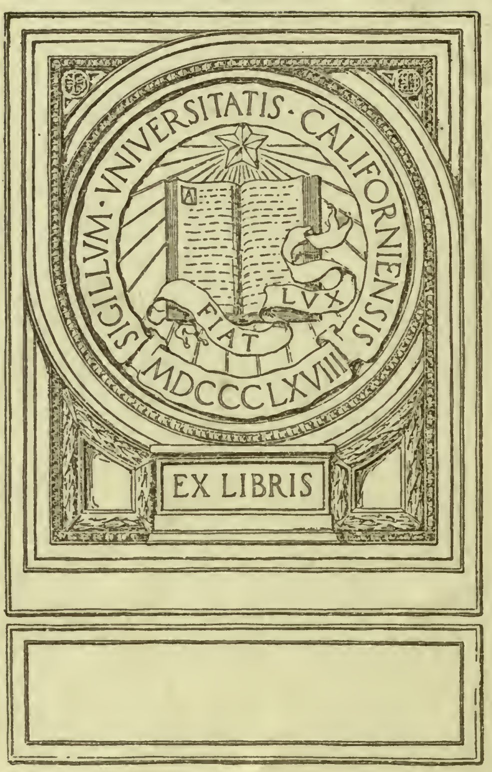
SIGILLVM · VNIVERSITATIS · CALIFORNIENSIS
FIAT LVX
MDCCCLXVIII
EX LIBRIS

ACCOUNTING

PITMAN'S ECONOMIC LIBRARY

ACCOUNTING

BY

SIDNEY S. DAWSON, M.COM., F.C.A.

(Dawson, Chevalier & Graves, Liverpool)

AND

R. C. DE ZOUCHE, F.C.A.

(Wilson, de Zouche & Mackenzie, Liverpool)

LONDON: SIR ISAAC PITMAN & SONS, LTD.

BATH, MELBOURNE AND NEW YORK

1920

Printed by Sir Isaac Pitman
& Sons, Ltd., London, Bath,
Melbourne and New York

PREFACE

In the preparation of the matter set out in succeeding pages, it has been assumed that the reader has a general knowledge of the theory of book-keeping, and the aim has been to submit, as an introduction to the practical application of the science of accounting, the general features of the more important sections of accounts to which that application may be directed. While this work goes beyond the purely elementary stage of the subject, it does not pretend to be exhaustive, and the practitioner desiring special knowledge, whether in relation to such duties as those of the Costs Accountant, Company Secretary or otherwise, will find advantage in reference to works dealing specifically and in greater detail with the problems of the particular branch of the subject in question.

The matter of Income Tax, in view of probable legislative changes in the near future, has been omitted from this edition.

The Authors.

CONTENTS

ACCOUNTING

CHAPTER I

INTRODUCTORY

The record of a series of transactions involving money or money's worth should be made in such manner as to render possible the ascertainment of the financial position arising from the dealings recorded, and of the profit or loss resulting therefrom. It must, therefore, be made on systematic principles, and in practice the method of book-keeping by double entry is that almost invariably adopted.

It should be understood, however, that the ascertainment of a financial position, and/or of financial results, is not necessarily dependent upon any particular method of book-keeping; it is obviously facilitated thereby, but may be made from any records that are sufficiently exact.

Double-entry Book-keeping.

The system of book-keeping by double entry has the advantage over other methods of accounting that it seeks to record transactions as indicating transfers of value, thus affecting two accounts, that which, in a book-keeping sense, parts with, and that which receives, value. The term "transactions," however, must in this connection be taken to include, not only dealings that involve the physical transfer of value, whether of money or money's worth, but all circumstances which may effect a change in the financial position. It is thus taken to cover the variations, whether of gain or loss, in the values of assets (such, for instance, as the loss resulting from a bad debt), although the extent to which it may be necessary or prudent to have regard to such variations in strict and accurate accounting depends on the circumstances in which they arise.

It is the chief advantage of this system of book-keeping that the principle of regarding each transaction as effecting a transfer of value involves not merely a record of the assets and liabilities and of the variations in their worth, but also, concurrently, an analysis of the gains and losses resulting from the dealings entered into.

Trial Balance.

The method of double entry results in the construction of Ledger accounts which are summarised periodically in a Trial Balance. From this as a basis, the Profit and Loss Account and Balance Sheet can be prepared, but the Trial Balance is not necessarily a complete and accurate basis for this purpose. It may contain compensating errors, by which a mistake in one part of the double entry recording a transaction may be balanced by a mistake of similar amount in regard to another; it may record some transaction inaccurately; it may record others only partially, or not at all; and is not therefore to be regarded as more than *primâ facie* evidence of the arithmetical accuracy of the entries in the Ledger accounts.

Adjustment of Trial Balance.

An accurate Balance Sheet can be drawn up from the figures contained in the Trial Balance only when the balances of assets and liabilities contained therein appear at fair values. Such adjustments of book values as this may render necessary will affect the Profit and Loss Account, and, when accurately made, will result in a balance upon this account, either of gain or of loss, which, when introduced into the Balance Sheet, will be found, if a profit, to represent the improvement in the surplus of assets over liabilities during the period covered by the account, or, if a loss, the amount by which the surplus has been reduced during that time.

Profit and Loss Account and Balance Sheet.

It is customary, when the Trial Balance has been prepared, to proceed concurrently with the preparation of both Profit and Loss Account and Balance Sheet. The Trial Balance, when first extracted, is seldom a complete statement of the exact amount of gains and losses or of the full and true values of assets and liabilities. It is, for example, necessary to consider whether full allowance has been made for all liabilities incurred, or in respect of assets, whether their value is fairly set out, or, again, it may be essential to introduce into the books the asset of stock-in-trade, and in other ways render the accounts contained in the books complete.

As the result of these adjustments, the Balance Sheet, which is a summary of such items in the Trial Balance as are not gains and losses and as are, therefore, to be included in the Profit and Loss Account, is eventually brought to represent a true view of the financial position, and to disclose the true amount of the surplus of assets over liabilities, constituting the interest of the proprietors of the business in the form of capital and accumulated profits. By comparison of this surplus with that shown in any previous Balance Sheet, the improvement made in the intervening period may be calculated.

It is, therefore, from the Balance Sheet that the amount of the profits earned is to be ascertained. The Profit and Loss Account demonstrates how the amount has arisen, but cannot be completed until the Balance Sheet itself is accurately drawn up.

Illustration.

In illustration, there may be taken the instance of a sole trader who, upon the preparation of a statement of his financial position in relation to his business as at the 31st December, finds that the surplus of assets over liabilities at that date, in other words, his capital, is £1,400. A similar statement as at 31st December of the previous year disclosed a surplus of £1,200. The improvement during the year under review has, therefore, been £200. The trader has withdrawn from the business during the period the sum of £300, and but for this the gain would have been £500, which is the amount of the profit made.

The Profit and Loss Account will provide an analysis of the various forms of gains and losses resulting in the net balance of profit of £500, but the ascertainment of this figure is dependent on the preparation of an accurate Balance Sheet.

Definition and Purpose of Balance Sheet.

A Balance Sheet is not a statement of assets and liabilities merely, but a summary of all balances remaining open in the books after the nominal accounts have been closed by transfer to Profit and Loss Account. It is a statement showing the financial position of a proprietor in relation to his business as at a particular date. It differs from the form of financial document known as a " Statement of Affairs " in that the latter is usually compiled to show the financial position of an individual in relation to his creditors. This is seldom a summary of balances as they actually appear in the books, but rather a schedule of assets at their actual or estimated realisable values and of the liabilities due to outside persons.

Being a summary of balances and not merely a statement of assets and liabilities, a Balance Sheet may contain items of " assets " which are not realisable and credit balances which are not liabilities due to be discharged. For example, the Balance Sheet of a limited company may include on the side containing the liabilities the item " Premium on Shares," representing merely an amount received from shareholders in respect of which there is a liability to account; on the Contra side there might appear the item " Rent paid in advance," which, while not convertible into cash at the date of the Balance Sheet, may be correctly so treated. It is ordinarily designed to show the financial position as of a going concern and, therefore, in the majority of cases contains *estimates* of values, more particularly of assets. The manager or proprietors of a business, whether trading or non-trading, must frequently incur expenditure that is not represented in any realisable form, but which may nevertheless possess substantial value and be dealt with accordingly in the accounts and also in the Balance Sheets periodically prepared therefrom. The outlay incurred in advertising a proprietary article with a view to the creation of a trading connection is an example, and may, consistently with strict and accurate accounting, be spread over a more extended term than, say, the expense of ordinary advertising incurred regularly in the maintenance of a goodwill already acquired.

It is difficult to state definite principles in this connection, but it may be said that the justification for spreading expenditure over a term of years will be found in the facts either—

(1) That later years will derive direct benefit from the outlay in question, or,

(2) That later years are saved some charge by reason of the expense already incurred.

Capital and Revenue Expenditure.

In the preparation of a Balance Sheet and Profit and Loss Account, the distinction between Capital and Revenue Expenditure is of importance.

The former includes value expended upon such assets (known as Fixed Assets) as are acquired, not primarily for re-sale in the ordinary course of the operations of the business, but for reproduction of value. Examples of this class of asset are the first cost of a ship owned by a single ship company, the permanent way, stations and land of a railway company, the plant and machinery attached to a business.

Such expenditure may not always possess realisable value equivalent to its original cost. It may fluctuate from time to time and may suffer depreciation in the ordinary course of the trading operations. In a later chapter consideration is given, more particularly in regard to Limited Companies, to the necessity in accounting to have regard to such variations in value. It is clear, however, that, as to certain items included under the term " Fixed Assets " —Plant and Machinery, for example—their worth is consumed in the processes incidental to production. It is necessary if the business is to continue that they shall eventually be replaced, and the profit resulting from their use cannot be said to be fairly estimated until such depreciation has been allowed for.

The term " Floating or Circulating Assets " is applied to such items as Cash, Stock, Book Debts, etc., which change their form in the course of the daily transactions of a business. These form the " working capital " and are in total usually somewhat larger than the excess of Shareholders' or Proprietors' Capital over the Fixed Assets, by reason of the additional value received by the business from creditors whose claims are undischarged.

The value of Circulating Assets is dependent on realisation, and, inasmuch as they will necessarily be realised in the due course of trading operations, any loss which may then arise affects Revenue. In the preparation of a Balance Sheet, therefore, it is customary, and, for purposes of accurate accounting, necessary, to value such items at the figure they may be expected to produce and, consequently, where this is less than cost, to allow for any loss anticipated. It might, in theory, be thought permissible to take credit for any *gain* over and above cost in regard to such assets prior to realisation (*e.g.*, in regard to Stock), but, as the function of a trading business is to enter into transactions involving sales and conversions of such assets, by which alone such profits can be made certain, it is thought more prudent and more accurate to take account of such gains only as and when realised.

To the foregoing classification of Fixed and Circulating Assets may be added that of Terminable (sometimes called "Wasting") Assets, representing the interest, limited in point of time, in value spent upon Leases, Patents, Copyrights, etc. The worth of the capital expended in this form is obviously determined by some definite period, and in the preparation of a Balance Sheet and Profit and Loss Account, the original value is usually taken to be consumed proportionately to the benefit derived from their ownership over the period represented by the interest held.

Forms of Balance Sheets.

It is customary to prepare periodically summarised statements of the financial position and results of a business. The usual form of such statements is that of the Balance Sheet and Profit and Loss Account.

The Balance Sheet, as already stated, is a summary of the balances remaining open in the books after the nominal accounts have been closed by transfer to Profit and Loss Account, classified in such a way that the financial position may be ascertained therefrom. It is prepared according to one or other of the methods known as Single and Double Account respectively. Under the former, the Balance Sheet is presented in the form of one comprehensive statement, whereas, in the latter, it is divided into two parts.

Under Double Account, the first section shows, on the one hand, the expenditure on all fixed and permanent assets of the undertaking, and, on the other hand, the Share and other Capital raised for the purposes of the concern; while the second, into which are introduced the totals of Capital Expenditure and Receipts, or the balance thereof, as shown by the first part, includes all floating assets and liabilities of the business.

The Double Account form of Balance Sheet is used chiefly in connection with such undertakings as railways, canals, waterworks, etc., which expend much of their capital upon fixed assets intended, not for re-sale, but to be retained permanently for the purposes of the business, and able to be maintained in such efficiency as to possess a continuing value for revenue-earning purposes.

It is sometimes contended that there is a distinction in principle in the matter of the treatment in accounting of depreciation in respect of the fixed assets subject thereto, as between those concerns to which the "Single" and "Double" forms of account are respectively applicable. The matter is considered in Chapter XVII.

In preparing the Balance Sheet in Single Account form it is customary to set out the balances entering into it in representative totals in such manner that the general financial position can be seen.

The usual order of the items is as follows—

Debit Side of Balance Sheet.

Share Capital, or Proprietors' Capital.
Liabilities for loans borrowed for long periods on security, *e.g.*, debentures.
Sundry Creditors in respect of Trade and other accounts.
Loans for short-terms, such as a bank overdraft.
Shareholders' Dividends outstanding.
Contingent Liabilities.
Reserve Funds, General Reserves, and undivided profits.

Credit Side of Balance Sheet.

The general order of arrangement in respect of debit balances is to set out at the head the assets least easily realised, thus commencing with the fixed assets, as follows—

Goodwill.
Freehold land and buildings thereon.
Leasehold land and buildings thereon.
Plant and Machinery.
Office Furniture and Fittings.
Gilt-edged Securities.
Other Investments.
Stock-in-Trade.
Work in Progress.
Sundry Debtors on Trade Account.
Bills Receivable.

Agents' Balances.
Balance at Bankers.
Cash in hand.
Proportions of Rent and similar items paid in advance.
Expenditure spread over a term of years.

Revenue Account.

The Profit and Loss Account is also termed Revenue Account or Income and Expenditure Account, the last-named being applied usually to a statement showing the result of transactions of a non-trading character, such as those of, say, a landed proprietor, or of a hospital or a similar institution, the operations of which are not primarily undertaken with a view to profit.

When the Profit and Loss, or similar, Account expresses the result of *trading* transactions—taking the word "trading" in a wide sense to include all business operations entered into with a view to the earning of profit—it is usual to prepare it in such manner as to distinguish the gross from the net profit. This is accomplished by the inclusion in a separate account of all items entering into the earning of the gross profit and by carrying the balance of this statement to the Profit and Loss Account, in which the additional items of loss or gain will be charged or credited.

This additional account is variously named according to the nature of the business, but is usually termed Trading, Manufacturing or Revenue (as distinct from Net Revenue) Account; while in particular businesses it may be given other titles, such as Stock or Goods Account, Contracts Account (for building or other contractors), Voyages Account (for steamship companies), etc.

The distinction between the account showing the gross, and that showing the net, profit, is that the former is so constructed as to show the surplus of revenue earned or sales made over the value consumed or outlay *directly* incurred in respect of the amount earned in the course of trading, while in the latter will be shown all other expenses and income.

The account showing the gross profit may be merely a statement of purchases and sales of some class of goods which undergo no change of form, such as those dealt in by a General Merchant, and will then, with due adjustment for the value of stocks on hand at the beginning and end of the trading period, give as the gross profit the difference between the total sales made and the cost price of the goods sold, less any deterioration allowed for in respect of stocks unsold.

When the nature of the business operations involve some process of manufacture or production, the account, in these circumstances more usually termed Manufacturing Account, records the results of the sales of the product as compared with the cost directly incurred in the production. Such cost will be represented largely by the value of raw materials consumed, and by labour.

Departmental Accounts.

In the chapter entitled " Departmental Accounts " a method is shown by which the balance, whether profit or loss, resulting from the trading or manufacturing operations of a particular section of the business may be ascertained. In similar manner accounts may be raised to show the outcome of a particular venture or of any limited set of transactions. Examples are to be found in the system for Voyages Accounts of a Shipping Company, the Contract Accounts of a building contractor, and the Consignment Accounts of a merchant, all of which have a general analogy with Departmental Accounts.

Receipts and Payments Account.

It may occasionally occur that a Receipts and Payments Account is submitted in place of a Profit and Loss Account. It is obvious that where cash receipts are identical in total with revenue earned, and cash payments with expenditure incurred, a comparison of the balance of cash in hand at the end of the period to which the account relates with that at the beginning will disclose the amount of profit or loss made. These circumstances can but rarely arise. As a rule a Receipts and Payments Account is merely a record of dealings in the form of cash. Such transactions may be, on the one hand, receipts of Capital, or realisations of assets, or, on the other hand, the discharge of liabilities or the acquisition of assets for re-sale or otherwise. The debts realised and liabilities discharged may have been created by the trading operations of an earlier period. Under the system of book-keeping by double entry, such transactions would be recorded as sales and purchases when they occurred. The fact that they become represented in the cash receipts and/or payments involves merely a change in the form of the assets and liabilities of the business, but does not, *per se*, affect the trading results in profit or loss. The Profit and Loss Account will include all revenue attributable to a particular period whether received or not, and, on the other hand, the full amount of expenditure relating to the period, whether discharged or outstanding.

CHAPTER II

ACCOUNTING RECORDS

A KNOWLEDGE of the general principles of the method of book-keeping by double entry has been assumed, but it is thought desirable to consider the more important methods of record and organisation by which, where applied to any considerable volume of transactions, this system may be facilitated.

Internal Check.

In order that books of account may furnish to the fullest extent the advantages of a system of book-keeping it is essential that the entries contained therein should form an accurate record, and it is therefore of importance that they should, where possible, be verified by some system of internal check. To secure this, the accounting organisation should be so designed that every entry is brought under the review of someone other than the person originally responsible for it. This will not only provide a verification, but render fraud, except by collusion, less easily possible.

An adequate system of internal check must be both simple and effective, but the exact nature of the transactions to be recorded, and the number of the staff by which it is to be operated are factors to be taken into account in considering how it should be applied, and render it impossible to set out in express terms rules of universal application. The following, however, are some of the more important points to be observed, where circumstances permit—

(1) Clerks concerned in the record of cash transactions should not have control of Ledger accounts.

(2) Where possible, the payment and receipt of cash should be placed in different hands.

(3) The Petty Cash Book should be on the " Imprest " system.

(4) Cash should be balanced daily, and the Bank Account reconciled with the Bank Pass Book at frequent intervals. A record should be kept of such balances and reconciliations.

(5) Payments of accounts owing should be authorised and

in regard to invoices for goods, etc., supplied, all particulars of quantity, description and price should be approved, and receipt of the goods duly verified before payment.

(6) Acceptance of orders received should be subject to supervision and goods in fulfilment thereof be delivered only on express instructions.

(7) Allowances for returned goods, claims and overcharges, etc., placed to customers' credits, should be approved.

(8) Adequate records of the receipt and delivery of goods should be made, and all receipts and deliveries advised to the counting-house daily.

(9) Complete Stock Accounts should be kept.

(10) The Debtors Ledger should be brought periodically under the inspection of a manager, or responsible person, to ensure proper care in the collection of amounts outstanding.

(11) Statements of debtors' accounts, and requests for payment of accounts overdue, should be made out and despatched by someone other than the cashier or Ledger clerk.

(12) All Ledgers should be controlled by Adjustment Accounts, on what is commonly termed the " self-balancing " system.

(13) The arithmetical accuracy of the books should be verified frequently by the checking of all postings and extraction of a Trial Balance.

Journal.

The method of book-keeping by double entry necessarily involves the use of the Journal and Ledger, and all systems of accounting are founded upon these books, with such modifications and developments as may seem desirable in any particular case. In practice, of course, the Ledger Cash Account is almost invariably recorded in a separate Cash Book, and maintained as a primary book, or book of first entry, in addition to the Journal.

For purposes of introduction to other branches of accounting, it is convenient to consider the usual arrangement and subdivision of the three books named. It is not possible to set out in detail all the numerous types of books which might be used in particular circumstances, and the endeavour has been made to indicate those only which are commonly used in connection with a trading or manufacturing concern.

The Journal is commonly divided into the following sections—

Sales
Purchases or Invoices
Returns Inwards and Allowances
Returns Outwards
General or Ordinary.

The first four of these, by reason of their being devoted each to the record of one general type of transaction, permit of the posting of periodical totals, and have the further advantage that they enable a record to be kept of particulars of quantities and of goods dealt in in a more systematic manner than would be possible were all entries made in one General Journal.

The main General Journal is sometimes used to record only such transactions as are unsuitable to be entered into any other Journal, but it is not unusual to find that the monthly or periodical totals of the subsidiary books are introduced into the principal Journal and posted therefrom to the nominal accounts affected.

The use of these subsidiary books to some extent lessens the value of the main Journal as a chronological record of transactions, but, in practice, it is found that the classification of entries which the subsidiary books afford, not only furnishes in convenient form information as to the general nature of the transactions recorded, but enables the accounting organisation to be more efficiently carried out.

Cash Books.

The transactions in cash are frequently contained in more than one book, and the Cash Book is commonly subdivided into some or all of the following—

Cash Sales
Sales or Customers' Cash
Trade Payments
Petty Cash.

Each of these books is subsidiary to the General Cash Book, and the first three are incorporated in the main Cash Book in periodical totals.

Petty Cash Book.

As regards the Petty Cash Book, this may be operated as a separate account of cash, sums being placed periodically with the petty cashier for disbursement in the manner hereafter explained, or upon the "Imprest" system, in which case the petty cash disbursements are introduced into the General Cash Book in totals.

Cash Sales Book.

The Cash Sales Book, as its name implies, records all receipts in the form of cash sales. Such items may be numerous and are frequently of small amount; moreover they involve no entry upon the personal accounts, and in these circumstances the record of such transactions is conveniently made in a subsidiary book from which the daily totals may be carried to the General Cash Book. By the provision of a special column in the latter book, the posting of the amounts of cash sales to the nominal account may be made in monthly totals.

Customers' Cash Book.

The Sales or Customers' Cash Book is used to record cash receipts from customers in respect of credit sales. All entries of this nature affect the accounts of debtors, and by reason of their being concentrated in one book are posted to the Ledger accounts of customers with greater facility than if they were recorded only in the General Cash Book, for this must necessarily contain also numerous entries of transactions of different nature. The Sales or Customers' Cash Book is of special advantage in connection with sectional balancing.

Trade Payments Book.

The Trade Payments Book is generally used to record payments made to creditors for goods supplied or value received in respect of the trading or manufacturing operations of the business. Such payments may be made by cheque or partly by cheque and partly by cash, being incorporated accordingly in the General Cash Book in periodical totals.

Just as the Sales Cash Book entries affected the Debtors' Accounts, the Trade Payments Book entries should be such as invariably concern the Creditors' Ledger. It gives similar advantages in convenience and saving of time.

It is obvious that the Cash Sales, Sales Cash, and Trade Payments Books form part of the General Cash Book, and when duly incorporated therein, in total constitute the last-named book a record of the total cash receipts and payments. When once the totals are recorded therein, the subsidiary books become memoranda of transactions by which Cash Account has been affected.

Petty Cash.

As already stated, the Petty Cash Book may be operated as if a distinct Ledger account, or as a subsidiary part of the General Cash Book upon the " Imprest " system.

Under the former method, amounts are paid from the General Cash to Petty Cash as required for disbursements and entered accordingly in the books concerned. As payments are made from the Petty Cash, they will be recorded in the usual manner, and posted to the debit of the nominal accounts affected. To save some part of the time involved in posting many items of small amount, it is customary to use a Petty Cash Book with analysis columns, into which the various items paid may be extended from the Total column, thus enabling entries to be made to the nominal accounts of totals.

The operation of the Petty Cash Book in this form treats the Petty Cash as an integral part of the system of book-keeping, and the balance in hand from time to time must be brought into any Trial Balance extracted.

The alternative method, known as the " Imprest " system, has the effect of treating the Petty Cash Book as an interim record, to be incorporated in the General Cash Book in due course.

Under this system, a definite sum, estimated to cover the average disbursements through Petty Cash for (say) one month, is placed with the Petty Cashier. This amount is duly entered in the General Cash as a payment and debited in the General Ledger to Petty Cash Account. The Petty Cash records are made in the manner already described. At the end of the month or other period, for the disbursements of which the fixed amount has been placed with the Petty Cashier, a cheque is drawn for the *actual* payments made, and entered in the General Cash Book. The entry will be made in such manner that the various nominal accounts may be correctly charged according to the particulars of the actual payments shown by the totals of the analysis column of the Petty Cash Book. The receipt by the Petty Cashier of a cheque equivalent to the disbursements will restore the balance of cash in his hands to the original figure, and this process will be repeated from month to month.

Under the " Imprest " system, the Petty Cash Book is operated so far as the general system of book-keeping is concerned as a memorandum, the only entries relating to Petty Cash which affect Ledger accounts being those made in the General Cash Book. Under the alternative system, direct posting is made from the credit side of the Petty Cash Book to the nominal accounts, and the balance of the Petty Cash in hand enters into the Trial Balance.

General Cash Book.

The form of the General Cash Book varies. It may be merely a record of transactions in cash, or may be so operated as to contain the Ledger Bank Account. It will in these circumstances show the balances of both Cash and Bank Accounts.

When the Cash Book contains the Cash Account only, it is usual to make it inclusive of bank transactions as an alternative to their journalisation by entering cheques drawn as receipts by cash from the Bank Account, and to record their payment in the ordinary way; and as regards payments into the bank, to enter all cheques and other sums received as cash receipts in the first place, clearing the Cash Book by a record of the payment to the bank.

Under this system, each entry made in respect of cheques drawn, and for moneys banked, affects the Bank Account in the Ledger, and must be posted thereto from the Cash Book. For this purpose, the use of special columns for cheques drawn on the debit side of the Cash Book, and for payments in, on the credit side, into which the money value of such transactions of this kind will be entered in the first place, enables the totals of such entries to be ascertained. These may thus be extended into the principal cash column and posted in total periodically.

When the Cash Book is so arranged as to contain bank transactions in the form of a Ledger account—the Bank Account being regarded simply as an additional account of cash—each cheque drawn will be entered in the " Bank " column on the credit side as a direct payment from the bank. Similarly amounts received and banked may be treated as being received by the Bank Account, or where entered in the cash column in the first place may subsequently be recorded as paid by "Cash" and received by "Bank," thus appearing on both sides. The operation of the Cash Book under these two methods is shown on pages 18 and 19.

Ledger.

The Ledger accounts, when numerous, may be contained in a number of books, classified and arranged according to convenience. It is usual to arrange the Ledgers as between Debtors, Creditors, General and Private, with such number for each group as the circumstances may suggest, but there may, of course, in particular businesses be distinct Ledgers for any special classes of accounts. In the Ledgers themselves, the accounts may be grouped according to any method desired. The Debtors' Ledgers, for example, might be arranged alphabetically or geographically, or the accounts affecting a particular agent or traveller be placed together in one section, or such other arrangement adopted as may be advantageous in any particular case.

In Chapter V the classification of the entries in the primary books with a view to the ascertainment of the total of the transactions affecting any particular Ledger, or group of Ledgers, is dealt with.

"Slip" System.

Reference has been made to the advantages obtained in the adoption of a system of internal check. Errors of commission may arise either in writing up the primary books or in posting therefrom to the Ledger Accounts. The risk of mistake cannot be entirely eliminated, but may be minimised by so arranging the system of accounts as to make all entries, as far as possible, direct from original records, upon the "Slip" or "Card" system.

The principle involved may be illustrated by an example in relation to the accounts of a bank. In this case, the Receiving Cashier obtains, with each deposit, a slip showing details of the total amount banked. From this he records in his Receiving Cash Book the amount of coin and Bank of England Notes received and retained by him. The slip is then passed (with the cheques included in the total of the deposit, attached thereto) to the clerk in charge

CASH BOOK, IN FORM SHOWING

			Discount.			Bank.			Cash.		
			£	s.	d.	£	s.	d.	£	s.	d.
1919.											
Jan. 1	To Balances . .	√				142	10	–	21	7	6
2	„ Bank . . .	√							42	–	–
3	„ Henry Young .	22	1	14	8				116	–	–
„	„ A. Robinson . .	36		18	8				84	3	–
„	„ Cash . . .	√				200	3	–			
5	„ J. Samuels . .	80		5	–				16	–	–
8	„ J. Williams . .	54		13	–	52	7	–			
9	„ Bank . . .	√							34	–	–
10	„ W. Roberts . .	29		12	–				43	18	–
„	„ B. Cook . .	32		17	–				24	3	–
„	„ Cash . . .	√				78	1	–			
		P.L.	5	–	4	473	1	–	381	11	6
Jan. 10	To Balances . .					380	11	–	14	12	6

CASH BOOK, OPERATED

			Discount.			Bank.			Cash.		
			£	s.	d.	£	s.	d.	£	s.	d.
1919.											
Jan. 1	To Balance . .	√							21	7	6
2	„ Bank . . .	√				42	–	–			
„	„ „ . . .	√				16	10	–			
3	„ Henry Young .	22	1	14	8				116	–	–
„	„ A. Robinson . .	36		18	8				84	3	–
5	„ J. Samuels . .	80		5	–				16	–	–
8	„ J. Williams . .	54		13	–				52	7	–
9	„ Bank . . .	√				34	–	–			
10	„ W. Roberts . .	29		12	–				43	18	–
„	„ B. Cook . .	32		17	–				24	3	–
„	„ Bank (for period) .	P.L. 60							92	10	–
		P.L. 110	5	–	4				450	8	6
„	To Balance . .	√							14	12	6

BALANCES OF BANK AND CASH ACCOUNTS.

			Discount.			Bank.			Cash.		
			£	s.	d.	£	s.	d.	£	s.	d.
1919. Jan. 2	By Cash . . .	√				42	–	–			
,,	,, Wages . . .	P.L. 120							36	5	–
,,	,, Petty Cash . .	P.C.B. 12							5	–	–
,,	,, John Jones . .	42	1	4	6	16	10	–			
3	,, Bank . . .	√							200	3	–
6	,, Travelling Expenses	P.L. 80							10	–	–
9	,, Cash . . .	√				34	–	–			
,,	,, Wages . . .	P.L. 120							32	10	–
,,	,, Petty Cash . .	P.C.B. 13							5	–	–
10	,, Bank . . .	1							78	1	–
,,	,, Balances . .					380	11	–	14	12	6
		P.L. 110	1	4	6	473	1	–	381	11	6

AS A CASH ACCOUNT ONLY.

			Discount.			Bank.			Cash.		
1919.		P.L.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 2	By Wages . . .	120							36	5	–
,,	,, Petty Cash . .	P.C.B. 12							5	–	–
,,	,, John Jones . .	42	1	4	6				16	10	–
3	,, Bank . . .	√				200	3	–			
6	,, Travelling Expenses	P.L. 80							10	–	–
8	,, Bank . . .	√				52	7	–			
9	,, Wages . . .	P.L. 120							32	10	–
,,	,, Petty Cash . .	P.C.B. 13							5	–	–
10	,, Bank . . .	√				78	1	–			
,,	,, Bank (for period) .	P.L. 60							330	11	–
,,	,, Balance . .	√							14	12	6
		P.L. 110	1	4	6				450	8	6

of the Received Waste Book, where the total amount is classified according to the nature of the cheques, cash, etc., included therein, under such headings as House (representing cheques on the bank itself), Branches, Town Clearing, Country Clearing, Cash, etc. The total of the transactions in the form of deposits is thus analysed. It is necessary, however, that the customer be credited with the amount paid in and this is accomplished by transfer of the slips to the clerk in charge of the Current Accounts Ledgers concerned, who will make entries upon the Ledger accounts therefrom. The slip has thus served as a basis for the entries in the—

Received Cash Book,
Received Waste Book,
Current Accounts Ledgers;

and may even be of further use in writing up the customer's Pass Books. In a fully-developed system of accounting, it is also used as the basis for entry in what is termed the Check Ledger Credits Book, by means of which the analysis of credits under the headings of the Ledgers affected may be obtained for the purposes of sectional balancing.

It is obvious that tests will be necessary to prove the accuracy of the entries made, but error is clearly less likely to occur where each successive step in the book-keeping is made from some original record.

The extent to which this method may be adopted to serve the purposes of the more detailed system by which all entries to Ledger accounts are made only by direct posting from primary books, depends entirely on the nature of the transactions to be recorded.

It is obvious that a Journal entry, recording a transfer of value as between two accounts, has fulfilled its purpose when the entries have been posted. It continues of value only as a record of the particulars of the transaction by which the Ledger accounts have been affected.

The use of a bound book may retain this record in a form less likely to be lost, but it is possible that with proper care the same results might be obtained from entries contained on loose slips, arranged, when they have served their immediate purpose as the basis of Ledger entries, in such form as may be found convenient.

Similar arguments may exist with regard to Ledger accounts. The nature of the business may involve single transactions upon numerous personal accounts, and in respect of these a record may be important only until such time as they are paid. The record in such circumstances may possibly be made with more convenience and equal effect in some form less permanent than that of entries in the ordinary type of bound Ledger.

In illustration of these preliminary observations, the form and method of " Slip " and " Card " records are now further considered.

Slip Day Books.

The use of a carbon duplicate Sales Invoice Book may make it unnecessary to write up the Sales Day Book with particulars other than the number of the invoice, the name of the customer, and the total amount, which may be classified in analysis columns in such manner as may be thought desirable.

The postings to the Ledger accounts are usually made from the Sales Day Book, but may be made from the carbon duplicates themselves, the Sales Day Book then forming a mere summary of the amounts of the invoices and giving the total to be posted to the nominal account.

This latter course has the advantages that the time taken in writing up the Sales Day Book is largely saved, and the risk of error in making the entries in the Ledgers by repetition of mistakes in the primary book is minimised.

The use of the Sales Day Book as a summary does not, however, eliminate the risk of error in the record of the totals of the various invoices in this Journal, with the possible result that the total given as the amount to be credited to Sales Account may not be the equivalent of the debits entered upon the personal accounts.

This difficulty may be avoided by the use of a special form of Sales Invoice Book, which contains a wide non-detachable margin between the binding and the perforation along that copy of the invoice which is torn out and despatched to the customer. This space may be filled in with the total of the invoices.

The adoption of an Invoice Book containing three or four, or even more forms on each page, will enable a similar number of marginal amounts to be recorded. The latter may then be totalled from page to page, and the gross amount to be credited to Sales Account thus ascertained.

The further extension of the Slip system in the manner described dispenses entirely with the Sales Day Book, but is in one respect hardly so convenient, for it involves summarising and carrying forward from page to page the totals of a comparatively small number of entries on each. It has also the more serious drawback that the space available for the record of totals seldom admits of classification of the sales, either according to their nature, or according to the Ledgers affected, the latter form of analysis being (as explained hereafter) of great importance in connection with the sectional balancing of the Ledgers. Where the "Slip" system is adopted in regard to sales, it is of importance to see that all the consecutive number of invoices are accounted for.

Invoices made out should naturally agree with the terms of the customer's order, and the system may be adapted to provide that a slip, containing the particulars of the order, made out at the time of its receipt, and subsequently filled in with the full record of everything incidental to its due execution, forms the actual entry in the Sales Day Book. In these circumstances, however, the invoice sent to the purchaser is made up from the particulars contained in the Day Book, in reverse of the usual procedure.

The alternative method indicated is operated on the following general lines. The orders as received are recorded in an Orders Received Book. Instructions as to execution thereof are entered on slips, made out in duplicate and containing full particulars. One slip relating to each order may be passed to the Factory Manager, who will summarise its contents in a Factory Orders Book, and either be transferred by him to the foreman entrusted with the actual work relative to execution, or retained as a record of goods to be supplied or work to be done. Upon completion of the instructions the slip will be returned to the office or counting house, which will at the same time be duly advised that the order has been fulfilled, and which will give the further instructions necessary for despatch of the goods. The slip when returned will contain a full history of the execution of the order given, evidenced by the initials of all persons concerned. It may then be priced out at the values applicable to the goods included and posted in a Sales Day Book (in the form of an Invoice or Voucher Guard Book), forming thereafter for Ledger posting and all other purposes, an original record of the order and its fulfilment.

The duplicate copies retained in the office may, under a suitable system of filing, furnish particulars of orders on hand or completed.

It is not to be supposed that the system indicated can always be put into operation and there must be many cases where, by reason of the nature of the business, other methods will be found more satisfactory. It has been set out simply as an instance of the manner in which the " Slip " system of records may be applied.

Slip Cash Books.

Every entry of cash received and paid forms a record in, and alters the balance of, the continuous account of cash. It may, therefore, be said that as a general rule, there is no distinctive advantage to be obtained in utilising the slip system, at any rate for those transactions directly entered into the Principal or General

	Discounts and All'ces			Cash			A. B. & Co., Ltd.
No. 101 Date Name							......................19.... RECEIVED from.................................... ....pounds, ...shillings and....................pence. ....
No. 102 Date Name							....19.... RECEIVED from.................................... ....pounds, ...shillings and...............pence. ....
Etc.							

Cash Book. But in regard to subsidiary records of cash, incorporated in daily or other totals in the General Cash Book, this may not be so. The case of Cash Sales may be taken as an example, in regard to which the detail transactions frequently appear only in a Receipt Book, or upon the slip of a Cash Register, being introduced into the general account of cash in total. Such simplifications of the methods of record involve the application of the principles of the " Slip " system.

Reference has been made to the use of a subsidiary Customers'

Cash Book to record cash received in respect of credit sales. It is not essential that the record be made in a bound book, and it is possible to use a form of counterfoil Receipt Book in the form given on the previous page, which will serve all necessary purposes.

This form enables the additions to be carried forward from page to page and closed off in respect of each day's receipts. It also renders possible the preparation of a receipt for the customer of which a carbon duplicate may be retained in addition. Where some form of Slip Ledger is in use, it is simple, and may be advantageous, to arrange the book in such form that a triplicate can be obtained which can be attached to and filed with the sales slip, thus recording the satisfaction of the outstanding Ledger account.

The consistent use of carbon duplicates for receipts and of a Receipt Book in the form given makes it difficult to avoid recording in the General Cash Book the full total received.

In regard to cash payments, the " Slip " system does not seem to present any special advantages, and the ordinary method of record in a bound book is usually preferred.

Slip Ledgers.

In cases where single transactions are entered into with a considerable number of persons, a system of Ledger records may be instituted in a form less permanent than that of the ordinary form of a bound book. It will often be desired in such circumstances to arrange that the particulars of amounts owing be retained in accessible form only until such time as the account has been paid.

A method applicable to this purpose would be provided by arranging that the duplicate or an extra copy of the invoice be filed under some alphabetical or other system until payment, when it can be transferred to a permanent binder. By this means reliance is placed upon the original records of all transactions of sales, and the risk of an error involved either in making entries in the Sales Day Book or in posting therefrom to the Ledger is thus avoided.

There is, of course, the necessity for arranging that the total shall be credited to Sales Account, but it is usual as a precaution against the risk of loss of any particular slip, and also as a consecutive record of sales made, to retain a duplicate of each slip in the Invoice Book, from which the required total may be obtained.

It is not usually possible to extend the application of the method outlined to Ledger records in general, and where there is a number of transactions upon individual accounts, the ordinary form of Ledger will in all probability prove more satisfactory.

It is in some cases advisable to provide that statements of debtor's accounts should always be up-to-date. The instance of an hotel may be quoted in illustration. To secure this, it will be necessary to keep written up to date slips, made out in such manner that they form a complete and sufficiently detailed record, showing the balance due from day to day. The slips should be filed upon such alphabetical or other arrangement as will enable them to be obtained immediately when required.

Card Ledgers.

Under the sub-heading "Slip Ledgers" some explanation has been given of a method of record of Ledger accounts upon slips not forming pages in a bound book. The system of Card Ledgers follows similar lines, and consists in the keeping of records upon cards arranged in a box or cabinet, each card in which contains a Ledger account and corresponds to the folio in a bound Ledger. As with slips, the cards are easily removed, but are usually controlled by some form of key and are to that extent less likely to be lost.

The advantages of this method of record are—

(1) The cards can be kept in any desired order, and an index may therefore be less necessary.

(2) The whole series of transactions upon an account extending over more than one card can be contained on successive cards placed in order, and not, as may occur with the ordinary form of Ledger, be shown on non-consecutive folios.

(3) The Card Ledger in regular use can be relieved periodically of cards relating to "dead" or closed accounts, while new cards can be inserted as required. The Ledger is thus perpetual.

On the other hand, there are certain disadvantages to be considered—

(1) A card may be removed for fraudulent purposes and possibly an inaccurate one be substituted.

(2) A card may be lost.

It is sometimes suggested that records contained in a Card Ledger may not be accepted as evidence if produced in a Court of law. There can be little doubt that a card forming part of a regular system of book-keeping may be used to precisely the same extent as an account contained in a bound Ledger. In any case, the state of an account is not necessarily proved merely by production of the Ledger account, which is simply a record of transactions made as they have occurred, and which will enable a witness to confirm his recollection of the facts, but which, if its accuracy is questioned, is to be proved correct only by production of actual evidence of the transactions themselves.

The disadvantages set out above do undoubtedly reduce the value of this form of Ledger. They may be to some extent lessened by the institution of a method of record of the cards inserted in and removed from the Ledger. Such systems, however, are not invariably simple to operate and the disadvantages are difficult altogether to avoid.

Loose Leaf Ledgers.

The aim in view in regard to this class of Ledger is that of combining the advantages of both the card and bound Ledger forms.

When properly operated, it gives the conveniences in arrangement of accounts and continuity of the card system, while avoiding the risk of loss or misplacement, whether fraudulent or otherwise, of an account.

The principle of Loose Leaf Ledgers consists in binding into a cover sheets, fixed in such a way that by unlocking (but—in a satisfactory form—by no other means than by tearing out a page) the folios can be removed, or, if necessary, fresh ones inserted.

There is in this form of book no advantage attaching to Card Ledgers which it also does not possess. The leaves can be inserted in such order as may be desired; new leaves can be introduced when required; while those completely filled up or of closed accounts may be removed to a subsidiary Ledger.

The Loose Leaf Ledger has the great advantage that to make an entry in it, does not, as in the case of a Card Ledger, cause all the accounts to be temporarily unlocked and thus removable at will. Such limited risk of displacement as does exist can usually be avoided by a record of leaves issued and transferred and by a periodical check upon the numbers of the leaves retained.

The usual method of arrangement of the Ledger accounts is alphabetical, thus rendering it self-indexing, but it is obvious that accounts may be grouped in any way desired. They may, for instance, be collected under the names of travellers, arranged alphabetically, with a similar order for the accounts grouped under each name, or there may be a sub-index for each section, in which case new accounts would be placed behind the last in the particular group, and it would be possible to number the leaves of each group consecutively.

The loose-leaf principle can be applied in regard to books of first entry, and is essentially the same as the slip system, the leaf being fixed in a permanent binder when it has served the purposes of record intended.

In practice, it is often found that a number of Ledgers for Debtors or Creditors, as the case may be, are kept, which contain many closed accounts. The use of a Loose Leaf or Card Ledger, which makes it possible to reduce the book in use so that it contains only "live" accounts, will enable all open accounts to be kept in a smaller volume. This may be a considerable advantage.

It is sometimes claimed as a special advantage of the Slip, and to a certain extent of the Loose Leaf, systems, that they permit of a subdivision of the work of posting, extraction of balances, preparation of statements of account, etc. While this may be the case, it is clear that the release of slips and leaves from their proper place presents certain opportunities for fraud or carelessness.

CHAPTER III

SINGLE ENTRY

The form of book-keeping termed "Single Entry" is of very limited value, and is seldom found in use in any case that involves credit transactions or dealings of large amount. It may, however, be found to exist where the business is concerned mainly with transactions for cash, or where accounting organisation is defective.

Where all transactions are immediately concluded by a cash payment or receipt, and the increase in cash balance therefore furnishes an index of profit, single entry may prove to be an adequate record for purposes in view. These circumstances, except perhaps as regards shopkeepers and the like, for whom a system of book-keeping by double entry may seem desirable in theory but practically impossible, seldom apply, and single entry as a system of record is rarely adequate.

An accountant may be concerned in the ascertainment of financial position and results of transactions recorded by single entry, and he may be required, either to convert the records into double entry, or to express the results in the form which they would have assumed had this method been employed.

The problems arising may be summarised thus—

(1) The opening of a set of books on the system of double entry from single entry records;

(2) The ascertainment from single entry records of past profits or losses;

(3) The absolute conversion to double entry of books written up on the principle of single entry.

Opening Double Entry Books from Single Entry Records.

The first of the problems indicated is difficult only in that the records available are not as a rule in a form which furnishes completely and conveniently the information required. It is necessary that a full and accurate statement of the financial position be prepared. This will contain all assets and liabilities and disclose the surplus representing the proprietor's capital. It has been pointed out elsewhere that it is not necessarily the case that double entry provides an accurate statement of all transactions, but the system of record which double entry implies renders error less easy than under single entry, and it is seldom the case that a system of accounting not founded on the principle of the former provides from the books themselves full information as to assets and liabilities.

Single entry, in theory, involves one entry in regard to each transaction, but it is probable that the term is used to describe any method that does not adopt double entry in its complete form, and is applied to systems involving partial double entry. It may be found that only personal accounts are kept, together with a record of each transaction; the latter would be posted to the personal accounts, and to this extent give partial double entry. In other cases, however, no Purchases, Sales or other Journals may exist, and it is seldom that impersonal Ledger accounts are maintained.

The difficulty in opening a set of books upon double entry consists entirely in the ascertainment of the financial position at a given date. The Ledgers, if any, may furnish information as to debtors and creditors, the latter proved or supported by the invoices; stock will be taken in the ordinary way; cash and bank balances must be ascertained; and, from any particulars available, the proper value of other assets, such as Plant and Machinery, Fixtures, Buildings, etc., must be obtained. For some of these, the information at hand may be inadequate to enable a sound judgment to be made. It is in this connection that the principal difficulty arises.

Assuming that the difficulties referred to are successfully dealt with and the following Statement of Affairs is prepared—

STATEMENT OF AFFAIRS, 1st January, 1918.

Liabilities.	£	*Assets.*	£
Sundry Creditors	1,262	Plant and Machinery	864
Provision for Rent, Rates, etc., outstanding	47	Fixtures and Fittings	64
		Sundry Debtors	1,322
		Stock on hand	643
	1,309	Bank	541
John Jones, Capital	2,140	Cash in hand	15
	3,449		3,449

a Journal entry for opening the books upon the basis of the particulars shown would be framed as follows—

1918.			
Jan. 1	Sundries . . . . . . Dr.		
	To Sundries	£	£
	Plant and Machinery . . .	864	
	Fixtures and Fittings . . .	64	
	Sundry Debtors	1,322	
	Stock on hand	643	
	Bank	541	
	Cash	15	
	Sundry Creditors . . .		1,262
	Rent, Rates, etc. (or Suspense A/c)		47
	John Jones, Capital A/c . .		2,140
	Being assets and liabilities at date.		

The balances accounting for the items of Sundry Debtors, Bank, Cash, Sundry Creditors, etc., are possibly already contained in the books, and, unless an entirely new set is being opened, would not require to be posted from the entry given.

From this stage, the problem presents no special difficulties. It will be necessary merely to introduce the books of first entry required, arranged in such manner as the nature of the transactions to be recorded may render necessary, and to provide for a complete system of accounting upon the double entry system for the future.

Ascertainment of Results from Single Entry Records.

The second problem submitted depends for its solution upon the preparation of statements of the financial position as at beginning and end of the period under consideration. It has already been stated that profit is indicated by the Balance Sheet and is not dependent on a system of book-keeping, although its ascertainment is facilitated thereby. It will appear as the amount by which the surplus of assets over liabilities has improved, with due regard to drawings (if any), for these, if undrawn, would have operated to increase the surplus at the later date. Thus, the ascertainment of the *amount* of profit introduces no new feature of difficulty, but this, without particulars of the gains and losses contributing to the net result, would not be of great value, and the problem under consideration resolves itself more frequently into the ascertainment of net profit, together with an analysis of gains and losses in the form of the ordinary Profit and Loss Account.

