed to carry on business of a speculative nature find it difficult to sell stock at par. This is especially true when the assets consist largely of patents, an undeveloped mine, or property of a similar nature. It has become the custom for corporations to take over such properties, issuing in payment for the same full paid stock greatly in excess of its value. The original owners of the property will in turn donate a certain portion of the stock to the corporation to be sold to provide working capital. This stock then becomes treasury stock and is offered for sale at a liberal discount. The selling of property to a corporation at an inflated value is called the process of watering the stock. It can only be justified when an uncertainty exists as to the actual value of the property acquired. In the purchase of a going business, the real value of the good-will is largely a matter of opinion, and the judgment of the board of directors of a corporation making such a purchase must be considered as final.

CORPORATION BOOKKEEPING

24. Bookkeeping for a corporation as a record of its business transactions with the public is not different than bookkeeping for a single proprietorship or a partnership. There are, however, certain necessary records peculiar to a corporation, including accounts of a financial nature between the corporation and its stockholders. It is with these records and accounts that we are concerned in this discussion of corporation bookkeeping.

25. Books Required. The books required for corporation records are, *Stock Certificate Book, Stock Transfer Book, Stock Ledger, Minute Book,* (and in certain cases, *Installment Book, Stock Register,* and *Dividend Book*). These are auxiliary books and are known as *stock* books.

Stock Certificate Book. This is a book of stock certificates, with stubs giving full particulars of each certificate issued. When a stock register is used, the record is posted to it from the stub, otherwise posting is made direct from the stub to the stock ledger.

Stock Transfer Book. This is a book in which is kept a record of all transfers of stock. Each entry is practically a copy of the form of assignment found on the back of the stock certificate. It is supposed that each transfer will be signed by the one transferring the stock, but frequently when certificates are presented with the proper endorsement, the transfer is signed by the one making the transfer as *attorney in fact.* The transfer book is made with two, and sometimes three, transfers to a page. Transfers are posted to the stock register, when used, or direct to the stock ledger.

Transferred by	*For value received,______hereby sell, assign, and transfer to*
____________________	*____________________all of______right, title, and interest*
To	*in____________shares of the capital stock of*
____________________	**The National Manufacturing Company**
____________Shares	
Date ________________	*standing in______name on the books of said company.*
Certificate Cancelled____	*Witness:* *Signed____________________*
" Issued______	____________________ *By ____________________* Attorney in fact.

Transfer Book

Stock Ledger. This is the book in which an account is kept with each stockholder showing the number of shares held by him. Sometimes the amount is included. When a stockholder receives a certificate of stock it is posted to the credit side of his account in the stock ledger. When he transfers a certificate it is posted to the debit side of his account. A trial balance of the stock ledger should be taken at stated periods, for the stock standing to the credit of the stockholders should equal the total stock outstanding. The stock ledger is supposed to show only the stock issued and the names of its holders. For example, if the authorized stock of a corporation is 1,000 shares and there remains 300 shares unsubscribed, the stock ledger will show 700 shares—the total issued—to the credit of individual stockholders. An account should be opened in the stock ledger with *Capital Stock*, which account will be debited with all stock issued. This is in effect a representative account since it represents the total stock that should stand to the credit of other accounts in the stock ledger.

DATE	TRANSFERRED TO	LF	CERT. NO.	AMT.	DATE	TRANSFERRED FROM	LF	CERT. NO	AMT.	BALANCE

Stock Ledger

Minute Book. This is a record book in which the secretary keeps records or minutes of the proceedings of all stockholders' and directors' meetings. This is an official record of the acts of the corporation, and is frequently called for to be introduced in court as evidence. The secretary is custodian of the minute book and should see that it is carefully preserved.

Installment Book. When stock subscriptions are payable in installments, a form of receipt called a scrip or installment certificate is issued. As payments are made they are endorsed on the back of this certificate, and when all payments have been made the scrip is exchanged for a regular stock certificate. These scrip certificates are bound in book form similar to stock certificates.

Sometimes the scrip certificate takes the form of an installment receipt for the amount paid, all receipts being surrendered to the company when payments have been completed.

> **This certifies** that ______________________ is entitled to
>
> __________ shares of One Hundred Dollars each of the capital stock of
>
> **The National Manufacturing Company**
>
> on which has been paid Ten Dollars per share, and subject to all payments due or to become due. A full paid certificate will be issued when all installments upon said shares have been paid, and on surrender of this receipt. Transferable only on the books of the company.
>
> **In witness whereof,**

INSTALLMENT CERTIFICATE

Stock Register. Some large corporations keep, in addition to the stock ledger and transfer books, a stock register which is a complete register of all stock issued. This book is kept by the *registrar*—usually a trust company or bank. All certificates are entered in the register in numerical order and full particulars of each are given. When a transfer is made both the old and new certificates must be taken to the registrar, who cancels the old and places his indorsement on the new, certifying that it has been registered.

One purpose of having a registrar is to prevent an over-issue of stock. The number of shares shown on the register must not exceed the number of shares which the corporation is authorized to issue.

CERTIFICATES REGISTERED						CERTIFICATES CANCELLED		
DATE REG'STD	DATE ISSUED	CERT. NOS.	NO. SHARES	NAMES	DATE CANC'LD	NO. SHARES	CERT NOS.	NAMES

Stock Register

Dividend Book. When the directors declare a dividend it is necessary to make a list of stockholders entitled to receive a dividend. Large corporations use a special form similar to the one illustrated.

It is made either in a book or on loose sheets which are placed in a binder.

DIVIDEND NO.________ RATE ________ DATE ________

NAME OF STOCKHOLDER	TO WHOM PAYABLE	ADDRESS	NO. SHARES	AMT. DIVIDEND	CK. NO.

Dividend Book

Some stockholders issue written orders to pay all dividends to some other person, which makes it necessary to record on this list the name of the person to whom this dividend is payable, as well as the name of the stockholder.

OPENING ENTRIES

26. In opening the books of a corporation it is necessary to first get the capital entered. In a proprietorship, the capital is credited to the owner; in a partnership it is credited to the individual partners. On the books of a corporation an account called *capital stock* is opened, to which capital is credited. This account is opened in the general ledger and original entries are made in the journal. The manner of making the opening entries depends upon the method of disposing of the capital stock.

If stock is sold for cash only and the entire amount is subscribed and paid for, the entry is simply·

Cash		$100,000	
To capital Stock			$100,000
Stock subscribed and paid for by the following:			
John Doe	$50,000		
Richard Roe	25,000		
Henry Snow	25,000		
as per subscription list dated——————190——.			

If only a part of the authorized stock is subscribed, there are two methods of entering the transaction.

First: Debit cash and credit capital stock as above, only as fast as stock is subscribed and paid for.

Second: Debit cash and credit capital stock for the amount actually subscribed and paid for. Debit a new account called *unsubscribed stock* and credit capital stock for the balance of the total authorized issue of stock.

Illustrating the above, we will suppose that the National Manufacturing Co. is organized with a capitalization of $100,000, of which $50,000 is subscribed and paid for in cash. The entries would be:—

Cash		$50,000	
To capital stock			$50,000
Stock subscribed and paid for by the following:			
John Doe	$25,000		
Richard Roe	15,000		
Henry Snow	10,000		

Unsubscribed stock		50,000	
To capital stock			50,000

If stock is not paid for when subscribed or if it is payable in installments the entry is:

John Doe	25,000	
Richard Roe	15,000	
Henry Snow	10,000	
To capital stock		50,000
For subscription to stock as per subscription list.		

Or if it is not desired to enter the names of the subscribers an account is opened in the name of *subscriptions*, and the entry is:

Subscriptions	50,000	
To capital stock		50,000

The above entries at once place the entire authorized capital stock on the books. When further subscriptions are made, subscription account is debited and unsubscribed stock is credited. When subscriptions are paid, cash is debited and subscriptions credited.

When subscriptions are payable in regular installments, payments may be credited to subscriptions. The plan is sometimes followed, however, of opening an account for each installment, as

Installment No. 1, to which payments are credited. When the installment is fully paid this account would be closed into subscription account.

Or still another formula—when stock has been sold *subject to assessments to be made by the board of directors*, and an assessment has been called the entry is:

Assessment No. 1.	$10,000	
To subscriptions		$10,000
An assessment of 20% as per resolution of the board of directors		
John Doe	5,000	
Richard Roe	3,000	
Henry Snow	2,000	

When paid, cash is debited and assessment No. 1 is credited. When the next assessment is called an account is opened with assessment No. 2.

27. When a Part of the Stock is Paid for in Property and the Balance in Money. A corporation known as The National Manufacturing Company is formed to take over a manufacturing business owned by John Doe. The capital stock is $100,000 of which Mr. Doe is to receive $50,000 for the assets and good will of his business, the company agreeing to assume his liabilities. His statement of affairs shows the following:

Assets		
Cash in bank	$2,264.00	
Accounts receivable	4,650.50	
Machinery	9,000.00	
Manufactured goods	2,100.00	
Material and supplies	3,780.00	
Furniture and fixtures	700.00	$22,494.50
Liabilities		
Accounts payable	864.20	864.20
		21,630.30

Since the net assets are $21,630.30, and the stock to be issued to John Doe is $50,000 the difference, or $28,369.70, represents the amount paid for the good will of the business.

The transaction is entered as follows:—

Property and Goodwill of the business of John Doe, transferred to this company as per resolution of the board of directors, Dec. 21st, 1908.		
Good will	$28,369.70	
Cash	2,264.00	
Accounts receivable	4,650.50	
Machinery	9,000.00	
Manufactured goods	2,100.00	
Material and supplies	3,780.00	
Furniture and fixtures	700.00	
Accounts payable		$ 864.20
Capital stock		50,000.00

One half of the capital stock is thus accounted for. The balance is to be subscribed, and when subscribed the entries will be as explained in Art. 26, depending upon whether subscriptions are paid in full or in installments.

28. When Stock is Issued in Payment of Property and a Part of the Stock is to be Donated to the Company. John Doe owns a valuable patent on an automobile attachment and desires to secure capital to carry on its manufacture. He interests Richard Roe and Henry Snow, who agree to assist him to form the National Manufacturing Company to take over his patent and manufacture the attachment. The company is incorporated with an authorized capitalization of $150,000. Roe and Snow agree that Doe shall receive $100,000 full paid stock for his patent, and to subscribe $25,000 each, payable in cash to be used for the purchase of the necessary machinery. John Doe, in turn, agrees to donate $50,000 of his stock to provide working capital. The entries are:

Patents	$100,000	
Capital stock		$100,000
Full paid stock issued to John Doe to pay for patents transferred to the Company by bill of sale dated Dec. 2, 1908.		