In order that this may be accomplished and may be made an accurate summary, it will be necessary in the first place to analyse such entries as the books contain, constructing concurrently the double entry, where non-existent, by raising any necessary totals, and proving the general accuracy of the analysis by the preparation of a Trial Balance (in manner hereafter explained) in the form which this would have assumed had double entry been adopted throughout.

For the purposes of more detailed explanation, it is assumed (in a given case) that the following books exist in respect of what is loosely termed a system of single entry, viz.—

Debtors' Ledger,
Creditors' Ledger,
Cash Book.

The Cash Book contains both cash and bank transactions, and is duly posted so far as personal accounts are affected. It will probably prove necessary to check the accuracy of the postings, and to rectify all errors existing.

The first step will be the ascertainment of the position as at the opening date. It is assumed, as a matter of convenience, that this is correctly set out in the Statement of Affairs as at 1st January, 1918, shown on p. 29, which, for the purposes of the proposed analysis, is to be taken as having created Ledger balances in the form shown by the Journal entry on p. 30. So far as the balances of Debtors and Creditors as they appear in the Ledger differ from the amounts accepted in preparation of the opening statement, it will be necessary to adjust the Ledger.

Of the various balances shown, Debtors, Creditors, Cash and Bank balances appear in the books. The remaining items may actually be opened as balances if desired, but it will probably be sufficient to regard them for the moment as equivalent to balances, treating them as such when the final statement in the form of a Trial Balance is prepared.

The next step will be the analysis for the period in question (assumed as the year 1918) of the books of account actually kept, The Debtors' Ledger may be taken first for consideration, and would be analysed as to each account, page by page, as shown on page 33.

Single entry, owing to its absence of system, is frequently accompanied by considerable laxity in the squaring of Ledger personal accounts, and in constructing an analysis in the manner indicated it may frequently be necessary to give effect to entries required for discount allowed and received, credits and allowances, etc.

The result of the classification obtained may be set out (with assumed figures) as follows—

DEBTORS' LEDGER ANALYSIS.

	Dr. £	*Cr.* £
Cash credited	5,035	
Discounts allowed	112	
Returns	116	
Bad Debts	34	
Balances at 31st Dec., 1918	1,450	
Balances at 1st January, 1918		1,322
Sales		5,360
Cash debited		65
	6,747	6,747

The amount appearing from this summary as the total of cash credited to the accounts of debtors should, of course, agree with the corresponding total of the amounts recorded as Cash Book receipts under this head.

The analysis of the Creditors' Ledger follows similar lines, and will be made as shown on the following page.

The information obtained (again with assumed figures) will be set out as follows—

CREDITORS' LEDGER ANALYSIS.

	£	£
Balances as at 1st January, 1918	1,262	
Purchases	4,640	
Cash credited	26	
Cash debited		4,822
Discounts received		56
Returns		32
Balances as at 31st December, 1918		1,018
	5,928	5,928

DEBTORS' LEDGER.

Dr. *Cr.*

Folio.	Name.	Balance at 1st Jan. 1918.	Sales.	Cash.	Total.	Cash.	Discount.	Returns.	Sundries (Bad Debts, etc.)	Balance at 31st Dec., 1918.

CREDITORS' LEDGER.

Dr. *Cr.*

Folio.	Name.	Cash.	Discount.	Returns, etc.	Sundries (Bills Payable, etc.).	Balances as at 31st Dec., 1918.	Total.	Balances as at 1st Jan., 1918.	Purchases.	Cash.

As in the case of the Debtors' Ledger, the cash entered in the Creditors' Accounts will have been posted from the Cash Book, and will therefore agree with the corresponding total appearing upon the analysis of cash transactions yet to be described.

The entries resulting in the construction of such Ledger accounts as have been created will thus have been classified. It remains to analyse the cash transactions.

For this purpose, the following form may be adopted—

Dr. *Cr.*

Balance as at 1st Jan., 1918, and Capital A/c Items.	Debtors' Ledger.	Creditors' Ledger.	Cash Sales.	Realisation of Assets and Sundries.	Total.	C.B. fo.	Creditors' Ledger.

The results of the analysis obtained will be set out as follows, the amounts stated being, of course, assumed for the purposes of more complete illustration—

ANALYSIS OF CASH BOOK.

	£	£
Balance as at 1st January, 1918		556
Capital A/c (amounts received)		680
Cash credited, (Debtors' Ledger)		5,035
,, ,, (Creditors' Ledger)		26
Cash Sales		365
Investments A/c (realisation)		640
Cash debited (Creditors' Ledger)	4,822	
,, ,, (Debtors' Ledger)	65	
Investments A/c (purchase)	655	
Plant and Machinery (purchase)	35	
Cash Purchases	82	
Wages	340	
Office Expenses	180	
Rent and Rates	170	
Other Trade Expenses	76	
Drawings	254	
Balance as at 31st December, 1918	623	
	7,302	7,302

It will be observed that the analysis of transactions appearing in the Cash Book has been made by treating cash and bank entries as if both were made upon the same account. It must, however, be ascertained by the checking of the bank pass-book that the Cash Book contains all bank account transactions, in order that the analysis may be complete. The balance as at 31st December, 1918, may, of course, be divided as between the amounts for cash and bank respectively.

The whole of the entries contained in the books have thus been analysed and the results of analysis set out in a series of what may

Debtors' Ledger.	Capital Expenditure.	Revenue Accounts.				Drawings and Balance as at 31st Dec., 1918.	Total.
		Cash Purchases.	Wages.	Office Expenses.	Etc.		

be termed for convenience Trial Balances, thus arriving at the result achieved by double entry.

It may still be necessary, as with a Trial Balance prepared from entirely accurate records, to consider whether there are omissions of assets or liabilities in the figures set out, and whether any assets are stated beyond their true value.

The following statements are now to be dealt with in an amalgamated Trial Balance, viz.—

> Statement of Affairs, as at 1st January, 1918,
> Analysis of Debtors' Ledger,
> ,, ,, Creditors' Ledger,
> ,, ,, Cash Book.

This amalgamation will have the effect of eliminating items appearing on both sides, such as the opening balances of debtors, creditors and cash. Treating such amounts as cancelled, a summary of the remaining items may be prepared as in the form given on page 36.

From the Trial Balance as now appearing, and with the value of the Stock on hand at the closing date, the Trading and Profit and Loss Accounts and Balance Sheet can be prepared. In drawing up these statements it will be of importance, as already noted, particularly in view of the inadequate system of accounting from which the statements have been compiled, to inquire whether, on the one hand, the figures contained in the Trial Balance are inclusive of all liabilities, and, on the other, whether the values attributed to assets are accurate.

TRIAL BALANCE AS AT 31ST DECEMBER, 1918.

Statement of Affairs—	£	£
Plant and Machinery	864	
Fixtures and Fittings	64	
Stock on hand	643	
Rent, Rates, etc., outstanding 1st Jan., 1918		47
John Jones, Capital A/c . . .		2,140
Debtor's Ledger Analysis—		
Discounts allowed	112	
Returns Inwards	116	
Bad Debts	34	
Balances as at 31st December, 1918 . .	1,450	
Sales		5,360
Creditors' Ledger Analysis—		
Purchases	4,640	
Discounts received		56
Returns Outwards		32
Balances as at 31st Dec., 1918 . . .		1,018
Cash Book Analysis—		
Capital A/c		680
Cash Sales		365
Investments A/c (loss)	15	
Plant and Machinery	35	
Cash Purchases	82	
Wages	340	
Office Expenses	180	
Rent and Rates	170	
Other Trade Expenses	76	
Drawings	254	
Bank balance, as at 31st December, 1918 .	610	
Cash ,, ,, ,, .	13	
	9,698	9,698

The analysis of entries according to the methods indicated will in the ordinary course correct or confirm, to a considerable extent, the opening Statement of Affairs, in that it may bring under consideration transactions disclosing assets and/or liabilities of the antecedent period which have not so far been included therein.

It is necessarily the case that the details of the method of analysis adopted must be adapted to the circumstances. It may be necessary, perhaps, to vouch some considerable part of the entries made or to write up transactions unrecorded, to ensure that the final summary shall be a sufficient basis for preparation of Profit and Loss Account and Balance Sheet.

Conversion to Double Entry.

The further problem suggested, that of detailed conversion to double entry of transactions recorded by single entry presents little difficulty. There will, perhaps, not be many occasions when this is necessary, for the results obtained by the method of analysis already described represent probably the principal advantage obtainable from the more laborious course indicated. It will probably prove sufficient in the majority of cases to arrange that the system introduced for the future provides the essentials of an adequate system of record by double entry.

Should it be necessary to enter upon the work involved by the construction of a complete double entry within the books themselves, this will involve the writing-up of the various books of first entry not hitherto kept. Analysis of Ledger accounts may still be required in order to obtain the necessary information, and difficulty may be experienced in giving effect to the entries, materials for which will be obtained from many Ledger accounts, in chronological order.

CHAPTER IV

STOCK AND STORES ACCOUNTS

REFERENCE has been made elsewhere to the importance of strict accuracy in the records of the quantities and values of stock. In businesses of a certain character such as jewellers, diamond merchants, etc., where the cost of each item of stock is considerable, an absolute record of each transaction of purchase and sale in the Stock Accounts is commonly regarded as essential, but in other cases less exact methods which are yet sufficiently accurate for the purpose in view may be employed. The various forms which stock records may assume are alike in principle. In certain instances, more particularly in regard to raw materials, etc., consumed in manufacturing operations, the records may be limited to entries of quantities or bulk, while in other cases they may contain full particulars of money values. Two examples are submitted in illustration. That first given records the transfer of raw material from store to process, and traces its progress through three distinct stages of manufacture, each involving different standards or units of cost. It may be taken as applicable, say, to a business undertaking the conversion of scrap rubber into a serviceable finished product, or some similar series of operations. The second example purports to be an extract from the Stock Book of a firm of Provision Merchants. In this book a separate section under the one general heading of the type of goods in question would be opened for each lot purchased. The result of all such accounts in total should be capable of agreement with the gross profit appearing upon general stocktaking.

RAW MATERIALS.

1919.			1920.		
Dec. 31.	To Stock on hand	13,280 lbs.	Jan. 31.	By Transfer to process "A"	7,420 lbs.
1920.					
Jan. 31.	,, Purchases . .	6,416 ,,	Feb. 28.	,, Do. do.	8,430 ,,
Feb. 28.	,, do. . .	5,680 ,,	Mar. 31.	,, Do. do.	6,560 ,,
Mar. 31.	,, do. . .	8,732 ,,	,,	,, Balance .	11,698 ,,
		34,108 ,,			34,108 ,,
Mar. 31.	To Balance . .	11,698 ,,			

STOCK ACCOUNT PROCESS "A."

1919.			1920.		
Dec. 31.	To Stock in process at date .	1,615 lbs.	Jan. 31.	By Transfer to Process "B"	8,716 lbs.
1920.			Feb. 28.	,, Do. do.	6,440 ,,
Jan. 31.	,, Transfers of raw materials	7,420 ,,	Mar. 31.	,, Do. do.	7,236 ,,
Feb. 28.	,, Do. do.	8,430 ,,	,,	,, Waste (2 %) .	447 ,,
Mar. 31.	,, Do. do.	6,560 ,,	,,	,, Balance . .	1,186 ,,
		24,025 ,,			24,025 ,,
Mar. 31.	To Balance . .	1,186 ,,			

STOCK ACCOUNT PROCESS "B."

1919.			1920.		
Dec. 31.	To Stock in process at date .	2,245 lbs.	Jan. 31.	By Transfers to Process "C"	6,873 lbs.
Jan. 31.	Transfers from Process "B"	8,716 ,,	Feb. 28.	,, Do. do.	7,462 ,,
Feb. 28.	,, Do. do.	6,440 ,,	Mar. 31.	,, Do. do.	7,741 ,,
Mar. 31.	,, Do. do.	7,236 ,,	,,	,, Waste (3·5 %)	776 ,,
			,,	,, Balance . .	1,785 ,,
		24,637 ,,			24,637 ,,
Mar. 31.	To Balance . .	1,785 ,,			

STOCK ACCOUNT PROCESS "C."

1919.			1920.		
Dec. 31.	To Stock in process at date .	1,265 lbs.	Jan. 31.	By Transfer to Finished Stock	7,140 lbs.
1920.			Feb. 28.	,, Do. do.	7,213 ,,
Jan. 31.	,, Transfers from Process "B"	6,873 ,,	Mar. 31.	,, Do. do.	6,851 ,,
Feb. 28.	,, Do. do.	7,462 ,,	,,	,, Waste (1 %) .	219 ,,
Mar. 31.	,, Do. do.	7,741 ,,	,,	,, Balance . .	1,918 ,,
		23,341 ,,			23,341 ,,
Mar. 31.	To Balance . .	1,918 ,,			

FINISHED STOCK ACCOUNT.

1919.			1920.		
Dec. 31.	To Stock on hand	15,280 lbs.	Jan. 31.	By Sales	8,762 lbs.
1920.			Feb. 28.	,, ,, ...	13,141 ,,
Jan. 31.	,, Transfers from Process "A"	7,140 ,,	Mar. 31.	,, ,, ...	5,653 ,,
Feb. 28.	,, Do. do.	7,213 ,,	,,	,, Loss on Stock-taking . .	34 ,,
Mar. 31.	,, Do. do.	6,851 ,,	,,	,, Balance . .	8,894 ,,
		36,484 ,,			36,484 ,,
Mar. 31.	To Balance . .	8,894 ,,			

NOTES.—The quantities of Purchases and Sales are to be obtained from the Day Books by the adoption of a simple form of ruling with a column for weights. Those of goods in process should be obtainable under any satisfactory system of factory accounting, as hereafter explained.

LONG CLEAR (HAMS).

1920.	Purchases.	No.	P.B. Fo.	Amount. £	s.	d.	1920.	Sales.	No.	S.B. Fo.	Price.	Amount. £	s.	d.
July 18	G. & J. Nickson, Cudahy, 40 boxes N.Y. Hams . . ◈ @ 55/6 .	40	62	111	–	–	July 20	O'Leary, Ballyshannon . . .	1	18	56/3	2	17	6
							,, 22	Harley, Liverpool .	5	22	57/–	14	3	10
							,, 24	Duffy, Cork . . .	3	25	57/–	8	11	–
							,, 31	Cowan, Wexford .	1	38	56!6	2	16	6
	Freight			12	10	–	Aug. 6	Martin, Wexford .	4	50	58/–	11	13	3
Oct. 31	Profit			4	10	7	Sept./Oct.	Sundry (in detail) .	18	—		63	4	6
							Oct. 31	Balance (Stock) . .	8	—	55/6 & frt.	24	14	–
				128	–	7			40			128	–	7
1920.														
Oct. 31	@ 55/6 & frt.— Balance (Stock) .	8		24	14	–								

NOTES.—The debits are obtained either by direct entry from the Invoices, or by posting from the Invoice Journal, and the credits from the Sales Day Book. It is clear that, if all purchases and sales of goods are similarly treated, the summary of the detail items of Profit and Loss will agree with the balance of the Trading Account.

The two systems illustrated obviously are of considerable service in the verification of stock-taking results, and have further advantages in providing those responsible for direction of the business with a sound idea of the quantity and nature of the stocks under their control.

This must not only conduce to greater economy in investment of capital in stocks, but (in Case 1) enable production to be adjusted to current requirements, or (in Case 2) a better view to be formed of the sources of the profit earned. In the latter, it will be observed that it has been found expedient to develop the stock records so as to include values.

In a factory of importance, the Stores Ledgers will be kept in the General Office, and be supplemented by a record in each Stores in the form of Stock or Bin Cards. Dealing first with the latter, we may, for convenience, divide Stocks into (1) Raw Materials, (2) Process Stocks.

Raw Materials.

Debits will be opened on Bin Cards from signed and checked Receiving Slips. The General Office will make out a slip in respect of each invoice or advice to hand, and this will be issued to the Stores Clerk in duplicate. The slip will contain such particulars as to quantity, quality, etc., of goods receivable, as will enable the Stores Clerk to sign a receipt for the goods, or, alternatively, to qualify his receipt by note of differences in weight, etc. Upon receipt of the goods, the Stores Clerk will clear the Receiving Slip, enter up his Bin Card, and advise the General Office by an Inwards Slip or by return of the Receiving Slip duly discharged. The latter will form the basis of entry in the Stores Ledger and be cross-checked eventually against the invoice for the goods as entered in the Purchases Journal. Issues will be based on Requisitions from factory departments, rendered to the Stores Department in duplicate. On issue of goods, one copy will form the basis of entry on the Bin Card, the other will accompany the goods and be returned receipted. Where frequent issues are made daily, a Daily Requisition may be used and the daily total posted.

The particulars of opening stocks, receipts, issues and finishing stocks in each section of the Stores will be represented in a Daily Return, rendered to General Office and supported by Receiving

Slips and Requisitions (receipted). It may be arranged that the Stores Ledgers be posted from the totals shown on these sheets and not from the detailed records referred to.

In a large factory the Stores Ledger may contain several hundreds of accounts, each supported by a Daily Return.

In such cases it is usual (and it is desirable even where the stock is not either great or varied) to employ a staff upon Continuous Stocktaking, whose duty it is to take a physical stock against selected Bin Cards at frequent intervals. By this means errors in Bin Cards and Stores Ledgers are quickly ascertained and adjusted.

Process Stocks.

The record of stocks in process is frequently complicated by reason of physical changes in the raw material. Some record is, however, desirable, and is usually obtained by a system of departmental returns of material received, output delivered and stocks on hand. A simple illustration is given on pp. 38 and 39. In this particular case the nature of the operations lends itself to systematic record in the form of Ledger accounts. This can hardly be so in other cases, as, for instance, the class of business to which Process Costs are applicable, when reliance must be placed upon Factory Returns, tested by quantitative analysis in manner described elsewhere (see Cost Accounts). Ledger records can, of course, be kept in respect of Finished Products, and these, together with the departmental stocks, should be checked by the continuous stocktaking already referred to, while, so far as the circumstances lend themselves, the system of Bin Cards will be found to be a useful supplementary record.

The record of Stores and miscellaneous Stocks of a small engineering shop or similar concern is sometimes arranged for the smaller articles, such as screws, nuts, bolts, etc., in a similar manner.

It is essential that each size and description of article be kept separately, and for this purpose the stock can conveniently be arranged in a system of compartments, each duly ticketed with a Bin Card showing the class of goods contained therein. Such tickets or cards may be ruled in the form of a Stock Ledger account, and so affixed as to be easily detached for the purposes of entries.

EXAMPLE—

No................. ....STOCK CARD.

Date.	Goods in.	Quantity.	Date.	Goods out.	Quantity.

The balance of quantities shown by the cards from time to time give an index of stock requirements, while the cards themselves, which are written up from the Stocks Received and Stock Issued Books, show the particulars of receipts and issues of the goods in question. The chief drawback to this extension of the Card System is the absolute reliance necessarily placed on the Stock Clerk, and the difficulty of independent check. It is, however, not difficult to obtain a general, though inexact, control by values, in conjunction with a suitable subdivision of the purchases in the financial books, while periodical tests will be made of the accuracy of entries on the Bin Cards.

In arranging the general lines of Stores Accounts distinction is usually made between Raw Materials, *i.e.*, those forming a basic part of production, and General Stores, including the minor accessories of a factory, such as oil, waste, (some) chemicals, repairs stores, etc. In some cases the records may comprise a register of working tools, or loose tools and plant. The form of a Plant Ledger (for fixed plant) is given elsewhere, and the necessary adaptation is obvious.

In operating any considerable system of Stores Accounts, difficulties of valuation of issues to production may be encountered, usually in cases where there have been fluctuations in buying prices, and cost prices of actual articles issued are not readily ascertainable. The usual course is, either to assume the value of issues as the values of those articles longest in stock, or to take them at an average price with periodical adjustment by revaluation of stocks on hand.

There are in ordinary use in comparison with book-keeping records two forms of indirect check upon stocks known as the "selling price" and "departmental gross profit" systems.

The former proceeds upon the principle of charging a branch or department with the selling value of stock transferred to it, thus making it accountable for the full proceeds of such goods, either in cash, if sold, or in the sale price of the portion unsold, or, of course, partly by both.

For convenience of explanation, *pro formâ* Trading Accounts are submitted, prepared in reference to the same transactions, the former framed according to the usual methods, the latter upon the "selling price" principle under consideration.

TRADING ACCOUNT (1).

1918.		£	s.	d.	1918.		£	s.	d.
Jan. 1	To Stock on hand	11,850	–	–	Dec. 31	By Sales	64,036	–	–
Dec. 31	„ Purchases	46,517	–	–	„	„ Stock on hand	10,340	–	–
	„ Balance, Gross Profit 25 %	16,009	–	–					
		74,376	–	–			74,376	–	–

Note.—25 % on Selling Value equals 33⅓ % on cost.

TRADING ACCOUNT (2).

1918.		£	s.	d.	1918.		£	s.	d.
Jan. 1	To Stock on hand	15,800	–	–	Dec. 31	By Sales	64,036	–	–
Dec. 31	„ Purchases	62,023	–	–	„	„ Stock	13,787	–	–
		77,823	–	–			77,823	–	–

In the second account the Purchases and the Stocks at beginning and end of the trading period are valued at selling prices, and are balanced by the actual proceeds of sales.

In practice, of course, the system will not work out with absolute exactness, and differences are bound to arise, which, in the absence of fraud, should not be large, at any rate, where the rate of gross profit can be approximately calculated in advance.

This method is perhaps best suited to the small branches of a retail business, dealing mainly for cash, and in regard to which it is found desirable to simplify the book-keeping at the branches as much as possible.

The alternative method proceeds upon a similar assumption of the earning of an approximate average of gross profit, which, when duly debited against the Trading Account, determines (although by estimate) the approximate value of the stock on hand. The account, however, is in other respects constructed on ordinary lines.

ILLUSTRATION.

BOOT AND SHOE DEPARTMENT, TRADING ACCOUNT.

1918.		£	s.	d.	1918.		£	s.	d.
Jan. 2	To Stock on hand (actual) . . .	687	–	–	Jan. 9	By Sales	235	–	–
9	„ Purchases . . .	143	–	–	„	„ Stock (estimated) .	665	–	–
„	„ Gross Profit (est'd) 30 %	70	–	–					
		900	–	–			900	–	–
Jan. 9	To Stock on hand . .	665	–	–	Jan. 16	By Sales	315	–	–
16	„ Purchases . . .	245	–	–	„	„ Stock (est'd) . . .	689	–	–
„	„ Gross Profit (est'd) 30 %	94	–	–					
		1,004	–	–			1,004	–	–
Jan. 16	To Stock on hand (est'd)	689	–	–					

This system is peculiarly suited to the purposes of a trading stores with a fair number of departments. Where, from past experience, the rate of gross profit can be determined with reasonable accuracy, no great differences should appear as between the values of actual and estimated stock. It is obviously inconvenient to arrange for a weekly stocktaking, and by a statement in the general form given, the approximate fluctuations in stock can be observed. In practice it will be found to be the case that departmental managers are desirous of improving their respective turnovers by holding for disposal as large and as varied a stock as possible. A continuous increase in the estimated values of the stock may thus be explained, and would then be subject to the approval of those in control of the business as a whole, or it may be that it is caused by defalcation in respect of turnover, or, again by the debiting of a rate of gross profit greater than that actually earned.

It must be understood, of course, that the departmental Trading Accounts do not appear in the books of account in the form given. They are prepared chiefly as an interim check upon the trading transactions and should be confirmed by the ordinary periodical stocktaking. For convenience, the schedule of departmental estimates is usually presented in tabular form as given on page 46.

Goods on Appro. or on Sale or Return.

The consideration of the treatment of goods sent " on approval " or on terms of " on sale or return " may properly be introduced in connection with Stock Accounts, for such goods, until accepted,

1918.		Dept. A.	Dept. B.	Dept. C.	Dept. D.	Etc.
Jan. 2	Stock on hand					
" 9	Purchases . .					
	Gross Profit .					
	Less Sales . .					
" 9	Stock on hand					
" 16	Purchases . .					
	Gross Profit .					
	Less Sales . .					
" 16	Stock on hand					

constitute stock. For purposes of record of the despatch of such goods a memorandum may possibly serve all necessary requirements particularly where made in a book so ruled as to be capable of being used as an ordinary Journal also. In the example set out, it is to be understood that the last column alone affects the book-keeping entries, the other particulars being in the nature of memoranda only.

Date.	Goods Despatched. Name and Particulars.	Stock Book Fo.	Invoice No.	Amount.		

Date.	Goods Returned.		Goods Returned.			Goods Accepted.	Goods Accepted.		
		Stock Book Fo.	Amount.			Fo.	Amount.		

A book in the above form should, from inspection, readily furnish particulars of goods not returned. Care has naturally to be exercised in stocktaking to provide that goods not marked off in the Appro. Book have not in fact been returned, nor again, charged elsewhere as an ordinary sale. In the former case, the risk will be that of inclusion twice in the stock on hand, and in the latter of inclusion of the goods as part of the stock out on appro. in addition to the book debt opened in respect of the transaction.

To avoid the latter difficulty, it is sometimes preferred to post to the Ledger accounts of customers (in memorandum) the values of the goods, keeping for this purpose a Ledger in double column of which the left-hand columns, debit and credit, record the despatch and return respectively of goods on appro.

Crates, Packages, etc.

The practical problems involved in connection with the records of crates, packages, etc., are as follows—

(1) The articles in question are frequently of considerable value.

(2) The charge made for those not returned usually shows a profit above cost.

(3) The greater part of those charged up are likely to be returned, and will, as the result of use, be worth less than cost.

There are two alternative methods in common use—

(1) Where the usual practice is to return crates, etc., it may be thought most convenient not to record them in any way upon the customers' Ledger accounts, but to keep merely a memorandum thereof, to show their despatch and due return. For this purpose a modification of the card system may be found of advantage.

(2) As a matter of strict accounting, a more satisfactory method is to charge up the full amount of the invoice (inclusive of crates, etc.) upon the Ledger accounts, and to credit the customer as and when the crates are received back. It is desirable, however, that a form of Ledger ruling be adopted that will distinguish the entries in respect of these articles from those for ordinary goods. This distinction is the more important in that the debits in question cannot be said to be of full value as debts, and it will be necessary when drawing up the Profit and Loss Account, to make provision for the loss in value of crates, etc., outstanding as balances upon Ledger accounts, but which are likely subsequently to be returned.

Where this system is adopted, it is convenient to use a form of Ledger with double money columns, for crates, etc., and goods respectively.

CHAPTER V

ANALYSIS OF TRANSACTIONS (I)

BOOKS of first entry are frequently in columnar form, permitting of analysis of entries according to the method desired. The object of such analysis is the furnishing of totals of particular classes of transactions, determined possibly by their effect on the book-keeping system (as where the classification is made according to the Ledgers containing the double entry), cr undertaken with the object of classifying transactions according to their nature. These objects may be combined.

Adjustment Accounts.

It is proposed first to consider the uses of the method of analysis where employed to assemble totals of entries from the various books of prime entry in relation to the Ledgers affected, on what is known as the system of " sectional balancing." By this means, the *primâ facie* accuracy of a Ledger, or group of Ledgers, may be established, without regard to others. Differences shown in the double entry by the Trial Balance may thus be located and more easily discovered.

For the purpose in view, it is usual to create in respect of each Ledger, or group of Ledgers, a Controlling or Adjustment Account, representative in summary form of the detailed entries in such Ledger or group.

When properly constructed, the Adjustment Account will contain no entry, in detail or as part of a total, which is unrecorded in the subsidiary Ledger, nor on the other hand will it omit to record any transaction which may be contained in the latter.

On the following page is the *pro formâ* Adjustment Account relating to the Sales or Debtors' Ledgers of a trading company.

Upon consideration of the account set out, it will be observed that it forms a summary of the entries made in detail upon the accounts in the subsidiary Ledger. It requires little demonstration to show that an account accurately prepared in this manner and according to the principles described must show as a balance an amount equal to the total of the detailed balances in the Debtors' Ledger or Ledgers to which it relates.

SALES LEDGERS' ADJUSTMENT ACCOUNT.

		£	s.	d.			£	s.	d.
1917. Dec. 31	To Balance . . .	24,220	–	–	1918. Dec. 31	By Cash . . .	274,675	–	–
1918. Dec. 31	„ Sales . . .	286,135	–	–	„	„ Discount . .	618	–	–
„	„ Cash . . .	322	–	–	„	„ Returns & Allowances	1,122	–	–
					„	„ Bad Debts .	179	–	–
					„	„ Bills Receivable .	345	–	–
					„	„ Transfers to other Ledgers . .	1,320	–	–
					„	„ Balance carried down	32,418	–	–
		310,677	–	–			310,677	–	–
1918. Dec. 31	To Balance brought down	32,418	–	–					

There is an obvious advantage in the ability to establish the accuracy of some particular Ledger or group of Ledgers without regard to others, and the operation of the system of double entry in regard to any considerable volume of transactions would become very difficult without a series of controls of the kind described. In practice, the main Adjustment Account, controlling a group of Ledgers, may be found to be subdivided, so as to provide a separate control account for each Ledger of that group.

Thus, for purposes of contrast, a trading concern using (say) three Ledgers, each with approximately 1,000 accounts, may properly and conveniently keep three distinct Adjustment Accounts; on the other hand, a bank with (say) forty Ledgers would find it impossible so to arrange the books as to provide analysis for so large a number. These would be arranged into various main groups, Current Accounts, Deposit Accounts, Produce Loans, etc., and a Control Account for each would be maintained in the General Ledger. The main accounts would then control the whole of the Ledgers in the various groups, and differences could be located accordingly. It would not be impossible, however, for a subsidiary analysis to be made of the entries falling into each group, so as to provide a control on a less extensive basis; this, however, would be additional to the main account for that group and would not find place in the General Ledger.

For convenience in arriving at the desired analysis, the books of first entry will be arranged in columnar form. Assuming that it is proposed, for example, to arrange for the control by Adjustment

Accounts of each of three Debtors' Ledgers, classification of entries proceeding from the following books will be required, viz.—

Sales Day Book,
Returns and Allowances Journal,
Cash,
Ordinary Journal.

The last-named will contain such entries as relate to bills receivable, bad debts, transfers, etc.

The Sales Day Book and Returns and Allowances Journal will be modified in form as follows—

Date.	Particulars.	Fo.	Total.	Debtors' Ledgers.		
				A.	B.	C.

Each entry in the Total column will be extended into the column of the Ledger affected by the double entry, and thus the total sales for the period will be classified. Sales Account will be credited with the Total and the individual Adjustment Accounts debited. The separate amounts of each sale will be posted as usual to the accounts in the Debtors' Ledgers, and the additional posting to the Adjustment Accounts involves an apparent departure from principle.

This theoretically is the case, for under the system described complete double entry exists within the General Ledger, and the Debtors' Ledgers, while they contain important and essential records, are regarded as a separate section of the accounting system, subject to control by, but independent of, the main Trial Balance.

This theoretical difficulty may be entirely removed by the creation, within each Debtors' Ledger, of a General Ledger Adjustment Account, which will appear in exact reverse of the Sales Ledger Adjustment Account as described.

GENERAL LEDGER ADJUSTMENT ACCOUNT.

		£	s.	d.			£	s.	d.
1918.					1917.				
Dec. 31	To Cash . . .	274,675	–	–	Dec. 31	By Balance . . .	24,220	–	–
,,	,, Discount . . .	618	–	–	1918.				
,,	,, Returns & Allowances	1,122	–	–	Dec. 31	,, Sales . . .	286,135	–	–
,,	,, Bad Debts . .	179	–	–	,,	,, Cash . . .	322	–	–
,,	,, Bills Receivable .	345	–	–					
,,	,, Transfers . .	1,320	–	–					
,,	,, Balance . . .	32,418	–	–					
		310,677	–	–			310,677	–	–
					1918.				
					Dec. 31	By Balance . .	32,418	–	–

The creation of an account in this form in the Debtors' Ledger gives complete double entry throughout. Inasmuch as the account is virtually a duplication of that in the General Ledger, there appears no great practical advantage in its construction.

Reverting to the consideration of the alterations required in the books of first entry to enable them to furnish conveniently the information required for the purpose of construction of controlling accounts, the Cash Book will have to be adapted so as to give the necessary classification of entries.

CASH BOOK.

Dr.

Date.	Particulars.	Fo.	Disc'nt.	Cash.	Bank.	Debtors' Ledgers.		
						A.	B.	C.

Cr.

Date.	Particulars.	Fo.	Discount.	Cash.	Bank.	Creditors' Ledgers.	Debtors' Ledgers.

NOTE.—Discount plus Cash or Bank, giving a total of the amount posted, is extended into the appropriate Ledger column.

The number of columns in the example given is probably as many as can conveniently be operated through the medium of one Cash Book. It will be observed that, for reasons of space, no analysis column is provided on the debit side for Creditors' Ledger items; these will have to be posted to the Adjustment Account for that Ledger in detail; while, on the credit side, one column only is provided for the Debtors' Ledgers; items appearing therein will require to be analysed as between the Ledgers affected to give the totals for each Adjustment Account.

When analysis is required over a greater number of Ledgers than is indicated by the form given—this will apply more usually to cash receipts rather than payments—it will probably be more suitable to record the amounts received in a Sales Cash Book, the totals of which will be carried daily to the General Cash Book. Analysis may then be made in the Sales Cash Book and will be accomplished the more conveniently in that this book, being distinct from the General Cash Book, will be available for purposes of posting more freely than the main Cash Book.

SALES CASH BOOK.

Date.	Particulars.	Fo.	Discount.	Amount.	Ledger A.	Ledger B.	Ledger C.

NOTES.—The columns headed "Discount" and "Amount" will be closed daily in red ink, as totals are transferred to the General Cash Book. Irrespective of the red-ink daily totals, additions will be carried forward of all columns to the end of each month, in order that the *primâ facie* accuracy of the analysis may be tested by cross-addition.

The remaining entries appearing in the *pro formâ* Adjustment Account set out are such as would appear in the Ordinary Journal. This may likewise be ruled in form suited to assist analysis of entries—

JOURNAL.

Dr.

Debtors' Ledgers.			Creditors' Ledger.	General Ledger.	Fo.	Date.	Particulars.
A.	B.	C.					

Cr.

Particulars.	Fo.	General Ledger.	Creditors Ledger.	Debtors' Ledgers.		
				A.	B.	C.

NOTE.—Debits to Ledger accounts are entered in the appropriate columns on the debit side; credits similarly on the credit side.

In the *pro formâ* account set out, Journal entries appear in totals as they relate to Bad Debts, Bills Receivable, Transfers, etc. With the form given, they would appear as totals, debit and credit.

The method of construction of an Adjustment Account in relation to a Debtors' Ledger has served to illustrate the general principles involved and these have application in regard to similar accounts for Creditors' and any other Ledgers. Thus, in respect of Creditors, the Purchase Journal totals must be dealt with in the Adjustment Account, and, where more than one such account is to be kept, an alteration in the ruling of the Journal may be required.

The Slip system of record in respect of Sales Invoices can be operated in conjunction with a system of sectional balancing without difficulty.

As an illustration of a method that might be adopted, the following is given. The invoices would be made out in the usual way, but in three copies, all of which would bear the same number. One of these would be left in the Invoice Book, to be subsequently detached upon being sent to the customer; another would be passed to the clerk in charge of the Sales Dissection Book; the third to the Ledger clerk, thus enabling him to post to the proper account from an original record.

The Sales Dissection Book would be in the general form of an ordinary Sales Day Book, except that it would probably be necessary to enter only the Date, Number of Invoice, Total Amount, and Classification of the entry under the proper Ledger heading. As the number of the invoices would run consecutively, and should be written up in the Sales Dissection Book in this order, no difficulty should occur in seeing that all invoices are accounted for.

The Sales Dissection Book clerk will, on the receipt of the first copy, fill up the Total Amount column. The Ledger clerk will post from his copy to the account affected, record the posting folio and Ledger upon the copy and hand it to the Sales Dissection clerk. The latter will fill up the analysis columns of the book under his charge, and when all invoices have been posted and classified, the additions of the Sales Dissection Book should establish its accuracy.

The chief causes of error in a system of this nature lie in the ordinary risks of mistake in posting, and of incorrect classification in the Sales Dissection Book (see page 54).

The use of the Slip method in conjunction with a system of sectional balancing is usual with banks. The method of employing the paying-in slip as the basis of record has already been referred to in part, so far as it affects the Receiving Cashier's Cash Book,

SALES DISSECTION BOOK.

Classification of Sales (according to circumstances).	Date.	Particulars.	No. of Invoice.	Fo.	Total Amount.	Ledger A.	Ledger B.	Ledger C.

the Journal, and the Current Accounts Ledger. It also serves a further purpose in forming the basis of entry in the Check Ledger Credits Book, in the following or some similar form —

CHECK LEDGER CREDITS (CURRENT ACCOUNTS) BOOK.

NAME.	Total Credit.			Ledgers A–D.			Ledgers E–J			Ledgers K–O			Ledgers P–S			Ledgers T–Z		

By means of the entries in this book, the total of which will agree with the Journal, complete analysis of Ledger credits can be obtained.

Similar methods will be employed in regard to Ledger debits, customers' cheques forming the slip in this instance.

A variation of the methods described, depending largely upon an analysis of each transaction, is occasionally adopted, and is here described in its application to the Creditors' Ledger of a trading concern.

Each payment affecting an account in the Creditors' Ledger is first entered in the Bought Ledger Payments Book, which is incorporated in the General Cash Book by transfer of totals at monthly or other intervals. The operation of the former book may best be considered in relation (say) to the cash payments debited to the following Ledger account—

A. B.

1919.		£	s.	d.	1918.		£	s.	d.
Feb. 24	To Cash & Discount . .	462	10	–	Dec. 31	By Balance	362	10	–
Mar. 22	,, Do. do. . . .	137	10	–	1919.				
,,	,, Returns	4	10	–	Jan. 31	By Goods	242	–	–
July 29	,, Cash and Discount . .	116	–	–	May 8	,, Do.	116	–	–
Oct. 20	,, Cash	83	–	–	Aug. 31	,, Do.	83	–	–
Dec. 31	,, Balance	123	8	–	Nov. 24	,, Do.	123	8	–
		926	18	–			926	18	–
					1919.				
					Dec. 31	By Balance . . .	123	8	–

The entries, in respect of the amount paid and discount received, will be made in the Bought Ledger Payments Book and posted to the Ledger in the ordinary way. The nature of the payment is analysed in the columns headed: "Returns," "Current Period's Purchases," and "Old Balance."

The exact method of operation adopted in regard to the entries set out should be considered in reference to the account below.

BOUGHT LEDGER PAYMENTS' BOOK.

Date.	Name.	Fo.	Discount.			Amount paid.			Returns.			Total.			Current P'chases.			Old Balance.		
1919.			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Feb. 24	A. B. . .		12	10	–	450	–	–				462	10	–	100	–	–	362	10	–
Mar. 22	Do. . .		5	10	–	132	–	–	4	10	–	142	–	–	142	–	–			
July 29	Do. . .		4	–	–	112	–	–				116	–	–	116	–	–			
Oct. 20	Do. . .					83	–	–				83	–	–	83	–	–			

The total of the " Amount Paid " will be closed in red ink and entered in the Cash Book periodically, but for the purposes of check upon the classification made in the remaining columns, the additions will be continued without break until the end of the financial period.

The Creditors' Ledger balances, when extracted, will be analysed in similar manner to show in respect of each the portion represented by—

Balances brought forward at previous " balance,"
Current purchases, and
Returns.

The following tests can then be made—

(1) The total purchases of the current period as shown by the Day Book should equal the total of the columns headed " Current Purchases " in the Bought Ledger Payments Book and the Balances Book.

(2) The returns can be similarly proved.

(3) The balances outstanding at the end of the previous period should be accounted for by the total of cash paid and discount received in respect thereof, plus the amount still owing as appearing from the Balances Book.

Thus the three classes of items, Balances brought forward, Current purchases, and Returns, of which each outstanding balance must be made up in whole or part, are checked, and should error then appear to exist upon adjustment of the Creditors' Ledger according to the usual method of sectional balancing, it is proved by inference to have occurred either in posting or in the additions of the Ledger accounts.

CHAPTER VI

ANALYSIS OF TRANSACTIONS (II)

In the previous chapter, the uses of the methods of analysis of entries for the purposes of sectional balancing were discussed. Another form of analysis, which aims at a classification of transactions according to their nature, irrespective of the Ledgers in which they may be recorded, has yet to be considered. The object in view in the latter case is the summarisation of entries in such manner as will show the total of the dealings of a particular class relating to some particular section of the business operations. Thus, the item of Sales may be so analysed as to show the total under more than one heading, and the classification may extend further and be so applied as to provide for a complete analysis of all gains and losses attributable to any particular branch or department of trading.

This method of analysis will be effected by the use of books of first entry in columnar form.

If a particular class of transactions, *e.g.*, Sales, is considered, it is clear that the form of the Sales Day Book is precisely the same, whether it be adapted for the purposes of sectional balancing, or of statement of the credit side of the Trading Account under a number of headings.

RULING OF SALES DAY BOOK FOR PURPOSES OF SECTIONAL BALANCING.

Date.	Name.	Fo.	Total.	Ledger A.	Ledger B.	Ledger C.	Etc.

RULING OF SALES DAY BOOK WITH CLASSIFICATION FOR DEPARTMENTS.

	Name.	Fo.	Total.	Iron-mongery.	Brass-ware.	Enamelled ware.	Etc.

The two forms of analysis may be combined without difficulty, as in the following form—

Ledger A.	Ledger B.	Ledger C.	Date.	Name.	Fo.	Total.	Iron-mongery	Brass-ware.	Enam'ld ware.

The entries appearing in the Total column will be classified twice, first, according to the nature of the Sales, secondly, according to the Ledgers containing the personal accounts to which they are posted. The advantages of both methods of analysis are thus given.

The use of tabular books in general presents no great difficulty to the student. The commonest form is probably that of the Cash Book ruled with three columns on either side, for Discount, Cash and Bank.

In particular cases, it may be desirable to adopt a form of Cash Book containing several columns on either side in which to record particular classes of receipts and payments. The use of a special column for receipts from Cash Sales, for example, may be provided for, and the principle involved may be extended to any number of columns desired. The development of the method of analysis in this way is made usually with a view to convenience, and ceases to possess advantage only when the number of columns in which the classification is made becomes such as to render it difficult to operate with accuracy, or the volume of entries affecting any particular column is too small to justify its use.

In the case of a business in which but a short period of credit is obtained and given, it may sometimes be desirable, from the point of view of simplicity, to operate the system of accounting upon a purely cash basis, maintaining a concurrent record, usually in memorandum rather than in account form, of outstanding debts and liabilities, but introducing these into the accounts only as and when a complete Balance Sheet and Profit and Loss Account are prepared. In such cases, the analysis of gains and losses is made mainly through the Cash Book and its subsidiaries. For purposes of illustration, the general features of a system of accounting suitable to a hotel may be briefly considered. The Cash Takings are banked, and passed from the Cash Book to the credit of Cash Takings

Account. Payments of all kinds, made so far as possible by cheque, are debited to a Trade Payments Account. At the close of any financial period, when a Balance Sheet and Profit and Loss Account are drawn up, it will (as stated) be necessary to make allowance for outstanding book debts and liabilities. In order, however, that the gains and losses, when adjusted, may be set out in proper detail, it is necessary that an analysis of Cash Takings and Trade Payments be made. This will be obtained by means of a summary of the classification given in the Day Book-Ledger (in regard to Takings) and in the Trade Payments Book (in regard to expenses, assets acquired, and liabilities discharged).

FORM OF HOTEL DAY BOOK.

Name of Customer.	Balance brought forward.	Apartments.	Kitchen.				Cellar.					Sundries.			Total.	Amount paid.	Balance carried forward.	
			Breakfast.	Lunch.	Tea.	Dinner.	Wines.	Beers.	Spirits.	Minerals.	Tobacco.	Disburse-ments.	Etc.					

NOTE.—The totals can be confirmed by the cross-additions.

The main Cash Book will record day by day the total " Amount paid," which will correspond with the amount banked. The Day Book will be summarised for the period and the results of the summary may be expressed in the following formula—

Debts at commencement, plus
Debits, plus
Miscellaneous Receipts (Billiards, etc),
equal
Cash paid, plus
Debts at end.

The form of the Day Book permits of an analysis of the debits and miscellaneous receipts, which together constitute the true earnings of the period.

At the end of the financial period, Cash Takings Account will be debited with the total of the earnings arrived at by analysis of the Day Book, and sundry accounts (Apartments, Kitchen, Cellar, Billiards, etc.) credited. The effect of this entry is to leave at the debit of Cash Takings Account an amount equal to the total of the column in the Day Book headed " Balance carried forward," this being so inasmuch as the book debts outstanding must represent the difference between the amounts charged up to visitors, and the cash received from them.

In regard to payments, it has been stated that the method of accounting will be to charge all payments, in the first place, to Trade Payments Account. The debits upon this account will be analysed in a Trade Payments Book, as shown on the opposite page.

Every payment will thus be classified under the proper heading. At the end of the financial period, the analysis will be continued with the addition of the outstanding liabilities, set out in the various columns.

The total of the actual payments, plus liabilities outstanding, will then be credited to Trade Payments Account, and debited to the accounts for the headings given, thus leaving at the credit of the first-named account, a balance equal to the amount of the liabilities, of which the Trade Payments Book will show the details. It should be observed that Cash Takings and Trade Payments Account will stand debited and credited respectively with the book debts and liabilities coming forward from the previous period.

The entire system of accounting has thus been operated on a cash basis through the medium of Cash Takings and Trade Payments Accounts. A complete analysis of the entries upon these accounts is secured in the manner described, and this, with the addition and classification of the outstanding book debts and liabilities, renders possible the preparation, not only of an accurate Balance Sheet, but of a Profit and Loss Account containing full particulars of all gains and losses.

When the volume of transactions to be recorded requires the use of subsidiary Cash Books to a considerable extent, the General Cash Book will consist, mainly and perhaps entirely, in a record of totals, as in the following—

TRADE PAYMENTS BOOK.

Date.	Name.	Particulars.	Voucher No.	Cheque No.	Total.	Linen.	Crockery and Glassware.	Furniture.	Provisions, Milk, etc.	Wines.	Beers.	Spirits.	Minerals.	Tobacco.	Lighting.	Rent and Rates.	Licence Duty etc.	Insurance.	Repairs.	Wages.	Health Insurance.	Incidental Expenses.	Folio.	Sundries chargeable.

FORM OF CASH BOOK SUITABLE FOR A BUILDING SOCIETY

Date.	Name.	Fo.	Shares.		Repayments of Advances.	Fines.	Deposits.	Sundries.	Total.	Amount banked.	Date.	Name.	Fo.	Shares Repaid		Advances to Borrowers.	Repayment of Deposits and Interest.	Sundries.	Total.	Amount banked.
			Fully paid.	Subscrip-tion.										Fully paid.	Subscrip-tion.					

NOTE.—The detail necessary to be recorded probably renders it desirable to operate the above as a General Cash Book, which will be written up mainly from the totals of subsidiary records of receipts and payments.

The use of the tabular form in connection with Ledgers will involve an apparent departure from principle in the fact of combination of Day Book and Ledger, as in the case of the Hotel Day Book referred to.

In connection with the Slip system, it has already been suggested that where simple transactions on various personal accounts have to be recorded, the opening of accounts in a bound Ledger may be laborious and inconvenient. These conditions would apply in the case of a Gas or Electric Lighting Company, or a Hotel, or similar concern, to which individuals become indebted occasionally or periodically in varying amounts. It is clear that in these circumstances the opening of numerous personal accounts, the great majority of which would remain open for a comparatively short space of time, would be inconvenient. The adoption of a suitable form of Day Book-Ledger would, however, give the full advantages of record of debts outstanding, while not rendering necessary the keeping of a separate set of Ledger accounts.