Subscriptions		$50,000	
Capital stock			$50,000
Subscriptions to capital stock as follows:—			
Richard Roe	$25,000		
Henry Snow	25,000		
Treasury stock		50,000	
Working capital			50,000
Full paid stock donated by John Doe to provide working capital.			

When subscriptions are paid:—

Cash	50,000	
Subscriptions		50,000

It is decided to sell $30,000 of the treasury stock at 50% of its face value, and subscriptions are received for this amount.

Subscription to treasury stock	30,000	
Treasury stock		30,000

Subscription account is debited and treasury stock credited for the full amount since this is the amount of full paid stock to be issued, regardless of the price at which it is sold.

When this stock is paid for, the entry in the cash book on the debit side is:

Subscriptions to treasury stock	15,000

This leaves a debit balance of $15,000 in the account *subscriptions to treasury stock,* which represents a discount on the stock sold.

The manner of disposing of this discount depends upon the provisions made by the directors in respect to the creating of working capital.

If their resolution provides that the fund maintained for working capital shall be only such an amount as may be realized from the sale of treasury stock, the discount is disposed of by the following entry:

Working capital	15,000	
Subscriptions to treasury stock		15,000
Discount on 30,000 treasury stock sold.		

Suppose, however, that the directors have provided by resolution for the maintaining of a working capital of $50,000. In that case the liability for the full $50,000 must remain on the books until such time as other provision is made. The entry would then be:

Bonus	$15,000	
Subscriptions to treasury stock		$15,000

The discount is, to all intents, a bonus given to the purchasers, and if, as frequently happens, purchasers are promised a bonus of a share of stock for every share purchased, it would be proper to make the following entry in the first place.

Subscriptions to treasury stock	15,000	
Bonus	15,000	
Treasury stock		30,000
Sold 30,000 treasury stock at 50% of face value.		

In any dividend distribution the purchasers are entitled to draw dividends on the face value of their stock, since it was issued to them as full paid. It would be manifestly unfair to charge the discount or bonus against profits for the current year, and it is customary to spread it over a period of several years, charging off a certain per cent each year. The bonus account is, in the meantime, carried on the books as an asset, and belongs in the class known as *fictitious* assets.

Treasury stock is an asset, its real value being the market value of the stock represented. In the event of liquidation of the company, treasury stock would off-set the liability on account of capital stock. When all of the treasury stock is sold the account closes itself; or if it is issued to stockholders in the form of stock dividends, it is closed into profit and loss.

Working capital is a liability, which may be termed an *assumed* or *nominal* liability. Like capital stock it is a liability only as between the company and its stockholders. It off-sets whatever form of asset—cash or otherwise—that represents proceeds from the sale of treasury stock. The real position of working capital in the balance sheet is that of a capital liability which must be considered before any surplus available for dividends can be said to exist. Power is usually given the directors to reserve a certain amount for working capital, and even though an actual surplus may exist they have the right to off-set this with a working capital liability instead of declaring a dividend.

29. Premium on Stock. The stocks of many well-managed enterprises sell at a premium. In all such cases the amount received above the par or face value is credited to an account called *premium on stock*. At the end of the year this account is closed into surplus account. If any such items are standing on the books it can be used to off-set bonus account or organization expenses. It is not proper to close premium account into the current profit and loss account, for while it represents a profit, it is not earned in the regular operations of the business.

30. Reduction of Working Capital. As before stated, so long as working capital remains on the books it must be treated as a liability. Having the right to create working capital, the directors also have the right to reduce it whenever, in their judgment, the necessities of the business no longer require its maintenance in the original amount.

When, for any reason, the funds represented by the credit to working capital account are no longer needed for meeting the expenses of the business, the balance of this account is thrown into Surplus. It should never be thrown into Profit & Loss account because it does not represent a gain earned for the current year.

Suppose that in the case of the National Manufacturing Co., it is desired to reduce working capital from $50,000 to $25,000; the entry would be:

Working capital	$25,000	
Surplus		$25,000
Working capital reduced by resolution of the board of directors, January 15th, 1909.		

ENTRIES IN STOCK BOOKS

31. The entries in the stock books are very simple and are just the opposite of stock entries in the general or financial books of the company. When certificates of stock are issued, an account is opened in the stock ledger with each stockholder, to which is credited the stock issued to him. At the same time an account is opened in this ledger with capital stock which is debited with all stock issued, thus preserving the balance of the stock ledger. Taking the example in Art. 26, when stock is issued—

We debit—		
Capital stock	$150,000	
We credit—		
John Doe		$100,000
Richard Roe		25,000
Henry Snow		25,000

When the $50,000 stock is donated to the treasury to provide working capital—

We debit		
John Doe	50,000	
We credit		
Treasury stock		50,000

and open an account with treasury stock in the stock ledger.

When treasury stock is sold—

We debit		
Treasury stock	30,000	
We credit		
Subscribers		30,000

When a stockholder sells a part or all of his shares to another it has no effect on capital stock or treasury stock accounts in the stock ledger. The only change takes place in the accounts of the individual stockholders involved. The stock transferred is debited to the account of the *transferor*, and credited to the account of the *transferee*.

Supposing that $30,000 treasury stock was purchased by Henry Benson, George Dennis, and Richard Carpenter, each purchasing $10,000, the stock ledger and stock register—if one is used—would appear as shown in the illustration. Footing the two sides of the stock register we find a balance of 1,300 shares which is the actual amount outstanding, the balance of 200 shares remaining in the treasury. A trial balance also shows that the stock ledger balances with a credit of $20,000 treasury stock.

1

Capital Stock

12	21			1/12	150000 00							

2

Treasury Stock

12	21	Benson		6	10000 00	12	21	John Doe		6/1	50000 00	
		Dennis		7	10000 00							
		Carpenter		8	10000 00							20000 00

3

John Doe

12	21	Treasury		6/10	50000 00	12	21	Cap. Stock		1/10	100000 00	50000 00

4

Richard Roe

						12	21	Cap. Stock	11		25000 00	

5

Henry Snow

					12	21	Capt. Stock	12	25000 00

6

Henry Benson

					12	21	Treas.	6	10000 00

7

Geo. Dennis

					12	21	Treas.	7	10000 00

8

Richard Carpenter

					12	21	Treas.	8	10000 00

DATE ISSUED		DATE REGST'RD		CERT. NOS.	NO. SHARES	NAME	DATE CANC'L'D		NO. SHARES	CERT. NO.	NAME
Dec.	21	Dec.	21	1	100	John Doe			100	6	John Doe
				2	100	" "			100	7	" "
				3	100	" "			100	8	" "
				4	100	" "			100	9	" "
				5	100	" "			100	10	" "
				6	100	" "	Dec.	21			
				7	100	" "	"	21			
				8	100	" "	"	21			
				9	100	" "	"	21			
				10	100	" "	"	21			
				11	250	Richard Roe					
				12	250	Henry Snow					
				13	100	Henry Benson					
				14	100	Geo Dennis					
				15	100	Richard Carpenter					

Stock Register

EXCERCISES

1. A corporation is organized with a capital of $50,000.00, divided into 500 shares of $100.00 each. The corporation begins business when 250 shares have been subscribed for. Of this amount *A* subscribes for 100 shares, *B* for 100 shares, and *C* for 50 shares. These shares are paid for in cash within 30 days after the date of subscriptions.

Six months later the balance of the stock is subscribed for, subscriptions being received from *A* for 50 shares, *B*, 50 shares, *D*, 100 shares, and *E*, 50 shares. *C* sells 50 shares to *B*. These new shares are paid for in cash.

Make all entries in general books.

Make all entries in stock books.

2. *A*, *B*, and *C* organize a corporation with an authorized capitalization of $100,000.00, divided into 1,000 shares of $100.00 each. *A* subscribes for 400 shares, *B*, 300 shares, and *C*, 200 shares. The corporation buys from *D* land and buildings for $20,000.00, paying him $10,000.00 in cash and issuing to him 100 shares of stock.

Subscriptions are paid as follows: *A* pays $20,000.00 cash and gives his note due in 60 days for $20,000.00; *B* pays $20,000.00 cash and gives his note for $10,000.00 payable in 30 days; *C* pays $10,000.00 cash and gives his note for $10,000.00 payable in 10 days.

Make all entries in journal and cash book and post to ledger.

Note.—Land and buildings are grouped under the head of real estate.

3. John Davis and Daniel Greene own the La Belle mine, and to secure capital for its development they decide to organize a mining company and to sell shares. A corporation is organized with a capitalization of $1,000,000.00 in shares of $1.00 each. Of this stock 999,000 shares are issued to Davis and Greene, each receiving an equal number, and they, in turn, deed the La Belle mine to the company. The remaining 1,000 shares are subscribed and paid for by Martin Otis. Davis and Greene donate to the treasury 498,000 shares to be sold for the purpose of securing working capital. The directors, by proper resolution, decide to sell 200,000 shares: 50,000 shares to be sold at 20 cents on the dollar, 50,000 shares at 25 cents, and 100,000 shares at 35 cents. The resolution also provides that the corporation's liability for working capital shall be no more than the amount realized from the sale of treasury stock. Subscriptions

are received for the 200,000 shares and payments are made at the prices specified.

Make all necessary entries to get these transactions properly recorded on both the general and stock books.

STOCK ISSUED FOR PROMOTION

32. Frequently when a corporation is organized, stock is issued to a promoter as payment for his services. An enterprise may have great latent possibilities provided sufficient capital can be secured for its development, but until the possibilities for making a profit can be clearly shown, it is difficult to interest the investing public. To interest investors in an enterprise yet to be developed requires a special talent not possessed by the average owner of a patent, mine, or process. There are men who possess this special talent and who make a business of promoting companies.

In many cases—probably most cases—the owner of the thing to be promoted has no money with which to pay the promoter. Consequently, the promoter first satisfies himself that the enterprise actually holds possibilities of profit and then agrees to accept all or a part of his fees in the stock of the company. The portion of his fee that he is willing to accept in stock, and the number of shares demanded, is governed largely by his own faith in the enterprise. His fee may be a certain per cent on the stock sold, or it may be an arbitrary sum represented by a certain number of shares. When he accepts his entire fee in stock, it may represent from 25 per cent to 50 per cent of the entire capitalization, and while the fee may appear exorbitant when represented by the par value of the stock, its actual value to him is represented by the *real* value of the stock, or the price at which he could sell it.

Volumes might be written on the subject of promotion, but our special concern is the proper treatment of promotion fees on the books of the company. Strictly speaking, promotion fees are as much an expense as the cost of printing the company's prospectus, but to immediately charge it to expense would, in many cases, cause the accounts to show an impairment of capital at the outset. Suppose, for example, that a corporation is organized with a capital of $100,-000.00 all paid in cash. The promoter is paid a fee of $15,000.00. Profits earned—trading profits—in the first year are $8,000.00, but we have a charge of $15,000.00 for promotion in the expense account. The books show that the company is insolvent, the liabilities being $7,000.00 in excess of the assets, while the business actually is in a healthy condition.

Expenses paid in the regular course of business are expected to be off-set by earnings. When we pay rent for a store or office we expect that, by reason of our occupancy of that store or office as a place of business, our earnings will be increased in an amount greater than that paid for rent. Promotion expense cannot, in itself, produce earnings. The cash, or other form of asset, received from the sale of stock—the direct result of promotion expense—is off-set by the stock liability created. Earnings to off-set promotion expense must come from future operations of the business.

It has become quite the general custom, therefore, to allow the expense incident to the organization of the company to stand on the books as a fictitious asset, under some such caption as *promotion expense, promotion fund,* or *organization expense.* The amount is gradually reduced by charging a stated per cent to profit and loss each year.

There is another special reason why it would be manifestly unfair to immediately charge promotion fees to expense. Suppose a promoter receives 20% of the stock for his services, while the holders of the remaining 80% have paid cash for their shares. Since the 80 per cent paid in cash must earn dividends on the entire 100 per cent of stock, it would be unjust to the holders of the 80 per cent to withhold dividends until the par value of the 20 per cent of stock shall have been added to the assets of the company from profits earned.

The Entry. A patent is owned by Geo. Davis, who secures the services of Wm. Lane to promote a company to undertake its manufacture. The corporation is capitalized at $500,000.00. Davis sells the patent to the company receiving $250,000.00 stock in payment, and Lane receives $25,000.00 stock for promotion, when he has secured subscriptions for the remaining $225,000.00 at par. The entries to record the issue of stock to Lane for promotion are:

Subscriptions	$25,000.00	
Capital stock		$25,000.00
Subscription of Wm. Lane		

Promotion expense	$25,000.00	
Wm. Lane		$25,000.00
Fee due Wm. Lane for promotion of company and sale of stock.		
Wm. Lane	25,000.00	
Subscriptions		25,000.00
Amount due to Lane credited to subscriptions to pay for stock subscribed by him.		

The entries for the shares issued to Davis and those sold are the same as previously explained and illustrated.

SURPLUS AND DIVIDENDS

33. The directors are under no obligation to distribute in dividends the profits earned in any one year. Instead, the by-laws usually provide that the decision as to when a dividend shall be declared is to be left entirely to the directors. They have it in their power to retain of the profits such an amount as, in their judgment, is advisable or necessary to safeguard the interests of the company. At the close of the fiscal year it is customary to close profit and loss account, and in a corporation it is closed into surplus.

34. Surplus Sub-divided. Sometimes the term surplus is used to designate a part of the profits set aside for a special purpose, as the creation of a fund to meet an obligation falling due at some future date. When surplus is treated as a special fund, or when it has been provided by resolution of the directors "*that a certain sum, or a certain per cent of the profits shall be set aside as a surplus fund,*" and remaining profits not distributed as dividends may be placed to the credit of an account called *Undivided Profits* or *Undistributed Profits.*

In reality undivided profits is surplus, and the division of the account merely serves to show that the amount credited to surplus is for some reason reserved, while the amount credited to undivided profits is available for dividends whenever the directors may so elect. Whether or not the surplus should be shown in the balance sheet under these various headings, or all under the general head of surplus, with explanatory notes, is a question which need not concern us at this point.

35. Declaring a Cash Dividend. When a dividend is declared an account should be opened under the caption *Dividends Payable* or *Dividend No.* 1., etc. We will suppose that a dividend has been declared out of the profits of the business for the current year. The entry is:–

Profit and Loss
Dividends payable
Dividend of ——% declared
by the board of directors
——1909, payable ——1909.

When the dividend is paid the entry will be—

Dividends payable
Cash
To pay dividend payable
——1909.

36. Declaring a Stock Dividend. Not all dividends are paid or payable in cash. Sometimes the directors declare a dividend payable in stock and this is known as a stock dividend. There may be treasury stock in possession of the treasurer, and if the books show a surplus, which would make it proper to declare a cash dividend, a dividend may be declared payable in treasury stock. When such a dividend is declared the entry is—

Profit and Loss
Stock dividend
A dividend of —% declared
by the board of directors
——1909 payable ——1909,
payment to be made in
treasury stock
Stock dividend
Treasury stock
To pay stock dividend
declared ——1909.

The shares are then transferred on the stock books debiting treasury stock and crediting stockholders.

It is not absolutely necessary that a company possess treasury stock to declare a stock dividend. When current profits are large or a surplus, larger than the requirements of the business demand, has been accumulated, a stock dividend may be declared by issuing additional shares, provided the original stock has not all been subscribed for.

If a large surplus has been accumulated and a part of the stock is unsubscribed, a stock dividend would require the following entries:

Surplus
    Stock dividend
A stock dividend of —%
declared by the directors ——1909
payable in the unissued
stock of this company.

Subscriptions
    Capital stock
Additional stock subscriptions
received from the following.

Stock dividends
    Subscriptions
Stock dividend due stockholders
used to off-set subscriptions.

The stock dividend is a device frequently used to conceal actual profits, or to cover up the fact that dividends are being declared in excess of a fixed rate. This is especially true of such public service corporations as lighting companies or street railways. In many cases a company will go through the necessary formalities to increase its capital stock for the purpose of absorbing surplus by means of a stock dividend.

37. Treatment of a Loss. If, during any year, the business has sustained a loss, it will, of course, appear as a balance on the debit side of profit and loss account. This will then be transferred to the debit of undivided profits or surplus, if any, remaining from previous years. For illustration, suppose the books show a surplus of $5,000.00, undivided profits $500.00, loss for the current year $2,500.00, the entry will be:–

Undivided profits	$ 500.00	
Surplus	2,000.00	
Profit and loss		$2,500.00
Loss for the year.		

If there is no surplus remaining from former years, the business is insolvent, in which case the capital is said to be impaired. This can be taken care of in either of two ways. First—by the stockholders subscribing to a fund to cover the deficiency. Second—by a reduction of the capital stock.

EXERCISES

1. David Francis and Henry Harmon own a large tract of timber land in Mexico. In connection with F. B. Walker—a promoter—they organize a corporation to build railways and mills for the purpose of developing the property and to market the timber. The company was capitalized for $1,000,000.00. The land was sold to the corporation for $800,000.00, stock to that amount being issued to Francis and Harmon. Francis and Harmon each received $400,000.00 and $200,000.00 of the capital stock was issued to Walker as his fee for promoting the company. Francis and Harmon each donate 250 shares, of the par value of $100.00 each, to the treasury to be sold to produce working capital.

2. The profits of a manufacturing company with a paid up capital of $100,000.00, are $9,765.00. The directors, by proper resolution, declare a cash dividend of 6 per cent, set aside a surplus of $3,000.00, and transfer the balance to undivided profits.

Make all necessary entries in general books, showing ledger accounts after payment of dividends.

3. The following year's business of the above company showed a loss of $2,160.00. How is this loss disposed of? Make entries.

4. A company capitalized at $250,000.00 has sold $100,000.00 of its stock, the balance being unsubscribed. Its accumulated surplus is $90,000.00, and the directors declare a stock dividend of 50 per cent to all stockholders. Make all entries.

5. A manufacturing company has a capital stock of $100,000.00. One item in its assets is machinery $26,750.00. The profits for the year are $11,640.00. The directors provide for a reserve for depreciation of machinery of 10% and declare a dividend of 5%.

Make all entries.

CHANGING BOOKS FROM A PARTNERSHIP TO A CORPORATION

38. Wilson, Brackett, and Nixon have been conducting a retail clothing business under a partnership agreement. Appreciating the advantages of a corporate form of organization, they decide to incorporate under the name of the Continental Clothing Company.

The first step necessary to prepare for the incorporation of a partnership is to ascertain the net capital of the business as it stands. Accordingly, an inventory is taken, the books are closed, and a balance sheet prepared with the following results:

Balance Sheet of Wilson, Brackett, and Nixon

Assets			
Cash		$ 1,650.72	
Bills receivable	$ 1,725.00		
Accounts receivable	3,264.18	4,989.18	
Merchandise inventory	10,450.00		
Furniture and fixtures	4,000.00	14,450.00	$21,089.90
Liabilities			
Bills payable	3,000.00		
Accounts payable	2,089.90	5,089.90	
Wilson, capital account	7,000.00		
Brackett, capital account	5,000.00		
Nixon, capital account	4,000.00	16,000.00	21,089.90

From this balance sheet it is seen that the net capital is $16,000.00, of which Wilson owns $7,000.00, Brackett, $5,000.00, and Nixon, $4,000.00. On this showing, it is decided to form the company with a capital stock of $20,000.00, all of which is to be issued as full paid stock to the partners in proportion to their interests in the partnership.

New books are opened for the corporation and the next step is to transfer the accounts of the partnership to the corporation. An account is opened in the partnership ledger with the Continental Clothing Company and the following entry is made:

Continental Clothing Co.	$21,089.90	
Cash		$ 1,650.72
Bills receivable		1,725.00

Accounts receivable	$ 3,264.18
Merchandise inventory	10,450.00
Furniture and fixtures	4,000.00

The above entry closes all of the asset accounts and shows that they have been transferred to the new company.

The next entry is:

Bills payable	$ 3,000.00	
Accounts payable	2,089.90	
Wilson	7,000.00	
Brackett	5,000.00	
Nixon	4,000.00	
Continental Clothing Co.		$21,089.90

The above entry closes the liability and partners' accounts showing that they have been transferred to the new company and also closes the account of the Continental Clothing Co.