In the following form, the entries upon the personal accounts (*i.e.*, opposite the various names) concern more than one transaction, and the balance is not carried forward until the end of the year, in this respect differing from the form of Day Book-Ledger applicable to the accounting system of a Hotel as already given.

FORM OF DAY BOOK-LEDGER SUITABLE FOR A GAS COMPANY

No. in Street and Name.	Balance from previous year.	1st Qr.		2nd Qr.		3rd Qr.		4th Qr.		Total Debits during year.	Total.	Date.	C.B. fo.	Amounts paid.	Allowances, Vacancies, and Bad Debts.	Balance carried forward.
		Meter reading.	Amount.	Meter reading.	Amount.	Meter reading.	Amount.	Meter reading.	Amount.							

NOTE.—Several amounts may appear in the "Amounts Paid" column, and about 3 or 4 lines should be left for each name. The use of a book of sufficient width will enable it to be continued for several years, and the provision of extra space will permit of fresh names being inserted upon changes occurring. The amount to be credited to Revenue Account will be the total of "Total Debits during Year," while "Allowances, etc.," will be debited to the same account; the balances outstanding will thus be brought into account.

The form given is suitable to Gas and Electric Light Companies, the Rent Accounts of an Estate, Rates Accounts, Subscription Accounts of Clubs, etc., and the like. All these possess the common feature that the transactions are entered into at regular intervals with a numerous class of persons whose individual personality is substantially the same from one trading period to another. The number of Ledger accounts which would have to be kept under the theoretical system of book-keeping would be so great as not only to involve much labour, but probably considerable difficulty in balancing.

By the form given, no differences in the Trial Balance can arise from error in the postings from the Journal to the Ledger accounts, for each entry opposite a name of itself forms a record upon the Ledger account, and at the same time furnishes the items which, with the other amounts charged, in total represent the value of the credit to the nominal account.

In summary, it has been indicated that the basis of any method of analysis by means of tabular books lies in the classification of entries either according to the Ledgers containing the accounts affected by them, or according to the nature of the transactions as such. In regard to the latter, it has been indicated, also, that by the adoption of an adequate system of classification, the gains and losses may so be collected under separate headings or accounts as to furnish a complete statement of trading results arising from any special section of the business. This particular form of analysis is the subject of further consideration in relation to Consignment Accounts, Departmental Accounts, Branch Accounts, etc.

CHAPTER VII

AGENTS' ACCOUNTS

THE conditions affecting agencies are so various that it is not possible to consider all the methods of accounting by which the financial transactions relating to them may be controlled. An agent may be merely an intermediary in an isolated transaction; or, occupied periodically or continually in soliciting orders only; or similarly engaged with power to collect book debts; or, again, employed in the management of what virtually constitutes a branch of the main business, under general or partial supervision and direction. In these varying circumstances the system of accounting must be suited to each particular case.

PROBLEM. An agent for a Fire Insurance Company receives from the Head Office a quarterly list of renewal premiums due, amounting to £80. He collects £70 in respect of those renewed, while the balance is not paid, and the policies affected lapse accordingly. During the quarter, fresh insurances are effected by him, in respect of which the premiums are £35, which he duly receives. The agent's commission is 15 per cent. on all premiums collected, with an additional 5 per cent. on new premiums. After deduction of commission due, he remits the balance in his hands. Draw up the necessary accounts in the agent's books.

RENEWAL PREMIUMS.

	£	s.	d.		£	s.	d.
To Head Office, quarterly renewals . . .	80	–	–	By Cash . . .	70	–	–
				,, Head Office, lapses .	10	–	–
	80	–	–		80	–	–

NEW PREMIUMS.

	£	s.	d.		£	s.	d.
To Head Office . .	35	–	–	By Cash . . .	35	–	–

COMMISSION.

	£	s.	d.		£	s.	d.
To Balance . . .	17	10	–	By Head Office—			
				15 % on £105 .	15	15	–
				5 % on £35 .	1	15	–
	17	10	–		17	10	–
				By Balance . . .	17	10	–

HEAD OFFICE.

	£	s.	d.		£	s.	d.
To Renewal Premiums,				By Renewal Premiums .	80	–	–
lapses . . .	10	–	–	,, New Premiums . .	35	–	–
,, Commission . .	17	10	–				
,, Cash . . .	87	10	–				
	115	–	–		115	–	–

CASH.

	£	s.	d.		£	s.	d.
To Renewal Premiums .	70	–	–	By Head Office . .	87	10	–
,, New do. . .	35	–	–	,, Balance . . .	17	10	–
	105	–	–		105	–	–
To Balance . . .	17	10	–				

In the case illustrated, the agent is entrusted with the collection of amounts due. Where he acts simply as an agent, as, for example, in the case of a traveller engaged in soliciting orders, he is concerned financially only with the amount of commission earned by him, and his system of records may be limited accordingly.

It has already been suggested that the nature of the transactions and the relationship between principal and agent may be such as to place the latter in what is virtually the position of manager of a branch business. This would usually apply (for example) where the agent is abroad, receiving goods despatched to him at regular intervals for purposes of sale, and entrusted with the collection of accounts and payment of expenses, the direct control of the principal being necessarily limited.

The following set of accounts illustrates generally the method of book-keeping in these circumstances.

I. Agent's Books—

TRADING ACCOUNT.

Dr.	£	*Cr.*	£
To Head Office Account, value of goods received	2,000	By Sales	1,800
,, Head Office A/c, profit .	400	,, Stock on hand . .	600
	2,400		2,400

STOCK.

	£		
To Trading A/c . . .	600		

EXPENSES.

	£		£
To Cash	300	By Head Office . . .	300

HEAD OFFICE ACCOUNT.

	£		£
To Cash	1,000	By Trading A/c, goods invoiced . . .	2,000
,, Expenses . . .	300	,, Trading A/c, profit .	400
,, Balance carried down .	1,100		
	2,400		2,400
		By Balance brought down .	1,100

DEBTORS

	£		£
To Trading A/c, Goods sold	1,800	By Cash	1,500
		,, Balance carried down .	300
	1,800		1,800
To Balance brought down .	300		

CASH.

	£		£
To Debtors . . .	1,500	By Expenses . . .	300
		,, Head Office, cash remitted	1,000
		,, Balance carried down .	200
	1,500		1,500
To Balance brought down .	200		

II. Head Office Books—

In the books of the Head Office, the transactions relating to the agency might be expressed thus—

AGENCY ACCOUNT.

	£		£
To Goods, value invoiced .	2,000	By Cash	1,000
,, Profit and Loss A/c, net profit . . .	100	,, Balance carried down .	1,100
	2,100		2,100
To Balance brought down .	1,100		

The account stated in this form, however, does not show the exact composition of the balance of indebtedness of £1,100, and the method now illustrated is preferable.

AGENCY GOODS ACCOUNT.

	£		£
To Goods, value invoiced .	2,000	By Agency Debtors, Sales .	1,800
,, Profit and Loss A/c, gross profit . .	400	,, Stock on hand . .	600
	2,400		2,400
To Stock on hand . .	600		

AGENCY DEBTORS ACCOUNT.

	£		£
To Agency Goods A/c. .	1,800	By Agent, Current A/c, cash collected . . .	1,500
		,, Balance carried down .	300
	1,800		1,800
To Balance brought down .	300		

AGENCY CURRENT ACCOUNT.

	£		£
To Agency Debtors, cash collected . . .	1,500	By Profit and Loss A/c, Expenses . . .	300
		,, Cash	1,000
		,, Balance carried down .	200
	1,500		1,500
To Balance brought down .	200		

By the second and more detailed system of accounts, it is clearly shown that the total amount of £1,100 representing the investment of the Head Office in the Agency, is accounted for by—

	£
Stock	600
Debtors	300
Cash	200
	1,100

The value of this latter method lies in the greater degree of check which it affords over the agency transactions. It is necessary, of course, that the nature of the returns made to the Head Office should be such as to enable the transfers to be made in the Head Office Books between Agency Goods Account, Agency Debtors Account, and Agency Current Account. The returns required for this purpose would be copies in detail of all sales and of the cash transactions. In addition, periodical lists should be forwarded showing details of the stock on hand, and of book debts outstanding, including in the latter particulars of the date when each debt was incurred, and, in regard to the balance of the Cash Book, a certificate of the local bank stating that the amount appears to the credit of the agency.

In the transactions dealt with, it has been presumed that the goods invoiced to the agent have been charged at cost. It is sometimes preferred to debit them at a price in excess of cost, or even at selling values. It would in either case be incorrect for the transactions to be treated by the Head Office as sales, and the amounts should be credited, not to Sales Account but to a Goods sent to Agency Account. From the latter account, there should be transferred to Trading Account at the end of the period that proportion of the amount originally credited, whether at cost or selling value, which is attributable to the goods actually sold by the agent.

CHAPTER VIII

CONSIGNMENT ACCOUNTS

THE consideration of Consignment Accounts may conveniently be divided into the systems of accounts relating to Outward and Inward Consignments respectively.

Consignments Outward.

These are usually recorded in a form somewhat similar to Agents' Accounts. Each consignment, however, is treated separately so as to show its result, in profit or loss, apart from other transactions. The method of book-keeping must, therefore, be arranged to charge the particular Consignment Account with full cost and expenses attributable thereto, and give to it full credit for the proceeds of sale.

It has already been indicated that, in regard to Agents' Accounts, particularly where the agent and principal are not in close touch with each other, it is not unusual to invoice the goods at a definite value. This is frequently in excess of cost, and may represent the minimum which the agent is expected to realise or the value of a bill drawn on the agent against the goods.

The despatch of the goods on consignment is not equivalent to sale and the transaction should not be treated as such, nor should profit be taken as earned until an actual sale has been made by the consignee and notified to the consignor.

PROBLEM. Messrs. A. B. & Co., London, despatch goods (which have cost £300) to Messrs. G. & Co., Melbourne, and invoice the goods to them at the value of £338. A. B. & Co. pay Insurance, Freight, and Shipping Charges, £20, and draw on G. & Co. for £280 at 30 days' sight. The documents of title are sent forward under care of the Bank of Australasia, Ltd., who discount the bill at 5 per cent. per annum. In due course, G. & Co. forward Account Sales, showing gross proceeds realised at £440, and expenses incurred £25, in addition to 5 per cent. commission on the proceeds. G. & Co. forward sight draft on London for the balance. Give all necessary accounts.

GOODS SENT ON CONSIGNMENT ACCOUNT.

	£		£
To Trading A/c (cost) . .	300	By G. & Co., Melbourne, Consignment A/c .	338
,, Profit and Loss A/c.	73	,, G. & Co., Melbourne, balance profit . .	35
	373		373

G. & CO., MELBOURNE, CONSIGNMENT ACCOUNT.

	£	s.	d.		£	s.	d.
To Goods sent on Consignment A/c . .	338	–	–	By G. & Co., draft . .	280	–	–
,, Cash, Freight, Insurance, etc. . .	20	–	–	,, G. & Co., balance .	160	–	–
,, G. & Co., Storage, Landing Charges, etc. . . .	25	–	–				
,, G. & Co., Commission @ 5 %. . .	22	–	–				
,, Goods sent on Consignment A/c (profit)	35	–	–				
	440	–	–		440	–	–

G. & CO.

	£	s.	d.		£	s.	d.
To G. & Co., Consignment A/c (draft) . .	280	–	–	By Cash, per Bank of Australasia, Ltd. .	278	16	8
,, Do. do.	160	–	–	,, Discount . . .	1	3	4
				,, G. & Co., Consignment A/c, charges paid .	25	–	–
				,, Do. do. commission	22	–	–
				,, Cash, per Bank of Australia, Ltd. .	113	–	–
	440	–	–		440	–	–

In regard to the account headed "Goods sent on Consignment," a credit balance appearing thereon does not necessarily represent a profit, but may be merely the difference between cost and invoiced value of goods not yet sold, and be set off by the amount at the debit of the Consignment Account.

A shorter way of expressing the transactions dealt with would be by the preparation of an account as follows—

G. & CO., MELBOURNE, CONSIGNMENT ACCOUNT.

	£	s.	d.		£	s.	d.
To Goods . . .	300	–	–	By Cash, draft discounted	278	16	8
,, Cash, Freight, Insurance, etc. . .	20	–	–	,, Discount	1	3	4
,, Profit & Loss, profit .	73	–	–	,, Cash, sight bill . .	113	–	–
	393	–	–		393	–	–

This latter method, however, does not give the detail necessary to show the history of the transactions recorded, and the earlier form is therefore to be preferred.

Consignments Inward.

The system of accounting in respect of Consignments Inwards may best be explained by setting out such transactions relative to the problem previously stated as would affect the consignee and in the form in which they would appear in his books.

The receipt of the goods does not of itself constitute a liability, and therefore may be recorded by a memorandum in the statistical books (*i.e.*, outside the books of account).

A. B. & CO., LONDON.

	£	s.	d.		£	s.	d.
To Cash, per Bank of Australasia, Ltd. .	280	–	–	By X.Y.Z. (for goods sold)	440	–	–
,, Cash, Landing Charges, etc. . .	5	–	–				
,, Cash, Storage . .	10	–	–				
,, ,, Cartage . .	10	–	–				
,, Commission Account .	22	–	–				
,, Bank of Australia, Ltd., purchase of sight draft . .	113	–	–				
	440	–	–		440	–	–

The account in the above form follows what is perhaps the more usual system of record, by which the receipt of the goods is evidenced merely by memorandum, and the entries in the books are limited strictly to financial transactions with or for the account of the vendor.

It is sometimes preferred to record the invoice value of the goods received in the form of entries upon Ledger accounts, which will be accomplished (in the particular case under consideration) by debiting a Goods Received on Consignment Account with £338, and by crediting a Consignment Credits Account with a similar amount. Upon the sale of the goods, or any part of them, an entry will be necessary, crediting the former and debiting the latter account with the full invoice value, or, as the case may be, with that proportion of the amount of the original entry estimated to be represented by the amount sold. This method may be thought more in accordance with theoretical principles, but, as stated, the receipt of goods by a consignee does not of itself necessarily constitute a "transaction" in a book-keeping sense, and there is therefore no objection to the record of the goods by memorandum only.

Consignments Journal.

The accounts illustrated in regard to Inward Consignments have involved a distinct entry upon the Consignment Account for every transaction arising out of each lot of goods consigned. These, however, possess the same general character and it is obviously desirable, if possible, that a systematic method of record in respect of them be adopted. This may be arranged as follows: Full particulars of each parcel of consigned goods should be entered in a Consignment Journal in the form of a memorandum and without values. (See page 74.) The sales will be entered in a Sales Day Book ruled as under—

FORM OF SALES DAY BOOK.

Date.	Name.	Particulars.	Fo.	Total.	Own Sales.	C.J. Fo.	Consgt. Sales.

It is immaterial, from the point of view of the consignor, to whom the goods may be sold, and there is no objection to the record of the sales in the ordinary Sales Day Book, nor to the amounts being posted to the debit of some personal account in the ordinary Sales Ledgers. The credit for the total, however, should be made with distinction as to the nature of the goods sold, and both Own Sales and Consignment Sales Accounts should be credited with the due proportions of the periodical totals attributable to each heading.

FORM OF CONSIGNMENT JOURNAL.

Date.	Consignor.	Particulars.	Quantity sold.	Day Book Fo.	Details. (1)	Total. (2)	Fo.	Net Proceeds. (3)	Freight. (4)	Charges. (5)	Insurance. (6)	Commission. (7)

The full amount of the sales of consigned goods will thus be credited to Consignment Sales Account. It is necessary, however, that the individual consignors' accounts be credited with the proceeds of their goods. The detail entries in the Consignment Sales column of the Sales Day Book are therefore repeated in the Details column of the Consignment Journal; with this difference, however, that in the latter they are grouped in order of date against the entry for the particular lot of goods to which they relate. (It is desirable that under the particulars first recorded sufficient space should be left to enable all sales in respect of each consignment to be grouped.) When the full value of any parcel of goods has been realised and the entries contained in the Sales Day Book have been written up in the Consignment Journal, the " Details " column in the latter should be closed by extension into the " Total " column. It is obvious that when this has been done the addition of the " Total " column will agree with that of the " Consignment Sales " column in the Sales Day Book for the like period.

The gross proceeds of each consignment is also represented by the addition of the figures appearing under the headings Net Proceeds, Freight, Charges, Insurance, Commission. Consignment Freight and Consignment Charges Accounts (which will be contained in the Private Ledger) will have been debited with all outgoings under these headings. There will be entered against the record of each consignment in the Consignment Journal amounts of this nature which are to be deducted from the proceeds. Insurance may be the amount of expenditure incurred, or, where the consignee takes the risk of loss, be, like Commission, a profit charge.

The entry of all amounts to be brought into account against the gross sales in the columns numbered 4 to 7 inclusive enables the balance, or Net Proceeds, to be calculated and filled in.

The entries then necessary to be made may now be considered. Consignment Sales Account has already been credited with the total sales of consigned goods. The amount appearing to credit of this account should agree with the final addition of the " Total " column in the Consignment Journal, when closed; which, again, should equal the total of columns (3) to (7).

In place of crediting a consignor with the gross sales, and of debiting the Freight, Charges, Insurance, Commission (as under the system previously illustrated), the principle of double entry is secured by making entries upon the various Ledger accounts, in the form of the following Journal entry—

Consignment Sales A/c *Dr.*
To Sundries
Sundry Consignors
(for net proceeds of consignments)
Consignment Freight
(for total of freight recovered)
Consignment Charges
(for totals of charges recovered)
Insurance A/c
(for total earned)
Commission A/c
(for total earned)

The total of the " Total " column will thus be debited to Consignment Sales Account, clearing this account. The net proceeds of each consignment will be credited to the consignors concerned, while the remaining accounts stated in the entry above will be credited in total. Consignment Freight and Consignment Charges Accounts will be cleared, all debits against these accounts having been set out in the proper columns of the Consignment Journal, while Insurance and Commission Accounts will show the total earned under these respective headings.

Under the system described, the entries upon the personal accounts of the consignors will be limited to credits for the Net Proceeds due, and debits for the amounts paid, while the full particulars of the transactions in respect of each consignment will be set out in the Consignment Journal and be available for reference.

CHAPTER IX

DEPARTMENTAL ACCOUNTS

THE Profit and Loss Account, in its ordinary form, furnishes a summary of gains and losses of a business as a whole, while a system of Departmental Accounts aims at the preparation of distinct statements for each of a number of departments. This involves an analysis of trading transactions, for which purpose the use of books in tabular form, as already illustrated, will be of advantage. The analysis, to be effective, must be complete and must be such as to allocate on a departmental basis all items of gain or loss. So far as concerns transactions with the outside world, this presents as a rule no great difficulty, but it may be necessary, for the purposes of more accurate determination of departmental results, to bring into account the results of internal or inter-departmental dealings also. A company carrying on a business of general furnishers and decorators may, for example, receive orders concerning the departments specifically concerned with furnishing, decorating, plumbing, etc.; the transactions affecting the furnishing department may involve further dealings between that branch of the business and its factory. To arrive at the net result for the business as a whole is, in such a case, not enough, for the ascertainment of departmental profits is obviously important. Due record must therefore be kept of inter-departmental transactions. Such dealings may not involve transfers of value, but be undertaken rather with the aim of economy of expenditure. This may best be illustrated by example.

A firm of Provision Merchants, following the usual custom of trade, imports large quantities of goods, depositing them in cold store until sale. The heavy expenditure under the heading of Cold Store Charges leads them to erect within their premises their own cold store, and they incur charges accordingly for Electric Power, Engineer's Wages, Repairs, Depreciation of Machinery, etc., in place of the expenditure formerly paid to cold storage companies. The latter, however, owing to the conditions in regard to hypothecation of part of the stocks to banks, etc., which involve storage according to the terms of hypothecation, are not entirely wiped out, but very substantially reduced. So far as charges are incurred to cold storage companies, they will as before be debited to Cold Store Charges Account, while Cold Store Working Account will be debited with the new items of expense referred to. The firm's cold store will be regarded as a profit-earning department, and its earnings will be arrived at by a calculation of the rent earned, according to the rates payable to cold storage companies, on the goods deposited in store. The total of these earnings will be credited to Cold Storage Working Account and debited to Cold Store Charges Account. The latter account is, therefore, constructed in such a way that it gives a true comparison year by year of the expenses under this head, while it can be seen from Cold Store Working Account whether the "earnings" which it has been possible to allocate to this "department" have justified the experiment of its establishment.

COLD STORE WORKING ACCOUNT.
FOR YEAR ENDING 31ST DECEMBER, 19..

	£	s.	d.		£	s.	d.
To Wages . . .	234	–	–	By Cold Storage Charges A/c, rents on goods stored .	1,892	–	–
,, Electrical Energy .	380	–	–				
,, Repairs . .	65	10	–				
,, Depreciation @ 7½ % on Cost .	90	10	–				
,, Office Expenses, for supervision, etc. .	50	–	–				
,, Profit and Loss A/c, profit . .	1,072	–	–				
	1,892	–	–		1,892	–	–

The principle of record of the allocation of inter-departmental transactions is vital, for it is essential that the accounts as presented should show clearly the results of each and every section of the business of sufficient importance to justify the classification necessary. A trader, say, may have two departments; so far as the outside world is concerned, one may buy heavily, but sell little, while the other has few purchases but sells largely. Suppose, for example, that the business mainly consists in undertaking contracts for the fixing of ornamental tiles in the corridors, etc., of public buildings, but that it is eventually decided to undertake the manufacture of the articles required. There would here be two departments, Wholesale (Manufacturing) and Retail. The former may sell its output to outsiders, or to the Retail Department. The latter might buy, not only from the Wholesale Department, but from others. Accounts that did not regard the business as resolved into two departments, and that did not take note of the credit due from one to the other for value transferred, would be of limited use as a guide to trading results. The price at which such "transactions" should be recorded is usually taken to be that payable for similar goods if purchased elsewhere, but it is sometimes contended that a somewhat lower price should be adopted, on the argument that the Wholesale (or Manufacturing) Department has a tied customer, of steady turnover and sound credit. It may be that the application of the principles outlined involves an anticipation of profit on goods transferred, but unsold. This may require the making of a provision prior to ascertainment of net profits, but does not affect the preparation of the Departmental Accounts.

Analysis or allocation of transactions need not be confined merely to distinct sections of trading, but may be extended to cover the main divisions of manufacturing operations. This particularly will be the case where manufacturing processes are distinct in themselves and result in a saleable product, which may be nevertheless and is as a fact treated, in whole or in part, as the raw material in a further stage of manufacture. In their ordinary form, however, the principles of Departmental Accounts are applied to transactions of a purely trading character, such as those of a large stores.

The object in view is to prepare an account that will show the various gains and losses, and the net balance of gain or loss, resulting from the transaction of every department. The items ordinarily contained in the Trading Account must therefore be analysed.

Commencing with Stock on hand, the value to be debited at the beginning of the period will be ascertained by stocktaking, and a Journal entry made in the following general form—

1918.		Dr.
Jan. 1.	Sundries	
	To General Stock, 1917, Account,	
	for allocation of Stock-on-hand over departments as under—	
	Clothing	
	Millinery	
	Boots	
	Hats	
	Etc., etc.	

The purchases must be analysed in similar manner, so that the total debited to General Purchases Account may, at the end of the financial period, be distributed over the various departments. Similar procedure should be adopted in regard to credits for returns, etc.

The credit side of the Trading Account, consisting of Sales, less Returns, and of Stock-on-hand at the end of the period, must be similarly allocated. In regard to stock, the periodical stocktaking will furnish the necessary particulars.

In regard to sales, the method of analysis may be by means of a Sales Day Book in the ordinary form, with the usual analysis columns, or a distinct Day Book for each department may be adopted. Either method will furnish the proper classification required so far as concerns credit sales, and returns can be similarly dealt with. In respect of cash sales, the system of accounting usually adopted is one that by means of distinctive checks or slips enables each sale to be identified as relating to some particular department, and whether payments for goods sold are received at some central pay-desk or by departmental receiving cashiers, it should not be difficult to construct an analysis of the daily takings. It is probable that all sales, both cash and credit, will, in the first place, be passed to the credit of a General Sales Account, of which, in the manner indicated, a concurrent analysis may be made, and be duly summarised for the purposes of the Trading Accounts.

In regard to the Profit and Loss Account, the various debits should, where possible, be allocated to the departments to which the expense is attributable, or which have derived benefit from it. It may sometimes be difficult to determine an equitable basis of apportionment and, mainly for this reason, the theory of Departmental Accounts is frequently not carried beyond the Trading Account items. The basis of allocation of various charges is indicated below—

Departmental Wages and Salaries. Chargeable to the departments concerned; salaries of sub-managers, etc., to be spread over the departments under their charge.

Rent, Rates, and Taxes. To be debited to the various departments by an apportionment of the total on the basis of floor space, with allowance for greater or lesser rental value of the positions of each.

ROBERTS & JONES (LIVERPOOL), LIMITED.

BALANCE SHEET, AS AT 31ST DECEMBER, 1918.

Liabilities.			
		£	
Share Capital, Authorised—			
20,000 6 % Preference Shares of £1 each		20,000	
40,000 Ordinary Shares of £1 each		40,000	
		60,000	
Share Capital, Issued—			£
20,000 6 % Preference Shares of £1 each		20,000	
35,000 Ordinary Shares of £1 each		35,000	55,000
Sundry Creditors—			
On Trade Account		15,380	
Apportionments and Outstandings		1,220	16,600
(Name) Bank, Limited—			
Overdraft, secured by issue of £5,000 Debentures			4,840
Profit and Loss—			
Balance as at 31st Dec., 1917		1,420	
Profit for year ending 31st Dec., 1918		7,433	
		8,853	
Less, Interim Dividend on—			
Preference Shares at 6% p.a.	£600		
Ordinary Shares at 20% p.a.	3,500		
		4,100	
			4,753
			81,193

Assets.		
		£
Goodwill		34,000
Leasehold Property—	£	
As per last account	11,300	
Less, Depreciation	480	
		10,820
Fixtures and Fittings—		
As per last account	10,200	
Additions	480	
	10,680	
Less, Depreciation at 10 % p.a.	1,020	
		9,660
Stock-in-Trade—		
Clothing	6,279	
Millinery	4,461	
Boots	622	
Hats	2,101	
Sundries	7,194	
		20,657
Sundry Debtors	5,340	
Less, Reserve for Bad Debts	300	
		5,040
Sundry Apportionments		262
Cash in hand		754
		81,193

ROBERTS & JONES (LIVERPOOL), LIMITED.
DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNTS
For Year Ending 31st December, 1918.

Dr.

		Clothing.	Millinery.	Boots.	Hats.	Sundries.
		£	£	£	£	£
1917. Dec. 31	To Stocks on hand	6,370	2,680	2,240	1,080	6,260
1918. Dec. 31	„ Purchases, less Returns	22,580	15,340	7,650	9,320	34,340
	„ Balance carried down, Gross Profit	10,314	5,857	4,014	4,677	12,615
		39,264	23,877	13,904	15,077	53,215
1918. Dec. 31	To Salaries and Wages	1,685	1,420	1,285	1,294	1,615
	„ Rent and Rates	480	400	320	320	580
	„ Lighting and Heating	72	60	48	48	88
	„ Carriage	* 1,050	200	410	430	1,350
	„ Fire Insurance	35	25	6	25	80
	„ Bad Debts	* 103	20	40	43	136
	„ General Expenses, Management, Salaries, Telephone, Stationery, Advertising, etc.	3,300	1,950	1,330	1,300	4,600
	„ Balance carried to General Profit and Loss Account	3,589	1,782	575	1,217	4,166
		10,314	5,857	4,014	4,677	12,615

Cr.

		Clothing.	Millinery.	Boots.	Hats.	Sundries.
		£	£	£	£	£
1918. Dec. 31	By Credit Sales, less Returns	10,370	2,034	4,082	4,336	13,650
	„ Cash Sales	22,615	17,382	9,200	8,640	32,371
	„ Stocks on hand	6,279	4,461	622	2,101	7,194
		39,264	23,877	13,904	15,077	53,215
1918. Dec. 31	By Balance brought down	10,314	5,857	4,014	4,677	12,615
		10,314	5,857	4,014	4,677	12,615

* Note.—The items marked are apportioned approximately in proportion to turnover.

GENERAL PROFIT AND LOSS ACCOUNT.
For Year Ending 31st December, 1918.

		£			£
1918. Dec. 31	To Discounts allowed	3,420	1918. Dec. 31	By Profits on Departments:	
	„ Bank Charges	218		Clothing	3,589
	„ Depreciation of Fixtures, etc.	1,020		Millinery	1,782
	„ Depreciation of Lease	480		Boots	575
	„ Balance, Net Profit	7,433		Hats	1,217
				Sundries	4,166
				„ Discounts received	1,242
		12,571			12,571

Lighting and Heating. Usually upon the same basis as Rent, Rates, and Taxes.

Insurance. Chargeable in proportions of the values of departmental stocks, wages, etc., according to the nature of the insurance.

Other Expenses. Usually allocated in total, on the basis of the turnover of the departments. It is in regard to these items in particular that apportionment is sometimes dispensed with.

The value of a series of Departmental Accounts prepared in this manner lies in the fact that it enables the proprietors or managers of a business to see the amount of profit or loss resulting from the operations of any one department. Such an account, however, is not conclusive, for the nature of the business may require the retention of a department, although trading at a loss, to retain the full value of the remainder.

CHAPTER X

BRANCH ACCOUNTS (I)

THE system of accounting best adapted to the record of the transactions of branches varies with the nature of the business and the degree of control exercised by the head office. There is an obvious difference in form between the two systems of accounting applicable respectively to (1) a series of multiple shops, (2) the transactions of the houses of a firm of world-wide connections, with branches situate say at New York and Singapore, and a head office in London. In the former instance, it probably is the case that the branches are merely selling agencies, all buying, distribution and management generally being directed from a central office, but, in the latter, the factor of distance from head office places the branches virtually in the position of independent trading concerns. In the latter case, a full and complete set of accounts will be necessary; in the former, the branches will probably keep only such records as are necessary to prove current trading transactions of receipt of cash, sales made, etc., leaving to the head office the more complete record of the business as a whole and of the branches in detail. It is proposed to consider each of the examples referred to, but it must be borne in mind that there will be found in practice many cases which do not come exactly within the limits of those now dealt with. Branches are, in a sense, departments of a business, and an analogy with Departmental Accounts, and, to some extent, with Agents' Accounts, is supportable in respect of the immediate subject matter.

In its most developed form, the system of operating Branch Accounts implies the independence of the branch as an accounting unit. Its relation, in an accounting sense, to the head office, is indicated by the Head Office Current Account. This will be used to record all transactions between branch and head office and the balance upon the account will, if a credit, represent its indebtedness to head office and be equivalent to the Capital Account. In the head office books the transactions with, or for the account of, the branch will be recorded in a Branch Current Account, the balance of which, if a debit, will represent the capital invested in this special section of the business.

Transactions affecting the Current Account in one set of books, whether of head office or branch, must necessarily be recorded in the other, for a transfer of value from head office to branch must represent to the latter the receipt of value from head office, and *vice versâ*. There must thus be reciprocation of entries as between the two Current Accounts, and the balances will agree, subject only to allowances or adjustments for entries omitted or transactions which, by reason of distance and delays of communication, are recorded in one set of books as they have arisen, and in the other set (with entire accuracy) similarly, but in a later period.

Thus, assume that head office on 30th December, 1918, remits £300 to a branch and debits the appropriate Current Account accordingly on that date. The remittance is received on 1st January, 1919, and credited by the branch to Head Office Current Account on the date of receipt. The reconciliation of the Current Accounts will thus show this item in suspense at 31st December, 1918, and in a Balance Sheet prepared as at that date it will appear under "Cash in Transit" or some similar heading. While differences may arise in this manner, it is important to observe that under strict and accurate accounting there are no exceptions to the rule of reciprocating entry.

The following is the Trial Balance as at 31st December, 1919, of the books of the X Branch of the A.B. Trading Company, Ltd.—

	Dr. £	*Cr.* £
Head Office, Current Account		1,615
Sundry Debtors	1,780	
Office Furniture, Fittings, etc.	120	
Lease of Premises	160	
Stock, 31st Dec., 1918	1,250	
Cash	12	
Bank	242	
Sundry Creditors, Trade Account		1,175
Rent and Rates outstanding		84
Purchases	8,300	
Sales		10,240
Returns and Allowances	325	415
General Expenses	1,340	
	13,529	13,529

From the particulars contained in the books and with the introduction of the value of stock on hand at 31st December, 1919, the Trading and Profit and Loss Accounts for the year ending on that date are prepared, as follows—

TRADING AND PROFIT AND LOSS ACCOUNTS OF X BRANCH

FOR YEAR ENDING 31ST DECEMBER, 1919

1918.		£	1919.		£
Dec. 31	To Stock	1,250	Dec. 31	By Sales, less Returns .	9,915
1919.				„ Stock	780
Dec. 31	To Purchases, less Returns .	7,885			
	„ Balance carried down .	1,560			
		10,695			10,695
1919.		£	1919.		£
Dec. 31	To General Expenses . .	1,340	Dec. 31	By Balance brought down .	1,560
	„ Depreciation of Office Furniture . . .	12			
	„ Amount written off Lease	40			
	„ Balance carried down .	168			
		1,560			1,560
			1919.		
			Dec. 31	By Balance brought down .	168

Following the entries of transfer to the Trading and Profit and Loss Accounts of the balances of the various nominal accounts, the Trial Balance will appear thus—

	Dr.	Cr.
	£	£
Head Office, Current Account . . .		1,615
Profit and Loss Account		168
Sundry Debtors	1,780	
Office Furniture, Fittings, etc. . . .	108	
Lease of Premises	120	
Stock, 31st Dec., 1919	780	
Cash	12	
Bank	242	
Sundry Creditors, Trade Account . .		1,175
Rent and Rates outstanding . . .		84
	3,042	3,042

The following entries will then be made as at 31st December, 1919—

	£	s.	d.	£	s.	d.
In the Branch books—						
Profit and Loss (1919) Account *Dr.*	168	–	–			
To Head Office Current Account				168	–	–
Transfer of balance of former A/c.						
In the Head Office books—						
X Branch Current A/c. . *Dr.*	168	–	–			
To General Profit and Loss A/c .				168	–	–
Transfer of profit made by X Branch in year ending this date.						

The Trial Balance as set out shows to the credit of head office a balance of £1,615. In the head office books, this must *necessarily* appear to the debit of the branch, subject only to possible items in suspense as already explained, and also, possible disputes as between head office and branch as to the propriety of certain entries. Every transaction properly affecting the Current Account in the one set of books must ultimately affect the corresponding account in the other. This must apply to the despatch of goods from head office to branch, the remittance of cash from branch to head office, the discharge of a liability by head office for the account of the branch, and any other entry affecting either Current Account. For the purposes of accurate record, proper systems of advice, invoicing, etc., will be employed, and the result will be proved by periodical agreement or reconciliation. The balance of £1,615 against the branch in head office books is increased by the debit of £168 for profit earned.

All nominal accounts are now eliminated from the branch books; the Trial Balance is reduced to a statement of assets and liabilities, together with the balance upon Head Office Current Account; it appears, therefore that the latter balance represents the surplus of assets over liabilities. This fact is of interest in interpreting the balance shown upon Branch Current Account in the head office books, for this can be resolved into the details of branch assets, less liabilities, and so incorporated into the general Balance Sheet of the business as a whole.

The illustration selected has involved the assumption that the circumstances require that both branch and head office should keep a complete set of books on the principles of double entry. This may in other circumstances be unnecessary or inexpedient, as, for instance, with what are known as multiple shops.

In this case, purchases are usually made by the head office, the goods being distributed either from some central store or sent direct to branches by the suppliers; settlements with creditors are usually made by the head office; sales are mainly for cash, or on short credit; and the general course of trading is governed by instructions from the head office. The branches thus become merely selling agencies, and the accounting records kept by them *may* be limited to a simple record of current trading transactions, and of stocks. In regard to the latter, the methods of check commonly adopted are considered in Chapter IV. Cash Takings are usually accounted for at short intervals by collection or remittance to head office. A convenient method of remittance can be applied by arranging that each branch shall pay in the sum in hand to the nearest branch or agent of the bankers to head office. The branch will forward its returns, together with the receipted paying-in slip, to head office, while the collecting bank, *i.e.*, that operating the main or head office bank account, will summarise the credits received, entering the daily or periodical total to the credit of head office, and presenting a detailed list of lodgments which will agree with the branch returns. This procedure, if convenient, will dispense with much of the expense and trouble of collection, and probably represent a gain in interest earned.

From the nature of the business, it will probably be found desirable to make the accounting records at the branches as simple as possible. A Cash Book and Petty Cash Book will be necessary, and probably a Sales Day Book and Ledger, but this will depend on the number and value of credit transactions, and the records in this respect may be limited to a mere memorandum. The Cash Book will be closed periodically by lodgment of the balance in hand. The Petty Cash Book may be most conveniently operated upon the Imprest system, or the payments made from cash takings and the total introduced into the Cash Book.

The head office will, in accordance with the system described, receive from each branch a weekly return, of which for purposes of illustration the following may be assumed to be the form—

WEEKLY RETURN OF . . . . . BRANCH.

WEEK ENDING . . . . .

A. *Petty Cash*—

	£		£
Balance in hand . .		Payments:	
Amount received . .		Goods	
		Wages	
		Sundries . . .	
		Balance in hand . .	

B. *Takings*—

RECEIPTS.	£	PAYMENTS.	£
Ledger credits—per list:		Amounts banked:	
Cash Takings:		Tuesday . . .	
Monday		Wednesday . . .	
Tuesday . . .		Thursday . . .	
Wednesday . . .		Friday	
Thursday . . .		Saturday . . .	
Friday		Monday . . .	
Saturday . . .			

C. *Book Debts*—

	£		£
Balances from previous week		Cash received . . .	
Sales		Allowances . . .	
		Balances, end of week .	

Returns in this form can be completed after banking on the first day of the following week. In Statement B no provision is made for any balance, on the assumption that all takings are banked without deduction. In cases where takings are collected by a representative from head office, the form can be modified accordingly. Whether banked or collected, effective supervision and frequent check of transactions of branches by the head office will be necessary.

So far as head office is concerned, the books of account immediately concerned with the record of branches' trading will be—

Purchases Journal,
Goods transferred to Branches Journal,
General Cash Book,
Branches Summary Takings Book,
Branches Profits Summary Book,
Branches Ledger.

Purchases Journal. In regard to the Purchases Journal, purchases may be for general stock in the first place, for distribution as needed, or may be in respect of a particular branch. In the former case, the goods will be charged to General Stock, and in the latter, direct to the Trading Account of the branch. The Journal will therefore be in tabular form. It may, however, be found a matter of convenience to regard all purchases as being for general stock in the first place, and to deal with allocations to branches through the Goods transferred to Branches Journal. The latter may, therefore, be the medium for record simply of transfers from general stock, or of all goods supplied to branches.

General Stock Account will thus be charged with purchases, some or all as the case may be, and be credited with goods transferred against items debited therein. The price at which transfers may be made may be cost, in which case the balance of General Stock Account should represent the value of Stock-on-hand at head office, or central store; but head office may reserve to itself a profit, when a credit balance will be shown on this account upon stocktaking.

GOODS TRANSFERRED TO BRANCHES JOURNAL.

Branch A.	Branch B.	Branch C.	Branch D.	Etc.	Date.	Particulars.	Invoice No.	Amount.

The total of "Amount" column will be credited to General Stock Account, and the branches debited with invoices individually in the proper columns.

All transactions relating to branches will be recorded in the Branches Ledger. This will contain two separate accounts for each branch, Fittings and Fixtures Account, and Current Account, and will be controlled as a whole by Branches Ledger Adjustment Accounts in the General Ledger on the ordinary principles of sectional balancing. The practical operation of the main or controlling accounts is explained later.

In regard to cash transactions, it is necessary that the Cash Book be ruled in form convenient for the purposes of the general system of accounting.

Cash Book.

Branch Takings require a somewhat detailed record. So far as the Cash Book entries are concerned, only actual receipts at the head office or through the bank can be entered. A Branches Takings Book may, however, be necessary, in which a detailed record will be kept in adjoining columns of takings accountable, and takings accounted for, in respect of each day and each branch. The particulars for this record exist in the Weekly Return (sometimes merely confirming a Daily Return), which will give both takings to be accounted for, and those actually paid over, the latter being confirmed by the credit from the bank. As the Branches Takings Book is merely a temporary record for the purpose of seeing that each day's takings are duly and promptly paid in, it may be possible to eliminate it from the double-entry system, retaining it as a necessary but subsidiary check.

Dr.

Date.	Particulars.	Fo.	Branch Takings.	Other Receipts.	Bank.

Cr.

Date.	Particulars.	Fo.	Discount.	Fo.	Payments for Branches.	Other Payments.	Bank.

So far as the main system of accounts is concerned, the weekly collections advised by the bank, or paid in by head office collectors, will be debited in the Cash Book under the heading "Branch Takings," if convenient, in total, and be posted to the debit of the Bank by entry in the "Bank" column on the credit side. The details will be recorded week by week in a summary, so arranged that the credits to each branch for each week can be set down in parallel columns for the whole of the year or half year, and cross-added to give the total against each branch.

SUMMARY TAKINGS BOOK.

Branch.	Week	Week	Week	Week	Etc., etc.	Fo.	Total.
A							
B							
C							
D							

The entries necessary in respect of takings will thus be in effect—

Bank . . . . . . *Dr.*
To Branch Takings A/c . . . . .
For amounts banked.
Branch Takings A/c . . . . *Dr.*
To Sundry Branches . . . .
For takings as analysed per Summary Book.

The Cash Book contains two further columns with a bearing upon the construction of the accounts of the branches. The column headed "Other Receipts" may include items affecting branches, such as proceeds of sale of fixtures, etc., while the column "Payment for Branches" will record—

Purchase of Fixtures, Fittings, etc.,
Payment of Rent, Rates, etc.,
Payment of Salaries and other expenses.

The profit or loss of each branch may be ascertained by preparation of a statement in the following form—

BRANCHES PROFITS SUMMARY BOOK (YEAR 1919).

Branch.	Debts. 1/1/19	Stock. 1/1/19	Fittings, etc. 1/1/19	Goods trans-ferred.	Pur-chases.	Cash paid.	Liabili-ties. 31/12/19	Fo.	Profit.	Total.
A										
B										
C	1	2	3	4	5	6	7		8	9
Etc.										

Fo.	Loss.	Liabilities. 1/1/19	Branch Takings.	Debts. 31/12/19	Stock. 31/12/19	Fittings, etc. 31/12/19	Depre-ciation (memo.)
	10	11	12	13	14	15	16

NOTE.—The various columns will be filled up from the records available and be balanced by an entry in either column 8 or 10. The cross-addition of columns 1–8 should agree with that of columns 10–15. Columns 4, 5, 6 and 12 can be completed from the entries contained in the various accounts in the Branches Ledger.

From this statement, each branch can be debited with the profit, or credited with the loss, attributable to it.

In regard to Fittings and Fixtures, some explanation is desirable. In column 3 are shown the Fittings, etc., as they stand at the beginning of the year. In column 6 may appear further debits against this account. The depreciation is calculated, and the depreciated value at the end of the year is shown in column 15. The depreciation is thus brought into account in ascertaining the correct figures for entry in columns 8 or 10, and the amount noted as a memo. in column 16. This last record will be used for the purposes of entries crediting each Branch Fixtures, etc., Account. The debit against the Current Account is given by the amount in columns 8 or 10 having been calculated by reference to the reduced value as entered in column 15.

Control Accounts.

While reference has been made to the fact that the Branches Ledger will be controlled by Adjustment Accounts in the General Ledger, the explanation so far given has dealt with the transactions only as they affect the accounts in the Branches Ledger itself. It remains to consider the method and operation of the controlling accounts, of which *pro formâ* examples are now given in summary form—

BRANCHES LEDGER (FITTINGS AND FIXTURES) ACCOUNT.

		£			£
1918. Dec. 31	To Balance . . .	4,380	1919. Dec. 31	By Cash (Fittings, etc., sold	146
1919. Dec. 31	„ Cash (Additions) . .	642		„ Depreciation. . .	622
				„ Balance . . .	4,254
		5,022			5,022
1919. Dec. 31	To Balance . . .	4,254			

BRANCHES LEDGER (CURRENT) ACCOUNT.

		£			£
1918. Dec. 31	To Balance . . .	13,351	1919. Dec. 31	By Cash Takings . .	545,015
1919. Dec. 31	„ Goods (Direct Purchases)	82,614		„ Balance . . .	19,380
	„ Goods transferred . .	422,817			
	„ Profit and Loss Account, profit . . .	45,613			
		564,395			564,395
1919. Dec. 31	To Balance . . .	19,380			

NOTE.—The balance, £19,380, represents the surplus of branch stock, debts and cash, over liabilities, particulars of which are shown in the Branches Profits Summary Book.

The method of operation of the accounting system can now be viewed as a whole, the accounts set forth being typical of the subsidiary accounts in the Branches Ledger.

As regards Fittings and Fixtures Accounts, the case is simple. Cash entries are posted in detail in the Branches Ledger, and duplicated in the control account.

In regard to Current Accounts, the treatment of Goods, posted from the Purchases Journal, or Goods transferred to Branches Journal, requires little explanation beyond that already given. Cash Takings are dealt with first by entry in the Cash Book, the total being posted weekly or monthly to Cash Takings Account. The details are analysed in the Summary Takings Book, by means of which it becomes possible, at yearly or half-yearly periods, to debit Cash Takings Account with the total receivable in respect of the period closed, and to credit each individual branch in the Branches Ledger, with a duplicate or controlling credit upon the Adjustment Account in the General Ledger. The takings receivable for the last week of the year may not be received until the following year. These will, however, be debited against Cash Takings Account by entry in the Summary Takings Book in the usual way, with the result that Cash Takings Account will, at the end of the period, show a debit balance of the amount of these takings in "suspense."

CHAPTER XI

BRANCH ACCOUNTS (II)

Foreign Branches.

The matter hitherto dealt with has related solely to the accounts of branches trading within the United Kingdom, or, at any rate, in currency similar to that used for record of head office transactions. It remains to consider the problems of accounting arising in connection with foreign branches trading in foreign currency and the method of dealing at head office with the record in equivalent sterling of transactions not having a sterling value.

The general principles submitted still apply. The Branch Current Account is debited in respect of all transactions involving the transfer of value to or for the account of the branch, and credited with value received, whilst profit earned is debited to the branch in the usual way; and the principle of reciprocal entries in the Current Accounts kept in the books of head office and branch is strictly observed. There is, however, this difference; that, while the head office books are necessarily recorded in sterling, those of the branch are with equal reason kept in the local currency. The reciprocation of entries and the reconciliation of the Current Accounts thus become less simple than where the amounts appear similar in both sets of books.

This difficulty is adjusted in practice by arranging that the head office books shall, in respect of transactions affecting the Branch Current Account, preserve a memorandum record of the currency equivalents of sterling entries, the latter alone, however, forming part of the double-entry system at head office.