39. Entries on the Corporation Books. We are now ready to open the books of the new company. Subscription books are opened and the following subscriptions are received:

Wilson	8,750.00
Brackett	6,250.00
Nixon	5,000.00

The net assets of the partnership are $4,000.00 less than the capital stock of the new company. No money is to be invested to cover this discrepancy, so it will be necessary to account for it on the books by opening a fictitious asset account under some such name as *goodwill*. Having made this provision, the books of the new company are opened by the following entries:

Subscriptions	20,000.00	
Capital stock		20,000.00
Subscriptions received as per subscription books.		

Cash	1,650.72
Bills receivable	1,725.00
Accounts receivable	3,264.18
Merchandise inventory	10,450.00
Furniture and fixtures	4,000.00
Goodwill	4,000.00

Bills payable	$ 3,000.00
Accounts payable	2,089.90
Subscriptions	20,000.00

The business and good will of the firm of Wilson, Brackett, and Nixon transferred to this company in payment of subscriptions to capital stock.

These entries serve to get the capital stock, also the assets and liabilities of the partnership properly recorded on the books of the new company.

STOCK DONATED TO EMPLOYES

40. A partnership composed of Benson, Black, and Mabley is conducting a retail hardware business. They desire to give their bookkeeper (Parker) an interest in the business. The firm has the following assets and liabilities:

	Assets	
Cash	$ 3,000.00	
Accounts receivable	2,000.00	
Merchandise	15,000.00	
Total assets		$20,000.00
	Liabilities	
Accounts payable	2,000.00	
Benson capital	6,000.00	
Black capital	6,000.00	
Mabley capital	6,000.00	
Total liabilities		20,000.00

They incorporate the Benson Company with a capitalization of $40,000.00 divided into 400 shares of $100.00 each. Benson, Black, and Mabley each subscribe for 100 shares, and 20 shares are presented to Parker. The balance of the stock is to remain unsubscribed until such time as it is decided to accept further subscriptions. The business of the partnership is to be accepted by the company in payment of subscriptions which have been made, and which are for 320 shares or $32,000.00. The net assets of the partnership being $18,000.00, goodwill must represent the balance of $14,000.00.

The entries on the books of the partnership follow—

The Benson Co.	$20,000.00	
Cash		$ 3,000.00
Accounts receivable		2,000.00
Merchandise inv.		15,000.00

Accounts payable	2,000.00	
Benson	6,000.00	
Black	6,000.00	
Mabley	6,000.00	
The Benson Co.		20,000.00

41. On Books of the Benson Co. The entries on the books of the new company are the same as in previous illustrations, the stock donated to Parker having been a gift from the partnership and the amount included in the goodwill.

Subscriptions	32,000.00	
Capital stock		32,000.00

Cash	3,000.00	
Accounts receivable	2,000.00	
Merchandise inventory	15,000.00	
Goodwill	14,000.00	
Accounts payable		2,000.00
Subscriptions		32,000.00

42. When the Gift is Made by an Existing Corporation. We will suppose that the Benson Co. wishes to donate 10 shares of stock to each of three employes, *A*, *B*, and *C*. Having 80 shares unsubscribed, the donation will be made from that stock. Supposing that the company has accumulated a surplus, the transaction will be entered on the books as follows:

Subscriptions	3,000.00	
Capital stock		3,000.00
Subscriptions of *A*, *B*, & *C* per subscription book.		

Surplus	3,000.00	
Subscription		3,000.00
Surplus appropriated to subscriptions per resolution of the board of directors Jan. 25th, 1909.		

The above would be a rather unusual proceeding as the stock is fully paid, though such gifts are sometimes made. The tendency of the present times is toward profit sharing for the employes of corporations. The plan of profit sharing takes many forms, and there are some notable examples among very large corporations which have given employes stock in the corporation, or afforded them an opportunity to acquire stock on very favorable terms.

Among smaller corporations it is quite common to enable employes to acquire its stock subject to certain special conditions. Frequently employes are permitted to subscribe for stock with an agreement that they are to pay no money, but that dividends declared are to be applied to the payment of subscriptions. In this way the stock is made to pay for itself out of its own earnings. Sometimes provision is made for the payment of small annual installments on the subscriptions in addition to applying the dividends. When stock is issued to employes under these conditions, the contract sometimes specifies that in the event of the subscriber leaving its employ before the subscription is paid in full, the ownership of the stock shall revert to the company, and in such cases the stock, until it becomes full paid, is usually placed in the hands of a trustee. The principal object in issuing stock to an employe and surrounding the transaction with these restrictions is, of course, to insure his continuous service by making it an object to him to remain in the employ of the company.

When stock is so issued, the entry is—

Subscriptions
    Capital stock
Subscriptions to stock
by employes, said stock
to be issued subject to the
conditions named in the resolution authorizing its issue,
passed by the board of
directors January 25th, 1909.

The subscription account is left open until such time as it is closed by the payments credited. When a dividend is declared the entries are—

Surplus
    Dividends payable
Being a dividend of ——%
declared by the board of
directors on———1909
payable ————1909.

Dividends payable
    Subscriptions
Dividend applied to the
payment of subscriptions.

Another provision sometimes met with in the issue of stock to an employe is that in lieu of an increase in salary he shall receive, at the end of the year, a certain amount in stock. He is then permitted to subscribe for a stated amount of stock and to apply the bonus, or added salary, as a payment. The bonus is usually a stated per cent of sales or of net profits. When such a contingency arises the entry is—

Salaries
    John Jones
—% of sales as
per agreement.
John Jones
    Subscriptions
Amt. due applied in
payment of stock subscription.

If he has no account, on the books the transaction may be recorded by one entry—

Salaries	$1,500.00	
Subscriptions		$1,500.00

WHEN STOCK SUBSCRIPTIONS ARE NEVER FULLY PAID

43. Corporations are sometimes organized with all capital stock subscribed but only paid for in part, and the balance of subscriptions never called for. T. C. Harris, John Alfred, and M. B. Hatch organize a company to conduct the business of buying, selling, and renting automobiles with a capital stock of $15,000.00, each subscribing for $5,000.00. A cash payment of 25% is made on the stock

and the balance is to be paid in when called for. The entries stand on the books as follows—

Subscriptions	$15,000.00	
Capital stock		$15,000.00
Cash	3,750.00	
Subscriptions		3,750.00

The business prospers to such an extent that the profits provide sufficient money and it is not likely that the stockholders will be called upon for further payments. It is decided to reduce the stock to $5,000.00 and to declare a dividend to make this stock full paid. The entries for these transactions follow:

Capital stock	10,000.00	
Subscriptions		10,000.00
Capital stock reduced in accordance with resolution of board of directors passed Jan. 27, 1909.		

Surplus	1,250.00	
Dividends payable		1,250.00
Dividend declared by board of directors Jan. 27, 1909, payable immediately.		

Dividends payable	1,250.00	
Subscriptions		1,250.00
Dividends applied to the payment of stock subscriptions.		

The original stock certificates are now surrendered and new ones issued in their place. In the stock ledger the stockholders are debited and capital stock credited for the shares surrendered. Then, capital stock is debited and stockholders credited for the new shares issued.

It might happen that a corporation wishes to reduce the capital stock held by stockholders without having it appear that capital stock has been reduced. This has been done by purchasing its stock and placing it in the treasury. Payment for the stock may be made in cash or notes, or it may be taken from surplus. The entries would be—

Treasury stock	10,000.00	
Cash		10,000.00

or		
Treasury stock	$10,000.00	
Bills payable		$10,000.00
or		
Treasury stock	10,000.00	
Surplus		10,000.00

If the capital stock is to be reduced on the books, capital stock will take the place of treasury stock in these entries as—

Capital stock	10,000.00	
Cash		10,000.00

EXERCISES

1. Parsons, Young, and Searles are partners and decide to form a corporation with capital stock of $40,000.00, which is to be issued as full paid stock in exchange for their present business. Each partner is to receive stock in proportion to his interest in the present business. The balance sheet of the partnership is as follows:

Assets

Cash	3,500.00	
Bills receivable	6,000.00	
Accounts receivable	6,500.00	
Merchandise	14,000.00	
Total		30,000.00

Liabilities

Bills payable	4,000.00	
Accounts payable	2,000.00	
Parsons	10,000.00	
Young	8,000.00	
Searles	6,000.00	
Total		30,000.00

Make entries on books of the partnership.

Make entries on books of the corporation.

2. Hoadley and Stockton are partners and desire to incorporate a company with a capital of $10,000.00 to take over their business. It being necessary to have three incorporators they agree to give Hopper, an employee, 10 shares—$1,000.00—of the stock of the new company. The stock is to be divided equally between Hoadley and

Stockton after giving Hopper $1,000.00. The balance sheet of the partnership is as follows:

Assets		
Cash	$ 960.00	
Accounts receivable	1,570.00	
Merchandise	720.00	
Total		$3,250.00
Liabilities		
Accounts payable	460.00	
Bills payable	500.00	
Hoadley	1,145.00	
Stockton	1,145.00	
Total		3,250.00

Make all necessary entries on the books of the partnership.

Make open entries on the books of the new company.

3. The National Manufacturing Co., has an authorized capital of $100,000.00 of which $60,000.00 is paid up and $40,000.00 unsubscribed. It is decided to permit employes to subscribe for $10,000.00 of the stock by paying 10 per cent in cash, all dividends declared to be applied to the payment of subscriptions.

What entries are made when this stock is subscribed for?

A 10 per cent dividend being declared at the end of the first year what entry is required?

4. The Atlas Novelty Co. has a capital stock of $50,000.00. All of the stock has been subscribed for, but only 40 per cent has been paid. A surplus of $10,000.00 has been accumulated. It is desired to reduce the stock to $25,000.00 full paid. What is the necessary proceeding, and what entries are required?

5. A company has a capital stock of $50,000.00 full paid, and a surplus of $11,172.00. A stockholder who owns $7,000.00 stock in the company wishes to dispose of his stock and, to secure cash, offers to sell it to the company at par. His offer is accepted and the stock purchased, but the company does not wish to reduce its capitalization. What is the entry?

RESERVES AND THEIR TREATMENT

44. A reserve is an amount retained from current earnings to meet a future contingency. According to a prominent authority whose recent discussions of this subject have attracted attention, *a reserve is an expression of the judgment of the accountant as to what amount will be necessary to meet a contingency.* Reserves are created for many purposes, among which the following are good examples.

Reserves for bad debts. An amount—usually a stated per cent of accounts receivable—annually set aside to cover losses from uncollectable accounts.

Reserves for Replacement. The plant—buildings and machinery—will wear out, no matter how substantially built. A charge is made against current earnings to create a reserve which will provide for a renewal of the plant, or any part of it, when worn out. Separate reserves are usually maintained for buildings and machinery.

Reserves for Patents, Franchise, Goodwill and similar fictitious assets. An annual charge of an amount sufficient to extinguish the value at which the fictitious asset has been placed on the books.

Reserves for permanent improvements on leased property. Permanent buildings, title to which will revert to the lessor at the expiration of the lease, are sometimes erected on leased property. A reserve is created to absorb the cost of such improvements during the life of the lease.

Reserves for buildings in hazardous undertakings. In certain lines of business, manufacturing plants are erected with the expectation of having a permanent supply of raw material. If the supply gives out, the plant may be valueless for other purposes. Examples are oil wells and mines. A reserve is created to absorb the cost.

The reserve is coming into more general use every year, especially by corporations, whose managers see the necessity of providing for these contingencies. When a machine wears out it must be replaced. If no reserve has been created, the money for its replacement must come from current earnings, or be provided by borrowing money or increasing capital. The better plan is to make provision in advance by creating a reserve.

The amount of the reserve should be the value of the asset, and the sum set aside annually should be sufficient to equal the value of the asset at the end of its estimated life. To illustrate, if a machine is estimated to last 10 years, the annual reserve for depreciation should be 10% of its cost. The reserve is carried on the books as a liability and is an off-set to the asset which it is to replace. If we were to prepare a statement of the value of machinery as shown by the books we would state it in this form—

Machinery	\$20,000	
Less reserve for depreciation	2,000	
		\$18,000

This shows the exact amount at which this asset is valued. Taking the illustration referred to—at the end of 10 years the liability *reserve for depreciation* will equal the asset *machinery,* and the funds which have been reserved from profits during the past 10 years will be available for the purchase of new machinery.

45. Reserves and Reserve Funds. A *reserve* is any portion of profits withheld from distribution. In this sense, the assets offset in the ledger accounts by a credit to surplus is a reserve. But the term is usually applied to an "ear-marked" surplus; that is, to a portion of profits reserved or set apart to meet a particular contingency or to provide for certain unusual expenditures, as, for example, to cover the cost of a new building.

A *reserve fund* consists of specific assets, usually cash, set aside and deposited with a bank or other trustee, through whom a cash fund may be invested in interest bearing but quick securities for purposes of having cash available for meeting anticipated needs.

46. Sinking Funds. A sinking fund is an amount set aside out of profits to meet an anticipated liability, or an obligation which is to fall due at some future date. Sinking funds are set aside for such purposes as the payment of bonds at maturity, mortgages, etc. The sinking fund is the amount which, invested at compound interest, will produce the desired amount at the end of the period.

A sinking fund is an asset and may or may not be withdrawn from the business. Frequently a sinking fund is invested in securities, such as government bonds, which are placed in the hands of a trustee, thus insuring against the withdrawal of the funds from actual use in the business.

Unlike a reserve, a sinking fund has no effect on the apparent profits of the period in which it is created. It does, however, tie up or render unavailable for dividends a certain part of those profits.

Whether or not it is carried on the books in a separate account, a sinking fund is a part of the assets of a business.

47. Computing Sinking Funds. The amount necessary to set aside at the end of the year to provide a given sum in a stipulated number of years at a stated rate of interest, compounded annually, may be found as follows:

Divide the interest for one year upon the sum to be accumulated by the compound interest upon $1.00 for the stipulated time. The result will be the amount necessary to invest at the end of each year.

If the amount is to be invested at the beginning of the year, divide the result obtained as above by the amount of $1.00 for one year.

Example. To provide for payment of $50,000.00 at the end of 15 years, what amount must be put into a sinking fund at the end of each year, if the fund is invested to earn 3% compound interest? Interest on $50,000.00 for 1 year at 3 % is $1,500.00. Compound interest on $1.00 for 15 years at 3% is .55797. Dividing $1,500.00 by .55797 gives $2,688.32, the amount necessary to put into the fund annually. If this amount is to be invested at the beginning of each year, divide the above result ($2,688.32) by $1.03 (the amount of $1.00 for one year at 3%) and we obtain $2,610.02 the amount needed.

BONDS

48. In the sense here used a *bond* is the written obligation of a corporation to pay a certain amount at a specified future date. Bonds are usually secured by a mortgage on all or a part of the property of the corporation.

A bond issue is a favorite method of borrowing money with corporations. Bonds can be issued in any denomination, and by reason of this a loan can be distributed among a large number of investors. Being secured by mortgage on the company's property the bonds of a corporation are very frequently more desirable investments than its stocks. Interest on bonds must be paid before dividends can be declared.

Bonds can only be issued with the consent of the holders of a certain per cent of the stock.

49. *Classes of Bonds.* The bonds of corporations are of several classes, as follows:

A first mortgage bond is one secured by first mortgage on the company's property.

A second mortgage bond is one secured by second mortgage. Interest cannot be paid on second mortgage bonds until it has been paid on the first mortgage bonds.

General mortgage bonds are those secured by a general mortgage on all of the company's property.

Collateral bonds are secured by the deposit of collateral security.

A debenture is a bond with no other security than the good name of the company.

Refunding bonds are those issued in place of maturing bonds which the company does not wish to pay in cash.

Equipment bonds are those secured by the rolling stock of a railway, and are also known as car trust certificates.

A gold bond is any form of bond, the terms of which specify that it shall be paid in gold.

Registered bonds are those, the names of the owners of which must be registered on the books of the company. Ownership of a registered bond can be transferred only on the books of the company.

50. Bond Liability. When bonds are issued by a corporation, either public or private, an account is opened under some such caption as *bond issue* or *bonds payable.* As fast as bonds are sold the proceeds are credited to this account, which represents a liability. A new account should be opened for each issue of bonds.

The bonds of a given issue will all bear the same date, with interest payable from that date. We will suppose that a corporation issues its bonds for $100,000.00 in denominations of $1,000.00 each. These bonds are dated Feb. 1st, and bear interest at 5 per cent payable annually. They are payable at the end of 10 years from date. The company agrees to maintain a sinking fund of an amount sufficient to pay the bonds at maturity if invested in securities drawing 4 per cent interest, and to invest the fund in such securities which are to be placed in the hands of a trustee.

During the first year bonds are sold in the amounts and under the conditions which follow:

First. On the date of issue $10,000.00 of these bonds are sold at par.

Second. At the end of three months $10,000.00 of the bonds are sold at 101 and accrued interest, yielding $10,225.00 of which $10,000.00 is principal, $100.00 premium, and $125.00 interest.

Third. The next sale is $10,000.00 of the bonds at 98, interest accrued $250.00, yielding $10,050.00 made up of principal $10,000.00, less discount $200.00, and interest $250.00.

1

Bond Issue

					Feb.	1			10000 00
					May	1			10000 00
					Aug	1			10000 00

2

Premium on Bonds

					May	1			100 00

3

Interest on Bonds

Jan.	31			1500 00	May	1			125 00
					Aug.	1			250 00

4

Expense of Bond Issue

Aug.	1			200 00					

5

Sinking Fund

Jan.	31			2498 75					

Ledger Accounts of a Bond Issue

360

51. Premium on Bonds. When bonds are sold at a price above par, the premium should be credited to a *premium on bonds* account. When sold below par, the discount may be charged to the same account.

52. Interest on Bonds. The interest paid on bonds may be charged to an *interest on bonds* account, which keeps it separate from the regular interest account. When bonds are sold with accrued interest, which is paid by the purchaser, the accrued interest is credited to interest on bonds.

53. Expense of Bond Issue. All expenses incurred in the issue and sale of bonds should be charged to *expense of bond issue* account. The account can be closed into profit and loss immediately, or it is proper to spread it over the life of the bonds, charging off the proper amount each year. It is also considered proper to charge discount on bonds to this account.

54. Continuing the example in Art. 50, we find that the amount of bonds outstanding is $30,000.00, and a sinking fund must be established which will equal this amount when the bonds mature. Following the rule in Art. 47, we divide the interest on $30,000.00 for one year at 4 per cent ($1,200.00) by the compound interest on $1.00 for 10 years at 4 = (.48024) obtaining as a result $2,498.75, the amount necessary to be invested at the end of each year This amount must be provided each year for permanent investment to meet the principal and an additional $1,500.00 must be provided each year for interest.

The entries which follow are the ones necessary to record the sales shown in Art. 50.

— Feb. 1 —

Cash	$10,000.00	
Bond issue		$10,000.00

— May 1 —

Cash	10,225.00	
Bond issue		10,000.00
Premium on bonds		100.00
Interest on bonds		125.00

— Aug. 1 —

Cash	$10,050.00	
Expense of bond issue (discount)	200.00	
Bond issue		$10,000.00
Interest on bonds		250.00

At the end of the year when the interest is paid and the first installment of the sinking fund is set aside, these entries are made:

— January 31 —

Interest on bonds	1,500.00	
Cash		1,500.00
Sinking fund	2,498.75	
Cash		2,498.75

The illustrations (page 46) show the status of all of these ledger accounts at the end of the year.

MANUFACTURING AND COST ACCOUNTS

55. Manufacturing began in this country many years ago and was for a long time confined to the eastern and New England states. Encouraged and fostered by national, state, and local governments, and by discoveries of sources of supplies, it has extended to all parts of the country. Manufacturing has grown to proportions which place it at the very head of our industries, if we except agriculture, the growth of which has been largely influenced by the progress in manufactures. One result is that the business of manufacturing has perhaps more than any other, attracted capital from great numbers of investors, large and small. Owing to its very nature, manufacturing readily lends itself to the corporate form of organization, and it is for manufacturing that a very great number of corporations have been formed. Manufacturing has, therefore, been selected for a more complete exposition of corporation accounting.

The accounts of a manufacturing business are to a certain extent peculiar to itself. Regardless of the nature of the product, there are certain underlying principles which should govern the devising of a system of accounts for a manufacturing business. Perhaps the most important feature to be kept in mind is to so arrange the system that the cost of manufacturing the goods will be shown.