For the purposes of head office accounting, therefore, a sterling basis is adopted, but transactions upon the Branch Current Account will be duplicated in currency at the amount accepted for entry in the books of the branch. By means of the additional currency columns, the complete reciprocation of entries in the two sets of books can be observed and controlled, and, ultimately, the debit to the branch of the profit earned (in currency) will bring the result already demonstrated, that the balance against the branch will represent the surplus of branch assets over liabilities (in currency). This procedure requires, at head office, a convenient record of sterling and currency equivalents, the latter in memorandum and for the purposes stated, the former for the purposes of the regular system of accounting. The ultimate balance in currency, which will agree or be capable of being reconciled with the balance in the books of the branch to the credit of Head Office Current Account, will thus be represented by what may be deemed temporarily its sterling equivalent. While each transaction will be converted from sterling to currency, or *vice versâ*, upon what may appear to be the most correct principle for ascertaining its corresponding value, certain differences are bound to occur, which will cause the final balance, as it appears in sterling, not to represent the *exact* value of the assets, less liabilities, of the branch. It is necessary to consider in more detail the method of keeping the accounts affected, the principles upon which the conversion to alternative value may be made, and the manner in which the balance of the sterling entries as valued may be adjusted to bring it to the true amount of the surplus of assets over liabilities at the branch.

Assume that a company, the head office of which is situate in London, has a branch in South America, to which it consigns goods for purposes of sale. By means of such consignments and of local purchases, the branch carries on a general trading business, making remittances on account of profits earned, and in payment for goods supplied, to the head office.

The Current Account contained in the head office books may conveniently be divided into the following—

General Current Account,
Goods Account,
Remittances Account,

the last two being incorporated with the first named by transfer at the end of the financial period.

Branch General Current Account.

The Branch General Current Account will contain at its debit the balance brought forward from the previous period, representing the surplus of assets over liabilities at that date, and such further entries as are unsuitable for record in Goods or Remittances Accounts.

All the accounts named will be kept both in currency and in sterling, but the latter alone will enter into the system of double entry.

The branch will keep similar accounts for its head office transactions, but as a rule in currency only.

Branch Goods Account.

Branch Goods Account will contain the record of all transactions of goods consigned to the branch, to each of which both a sterling and a currency value will be given. The currency value is usually fixed by head office and accepted by the branch as advised. The method of arriving at the fair equivalent varies with the circumstances. Should the rate of exchange be subject to frequent and considerable fluctuation, it may be desirable to invoice each consignment at a price obtained by conversion of its sterling value at the rate ruling on the date of despatch, while, where fluctuations are within narrow limits, a fixed rate may be adopted. The latter method possesses obvious conveniences. The object in view is in every case the calculation of a converted equivalent as near as possible to the true value.

Such consignments are dealt with by the branch by a credit upon Head Office Goods Account of the amount of each invoice as expressed in currency.

Branch Remittances.

Branch Remittance Account will record remittances by the branch to the head office, with possibly occasional transactions of the reverse character. The remittance may be by draft, in currency or sterling, or even in specie, but the exact form is immaterial. Each remittance will represent a specific amount of currency, and produce an exact amount of sterling upon realisation. There is, therefore, no complication in arriving at the equivalent value. In the books of the branch, Head Office Remittance Account will be debited with the currency value of any remittance to head office. In the books of the latter, Branch Remittance Account will be credited in sterling with the amount realised, and the currency equivalent entered in the proper column against the entry.

It is further assumed that the Trial Balance extracted from the books of the branch as at 31st December, 1919, appears as shown by the following currency figures—

TRIAL BALANCE.—31st December, 1919.

	Dr. $	Cr. $
Head Office General Current Account		35,000
Head Office, Goods Account		42,350
Remittance Account	37,190	
Cash	6,420	
Drs.	29,340	
Crs.		10,120
Bills Receivable	4,640	
Land and Buildings	5,230	
Stock, 31st Dec., 1913	16,700	
Purchases and goods from Head Office	46,400	
Sales		63,810
General Expenses	6,790	
Discounts		1,430
	152,710	152,710

Note.—The value of the Stock at 31st Dec., 1919, is $18,250.

In the Trial Balance set out, the first three items are represented and, it may be presumed, reconciled, by similar balances in the books at the head office. There may, of course, be transactions in "suspense" which render impossible an absolute agreement at a given date. This, however, does not alter the general principle. These balances will be transferred accordingly in the branch books to Head Office General Current Account, and corresponding transfers will be made in the head office books. In the latter, the balances of Branch Remittance and Branch Goods Accounts will appear in both sterling and currency, and the Branch General Current Account will therefore appear as follows—

BRANCH GENERAL CURRENT ACCOUNT.

		$	£	s.	d.			$	£	s.	d.
1918. Dec. 31	To Bal'ce brought forward	35,000	7,350	7	10	1919. Dec. 31	By Branch Remittance A/c	37,190	7,942	3	4
1919. Dec. 31	To Branch Goods A/c	42,350	8,620	6	8		„ Balance carried down	40,160	8,028	11	2
		77,350	15,970	14	6			77,350	15,970	14	6
1919. Dec. 31	To Bal'ce brought down	40,160	8,028	11	2						

The currency values of the various items entering into this account are, it will be observed, in agreement with those appearing in the books of the branch. The amounts in sterling have, as to Branch Goods Account and Branch Remittance Account, been arrived at in accordance with the principles stated, and as regards the commencing balance, represents the value appearing at that date as attributable to the individual assets and liabilities entering into the currency figure of $35,000.

It is necessary that the balance of profit earned be dealt with in the respective Current Accounts. In the branch books, the amount will be passed in currency from the debit of Profit and Loss Account to the credit of Head Office Current Account; in the head office books, Branch Current Account will be debited, and General Profit and Loss Account credited, this latter entry being made in sterling. The amount of this entry has now to be ascertained, and the principle of its conversion considered.

BRANCH TRADING AND PROFIT AND LOSS ACCOUNT
FOR YEAR ENDING 31ST DECEMBER, 1919.

1918.		$	1919.		$
Dec. 31	To Stock on hand . .	16,700	Dec. 31	By Sales	63,810
1919.				„ Stock on hand . .	18,250
Dec. 31	To Purchases . . .	46,400			
	„ Balance carried down .	18,960			
		82,060			82,060
1919.		$	1919.		$
Dec. 31	To General Expenses. .	6,790	Dec. 31	By Balance brought down .	18,960
	„ Balance transferred to Head Office, Current Account . . .	13,600		„ Discounts . . .	1,430
		20,390			20,390

The balance of profit earned by the branch is as shown. For purposes of conversion, it is usually assumed that profit may be deemed to have been earned evenly throughout the period, and therefore to be fairly expressed in sterling by conversion at the average rate of exchange for the period.

JOURNAL ENTRY.

		£	s.	d.	£	s.	d.
Branch General Current A/c . . . *Dr.*		2,792	12	1			
To General Profit and Loss A/c . . .					2,792	12	1
For profit earned during year ending 31st Dec., 1919, viz., $13,600, converted at average rate of exchange, 4·87.							

As regards the books of the branch, the transfer to Head Office Current Account of the balances of Profit and Loss Account, Head Office Goods Account, and Head Office Remittance Account, reduces the Trial Balance to a statement of assets and liabilities, the surplus of the former over the latter being shown to credit of head office. In the books of the latter, a similar balance must appear in currency to the debit of the branch. This balance accordingly represents assets, less liabilities, of the branch; it has been given a sterling value, being the balance of the sterling equivalents of the various entries, debit and credit, resulting in the final balance; it now remains to ascertain, by reference to the actual assets and liabilities, what their true value is, and to adjust the sterling balance of the Current Account accordingly. The continuous record of sterling equivalents in the head office books has been for the purposes of book-keeping, but, while the ascertainment of these equivalents has been made on principles likely to cause them to prove as nearly accurate as possible, the final result is tested by valuation upon the facts as they stand at the date of the Balance Sheet.

For this purpose, it is convenient to prepare the Trial Balance in double column form, converting the various items in accordance with the following rules—

General Current Account. Value as per previous Balance Sheet;

Head Office Goods Account. In accordance with rates fixed, which may be permanent or be varied from time to time;

Head Office Remittance Account. On basis of actual sterling realised;

Profit and Loss Account. At average rate for the period ($4.87);

Fixed Assets. At rate ruling on date of acquisition ($4.90);

Floating Assets and Liabilities. At rate ruling at the date of the Balance Sheet.

The Trial Balance will appear as follows—

TRIAL BALANCE.—31st Dec., 1919.

	$	£	s.	d.	$	£	s.	d.
Head Office, Gen. Current A/c					35,000	7,350	7	10
Do. Goods A/c . .					42,350	8,620	6	8
Do. Remittance A/c .	37,190	7,942	3	4				
Profit and Loss A/c . .					13,600	2,792	12	1
Cash	6,420	1,284	–	–				
Debtors	29,340	5,868	–	–				
Creditors					10,120	2,024	–	–
Bills Receivable . . .	4,640	928	–	–				
Land and Buildings . .	5,230	1,067	6	11				
Stock, 31st Dec., 1919 . .	18,250	3,650	–	–				
	101,070	20,739	10	3	101,070	20,787	6	7

From a comparison of the sterling columns, it appears that the surplus of branch assets over liabilities has been overvalued by £47 16s. 4d. The following entry is therefore necessary—

	£	s.	d.	£	s.	d.
General Profit and Loss A/c . *Dr.*	47	16	4			
To Branch General Current A/c .				47	16	4
For difference in exchange for period for year ending 31st Dec., 1919.						

BRANCH GENERAL CURRENT ACCOUNT

		$	£	s.	d.			$	£	s.	d.
1918. Dec. 31	To Bal'ce brought forward .	35,000	7,350	7	10	1919. Dec. 31	By Branch Remittance A/c	37,190	7,942	3	4
1919. Dec. 31	To Branch Goods Account .	42,350	8,620	6	8		„ General Profit and Loss A/c difference in exchange .		47	16	4
	„ General Profit and Loss A/c profit earned	13,600	2,792	12	1		„ Balance carried down .	53,760	10,773	6	11
		90,950	18,763	6	7			90,950	18,763	6	7
1919. Dec. 31	To Bal'ce brought down .	53,760	10,773	6	11						

The balances shown now accurately represent the surplus of branch assets over branch liabilities; that in currency agrees with the amount standing to credit of the head office in the branch books, while that in sterling is exactly the true value of the surplus.

CHAPTER XII

PARTNERSHIP ACCOUNTS

THE ordinary features of Partnership Accounts do not as a rule involve problems of exceptional difficulty, and it is proposed to deal only with some of the more complicated points that may arise in settling accounts of this description.

The relationship existing between the individual members of a firm is defined by the partnership agreement, which may be either written or verbal, and in the solutions given of stated problems the effect of the agreement is deemed to have been correctly interpreted in each case. The first set of illustrations deals with various alternative methods of division of profits, each being in accordance with the partnership agreement applicable thereto.

CASE I. ORDINARY SIMPLE CASE—

PROFIT AND LOSS ACCOUNT.

Dr.		£	s.	d.	*Cr.*	£	s.	d.
To Interest on Capital—					By Balance	4,620	–	–
A	£150							
B	430							
		580	–	–				
To Salaries—								
A	£500							
B	360							
		860	–	–				
To A, one-half share of balance .		1,590	–	–				
To B, do. do. do. .		1,590	–	–				
		4,620	–	–		4,620	–	–

CASE II.—ALLOWANCE FOR ONE PARTNER'S (C'S) SHARE IN PROFITS AND PART OF HIS AGREED SALARY (£100) OUT OF ANOTHER PARTNER'S SHARE—

NOTE.—The illustration is applied to the following facts: A and B agree to admit C as a partner, upon the terms that he is to be entitled to a one-sixth share in profits, after charging interest on capital and salaries of all partners, and also to a salary of £400. As between A and B, it is agreed that A's share in profits is to be affected in respect of C's interest in profits only by the salary (£300) formerly received by C prior to his admission as a partner. The excess salary (£100) and share of profits due to C consequently come out of B's share.

PROFIT AND LOSS ACCOUNT.

Dr.	£	s.	d.		£	s.	d. *Cr.*
To Interest on Capital—				By Balance	3,800	–	–
A . . £120 – –							
B . . . 400 – –	520	–	–				
„ Salaries—							
A . . £300 – –							
B . . . 400 – –							
C . . . 400 – –	1,100	–	–				
„ A, one-third share of profits, (£2,180, plus C's salary £100) = £2,280	760	–	–				
„ B, two-thirds share of profits, £2,280 1,520 – –							
Less—							
C's salary £100 – –							
C's share 363 6 8							
463 6 8	1,056	13	4				
„ C, one-sixth of share of profits, £2,180	363	6	8				
	3,800	–	–		3,800	–	–

Case III. Similar to Case II, but where the Profits are Insufficient to Cover Interest on Capital and Salaries of Partners—

PROFIT AND LOSS ACCOUNT.

Dr.	£	s.	d.		£	s.	d. *Cr.*
To Interest on Capital—				By Balance	900	–	–
A . . £120 – –				„ A, one-third share of debit balance, (£720, less C's salary, £100) = £620 . . .	206	13	4
B . . . 400 – –	520	–	–	„ B, two-thirds share of debit balance, £620 £413 6 8			
„ Salaries—				Add C's salary . 100 – –			
A . . £300 – –				513 6 8			
B . . . 400 – –				Less C, one-sixth share of debit balance £720 . 120 – –			
C . . . 400 – –	1,100	–	–		393	6	8
				„ C, one-sixth share of £720 .	120	–	–
	1,620	–	–		1,620	–	–

The following example illustrates the adjustment of the accounts as between the partners over a period of years in a case where the system of book-keeping is deficient, and Balance Sheets have not been regularly prepared.

Problem. A and B, trading in partnership, were, at 31st Dec., 1909, in credit upon their Capital Accounts to the amounts of £6,000 and £3,000 respectively. B is indebted to A in the sum of £1,200, being the balance of a total amount of £1,800 agreed to be paid by him for purchase of an interest in the goodwill of A, such sum to be contributed to A out of the surplus on B's Current Account, as appearing at the end of each year, but to be retained in the business as additional capital of A. The partners' drawings have been: A, £500; B, £400 per annum. Profits are divisible, subject to interest on capital at the rate of 5 per cent. per annum, equally. It is desired to ascertain the position of the partners as at 31st December, 1918.

The first step necessary is the ascertainment of the amounts of the surplus of assets over liabilities, other than capital, as at 31st December in each year. It is assumed that these are as follows—

	£
As at 31st December, 1915 . . .	9,150
,, ,, ,, 1916 . . .	9,460
,, ,, ,, 1917 . . .	10,020
,, ,, ,, 1918 . . .	10,580

From the particulars given, the following accounts are prepared—

STATEMENT OF PROFITS.

	1915.	1916.	1917.	1918.		1915.	1916.	1917.	1918.
	£	£	£	£		£	£	£	£
Surplus at beginning of year . . .	9,000	9,150	9,460	10,020	Surplus at end of year . . .	9,150	9,460	10,020	10,580
Balances carried down, profit . . .	1,050	1,210	1,460	1,460	Drawings . .	900	900	900	900
	10,050	10,360	10,920	11,480		10,050	10,360	10,920	11,480
To Interest on Capital—					Balances brought down . . .	1,050	1,210	1,460	1,460
A . . .	300	302	309	321					
B . . .	150	150	150	150					
To Current A/cs, for half-shares of profits—									
A . . .	300	379	501	494					
B . . .	300	379	500	495					
	1,050	1,210	1,460	1,460		1,050	1,210	1,460	1,460

A. CAPITAL ACCOUNT.

	1915.	1916.	1917.	1918.		1915.	1916.	1917.	1918.
	£	£	£	£		£	£	£	£
To Balances at end of year . . .	6,050	6,179	6,429	6,674	By Balances . .	6,000	6,050	6,179	6,429
					,, B, Current A/c .	50	129	250	245
	6,050	6,179	6,429	6,674		6,050	6,179	6,429	6,674
					By Balances . .	6,050	6,179	6,429	6,674

A. CURRENT ACCOUNT.

	1915.	1916.	1917.	1918.		1915.	1916.	1917.	1918.
	£	£	£	£		£	£	£	£
To Drawings . .	500	500	500	500	By Balances—		100	281	591
„ Balances . .	100	281	591	906	Int. on Capital .	300	302	309	321
					Share of Profits .	300	379	501	494
	600	781	1,091	1,406		600	781	1,091	1,406
					„ Balances . .	100	281	591	906

B. CAPITAL ACCOUNT.

					By Balance (1914–1918) . .				£ 3,000

B. CURRENT ACCOUNT.

	1915.	1916.	1917.	1918.		1915.	1916.	1917.	1918.
	£	£	£	£		£	£	£	£
To Drawings . .	400	400	400	400	By Int. on Capital .	150	150	150	150
„ A, Capital A/c .	50	129	250	245	„ Share of Profits .	300	379	500	495
	450	529	650	645		450	529	650	645

The adjustment of accounts upon a dissolution of partnership (as to one or more of the members of a firm) involves the preparation of a Balance Sheet showing the amount due to each outgoing partner.

Apart from any specific agreement which may be contained in the articles of partnership, an outgoing partner (or his representatives) has the right to have such an account taken for the purpose of ascertaining his interest. Where the dissolution concerns one only of the partners, effect can conveniently be given to the adjustments necessary, by the preparation of a Dissolution or Revaluation Account.

The construction of an account of this kind is usually necessary, for it is generally the case that, in respect of some assets, the figures appearing in the partnership books do not absolutely represent their value, while on the other hand some liabilities may not be accurately stated.

The asset of Goodwill, for example, is usually unrecorded in the books of a firm; capital expenditure, in respect of which an asset exists, may have been charged to revenue; the Reserve for Bad Debts may appear at an excessive or insufficient figure; while the books may omit to record a possible liability in the form of an obligation by way of an annuity to the representatives of a former partner.

These are merely illustrations, but it may be the case that, from these and similar causes, the Capital and Current Accounts do not show correctly the exact value of each partner's interest.

REVALUATION ACCOUNT.

1919. Dec. 31	To Mrs. X, capital value of unexpired annuity payable to her . .	1,200	–	–	1919. Dec. 31	By Goodwill A/c, value as agreed . . .	2,400	–	–
,,	,, Shares A/c, loss in value	640	–	–	,,	,, Plant and Machinery A/c	420	–	–
,,	,, Current A/cs, for shares in profit upon revaluation— A, one-half 985 – –; B, one-third 656 13 4; C, one-sixth 328 6 8	1,970	–	–	,,	,, Reserve for Bad Debts, excess provision. .	130	–	–
					,,	,, Capital Expenditure charged to Revenue, less depreciation .	860	–	–
		3,810	–	–			3,810	–	–

The adjustments made upon the accounts of the partners by means of this account are required in order that the interest of any one of them in the firm may be correctly shown at the credit of his Capital and Current Accounts, for it will be observed that the alterations are made with the view of recording in the books the true existing values of all assets and liabilities.

It is possible for the continuing partners again to treat as unrecorded those items not previously contained in the books, and this could be effected by a reversal, after the retirement of the outgoing partner, of some or all of the entries in the Revaluation Account. Assume, for example, that in regard to the account set out, C is the outgoing partner. The effect of the transfer to the credit of C's Current Account of his proportionate share of the gain appearing upon revaluation, is to show upon that and his Capital Account jointly the value of his interest in the partnership. The construction of the Revaluation Account has also had the result of altering the book values of certain assets and of creating one additional liability. Of the accounts so adjusted, the continuing partners, A and B, who arrange to share in the same *relative* proportions, desire that the Goodwill Account and the account of the liability to Mrs. X (being the capital value of an annuity hitherto charged as and when paid to Profit and Loss Account) be eliminated from the books. The following entries will then be made upon Revaluation Account.

REVALUATION ACCOUNT.

		£	s.	d.				£	s.	d.
1920.					1920.					
Jan. 1	To Goodwill A/c	2,400	–	–	Jan. 1	By Mrs. X, Annuity A/c		1,200	–	–
					„	„ Current A/cs, for shares in respect of balance of entries reversed as above—				
						A, three-fifths	£720			
						B, two-fifths	480			
								1,200	–	–
		2,400	–	–				2,400	–	–

The entries given serve to illustrate a method of treatment of Goodwill upon the admission of a partner, but there are various other methods. Assume that D is admitted as a partner, upon terms *inter alia* that he contributes a stated sum as capital and purchases a one-quarter share in the Goodwill and profits for the sum of £800; further, that there are three partners sharing, A, one-third, B, five-twelfths, D, one quarter.

(1) Raise a Goodwill Account for the full value of the asset, £3,200, crediting this amount to A and B in their shares as existing *prior* to the admission of D; credit the sum paid by D, viz., £800, to his account; and reverse the debit upon Goodwill Account by transfer to the accounts of A, B, and D, in the *new* proportions; or,

(2) Credit the £800 received from D to the accounts of A and B in the relative shares as existing prior to D's admission as a partner; or

(3) Debit D with the amount of £800 payable by him, crediting A and B as in (2); and credit the £800 when received to D's account.

Of these, the method first described is to be preferred, as expressing most accurately the effect of the transaction.

The illustrations given explain the manner in which the adjustments required upon a change in the constitution of the firm may be made. Such changes may frequently occur, and it is possible that the accurate adjustment which is desirable is not in fact made as regards some specific asset.

A firm of solicitors, for example, may purchase a reversionary interest for a lump sum, and this, notwithstanding changes in the identity of the members of the firm, may be maintained as an asset in the books of the partnership at its cost price until it falls in. The profit (if any) arising has accrued over the whole period, and is attributable in the proper proportions to the various distinct partnerships that have existed during that time.

Suppose that a transaction of this nature was entered into on 1st Jan., 1913, by a firm consisting of three partners, A, B, and C, sharing equally, who acquired the asset for £1,200.

On 31st December, 1915, A retires and D is admitted, and the new shares are agreed as—

B	two-fifths
C	two-fifths
D	one-fifth

On 30th June, 1918, C dies; B and D continue in partnership, sharing B, three-quarters, D one-quarter.

The reversion falls in on 30th June, 1919, realising £1,800.

It is desired that the realised profit of £600 should be apportioned between A, B, C, and D upon an equitable basis.

For this purpose, each group of partners must be regarded as a distinct partnership, acquiring the asset from the preceding set at its fair value, and transferring it to the succeeding group on a similar basis of price. For the purposes of such transfer, the former set of partners are entitled to be credited with the due proportions (as then existing between them) of the value of the asset, while the new group purchase it in the *new* shares.

Assuming that the worth of an asset of the character stated is fairly calculated upon the basis that a purchaser would make an allowance for 6 per cent. compound interest per annum, its value at the material dates would be—

	£
At 1st January, 1913	1,200
At 31st December, 1915	1,429
At 30th June, 1918	1,653
At 30th June, 1919	1,800

The apportionment of the profit of £600 is now shown—

		1st Partnership.			2nd Partnership.			3rd Partnership.	
	Shares	*Dr.* £	*Cr.* £	Shares	*Dr.* £	*Cr.* £	Shares	*Dr.* £	*Cr.* £
A	1/3	400	477						
B	1/3	400	476	2/5	571	661	3/4	1,240	1,350
C	1/3	400	476	2/5	572	661			
D				1/5	286	331	1/4	413	450
		1,200	1,429		1,429	1,653		1,653	1,800

The net result of the above statement is as follows—

	£
A should receive	77
B " "	276
C's representatives should receive . .	165
D should receive	82
	600

It may, of course, be the case that a *final* settlement has been made with the outgoing partner or his representatives, in such terms as to preclude him or them from any subsequent claim.

Upon the preparation of accounts as between partners, whether in the usual course or upon a dissolution, it may appear that one or more partners is in debit. The amount due should, of course, be paid by him to the firm, but there may be cases where this is not possible. The remaining partners then suffer loss, inasmuch as the amounts by which they are in credit cannot be satisfied in full from the firm's assets.

A loss of this nature is to be distinguished from an ordinary loss on trading, or realisation, for it is one which, being caused by the failure of one partner to contribute what is properly due from him, must necessarily be borne by the *remaining* members of the firm.

It has been decided (*Garner* v. *Murray*, 1904, 1 *Ch.* 57; 32 *Accountant Law Reports*, 3) that a loss of this character is to be regarded as a loss of capital, and is to be borne by the other partners in the proportions of their interests in capital, irrespective of their shares in profits and losses resulting from trading.

The position in *Garner* v. *Murray* upon dissolution was approximately as follows—

Capital Accounts.	£	s.	d.	Assets.	£	s.	d.
Garner	2,500	–	–	Cash	1,916	–	–
Murray	314	–	–	Wilkins, overdrawn . . .	263	–	–
				Deficiency of Firm . . .	635	–	–
	2,814	–	–		2,814	–	–

The "deficiency of firm," representing a loss arising from trading or upon realisation, was obviously one which all partners were under liability to make good by contribution. Such contribution, however, could be made by Garner and Murray only, for it appeared that Wilkins was unable to pay anything on account of the balance standing to his debit. Garner and Murray jointly were thus suffering a loss to them of Wilkins' share of the "deficiency of firm," plus the amount of the balance already appearing against him.

The position is made clearer by the submission of a Balance Sheet in the following revised form, it being assumed that the partners share equally in profits and losses.

Capital Accounts.	£	s.	d.	Assets.		£	s.	d.
Garner	2,500	–	–	Cash		1,916	–	–
Murray	314	–	–	Garner, proportionate share of deficiency of Firm . . .		212	–	–
				Murray, do. do. do.		212	–	–
						2,340	–	–
				Wilkins, balance . . .	£263			
				„ share of deficiency .	211			
						474	–	–
	2,814	–	–			2,814	–	–

The question arising for determination was as to the method of apportionment *as between Garner and Murray* of the loss falling upon them through the failure of Wilkins to pay what appeared due from him. The generally accepted method, prior to the case quoted, was to treat the loss as one to be borne by the remaining partners in the proportions in which they were interested in ordinary profits and losses, which, in the circumstances quoted, would be in equal shares. This would imply that a loss of this nature is similar to ordinary losses, and would place the *solvent* partners under obligation to contribute their respective shares thereof. It was decided, however, that no liability to *contribution* existed; that a loss falling on *some* of the partners from the specific cause that another had failed to pay what was due from him was to be distinguished from a loss of the firm *as a whole;* and that it was to be regarded as a loss of *capital,* to be borne by Garner and Murray in the relative proportions of their shares in capital.

The loss of £474 was, therefore, apportionable—

As to Garner $\frac{2500}{2814}$; as to Murray $\frac{300}{2814}$

and the assets were applicable—

As to Garner, $\frac{2500}{2814}$ of £2,340, less £212 due from him;
„ „ Murray, $\frac{300}{2814}$ of £2,340, „ £212 „ „

It will be observed that the loss of £474 has been apportioned on the basis of the amounts appearing to the credit of the Capital

Accounts of Garner and Murray respectively. In practice, the balances of these accounts may be adjusted at each balancing date by transfer to the credit and debit respectively of the amounts of profits and drawings attributable to the respective partners. Such alteration implies a revision of the partnership agreement and a fresh contract as to the respective shares of the partners in capital, for, under the construction placed upon the provisions of the Partnership Act, 1890, capital is to be regarded as of an agreed amount, to be made good by contribution from the partners in their respective shares when reduced by trading losses. Where periodical adjustment is made of the balances of the Capital Accounts, the *agreed* shares in capital are to be considered as those fixed and accepted by the partners, and may be evidenced by a signed Balance Sheet, or by the state of the accounts in the books, or in some manner showing definite consent to the adjustment. In the illustration given, therefore, the apportionment has been made on the basis of the Capital Accounts as appearing prior, and not subsequent, to the transfer (if any) of the shares of loss to the accounts of the partners.

Upon the dissolution of a partnership, the assets may be realised at various dates over a considerable period. The claims of creditors and of the partners in respect of loans being satisfied, any surplus realised belongs to the partners.

Where the shares in capital are not in the same proportion as in profits and losses, some care is necessary in making a distribution of sums in hand. This may best be illustrated by example.

EXAMPLE. The Balance Sheet of the firm of A, B, and C as on 31st December, 1917, on which date dissolution was agreed upon, was as follows—

LIABILITIES.		£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors . . .		3,000	–	–	Sundry Accounts . . .	18,550	–	–
Capital Accounts—								
A . . .	£4,950							
B . . .	8,100							
C . . .	2,500							
		15,550	–	–				
		18,550	–	–		18,550	–	–

The assets were realised gradually, and were applied primarily in satisfaction of the claims of creditors. The following sums were available for distribution amongst the partners at the dates named—

1918.	£
May 31	4,600
Aug. 15	3,000
Oct. 31	2,100

At the latest date given it appears that there are further assets unrealised, and the final result of the liquidation in profit or loss cannot, therefore, be ascertained. It is desired to distribute the amounts in hand upon some equitable basis.

The shares in profits and losses are as to—

A	one-half
B	one-third
C	one-sixth

Having regard to the shares stated, it appears that B has contributed a larger proportionate amount of capital than either B or C, while C, with one-sixth share, has a greater proportionate interest in capital than A. In making distributions, therefore, it is desirable that the inequality of the shares in capital and, consequently, in the loss of interest thereon be adjusted by making repayment in the first place to those partners who have most largely contributed, until such time as the balances remaining to the credit of the partners are in the same respective proportions as the shares in profits. When this position has been arrived at, subsequent distributions may be made in the latter proportions.

	A.			B.			C.		
	£	s.	d.	£	s.	d.	£	s.	d.
Capital as per Balance Sheet . . .	4,950	–	–	8,100	–	–	2,500	–	–
First Distribution .				4,100	–	–	500	–	–
	4,950	–	–	4,000	–	–	2,000	–	–
Second ,, .	475	–	–	1,016	13	4	508	6	8
	4,475	–	–	2,983	6	8	1,491	13	4
Third ,, .	1,050	–	–	700	–	–	350	–	–
	3,425	–	–	2,283	6	8	1,141	13	4

It will be observed that after the second distribution, the shares in capital stand in the same proportions as those in profits. It will be in these shares that any loss on realisation will be apportioned between the partners, and, when all assets have been realised and distributed the balances to the credit of the partners on their respective Capital Accounts will represent their individual shares of the loss so chargeable to them.

CHAPTER XIII

EXECUTORSHIP ACCOUNTS

A DIFFERENCE of opinion exists as to whether or not the accounts of executors should take cognizance of the value of the estate at the date of the testator's death, and this difference finds expression accordingly in the two methods upon which these accounts are kept, which may be termed respectively the "memorandum" and "probate values" systems.

The former is based upon the theory that an executor is responsible for the *property* coming under his charge, but not for its value, except such as he may realise. The accounts are, therefore, limited to a record of actual cash transactions, with a memorandum or note of assets unrealised. The latter system, on the other hand, is framed on the principle that the form of the accounts should be such as would have recorded, or continued to record, the transactions of the deceased had he lived and therefore involves, as part of the book-keeping entries, a statement of values of assets and liabilities affecting the financial position at the date of death.

In the former case, the Estate or Capital Account shows in the first instance only the value of such assets as are *immediately* realisable at a definite value, while in the latter it contains a record of *all* assets and liabilities, and thus shows the value of the estate as a whole at the date of death. This will be affected subsequently by such gains or losses in relation to the values so recorded as may occur in the course of administration.

As both the methods referred to are to be considered sound in principle, and are in ordinary use, it is desirable to consider them in more detail, as applied to a hypothetical case.

Thus, suppose A B dies on 15th December, 1918, leaving estate as follows—

	£
Cash in the house	35
Balance at bank	182
Insurance policy, with accrued bonuses. .	1,354
Consols, £2,472 14s. 6d. @ (say) £56 . .	1,360

		£
Freehold Property		3,500
Mortgage	1,400	
Accrued interest	28	
		1,428
		7,859
Less—	£	
Debts due at death	150	
Funeral Expenses	63	
		213
		7,646

The general method of book-keeping in regard to the particulars given will be as follows—

MEMORANDUM SYSTEM. The assets and liabilities of the estate as contained in the Estate Duty Account and briefly summarised above will be set out in schedule form at the front of the Journal or Ledger. (Under this system, it may be noted, the Journal is frequently dispensed with, and such transfers as it is necessary to record are then made by direct entry upon the Ledger accounts.) The schedule thus gives a complete statement of the position at the opening date. It should be so arranged as to give facilities for record of the disposal or realisation of each asset, by reference to Cash Book folios, if sold, or by note of gifts by way of legacies, or of any step or transaction that has removed the *original* asset from the operation of the trust. It will thus in the future form a record of *original* assets still unrealised. The only entries immediately made in the books will be in respect of the cash and bank balances, both of which, now transferred to the executor's banking account, will appear at the debit of the Cash Book, and be credited to Estate Account. The Cash Book will thenceforward record all receipts and payments in the ordinary manner. The former may represent—

Realisations of *original* assets and capital,
Realisations of acquired assets (*e.g.*, investments),
Income,

while the latter will include—

Discharge of liabilities existing at date of death,
Capital Charges (Estate Duty, etc.),
Payment for assets acquired,
Distribution of income,
Distribution of capital.

Amounts received in respect of the *original* assets will be entered in the Cash Book at the sum realised and credited to Estate Account, while the realisations of *acquired* assets will be credited to the investment accounts, these having been duly opened by a posting from the Cash Book of the amount paid upon purchase. Any balance, of profit or loss, upon the asset accounts will be transferred to Estate Account.

In regard to the payments, capital liabilities and charges will be debited to Estate Account either direct or indirectly through an "interim" account. These will include Debts due at death, Funeral Expenses, Estate Duty, Testamentary Expenses, Pecuniary Legacies, etc. (It may be observed that legacies other than pecuniary are noted as satisfied by a memorandum in the Schedule against the assets transferred.) It has already been remarked that assets acquired out of capital, such as investments, are recorded in the Ledger by opening a distinct account.

The general treatment of income receipts and payments is considered later.

PROBATE VALUES SYSTEM. Under this method, the Schedule is dispensed with, but (in respect of the particulars given) comprehensive Journal entries would be made in the following form—

1918.			
Dec. 15	Sundries— *Dr.*	£	£
	To Estate A/c		7,859
	For values of sundry assets at date of death—		
	Cash in the House	35	
	Balance at bank	182	
	Insurance Policy	1,354	
	Consols, £2,472 14s. 6d. at 56 . . .	1,360	
	Freehold Property	3,500	
	Mortgage	1,400	
	Accrued Interest	28	
	Estate Account . . . . . *Dr.*	213	
	To Sundries—		
	For liabilities at date of death—		
	Debts due at death		150
	Funeral Expenses		63

Estate Account is thus credited upon opening the books with the net value of the testator's estate at the date of death. The various accounts created by the entries given will not be affected until realisation of an asset or discharge of a liability. In the former case the proceeds received will be credited to the asset account, and in the latter the cash paid will be debited against the balance outstanding, and the gain or loss resulting transferred to Estate Account. Inasmuch as Estate Account was originally credited with the value of each asset at date of death and is subsequently charged with the gain or loss upon realisation, this account *ultimately* in effect obtains (in respect of each asset) net credit for the amount actually realised. It will be noted that under the alternative system first described the cash received upon sale is to be credited to Estate Account, and that both methods, therefore, work to a like result.

In the matter hereafter set out, the *pro formâ* examples are for the most part framed upon the principles of the "probate values" system, while essential differences in treatment of particular entries under the two methods are indicated.

Books of Account.

The accounts of executors are recorded in Cash Book, Journal, and Ledger, which are adapted in manner indicated hereafter to the particular features of such accounts.

The most convenient form of Cash Book is undoubtedly that providing separate columns for Capital and Income transactions respectively, which will thus distinguish the balances in hand under each heading.

It is important that all transactions should be carried out by means of the executor's banking account, all receipts being banked and all payments being made by cheque. The keeping of the accounts is thereby greatly facilitated. It is desirable also that separate banking accounts for Capital and Income be opened as soon as possible, so that confusion may be avoided in the application of funds in hand.

In regard to transactions upon Income Account, which will be almost entirely receipts, it is usual to post each entry to the credit of the particular Investment Account affected and to transfer therefrom, by Journal entry, to the credit of Income Account; but, where the number of investments is small and no difficulty consequently arises in observing that the income due in respect of each is duly received, it is sometimes preferred to post the total of the Cash debit column for Income receipts direct to Income Account, thus avoiding the detail postings to, and transfers from, the Investments Accounts.

It has already been observed that the Journal, under the system described as "memorandum," is occasionally dispensed with. Where used, it serves the purposes of record of the transfers of dividends, interest, etc., from the Investment Accounts to the credit of Income Account, the transfer of gain or loss upon realisation of an asset to Estate Account, and similar entries.

The form of Ledger usually adopted is one containing two columns on either side, for Income and Capital entries respectively, while on the debit side a third column is sometimes provided for record (in regard to investments more particularly) of nominal values.

The books of an estate are opened in the manner described, the Estate Duty Account, together with any corrective affidavits thereof, forming for this purpose a convenient summary of the assets and liabilities. It has been thought unnecessary in a work of this character to set out in detail the various forms and schedules forming the Estate Duty Account. It should be observed, however, that the passing of the account and the payment of Estate Duty at the proper rate on the total amount of the estate liable thereto is a condition precedent to the grant of probate, by which the right to act of the executor named in the will is confirmed. It has been thought of minor importance also, as affecting the *method* of keeping the accounts, to consider legal questions of liability in regard to estate and other duties, and the rates thereof.

For the purposes of Estate Duty, it is necessary that proper evidence of value should support the particulars set out in the Estate Duty Account. In the case of investments, this is furnished, as regards the majority, by the production of an official list of Stock Exchange quotations; as regards other assets, by certificates of competent persons, such as inventories prepared and certified by recognised valuers, in respect of furniture, pictures, etc., while in general it may be said that it is required that the values set out should be full and fair. The Stock Exchange quotation is available only for shares, etc., included therein, and as to others evidence of value may be required to be produced, such as letters from the secretaries of the companies, in which the shares, etc., are held. Where an official quotation is obtainable, the price stated is usually a double one, thus a £5 share may be quoted $5\frac{1}{16}$–$\frac{3}{16}$. For the purposes in question, the value to be adopted is the average of the lower ($5\frac{1}{16}$) and the mean ($5\frac{1}{8}$) prices, that is $5\frac{3}{32}$.

The values of the majority of investments held will be based upon official quotations. These will for the most part be *cum* dividend. The opening entries (under the "probate values" method) will have the effect of crediting Estate Account with the value of the capital proportions of dividends accordingly. There may of course be cases where a valuation is based upon a quotation "*ex* dividend," and in which the dividend itself enters into and forms part of the value of the estate as sworn.

The receipt of dividends may, therefore, in part represent a realisation of capital. Apportionment will be necessary, the capital proportion being placed or left at the credit of the investment account in reduction of the value at date of death, and the balance transferred to the credit of Income Account.

Under the alternative method, apportionment is still necessary. The accounts, however, deal only with cash, and, in the case of apportionable dividends, the simplest and most convenient plan is to credit all to a Dividend Apportionable Account, transferring therefrom to Estate and Income Accounts in the due proportions.

The principle of apportionment is determined by the Apportionment Act, 1870, which enacts that dividends and similar items are to be regarded as accruing from day to day and apportionable in respect of time accordingly.

This principle is to be applied in strict accordance with the Will. The Will may expressly or by implication preclude apportionment, and direct that all amounts of dividends, interest, etc., received after the date of death be treated as income. There are also a number of cases involving special circumstances, where the Courts have given directions as to apportionment not strictly in accordance with the general rule. For example, when dividends are received in respect of arrears of dividends on cumulative preference shares, the Court may on application direct payment to the life-tenant of some part of the amount received although relating to a period prior to death; again, special rules are applicable in the apportionment of income from wasting assets, such as leaseholds, not only as to income accrued to the date of death, but subsequently.

The subject of apportionment is intricate, and legal opinion on questions involved is often essential.

Where an interim dividend has been received by the testator, and a final dividend (at a higher rate) is received by the executors, both are brought into account for apportionment. After ascertaining the proportion of the whole due to be treated as capital, the amount of the interim dividend already capitalised will be deducted, and the balance of the capital proportion retained from the final dividend.

Under such circumstances as those last referred to, capital never refunds; receipts and payments made by the testator are, so to speak, closed transactions. The apportionment may show that capital has had (in the interim dividend) more than its due share of the whole; the facts may be that capital has, as regards payments, disbursed sums prior to death (*e.g.*, rates in respect of property) which, if they had been paid by the executors, would partly have affected income; apportionment will only be made of the executor's transactions. These may give further credit to Estate Account, or throw a portion of expenses upon it, but will not disturb the transactions of the testator.

The principal occasion for apportionment arises upon the testator's death, although it may not then be necessary in all cases. Need may, however, also arise for apportionment as between successive tenants-for-life, or between life-tenant and remainder-man.

It is impossible in a work of this nature to deal exhaustively with the many problems arising upon questions of apportionment. To the accountant student who may deal with the accounts of executorships and trusts, a general knowledge of the principles involved is essential, and reference to works dealing more exclusively with this branch of law is desirable.

ILLUSTRATION. A testator died on 19th October, 1919, leaving his estate in trust. The executors receive the following amounts—

		£	s.	d.
1919.				
Oct. 31.	John Brown & Sons, Ltd.—Final dividend for year ending 30th June, 1919, on 800 shares (£1 each) at rate of 15 % p.a., less tax, making with interim dividend (paid Jan. 1919), 10 % for the year . .	56	5	–
Nov. 10.	Abel Thomas, Ltd.—Dividend for year ending 31st Oct., 1919, on 500 £1 Ordinary Shares @ 6 %, less tax	28	2	6
Dec. 25.	Rent, Rose Villa, for quarter to date (Sept. 29–Dec. 25)	25	–	–
1920.				
Jan. 15.	Henry Thompson & Sons, Ltd.—Final dividend for year ending 31st Dec., 1919, on 500 shares of £2 each			

	£ s. d.	£ s. d.	£ s. d.
at 12 % p.a., less tax, making with interim dividend (paid July, 1919), 8 % for the year—			
(Dividend		30 – –	
Less tax @ 1s. 6½d. .	2 6 3		
,, ,, ,, 4½d. on interim dividend . . .	3 9		
		2 10 –	
			27 10 –

NOTE.—It is assumed that tax was deducted from the Interim Dividend at 1s. 2½d., and that under the provisions of the Finance Act, 1919 (Session 2), a further 4½d. is deductible on account thereof from the final dividend, the rate for the year being the average of 1s. 2d. for the period 1st Jan. to 5th April, and 1s. 8d. for the period 5th April to 31st Dec.

Mar. 25.	Rent, Rose Villa, for quarter to date (Dec. 25–Mar. 25)	25 – –	
	Less, property tax for year to 5th April, 1920	6 18 8	
			18 1 4

The method of apportionment in respect of these transactions is shown on page 122.

A more detailed explanation by means of *pro formâ* accounts of the general methods of the "probate values" system is now given.

PROBLEM. A. Howard died on 31st January, 1919, leaving the following estate—

Railway Ordinary Stock £5,000, valued at 85 per cent.

Railway 3 per cent. Preference Stock £10,000, valued at 77 per cent.

Railway 3 per cent. Debenture Stock £8,000, valued at 80 per cent. (Interest payable 1st January and 1st July).

Loans on Mortgage at 4 per cent. £10,000 (Interest due 25th March and 29th September).

Chief Rents £85 a year, valued at 25 years' purchase (due 25th March and 29th September).

Life Policies £5,000.

Household Effects valued at £1,500.

Debts due by Testator £150.

He left £250 each to his two executors, £250 to a nephew, and £3,000 to charities, all free of duty, and the residue of the estate in moieties to his son and daughter.

The Railway Ordinary Stock was sold on 1st March, 1919 (immediately after the receipt of the final dividend for 1918 at 5 per cent. per annum), at a profit of £250; the Life Policy money was received, and £1,520 realised from the sale of the household effects.

SCHEDULE OF APPORTIONMENTS.

	Dividend.	Period.	Total.			Capital.				Income.			
						Days.	Amount.			Days.	Amount.		
			£	s.	d.		£	s.	d.		£	s.	d.
1919. Oct. 31	John Brown & Sons, Ltd.	Final divd. for year ending 30th June, 1919.	56	5	–	—	56	5	–	—			
Nov. 10	Abel Thomas, Ltd.	Year ending 31st Oct., '19	28	2	6	$\frac{353}{365}$				$\frac{12}{365}$			
Dec. 25	Rent	Quarter to date.	25	–	–	$\frac{20}{87}$				$\frac{67}{87}$			
1920. Jan. 15	Hy. Thompson & Sons, Ltd.	Final divd. for year 1919											
	Interim dividend	9 8 4											
	Final ,,	27 10 –											
		36 18 4											
	Capital $\frac{292}{365}$, less £9 8s. 4d.,		27	10	0	—	20	2	4	—	7	7	8
	Income $\frac{73}{365}$, of £36 18s. 4d.												
Mar. 25	Rent	Quarter to date.	25	–	–	—				—	25	–	–
Less 1920. Mar. 25	Property Tax	Year to 5th April, 1920.	6	18	8	$\frac{197}{365}$	3	14	10	$\frac{168}{365}$	3	3	10

Assume the receipt of all interest and dividends on investments as they became due, also that Estate Duty was paid on 30th June, 1919, and Legacy Duties, Debts owing, and Funeral (£120), and Executorship Expenses (£380) on 30th September, 1919.

Write up the books to 30th September, 1919, and prepare Corpus and Income Accounts on that date.

Ignore Income Tax.

A. HOWARD (DECEASED).

Dr. ESTATE ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
1919.					1919.				
Jan. 31	To Sundry Creditors	150	–	–	Jan. 31	By Railway Ord. Stock	4,250	–	–
	„ Funeral Expenses	120	–	–		„ Railway 3 % Pref. Stk.	7,700	–	–
	„ Balance	36,874	17	9		„ Railway 3 % Deb. Stk.	6,400	–	–
						„ Loans on Mortgage	10,000	–	–
						„ Interest accrued on do.	140	2	3
						„ Chief Rents, Capital value	2,125	–	–
						„ Rents accrued	29	15	6
						„ Life Policies	5,000	–	–
						„ Household effects	1,500	–	–
		37,144	17	9			37,144	17	9
June 30	To Estate Duty at 6 %	2,212	9	10		By Balance	36,874	17	9
	„ Executorship Exs.	380	–	–		„ Railway Ord. Stock, profit on realisation	250	–	–
	„ Legacies	4,112	10	–		„ Household effects, ditto.	20	–	–
	„ Balance	30,439	17	11					
		37,144	17	9			37,144	17	9
					1919.				
					Oct. 1	By Balance	30,439	17	11

Dr. CASH. *Cr.*

		Income.			Capital.					Income.			Capital.		
1919.		£	s.	d.	£	s.	d.	1919.		£	s.	d.	£	s.	d.
Mar. 1	To Final divd. on Railway Ord. Stock				125	–	–	June 30	By Estate Duty				2,212	9	10
	„ Dividend on R'way 3 % Pref. Stock				150	–	–		„ Int. thereon	27	5	7			
	„ Proceeds of R'way Ord. Stock				4,375	–	–	Sept. 30	„ Sundry Creditors				150	–	–
	„ Life Policy				5,000	–	–		„ Funeral exs.				120	–	–
	„ Household effects				1,520	–	–		„ Executorship expenses				380	–	–
„ 25	„ Interest on Mortgage	59	17	9	140	2	3		„ Legacies— 1st Exec.				250	–	–
	„ Chief Rents	12	14	6	29	15	6		2nd Exec.				250	–	–
July 1	„ Interest on R'way Deb. Stock	100	–	–	20	–	–		Nephew				250	–	–
Aug. 15	„ Divd. on Rly. 3 % Pref. Stock	125	–	–	25	–	–		Sundry Charities				3,000	–	–
Sept. 29	„ Interest on Mortgage	200	–	–					„ Legacy duties				362	10	–
	„ Chief Rents	42	10	–					„ Balance	512	16	8	4,409	17	11
		540	2	3	11,384	17	9			540	2	3	11,384	17	9
Oct. 1	To Balance	512	16	8	4,409	17	11								

A. HOWARD (DECEASED).

INCOME ACCOUNT.