Correct cost accounting methods are of greater importance to the manufacturer than the method of keeping accounts with his customers. He cannot afford to wait until the end of the year for results; he must know what his goods cost him if he is to intelligently make selling prices. There are so many opportunities for fluctuations in manufacturing costs that the accounts must at least show approximate results at all times.

Cost accounting is a profession in itself, and it is not our purpose to discuss, in this paper, all of the details of collecting data in the factory and shop. The purpose of this paper is to show the accounts with which a bookkeeper for a manufacturing business should become familiar. Even when a manufacturer does not maintain a complete cost accounting system the bookkeeper can produce some valuable statistics by a proper arrangement of the accounts.

ACCOUNTS USED

56. For the purpose of illustration we have selected a representative schedule of the accounts of a manufacturing business. The following accounts are those which have a direct bearing on the manufacturing branch of a business and do not include the administrative and selling branches.

FACTORY ASSETS

1. *Real Estate.* Includes the cost of land and factory buildings.

2. *Machinery.* Charged with the cost of all machinery including total cost of installation. Freight, cartage, and cost of erecting the machine ready for use should be included.

3. *Patterns and Tools.* Charged through cash and purchase book for all patterns and tools purchased. Charged through cash book and journal—with proper credit to material and labor accounts—if manufactured in the factory.

4. *Material Purchases.* Charged through purchase and cash books for all purchases of material that enters into the product. Cost includes charges for delivery. Credited for all material used in the factory. This may be subdivided into several accounts to represent the different classes of material used—as iron, steel, lumber, leather, hardware, etc.

5. *Supplies Purchases.* Charged through purchase and cash books for all purchases of factory supplies, like oil, waste, belt lacing, and similar items. Credited for all supplies used in the factory.

6. *Finished Goods.* Charged for all goods finished, usually at cost of manufacture. Sometimes a small factory profit is added. This account represents a purchase account to the commercial department, as it represents the cost of goods to them.

FACTORY EXPENSES

7. *Salaries.* Charged for salaries of superintendent, assistant superintendent, and factory clerks.

8. *Labor.* Charged through cash and pay roll books for the amount of all factory pay-rolls.

9. *Experimental.* Charged through cash and pay-roll books and journal for all labor and material used in experimental work carried on for the purpose of improving the product.

10. *General Factory Expense.* Charged through cash and purchase books for cost of miscellaneous factory expense items not otherwise accounted for.

11. *Power, Heat, and Light.* Charged for fuel, oils, water, wages of engineer and firemen, electricity (when purchased), and all other items entering into their cost.

12. *Building Maintenance and Repairs.* Charged through cash and purchase books for materials purchased specially for repairs to buildings. Charged through journal and pay-roll book for labor and materials or supplies consumed in maintenance and repairs to buildings.

13. *Repairs to Machinery.* Treated the same as No. 12.

14. *Repairs to Patterns and Tools.* Treated the same as No. 13.

15. *Insurance.* Charged through cash book for all premiums paid for insurance on buildings and contents.

16. *Taxes.* Charged for all state, county, and city taxes.

17. *Depreciation of Buildings.* An amount charged off each year to cover depreciation.

18. *Depreciation of Machinery.* Treated the same as No. 17. Depreciation based on estimated life of machine.

19. *Depreciation of Patterns and Tools.* Treated the same as No. 18.

SUMMARY ACCOUNTS

20. *Manufacturing Account.* Charged for cost of labor and material consumed in manufacture of goods; charged for proper proportion of all expense accounts; credited with cost of all finished goods. Balance represents cost of all goods in process.

COLLECTING COST STATISTICS

57. Routine Followed. The notes following the names of the accounts in the above schedule explain their purpose and show clearly how charges are made direct to the expense accounts. Further explanations are necessary in regard to charges and credits to manufacturing account.

Labor is easily disposed of as the amount standing to the debit of labor account at the end of the month is transferred to the debit of manufacturing account, closing labor account.

Material charges are more difficult to handle. In all well-regulated factories all material is as carefully accounted for as cash. Proper storage rooms are provided in which all material is stored. These rooms are placed in charge of a man known as stockkeeper or stores clerk, and no one is allowed to take material from the storerooms without first presenting a written order, signed by the foreman, showing for what purpose the material is to be used. This order is retained by the stockkeeper and after he has posted the material to his own records he sends it to the bookkeeper. From these orders, the bookkeeper compiles a record of material withdrawn and, at the end of the month, the amount is debited to manufacturing account and credited to material purchases.

The stockkeeper keeps a record of all material received and delivered and the balance of his accounts shows the quantities of the different materials which he should have in stock. His record should agree with the balance of material purchases account.

When a stockkeeper is not employed it is necessary to have reports from the factory. The bookkeeper should arrange to obtain daily reports from the foremen showing all materials taken into their departments which are to be used in the manufacture of the regular product. If any of this material is to be used for the manufacture of tools or patterns for use in the factory, or for repairs to tools, patterns, machinery, or buildings, it should be noted on the report with a statement of the exact purpose for which it is intended. From these reports, the bookkeeper will compile his material records which will be credited to material purchases, and charged to manufacturing account and the different repair accounts at the end of the month.

Supplies are handled the same as materials, except that where this is a small item it is sometimes treated as an expense account. Where a considerable value is involved it is preferable to consider it as a subdivision of the material account.

The expense accounts must be charged on a percentage basis for the reason that the amounts actually expended vary in different months, and an expense item paid in one month may cover that particular expense for an entire year. Such items are insurance premiums and taxes, paid once a year to cover twelve months. Other expense items like experimental, power, and repairs are difficult to determine for a single month. It is customary to base the charge for these items on the records for the previous year. The amount of such expenses for a year is divided by twelve and each month one twelfth of the amount is charged to the manufacturing account and credited to the expense account. If there is any discrepancy at the end of the year it is adjusted by a debit or credit to finished goods.

Reports should be made daily by all foremen showing exactly what partly finished goods are received in their department and the quantity delivered to the next department. A record of these reports should be kept, which will show at all times the quantity of goods in process in each department. Reports of finished goods received in the stock room will show the quantity manufactured, or rather finished, during the month. See report form illustrated on page 53.

If all goods on which work had been started were finished, the charges to manufacturing account would represent their exact cost, but there is always a certain quantity of goods in various stages of manufacture, and the amount already expended on them must be considered. Therefore an inventory is taken of goods in process. Great care must be exercised, in taking this inventory, that too high a value is not placed on partly finished goods, for if the valuation is too high the apparent cost of finished goods will be less than actual cost. It is of utmost importance that the cost of manufacture be not understated, for it is on this cost that selling prices will be based. This is one reason why some manufacturers add a small factory

DAILY REPORT

The following goods and materials have been received and delivered by this department.

DATE ____________

MATERIAL RECEIVED		
QUANTITY	ARTICLE	FOR

GOODS IN PROCESS RECEIVED		
QUANTITY	ARTICLE	FROM WHAT DEPARTMENT

GOODS DELIVERED		
QUANTITY	ARTICLE	TO WHOM DELIVERED

____
FOREMAN

Daily Report of Work in Process

profit. Unless a complete system of cost accounting is maintained, this inventory of goods in process must be an estimate, but the record of goods in process in each department will be of considerable assistance in making the estimate.

When the inventory is complete the amount should be deducted from the total debits to manufacturing account, which will show the cost of goods manufactured. This cost should then be credited to manufacturing account and charged to finished goods account. Manufacturing account will now show a debit balance representing cost of goods in process.

This method will produce very satisfactory results for factories in which but one line of goods is manufactured, but does not supply the information required where several styles, sizes, or lines are made. For one line of goods it is only necessary to divide the total cost by the quantity produced, as pounds, feet, dozen, or gross to find the cost of a single unit. In the more complicated business a detailed cost system would be required.

PAY-ROLL RECORDS

58. In connection with the labor account, the manner of keeping the pay-roll record is of considerable importance. Like most other forms of record, pay-roll books are made to suit the needs of the individual concern. For a manufacturing business a feature to be kept in mind is such an arrangement as will give the most complete record of the cost of labor in each separate department. Where men are never transferred from one department to another during a weekly or monthly pay-roll period, this result would be obtained by a simple grouping of the names by departments. In many manufacturing lines, however, workmen are frequently transferred so that to obtain costs for departments it is necessary to provide special forms for distribution.

But why go to the trouble of distributing the pay-roll by departments? That we may more closely watch expenses and costs. The reports which the bookkeeper receives from foremen show quantities of goods passing through each department. If the pay-roll is sectionalized it will enable the bookkeeper to determine the labor cost per unit of goods manufactured in each department. A comparison of these costs from month to month will be of value in showing changes

PAY ROLL

WEEK ENDING __________ 19____

NUMBER	NAME	TIME											DISTRIBUTION			
			S	M	T	W	T	F	S	TOTAL	RATE	AMOUNT	DEPT. A	DEPT. B	DEPT. C	DEPT. D
		HRS. P.W.														
		HRS. PW.														
		HRS. PW.														
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		HRS PW														
		HRS. PW.														
		HRS PW.														
		HRS. PW.														
	TOTALS,															

Pay-roll Register for Time and Piece Work in cost. The form illustrated provides for a business having four departments and paying employes both on piece work and day wage plans.

EXPENSE INVENTORY

59. When the books are closed, it usually happens that certain expense accounts show expenditures for items of expense that are not accrued. Illustrations are insurance and taxes paid yearly in advance. Suppose insurance premiums to the amount of $150.00 are paid on April 1st to cover insurance for one year. If the books are closed July 1st, 9/12 of this amount will have been paid for insurance that we have not received—the premium has not been earned. The inventory will also show unused material which has been charged to such expense accounts as repairs. It is proper to take an inventory of these amounts, treating them as assets in the balance sheet.

To properly record all such unearned expenses and make the books agree with the balance sheet, an account should be opened under the title of *Expense Inventory*, to which these items will be charged, with corresponding credits to the proper expense accounts. After the books have been closed, these items will be charged to the expense accounts, and credited to expense inventory, closing the latter account.

EXPENSE LIABILITY

60. Certain expenses will have accrued which have not been paid. Such an item is interest on bills payable, bonds, or mortgages, or taxes due and unpaid. These items should be treated as liabilities in the balance sheet. An account called *Expense Accrued* should be opened and credited with these items, with corresponding debits to expense accounts. When the books have been closed, this account is closed by crediting the items to the expense accounts from which they were received.