Dr.		£	s.	d.			£	s.	d.
1919.					1919.				Cr.
June 30	To Interest on Estate Duty	27	5	7	Sept. 30	By Interest on Mortgage .	259	17	9
Sept. 30	„ Balance	512	16	8		„ Chief Rents . . .	55	4	6
					„	Interest on Railway Deb. Stock.	100	–	–
						„ Divd. on Railway 3 % Pref. Stock . . .	125	–	–
		540	2	3			540	2	3
					Oct. 1	By Balance	512	16	8

BALANCE SHEET.

As at 30th September, 1919.

Dr.	£	s.	d.		£	s.	d.	Cr.
To Estate Account—				By £10,000 Rly. 3 % Pref. Stock .	7,525	–	–	
Son . . . £15,219 18s. 11d.				„ £8,000 Rly. 3 % Deb. Stock .	6,380	–	–	
Daughter . 15,219 19 –	30,439	17	11	„ Loan on Mortgage . . .	10,000	–	–	
				„ Chief Rents	2,125	–	–	
„ Income Account—				„ Cash—				
Son . . . 256 8 4				Estate A/c . 4,409 17 11				
Daughter . 256 8 4	512	16	8	Income A/c . 512 16 8	4,922	14	7	
	30,952	14	7		30,952	14	7	

The authority and powers of executors in regard to investments are derived from the Will. In so far as the Will does not limit their powers, they are entitled to invest the fund under their charge in securities authorised by the Trustee Act, 1893, and Colonial Stock Act, 1900; but the Will may give them wider scope.

The directions of the testator may involve the separation of the estate into distinctive trust funds, each designated for a particular purpose. Capital and income will thus be held and applied for and on account of the objects specified. Thus, a testator may direct the executors, whom he also constitutes trustees, to pay his debts, funeral expenses, estate duties and pecuniary legacies, and to deal with the balance as follows—

(1) As to £10,000, to invest for the benefit of his daughter A and her children, with life-interest to A and remainder to the children.

(2) As to £10,000, similarly for his daughter B and her children.

(3) As to the balance (residue), to hold in trust to pay £1,500 per annum to his widow for life, with remainder to his five children, including A and B, their shares being settled on the same terms as the specific trusts referred to.

In such circumstances, it would be necessary for the executors to ascertain the assets under their control after satisfying all immediate charges on the estate. For the latter purpose, some assets would have to be realised, and the executors would no doubt find it a convenience to sell for this purpose some or all of such investments as, having regard to the terms of the will, they found it beyond their powers to retain.

In the books of account, transfers would be made from Estate Account to the credit of A, Trust Capital Account, and B, Trust Capital Account of £10,000 to each respectively. The balance of Estate Account represents the capital available for the purposes of the trusts in regard to residue.

In regard to each separate trust, specific investments must be acquired or retained from the general assets for the express purposes of each. It is not necessary that the investments be purchased, but sufficient if they are expressly appropriated. Appropriation will be made at the values of the investments at time of appropriation, and subsequent gain or loss upon those values will affect the capital of the trust alone of which the particular investments form part.

The separation of capital in the circumstances indicated involves also the separation of income received, in relation to each trust. When the values of capital and the numbers of investments held are high, it may be desirable that the accounts of each trust be recorded in a distinct set of books.

"A"

ESTATE ACCOUNT.

	£	s.	d.		£	s.	d.
To A, Trust Capital A/c .	10,000	–	–	By Balance . . .	50,302	–	–
" B, " " .	10,000	–	–				
" Balance carried down .	30,302	–	–				
	50,302	–	–		50,302	–	–
				By Balance brought down.	30,302	–	–

A. TRUST CAPITAL ACCOUNT.

	£	s.	d.		£	s.	d.
To Loss on realisation of Consols . . .	340	–	–	By Estate A/c . . .	10,000	–	–
" Balance, carried down .	9,816	–	–	" Profit on realisation of—			
				L. & N.W.R. 4½ % Deb. Stock . .	102	–	–
				Midland Rly. Deb. Stk.	54	–	–
	10,156	–	–		10,156	–	–
				By Balance brought down.	9,816	–	–

B. TRUST CAPITAL ACCOUNT.

	£	s.	d.		£	s.	d.
To Loss on realisation of Queensland 4 % Stock	160	–	–	By Estate A/c . . .	10,000	–	–
„ Balance carried down .	9,840	–	–				
	10,000	–	–		10,000	–	–
				By Balance brought down.	9,840	–	–

NOTE.—The charge (if any) for Settlement Estate Duty has not been dealt with.

Upon the facts submitted, the general estate will have to be further dealt with upon the death of the widow. The value will be ascertained at that date and the absolute interests satisfied. In this event also, payment in cash is not essential, and investments can be appropriated at their true values in part satisfaction of the balance due. The value of that part of the estate still to be held in trust for the benefit of A and B and their respective children will be transferred to and form part of the capital of their respective trusts.

The method referred to of appropriation of securities in whole or part satisfaction of distinctive interests implies valuation. It is advisable that this be expressed in the books of account. The various accounts of assets, investments, property, etc., will therefore be adjusted to the true values as at the agreed date of distribution or transfer, the entry being completed by a debit or credit upon Estate Account for loss or gain upon the revaluation as a whole. Estate Account will then represent the value of the trust property as at the date of division, and the credit balance thereon can be transferred to the accounts of those interested in the proper shares.

In the case submitted, the shares of the daughters will be passed to the credit of their Trust Capital Accounts and those of the sons to the credit of their accounts. The latter will perhaps be satisfied in part by securities appropriated; these will be transferred to them, the accounts of the investments, etc., affected being closed and those of the sons debited. In the cases of the shares in trust, these will be represented by investments retained, specifically noted as held for the account of one or both of the trust funds. It may possibly at this stage be convenient to open fresh books for record of future transactions in regard thereto.

Appropriation of securities at valuation can seldom be made in exact and full satisfaction of the amount due, and balances usually remain, debit or credit, for discharge in cash.

This form of settlement (by appropriation) proceeds on the assumption that the executors could, on a date fixed, have converted the estate into cash at the values ascertained, and that no unfairness therefore results from transfer of that value in a form other than cash. The revaluation of the estate as a whole, however, takes time, and effect cannot be given to the arrangements proposed by immediate transfer. In the interval, values may alter, and a beneficiary may consider himself or herself adversely affected by inability to realise at the date of transfer the value at date of revaluation. It is desirable that the trustees should protect themselves by obtaining the consent of all parties to the proposed arrangement and by a full discharge from the beneficiaries.

The *pro formâ* accounts submitted illustrate the form of the adjustments required in the books of account.

ESTATE ACCOUNT.

	£	s.	d.		£	s.	d.
To Sundry Investments, loss on revaluation .				By Balance brought down.	30,302	–	–
4½ % War Loan . .	50	–	–	,, Freehold Land, gain on revaluation . .	780	–	–
Pennsylvania Railroad 4 % Bonds . .	220	–	–				
New Zealand Govt. Loan	134	–	–				
Cape of Good Hope Govt. Loan . . .	80	–	–				
Furness Railway 4 % Stk.	40	–	–				
North British Railway, 3 % Pref. Stock. .	24	–	–				
Great Western Railway Deb. Stock . .	120	–	–				
London & N.W. Railway Deb. Stock . .	18	–	–				
Caledonian Railway Deb. Stock . . .	30	–	–				
Consols . . .	286	–	–				
,, Balance carried down .	30,080	–	–				
	31,082	–	–		31,082	–	–
To A, Trust Capital A/c .	6,016	–	–	By Balance brought down.	30,080	–	–
,, B, ,, ,, . .	6,016	–	–				
,, C	6,016	–	–				
,, D	6,016	–	–				
,, E	6,016	–	–				
	30,080	–	–		30,080	–	–

C.

	£	s.	d.		£	s.	d.
To Sundry Investments transferred in part satisfaction of interest, viz.—				By Estate A/c. . .	6,016	–	–
Furness Rly., £2,000 4 % Stock . . .	1,640	–	–				
North British Rly., £800 3 % Pref. Stock. .	442	–	–				
Great Western Rly., £3,000 4 % Deb. Stock	2,985	–	–				
London & N.W. Rly., £600 3 % Deb. Stock.	475	5	–				
,, Cash	473	15	–				
	6,016	–	–		6,016	–	–

NOTE.—Legacy Duty has not been dealt with. The values of investments as dealt with are assumed as correct.

Examples of entries necessary upon the investment accounts are given on page 129.

Advances.

Executors may, where the Will permits, make advances to beneficiaries on account of their respective shares. Such advances will usually be subject to interest. If, for example, an estate of the approximate value of £50,000 and producing (say) £2,000 a year, is held in trust for the purpose of paying an annuity of £1,000 per annum, the executors may, with power given in the Will, agree to a distribution of (say) £15,000 to the residuary legatees, still retaining a sufficient proportion of the capital to cover the annuity payable. If it be assumed that there are five beneficiaries, it is immaterial as between them if the amount of £15,000 is equally divided. If, however, the distribution is unequal, thus—

	£
A	6,000
B	4,000
C	5,000
D	Nil
E	Nil

an adjustment by way of interest is required if the beneficiaries are to be compensated for the unequal loss in respect of the surplus income formerly received by them.

As a matter of book-keeping, A, B, and C will be debited with interest (usually at the rate of 4 per cent. per annum, although, by reason of the general advance in rates of interest in recent years, a greater rate may now be proper) on the amounts advanced to them respectively and Income Account credited. The latter

Dr. FURNESS RAILWAY. Cr.

		£	s.	d.			£	s.	d.
	To Estate A/c, £2,000 4% Deb. Stock @ 84 .	1,680	–	–		By Estate A/c, loss on revaluation	40	–	–
						,, C, transfer to him of investment as per contra in part satisfaction of interest ...., £2,000 4 % Deb. Stk. @ 82	1,640	–	–
		1,680	–	–			1,680	–	–

Retained for purposes of A and B Trusts in equal interests.

4½ % WAR LOAN.

		£	s.	d.			£	s.	d.
	To Cash, purchase of £10,972 4s. 5d., 4½ % War Loan @ 90 . . .	9,875	–	–		By Estate A/c, loss on revaluation........	50	–	–
						,, Balance carried down	9,825	–	–
		9,875	–	–			9,875	–	–
	,, Balance brought down, £10,972 4s. 5d. 4½ % War Loan at revaluation . . .	9,825	–	–					

NOTE.—The above investment is retained for the purposes of the Trusts relating to A and B, and a note is made at the head of the account accordingly. Other securities so retained may be held exclusively for one or other of these trusts only.

account (now showing a credit of an amount approximately equal to the income from the original estate) will be charged with the annuity and the surplus divided amongst A, B, C, D, and E as in the past.

In the final distribution of the estate, the amounts advanced will, of course, be brought into account. Thus, assume the balance of the estate retained by the executors to be revalued as at the date of death of the annuitant at—

	£
	32,000
For the purpose of arriving at the value for distribution the advances will be added .	15,000
Total	47,000

The gross share of each beneficiary will thus be one-fifth of £47,000 (*i.e.*, £9,400), against which the amount advanced to each will be brought into account.

When advances are made, the usual course is to debit them, not to Estate Account, but to the account of the beneficiary concerned, and to divide the credit balance on Estate Account in the proper shares amongst the persons entitled, irrespective of advances made.

CHAPTER XIV

COMPANY ACCOUNTS

The steps involved in the formation and registration of a Limited Company do not of themselves necessarily introduce problems concerning the accountant.

Arising out of registration, however, is the necessity for holding of the statutory meeting, at a date not less than one month nor more than three months from the date on which the company is entitled to commence business. To this meeting must be submitted the "statutory report," and this will ordinarily be prepared by the company's accounting officer.

The extracts given on pages 132–135 from the form of statutory report usually adopted are subject to the limitation that, as regards a private company, it is necessary neither to file the report, nor to forward it to members.

Acquisition by a Limited Company of a Business as a Going Concern.

A Limited Company contains, in the clauses of its Memorandum of Association, wide powers, many of which it may never exercise, but it is as a rule formed with the intention of carrying on business within certain more or less definite limits. It may originate its business; it may, on the other hand, acquire and develop an existing business.

Where acquisition is by a public Limited Company, formed for the purpose, the terms will appear in and form an important feature in the prospectus. In making a statement of these terms, the promoters will desire complete security in regard to fulfilment of the contract by the vendor. This will be obtained by the execution, prior to incorporation, of a contract between the vendor and a person acting as trustee for the proposed company. The vendor will thus be bound, while the company can at its option take over the contract from the trustee. Should it not do so, the trustee, having purported to act as agent for a non-existent principal, is personally liable, but the contract usually reserves power to him to rescind and so relieve himself of liability.

The terms of such contracts ordinarily include provisions for the

J.S. 26.

Number of Certificate } ....*157,329*.......................

"THE COMPANIES ACTS, 1908 TO 1917."

REPORT

(*Pursuant to Section* 65 *of the Companies* (*Consolidation*) *Act,* 1908.)

A 5/– Companies Registration Fee Stamp must be *impressed* here.

OF

....

....*Blank Company*..LIMITED.

1. The total number of shares allotted is....10,000...................

2. Of the shares so allotted........4,000............have been allotted on the footing that they are to be paid for in cash on the terms mentioned in the Prospectus, and £....*2 10/–*........ has already been paid up on each share. The residue of such shares, viz.:........6,000............have been allotted (¹)....*as fully*.... ....*paid up*.. in consideration of (²)........*assets, goodwill, and other*........ ....*consideration as set out in the agreement dated 15th*........ ....*September, 1919, made between Alfred Jones, as Vendor,*.... ....*Robert Johnson, as Trustee, and the Company*......................

(1) Here state as "fully paid up" or "paid up otherwise than in cash to the extent of per share."
(2) Here state consideration for which they have been allotted.

3. The total amount of cash received by the Company in respect of the....*4,000*........ shares issued wholly for cash is £....*10,000*............and on the..............................shares issued partly for cash is £.................................

4. The following are the Receipts and Payments of the Company on Capital Account to the date of this Report—*

Particulars of Receipts.				Particulars of Payments.			
Share Capital—				*Alfred Jones, cash per Agreement dated 15/9/19*	*10,000*	–	–
4,000 shares of £5 each, £2 10/– paid . .	*10,000*	–	–	*Wm. Jones & Son, building contractors, on account* . . .	*2,000*	–	–
Debentures bearing interest at 5 % . . .	*10,000*	–	–	*Purchase of Machinery and Plant* . .	*2,000*	–	–
				Patents acquired . .	*500*	–	–
				Underwriting Commission	*500*	–	–
				Preliminary expenses .	*2,200*	–	–
				Revenue payments .	*1,000*	–	–
					18,200	–	–
				Balance at London, City & Midland Bank .	*1,800*	–	–
	20,000	–	–		*20,000*	–	–

* The receipts from shares and debentures and other sources and the payments thereout must be shown under distinctive headings and particulars must be given concerning the balance remaining in hand.

Presented for filing by

,,,.....*Robert Johnson*...

,,.......*Secretary, Blank Company, Limited*...........................

,,,..............*8 Cook Street, Liverpool*....................................,,,

5. The following is an account or estimate of the Preliminary Expenses of the Company.

Stamp duties and fees in respect of incorporation and of assets, etc., transferred and acquired	*1,800*	–	–
Legal and accounting charges	*262*	*10*	–
Printing of Memorandum and Articles of Association, prospectus, etc.	*100*	–	–
Advertising, etc.	*250*	–	–
Underwriting commission and brokerage	*500*	–	–
£	*2,912*	*10*	–

6. The following are the Names, Addresses and Descriptions of the Directors, Auditors (if any), Manager (if any) and Secretary of the Company.

DIRECTORS.

Surname.	Christian Name.	Address.	Description.
Bowes	*Alfred*	*18 Leadenhall St., London, E.C.*	*Merchant*
Jones	*Alfred*	*73 Crown St., Manchester*	*Ironfounder*
Maddox	*Henry*	*15 Sunbourne Rd., Hampstead, London, N.W.*	*Company promoter*

AUDITORS.

Surname.	Christian Name.	Address.	Description.
Hartley	*James Henry*	*15 Cheapside, London, E.C.*	*Chartered Accountant*

MANAGER.

Jones	*Alfred*	*73 Crown St., Manchester*	*Ironfounder*

SECRETARY.

Johnson	*Robert*	*8 Cook St., Liverpool*	*Clerk*

7. The following Contract to be submitted to the meeting for modification and approval, viz.:—

(1) Here state shortly particulars of agreement.

(1) *Nil.*

(2) Here state shortly the proposed modification.

The proposed modification as follows—(2)

We hereby certify that this Report is correct

............................*A. Bowes*.........................
.......................*Alfred Jones*.....................
} Directors.

I hereby certify that so much of this Report as relates to the shares allotted by the Company and to the Cash received in respect of such shares and to the receipts and payments of the Company on Capital Account is correct.

.....................................*J. H. Hartley*........
....
} Auditor.

DATED this................*Fourteenth*................

day of...........*October*........................19....*20*............

NOTE.—This Report must be certified by not less than two Directors of the Company, or where there are less than two Directors, by the sole Director and Manager, and so far as it relates to the allotment of shares, to cash received in respect of shares and to the receipts and payments on capital account by the Auditors if any, and must be forwarded at least seven days before the day on which the Statutory Meeting is to be held to every member of the Company, and a copy must be filed with the Registrar of Joint Stock Companies forthwith after it is so forwarded. See Section 65 (2) (3) (4) and (5) of the Companies (Consolidation) Act, 1908.

transfer of the business as and from a definite *past* date, usually that of the last Balance Sheet. It is further provided, as a rule, that until transfer to the company, the vendors will carry on the business, as agents for the trustee until the company is formed and thereafter as agents for the company; which thus acquires the benefit or burden of profits or losses, as the case may be, from the date stated.

The Vendors' Agreement will provide as to the manner in which the consideration is to be satisfied. This may be as to whole or part by cash, shares and debentures, and will be subject to assessment to stamp duty under the Stamp Act, 1891.

The statement on page 137 shows a form in which it is desirable to set out the particulars relating to the subject-matter of sale and purchase in order that the duty may be correctly assessed.

It is to be observed that Conveyance Duty is payable only upon certain assets, and that others, such as stock-in-trade, cash in hand, and the balance of a Bank Current Account, are exempt; further, that in calculating the total consideration, account is to be taken of the liabilities adopted by the purchaser, that is, that these are reckoned as part thereof. The assets specified by the Stamp Act, 1891, as free from duty under that statute include the legal interest in freeholds, leaseholds, etc., and shares and other marketable securities. These are not wholly exempt as they are transferable by specific contracts, which are themselves liable to assessment to stamp duty. The exact liability in any particular case is, however, a matter dependent largely on the interpretation of the statutes having reference thereto, and does not primarily concern the accountant.

Issue of Share Capital.

A Limited Company offers for subscription £500,000 of Preference and £500,000 of Ordinary Share Capital, all in shares of £1 each, payable as follows—

		Preference.		Ordinary.		
	1919.	*s.*	*d.*	*s.*	*d.*	
On application . .	Jan. 1	2	6	2	6	and premium 1s.
On allotment . .	Jan. 10	2	6	2	6	
First Call . .	Mar. 1	7	6	7	6	
Second Call . .	June 1	7	6	7	6	

The applications received are as follows—

Preference Share Capital . . .	600,000 shares
Ordinary do. . . .	800,000 ,,

Re .... *and* ....

Apportionment of Consideration in respect of Agreements chargeable under Section 59 of the Stamp Act, 1891, and Section 73 of the Finance (1909-10) Act, 1910.

The attached instrument appears to be liable to———————————— *ad valorem* Conveyance Duty, under Section 59 (1) of the Stamp Act, 1891. The consideration, *i.e.*, the amount payable in cash, shares, or debentures, plus the liabilities assumed by the purchaser, should be apportioned under the appropriate heads, viz.....

TOTAL CONSIDERATION.

Cash, Shares, etc. £..............

Vendor's liabilities (Mortgages, &c.) assumed by the purchaser . . £..............

Total . . . £

Goodwill . . . . . . £–..

Tenant's and Trade fixtures and fittings . £–..

Book and other debts (including money on Deposit at Bank or elsewhere) . . £–..

Benefit of Contracts . . . . £–..

Patents, Designs, Trade Marks, Licences, and Copyrights . . . . . £–..

Equitable estates or interests in land of whatever tenure, whether in the United Kingdom or abroad . . . . £–

Consideration upon which *ad valorem* Conveyance Duty is payable.... £

Legal interest in freeholds, leaseholds, and copyholds . . . . £–..

Loose plant and machinery, stock-in-trade, furniture . . . . £–..

Foreign property (other than above) . £–..

Ships . . . . £–..

Cash in hand or on current account at bankers, bills of exchange, etc. . . £–..

Total consideration . . £

Signature and date..

As the amount of the stamp depends upon the apportionment, the different sums should be written in the margin of the instrument, or on this form. If no apportionment can be made, duty is chargeable on the total consideration passing.

Inland Revenue Office,
Somerset House, London.
No. 22.

10—(1377)

The Directors decide to refuse applications received in respect of 50,000 Ordinary Shares, and to allot *pro rata* in regard to the remainder, namely, as to Preference Shares, five-sixths, and as to Ordinary Shares, two-thirds, of the amount applied for.

The entries are as follows—

1919.		£	£
Jan. 1	Sundries. *Dr.*		
	To Sundries—		
	Ordinary Share Capital Application A/c .	87,500	
	Preference ,, ,, ,, .	62,500	
	Ordinary Share Capital A/c . . .		62,500
	Preference ,, ,, ,, . . .		62,500
	Premium on Shares A/c . . .		25,000
	For amounts payable on application and allotment, viz.—		
	Ordinary Shares, 3s. 6d. per share		
	Preference ,, 2s. 6d. ,,		
Jan. 10	Sundries. *Dr.*		
	To Sundries—		
	Ordinary Share Capital Allotment A/c .	62,500	
	Preference ,, ,, ,, .	62,500	
	Ordinary Share Capital A/c . .		62,500
	Preference ,, ,, . .		62,500
	For amounts payable on allotment, viz.—		
	Ordinary Shares, 2s. 6d. per share		
	Preference ,, 2s. 6d. ,,		
Jan. 10	Sundries. *Dr.*		
	To Sundries—		
	Ordinary Share Capital Application A/c .	43,750	
	Preference ,, ,, ,, .	12,500	
	Ordinary Share Capital Allotment A/c		43,750
	Preference ,, ,, ,,		12,500
	Amounts received from sundry shareholders on application carried forward to their credit against moneys due on allotment		
Mar. 1 –June 1	Sundries. *Dr.*		
	To Sundries—		
	Ordinary Share Capital Calls A/c . .	375,000	
	Preference ,, ,, ,, . .	375,000	
	Ordinary Share Capital A/c . .		375,000
	Preference ,, ,, . . .		375,000
	Calls receivable.		

Dr. CASH BOOK. *Cr.*

1919.		£	1919.		£
Jan. 1–5	To Ordinary Share Capital, Application A/c, cash received on Application for 800,000 shares	140,000	Jan. 10	By Ordinary Share Capital, Application A/c, amount returned, being cash received on application for 50,000 shares	8,750
	„ Preference Share Capital, Application A/c, cash received on application for 600,000 shares	75,000	June 1	„ Balance carried down	1,025,000
Jan. 10	„ Ordinary Share Capital, Allotment A/c, balance due on allotment on 500,000 shares	18,750			
	„ Preference Share Capital, Allotment A/c, balance due on allotment on 500,000 shares	50,000			
Mar. 1	„ Ordy. Sh. Cap. 1st Call A/c	187,500			
	„ Pref. „ „ „	187,500			
June 1	„ Ordy. „ 2nd Call A/c	187,500			
	„ Pref. „ „ „	187,500			
		1,033,750			1,033,750
June 1	„ Balance brought down	1,025,000			

ORDINARY SHARE CAPITAL APPLICATION ACCOUNT.

1919.		£	1919.		£
Jan. 1	To Sundries	87,500	Jan. 1–5	By Cash	140,000
„ 10	„ Cash	8,750			
	„ Ordinary Share Capital, Allotment A/c	43,750			
		140,000			140,000

ORDINARY SHARE CAPITAL ALLOTMENT ACCOUNT.

1919.		£	1919.		£
Jan. 10	To Ordinary Share Capital Account	62,500	Jan. 10	By Ord. Share Cap. Application A/c	43,750
				„ Cash	18,750
		62,500			62,500

PREFERENCE SHARE CAPITAL APPLICATION ACCOUNT.

1919.		£	1919.		£
Jan. 1	To Preference Share Cap. A/c	62,500	Jan. 1	By Cash	75,000
„ 10	„ Preference Share Cap. Allotment A/c	12,500			
		75,000			75,000

PREFERENCE SHARE CAPITAL ALLOTMENT ACCOUNT.

1919.		£	1919.		£
Jan. 10	To Preference Share Capital Account	62,500	Jan. 10	By Pref. Share Capital Application A/c	12,500
				„ Cash	50,000
		62,500			62,500

Dr. ORDINARY SHARE CAPITAL CALLS ACCOUNT.

1919.		£	1919.		£
Mar. 1– June 1	To Ordinary Share Cap. A/c	375,000	Mar. 1	By Cash	187,500
			June 1	" "	187,500
		375,000			375,000

PREFERENCE SHARE CAPITAL CALLS ACCOUNT.

1919.		£	1919.		£
Mar. 1– June 1	To Preference Share Cap. A/c	375,000	Mar. 1	By Cash	187,500
			June 1	" "	187,500
		375,000			375,000

ORDINARY SHARE CAPITAL ACCOUNT.

1919.		£	1919.		£
June 1	To Balance carried down .	500,000	Jan. 1	By Ord. Share Cap. Appl. A/c	62,500
			10	" " " Allot. A/c	62,500
			June 1	" " " " Call A/cs	375,000
		500,000			500,000
			1919.		
			June 1	By Balance brought down .	500,000

PREFERENCE SHARE CAPITAL ACCOUNT.

1919.		£	1919.		£
June 1	To Balance carried down .	500,000	Jan. 1	By Pref. Share Cap. Appl. A/c	62,500
			10	" " " " Allot. A/c	62,500
			June 1	" " " " Calls A/cs	375,000
		500,000			500,000
			1919.		
			June 1	" Balance brought down .	500,000

PREMIUM ON SHARES ACCOUNT.

			1919.		£
			Jan. 1	By Ord. Share Cap. Appl. A/c	25,000

The illustration submitted has dealt with the entries required upon the assumption that applications have been received for shares to a value greater than the amount offered for subscription. In respect of applications not accepted, it is necessary that the cash received should be returned. It is obvious that from this reason and from the fact that the applications in respect of which allotments are made have probably been received from a large number of applicants, the entries in the books of account, were these to be made in detail, would be numerous. It is the practice, therefore, as a matter of convenience, to record the transactions relative to applications for, and allotment of, shares, upon Applications and Allotment Sheets in the following or some similar form.

No. of Application.	Name.	Address etc.	Shares applied for.	Cash paid on application.	C.B. fo.	Proposed Allotment.	Actual Allotment.	No. of Allotment Letter.	Distinctive Nos. of Shares allotted.		Balance due on Allotment.	Date paid.	C.B. fo.	Cash returned.	Date.	C.B. fo.
									From.	To.						

The information given by the Application and Allotment Sheets will form the basis of the opening entries relating to Share Capital. The form given can without difficulty be adapted to include the particulars relating to calls, but separate sets of sheets will be required for distinct classes of shares, if confusion is to be avoided. The distinction is usually emphasised by the use of printed forms of application in different colours, one for each class of application. It is customary, where any considerable number of shares is issued, for applications to be forwarded direct to the bankers of the company, who, after record of the remittances, acknowledge receipt to the applicants by detaching and returning the forms of receipt attached to the applications and forward the latter to the company's office.

The Application and Allotment Sheets are written up from the forms of application as received, but it is desirable that prior to allotment they should be re-written in approximately alphabetical order. The posting of cash received on allotment is thereby facilitated. When allotment has been completed and the cash immediately due has been paid, the particulars contained on the Application and Allotment Sheets, so far as they relate to the shares actually allotted, can be transferred to the Share Ledger.

FORM OF SHARE LEDGER.

Name..

Address..

Occupation..

Date of becoming a member

" ceasing to be "

Shares Transferred.					Shares Allotted or Acquired.					Balances.	
Date.	Fo.	Distinctive Nos.		No. of Shares.	Date.	Fo.	Distinctive Nos.		No. of Shares.		No. of Shares.
		From.	To.				From.	To.			

The above form is applicable where the shares are fully paid prior to entry in the Share Ledger. Where this is not the case, it is usual to provide, under the heading and above the ledger ruling of each folio of the Share Ledger, a Cash Account, showing the amounts and due dates of calls and the record of the amounts received in respect thereof. The form given comprises all particulars necessary to be shown in the Register of Members and fulfils all legal requirements in respect of the latter.

CASH ACCOUNT (FOR SHARE LEDGER).

Dr. *Cr.*

Date.	Particulars of Call.	Fo.	Amount due.			Date.	Particulars.	Fo.	Amount received.		

Acquisition of a Business by a Limited Company (continued).

For the purposes of illustration, it is assumed that a Limited Company is formed with an authorised capital of £1,000,000, divided into 500,000 of Preference and a like number of Ordinary shares, all of £1 each, and that the clauses of the Memorandum and Articles of Association state that one of the main objects of the company is to acquire and to carry on a manufacturing business as therein named.

The company is incorporated as a public company on the 1st January, 1918. A prospectus is issued, inviting applications for £200,000 of Preference, and £100,000 of Ordinary Share Capital, the whole of which is subscribed and allotted. Subsequently, the company obtains the certificate entitling it to commence business.

Prior to incorporation, an agreement has been entered into between the vendors and a trustee for the proposed company. The contract provides *inter alia* that the vendors agree to sell their business as a going concern on the basis of the Balance Sheet as at 30th June, 1917, for the amount of £900,000, to be satisfied as follows—

	£
Cash	200,000
Preference Shares	300,000
Ordinary Shares	400,000
	900,000

with the addition of interest at the rate of 6 per cent. per annum from 30th June, 1917, to the date of settlement by the company of the consideration under the contract.

The benefit of the contract is adopted by the company on the 16th February, 1918, and the consideration duly discharged on that date.

The Balance Sheet as at 30th June, 1917, does not form a correct basis for opening the books of the company, for the latter, although it acquires the business as from that date, was not directly engaged in trading prior to incorporation, and is only able to earn divisible profits as from 1st January, 1918.

It is sometimes suggested that a limited company is not able to earn divisible profits until it is itself actually entitled to commence business, but it is submitted that where the contract provides that the vendors shall carry on the business until it is duly transferred to the company and that, as and from the company's incorporation, they shall do so as agents for and on behalf of the company, this view is inaccurate. A limited company may not have an agent prior to incorporation, for until that time it has no existence, but it may do so subsequently, and it is no objection that such agency is constituted by ratification. Thus the company, by adopting an agreement already entered into between the vendors and a trustee for the company ratifies the agency of the vendors as therein set out and in these circumstances earns profits available for division amongst its shareholders as from the date of its incorporation.

Assuming that the facts on which this reasoning is based apply in the present instance, it will be correct to regard the profits earned on and after 1st January, 1918, as divisible, and to open the books as on that date.

In regard to the contract of sale and purchase generally, the company, upon the adoption of the agreement, is in the position of having paid or otherwise satisfied a consideration of the total amount of £900,000. It has given this consideration for the business as a whole, but is not for that reason bound to accept the values of assets as they appear in the books of the vendor or to adopt them as a basis for opening the company's books of account, for they may be inaccurate. The Directors, therefore, may revise and, where necessary, correct them, provided that such adjustments as are made are in every respect fair and reasonable. It may, for instance, be the case that the asset of Plant and Machinery has been over-depreciated; or, on the other, that the value of Leasehold Property is at too high a figure, and in these and other respects the balances appearing in the books of the vendors may not form an accurate basis for the opening entries.

With due regard to such revisions, if any, as are acquired, the following Balance Sheet as at 1st January, 1918, is prepared—

BALANCE SHEET.—1st January, 1918.

Liabilities.		£	*Assets.*		£
Sundry Creditors		20,500	Freehold Land and Buildings . .		185,000
Vendors—			Leasehold " " . .		65,000
Purchase price . .	£900,000		Fixed Plant and Machinery . .		110,000
Accrued interes . .	27,000		Loose Tools		18,500
			Stock-in-trade, at cost . . .		122,500
	927,000		Sundry Debtors . .	202,000	
Less—withdrawn since 30th June, 1917 . .	10,000		Less—Reserve for Bad and Doubtful Debts .	5,000	
		917,000			197,000
			Cash and Bank		14,250
					712,250
			Goodwill	198,250	
			Interest due to Vendors .	27,000	
					225,250
		937,500			937,500

The transactions relating to the adoption of the Vendor's Agreement and the satisfaction of the consideration thereunder are expressed in the following Journal entries—

1918.				£	£
Jan. 1	Sundries—		*Dr.*		
	To Purchase of Business A/c. . .				717,250
	For sundry assets acquired—				
	Freehold Land and Buildings . . .			185,000	
	Leasehold do. . . .			65,000	
	Plant and Machinery			110,000	
	Loose Tools			18,500	
	Stock-in-Trade			122,500	
	Sundry Debtors			202,000	
	Cash and Bank			14,250	
	Purchase of Business A/c . .		*Dr.*	25,500	
	To Sundries.				
	For liabilities, etc., taken over—				
	Sundry Creditors				20,500
	Reserve for Bad Debts				5,000
	Purchase of Business A/c . .		*Dr.*	927,000	
	To Vendors				927,000
	For consideration due under Agreement . . .	£ 900,000			
	Interest thereon @ 6 % p.a. from 30th June, 1917, to date	27,000			
	Vendors		*Dr.*	10,000	
	To Purchase of Business A/c . .				10,000
	For amount withdrawn by them on account of interest payable.				

		£	£
1918. Feb. 16	Interest A/c . . . . . . *Dr.*	6,954	
	To Vendors		6,954
	For interest @ 6 % p.a. from 1st Jan., 1918, to date, on £900,000.		
	Vendors . . . . . . *Dr.*	700,000	
	To Sundries—		
	For shares allotted in part satisfaction of consideration:		
	Preference Share Capital, 300,000 shares of £1 each		300,000
	Ordinary Share Capital, 400,000 shares of £1 each		400,000

Note.—The balance due to the Vendors is discharged by the payment of cash, for which an entry will appear in the Company's Cash Book.

PURCHASE OF BUSINESS ACCOUNT.

1918.		£	1918.		£
Jan. 1	To Sundries . . .	25,500	Jan. 1	By Sundry Assets . .	717,250
	„ Vendors . . .	927,000		„ Vendors . . .	10,000
				„ Balance carried down .	225,250
		952,500			952,500
1918. Jan. 1	To Balance brought down .	225,250			

VENDORS.

1918.		£	1918.		£
Jan. 1	To Purchase of Business A/c	10,000	Jan. 1	By Purchase of Business A/c	927,000
Feb. 16	„ Sundries . . .	700,000	Feb. 16	„ Interest A/c . . .	6,954
	„ Cash	223,954			
		933,954			933,954

Purchase of Business Account has been charged with interest upon the purchase price accrued up to the date of incorporation, while interest for the subsequent period has been debited to Interest Account. Distinction is made on the ground that the former amount is, so far as regards the company, a capital charge, while the latter affects Revenue. The company is entitled to treat as divisible all profits earned from the date of incorporation, and such outgoings in the nature of interest as are incurred since that date through delay in discharging a liability on capital account, are clearly chargeable against the company's Profit and Loss Account.

The balance of Purchase of Business Account when finally ascertained may be transferred to Goodwill Account.

When a business is transferred to a limited company as a going concern, it frequently happens that no definite break is made to ascertain the exact amount earned up to the date when the company itself begins to earn divisible profits.

The profits earned prior to incorporation are clearly not available for distribution amongst shareholders, for they have not been earned by the company; nor could they be said to have been earned by an agent of the company, for the company cannot have an agent at a time when it has no existence. If the company should acquire the benefit of such profits, it could only do so out of its capital, and in exchange for some consideration, usually that specified in the sale agreement. Such profits must not, therefore, be treated as divisible, but be placed either to reserve, or used to write down the balance of Purchase of Business, or Goodwill, Account.

When the financial position is not definitely ascertained at the date of incorporation, and consequently the amount of the profits to that date is not precisely calculated, the Profit and Loss Account, when prepared, will relate to a period partly prior, and partly subsequent, to incorporation. In these circumstances, an apportionment is necessary to arrive at the proportionate part of the profits to be reserved. For this purpose, care must be taken to divide the various items of gain and loss in the exact proportions attributable to the respective periods. Directors' Fees, for example, relate entirely to the period of the company's trading, while the amount of a management salary paid to the vendors up to the time of transfer will probably be found to relate mainly to the earlier period.

Problem.—The A B Company, Ltd., acquires a business as from 30th June, 1918, on the basis of the Balance Sheet as at that date, for an agreed sum. The company is incorporated on 7th February, 1919, and on 18th March, 1919, duly adopts the contract made prior to incorporation between the vendors and a trustee for the (proposed) company. This provides that the vendors shall carry on the business until transfer, receiving therefore a salary at the rate of £500 per annum from 30th June, 1918, to date of transfer, and that in carrying on they shall as and from the date of incorporation do so as agents for the company, thus placing the company in the position of earning divisible profits from that date. The accounts are not made up on 7th February, 1919, and the next

Balance Sheet is that prepared as at 30th June, 1919. The Profit and Loss Account then submitted appears as follows—

TRADING AND PROFIT AND LOSS ACCOUNTS
For the Year Ending 30th June, 1919.

1918.		£	1919.		£
June 30	To Stock on hand . .	15,040	June 30	By Sales	120,000
1919.				„ Stock on hand . .	16,380
June 30	„ Consumption of Raw Materials . . .	22,365			
	„ Wages	61,555			
	„ Manufacturing Expenses .	1,420			
	„ Balance carried down, gross profit, being 30 % on Sales . . .	36,000			
		136,380			136,380

1919.		£	1919.		£
June 30	To General Establishment and Trade Charges .	22,700	June 30	By Balance brought down .	36,000
	„ Management Salary to Vendors . . .	353			
	„ Debenture Interest (proportion accrued) . .	150			
	„ Directors' Fees . .	250			
	„ Balance carried down .	12,547			
		36,000			36,000
			1919.		
			Mar. 31	By Balance brought down .	12,547

Apportionment is required of the final balance of £12,547 as between the two periods, 30th June, 1918, to 7th February, 1919, and 7th February, 1919, to 30th June, 1919, respectively.

In regard to the gross profit, in the absence of stock-taking, probably the most accurate basis of apportionment in the case of a manufacturing business is upon the sales of the respective periods, but there are, of course, many businesses in which the ratio of gross profit on turnover varies greatly from time to time, and more exact methods may be necessary. The same basis would apply to the General Establishment and Trade Charges, but the remaining items would require accurate division according to the factors bearing thereon.

STATEMENT OF APPORTIONMENT OF PROFIT.

	1st Period.	2nd Period.		1st Period.	2nd Period.
	£	£		£	£
General, etc., charges .	13,620	9,080	Gross profit . . . (Sales £75,000 and £45,000) . . .	22,500	13,500
Salary to Vendors . .	300	53			
Debenture Interest .		150			
Directors' Fees . .		250			
Balance . . .	8,580	3,967			
	22,500	13,500		22,500	13,500

From the statement given, it appears that the divisible profits are £3,967, while the amount to be carried to reserve is £8,580.

The example set out excludes from consideration exceptional items of expense, such, for instance, as special advertising, extraordinary repairs, etc. In such cases, consideration must be given to the nature of the outlay, and endeavour made to apportion them fairly. In any case, however, an apportionment made in this manner can only be approximate. It is undoubtedly preferable that a Balance Sheet and Profit and Loss Account be prepared at the proper date where possible.

Underwriting.

An issue of share capital or debentures by a limited company is frequently underwritten.

The forms of underwriting agreements vary, but invariably contain a definite undertaking on the part of each underwriter to subscribe and pay for a stated amount of the issue, failing application by the public therefor, and a provision for the payment by the company of a remuneration by way of commission, proportionate to the obligations contingently assumed.

The liabilities of underwriters are in proportion to the risk. In measuring their liability, regard must be had to the total issue, the total underwritten, and the total of applications received. Thus, upon an issue of 100,000 shares, of which 50,000 is underwritten, the underwriters are entitled to benefit by relief of their liability to the extent of 50 per cent. of the applications, and are liable for 50 per cent. of the deficiency. If, in such a case, applications were made and accepted for 55,000 shares, the underwriters would not be relieved, for there is a shortage of 45,000, of which 50 per cent. would fall on them. It may, of course, be a term of the underwriting contracts that no liability attaches thereunder unless the whole issue is underwritten.

Underwriters frequently assist an issue by distribution of prospectuses, and by procuring subscriptions. They may be permitted, under the terms of their contracts, to have such applications as they procure applied in specific relief of their respective liabilities. Such applications, identified by a rubber stamp giving the underwriter's name, are then to be held distinct from general applications, that is, those applicable in relief of underwriters as a whole.

All applications are addressed to the company, and the discretion of directors to accept or reject is as a rule not affected by any term of an underwriting contract. The company thus may accept applications, whether proceeding from a member of the general public or from a subscriber whose application will assist in relief of a particular underwriter, and an underwriter, otherwise liable, may find himself entirely relieved in this way, with, possibly, a surplus; the latter will benefit other underwriters. There may thus appear to be a liability falling upon underwriters in respect of general applications, which is reduced, or discharged, by applications attributable to them individually.

The matter may be illustrated as follows—

	£
Total issue	100,000
Applications from Public (general)	75,000
Shortage falling on underwriters of £100,000 . .	25,000

Underwriters are as follows—

		£
A		5,000
Applications (not included above) specifically in relief of A and induced by him . .	7,000	
B		2,500
Do. do. do. do.	2,400	
C		2,500
Do. do. do. do.	500	
Sundry		90,000
		100,000

A's liability is £1,250, but he has procured applications for £7,000;
B's ,, £625, ,, ,, ,, ,, £2,400;
C's ,, £625, ,, ,, ,, ,, £500;
Sundry ,, £22,500, applications are . . . Nil.
A is clear, with £5,750 surplus;
B ,, ,, ,, £1,775 ,,

Both A and B are clear from liability.

The company, however, accepts the full amount of the applications induced by A and B. Irrespective of those attributable to C, the applications accepted are—

	£
General applications . . .	75,000
Applications induced by A . .	7,000
,, ,, ,, B . . .	2,400
	84,400

leaving a shortage of £15,600, falling on underwriters (excluding A and B) for £92,500.

C's proportion of the deficiency as adjusted is $\frac{2500}{92500} \times$ £15,600, equal to £421 approximately. But C has induced applications (which are duly accepted) in respect of £500, and is therefore clear with £79 surplus.

The applications are now to be reckoned as £84,900, and there is a consequent deficiency of £15,100, to be contributed by sundry underwriters in respect of £90,000.

Forfeited Shares.

EXAMPLE.—The Directors of a Limited Company, acting in accordance with their powers contained in the Company's Articles of Association, forfeit 100 Ordinary Shares of £1 each, upon which 7s. 6d. per share has been paid. The amounts due in respect of the first and second calls of 7s. 6d. and 5s. per share respectively are unpaid.

Subsequently the shares are reissued to X, credited as 15s. paid up, for the sum of £62 10s. X duly pays the balance due of 5s. per share.

The Journal entries relating to these transactions are as follows—

	£	s.	d.	£	s.	d.
Share Capital . . . . . *Dr.*	100	–	–			
To Sundries—						
First Call A/c				37	10	–
Second ,, ...				25	–	–
Forfeited Shares A/c				37	10	–
Transfer to Forfeited Shares A/c of cash received from A in respect of 100 Ordinary shares of £1 each, forfeited.						
Cash . . . . *Dr.*	62	10	–			
To Forfeited Shares A/c				62	10	–
Cash received from X on reissue to him of 100 Ordinary shares of £1 each, credited as 15s. paid up, previously forfeited.						

NOTE.—This entry would be posted from the Cash Book.

	£	s.	d.	£	s.	d.
Sundries— *Dr.*						
To Share Capital				100	–	–
Second Call A/c	25	–	–			
Forfeited Shares A/c	75	–	–			
For nominal value of shares forfeited, now reissued.						

NOTE.—The debit on Second Call Account will be cleared by a posting from the Cash Book of the amount of the call as and when received from X.

Annual Return.

Every limited company is bound, by section 26 of the Companies (Consolidation) Act, 1908, to make a return to the Registrar of Companies. The form and the particulars included therein are illustrated in a specimen return as shown on pages 163–167.

Dividends.

The entries consequent upon the declaration of a dividend ordinarily present few difficulties to the student, but where the dividend is in the form commonly termed a " share " or " bonus " dividend, the treatment in accounts of the transactions relative thereto may be of interest.

Example.—The following is the Balance Sheet (summarised) of the X Y Z Manufacturing Company, Limited, as at 31st Dec.. 1918—

Liabilities.	£	*Assets.*	£
Share Capital (Issued)—32,000 shares of £5 each, £2 10s. paid . .	80,000	Sundry Assets, less liabilities . . .	185,300
Reserve . . .	95,000		
Profit and Loss A/c, balance to credit .	10,300		
	185,300		185,300

The company declares a dividend of the amount of £2 10s. per share, free of income tax, but at the same time empowers the directors to call up a like amount, thus, in effect, paying the call out of the dividend declared.

It is found necessary that the Articles of Association as existing be altered to permit of this procedure, and the following resolutions are passed and subsequently confirmed as special resolutions by the company in general meeting.

RESOLUTIONS.

1. That for the purpose solely and exclusively of carrying out Resolution No. 2, but not for the purpose of any further or other call, Article 31 of the Articles of Association be altered by striking out the words " No call shall exceed 20 % of the nominal amount of a share and," so that the Article as altered will read " At least two months shall intervene between the time appointed for payment for one call and that appointed for the payment of the next succeeding call (if any)."

2. That the Directors be, and they are hereby, authorised after the above Resolution has been confirmed to make a call upon the shareholders to the amount of £2 10s. per share, being the balance remaining uncalled on each of 32,000 shares of the company, such call to be payable on the first day of August, 1919.

3. That for the purpose of enabling the shareholders to meet such call, this meeting sanctions the distribution by way of bonus among the members of the company, of the sum of £80,000 free of income tax, and of the sum of £95,000 now standing to the credit of the Reserve Fund in proportion to the shares held by them respectively, that is to say, a bonus at the rate of £2 10s. free of income tax on each of the 32,000 shares of the company, such bonus to be payable on the first day of August, 1919.

4. That as from the 10th day of August, 1919, the Capital of the company be 160,000 shares of £1 each, by sub-dividing each of the existing shares of £5 each into 5 fully paid shares of £1 each, and that the shares be renumbered from 1 to 160,000.

Upon informing the shareholders of the declaration of the dividend and of the call due, the directors draw attention to a provision in the Articles of Association precluding participation in a dividend on the part of any shareholder while there remains due from him to the company any sum in respect of the shares held by him. The shareholder is thus prevented from demanding payment of the dividend while the call is unpaid. The notice to the shareholders further asks for authority to set off the dividend against the call.

In regard to these transactions, the following Journal entries are necessary—

	£	£
Reserve . . . . . . *Dr.*	80,000	
To Sundry Shareholders . . .		80,000
For dividend at rate of £2 10s. per share, free of income tax, on 32,000 shares.		
Call A/c . . . . . . *Dr.*	80,000	
To Share Capital		80,000
For call of £2 10s. per share.		
Sundry Shareholders . . . *Dr.*	80,000	
To Call A/c		80,000
For amount of call due from sundry shareholders.		