BALANCE LEDGER

61. A form of ledger now in quite common use is known as the *balance ledger*. The form differs from the standard ledger form in being provided with an extra column in the center in which balances are extended. If the bookkeeper when posting, extends the balance after each item is posted, much time is saved in looking up accounts and in taking trial balances. The nature of the account will usually indicate whether there is a debit or credit balance. Accounts in the sales ledger will usually show a debit balance, while one in the purchase ledger will have a credit balance. If the balance is the opposite from what is to be expected it may be indicated by placing the letter *D* in front of the amount in the balance column for debits, or the letter *C* after the amount for credits.

DATE		FOLIO	DR.	BALANCE	CR.	FOLIO		DATE

Center-Ruled Balance Ledger

SAMPLE TRANSACTIONS

62. The following transactions exhibit the accounts which are special to a manufacturing business without including the commercial accounts which record sales. The manner of keeping those accounts is the same for a manufacturing business as for any other.

Being a business conducted by a corporation these accounts include the stock accounts usually kept in the general books. The auxiliary stock books are omitted, it being felt that the special illustrations of such books will have been sufficient to give the student a thorough understanding of their uses.

The books required in the manufacturing business, omitting sales accounts, are *invoice register* or *purchase book*, *cash book*, *journal*, *pay-roll distribution book*, *purchase ledger*, and *general ledger*.

A corporation known as the Atlas Manufacturing Co., is organized with an authorized capitalization of $100,000.00, with the provision that business is to begin when $50,000.00 of the stock has been subscribed, and $25,000.00 paid in. The incorporators are Henry Biddle, John Noonan, David Snow, Henry Farwell, and George Dunn. Each incorporator subscribes for $10,000.00 stock payable one-half down and one-half in 30 days. The detailed record follows:

— March 1 —

Received subscriptions to the capital stock, payable one-half down, and one-half in 30 days, from the following. Stock is to be issued when paid in full.	
Henry Biddle	$10,000.00
John Noonan	10,000.00
David Snow	10,000.00
Henry Farwell	10,000.00
George Dunn	10,000.00
Received cash in payment of subscriptions from the following:	
Henry Biddle	5,000.00
John Noonan	5,000.00
David Snow	5,000.00
George Dunn	5,000.00
Received from	
Henry Farwell	
His note at 30 days with 6% interest in payment of installment on his subscription	5,000.00

Deposited cash in Second National Bank	20,000.00

— 2 —

Received from	
Derby Desk Co.	
Invoice #1, terms N/30	
Charge to office fixtures	350.00

— 3 —

Leased for two years from Jacob Newman a factory building at an annual rental of $1,800.00, payable quarterly in advance. Gave him check No. 1 for 3 months' rent.

— 4 —

The following invoices are entered—
Meyers Engine Co.
Invoice No. 2, terms N/30
Charge to machinery $1,500.00

— 4 —

Patton Machine Co.
Invoice No. 3, terms N/30
Charge to machinery 3,500.00

— 4 —

Danforth & Co.
Invoice No. 4, terms 2/10, N/30
Charge to material. 960.00

— 5 —

The following invoices are entered—
Franklin Printing Co.
Invoice No. 5, terms 2/10, N/30
Charge to office supplies 165.40

— 5 —

Slade Oil Co.
Invoice No. 6, terms 3/10, N/30
Charge to supplies 54.25

— 6 —

Norwich Machine Co.
Invoice No. 7, terms N/30
Charge to machinery 8,500.00

— 6 —

Paid freight by check No. 2 to
T. Fogarty, Agt.

Machinery	$216.20	
Materials	11.60	227.80

— 8 —

Francis & Co.
Invoice No. 8, terms 3/10, N/30
Charge to materials 640.00

— 9 —		
Stevens & Co.		
Invoice No. 9, terms 3/10, N/30		
Charge material		$225.00
— 9 —		
Gave Danforth & Co.		
Check No. 3		
To pay bill of March 2	$ 960.00	
Less 2%	19.20	940.80
— 10 —		
Lackawana Coal Co.		
Invoice No. 10, terms N/30		
Charge power, heat, & light		185.00
— 11 —		
Gave Frankling Printing Co.		
Check No. 4.		
To pay bill of March 4	165.40	
Less 2%	3.31	162.09
— 12 —		
Danforth & Co.		
Invoice No. 11, terms 2/10, N/30		
Charge material		315.00
— 13 —		
Drew check No. 5.		
for 2 weeks' pay-roll		220.50
Charge machinery	178.50	
for cost of installing		
Building maintenance	42.00	
for repairs to building		
per pay-roll distribution		
— 15 —		
Gave Derby Desk Co.		
Check No. 6		
To pay bill of March 1		350.00

— 15 —		
Gave Slade Oil Co.		
Check No. 7		
To pay bill of March 5	$ 54.25	
Less 3%	1.63	$ 52.62
— 17 —		
Gave Francis & Co.		
Check No. 8		
To pay bill of March 7	640.00	
Less 3%	19.20	620.80
— 18 —		
Gave Stevens & Co.		
Check No. 9		
To pay bill of March 8	225.00	
Less 3%	6.75	218.25
— 19 —		
Eureka Tool Co.		
Invoice No. 12, terms N/30		
Charge tools		250.00
— 20 —		
Check No. 10		
for 1 week's pay-roll		
Charge labor	326.25	
Charge tools	27.50	353.75
(Making tools for shop per pay-roll distribution)		
— 22 —		
Received from Danforth & Co.		
Credit memo.		63.00
for damaged goods in lot covered by invoice dated 3/12		
Credit material		
Gave them check No. 11		
For acct.	252.00	
Less 2%	5.04	246.96

— 27 —

Check No. 12 for 1 week's pay-roll Charge labor per pay-roll distribution		$ 342.70

— 30 —

Gave Norwich Machine Co.		
Note of Henry Farwell	$5,000.00	
Accrued interest	25.00	5,025.00
Gave them check No. 13 to pay their account		3,475.00

— 31 —

Salaries check No. 14 for salaries of Supt. & Clerks		350.00

63. **Manufacturing Data.** The following data has been collected by the bookkeeper from the reports of superintendent and foremen, and from the inventories taken at the end of the month.

Material issued to factory		1,003.35
Material used for building repairs		50.00
Inventories		
Supplies		45.00
Rent (unexpired)		300.00
Power, heat, and light (Coal)		150.00
Office supplies		140.40
Goods in process—material	602.00	
Labor	400.00	1,002.00

We will now close the ledger to ascertain manufacturing results for the month, by making the following adjusting entries in the journal—

Debit Manufacturing Account
for material issued to factory.
Debit Building Maintenance and Repairs
for material used in repairs.
Credit Material Purchases
for both of the above.

Debit Manufacturing Account
for Labor Account
for Supplies used—found by deducting inventory from supplies purchases.
for Salaries Account
for Rent one month
for Power, Heat, and Light—found as above
for Building Repairs
for Office Supplies—found as above
Credit accounts representing above
for amounts charged.

The manufacturing account will now show, on the debit side the total manufacturing expense for the month. The next step is to find the cost of finished goods to be credited to manufacturing account and charged to finished goods account. Our inventory of goods in process, which includes material and labor only, amounts to \$1,002.00. The labor account and reports from foremen show that the amount of these items used in the factory is \$1,672.30. In round numbers, the former is 60% of the latter, that is, sixty per cent of the work started is still in process. We will assume, therefore, that this is a fair percentage to be used in determining the expense items invested in goods in process. Taking 60% of the total manufacturing expense gives \$1,400.13, which, deducted from the total, leaves \$933.42 as the cost of finished goods.

In this case the per cent of goods in process is large for the reason that it is the first month of operation. The results in succeeding months will be more nearly equal. If the factory is running regularly, turning out practically the same quantities each month, the quantity of finished goods will just about equal the work started in any one month.

Should we wish to show a factory profit of 10%, it will be necessary to add 10% to the cost of finished goods which will then represent the cost to be used by the sales end of the business. Since we have no account to which this amount can properly be credited, we will open a new account called *contingent profits,* which will be closed into profit and loss at the end of the year.

Since we are not closing the books for the purpose of making a balance sheet, we do not close the expense accounts into an expense inventory account as explained in article 59. Instead, the balances are allowed to stand until such time as the books are finally closed.

NO.	DATE	NAMES	L.F.	INV. DATE	TERMS	AMOUNT	MATERIAL	SUPPLIES	SALARIES	LABOR	POWER HEAT & LIGHT	BLDG. MNT'NCE & REPAIRS	MACH'Y REPAIRS
1	Mar 2	Derby Desk Co	1	Mar 1	2/10 n/30	360 00							
2	4	Meyer Engine Co	2	3	n/30	1900 00							
3	4	Patton Machine Co	3	2	n/30	3500 00							
4	4	Danforth & Co	4	2	2/10 n/30	960 00	960 00						
5	5	Franklin Print Co	5	4	2/10 n/30	165 40							
6	5	Slade Oil Co	6	5	3/10 n/30	54 25		54 25					
7	6	Norwich Machine Co	7	4	n/30	8500 00							
8	8	Francis & Co.	8	7	3/10 n/30	640 00	640 00						
9	9	Stevens & Co	9	8	3/10 n/30	225 00	225 00						
10	10	Lockawana Coal Co	10	8	n/30	185 00					185 00		
11	12	Danforth & Co	4	10	2/10 n/30	315 00	315 00						
12	19	Eureka Tool Co	11	17	n/30	250 00							
		Debit				16644 65	2140 00	54 25			185 00		
	31	Material	6			2140 00							
	7	Supplies	7			54 25							
		Power, Heat & Light	17			185 00							
		Office Furniture	5			350 00							
		Office Supplies	19			165 40							
		Sundries	–			13750 00							
		Cr. Pur. Led.	12			16644 65							

Invoice Register with Distribution Columns.