Following the declaration of dividend and making of the call, the Share Capital will appear as £160,000, and the Reserve as £15,000.

The subdivision of each £5 share into five shares of £1 each will not involve any entries in the books of account. It will be necessary, however, that the existing Share Ledger be closed, and a fresh one opened, which can conveniently be done by means of a Share Conversion Journal.

SHARE CONVERSION JOURNAL.

Distinctive No. of Shares.		Fo. in old Ledger.	NAME.	Nominal holding.	Fo. in new Ledger.	Distinctive Nos. of Shares held (as altered).	
From.	To.					From.	To.

When a company issues additional capital at par or at a price less than the full market value of the existing shares, it frequently gives shareholders an option to subscribe to the new issue *pro rata* to their existing holdings. The shareholders individually may thus acquire rights of some value, which they may either secure to themselves by subscribing for the shares allotted to them upon the terms of issue, or sell (if so permitted by the terms of the issue) for valuable consideration. These alternatives do not affect the entries in the company's books of account, which are limited to the record of the transactions only in so far as the company itself is affected.

Reduction of Capital.

A company may seek to reduce its capital by means of a repayment to shareholders on the grounds that it has a greater capital than it can readily employ. Usually, however, a loss of capital is implied and the share capital issued and paid up is not represented by the value of the assets.

There may be various reasons for this: unsuccessful trading, the giving of a consideration originally greater than the assets acquired, depreciation in capital value from external causes, such as war or legislation with an adverse tendency on a particular industry. The company may seek powers to reduce its capital accordingly, and thus cause the share capital to represent more accurately the value of the surplus of assets over liabilities.

This procedure may be of real benefit to the company; possibly enabling it to raise further capital more freely thus improving its borrowing powers and credit; or resulting in the earning of greater profits, for these are burdened with depreciation of the assets at their reduced value only.

A reduction of capital for reasons of the nature stated is usually accomplished by the sanction of a special resolution, confirmed by the approval of the High Court.

The form and method of the reduction are determined by the circumstances, but it may be said generally, though not invariably, that any balance of undivided and accumulated profits must be used in the first instance to liquidate the loss as far as possible.

EXAMPLE.—The following is the Balance Sheet as at 31st December, 1918, of the Blank Company, Ltd.—

Liabilities.	£	*Assets.*	£
Share Capital (Issued)— 20,000 Ordinary Shares of £5 each	100,000	Goodwill	42,000
Sundry Creditors	23,000	Freehold Land and buildings	12,500
Premium on Shares	3,000	Plant and Machinery	18,500
		Patents	19,000
		Stock	10,400
		Sundry Debtors	8,000
		Cash and Bank	600
		Profit and Loss A/c balance to debit	15,000
	126,000		126,000

A reduction of capital is duly sanctioned by special resolution of the company, and confirmed by the Court, to the extent of £43,000, in respect of the following—

	£	
Goodwill	16,500	
Patents	11,500	
Profit and Loss	15,000	
Total		£43,000

which is declared to be apportionable as follows—

	£
By eliminating Premium on Shares A/c	3,000
By reduction of Share Capital, upon terms of making each share of £5 each a fully paid share of £3 0s. 0d.	40,000
	43,000

The necessary Journal entries are as follows—

	£	£
Reduction of Capital A/c . . *Dr.*	43,000	
To Sundries—		
Goodwill		16,500
Patents		11,500
Profit and Loss A/c		15,000
For reduction in respect of balances stated, under terms of Order of Court.		
Sundries— *Dr.*		
To Reduction of Capital A/c . .		43,000
Share Capital	40,000	
Premium on Shares	3,000	
For apportionment of loss of capital, in accordance with Order of Court, Share Capital being now £60,000, divided into 20,000 shares of £3 each, fully paid.		

Absorptions and Amalgamations.

The absorption by one company of the undertaking of another involves liquidation of the latter and satisfaction of the interests of its shareholders in manner agreed. This will frequently involve allotment of shares in the continuing company as fully or partly paid up.

In certain circumstances, where the element of goodwill is an important factor and its retention at full value essential, it may be thought that this would be affected by liquidation. A method that might then be adopted would be for the absorbing company to acquire a substantial proportion of the share-holdings in the company "absorbed," thus retaining it as a legal entity, and securing the value of its earning powers, organisation, and undertaking generally.

The entries which follow are designed to illustrate the transactions involved by an absorption or amalgamation as they would appear in the books of account of both companies.

Example.—The "A" Company, Ltd., acquires the business of the "B" Company, Ltd., assuming the whole of its liabilities and assets, including goodwill, but excluding from the assets such part thereof as may be found to be required to satisfy costs of liquidation and dissentient shareholders. The terms involve the allotment to "B" shareholders of one share of £20, £5 paid, in the "A" Company for every two shares in "B" Company.

The following Balance Sheet, dated 31st Dec., 1918, shows the position of "B" Company, Ltd., and forms the basis upon which the contract has been made.

Liabilities.		£	*Assets.*		£
Share Capital (Issued)— 200,000 shares of £10 each, £3 paid		600,000	Freehold Land and Buildings		342,000
Reserve Fund		480,000	Plant and Machinery, less depreciation		183,000
Sundry Creditors	122,500		Stock-in-Trade		275,000
Bills Payable	143,500		Sundry Debtors	589,000	
		266,000	Less Reserve for Bad and Doubtful Debts	9,000	
Profit and Loss A/c balance to credit		43,000			580,000
			Parr's Bank, Ltd.	7,750	
			Cash in hand	1,250	
					9,000
		1,389,000			1,389,000

It appears, upon the liquidation of "B" Co., Ltd., that certain shareholders, holding 160 shares, give notice in due form of their dissent from the special resolution of the company under the authority of which the sale is made and require the liquidator to purchase their interests. The value of the shares is ascertained by arbitration and fixed at £6 10s. per share.

The amount reserved from the liquid assets transferred to meet the claims of dissenting shareholders and the costs of liquidation is £1,800. Subsequently, the actual cost in respect of both these matters is ascertained to be £1,560.

Journal entries in the books of "B" Company, Ltd.—

	£	£
Sale of Business A/c . . . *Dr.*	1,396,200	
To Sundries—		
Freehold Land and Buildings		342,000
Plant and Machinery		183,000
Stock-in-Trade		275,000
Sundry Debtors		589,000
Bank		7,200
Being assets transferred to "A" Company in accordance with Agreement dated		
Sundries— *Dr.*		
To Sale of Business A/c		275,000
Sundry Creditors	122,500	
Bills Payable	143,500	

	£	£
Reserve for Bad and Doubtful Debts *Dr.*	9,000	
Being liabilities and reserve transferred to "A" Company in accordance with agreement dated		
Sale of Business A/c . . . *Dr.*	1,800	
To Sundries—		
Liquidation and Arbitration Expenses, etc.		1,560
Cash		240
Being— £		
Costs of liquidation and arbitration 520		
Amount paid to shareholders in respect of 160 shares . . 1,040		
Cash transferred to "A" Company 240		
1,800		
Share Capital . . . . *Dr.*	480	
To Sale of Business A/c . . .		480
For nominal paid-up value of 160 shares paid out by liquidator at price of £6 10s. per share, as fixed by arbitration.		
"A" Company, Ltd. . . . *Dr.*	499,600	
To Sale of Business A/c . . .		499,600
For nominal value of 99,920 shares of £20 each, £5 paid, agreed to be allotted to holders of 199,840 shares in "B" Company, Ltd.		
Sundries— *Dr.*		
To Sundry Shareholders . . .		1,122,520
Share Capital	599,520	
Reserve Fund	480,000	
Profit and Loss A/c	43,000	
Transfer of sundry balances.		
Sundry Shareholders . . . *Dr.*	622,920	
To Sale of Business A/c . . .		622,920
Transfer of balance of latter A/c.		
Sundry Shareholders . . . *Dr.*	499,600	
To "A" Company, Ltd. . . .		499,600
For 99,920 shares of £20 each, £5 paid (market value, £12 10s.) allotted to shareholders of "B" Company, Ltd., in respect of 199,840 shares.		

Journal entries in the books of "A" Company, Ltd.—

	£	£
Sundries— *Dr.*		
To "B" Company, Ltd., Purchase A/c .		1,396,200
Freehold Land and Buildings . . .	342,000	
Plant and Machinery	183,000	
Stock-in-Trade	275,000	
Sundry Debtors	589,000	
Bank	7,200	
For assets acquired under agreement of purchase dated		

	£	£
" B " Company, Ltd., Purchase A/c *Dr.*	275,000	
To Sundries—		
Sundry Creditors		122,500
Bills Payable		143,500
Reserve for Bad and Doubtful Debts .		9,000
For liabilities, etc., taken over.		
Cash . . . . *Dr.*	240	
To " B " Company, Ltd., Purchase A/c		240
For balance of £1,800 retained by liquidator of " B " Company, after deducting costs (£520) and expenses of paying out dissentient holders of 160 shares at price of £6 10s. per share (£1,040).		
" B " Company, Ltd., Purchase A/c *Dr.*	499,600	
To Sundry Shareholders of " B " Company, Ltd.		499,600
For nominal value of 99,920 shares of £20 each, £5 paid, due to be allotted in accordance with agreement of purchase.		
Sundry Shareholders of " B " Company, Ltd. . . . . . . *Dr.*	499,600	
To Share Capital		499,600
For 99,920 shares of £20 each, £5 paid, allotted.		
" B " Company, Ltd., Purchase A/c *Dr.*	621,840	
To Capital Reserve		621,840
For balance of former A/c transferred.		

NOTE.—In the books of " B " Company, Ltd., Sale of Business Account has been so dealt with as to show the result in respect of those shareholders whose interests are satisfied by an allotment of shares. The entries in the books of " A " Company, Ltd., have the effect of showing upon " B " Company, Purchase Account, the result of the transactions as a whole.

In the foregoing entries, the value of the shares allotted has been taken as par, that is, at the amount treated as paid up in respect thereof, although this is less than the market value. The introduction of the latter in the entry relating to the shares is possible in the closing entries of the liquidating company, and may be thought to express more accurately the *effect* of the transactions, but such value can be at best only a memorandum and an approximate record, and it is submitted that it is preferable to deal only with the nominal paid-up value, while introducing a note of the current market price in the narration relating to the Journal entry.

Reference was made to an alternative sometimes adopted, to secure the benefits of fusion without actual liquidation, by purchase from the shareholders of their interests. This, so far as the purchasing company's books are concerned, represents merely the acquisition of an investment, while, so far as the other is affected, simply implies a change of shareholders.

Reverting to the illustration, it will be observed that, in the books of "A" Company, Ltd., the Revenue for Bad and Doubtful Debts has been opened as a credit balance, thus leaving the total of Sundry Debtors to be posted to the debit of the Debtors' Ledger Adjustment Account. The Reserve referred to has been made in respect of one of the assets acquired. It thus constitutes a capital reserve, and is not available for meeting losses in respect of bad debts arising otherwise than in respect of the specific balances of debts transferred.

It is usual upon the transfer of a business that the debts should be guaranteed by the vendor to produce a certain minimum, and the liabilities not to exceed a stated maximum. It is important that the accounts relating to debtors and creditors should be so framed as to disclose whether any amount is eventually recoverable from the vendor in respect of his guarantee.

For this purpose, separate accounts should be opened in the General Ledger in respect of the Sundry Debtors acquired and Sundry Creditors balances taken over, and kept distinct from similar balances already existing or thereafter created. This differentiation is sometimes the more conveniently made, in that the Debtors' and Creditors' Ledgers of the vendor may be continued until the balances are closed, by receipt of the amount owing, or discharge of the liability outstanding, but it is desirable, where this is the case, that the balances at the date of transfer should be clearly carried down, preferably in red ink.

BOOK DEBTS (REALISATION) ACCOUNT.

	£	s.	d.		£	s.	d.
To Purchase of Business A/c, book debts taken over, guaranteed to produce £1,850 net . .	2,133	3	3	By Cash . . .	1,832	–	–
				,, Reserve, for discounts allowed .	66	–	–
				,, Do., transfer of balance . .	217	3	3
				,, Vendor, amount due under guarantee . .	18	–	–
	2,133	3	3		2,133	3	3

DEBTS REALISATION (BAD DEBTS AND DISCOUNTS) RESERVE ACCOUNT.

	£	s.	d.		£	s.	d.
To Book Debts (Realisation) A/c (discounts allowed) .	66	–	–	By Purchase of Business A/c . .	283	3	3
,, Book Debts, transfer of balance .	217	3	3				
	283	3	3		283	3	3

NOTE.—The amount credited to Book Debts (Realisation) Account as the total of the sums received and of discount allowed in respect of debtors' balances taken over can be arrived at conveniently by the use of special columns in the Cash Book, by means of which monthly or other periodical totals may be obtained and posted. It is important that the amount entered at the debit of the account first given should be the gross total of the debtors' balances and thus be in agreement with the balances appearing in the vendor's Debtors' Ledgers.

The rights of shareholders to participation in the assets upon liquidation are determined by the Memorandum and Articles of Association. In the absence of special provisions, the profit or loss appearing as the result of liquidation is to be distributed or borne proportionately to the *nominal*, as distinct from the *paid-up*, value of the share capital held by the members.

ILLUSTRATION.—The liquidator has in hand for distribution, after deducting all costs and expenses of liquidation, and after paying creditors in full, £5,208 6s. 8d. The Share Capital issued is as follows—

Ordinary Shares: 10,000 of £1 each, 10s. paid;
Preference ,, 5,000 of £3 each, fully paid.

There are no calls in arrear, or paid in advance.

The method of distribution of the sum of £5,208 6s. 8d. in hand is to be such as will apportion the loss rateably to the *nominal* holdings of capital, and the basis of such division may be calculated by finding what *ultimate* loss will accrue to the shareholders should the whole of the uncalled capital be paid up.

Thus: The uncalled capital is £5,000 in respect of the Ordinary Shares, which, *if called up*, would make the total assets £10,208 6s. 8d. The distribution of this amount amongst the holders of £25,000 of fully-paid shares (£10,000 Ordinary and £15,000 Preference) would represent a loss of approximately £14,800, equal to

11s. 10d. in the £. The distribution should be made in such manner as will apportion the loss accordingly.

STATEMENT SHOWING DISTRIBUTION.

	£	s.	d.		£	s.	d.
Balance in hand, after paying creditors and deducting costs and expenses . . .	5,208	6	8	Dividend on Preference Shares, £1 4s. 6d. per share on 5,000 shares . .	6,125	–	–
Call on Ordinary Shares, 1s. 10d. per share on 10,000 shares . .	916	13	4				
	6,125	–	–		6,125	–	–

Following the call of 1s. 10d. per share in respect of the Ordinary Shares, and the distribution of a dividend upon the Preference Shares at the rate of £1 4s. 6d. per share, the ultimate loss will be found to be apportioned rateably to the nominal capital. Thus, the loss on each Ordinary £1 share is 11s. 10d., and on each Preference £3 share is £1 15s. 6d.

It should be observed that no distinction as to priority of payment exists as between the holders of Preference, and those of Ordinary, Shares, unless it is conferred by the terms of the company's Memorandum and Articles of Association. It is, however, not unusual for such a distinction to be drawn in these documents, and their precise effect should be carefully ascertained in each case.

Form No. 6A.

Certificate No.........157,329............

THE COMPANIES ACTS, 1908 TO 1917.

FORM E

As required by Part II. of the Companies (Consolidation) Act, 1908 (Section 26), and the Companies (Particulars as to Directors) Act, 1917.

A 5s. Companies Registration Fee Stamp must be *impressed* here.

Summary of Share Capital and Shares of..

....

....*Blank Company*................**Limited, made up to the**....*12th*........**day of**....*September*........**19**....19.... **(being the Fourteenth**........ **day after the date of the First Ordinary General Meeting in 19**....19........**).**

Nominal Share Capital, £__50,000_____

Divided into* {__10,000 *Ordinary* __ Shares of £* {__*Five*____ each.

Total Number of Shares taken up* to the__*12th*__day of_*September*__ 19_19___(which number must agree with the total shown in the list, as held by existing nembers)	__50,000 ____
Number of Shares issued subject to payment wholly in cash . .	__4,000 ____
Number of Shares issued as fully paid up otherwise than in cash .	__6,000 ____
Number of Shares issued as partly paid up to the extent of________ per share otherwise than in cash	__*None* _____
‡There has been called up on each of____4,000 ____Shares . .	£__5_________
" " " ____________ " . .	£___________
" " " ____________ " . .	£___________
§Total amount of Calls received, including payments on application and allotment	£__20,000 ____
Total amount (if any) agreed to be considered as paid on___6,000__ Shares which have been issued as fully paid up otherwise than in cash	£__30,000 _____
Total amount (if any) agreed to be considered as paid on________ Shares which have been issued as partly paid up to the extent of ________per Share otherwise than in Cash	£__*Nil* ______
Total amount of Calls unpaid	£__*Nil* ______
Total amount (if any) of sums paid by way of Commission in respect of Shares or Debentures or allowed by way of Discount since the date of last Summary	£__482 . 10 . 0_
Total amount (if any) paid on‖____________Shares forfeited .	£__*Nil* ______
Total amount of Shares and Stock for which Share Warrants to bearer are outstanding . . . . . Shares	£__*Nil* ______
Stock .	£__*Nil* ______
Total amount of Share Warrants to bearer issued and surrendered respectively since date of last Summary . . . . Issued .	£__*Nil* ______
Surrendered	£__*Nil* ______
Number of Shares or amount of Stock comprised in each Share Warrant to bearer . Number of Shares	__*Nil* ______
Amount of Stock	£__*Nil* ______
Total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created after the first day of July, 1908	£__10,000 _____

NOTE.—Banking Companies must add a list of all their places of business.

* *Where there are Shares of different kinds or amounts (e.g., Preference and Ordinary, or* £10 *and* £5) *state the numbers and nominal values separately.*

‡ *Where various amounts have been called, or there are Shares of different kinds, state them separately.*

§ *Include what has been received on forfeited, as well as on existing, Shares.*

‖ *State the aggregate number of Shares forfeited (if any).*

☞ The return must be signed, at the End, by the Manager or Secretary of the Company.

Presented for filing by..

....

STATEMENT in the form of a Balance Sheet made up to the............*31st*....................**day of**...........*July*....................**191**....9.... **containing the Particulars of the Capital, Liabilities, and Assets of the Company.**

NOTE.—This Statement is not required from a "Private Company" within the meaning of Section 121 (1) of the Companies (Consolidation) Act, 1908, as amended by the Companies Act, 1913, which complies with the provisions contained in its Articles by which it is constituted a Private Company.

But Section 1 (3) of The Companies Act, 1913, requires that every Private Company shall send with this Return a Certificate signed by a Director or the Secretary that the Company has not, since the date of the last Return, or in the case of the first Return since the date of the incorporation of the Company, issued any invitation to the public to subscribe for any shares or debentures of the Company; and where the List of Members discloses the fact that the number of Members of the Company exceeds Fifty, also a Certificate so signed that such excess consists, as the case may be, wholly of persons who are in the employment of the Company and/or of persons who, having been formerly in the employment of the Company, were while in such employment and have continued after the determination of such employment to be Members of the Company.

CAPITAL AND LIABILITIES.		£	s.	d.	ASSETS.		£	s.	d.
Share Capital, Authorised and Issued—					*Goodwill*		16,200	–	–
10,000 shares of £5 each, fully paid		50,000	–	–	*Land and Buildings, at cost*		14,350	–	–
Debentures		10,000	–	–	*Patents, at cost, less depreciation*		450	–	–
Sundry Creditors		42,300	–	–	*Plant and Machinery, at cost, less depreciation*		16,200	–	–
Profit and Loss A/c—					*Sundry Debtors*		38,380	–	–
Balance to credit	7,300				*Stock-in-Trade*		12,750	–	–
Less, interim dividend	2,500				*London City and Midland Bank, Ltd.*	6,543 – –			
		4,800	–	–	*Cash in hand*	345 – –			
							6,888	–	–
					Preliminary Expenses	2,340 10 –			
					Underwriting Commission and Brokerage	482 10 –			
						2,823 – –			
					Less proportion written off	941 – –			
							1,882	–	–
		107,100	–	–			107,100	–	–

In this Statement the values of the fixed assets have been arrived at as follows—

Goodwill at cost; Land and Buildings at cost; Patents at cost, less depreciation at 10% *per annum; Plant and Machinery at cost, less depreciation at* 7½ % *per annum.*

The above figures have been duly audited by the Company's Auditors whose Certificate reads as follows—

We have audited the Balance Sheet of the Blank Company, Limited, dated the 31st *day of July,* 1919, *and as above set forth.*

We have received all the information and explanations we have required. We report that the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Company.

Names, etc., of the *Directors of.........*Blank Company*.......................

Limited, on the.........*12th*..................day of.......*September*..............19 .

† The present Christian Name or Names and Surname.	‡ Any former Christian Name or Names or Surname.	Nationality.	Nationality of origin (if other than the present nationality).	Usual Residence.	Other Business Occupation (s) if any.
Alfred Bowes		*British*		*18 Queen Victoria Rd., Balham, London, S.W.*	*Chemical manufacturer*
Alfred Jones		*do.*		*73 Brown St., Manchester*	*Do. do.*
Henry Maddox		*do.*	*American*	*15 Sunbourne Rd., Hampstead, London, N.W.*	*Engineer*

* "Director" includes any person who occupies the position of a Director and any person in accordance with whose directions or instructions the Directors of a Company are accustomed to act.

† Christian name includes any forename. In the case of a peer or a person usually known by a British title different from his surname, the title by which he is known must be substituted for his surname.

‡ In the case of natural-born British subjects, a former Christian name or surname should not be shown where that name or surname has been changed or disused before the person bearing the name had attained the age of eighteen years; and in the case of a married woman the name or surname by which she was known previous to the marriage should not be given.

Certificate to be given by a Private Company, Sec. 1 (3) Companies Act, 1913.

I hereby certify that the Company has not since the date of its last Return issued any invitation to the public to subscribe for any shares or debentures of the Company.

* Strike out if the number does not exceed 50.

*I also certify that the Members of the Company, as shown by this Return, in excess of the number of Fifty, are persons who are in the employment of the Company, and persons who, having been formerly in the employment of the Company, were while in such employment and have continued after the determination of such employment to be Members of the Company.

Signature........*Robert Johnson*................ Officer...........*Secretary*........................

List of Persons holding Shares in......................................*Blank*......................
............*twelfth*........................day of............*September*.................19....19.... , and of of the last Return, or (in the case of the first Return) of the and an Account of the Shares so held.

Folio in Register Ledger, containing Particulars.	NAMES, ADDRESSES, AND OCCUPATIONS.			
	Surname.	Christian Name.	Address.	Occupation.
1	*Bowes*	*Alfred*	*18 Leadenhall St., London, E.C.*	*Merchant*
2	*Jones*	*Alfred*	*73 Brown St., Manchester*	*Ironfounder*
3	*Maddox*	*Henry*	*15 Sunbourne Rd., Hampstead, London, N.W.*	*Company promoter*
4	*Abraham*	*Herbert*	*15 Hester Hill, Croydon*	*Gentleman*
5	*Eskrigge*	*Mrs. Alice*	*The Hut, Cheltenham*	*Married woman*
6	*Roberts*	*Charles*	*18 Dacre St., Widnes*	*Clerk*
7	*Shepherd*	*Thomas*	*White House, Liverpool Rd., Buxton*	*Gentleman*
8	*Askew*	*Ernest John*	*15 Railway St., Kendal*	*Contractor*
9	*Sharples*	*Marion*	*38 Brown St., Manchester*	*Secretary*
10	*Berry*	*Revd. Otto*	*Vicarage, St. Mary's Rd., Notting Hill, London*	*Vicar*
11	*Robinson*	*Hugh Edward*	*Shotwick, Cheshire*	*Farmer*
12	*William*	*Hugh Lloyd*	*5 Prospect St., Putney, London, S.W.*	*Builder*
13	*Martin*	*Angelo*	*16 Elsworthy Rd., Hampstead, London, N.W.*	*Engineer*
14	*Jackson*	*Alfred*	*17 Liverpool Rd., Southport*	*Gentleman*

........*Company*..Limited, on the

Persons who have held Shares therein at any time since the date

incorporation of the Company showing their Names and Addresses,

ACCOUNT OF SHARES.					
* Number of Shares held by existing Members at date of Return.†	‡ Particulars of Shares Transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by persons who are still Members.		‡ Particulars of Shares Transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by persons who have ceased to be Members.		REMARKS.
	Number.†	Date of Registration of Transfer.	Number.†	Date of Registration of Transfer.	
35,000					
7,500					
1,000	*500*	*15th Oct., 1919*			*Transferred to H. L. Williams*
3,000					
100					
—			*250*	*2nd August, 1920*	*Transferred to A. Martin*
400					
1,400					
—			*100*	*16th August, 1920*	*Transferred to A. Jackson*
400					
350					
500					
250					
100					
50,000					

Signature (signed)........................*Robert Johnson*............................

(State Manager or Secretary)................*Secretary*................

* The Aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the column must be added up throughout so as to make one total to agree with that stated in the Summary to have been taken up.

† When the Shares are of different classes these columns may be subdivided so that the number of each class held, or transferred may be shown separately.

‡ The date of Registration of each Transfer should be given as well as the number of Shares transferred on each date. The Particulars should be placed opposite the name of the Transferor, and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately opposite the particulars of each Transfer.

CHAPTER XV

STATEMENT OF AFFAIRS AND DEFICIENCY ACCOUNT

The preparation of a Statement of Affairs and Deficiency Account for the purpose of submission to creditors implies, as a general rule, insolvency, or, at least, inability to pay debts. Such preparation and submission may occur in the due and regular course of bankruptcy or liquidation proceedings, or be made voluntarily by a debtor with a view to some arrangement with his creditors.

In regard to a limited company, it is usual for these statements to be prepared by or under the directions of the directors, and in compulsory liquidation this is obligatory. In bankruptcy, the duty of preparation rests upon the debtor, who is entitled to request assistance at the expense of the estate. Where the proceedings are in compulsory liquidation or bankruptcy, prescribed forms (set out hereafter) are required to be filled in.

Failure to keep proper books of account is frequently one of the contributory causes of financial difficulties, and it may be the case that the statements in question have to be constructed from particulars and information obtained by inquiry and examination of documents outside the books. In the case of a trader or person carrying on a business, it may be necessary as a preliminary that an accountant employed to assist the debtor should write up or complete the financial records. This may not be possible, for the information necessary in regard to past transactions may be lacking. The Statement of Affairs in these circumstances will be prepared from unpaid invoices produced, press or carbon copies of invoices for goods sold, and the general financial memoranda of the debtor, while the various headings of gains and losses to be entered in the Deficiency Account will be largely matters of estimate.

The date of the Statement of Affairs is determined by the circumstances. When it is submitted voluntarily, as, for example, by a debtor who has not had a receiving order made against him, he will ordinarily select the date, but where prepared for the purposes of proceedings in bankruptcy or compulsory liquidation, it will be drawn up to show the position as at the date of the receiving or winding-up order, as the case may be.

A person vested with the powers of an officer of the Court as trustee in bankruptcy or liquidator may, by the exercise of his statutory powers, limit or reduce the claims of creditors or render available for them assets no longer under the control of the debtor, as, for example, in regard to a voluntary settlement or fraudulent preference. This possibility has no bearing on the Statement of Affairs, which is designed to show the actual position of the debtor as at its date.

It may, for example, be obvious that a debtor has made what would, in bankruptcy, constitute a fraudulent preference. He has, however, parted with his assets to the extent of the amount paid away, which, therefore, no longer form any part of his assets. Moreover, a debtor against whom a receiving order has been made is not usually adjudicated a bankrupt until some time after the Statement of Affairs has been submitted, and until such adjudication has taken place—and it is by no means the case that adjudication invariably follows the making of a receiving order—there is no trustee in bankruptcy and no one legally constituted with authority to revise the acts of the debtor. The Statement of Affairs should deal strictly with the actual state of the debtor's affairs as they are at the date of the receiving order.

An accountant employed to assist a debtor in bankruptcy proceedings will frequently find information of value and assistance in an inspection (if permitted) of the preliminary examination by the Official Receiver. He may from this source become aware of property which the debtor has not disclosed to him, and of the general nature of special causes contributing to insolvency, such as losses from betting or speculation, and so receive assistance in the preparation of accurate schedules.

In the succeeding pages, the schedules applicable to bankruptcy proceedings are submitted with particulars intended to show their general use. The notes given in explanation of the details entered do not appear on the prescribed forms.

12—(1377)

No. F. 46.

Statement of Affairs.

THE BANKRUPTCY ACT, 1914

In the County Court of *Lancashire* , holden at *Liverpool*

IN BANKRUPTCY.

No. 140 of 1919.

RE........................*Henry Arthur Young*..

(1) Sheet "L" should be substituted for any one or more of such of the sheets named as will have to be returned blank.

TO THE DEBTOR.—You are required to fill up, carefully and accurately, this sheet, and such of the several sheets A, B, C, D, E, F, G, H, I, J, and K,(1) as are applicable showing the state of your affairs on the day on which the Receiving Order was made against you, viz., the *fifteenth* day of *July* 191*9* . Such sheets, when filled up, will constitute your Statement of Affairs, and must be verified by oath or declaration.

Gross Liabilities.			Liabilities (as stated and estimated by Debtor).				Expected to Rank.			Assets (as stated and estimated by Debtor).	Estimated to produce.		
£	s.	d.		£	s.	d.	£	s.	d.		£	s.	d.
9,658	10	8	Unsecured Creditors as per List (A.) .				9,658	10	8	Property as per list (H.), viz.—			
6,955	10	–	Creditors fully secured, as per list (B.) . .	6,955	10	–				(a) Cash at Bankers	2	4	–
										(b) Cash in hand		10	–
			Estimated value of securities . . .	8,210	6	–				(c) Cash deposited with Solicitor for Costs of Petition			
			Surplus . . .	1,254	16	–				(d) Stock-in-trade (cost £) .			
			Less amount thereof carried to sheet (C.)	680	–	–				(e) Machinery			
			Balance thereof to *contra* . . .	574	16	–				(f) Trade fixtures, fittings, utensils, etc. .			
										(g) Farming stock			
1,054	10	2	Creditors partly secured, as per list (C.) .	1,054	10	2				(h) Growing crops and tenant right . .			
			Less estimated value of securities . .	680	–	–				(i) Furniture . . . . . . *estd.*	318	10	-
							374	10	2	(j) Life policies	20	–	–
			Liabilities on Bills discounted other than Debtor's own acceptances for value, as per list (D.), viz.—							(k) Stocks and Shares . . . *estd.*	36	5	–
										(l) Reversionary or other interests under Wills . . . . . . *estd.*	135	–	–
										(m) Other property, viz.—			
										Gold watch, chain, etc. . . *estd.*	7	10	–
										Motor cycle . . . . . *estd.*	35	–	–

£	s.	d.		£	s.	d.
			On Accommodation Bills as Drawer, Acceptor, or Indorser . . £ : :			
			On other Bills as Drawer or Indorser £ : :			
			£ : :			
			Of which it is expected will rank against the estate for dividend .			
250	–	–	Contingent or other Liabilities as per list (E.) . . . £ 250 : – : –	–	–	–
			Of which it is expected will rank against the estate for dividend .			
20	–	–	Creditors for rent, etc., recoverable by distress, as per list (F.) . £20 – –			
4	15	4	Creditors for rates, taxes, wages, etc., payable in full, as per list (G.) . . £4 15 4			
			Sheriff's charges payable under s. 11 of the Bankruptcy Act, 1890, estimated at .			
			Deducted *contra* . £24 15 4			
			(2) Surplus explained in Statement (K.)			
17,943	6	2		£10,033	–	10

(2) Strike out words which do not apply.

	£	s.	d.
Total as per list (H.) . .			
Book Debts as per list (I.), viz.—			
Good	26	–	–
Doubtful . . . . £14 15 –			
Bad . . . . £10 – –			
£24 15 –			
Estimated to produce . . .	7	10	–
Bills of Exchange or other similar securities on hand as per list (J.) . . £ : :			
Estimated to produce			
Surplus from securities in the hands of Creditors fully secured (per *contra*) . .	574	16	–
£	1,163	5	6
Deduct Creditors for distrainable rent, and for preferential rates, taxes, wages, sheriff's charges, etc. (per *contra*)	24	15	4
£	1,138	10	2
(2) Deficiency explained in Statement (K.) .	8,894	10	8
£	10,033	–	10

I of in the County of
make oath and say that the above Statement and the several lists hereunto annexed, marked are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at...
in the County of...
this........................day of..............................19 , } Signature..
Before me
....

No. F. 46 A.

Statement of Affairs.

A.

Unsecured Creditors.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name.	Address and Occupation.	Amount of Debt. £	s.	d.	Date when Contracted. Month.	Year.	Consideration.
1	*Abrahams, Joseph*	*18 Marlborough St., Putney, London, S.W., moneylender.*	220	6	–	*Jan.–Aug*	1919	*Money lent and interest and costs of judgment, £5 6s.*
2	*H. Duckworth, Ltd.*	*183 Tuebrook Lane, Manchester, money-lender.*	112	10	–	*Mar.*	1919	*Money lent and interest.*
3	*Trustees, Mr. J. Herdman, decd., viz.— Alfred Taylor*	*14 Tarleton St., Southport, merchant.*	1,183	10	–	*April*	1915	*Cash advanced to me by late Mr. J. Herman £1,150, and accrued int. at 5 % per annum.*
	Robert Escombe	*83 Liverpool Rd., Southport, gentleman.*						
4	*Robert Taunton and James Taunton. (Lately my co-partners in firm of Taunton, Young, & Taunton)*	*17 Henry St., Swansea, shipbrokers, estd.*	5,242	10	–	*Current A/c to July*	1919	*Estd. balance of indebtedness from me to the firm of Taunton, Young, & Taunton, of which I ceased to be a member upon dissolution of partnership at 30th June, 1919.*
5	*H. J. Groves*	*14 George St., Cardiff, stockbroker.*	2,823	6	6	*Feb.–July*	1917 1919	*Balance on running account, on contracts for purchase and sales of investments made on my behalf.*
6	*Henry Barber & Sons*	*16 Smallbrook St., Swansea, tailors.*	43	10	–	*Jan.–Apr*	1916	*Clothing supplied.*
7	*J. Clapham*	*Sefton Stables, Parkfield Rd., Swansea, taxi-cab proprietor.*	8	6	–	*May–July*	1919	*Taxi hire.*
8	*H. Dobson*	*Clifton Cottage, Brighton, gentleman.*	5	–	–	*Jan.*	1919	*Money lent.*
9	*E. Harverson*	*The Cliff, Earlston Rd., Swansea, doctor of medicine.*	8	18	6	*Jan.–June*	1919	*Professional services.*
10	*J. Montagu*	*49 Parr St., Swansea, dentist.*	3	16	–	*Apr.–June*	1918-9	*Professional services.*
11	*H. Pindour*	*Duke St., Swansea, wine merchant.*	6	17	8	*Oct.–June*	1918-9	*Wine, etc., supplied.*
			9,658	10	8			

NOTE.—The former co-partners of the debtor are to be entered as Unsecured Creditors, where from the circumstances it appears that, assuming such proof to be omitted, no surplus will arise from the separate estate of the debtor for the benefit of the joint creditors, and that the admission of the proof will not imply competition on the part of the partners with their own joint creditors. In other circumstances, the claim would appear in Sheet E.

Signature...

Dated.. 19 .

NOTES.—1. When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus—

Total amount of claim . . .	£	... ...
Less contra account . . .	£	... ...
	£	... ...

No such set-off should be included in sheet "I."

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

No. F. 46 B.

Statement of Affairs.

B.

Creditors Fully Secured.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt. £	s.	d.	Date when Contracted. Month	Year	Consideration.	Particulars of Security.	Date when given.	Estimated Value of Security. £	s.	d.	Estimated Surplus from Security. £	s.	d.
1	*Liverpool & London & Globe Insce. Co.*	*1 Cornhill, London, E.C.*	2,720	–	–	*Oct.*	1918	*Money lent* . £2,200 *Interest* . . 235 *and Premiums advanced* . 285 2,720	*Endowment Policy, No. 128,336, for £5,000 with profits, payable 30/9/19, premium £142 10s. per annum, on my life.*	*Oct.,* 1918	3,280	6	–	560	6	–
2	*Parr's Bank, L d.*	*Castle St., Liverpool*	4,210	–	–	*Apr.*	1917	*Money lent* . £4,000 *Accrued Int.* . 210 4,210	*Reversionary interest, under will of my father, James Young.* *Trustees R. Newman, 16 Deansgate, Manchester, Merchant, and J. Taunton, 17 Henry St., Swansea, Shipbroker.*	*Apr.,* 1917 *estd.*	4,890	–	–	680 *Carried to Sheet C.*	–	–
3	*J. Williams & Son*	*283 High Holborn, London, W.C.*	25	10	–	*Oct.*	1918	*Money lent* £24 *and accrued int.* *estd.* £1 10	*Diamond ring.*	*Oct.,* 1918	40	–	–	14	10	–
			6,955	10	–						8,210	6	–	1,254	16	–

Signature...

Dated..19 .

No. F. 46 C.

Statement of Affairs.

C.

Creditors Partly Secured.

No.	Name of Creditor.	Address and Occupation.	Amount £	Amount s.	Amount d.	Date when Contracted. Month	Date when Contracted. Year.	Consideration.	Particulars of Security.	Month and Year when Given.	Estimated Value of Security. £	s.	d.	Balance of Debt Unsecured. £	s.	d.
1	*Henry Young*	15 *Earle St., Liverpool, master mariner*	1,054	10	2	*Aug.*	1917	*Money lent . £1,000 and accrued interest*	*Second charge on reversionary interest under will of my father, James Young. Trustees of will are as shown on Sheet B.*	*Aug.,* 1917	680	–	–	374	10	2

Signature..

Dated..19

No. F. 46 D.

Statement of Affairs.

D.

Liabilities of Debtor on Bills Discounted other than his own Acceptances for Value.

No.	Acceptor's Name, Address, and Occupation.	Whether liable as Drawer or Indorser.	Date when Due.	Amount.						Holder's Name, Address, and Occupation (if known).	Amount expected to rank against Estate for Dividend.		
				Accommodation Bills.			Other Bills.						
				£	s.	d.	£	s.	d.		£	s.	d.

Signature..

Dated..19 .

No. F. 46 E.

Statement of Affairs.

E.

Contingent or other Liabilities.

[Full particulars of all Liabilities not otherwise Scheduled to be given here.]

No.	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim.			Amount expected to rank for Dividend.			Date when Liability incurred.		Nature of Liability.
			£	s.	d.	£	s.	d.	Month.	Year.	
1	*United Counties Bank, Ltd.*	*Cook Street, Liverpool*	250	–	–				*Jan.*	1917	*Guarantee of overdraft to James Young, 18 Harold Road Birkenhead.*

NOTE.—The debts due from the debtor as a former member of the firm of Taunton, Young, & Taunton would, in certain circumstances (*i.e.*, subject to prior payment of his separate debts) be provable for purposes of dividend on his separate estate, and should be set out on this sheet.

Signature..

Dated..19 .

No. F. 46 F.

Statement of Affairs.

F.

Creditors for Rent, etc., Recoverable by Distress.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which claim accrued due.	Date when due.	Amount of Claim.			Amount recoverable by Distress.			Difference ranking for Dividend. (To be carried to List "A.")		
						£	s.	d.	£	s.	d.	£	s.	d.
1	*Edward Voss*	17 *Wellbridge Road, Cardiff*	*Rent of dwelling house,* 16 *Wells Gardens, Swansea, at* £80 *per annum*	24*th June*, 1919, *to* 29*th Sept.*, 1919	24*th June*, 1919	20	–	–	20	–	–			

Signature..

Dated..19 .

No. F. 46 G.

Statement of Affairs.

G.

Preferential Creditors for Rates, Taxes, and Wages.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which claim accrued due.	Date when due.	Amount of Claim.			Amount payable in full.			Difference ranking for Dividend. (To be carried to List "A.")		
						£	s.	d.	£	s.	d.	£	s.	d.
1	*Overseers of the Poor*	*Town Hall, Swansea*	*Poor Rates in respect of premises,* 16 *Wells Gardens, Swansea; assessed for year to* 31*st Mar.,* 1920, *as* £16 8*s.*	*Mar.* 31*st to July* 15*th,* 1919 (106 *days*)	*April,* 1919	4	15	4	4	15	4			

Signature...

Dated..19   .

No. F. 46 H.

Statement of Affairs.

H.

Property.

Full particulars of every description of Property in possession and in reversion as defined by Section 168 of the Bankruptcy Act, 1883, not included in any other list, are to be set forth in this list—

Full Statement and Nature of Property.	Estimated to Produce. £	s.	d.
(a) Cash at Bankers *Parr's Bank, High St., Swansea*	*2*	*4*	*6*
(b) Cash in hand		*10*	–
(c) Cash deposited with Solicitor for Costs of Petition			
(d) Stock-in-trade at . . . . (Cost £ : :)			
(e) Machinery at			
(f) Trade Fixtures, Fittings, Utensils, etc., at			
(g) Farming Stock at			
(h) Growing Crops and Tenant Right at			
(i) Household Furniture and Effects at *16 Wells Gardens, Swansea* . . . . *estd.*	*318*	*10*	–
(j) Life Policies. *Scottish Widows' Asset Co.; Life policy, payable at death, with profits, numbered 386,418, for £1,000; annual premium £23 10s., payable 20th Feb.; policy issued 20/2/11—surrender value*	*20*	–	–
(k) Stocks and Shares *50 Shares, £1 each, fully paid, in Chartered Company of S. Africa, valued at 14/6 per share*	*36*	*5*	–
(l) Reversionary or other interests under Wills, etc. *Reversionary interest under will of Alfred Young; Trustees, R. Newman, 16 Deansgate, Manchester, Merchant, and T. Howard, 17 Waltham St., Swansea, Solicitor estd.*	*135*	–	–
(m) Other Property (state particulars), viz.— *Gold watch, chain and sleeve links* . . . . . *estd.*	*7*	*10*	–
Rover motor-cycle, 3½ h.p., 1918 model . . . . *estd.*	*35*	–	–

Signature...

Dated.....................................19 .

No. F. 46 I.

Statement of Affairs

I.

Debts Due to the Estate.

No.	Name of Debtor.	Residence and Occupation.	Amount of Debt. Good. £	s.	d.	Doubtful. £	s.	d	Bad. £	s.	d.	Folio of Ledger or other Book where Particulars to be found	When contracted. Month.	Year.	Estimated to Produce. £	s.	d.	Particulars of any Securities held for Debt.
1	*James Roberts*	16 *Venmore Street, Vancouver, B.C., Estate Agent*							10	–	–	—	*Jan.*	1915				
2	*Henry Tollemache*	15 *Vauxhall Road, Liverpool, coal merchant*	26	–	–							—	*Sept.*	1918	26	–	–	
3	*Ernest Lloyd*	*The Haven, Maryport, gentleman*				14	15	–				—	*Oct.*	1918	7	10	–	

Signature...

Dated..19 .

NOTE.—If any Debtor to the Estate is also a Creditor, *but for a less amount than his indebtedness,* the gross amount due to the Estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus—

Due to Estate . . . . £ . . .
Less contra account . . . £ . . .
£ . .

No such claim should be included in sheet "A."

No. F. 46 J.

Statement of Affairs.

J.

Bills of Exchange, Promissory Notes, etc., available as Assets.

No.	Name of Acceptor of Bill or Note.	Address, etc.	Amount of Bill or Note.			Date when due.	Estimated to produce.			Particulars of any property held as Security for payment of Bill or Note.
			£	s.	d.		£	s.	d.	

Signature...

Dated..19

No. F. 46 K.

Statement of Affairs.

K.

Deficiency (or Surplus) Account.

	£	s.	d.	£	s.	d.
Excess of Assets over Liabilities on the (1) day of 19 (if any) . .						
Net Profit (if any) arising from carrying on business from the (1) day of 19 , to date of Receiving Order, after deducting usual Trade Expenses						
Income or profit from other sources (if any) since the (1) *15th* day of *July* 1918						
Gifts from relations and others						
From my mother, Mrs. J. Young. . .				450	–	–
Income arising under Will of Henry Young, decd., my grandfather (ceasing at date of receiving order)			*estd.*	235	–	–
Improvement in value of Life policies			*estd.*	140	–	–
(5) Deficiency as per Statement of Affairs . .				8,894	10	8
Total amount to be accounted for .			(6) £	9,719	10	8

	£	s.	d.	£	s.	d.
Excess of Liabilities over Assets on the (1) *15th* day of *July* 1918 (if any) . . .			*estd.*	2,624	4	2
Net loss (if any) arising from carrying on business *as a partner in Taunton, Young, & Taunton* from the (1) *15th* day of *July* 1918 to date of Receiving Order, after charging against Profits the usual Trade Expenses . . .			*estd.*	1,430	–	–
Bad Debts (if any) as per Schedule "I" (2) . .				17	5	–
Depreciation of stock-in-trade						
" " machinery						
" " trade fixtures, fittings, etc. . .						
Expenses incurred since the (1) *15th* day of *July* 1918 , other than usual Trade Expenses, viz., Household and personal Expenses of self (3)			*estd.*	1,650	–	–
(4) Other Losses and Expenses (if any)—						
Int. on money borrowed			*estd.*	1,100	–	–
Legal expenses and costs of judgments obtained against me			*estd.*	46	10	–
Loss in value of motor cycle			*estd.*	10	–	–
Loss on Stock Exchange speculations				2,823	6	6
Expenses of Deed of Assignment, Trustees' remuneration as charged £15 15s., and disbursements £2 10s.				18	5	–
(5) Surplus as per Statement of Affairs. . .						
Total amount accounted for .			(6) £	9,719	10	8

NOTES.—(1) This date should be twelve months before date of Receiving Order or such other time as Official Receiver may have fixed.
(2) This Schedule must show when debts were contracted.
(3) Add "wife and children" (if any) stating number of latter.
(4) Here add particulars of other losses or expenses (if any), including liabilities (if any) for which no consideration received.
(5) Strike out words which do not apply.
(6) These figures should agree.

Signature..

Dated..19 .

No. F. 46 L.

Statement of Affairs.

L.

In Substitution for Such of the Sheets Named "A" to "J" as Will Have to be Returned Blank.

List.	Particulars, as per Front Sheet.	Debtor's Remarks. Where no particulars are entered by the Debtor on any one or more of the Lists named "A" to "J" the word "Nil" should be inserted in this column opposite the particular List or Lists thus left blank.
A.	Unsecured Creditors . . .	
B.	Creditors fully secured . .	
C.	Creditors partly secured . .	
D.	Liabilities of Debtor on Bills Discounted other than his own acceptances for value . .	*Nil*
E.	Contingent or other Liabilities .	
F.	Creditors for Rent, etc., recoverable by Distress . . .	
G.	Preferential Creditors for Rates, Taxes, and Wages . . .	
H.	Property	
I.	Debts due to the Estate . .	
J.	Bills of Exchange, Promissory Notes, etc., available as Assets	*Nil*

Signature...

Dated..19

It will be observed from the forms set out hereafter that the Statement of Affairs of a company in compulsory liquidation differs from that of an individual debtor, in that the former shows the deficiency (1) as regards creditors, and (2) as regards contributories. The full sets of forms should be carefully studied.

No. C. 26.

Statement of Affairs.

IN THE COURT OF

IN THE MATTER OF THE COMPANIES (CONSOLIDATION) ACT, 1908,

AND

*Insert full name of Company.

IN THE MATTER OF[1]..LIMITED*

STATEMENT OF AFFAIRS on the day of 19 , the date of the Winding-up Order.

(I.) AS REGARDS CREDITORS.

Gross Liabilities.			Liabilities.				Expected to Rank.			Assets.				Estimated to Produce.		
£	s.	d.		£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
			Debts and Liabilities, viz.—							(a) Property, as per list "H" viz.—						
			(a) (State number) Unsecured Creditors, as per list "A"							(a) Cash at Bankers						
			(b) Creditors fully secured (not including debenture holders) as per list "B" .							(b) Cash in hand						
			Estimated value of securities . .							(c) Stock-in-trade . . . . . . (Estimated cost, £ : :)						
										(d) Machinery						
			Estimated surplus . . £							(e) Trade fixtures, fittings, utensils, etc. . . .						
			Carried to list "C" . . £							(f) Investments in shares, etc.						
										(g) Loans on mortgage						
			Balance to contra (d) . . £							(h) Other property, viz.—						
										(b) Book debts (debtors), as per list "I," viz.—						
										Good						
			(c) Creditors partly secured, as per list "C"							Doubtful						
			Less estimated value of securities .							Bad						
										£						
			Estimated to rank for dividend													

							Estimated to produce			
			(d) Liabilities on bills discounted other than the Company's own acceptances for value, as per list " D " . . £ s. d. : :				(c) Bills of Exchange or other similar securities on hand, as per list " J " £ s. d. : :			
			Of which it is expected will rank for dividend . .				Estimated to produce			
			(e) Other liabilities as per list "E" . £ s. d.				(d) Surplus from securities in the hands of creditors fully secured (per contra) (b)			
			Of which it is expected will rank for dividend . .				(e) Unpaid calls as per list " K "— £ s. d. : :			
			(f) Preferential Creditors for rates, taxes, wages, etc., as per list " F," deducted contra . . £ s. d.				Estimated to produce			
			(g) Loans on debenture bonds, as per list " G," deducted contra . . . (holders.)				Estimated total assets			
							Deduct preferential creditors as per contra (f)			
							Estimated amount available to meet claims of debenture holders			
							Deduct loans on debenture bonds secured on the assets of the Company as per contra (g) . .			
			Estimated surplus (if any) after meeting liabilities of Company, subject to cost of liquidation . . . £				Estimated amount available to meet unsecured creditors, subject to cost of liquidation			
							Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation . . .			
			£				£			

The nominal amount of unpaid capital liable to be called up is £ , which is [available to meet above deficiency] or [charged to debenture-holders], or as the case may be.

[FOR CONTINUATION SEE OVER

(II.) AS REGARDS CONTRIBUTORIES.

Note	Particulars	£	s.	d.	£	s.	d.	Particulars	£	s.	d.
	Capital issued and allotted, viz.—							Estimated Surplus as above (if any) subject to cost of Liquidation			
(a) Where capital is issued as partly paid up, the form should be altered accordingly.	——Founders' Shares of £ per Share (—— Shareholders). (a) Issued as fully-paid.										
	Amount called up at £ per Share, as per List "L" . . .										
	——Ordinary Shares of £ per Share (—— Shareholders). (a) Issued as fully-paid.										
	Amount called up at £ per Share, as per List "M" . .										
	——Preference Shares of £ per Share (—— Shareholders). (a) Issued as fully-paid.										
	Amount called up at £ per Share, as per List "N" . .										
(b) Add particulars of any other capital.	(b)										
	Amount (if any) paid in advance of call . . .										
	£										
	Less unpaid calls estimated to be irrecoverable £							Total deficiency as explained in Statement "O"			
	Add deficiency to meet Liabilities as above										
	£							£			

I, ...

make oath and say that the foregoing Statement and the several Lists hereunto annexed marked

are, to the best of my knowledge and belief, a true, full, and complete statement of the affairs of the above-named Company, on the day of 19 the date of the winding-up order.

Sworn at..

in the County of..

this..........................day of..............................19 Signature...

Before me..

....

A Commissioner for Oaths.

The Commissioner is particularly requested, before swearing the Affidavit, to ascertain that the full name, address, and description of the Deponent are stated, and to initial all crossings-out or other alterations on the printed form. A deficiency in the Affidavit in any of the above respects will entail its refusal by the Court, and will necessitate its being re-sworn.

[SEE OVER.]

No. C. 26.

Statement of Affairs.
List "A."

List "A."—Unsecured Creditors.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

NOTES.—1. When there is a contra account against the Creditor, less than the amount of his claim against the Company, the amount of the Creditor's claim and the amount of the contra account should be shown in the third Column, and the Balance only be inserted under the heading "Amount of Debt," thus—

	£	s.	d.
Total amount of Claim . . .			
Less: Contra Account . . .			

No such set-off should be included in List "I."

2. The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.
3. The names of any Creditors who are also Contributories, or alleged to be Contributories, of the Company must be shown separately, and described as such at the end of the List.

No.	Name.	Address and Occupation.	Amount of Debt.			Date when Contracted.		Consideration.
						Month.	Year.	
			£	s.	d.			

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs

List "B." Creditors fully secured (not including Debenture Holders).

The names to be arranged in alphabetical order and numbered consecutively.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when Contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated value of Security.			Estimated Surplus from Security.		
			£	s.	d.	Month.	Year.				£	s.	d.	£	s.	d.

Signature...

Dated...19 .

No. C. 26.

Statement of Affairs.
List " C."

List " C." Creditors Partly Secured.

(State whether also Contributories of the Company.)

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when Contracted.		Consideration.	Particulars of Security.	Month & Year when given.	Estimated value of Security.			Balance of Debt Unsecured.		
						Month.	Year.									
			£	s.	d.						£	s.	d.	£	s.	d.

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " D."

LIST " D."

Liabilities of Company on Bills discounted other than their own Acceptances for value.

The names to be arranged in alphabetical order and numbered consecutively.

No.	Acceptor's Name, Address, and Occupation.	Whether liable as Drawer or Indorser.	Date when due.	Amount.			Holder's Name, Address and Occupation (if known).	Amount expected to rank for Dividend.		
				£	s.	d.		£	s.	d.

Signature..

Dated...19 .

No. C. 26.

Statement of Affairs.
List " E."

List " E." Other Liabilities.

Full particulars of all Liabilities not otherwise Scheduled to be given here. The names to be arranged in alphabetical order and numbered consecutively.

No	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim.			Date when Liability incurred.		Nature of Liability.	Consideration.	Amount expected to rank against Assets for dividend.		
			£	s.	d.	Month.	Year.			£	s.	d

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " F."

List " F." Preferential Creditors for Rates, Taxes, Salaries and Wages.

The names to be arranged in alphabetical order and numbered consecutively.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.			Amount payable in full.			Difference ranking for Dividend.		
						£	s.	d.	£	s.	d.	£	s.	d.

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " G."

LIST " G." List of Debenture Holders.

The Names to be arranged in alphabetical order and numbered consecutively.

SEPARATE LISTS must be furnished of holders of each issue of Debentures, should more than one issue have been made.

No.	Name of Holder.	Address.	Amount.			Description of Assets over which Security extends.
			£	s.	d.	

Signature...

Dated...19 .

No. C. 26.

Statement of Affairs.
List "H."

List "H." Property.

Full particulars of every description of property not included in any other lists are to be set forth in this list.

	Full Statement and Nature of Property.	Estimated Cost.			Estimated to produce.		
		£	s.	d.	£	s.	d.
	(*a*) Cash at Bankers						
	(*b*) Cash in hand						
	(*c*) Stock-in-Trade, at						
	(*d*) Machinery, at						
	(*e*) Trade fixtures, fittings, office furniture, utensils, etc.						
[State particulars.]	(*f*) Investments in Stocks or Shares, etc.						
[State particulars.]	(*g*) Loans for which Mortgage or other security held						
	(*h*) Other Property, viz.—						

Signature..

Dated...19

No. C. 26.

Statement of Affairs.

List " I."

LIST " I." Debts Due to the Company.

The names to be arranged in alphabetical order, and numbered consecutively.

NOTE.—If any Debtor to the Company is also a Creditor, but for a less amount than his indebtedness, the gross amount due to the Company and the amount of the Contra account should be shown on the third column, and the balance only be inserted under the heading " Amount of Debt," thus—

	£	s.	d.
Due to Company			
Less : Contra Account			

No such claim should be included in Sheet " A."

No.	Name.	Residence and Occupation.	Amount of Debt.									Folio of Ledger or other book where particulars to be found.	When Contracted.		Estimated to Produce.			Particulars of any Securities held for Debt.
			Good.			Doubtful.			Bad.				Month.	Year.				
			£	s.	d.	£	s.	d.	£	s.	d.				£	s.	d.	

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " J."

LIST " J." Bills of Exchange, Promissory Notes, etc., on hand available as Assets.

The names to be arranged in alphabetical order and numbered consecutively.

No.	Name of Acceptor of Bill or Note.	Address, etc.	Amount of Bill or Note.			Date when due.	Estimated to Produce.			Particulars of any property held as Security for Payment of Bill or Note.
			£	s.	d.		£	s.	d.	

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List "K."

List "K." **Unpaid Calls.**

The names to be arranged in alphabetical order and numbered consecutively.

Consecutive No.	No. in Share Register.	Name of Shareholder.	Address and Occupation.	No. of Shares. held.	Amount of Call per Share unpaid.			Total amount due.			Estimated to realize.		
					£	s.	d.	£	s.	d.	£	s.	d.

Signature..

Dated...19 .

No. C. 26.

Statement of Affairs.
List "L."

LIST "L." List of Founders' Shares.

Consecutive No.	Register No.	Name of Shareholder.	Address.	Nominal amount of Share.	No. of Shares held.	Amount per Share called up.			Total amount called up.		
						£	s.	d.	£	s.	d.

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " M."

List " M." List of Ordinary Shares.

The names to be arranged in alphabetical order and numbered consecutively.

Consecutive No.	Register. No.	Name of Shareholder.	Address.	Nominal amount of Share.	No. of Shares held.	Amount per Share called up.			Total amount called up.		
						£	s.	d.	£	s.	d.

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " N."

List " N." List of Preference Shares.

Consecutive No.	Register. No.	Name of Shareholder.	Address.	Nominal amount of Share.	No. of Shares held.	Amount per Share called up.			Total amount called up.		
						£	s.	d.	£	s.	d.

Signature..

Dated..19

14—(1377)

No. C. 26.

Statement of Affairs.
List " O " (2).

List " O." (2). Deficiency Account

" O." (1) Under Three Years.
(2) Deficiency Account where Winding-up Order made More Than Three Years After formation of Company.

	£	s.	d.
I. Excess of Assets over Capital and Liabilities on the [1] day of 19 (if any) as per Company's Balance Sheet. (This and any previous Balance Sheets to be annexed or handed to O.R.)			
II. Gross profit (if any) arising from carrying on business from the [1] day of 19 , to date of Winding-up Order as per Trading Account annexed			
III. Receipts (if any) during same period from undermentioned sources—			
Interest on Loans			
Interest on Deposits			
Transfer Fees			
Amounts paid on Shares issued and subsequently forfeited (as per List annexed)			
IV. Other receipts (if any) during same period not included under any of the above headings			
V. Deficiency as per Statement of Affairs (Part II)			
Total amount to be accounted for . . . . . [3] £			

	Amount dis-charged.			Due at date of Winding-up Order.			£	s.	d.
I. Excess of Capital and Liabilities over Assets on the [1] day of 19 (if any) as per Company's Balance Sheet. (This and any previous Balance Sheets to be annexed or handed to O.R.)									
II. Expenses of carrying on business from the [1] day of 19 , to date of Winding-up Order, viz.—									
General Expenditure—									
Salaries									
Wages not charged in Trading Account									
Rent									
Rates and Taxes									
Law Costs									
Commission									
Interest on Loans									
Interest on Debentures									
Miscellaneous Expenditure (as per details annexed) . .									
III. Directors' Fees from the [1] day of 19 , to date of Winding-up Order .									
IV. Dividends declared during same period .									
V. Losses and depreciation from the day of 19 , [1] written off in Company's books, viz. [2]—									
Bad Debts									
Losses on Investments									
Depreciation of Property									
Preliminary Expenses									
VI. Losses and depreciation not written off in Company's books, now written off by Directors [2]									
Bad Debts									
Losses on Investments									
Depreciation of Property									
Preliminary Expenses									
VII. Other Losses and Expenses [2]									
Total amount accounted for . . . . . . [3] £									

Notes.—[1] Three years before date of Winding-up Order.
[2] Where particulars are numerous they should be inserted in a separate Schedule.
[3] These figures should agree.

Signature..

Dated..19 .

No. C. 26.

Statement of Affairs.
List " P."

LIST " P."

IN SUBSTITUTION FOR SUCH OF THE LISTS NAMED " A " TO " O " AS WILL HAVE TO BE RETURNED BLANK.

LIST.	PARTICULARS, AS PER FRONT SHEET.	REMARKS. Where no particulars are entered on any one or more of the Lists named " A " to " O " the word " Nil " should be inserted in this column opposite the particular List or Lists thus left blank.
A	Unsecured Creditors	
B	Creditors fully secured (not including debenture holders) .	
C	Creditors partly secured	
D	Liabilities on Bills discounted other than the Company's own acceptances for value	
E	Other liabilities	
F	Preference Creditors for rates, taxes, wages, etc. . .	
G	Loans on Debenture Bonds	
H	Property	
I	Book Debts	
J	Bills of Exchange or other similar securities on hand . .	
K	Unpaid Calls	
L	Founders' Shares	
M	Ordinary Shares	
N	Preference Shares	
O	Deficiency Account	

Signature..

Dated..19 .

CHAPTER XVI

COST ACCOUNTS

UNDER the title "Cost Accounts" are grouped all systems of accounting records that have as their object the presentation, in statistical or analysed form, of the cost of some particular service, process, product or department of a business. The preparation from records kept by double entry of the Profit and Loss Account furnishes a summary of the transactions of a business as a whole so far as they affect the earning of profit, and from this valuable statistical information is usually obtainable. Such information must necessarily, however, bear upon the past and be related to the entire business as a unit. By means of Cost Accounts, endeavour is made to separate the items of cost specifically attributable to each of the various operations of manufacture or trading to which the activities of those engaged in the business may be directed. Effective separation for successive periods of relative items of cost directly incurred upon similar operations must obviously provide material of great value to those in control, and from the information furnished and comparisons available, a more accurate view can be formed than would be possible from the ordinary form of Profit and Loss Account as to—

(1) The outlay under each head of expenditure incurred in producing some manufactured article, or in rendering some service (not necessarily involving manufacture) in direct relation to the return for such outlay.

(2) The improvement or otherwise in methods of manufacture, etc., so far as it can be interpreted by variations in the various elements of cost attributable thereto.

The generalisations submitted may be made clearer by illustration. Thus, a colliery proprietor may seek information as to the cost of raising a ton of coal, a match factory the cost of manufacture of output measured in gross boxes of matches, and a builder the cost of executing a particular contract. The degree to which cost may be analysed is a matter of expediency, largely determined by the value of the results obtained for the effort and expenditure incurred. It would, for example, be of no particular value to a colliery proprietor engaged in mining and selling coal of a uniform quality, to know the exact cost of each load of coal *sold*. He would be content to know the average cost of each ton of coal *raised*, in respect, say, of weekly periods, and the information furnished by the Weekly Cost Sheet, both actually and by comparison with similar sheets, would ordinarily be sufficient to enable him to observe any appearance of greater or less economy of cost in relation to results, and would furnish him also, by reference to a record of current sales, with an indication of current profits. In such a case, the costs would be ascertained with reference to a unit assumed to be an average unit representative of the "product" as a whole; but this could be by no means always the case. An engineer, for example, might be engaged in execution of many quite dissimilar contracts, in respect of which no average unit, except possibly over a small field of his activities, could be taken, and in such circumstances the analysis of cost would require to be direct and specific, in relation to each contract.

It is obvious that the precise lines of a system of Cost Accounts can be determined only by reference to the facts of each case. It may be said, however, that the form of any system will be governed largely by the question whether it is to be applied in reference to an average, or a specific, unit.

Systems of Cost Accounts fall into certain general groups, which, it will be observed, are determined by the facts to which the system is to be applied, thus—

A. Single.—Applied to a direct and simple process of production of an average standard unit of manufacture (*e.g.*, a pair of boots).

B. Multiple.—Applied to a system embracing a series of concurrent records of the form described in A. where manufacture involves production of several standard articles, and the costs are based on an average standard unit of each. The manufacture of shells, fuses, etc., is a sound example of this system, for a factory might be employed in producing several types of shells, and while ascertainment of average cost of production would be sufficient, yet it is obvious that it should be the average cost of each type, and not of all types as a whole.

C. Terminal.—Applied to contracts for performance of specific work according to specifications, such as the erection of a building, or the manufacture of engineering plant. In such cases each specific contract must be dealt with.

D. Operating.—Applied mainly to concerns engaged in rendering services, or in the supply of commodities for reward, such as railways, waterworks, etc., which, while not engaged in manufacture in the ordinary sense, none the less earn revenue.

E. Process.—Applied to concerns engaged in chemical and similar industries, where by reason of the creation of by-products and the inter-relation of various processes, the ascertainment of direct cost in relation to the ultimate return is difficult.

Note.—It will be obvious, on consideration, say, of the branch of industry concerned with the extraction of coal tar and the treatment of the various by-products resulting from the successive processes involved, that part of the return for the expense on one of the main processes in the earlier stages of the manufacturing operations is in the value of the by-products of that process, which themselves, however, when further treated, produce subsidiary by-products bringing a further return. The forms of cost accounts adapted to cases under this head involve the preparation of schedules of cost for each of the processes undertaken. Such schedules may furnish an analysis of cost of a product immediately saleable, or destined for a further process from which a finished and saleable product will result. To give a complete view of the comparative facts, the particulars of cost are supplemented by statistical details, designed to show, for example, weight or volume of product in relation to raw material consumed; loss in weight of raw material in process; coal consumption per unit of product; labour cost per unit of product, etc. Such forms of costs records are difficult and involve a knowledge of technical processes, and are subject to constant change and adaptation to variations in the methods and subject matter of production.

It has already been stated that the basis of analysis of each section of Cost Accounts will be either an average or a specific unit, and in most cases this unit will be a unit of production; not necessarily so, however. Under section D of the classification given, Operating Costs, are included the working costs of tramways, railways, etc. Such concerns do not "produce" in the ordinary sense, but an analysis of cost is none the less desirable. This, in the case of tramways, might proceed on the basis of ascertaining, *inter alia*, cost per car mile, cost per unit of electrical power consumed, cost per passenger carried, average length of nominal journey per passenger, average fare per passenger, with much other similar information and such subdivision as would give a thorough view of the working operations over each route of the system. It must not be thought that the particulars suggested as desirable in relation to this or other illustrations given, comprise all the information that the system of costs in each case should provide. The subject is a wide one, and such instances are introduced merely to throw into greater prominence some point of general principle.

COST SHEET OF............................COLLIERY.

Week ending................................19............

Saleable tons raised.......................................

	Amount.	Total.	Cost per ton.
Wages: Underground—			
Hewers			
Setters			
Haulers			
Checkers			
etc.			
Wages: Above ground—			
Engine-room			
Screeners			
Joiners, Smiths, etc.			
etc.			
Total Wages and Average Cost . £			
Pitwood			
Royalty			
Repairs			
Motive power, including coal consumed			
Oil, stores, lamps, etc. . . .			
Tools			
Depreciation of plant . . .			
Amortization			
Total direct cost . . . . £			
Oncost			
Expenses of distribution and sale .			
Establishment charges . . .			
Expenses of administration. . .			
Total Cost and Average per ton £			

Average selling price for period .... per ton....

„ cost „ „ „ .... „

„ Profit . . . . „

(NOTE.—It is assumed that the Colliery has one pit only.)

Statement of Stocks.			
On hand at beginning of week .			
On bank .			
,, rail .			
			tons
Raised during week . .			,,
Less—			
Deliveries during week including supplies to Colliery . .			,,
On hand at end of week .			
On bank .			
,, rail .			
			,,
Statement of Orders.			
On hand at beginning of week .			,,
Received during week . . .			,,
Less—			
Executed during week . .			,,
On hand at end of week .			,,

The basis to be adopted in any particular case for the purpose of analysing cost and of providing an effective comparison with similar operations of other periods can only be determined by a thorough examination of all the facts, and in applying the test of comparison, due allowance must be made for variable factors. The important item of labour cost, for example, may show considerable variation in relation to output, not only from increase or decrease in efficiency, but from alterations in rate of pay, by increase in rates, by increased proportion of overtime pay, etc., as well as the more general cause of changes in hours and conditions of work. Such matters, however, affect the interpretation rather than the construction of Cost Accounts.

The more simple forms of Cost Accounts and particularly those indicated under the heading Single Costs (A) in the classification given, are largely self-explanatory of their purpose, and in general illustration of the objects in view in obtaining an effective analysis of the various items of productive cost, the example of a Colliery Cost Sheet is shown above.

Before proceeding further in the consideration of any particular type of costs records, it will be well to consider, first, the theoretical classification of cost adopted in the construction of Cost Accounts, and second, the methods adopted to obtain the analysis required to show the specific cost of each complete operation.

Cost is usually divided into Manufacturing Cost, or cost of production, and Oncost. The former is usually divided into Direct and Indirect Manufacturing Cost. The following classification gives a general indication of the nature of the charges under each head—

DIRECT MANUFACTURING COST.

Materials and Production Stores.

Productive labour.

INDIRECT MANUFACTURING COST (also termed Direct Oncost).

Other labour, including superintendence, storekeeping, repairs, etc.

NOTE.—Some of these may be distributed by book entry to accounts under the heads named to furnish a total of all expense under each, and the totals so arrived dealt with in the costs.

Motive power, lighting, heating and water.

Repairs and maintenance.

Shop stores.

Factory Rent and Rates.

Superintendence, including Factory Manager's and Foremen's Salaries.

Workers' clothing.

Mess-room expenses.

Depreciation.

GENERAL (OR INDIRECT) ONCOST.

Expenses of distribution, sale, collection, establishment, administration and finance.

The classification given indicates by its general arrangement the principles of separation of various classes of expense in respect of businesses not strictly to be termed manufacturing.

The determination of particular items of cost in respect of a short period easily and promptly depends upon the operation of an accurate system of accounting. It is mainly in regard to items coming under the head of Direct Manufacturing Cost that special arrangements for analysis and ascertainment are desirable. Particulars of materials used in production are obtainable from any efficient record of stores. In Chapter II the general lines of a satisfactory system are indicated. It remains to be considered, however, how these find expression in the Cost Accounts. A system of stores or stock records is usually built up from Receiving Notes or Goods Inwards Slips on the one hand, and Requisition Notes, Issue Warrants, or Delivery Orders, on the other. It is to the latter that the costs records should be related.

At the end of each costing period, the issues to production recorded on the Stores Ledgers can easily be extracted and summarised. This summary may in some cases be an accurate statement of materials used in production, subject to proof of the accuracy of the Stores Ledger as a whole by periodical stocktaking. It may be, however, that adjustment is required in respect of materials on hand and unused, not in the stores, but in the departments of the factory. Subject to this, the particulars of raw materials consumed as a whole can be ascertained in the manner indicated. Where the system of Cost Accounts in operation is not limited (as in the case of a colliery, for example) to a simple analysis of cost of one complete operation, the materials consumed require identification with reference to the particular operation in which they are used. This may present complications, but should not do so under any carefully considered system of requisitions for issues. The particulars given on each requisition should be arranged so as to show clearly the department and operation for which the goods are designed, and when this is thought to involve unnecessary or excessive clerical work, it is as a rule not difficult to devise a simple system of code numbers under which the particulars of issues as recorded in the Ledger can be precisely referred to specific manufacturing operations or costing units. The abstract from the Stores Ledger of issues to production can then be made with all necessary subdivisions so as to provide a full and complete statement of materials consumed.

It must not be assumed from the foregoing that materials issued necessarily form part of the Direct Cost, for a portion might conceivably be used upon capital expenditure or transferred to some other account of Direct or Indirect Oncost. Materials issued will be scheduled as a whole for the costing period, and classified according to the statistical division required. In the Cost Ledger hereafter referred to, Materials Account will be credited and the appropriate accounts debited to record the actual facts.

As in the case of materials, the correct allocation of wages over the various manufacturing operations is a matter of great importance, and variations in practice are liable to cause considerable fluctuations in the comparative totals of Direct Cost.

The general lines of a system for calculation and payment of wages have already been described. It remains to be considered how this expenditure may be analysed for distribution over the Cost Accounts. It is necessary for this purpose that a record be kept of the operation on which each worker is engaged. So far as the form of record used for calculation of the pay roll lends itself, it will naturally be adapted to the further purposes of the costs. A considerable number of workers may be engaged on a simple routine operation involving as between them little or no variation in skill, and for the purpose of classification the total of the wages paid to such workers, as a whole, may be dealt with. This would apply, say, to a gang of bricklayers employed on a building job, and the Foreman's Wages Sheet would of itself furnish in total the figure of cost attributable to the particular work without further analysis. Similarly, the daily departmental wages sheets of a large factory might be designed so as to provide, for all, or at any rate, a large proportion of the workers, a classification of their earnings, according to their work, in such form that the analysis of the weekly pay roll is largely given therefrom. There must, however, be cases where the analysis requires detailed consideration of the work done by each employee, grouping them, of course, whenever possible, and this detailed analysis is by no means limited to the cases of workers paid by piece rates.

In such cases, an Operation Card will be required for each worker, which will be made out with particulars of the worker's number, name, etc., and issued from the Time Office. Where the use of Collective Operation Cards is possible, these will be made out similarly. All such cards will go to the departmental foreman, overlooker, or chargehand, and will be filled in by him daily, with times of commencing and finishing work, hours worked, operations of worker, and any other material particulars, such as overtime, idle time, etc. These operation cards are made up independently to a large extent of the actual material for calculation of the pay roll, but form a valuable check upon it and must, individually and as a whole, agree with it, so that the total of the pay roll is accurately classified for statistical purposes. The analysis so arrived at will be set out in schedule form, and form the basis of entries in the Cost Ledger.

In regard to wages, to a greater extent than with materials, the classification may show many sub-headings not coming under the general head of Direct Cost, and, therefore, due to be charged as capital expenditure, or as affecting some subdivision of Oncost, the latter, of course, itself ultimately affecting the costs.

The schedule now given shows the headings of a classification of labour consumed or expended in the operations of a shell-filling factory.

ANALYSIS OF LABOUR COST.

For........................weeks ending..........................

Operating.	Amount.
Examining, Cleaning, and Painting—	
5 inch MK. II	
6 ,, ,, V	
6 ,, ,, VI	
6 ,, ,, XI	
6 ,, ,, XXII	
Filling gaines	
Filling Fuses	
Filling Primers	
Filling Q.F. Cartridge Cases . . .	
Assembling Q.F. Ammunition . . .	
Bonding and Packing	
Filling Igniters	
Etc., etc.	
Total Productive Wages .	
Total productive Wages (as above) . .	
Analysis—	
Oncost—direct	
indirect	
a/c Army Ordnance Department . .	
Capital Expenditure	
Buildings	
Plant	
Total wages as per pay roll £	

Direct Oncost includes all expenditure directly attributable to, or incurred by reason of, production, as distinguished from the general charges of administration and establishment. It is sometimes taken as covering only those charges which, while not part of the direct cost, can be allocated to specific operations, but it is submitted that the term has a wider application and includes all expense attributable, even though only generally attributable, to production.

The reason for distinction between Direct and Indirect Oncost is mainly that the general expenditure under the latter heading does not vary directly with production, while the former, although inclusive of some items of expense subject to no great variation, may be regarded as bearing a regular ratio to the costing unit. For example, a business doing a regular turnover of, say, £200,000 per annum, may have general establishment charges in the form of office salaries, office rents, printing and stationery, travellers' salaries, interest, etc., of, say, £12,000. The turnover may be doubled without a corresponding increase in the total of Indirect Oncost. Manufacturing cost would, in total, increase; but, per unit, would remain roughly constant. It is, of course, the case that even Direct Oncost includes some charges such as factory rent and rates, and factory manager's salary, which might show no variation corresponding with the volume of work done, and an increase in turnover would thus operate in the general direction of reducing the burden per unit of Direct, as well as Indirect, Oncost.

Direct and Indirect Oncost are usually summarised in schedule form, that for Direct Oncost (of which a *pro forma* example is given) being arranged to permit of direct allocations where deemed possible or advisable. It is frequently the case, however, that Oncost both Direct and Indirect, is dealt with in totals.

The basis of allocation of Oncost not distributed by direct allocation is a matter for consideration upon the facts. Direct Oncost, not otherwise allocated, is sometimes apportioned over the various manufacturing operations in proportion to productive wages; in other cases the basis of the total of all direct manufacturing cost is considered more accurate. Indirect Oncost is usually dealt with as a whole and distributed in similar manner. It is desirable that the comparison of costs as between one period and another be rendered more effective by dealing separately with Direct and Indirect Oncost. An additional reason may exist for this where a trade is subject to periodical or seasonal demands. In such cases, it may be thought unsound to burden the production of

ALLOCATION OF DIRECT ONCOST.

Expenditure.	Total.	Examining 4.5 Shells.	Examining 6 Mk. VI Shells.	Filling 6 Mk. VI Shells.	Filling Fuses.	Filling Gaines.	Filling Primers.	Filling N.C.T. Cartridges.	Etc.	Etc.	Etc.	Balance, being amount unallocated.
Steam power												
Hydraulic power												
Electric power												
Gas												
Water												
Light and Heat												
Repairs & maintenance												
Of Buildings												
Of Plant												
Of Tools												
Sundry Shop Stores												
Factory Rent & Rates												
General Labour												
Idle time												
National Health Insurance												
Superintendence												
Workers' Clothing												
Factory Salaries												
Miscellaneous												
Total of direct allocations												
Unallocated items (as perlast column) distribution in proportion to wages												
Total allocations												

a slack period with the exact amount of Indirect Oncost incurred, and the principle followed may be that of estimating the probable output and Oncost of the full year and of charging the output of each costing period with a share of Oncost proportionate to the output on the assumption of the normal turnover estimated being attained. This, however, is a departure from the facts of actual expense incurred and is not to be recommended unless in very special circumstances. It must be admitted, however, that the calculation of Indirect Oncost involves estimates of current expenses in many instances, and constant revision is necessary to ensure the correctness of the total charge.

The object aimed at in classifying the cost of production, namely, to ascertain total cost in direct relation to the costing unit, is probably clear in principle and the general lines of procedure have been indicated. It is obvious, however, that the Cost Accounts must be worked in conjunction with the general financial books to ensure that the former give an accurate view of cost actually incurred.

For this purpose, a Cost Ledger is necessary, in which will be recorded in duplicate all entries in the financial books affecting the Manufacturing or Production Account. While the financial books will usually be closed at yearly or half-yearly periods, the Oncost Ledger will be written up and the Production Account constructed therein for each costing period.

It is desirable to consider the use of the Cost Ledger in some detail. Consider, for example, the item of wages. This will be charged to Wages Account as paid and the debit on this account will be distributed at the end of each costing period according to the analysis thereof, the greater proportion of it naturally being debited ultimately to Production Account in the Cost Ledger, while some part may be debited to capital expenditure, or some general service charge such as repairs, motive power and the like. Production Account is thus duly charged with its proportion of wages. In respect of materials used, it has already been indicated how these are to be ascertained. In the Cost Ledger, Materials Account will show an opening balance of stock on hand, and all the purchases will be debited thereto. Issues to production will be valued and credited upon the account, Production Account being debited at the close of each costing period. Any other issues for purposes of capital expenditure, or general service charges, will be similarly credited, and, provided the issues are properly ascertained and valued, Materials Account should represent in balance the value of materials on hand.

In similar manner there will be raised in the Cost Ledger accounts for each section of Direct Oncost and for Oncost, with such subdivisions, if any, as may be desired. Each of these accounts will be debited with the amounts affecting them and the sums credited will be those charged in the costs.

At the conclusion of the financial period it should appear that all charges affecting the Manufacturing or Production Account have been charged to Production Account in the Cost Ledger. It may occur that, in respect of some items of expense, of which estimates are necessary, some excess or deficiency appears as between the actual expense and the estimates charged in the costs, and the Production Account in the Cost Ledger will require to be amended accordingly in a subsequent period.

In all cases it is desirable that the Cost Accounts be reconciled with the financial books. It is not always expedient, however, to express them entirely in double entry form as a part of the general system of book-keeping.

Terminal Costs of a Builder and Contractor.

The *pro forma* accounts (submitted in outline) assume the use of a Cost or Contracts Ledger operated on principles of sectional balancing independently of the General Ledger. It is obvious, of course, that the accounts presented do not form a complete record of all transactions and are merely such as will indicate the principle features of the system adopted.

GENERAL AND DEBTORS' LEDGERS.

WAGES ACCOUNT.

1920.		£	1920.		£
Jan. 2	To Cash, Wages for week .	1,325	Dec. 31	By Cost Ledger A/c, transfer	55,475
9	" " " " .	1,437			
16	" " " " . .	1,813			
etc.		....			
		55,475			55,475

MATERIALS ACCOUNT.

1920.		£	1920.		£
Jan. 31	To Sundries (per Purchases, J.	9,875	Dec. 31	By Cost Ledger A/c, transfer	62,836
Feb. 28	„ „ „ „ „	3,864	„	„ Stock on hand . .	20,112
Etc.	„ „ „ „ „	....			
		82,948			82,948
1920.					
Dec. 31	To Stock on hand . .	20,112			

Similar accounts for Stores, Carriage, etc.

COST LEDGER ACCOUNT.

1919.		£	1920.		£
Dec. 31	To Balance, Work in Progress at date . .	128,416	Dec. 31	By Sundry Debtors, amts. due on completed contracts	188,470
1920.					
Dec. 31	„ Wages	55,475	„	„ Balance carried down .	87,432
„	„ Materials . . .	62,836			
„	„ Stores	9,463			
„	„ Carriage . . .	5,352			
„	„ Profit & Loss, profit on contracts to date . .	14,360			
		275,902			275,902
1920.					
Dec. 31	To Balance brought down, Work in progress . .	87,432			

J. JONES (COMPLETED CONTRACT).

1920.		£	1920.		£
Aug. 31	To Cost Ledger A/c . .	4,720	Feb. 10	By Cash	1,480
			Nov. 30	„ „	3,240
		4,720			4,720

JAMES BROWN (UNCOMPLETED CONTRACT).

			1290.		£
			Sept. 3	By Cash	9,000

COST LEDGERS.

CONTRACT "A."

1919.		£	1920.		£
Dec. 31	To Balance at date . .	14,762	Sept. 30	By General Ledger, value of work done . . .	28,000
1920.					
Jan.–	To Material	2,834			
Sept.	„ Stores	1,320			
	„ Wages	5,360			
	„ Carriage . . .	245			
	„ General Ledger A/c Profit	3,479			
		28,000			28,000

CONTRACT "B."

1920.		£	1920.		£
Jan.–Dec.	To Material . . .	480	Dec. 31	By Balance carried down .	2,000
	" Stores	63			
	" Wages	1,235			
	" Carriage . . .	112			
	" General Ledger Account, Profit to date . .	110			
		2,000			2,000
1920.		£			
Dec. 31	To Balance brought down .	2,000			

WAGES ACCOUNT.

1920.		£	1920.		£
Dec. 31	To General Ledger A/c, for Weekly Wages . .	55,475	Jan.–Dec.	By Sundry Contracts, for Wages attributable thereto . . .	55,475

MATERIALS ACCOUNT.

1920.		£	1920.		£
Dec. 31	To General Ledger A/c .	62,836	Jan.–	By Sundry Contracts for Materials supplied thereto . . .	62,836

GENERAL LEDGER ACCOUNT.

1920.		£	1919.		£
Dec. 31	To Sundry Contracts for value of completed work	188,470	Dec. 31	By Balance, work in progress at date . . .	128,416
	" Balance carried down .	87,432	1920.		
			Dec. 31	By Wages	55,475
				" Materials . . .	62,836
				" Stores	9,463
				" Carriage . . .	5,352
				" Sundry Contracts, Profit to date . . .	14,360
		275,902			275,902
			1920.		
			Dec. 31	By Balance brought down .	87,432

The *pro forma* accounts set out illustrate the main features of Terminal Costs, which are perhaps more easily expressed in the books of account than other costing systems. In the examples given, only cost directly attributable to a specific job is dealt with and the Cost Accounts proceed so far only as is needed to analyse the gross profit. It would be possible, though perhaps of no great value, to distribute over the accounts of the various contracts the Indirect Oncost. In the case of Terminal Costs, this is not always done, for the basis of apportionment is a matter of difficulty. If it be assumed that the total direct cost, wages, plus material, is the proper basis of charge, it will be necessary to ascertain the total Indirect Oncost of the financial period, for the costing period is different for each job; this total must be estimated in advance, and, in addition, in order to allocate the charge to specific contracts, the estimated total of direct cost during the financial period must be taken. This of itself is complicated, and in practice may be found to involve the question of principle whether work in progress is to be valued at a figure inclusive of anything but the cost directly chargeable thereto, plus the limited amount of Direct Oncost arising in such cases. For these reasons systems of Terminal Costs frequently do not deal with Indirect Oncost.

In cases of small jobbing work, such as that of an engineering pattern shop, or a plumber and decorator, the method of costing is, in some cases, rough and ready. As with all systems of costs, an exact allocation of direct cost of labour and materials is necessary. Upon the total so arrived at, an addition of a fixed percentage may then be made for Direct Oncost, and the total of the supposed manufacturing cost is thus given. Upon this latter figure, a further percentage addition is made, and the full cost obtained. Thus—

	£	s.	d.	
Labour . . .	15	–	–	
Materials . . .	8	–	–	
	23	–	–	Direct cost
Add: 20 % . .	4	12	–	„ Oncost
	27	12	–	
Add: 15 % . .	4	2	9	Indirect oncost
	£31	14	9	Total cost (estimated)

It is clear that the estimates made in the manner shown must be at best an approximation to the facts, in addition to which the organisation and staff available in the businesses where the system of costing follows these lines are frequently far from perfect. It may be found that no attempt whatever is made in such cases to test the principles on which the costing system is founded, by a comparison of the cost records with the books, and their value is limited in consequence.

Machine Costs.

A system of Cost Accounts necessarily implies an analysis of cost with reference to some stated unit. It is not essential that the unit should be one of production, but merely that the analysis furnished should be in such form as will, by the aid of comparisons it affords with similar past records, guide a manufacturer in the development of his business upon scientific lines.

In the chapter entitled Departmental Accounts, an illustration was submitted to show the application of the general theory therein described to a department which did not of itself earn revenue, but rendered services, and thus saved expense, to the business of which it formed part. In similar manner, it may be sought in a system of Cost Accounts to determine the cost of a process, or particular section of a business. Thus, in regard to the charge for motive power in connection with a manufacturing concern, the total expenses of this nature may be grouped for the purposes of the cost records, and the full outlay under this heading ascertained. The total so arrived at may be distributed over the various departments in proportion to their use of motive power, and where distinct departmental cost records are kept, the amount of this particular item of cost would be thereby determined in relation to each department.

On similar principles, accounts may be constructed to show the cost of maintenance and use of a machine required to perform some particular operation, thus furnishing the basis of an estimate of the cost for each operation performed by it. It is obvious that the installation of machinery can only prove economical where the services which it can render are sufficiently in request to reduce the cost per use or operation below the price formerly incurred or paid for that particular purpose.

The following schedule is submitted in illustration—

Machine ....

Schedule of Cost for period..

	£ s. d.	
Materials		
Mechanic's Wages		
General Wages		
Oil and Stores		
Depreciation		
Repairs		
Factory charges (propn.) . .		
Oncost charges (do.) . .		
Interest on Capital . . .		
		Total

The advantages of a schedule of this kind may be illustrated by example. The installation of the machine, apart from its use, involves a certain expense, say, £100, for Interest on Capital, Oncost, Rent, Rates, etc., and factory charges, which may be termed the fixed charge of the machine. Its use for its particular purpose necessitates a further outlay under the remaining headings given, which may be called the Direct Charge. It is obvious that the more frequent the use of the machine, the less will be the proportion of the fixed charge attributable to each operation. It is of importance that the manufacturer should know the average cost per use of the machine, for it may even be the case that from lack of work with which to feed it, the average cost per operation may be greater than would have had to be paid for the performance of the work by others or in some other way. The machine, in fact, brings profit or loss to its owner, and the system of Machine Costs is designed to show its amount.

Occasionally it is found possible to ascertain the price payable for similar work, if performed elsewhere, and a record can then be kept of what may be termed the selling value of the work done by the machine, and this amount can be viewed in relation to the total cost.

The illustration of Machine Costs suggests that Cost Accounts may be applied to departments of manufacturing operations regarded as units. Of this, the example now given, that of a paint manufacturer, is a development. In this case, the unit taken is the "mixing" or "mash," and all materials, labour, and other expense attributable thereto is allocated accordingly.

Date.. Lot No..........................

	Weight.	Rate.	Value.		
	Lbs.		£	s.	d.
Chemicals	6,000		182	–	–
Water			4	15	–
Direct Wages			12	–	–
Indirect Wages			2	10	–
Oncost			8	15	–
Total	6,000		210	–	–

Product: Standard blue, 560 lbs,
Cost: 7s, 6d, per lb,

From the matter set out, it will be obvious that the form in which the analysis of cost is made varies according to circumstances, and is in some cases to be ascertained only by approximation. In the example now given, which refers to the cutting from tanned leather of "half-soles" for Army boots, the difficulty is to determine the true distribution of cost over the "cutting." The raw material to be dealt with in this case is only partly suitable for the main purpose, and each "bend" of leather has to be used to the best advantage. Comparative cuttings of "bends" of similar quality by different cutters will show that some are of greater efficiency than others in obtaining a high percentage of the raw material in a state fit for the manufacture of the product of greatest value, namely, standard "Army half-soles"; the balance of leather being adapted to uses of minor value. The product of each "bend" as a whole represents a certain first cost, and this is spread over the product according to the cutting, in certain relative values of the cut leather.

The first sheet shows weight of leather cut and its cost; the second shows the manner in which it has been cut and the cutting valued (disclosing that the cut leather is introduced into the final summary of costs at a price slightly less than its actual cost); the third sheet is self-explanatory; while on the last sheet the whole cost is summarised.

It will be observed that the record of the transfer of materials from stock to production is necessarily limited, so far as the Stores Ledger Accounts are concerned, to the particulars of leather used as given on Sheet 1, but that, for the purposes of the costs, the use of the material has to be classified, valued, and allocated in the manner shown.

There are also many minor tests of value; for example, the quality of cutting shown by each cutter, as determined by percentages of weight of each class of material, and waste; the comparative costs of labour on cutting and other operations; and others.

The system now illustrated has limitations, for it is clearly a matter of some difficulty to determine the correct valuation of output, as in Sheet 2. It will be found, however, by experience what is a fair basis of distribution of cost, which will, within a narrow margin of error, account for the whole. It may appear

Sheet A

Statement of Cost for............*One week*............ending....*24th Oct.,* 1918....

GOODS RECEIVED

Weight.	Date Recd.		From whom Purchased.	Price per lb.	Details.			Total.		
23,177			On hand beginning of period					3,946	18	1
296	*Oct.*	19*th*	Received during period .		51	12	11			
302	,,	,,			50	19	3	102	12	2
1,792	,,	21*st*			296	16	–			
1,516	,,	,,			242	8	–	539	4	–
303	,,	22*nd*			45	12	2			
2,084	,,	,,			325	12	6	371	4	8
29,470								4,959	18	11
18,453			Stock on hand at end of period . . .					3,087	12	–
11,017 lbs.			Leather used during period . . .					1,872	6	11
			Less 2½ % discount .					46	16	2
								1,825	10	9
			Add, carriage out . .		4	18	10			
			Sacks, String, etc. 72 at 1/3 . .		4	10	–			
			Rejections from inspection		–	–	–	9	8	10
			Total cost of 11,017 lbs.					1,834	19	7
			Average cost per lb. 3/4							

Sheet B

DETAILS OF PRODUCTION

For................*One week*................ending................*24th Oct.*, 1918.....................

Prs.		Weight lbs.	Price. per pr.	Amount.			Total.		
9,121	Army ½-Soles . per lb. 4/5	5,035	2/5				1,111	17	11
6,156	" Lifts . . " 3/–	864	5	129	12	–			
9,254	" Tipfillers . " 3/3	631	2¾	102	10	9	232	2	9
3,842	" Reject ½-Soles " 3/–	1,864	1/10				279	12	–
	" " Lifts . .								
	" " Tipfillers . .								
	Civilian— 3/–	904					135	12	–
	Value of Ranges / Offal	1,122	1/–				56	2	–
	Waste	1,033							

11,453

Deduct increase of Wet weight 436

Cutting weight 11,017

1,815 6 8

Cost . . £1,834 : 19 : 7

Cutting Value £1,815 ; 6 ; 8

Sheet C

DETAILS OF COST

For................*One week*................ending................*24th Oct.*, 1918.....................

	Details.			Total.								
LABOUR—												
Foreman	3	–	–									
Piece Workers												
Time Workers	26	12	4									
				29	12	4						
DIRECT ONCOST (estimated)—												
Repairs and Renewals . . .		18	3									
Depreciation	3	2	9									
Power, Light, and Heat . . .	2	2	–									
Health Insurance		5	4									
				6	8	4						
INDIRECT ONCOST—												
Rent . . . . . / Rates	3	7	6									
Management	12	–	–									
Office Salaries and Accountancy .	4	10	–									
Insurance, Fire and Employer's Liability		7	–									
Travelling												
Office Expenses	1	–	–									
Telephone, Stationery . . .		17	4									
Postages												
Hire of Machinery												
General Provision	2	–	–									
				24	1	10						
				60	2	6						

Sheet D.

SUMMARY OF COST

For.............*One week*...............ending...............*24th Oct.*, 1918......................

Pairs.	Production.	Materials (A).	Labour (B).	On Cost. % To Leather Used.		On Cost. Amount.	Total Cost. Total.	Total Cost. Per Unit.	Profit per Unit.
9,121	Army ½ Soles . .	1,111 17 11	14 6 5	5,035	48.35	14 14 11	1,140 19 3	2 6	
6,156	,, Lifts . .	129 12 –	2 9 6	864	8.30	2 10 7	134 12 1	5.24	
9,254	,, Tipfillers . .	102 10 9	1 16 3	631	6.06	1 17 –	106 4 –	2.75	
3,842	,, Reject ½ Soles .	279 12 –	5 5 10	1,864	17.88	5 9 1	290 6 11	1 10.7	
	,, Lifts . .								
	,, Tipfillers . .								
	Civilian . . .	135 12 –	2 11 –	904	8.67	2 12 11	140 15 11		
	Ranges . . . }	56 2 –	3 3 4	1,122	10.74	3 5 8	62 11 –		
	Offal . . }								
		1,815 6 8	29 12 4	10,420	100 %	30 10 2	1,875 9 2		

at times that the adoption of a regular basis of valuation discloses, upon Sheet 2, that the whole of the cost is not spread over production. This would necessitate revision of the basis of allocation, and may imply that an increase in first cost has not been accompanied by a corresponding increase in the prices placed against output; more usually, perhaps, the explanation would be found in inferior cutting, which has resulted in the raw material not being used to best advantage, with an undue proportion in consequence of cut leather of lowest values, or waste.

From the brief outline of the subject-matter, it is clear that the value of cost records depends upon their accuracy as an analysis of cost, and while it is not convenient in every case to render them a part of the system of double entry book-keeping, and to express them in the form of accounts—as will possibly be found to be the case with abstracts, such as the Colliery Cost Sheet, based upon an average unit—yet it is essential that they should at all times be capable of being agreed with the books of account, and thus of being proved to be an accurate record.