REGISTER

PATTERN & TOOL REPAIRS	INS.	TAXES	OFFICE FIXTURES	OFFICE SUPPLIES		SUNDRIES ACCOUNT	L.F.	AMOUNT		PAYMENTS C.K. NO.	DATE	DISC.	AMT. of CHK.
			350 00						1	6	Mar. 15		350 00
						Machinery	3	1500 00	2				
						Machinery	3	3500 00	3				
									4	3	9	19 20	940 80
				165 40					5	4	11	3 31	162 09
									6	7	15	1 63	52 52
						Machinery	3	[illegible]	7	13	30		3475 00
											Note		5025 00
									8	8	17	19 20	620 80
									9	9	18	6 75	518 25
									10				
									11	11	22	5 04	[illegible]
						Tools	4	[illegible]	12		[illegible]	63 00	
			350 00	165 40				[illegible]					

Invoice Register with Distribution Columns

CHECK REGISTER

NO	DATE		NAME	FOR	DISC.	PURCHASE LEDGER	L.F.	SUNDRIES	AMOUNT of CHECK	DEPOSITS	BALANCE
	Mar.	1	Second Nat. Bank				8			20000.00	
1		3	Jacob Newman	Rent			14	450.00	450.00		19550.00
2		6	T. Fogarty Agt. Frt.	Machinery			3	216.20			
				Material			6	11.60	227.80		19322.20
3		9	Danforth & Co.	Inv. # 4	19.20	940.80	4		940.80		18381.40
4		11	Franklin Printing Co.	" # 5	3.31	162.09	5		162.09		18219.31
5		13	Pay Roll	Machinery			9	178.50			
				Bldg. Maintename			18	42.00	220.50		17998.81
6		15	Derby Desk Co.	Inv. # 1		350.00	1		350.00		17648.81
7		15	Slade Oil Co.	" # 6	1.63	52.62	6		57.62		17596.29
8		17	Francis & Co.	" # 8	19.20	620.80	8		620.80		16975.49
9		18	Stevens & Co.	" # 9	6.75	218.25	9		215.25		16757.24
10		20	Pay Roll	Labor			16	326.25			
				Tools			4	27.50	353.75		16403.49
11		22	Danforth & Co.	Account	5.04	246.96	4		246.96		16156.53
12		27	Pay Roll	Labor			16	342.70	342.70		15813.83
13		30	Norwich Machine Co.	Account		3475.00	7		3475.00		12338.83
14		31	Salaries	Salaries			15	350.00	350.00		11988.83
			Debits		55.13	6066.52		1944.75	8011.27	20000.00	
			Purchase Ledger		55.13	6066.52	12				
			Sundries			1944.75	–				
			Credit Bank			8011.27	8				
			" Int. & Disct.			55.13	13				

Check and Disbursement Record

	March 1, 1909.		
2	Subscriptions	50000.00	
1	Capital Stock		50000.00
	Subscription to the capital stock		
	of The Atlas Mfg. Co. received		
	from the following.		
	Henry Biddle 100 shares 10,000.00		
	John Noonan 100 " 10,000.00		
	David Snow 100 " 10,000.00		
	Henry Farwell 100 " 10,000.00		
	Geo. Dunn 100 " 10000.00		
✓	Cash	20000.00	
2	Subscriptions		20000.00
	Subscriptions paid in cash		
	by the following		
	Henry Biddle 50000.00		
	John Noonan 50000.00		
	David Snow 50000.00		
	Geo. Dunn 50000.00		
11	Bills Receivable	5000.00	
2	Subscriptions		5000.00
	Received from Henry Farwell his		
	note @ 60 das. with 6% int. to		
	apply on his subscription.		
	22		
4	Danforth & Co.	63.00	
12	Purchase Ledger		
	Material Purchases		63.00
	Credit Memo received from Danford & Co for damaged goods.		

	March 30, 1909.		
7	Norwich Machine Co.	5025.00	
12	Purchase Ledger		
11	Bills Receivable		5000.00
13	Interest & Discount		25.00
	Gave them Henry Farwell's		
	note with accrued Interest		
	to apply on account.		
	31		
10	Manufacturing a/c	1003.35	
	For material used		
18	Building Maintenance & Repairs	50.00	
	For material used		
	Material Purchases		1053.35
10	Manufacturing Account	1330.20	
16	Labor		668.95
7	Supplies Purchases		9.25
15	Salaries		350.00
14	Rent		150.00
17	Power, Heat & Light		35.00
17	Building Maintenance & Repairs		92.00
19	Office Supplies		25.00
	Total mfg. expense for the month		
9	Finished Goods	93.34	
17	Contingent Profits		93.34
	10% added to cost to cover		
	contingencies		
9	Finished Goods	933.42	
10	Manufacturing Acct.		933.42
	Cost of goods manufactured		

Manufacturing Journal

Capital Stock

					Mar.	1	J	1	50000 00

2

Subscriptions

Mar.	1	J	1	50000	Mar.	1	J	1	20000 00
						1		1	5000 00

3

Machinery

Mar.	4		1	1500 00					
	4		1	3500 00					
	6	C	1	215 70					
	6		1	8500 00					
	13	C	1	178 50					

4

Patterns & Tools

Mar.	19		1	250 00					
	20	C	1	27 50					

5

Office Furniture

Mar.	31		1	350 00					

6

Material Purchases

Mar.	6	C	1	11 60	Mar.	22	J	1	63 00
	31		1	2140 00		31	J	1	1053 35

7

Supplies Purchases

Mar.	31		1	54 25	Mar.	31	J	2	9 25

8

Second National Bank

Mar.	1	C	1	20000 00	Mar.	31	C	1	8011 27

9

Finished Goods

Mar.	31	J	2	933 42					
	"		2	93 34					

10

Manufacturing

Mar.	31	Material J	1	1003 35	Mar.	31	Finished Goods J	2	933 42
	31	Labor J	2	668 95			Balance		1400 13
		Supplies		9 25					
		Salaries		350 00					
		Rent		150 00					
		Coal		35 00					
		Repairs		92 00					
		Office supplies		25 00					
				2333 55					2333 55
Mar.	31	Balance		1400 13					

11

Bills Receivable

Mar.	1	J	1	5000.00	Mar.	30	J	1	5000.00

12

Purchase Ledger

Mar.	22	J	1	63.00	Mar.	31		1	16644.65
	30	J	1	5025.00					
	31	C	1	6066.52					
	31	C	1	55.13					

13

Interest & Discount

					Mar.	31	J	1	25.10
						31	C	1	55.13

14

Rent

Mar.	3	C	1	450.00	Mar.	31	J	2	150.00

15

Salaries

Mar.	31	C	1	350.00	Mar.	31	J	2	350.00

Labor

Mar.	20	C	1	326 25	Mar.	31			668 95
	27	C	1	342 70					
				668 95					668 95

17

Power, Heat & Light

Mar.	31		1	185 00	Mar.	31	J	2	35 00

18

Building Maintenance & Repairs

Mar.	13	C	1	42 00	Mar.	31	J	2	92 00
	31	J	1	50 00					
				92 00					92 00

19

Office Supplies

Mar.	31		1	165 40	Mar.	31	J	2	23 00

20

Contingent Profits

					Mar.	31	J	2	93 34

Derby Desk Co

Mar.	15		C	350 00	Mar.	2		1	350 00

2

Meyer Engine Co.

					Mar.	4		1	1500 00

3

Patton Machine Co.

					Mar.	4		1	3500 00

4

Danforth & Co

Mar.	9	C	1	940 80	Mar.	4		1	960 00
	9	C	1	19 20		12		1	315 00
	22	C	1	246 96					
	22	C	1	5 04					
	22	J	1	63 00					
				1275 00					1275 00

5

Franklin Printing Co.

Mar.	11	C	1	162 09	Mar.	15		1	165 40
	11		1	3 31					
				165 40					165 40

6

Slade Oil Co.

Mar.	15	C	1	52 62	Mar.	5		1	54 25
	15		1	1 63					
				54 25					54 25

Norwich Machine Co. 7

Mar.	30	C	1	3475 00	Mar.	6		1	8500 00
	30	J	1	5025 00					
				8500 00					8500 00

8

Francis & Co.

Mar.	17	C	1	620 80	Mar.	8		1	640 00
	17		1	19 20					
				640 00					640 00

Stevens & Co. 9

Mar.	18	C	1	218 25	Mar.	9		1	225 00
	18		1	6 75					
				225 00					225 00

10

Lockawana Coal Co.

					Mar.	10		1	185 00

Eureka Tool Co. 11

					Mar.	19		1	250 00

TRIAL BALANCE

L.F.		March 1909		April 1909	
1	Capital Stock		50000.00		
2	Subscriptions	25000.00			
3	Machinery	13894.70			
4	Patterns & Tools	277.50			
5	Office Furniture	350.00			
6	Material Purchases	1035.25			
7	Supplies Purchases	46.00			
8	Second Nat. Bank	11988.73			
9	Finished Goods	1026.76			
10	Manufacturing a/c	1400.13			
12	Purchase Ledger		5435.00		
13	Interest & Discount		80.13		
14	Rent	300.00			
17	Power Heat & Light	150.00			
19	Office supplies	140.40			
21	Contingent Profit		93.34		
		55608.47	55608.47		

General Ledger Trial Balance

Statement of Purchase Ledger

	Mar. 31, 1909		
2	Meyer Engine Co.		1500.00
3	Patton Machine Co.		3500.00
10	Lackawanna Coal Co		185.00
11	Eureka Tool Co.		250.00
	Total Purchase Ledger		5435.00

Purchase Ledger Statement

EXERCISE

The transactions given in this exercise are a continuation of the business referred to in the preceding articles. During the month of April the following transactions are recorded.

Material purchases		$ 2,670.00
Supplies purchases		127.50
Patterns and tools purchases		150.00
Cash received on subscriptions		25,000.00
Deposited in Bank		25,000.00
Checks drawn		
Purchase accounts		5,500.00
Salaries		375.00
Pay-rolls		1,670.20
distributed as follows:		
Labor	$1,652.70	
Machinery repairs	17.50	
David Snow		10,000.00
(Stock purchased at par by Company)		

The following data is obtained from the reports of foremen and inventories taken at the end of the month:

Material issued to factory to be used in manufacturing goods.		2,261.00
Material used in machinery repairs		16.70
Inventories, April 30		
Supplies		147.00
Rent (unexpired)		150.00
Power, heat, and light (Coal)		75.00
Office supplies		118.40
Goods in process—material	615.00	
Labor	410.00	1,025.00

1. Find value of goods in process, using the same percentages in estimating expense items as shown for material and labor.

2. Make journal entries closing accounts into manufacturing account to show cost of goods completed during the month.

NOTE:—To find total cost of material and labor, used and partly used, add to the amounts shown for one month the inventory of the same items at end of preceding month.

3. Make trial balance of general ledger after books are closed as shown in model set.

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The theoretical man knows *why*. The practical man knows *how*. The man who would lead must know why *and* how.