Where the analysis of cost is expressed in the form of an abstract, the prime cost, that is, in respect of materials, labour, etc., can usually be ascertained without difficulty, and where the abstract covers a sufficiently extended period, the greater part of the remaining items of productive expense can be calculated with fair accuracy: but in respect of Oncost, estimate is essential, and error may occur. Such estimates should, therefore, be revised from time to time.

In general it cannot be too clearly insisted upon how very important it is that in connection with cost records there should be a thorough and sound system of organisation in regard to all financial transactions, and particularly wages and materials.

It is obvious from the matter submitted that Cost Accounts constitute a wide and important section of accounting, the scope of which can be but generally indicated in the space available.

MINISTRY OF

NATIONAL FILLING

Dr. **PRODUCTION AND TRADING ACCOUNT.**

I. To Value of Work in Progress at Commencement of Period . .

II. ,, Manufacturing Materials—
- On hand at commencement of period .
- Purchases during period—
  - (*a*) From Ministry . . .
  - (*b*) ,, Other Sources . .

Less—Sales of Materials . . .
- Sales of Scrap. . . .
- On hand at end of period . .

Net Cost of Materials Used .

III. ,, Labour—
- Productive . . . . .
- Non-Productive . . . .
- Superintendence . . . .

IV. ,, Repairs and Maintenance—
- Buildings . . . . .
- Roads and Railways . . .
- Plant . . . . . .
- Tools . . . . . .

V. ,, Power, Light, Heat and Water—
- Power . . . . . .
- Light . . . . . .
- Heat . . . . . .
- Water . . . . . .

VI. ,, Sundry Shop Stores . . .

VII. ,, Clothing . . . . . .

VIII. ,, Other Factory Expenses—
- Rent . . . . . .
- Rates . . . . . .
- Canteen and Mess Room Expenses .
- Motor Car Expenses . . .
- Compensation . . . . .
- Cleaning . . . . . .
- Laundry . . . . . .
- Welfare . . . . . .
- First Aid and Medical Attendance .
- Watchmen, Police, Military Guard, and Fire Brigade . . . .
- Workers' Tickets . . . .
- Carriage and Cartage . . .
- Miscellaneous . . . . .

FACTORY AT..

From..To.. *Cr.*

I. By Sundry Credits—				
(*a*) Oncost charged to Capital . .				
(*b*) ,, ,, ,, Special Accounts				
(*c*)				
(*d*)				
(*e*)				
(*f*)				
II. ,, Value of Work in Progress at End of Period				
III. ,, Balance Carried Forward—				
(*a*) Charged through monthly Cost Accounts				
Add/Deduct.—*Difference* . .				

MINISTRY OF

NATIONAL FILLING FACTORY

Dr. **PRODUCTION AND TRADING ACCOUNT.**

IX. To MANAGEMENT AND OFFICE EXPENSES—						
Managing Agents' Remuneration .						
Management Salaries . . .						
Office Salaries						
Printing and Stationery . . .						
Travelling Expenses . . .						
Office Expenses						
X. " DEPRECIATION						
XI. " SPECIAL EXPENDITURE—						
(*a*) Reserve for loss on Canteen . .						
(*b*)						
(*c*)						
(*d*)						
(*e*)						
(*f*)						
XII. To COST OF SALES AND DELIVERIES OF FINISHED PRODUCTS DURING PERIOD—						
Stock at commencement of period . .						
Cost of Production during period brought forward						
Deduct—Stock at end of period . .						
XIII. " SPECIAL EXPENDITURE NOT CHARGED THROUGH MONTHLY COSTS.						
(*a*)						
(*b*)						
(*c*)						
(*d*)						
(*e*)						
XIV. " EXCESS OF VALUE OF DELIVERIES AT STANDARD PRICES OVER COST DURING PERIOD . .						

This is the Account referred to in......................
Report of this date.

....Auditor.

Date...

AT..

From..To..   *Cr.*

IV. By Deliveries to the Ministry at Standard Prices, as per Schedule attached						
V. ,, Sales and Transfers of Manufactured Articles (other than Deliveries to the Ministry) . . .						
VI. ,, Miscellaneous Receipts.						
(a) Interest						
(b) Cash Discounts						
VII. ,, Excess of Cost over Value of Deliveries at Standard Prices during Period.						

Approved by, and signed on behalf of the Directing Board in pursuance of Minute dated..................................

....Director.

....Secretary.

Date......................................

....
Factory Accountant.

Date......................................

MINISTRY OF

NATIONAL FILLING FACTORY

BALANCE SHEET

CAPITAL AND LIABILITIES.

I. ADVANCES BY MINISTRY OF MUNITIONS.						
Balance at Credit on 19						
Cash Advances						
Payments made by the Ministry . .						
Materials supplied by the Ministry . .						
....						
....						
....						
Deduct—						
Value of Products delivered at Standard Prices						
Add/Deduct Balance of Production A/c						
Net Production Cost of Deliveries .						
Purchases on behalf of the Ministry .						
....						
....						
....						
Balance at Credit of the Ministry . .						
II. SUNDRY LIABILITIES.						
Creditors' Accounts						
Wages and other charges accrued . .						
....						
....						
....						
III. RESERVES.						
For Depreciation						
,, Canteen Loss						
....						
....						

Approved by and signed on behalf of the Directing Board in pursuance of Minute dated

....*Director.*

....*Secretary.*

This is the Balance Sheet referred to in my Report of this date.

....*Auditor.*

Date..

MUNITIONS OF WAR.

AT..

as at..

ASSETS.						
I. WORKS AND PLANT.						
Land						
Buildings—						
New Construction						
Alterations of Buildings . . .						
Equipment of Buildings . . .						
Water, Light, Heat and Drainage . .						
Roads and Railways						
Plant and Machinery—						
Plant Purchased						
Shafting, Pulleys, Cranes and Belting .						
Erection of Plant						
Loose Plant and Tools, Gauges, etc. . .						
Motive Power Plant						
Rolling Stock and Transportation Equipm't						
Furniture and Moveable Fittings . .						
Canteen Equipment						
Miscellaneous Construction Charges . .						
II. FLOATING ASSETS.						
Stocks on Hand, viz.—						
Finished Products						
Work in Progress						
Materials and Components . . .						
Sundry Shop Stores						
Clothing						
Sundry Stocks						
III. OUTSTANDING ACCOUNTS AND UNEXPIRED CHARGES—						
Outstanding Accounts						
Unexpired Charges						
IV. CASH BALANCES—						
In Bank						
On Hand						
....*Factory Accountant.*						
Date..						

CHAPTER XVII

SINGLE AND DOUBLE ACCOUNT

In an earlier chapter it was stated that the ascertainment of divisible profits was dependent on the preparation of an accurate Balance Sheet. There are various forms in which a Balance Sheet may be prepared, which are determined by the application of certain general principles in the valuation of assets.

Under the system of double entry, profit as appearing in a Balance Sheet is confirmed by the Profit and Loss Account. This is dependent on the books containing a full record of all assets and liabilities, which, it must be borne in mind, is not a necessary consequence of double entry. The books may deliberately fail to give such a record, as, for instance, in the case of Life Assurance Companies; here, the books *are* kept on double entry principles; they record the accrual and receipt of income, the realisation of assets, the accrual and discharge of *matured* liabilities; but they do not show from day to day the substantial liability accruing upon non-matured life policy and annuity contracts. A Balance Sheet extracted from the books would show, on the one hand, the amounts of Proprietors' Capital and Reserve Funds, together with liabilities *immediately* payable; on the other hand, the assets in the form of investments, debts, bank balances, etc., the surplus of the latter over the former appearing to the credit of Revenue Account. Revenue Account, on examination, will be found to be built up, on the one hand, of receipts from premiums and for annuity contracts granted, interest on investments, etc., and on the other, of administration and other expenses and claims paid on matured risks. In order that the true position can be seen, allowance has to be made for the value of the liability, as actuarially ascertained, of risks maturing at a future date and for the acceptance of which present premiums, etc., represent the consideration. The *true* surplus, or balance of profit, is not the balance of Revenue Account as it appears in the books and in the Balance Sheet, but the excess of Revenue Account over the liability mentioned, which so far as the books of account are concerned is unrecorded. This surplus is ascertained at regular, usually quinquennial, intervals by the preparation of what is termed the Valuation Balance Sheet.

VALUATION BALANCE SHEET.

Dr. Date.............................. *Cr.*

	£		£
To Net Liability under Assurance and Annuity transactions (as per Summary Statement)		By Life Assurance and Annuity Funds (as per Balance Sheet) . .	
,, Surplus . . .		,, Deficiency . . .	

The surplus shown will, by comparison with the last Valuation Balance Sheet and with due allowance for dividends paid, disclose the amount of profit or loss made in the period intervening.

The instance illustrated has been set out to emphasise the importance of the Balance Sheet, true and complete, as the index of surplus or deficiency on Revenue or Profit and Loss Account.

It is obvious that variation in principle in regard to valuation of assets may affect very substantially the amount of such surplus or deficiency.

If it be conceded as a matter of argument that life assurance companies should value investments on the basis of cost or market value, whichever is the lower, the adoption in a given case of the principle of valuation at cost, irrespective of market value, would obviously give a misleading result.

It is accordingly with the forms of Balance Sheets and the principles applied in the preparation of varying forms that we are now concerned. Of these, the two most important are known as the Single and Double Account systems.

Single Account Balance Sheet.

Under Single Account, the Balance Sheet is a single statement, comprehensive of all assets and liabilities properly entering thereinto, while under Double Account the Balance Sheet, as explained later, is in two parts.

The variation in form is determined by the character of the business, and the nature of the assets held. There is, for example, an obvious difference in character as between a trading concern dealing in a staple article, and a railway company; the former may have assets such as stock, book debts, bank balances, etc., while the latter will have, not only these assets, but others represented by expenditure upon permanent way, stations, land, etc., which are the foundation of the trading operations and in every sense non-fluctuating and permanent. There is thus the contrast between a business employing for the most part liquid assets, circulating and changing in the forms of cash, stock, book debts, etc., and producing increment in the process, and that engaged in the working for profit of capital expended for permanent reproduction of gain.

Under Single Account, the form most frequently adopted, the Balance Sheet should be prepared in such manner as to present assets and liabilities (subject to certain qualifications) at their actual existing values to the business as a going concern. As regards floating or circulating assets, this is simple; they are to be valued at cost or market value, whichever is lower. As regards assets of more than temporary value, such as plant, machinery, fixtures, etc., it is customary and proper to regard their cost as being exhausted proportionately over the period of their effective working life. Fluctuations in realisable value are therefore ignored; and this is sound, for such assets are not acquired for sale, but for use. Some assets, or expenditure, may be regarded permanently as of the value of their original cost, such as goodwill.

Double Account Balance Sheet.

Under Double Account, also, certain assets may be regarded as permanent for the purposes of the undertaking, but are then set out in a separate part of the Balance Sheet called Receipts and Expenditure on Capital Account, in which will appear also a statement of the amounts received in respect of Share and Loan Capital. The general form of Double Account is illustrated by reference to the accounts of a Railway Company on pages 242–247.

The difference in form permits more freely the appreciation of the general distinction in principle of the two systems, for under Double Account it is in general assumed that where assets permanently acquired are maintained in thorough efficiency out of Revenue, variations in value, whether from depreciation or other causes, may be ignored in the calculation of profit earned. Under this system, Revenue bears a charge for maintenance, which may include repairs, but will include renewals and replacement.

In the operation of the system of Double Account, variations from strict theory may be found to exist, by which the effect approximates in general to the theory of Single Account. Cost of renewals may be greater or less than original cost, and the accounts recording capital expenditure may be adjusted on renewal of an asset to the last, or replacement, cost. Again, the charge for maintenance includes the actual current expense of repairs and renewals; this, under normal working, may prove roughly constant, and be a charge upon Revenue of an amount approximately equivalent to the total of current depreciation and repairs. But there must be some periods when this will not be so; for example, in early years renewals will be few and maintenance charges low, although the operations of those years will contribute to the need for expenditure at a later date, or renewals may for a time be largely suspended, as upon railways during the war. An even and regular charge is therefore to be secured by providing a reserve for maintenance. Again, under Double Account an asset regarded as capital expenditure may become unproductive, or even valueless; the asset may not be renewable, or it may not be sought to renew it. In these circumstances, Revenue would bear no charge for maintenance, and the essential principles of sound accounting require the provision of a Depreciation Fund in respect of a loss of this kind.

The application of the Double Account system is illustrated by the following examples—

(1) An Electric Lighting Company, having laid down a main at a cost of £12,500, finds it necessary to increase the supply of current. It therefore replaces the main as to one-half its length by a larger main at a cost of £9,500, and lays down a new and auxiliary main alongside the other half for an outlay of £4,250. It is understood that the cost of replacement and renewal has increased by 20 per cent. since the original expenditure.

In these circumstances, the *replacement* is of an asset costing originally, say, £6,250, which, having regard to the increase in cost, could now be acquired only for £7,500. Under the strict principle of Double Account, this amount, £7,500, should be charged to Revenue Account, and the balance of £2,000, as well as the outlay of £4,250, be treated as capital expenditure.

Sometimes, however, the asset account is charged with such part of the cost (£9,500) as is in excess of the existing book value of the asset replaced, namely, £6,250, thus introducing into the books the increase in renewals cost.

(2) A Railway Station, erected in 1860 at a total cost of £70,000 is, in the year 1900, demolished and replaced by a larger one, representing an outlay of £120,000. It is estimated that the increase of cost in materials and labour between the years stated is 15 per cent. Old materials are estimated to be worth £8,000.

In this case, the fair charge to Revenue is £70,000 plus 15 per cent. (*i.e.*, £80,500), less £8,000; and the balance of £47,500 is additional capital expenditure. As in the preceding illustration, the method may be followed of treating as capital outlay the full amount of £120,000 and therefore of charging to Revenue the existing book value of the old station, less the realised value of the materials.

In regard to the accounts of Limited Companies, it is desirable to indicate certain variations from strict principle in the application of the Single Account system. From the fact that a legal distinction has been drawn between Revenue losses and those affecting Capital Account, it is not possible to define " profits " in relation to Limited Companies in precise terms. Divisible profits may, however, be said to be—

> the balance of earnings resulting from the application of the Company's capital to the purposes indicated in the Memorandum and Articles of Association, after meeting out of those earnings all such losses and charges as are, by law or by the constitution of the Company, required to be met thereout.

From the decisions of the Courts, it appears that the Single Account method is not necessarily to be applied with strict accuracy in estimating the profits of Limited Companies.

The dominant idea of the Single Account system is expressed in the following extract from judicial observations—

" In declaring a dividend, in my opinion, in trading concerns, the Directors are entitled to put an estimate on the value of their assets from time to time, in order to ascertain whether there is or is not a surplus remaining after providing for liabilities (including, of course, paid-up capital), and where they make those valuations from time to time on a just and fair basis, and take all the precautions which ordinary prudent men of business engaged in a similar business would do, they are entitled to treat the surplus thus ascertained as profit."

It has already been indicated that a variation from the strict principle of the Single Account system has been drawn between losses on Revenue and Capital Account respectively.

Mr. Justice Buckley in his work on the Companies Acts says—

"*Lee v. Neuchatel Asphalte Co.* has now shown the true principle to be that capital account and revenue account are distinct accounts, and that for the purpose of determining profits you must disregard accretion to, or diminution of, capital."

It is not always easy to determine whether a specific loss is chargeable against Capital or Revenue. The intention appears to be that fluctuations in value of fixed assets, as distinct from depreciation, should not be held to affect Revenue; for all fixed assets, other than land and goodwill, being "fixed" only by comparison with assets of less permanent nature, must necessarily diminish in value by use. There is no doubt that the value of circulating capital must be maintained—

"Fixed capital may be sunk and lost, and yet the excess of current receipts over current expenses may be applied in payment of a dividend, though where the income of the Company arises from the turning over of circulating capital no dividend can be paid unless the circulating capital is kept up to its original value, as otherwise there would be a payment of dividend out of capital."—*Verner* v. *General and Commercial Trust, Limited* (1894), 2 *Ch.* 239.

The general effect of the various interpretations of the Companies Acts upon this question appears to be that a Company shall not pay away its capital in dividends; but that it is not necessary that it should at all times have a surplus of assets over liabilities (other than capital) equal to its capital; and, that if a loss can be shown to be a loss on Capital Account, it is not necessarily one of which account need be taken in arriving at profits.

On the other hand, it must not be supposed that a profit on Capital Account is distributable amongst the shareholders without reference to the Revenue Account, or the remaining items of Capital Account.

" . . . the question of what is profit available for dividend depends upon the result of the whole accounts fairly taken for the year—capital, as well as profit and loss—and although dividends may be paid out of earned profits in proper cases, although there has been a depreciation of capital, I do not think that a realised accretion to the estimated value of one item of the capital assets can be deemed to be profit without reference to the result of the whole accounts fairly taken."—*Foster* v. *New Trinidad Lake Asphalte Co.* (1901), 1 *Ch.* 208.

A.B. MANUFACTURING COMPANY, LIMITED.

BALANCE SHEET AS AT 31ST DECEMBER, 1919.

Liabilities.				£	s.	d.	£	s.	d.
Share Capital, Authorised—									
50,000 6 % Pref. Shares of £1 ea.				50,000	–	–			
150,000 Ord. Shares of £1 ea. .				150,000	–	–			
				200,000	–	–			
Do., Issued—									
40,000 6 % Pref. Shares of £1 ea.				40,000	–	–			
120,000 Ord. Shares of £1 ea. .				120,000	–	–	160,000	–	–
4½ % First Mortgage Debentures—									
Part of a total issue of £60,000 .							40,000	–	–
Lloyds' Bank, Limited—									
Overdraft, secured by an issue of £20,000 Debentures .							18,350	–	–
Sundry Creditors . . .							64,340	–	–
Reserve Fund							60,000	–	–
Profit and Loss A/c—									
Balance from last A/c . .				12,300	–	–			
Profit for year ending 31st Dec., 1919				42,740	–	–			
				55,040	–	–			
Less—									
Interim Dividends on Pref. Shares @ 6% per annum	1,500	–	–						
Ord. Shares @ 8 % per annum .	6,000	–	–	7,500	–	–	47,540	–	–
							390,230	–	–

Assets.	£	s.	d.	£	s.	d.
Freehold Land and Buildings—						
As per last A/c	133,280	–	–			
Additions	1,415	–	–			
	134,695	–	–			
Less Depreciation on Buildings @ 1½ % p.a. . . .	1,270	–	–	133,425	–	–
Plant and Machinery—						
As per last A/c . . .	66,000	–	–			
Additions	5,702	–	–			
	71,702	–	–			
Less Depreciation @ 7½ % p.a.	4,950	–	–	66,752	–	–
Patents—						
As per last A/c . . .	2,400	–	–			
Less Depreciation . . .	540	–	–	1,860	–	–
Stock-in-Trade—						
Manufactured	48,318	–	–			
Unmanufactured, Stores, Chemicals, etc.	24,180	–	–	72,498	–	–
Sundry Debtors	114,274	–	–			
Less Reserve for Bad and Doubtful Debts . . .	120	–	–	114,154	–	–
Cash in hand				1,415	–	–
Suspense A/c—						
Proportion of Rates, Insurance, etc., paid in advance . .				126	–	–
				390,230	–	–

A.B. MANUFACTURING COMPANY, LIMITED.

MANUFACTURING AND PROFIT AND LOSS ACCOUNT FOR YEAR ENDING 31ST DECEMBER, 1919.

Dr.

Date	Particulars	£	s.	d.	£	s.	d.
1918. Dec. 31	To Stock of Manufactured Goods on hand				46,314	–	–
1919. Dec. 31	,, Consumption of Raw Materials				34,614	–	–
	,, Do. Chemicals				2,872	–	–
	,, Do. Stores, etc.				1,418	–	–
	,, Wages				82,710	–	–
	,, Carriage				1,420	–	–
	,, Fuel and Light				1,218	–	–
	,, General Factory Exp's.				2,465	–	–
	,, Deprec'n of Plant, etc.				4,950	–	–
	,, Balance carried down, Gross Profit				66,083	–	–
					244,064	–	–
1919. Dec. 31	To Agents' and Travellers' Com.				2,340	–	–
	,, Bad Debts				737	–	–
	,, Interest and Bank Ch'gs				1,236	–	–
	,, Rent and Rates				3,478	–	–
	,, Salaries				6,402	–	–
	,, Office and Gen. Exp'ses				4,380	–	–
	,, Directors' Fees				1,200	–	–
	,, Depreciat'n of Buildings				1,270	–	–
	,, Balance carried down				45,522	–	–
					66,565	–	–
1919. Dec. 31	To Debenture Interest				1,800	–	–
	,, Interim Dividend on Preference Shares				1,500	–	–
	,, Do., do. Ord. Shares				6,800	–	–
	,, Income Tax				982	–	–
	,, Balance carried down				47,540	–	–
					57,822	–	–

Cr.

Date	Particulars	£	s.	d.	£	s.	d.
1919. Dec. 31	By Sales	196,950	–	–			
	Less Returns	1,204	–	–			
					195,746	–	–
	By Stock of Manufactured Goods on hand				48,318	–	–
					244,064	–	–
1919. Dec. 31	By Balance brought down				66,083	–	–
	,, Discounts				482	–	–
					66,565	–	–
1919. Dec. 31	By Balance brought down				45,522	–	–
1918. Dec. 31	,, Balance brought forw'd				12,300	–	–
					57,822	–	–
1919. Dec. 31	By Balance brought down				47,540	–	–

No. 4.—RECEIPTS AND EXPEN

Dr. *Year ending*

To Expenditure.	Amount expended to December 31st, 1918.			Amount expended during Year, as per No. 5.			Total.		
	£	s.	d.	£	s.	d.	£	s.	d.
Lines open for Traffic . .	79,300,636	4	9	44,483	6	11	79,345,119	11	8
Lines not open for Traffic—									
New Lines	321,228	10	8	46,269	16	4	367,498	7	–
Widenings of and additions to existing Lines	28,188	12	2	13,410	5	1	41,598	17	3
Lines in Ireland . . .	5,757,599	19	3	16,604	7	1	5,774,204	6	4
Lines Jointly Owned . .	6,801,771	13	11	26,323	5	3	6,828,094	19	2
Lines Jointly Leased . .	622,265	14	7	*Cr.35,000*	*0*	*0*	587,265	14	7
Rolling Stock	17,835,288	10	2	92,274	13	11	17,927,563	4	1
Manufacturing and Repairing Works and Plant—									
Land and Buildings . .	1,775,539	5	8	1,963	18	11	1,777,503	4	7
Plant and Machinery .	794,243	15	4	7,972	16	4	802,216	11	8
Total Capital Expended upon Railway . .	113,236,762	6	6	214,302	9	10	113,451,064	16	4
Steamboats	469,716	5	2	....			469,716	5	2
Marine Shops and Plant .	7,136	12	4	....			7,136	12	4
Canals	246,268	1	8	*Cr. 518*	*17*	*4*	245,749	4	4
Docks, Harbours, and Wharves	1,229,453	18	1	....			1,229,453	18	1
Hotels	2,366,034	19	9	128,232	2	5	2,494,267	2	2
Electric Power Stations, etc.	390,700	5	9	3,182	4	6	393,882	10	3
Land, Property, etc., not forming part of the Railway or Stations—									
Used in connection with Railway working . .	432,850	–	–	616	1	4	433,466	1	4
Not used in connection with Railway working	4,767,737	12	5	75,450	13	1	4,843,188	5	6
Subscriptions to other Companies (for details see Table No. 4 (*a*)) . .	6,121,335	18	10	111,544	16	–	6,232,880	14	10
Total Expenditure . .	**129,267,996**	**0**	**6**	**532,809**	**9**	**10**	**129,800,805**	**10**	**4**
Total . . . . £							**129,800,805**	**10**	**4**

RAILWAY.

DITURE ON CAPITAL ACCOUNT.

31*st December*, 1919. *Cr.*

By Receipts.	Amount to December 31st, 1919.	Amount received to December 31st, 1918.	Amount received during Year.	Total.
		£ s. d.	£ s. d.	£ s. d.
Shares and Stocks (No. 2) .		98,255,132 17 9	9,237 15 6	98,264,370 13 3
Debenture Stock (No. 3) .		31,814,360 6 0	9,387 13 3	31,823,747 19 3
		130,069,493 3 9	18,625 8 9	130,088,118 12 6
	£ s. d.			
Premiums on Shares and Stocks	4,103,890 1 3			
Premiums on Debenture Stocks	593,952 – 5			
Total Premiums	4,697,842 1 8			
Discounts on Shares and Stocks	*6,794,419 15 2*			
Discounts on Debenture Stocks	*1,674,251 4 2*			
Total Discounts	*8,468,670 19 4*			
Balance of Premiums and Discounts . . .		*Dr.3,766,860 7 10*	*Dr.3,968 9 10*	*Dr.3,770,828 17 8*
Total Receipts .		**126,302,632 15 11**	**14,656 18 11**	**126,317,289 14 10**
By Balance				3,483,515 15 6
Total . . . . £				**129,800,805 10 4**

No. 18.—GENERAL

Dr.

	£	s.	d.	£	s.	d.	*Year 1918.* £
To Unpaid Interest and Dividends . .				28,136	13	11	*25,708*
Interest and Dividends payable or accruing and provided for				500,423	6	–	*513,018*
Amount due to Railway Companies and Committees				278,990	16	8	*522,525*
Midland Railway Savings Bank . .				161,172	19	11	....
Superannuation and other Provident Funds				2,062,002	6	–	*1,896,780*
Accounts Payable				887,015	19	7	*790,570*
Liabilities Accrued				68,862	6	9	*76,250*
Miscellaneous Accounts				147,628	11	11	*123,734*
Signalling Equipment Improvement A/c				26,792	18	–	*40,897*
Leasehold Redemption Fund . . .				97,229	17	10	*92,816*
Fire Insurance Fund				490,984	4	4	*484,665*
Depreciation Funds—							
Railway				2,877,635	15	–	*1,535,040*
Steamboats (including Insurance Fund)				338,714	18	3	*302,061*
Other Businesses				97,584	2	8	*83,804*
General Reserve Fund				1,044,162	12	11	*844,161*
Balance available for Dividends and Reserve as per A/c No. 9—							
Dividends £4,722,911 4s. 1d.							*4,829,473*
Reserve £200,000 – –							*200,000*
	4,922,911	4	1				*5,029,473*
Less Interim Dividends paid as per Statement No. 9 (*a*) . .	2,100,917	16	–				*2,149,065*
				2,821,993	8	1	*2,880,408*
				£11,929,330	**17**	**10**	*11,212,439*

BALANCE SHEET.

Cr.

							Year 1918.
	£	s.	d.	£	s.	d.	£
By Capital Account, Balance at Debit thereof, as per Account No. 4				3,483,515	15	6	2,965,363
Cash at Bankers and in hand	2,914,115	18	4				879,381
Cash on Deposit at Interest	....						2,100,000
				2,914,115	18	4	2,979,381
Investments in Consols and Government Securities				177,450	–	–	27,450
Investments in Stocks and Shares held by the Company, and Advances to other Companies, not charged as Capital Expenditure				11,009	3	–	11,009
Investments in Company's Own Stocks received in exchange for Investments in Stocks and Shares of other Railway Companies				418,057	8	11	418,058
Stock of Stores and Materials				2,191,514	8	5	2,143,119
Outstanding Traffic Accounts				1,793,206	15	6	1,896,346
Amount due by Railway Companies and Committees				287,061	12	3	277,778
Amount due by Railway Clearing Houses				65,586	6	6	76,740
Amount due by Postmaster-General				37,282	19	1	35,296
Accounts Receivable				195,310	19	7	106,731
Miscellaneous Accounts				318,163	8	8	234,591
Suspense Account—							
Expenditure on Works on land not the property of the Company				37,056	2	1	40,677
			£	11,929,330	17	10	11,212,439

No. 9.—PROPOSED APPROPRIATION OF NET INCOME.

	£ s. d.	£ s. d.	£ s. d.	Year 1918. £
BALANCE BROUGHT FORWARD FROM LAST YEAR'S ACCOUNT			141,329 5 10	119,523
NET INCOME (AS PER STATEMENT NO. 8)			6,238,923 15 2	6,362,738
TOTAL			6,380,253 1 –	6,482,261
DEDUCT—INTERESTS, RENTALS, AND OTHER FIXED CHARGES—				
Interest on Superannuation and other Funds		77,278 13 2		68,586
Rent Charges (or feu duties) and Annuities		8,993 16 7		8,691
Chief Rents, Wayleaves, etc., including Lump-sum Tolls		105,946 4 4		104,657
Interest on Debenture Stock at 2½ per cent. per annum		1,089,790 8 10		1,089,627
Rent Guaranteed Interest on Leased and Worked Lines—				
Great Central and Midland Railway	35,000 – –			35,000
Metropolitan District Railway—Richmond Extension	14,000 – –			14,000
North and South Western Junction Railway	3,167 6 8			3,167
Tottenham and Forest Gate Railway Company	16,452 4 –			22,408
Yorkshire Dales Railway Company	3,694 1 2			3,447
		72,313 11 10		78,022
Joint Lines—Abstract J.—Company's Proportion		65,306 18 –		65,493
Midland and Great Northern Railways Joint Committee—Dividend on Rent Charge Stock (Moiety)		18,000 – –		18,000
Company's Proportion of Dividend payable by Tottenham and Hampstead Joint Committee on Midland Railway Stock exchanged for Stocks of the Tottenham and Hampstead Railway Company, etc.		19,712 4 2		19,712

Total		1,457,341 16 11	*1,452,788*
Balance after Payment of Fixed Charges		4,922,911 4 1	*5,029,473*
Appropriation to General Reserve Fund		200,000 – –	*200,000*
		4,722,911 4 1	*4,829,473*
Dividends on Guaranteed and Preference Stocks—	£ s. d.		
Consolidated Perpetual Guaranteed Preferential Stock at 2½ per cent. per annum	452,239 – 4		*452,239*
Consolidated Perpetual Preference Stock at 2½ per cent. per annum . .	1,599,744 16 10		*1,599,711*
Total		2,051,983 17 2	*2,051,950*
Balance available for Dividend on Ordinary Stock . . . . . . £		2,670,927 6 11	*2,777,523*
	£ s. d.		
Dividend on Preferred Converted Ordinary Stock at 2½ per cent. per annum	981,049 9 10		*980,537*
Dividend on Deferred Converted Ordinary Stock at 4 per cent. per annum	1,558,435 2 6		*1,655,607*
being equal to a dividend of 6½ per cent. per annum on the Ordinary Stock.	2,539,484 12 4		*2,636,194*
Balance carried forward to next Year's Account . .	131,442 14 7		*141,329*
	2,670,927 6 11		*2,777,523*

CHAPTER XVIII

DEPRECIATION

THE term " depreciation " is used in accounting in description of the loss in value of assets that arises from use, and is therefore to be distinguished from variation in value arising from obsolescence, fluctuation, or wear and tear. It should be observed, however, that in measuring the provision against such loss, obsolescence is usually taken into account, and depreciation, being commonly based not on the actual, but rather on the effective, working life of the asset in question (in which obsolescence is a determining factor), is therefore inclusive of the latter.

The term " fluctuation " implies the change in the market values of assets, that results from the operation of the law of supply and demand. Thus, the market price of a raw material may fluctuate; investments frequently alter in value day by day; and similarly the value of an asset subject to depreciation may change from causes not primarily induced by use.

With regard to wear and tear, the possession and use of an asset used for reproduction of value involve a continuous expenditure to maintain it in an efficient working state. The cost of repairs or of renewals of small parts of some piece of machinery is an example of the nature of the loss or charge covered by the term.

The short description of the differences between the various forms of charges named is further illustrated by succeeding remarks.

It is necessary for purposes of explanation of the nature of depreciation that the distinction between fixed and floating assets should be realised, that is, between those required for purposes of constant reproduction of value, such as machinery and plant, and the like, including also assets such as buildings, by which such reproduction is assisted, and those which are subject to conversion and permutation in the ordinary course of trading operations, such as book debts, cash and stock.

With regard to the latter, their whole worth is measured by their equivalent in cash, and in estimating their value for the purposes of a Balance Sheet it is customary to make such reserves as will reduce them when standing at a higher figure to this equivalent. But with regard to the former, valuation for the purposes stated is not to be determined upon the basis of an immediate realisation, but rather upon the assumption of their value becoming exhausted over the whole period of their effective use.

More precise illustration may be afforded by the consideration of the proper method of treatment of machinery and plant.

The purchase of such assets necessarily involves expenditure (assumed, say in a particular case, as £300). The estimate of the *effective* working life (having regard to the possible factor of obsolescence) is (say) ten years, and at the end of that period it is calculated that the residual value will be £50. It is obvious that a loss will eventually be suffered of £250, and it is clear that the loss so arising is attributable to, and should be borne by the profits of, those years which have benefited by the use of the asset.

In apportioning the necessary charge, regard must be had to the benefits produced in each of the various years over the period, and this may be a matter of considerable difficulty as an *exact* calculation. It is clear, however, that the loss is one to be measured by the *ultimate* worth of the asset when its use ceases to be of advantage, and not by the *fluctuating* value which it may possess at intermediate periods, and that in calculating the provision necessary against such loss, regard must be had to the fact of its having been purchased not for resale in the ordinary course of trading operations, but for purposes of reproduction of value.

From the fact that the use of the asset for the purposes of earning revenue is the main cause of its depreciation, it is clear that the loss arising should be regarded as a working expense.

The loss will not actually necessitate expenditure in the form of renewals until the asset is completely exhausted. This, however, when incurred, will be due to its use over an extended period, and it is therefore fair and, as a matter of strict accounting, necessary, that all years which have derived benefit from the original expenditure, should make provision towards the loss. Revenue Account should not be charged with the cost of renewals, but with an annual provision for depreciation, and renewals, as and when incurred, can be charged against the provision so made.

There are various methods of providing for depreciation. That most commonly used, known as the "straight-line method," consists in charging Revenue Account year by year with an amount based upon a fixed percentage of the original cost of the asset (assuming that there is no residual value) or of the loss, after taking into account the residual value, if any.

1. PLANT AND MACHINERY ACCOUNT

Operated on "Straight-line Method."

Cost of Plant, £300; estimated life, 10 years; estimated residual value, £50; loss from depreciation, estimated £250.

Dr.		£	s.	d.			£	s.	d. *Cr.*
1910. Jan. 1	To Cash	300	–	–	1910. Dec. 31	By Profit & Loss—Deprec'n	25	–	–
					1911. Dec. 31	" " " "	25	–	–
					1912. Dec. 31	" " " "	25	–	–
					1913. Dec. 31	" " " "	25	–	–
					1914. Dec. 31	" " " "	25	–	–
					1915. Dec. 31	" " " "	25	–	–
					1916. Dec. 31	" " " "	25	–	–
					1917. Dec. 31	" " " "	25	–	–
					1918. Dec. 31	" " " "	25	–	–
					1919. Dec. 31	" Cash (sale). . . .	35	–	–
					"	" Profit & Loss—Deprec'n	40	–	–
		300	–	–			300	–	–

A similar result may be arrived at by crediting the amounts charged to Profit and Loss Account to a Depreciation Fund, which will accumulate, with the adjustment in the last year of the shortage in the provision necessary, to the amount of £265. The cash realised in respect of the residual value will be credited to the asset as before, and the balance of the asset account written off against the Depreciation Fund.

The method illustrated may be operated without difficulty where applied to one article, but where Plant and Machinery Account represents many assets, acquired at various dates and with varying periods of effective working life, the system presents difficulties. The method frequently adopted in such a case is that of charging Profit and Loss Account with a fixed percentage on the balance of the asset account year by year.

For purposes of explanation, this system is illustrated, first, in its application to one asset, and then in regard to a general Plant and Machinery Account.

IIA. CALCULATION OF CHARGE FOR DEPRECIATION OF AN ASSET BY A CHARGE BASED ON A PERCENTAGE OF VALUE AT THE BEGINNING OF THE YEAR.

PLANT (DYNAMO) ACCOUNT.

		£	s.	d.			£	s.	d.
1917. Jan. 1	To Cash	120	–	–	1917. Dec. 31	By Profit & Loss—Depreciation at 20 %. .	24	–	–
						„ Balance . . .	96	–	–
		120	–	–			120	–	–
		£	s.	d.			£	s.	d.
1917. Dec. 31	To Balance . . .	96	–	–	1918. Dec. 31	By Profit & Loss Depreciation at 20 % . .	19	4	–
						„ Balance . . .	76	16	–
		96	–	–			96	–	–
1918. Dec. 31	To Balance . . .	76	16	–	1919. Dec. 31	By Profit & Loss Depreciation at 20 % . .	15	7	2
					„	„ Balance . . .	61	8	10
		76	16	–			76	16	–
1919. Dec. 31	To Balance . . .	61	8	10					

Under this system, the rate employed should be such as to reduce the asset to its estimated residual value by the time it ceases to be of use for purposes of reproduction.

It will be observed that the charge for depreciation shows a decrease each year, and the argument usually advanced in favour of this method is, that Revenue Account is burdened with a lesser charge year by year as the expenses of maintenance increase. This, however, involves an average of expenses of different nature, and is unsound in principle; the system illustrated is not, therefore, to be recommended for application in respect of a single item of expenditure.

Where additions to, and renewals of, the asset are fairly constant in amount year by year, the calculation of depreciation as a percentage of the yearly opening balance may result in charging Profit and Loss Account with a fair and reasonable figure year by year, and in the statement of the balance of the account at an amount approximate to its value to a going concern. This method, however, is not necessarily guided by scientific principles and may therefore prove inaccurate in individual cases.

IIB. Illustration of Operation of Depreciation Charge, Calculated by a Percentage upon the Opening Balance of the Asset Account, where the Account is Charged with Frequent Additions and Renewals.

PLANT AND MACHINERY ACCOUNT.

		£	s.	d.			£	s.	d.
1917. Dec. 31	To Balance . . .	1,230	10	–	1918. Dec. 31	By Profit & Loss—Depreciation at 7½ %. .	92	5	9
1918. Dec. 31	„ Cash	112	–	–	„	„ Balance . . .	1,250	4	3
		1,342	10	–			1,342	10	–
1918. Dec. 31	To Balance . . .	1,250	4	3	1919. Dec. 31	By Profit & Loss—Depreciation at 7½ %. .	93	15	4
1919. Dec. 31	„ Cash	94	10	–	„	„ Balance . . .	1,250	18	11
		1,344	14	3			1,344	14	3
1919. Dec. 31	To Balance . . .	1,250	18	11	1920. Dec. 31	By Profit & Loss—Depreciation at 7½ %. .	93	16	5
1920. Dec. 31	„ Cash	124	3	–	„	, Balance . . .	1,281	5	6
		1,375	1	11			1,375	1	11
1920. Dec. 31	To Balance . . .	1,281	5	6					

There are in use two further methods, similar in principle, although somewhat different in operation, known as the Sinking Fund and Annuity systems respectively. With these, it is sought to make allowance for the interest presumed to be "earned" by the capital invested in the asset.

The one system proceeds upon the assumption that the depreciation charge should be such as to write off the asset with the interest calculated to be attributable to the balance of value regarded from year to year as unexhausted, while under the other the annual provision for depreciation is either regarded as producing interest or is increased by the interest actually received upon investments made in respect of the sums set aside.

Assuming an equivalence in the rate of interest under either method—an assumption adopted for purposes of the explanation given in succeeding illustrations—the balance of the asset account under the former will be the same as the difference between the amount of the asset account, less the Sinking Fund balance, under the latter.

The principle involved in making allowance for interest in calculation of the depreciation charge has been questioned, and it is worthy of note that in the proceedings under arbitration in respect of the transfer to the Government of the assets of the National Telephone Co. the merits of the Sinking Fund, as opposed to the "straight-line," method, were discussed, with the result that the latter was adopted in that case as the proper method of calculating depreciation and so of arriving at the value of the assets transferred.

III. Annuity Method, illustrated in reference to a Leasehold Asset, Purchased for £1,000, having an Unexpired Period of 10 Years; Interest at 6 % per annum.

ASSET ACCOUNT.

		£	s.	d.			£	s.	d.
1917.					1917.				
Jan. 1	To Cash	1,000	–	–	Dec. 30	By Profit & Loss—Depreciation . . .	135	17	5
Dec. 31	„ Interest at 6 % p.a. .	60	–	–	„	„ Balance . . .	924	2	7
		1,060	–	–			1,060	–	–
1917.		£	s.	d.	1918.		£	s.	d.
Dec. 31	To Balance . . .	924	2	7	Dec. 31	By Profit & Loss—Depreciation . . .	135	17	5
1918.									
Dec. 31	„ Interest at 6 % p.a. .	55	9	–	„	„ Balance . . .	843	14	2
		979	11	7			979	11	7
1918.		£	s.	d.	1919.		£	s.	d.
Dec. 31	To Balance . . .	843	14	2	Dec. 31	By Profit & Loss—Depreciation . . .	135	17	5
1919.									
Dec. 31	„ Interest at 6 % p.a. .	50	12	5	„	„ Balance . . .	758	9	2
		894	6	7			894	6	7
1919.		£	s.	d.					
Dec. 31	To Balance . . .	758	9	2					

As an alternative to the treatment of the asset account in the manner indicated, the depreciation charge is sometimes covered by an insurance policy, in which case the annual premium, which naturally is inclusive of interest, forms the charge against Revenue Account.

IV. Sinking Fund Method; Particulars of Asset as before; Interest calculated at Assumed Rate of 6 % per annum, without deduction of tax.

ASSET ACCOUNT.

		£	s.	d.			£	s.	d.
1917.									
Jan. 1	To Cash	1,000	–	–					

SINKING FUND.

1917.		£	s.	d.
Dec. 31	By Profit & Loss Account	75	17	5
1918.				
Dec. 31	" " "	75	17	5
"	" Interest (6 % on £75 17s. 5d.) . . .	4	11	–
1919.				
Dec. 31	" Profit & Loss Account	75	17	5
"	" Interest (6 % on £156 5s. 10d.) . . .	9	7	7
	Etc. etc.			

It will be observed that the annual provision from Profit and Loss Account, which is credited to the Sinking Fund, represents the difference between the charge for depreciation upon, and the amount of interest debited against, the asset account in the first year under the Annuity method. In subsequent years the amount of the asset account, less the amount to the credit of the Sinking Fund (Method IV), will be identical with the balance of the former account as dealt with under Method III.

It should be observed that the illustration last given is entirely theoretical in the calculation of interest at the rate of 6 per cent. per annum and in the estimate of a full year's interest upon the exact amount of the Sinking Fund as accumulated to the end of any year. These assumptions are made mainly to permit of comparison between the Annuity and Sinking Fund systems.

The methods of providing for depreciation as illustrated have been operated on the basis of a fixed percentage which has been assumed to cover the loss arising. It is obvious, however, that where an asset account, such as Plant and Machinery, includes many items varying in cost and duration of effective use, the adoption of a fixed percentage may work unevenly. In the case of an engineering works, for instance, it is hardly possible to allow for the depreciation of plant at one general rate upon the book value of the asset and thereby to cover the loss in respect of two such distinct types of plant as (say) lathes and steel-rolling machinery. It is desirable in such instances that depreciation, which forms an important element in the cost of production, should be measured upon some scientific basis. For this purpose, a complete register of all items of plant and machinery grouped in the financial ledger under the one general heading is desirable. The register should be so kept as to show the history of each separate machine, etc., the depreciation allowance made in respect of it, and its book value at any date, as well as particulars of such repairs, renewals and replacements as may have been effected.

A Plant Ledger is therefore necessary in the following or some similar form—

Description of Plant..
Date purchased..
From whom purchased...
Invoice No....................

	£ s. d.		£ s. d.
Cost		Cost	
Estimated residual value .		Actual residual value .	
,, total depreciation		,, total depreciation.	
,, life . . .		,, provision . .	
Annual provision . .		Shortage . . .	
		Surplus . . .	

Date.	Capital.	Repairs, etc.		Date.	Depre-ciation.	Profit and Loss (Repairs, etc.).	Balance (memo.).
		Wages.	Materials.				

It will be observed that the particulars stated at the head of the Ledger accounts will give a record, first, of the estimates made, second, of the facts, and thus furnish a convenient comparison.

The amounts set out under the heading of Repairs and Renewals are entered for purposes of record only, and do not enter into the reconciliation of the Plant Ledger with the balance of Plant Account as contained in the General Ledger.

The total of the normal allowances for depreciation as entered in the Plant Ledger, together with any shortage or surplus appearing in the total depreciation provision in respect of any item of plant upon realisation of residual value, forms the charge to revenue, which is entered in the ordinary way to the credit of Plant Account in the General Ledger and the debit of Profit and Loss Account.

In practice, it is not unusual to find that a Depreciation Reserve is created and an account opened therefor at the back of the

Plant Ledger. Thus, suppose the allowances upon the various accounts to amount to £7,603, and suppose further that shortages upon estimates in respect of plant scrapped during the financial year amount to £125. The total of £7,718 would represent the depreciation upon plant as a whole. It may be thought desirable, however, to credit Plant Account with (say) £8,000, and to construct a Depreciation Reserve Account, which will be opened in the Plant Ledger and credited with £282. The Reserve so made may be used in later years to meet abnormal losses upon realisation of any item of plant arising by reason of inaccurate estimate in time past.

It will be observed that the creation of a Depreciation Reserve in this manner does not interfere with the reconciliation of the Plant Ledger with the balance of Plant Account as contained in the General Ledger.

Where plant and machinery consists of many assets, diversified in character and valuable in total, it is important that an accurate record of depreciation and of the value of any particular item of plant be kept, and for this purpose some such system as that described is essential.

CHAPTER XIX

RESERVES AND RESERVE FUNDS AND SINKING FUNDS

SOME difference of opinion obtains as to the precise characteristics implied by the terms Reserve and Reserve Fund. It is clear that a difference in principle exists as between the provision made in respect of an *accrued* loss of uncertain amount, the charge for which is a necessary preliminary to the ascertainment of net profit, and the *appropriation*, from the balance of profits as accurately determined, of a sum for a general or defined purpose which would otherwise be available for division.

The former constitute specific reserves, such, for example, as a Reserve for Bad Debts, a Depreciation Fund, and (in certain cases) a Sinking Fund; in respect of these, the purpose of each will as a rule be precisely indicated. The latter are *general* reserves, represented by some part of the assets of the business, but perhaps not specifically represented by particular assets. In regard to general reserves, one view is that these are to be termed Reserves when represented by the general assets, and Reserve Funds when specifically invested, while specific reserves should in all circumstances be exactly described. The alternative view limits the use of the word Reserve to the case of those made as specific provision for accrued loss, and applies the term Reserve Fund to any provision made by way of appropriation from, and not as a charge against, profits. The adherents of the latter view regard the question of investment or non-investment of cash equal to the amount reserved as being merely a question of policy, the investment as being part of the assets of the concern, and the fact of investment or non-investment being without effect on the nature of the original appropriation from profits.

It is proposed to consider shortly the general nature of Reserves and Reserve Funds as found more particularly in connection with the accounts of limited companies.

The ordinary forms of *specific* Reserves, such as a Reserve for Bad Debts and similar provisions for the estimated amount of losses suffered, require little explanation. Their creation constitutes a provision for loss and is essential to a true statement of the financial position. Their amount must at the best be largely a matter of estimate, and to the extent to which they exceed the loss anticipated, they become general, rather than specific, reserves. The uses of a Depreciation Fund have been considered elsewhere.

It has been stated that the amount of profits appropriated as a reserve for general purposes may be represented by assets specifically identified as attributable to the Reserve Fund and acquired by the investment of cash to an amount equal to the profits reserved, or may exist merely in the greater value of assets as compared with liabilities, including capital, which is produced by the non-distribution of the portion of the gains so reserved from distribution. The determination of the *form* of the assets representing the Reserve Fund is primarily, in the case of a limited company, a matter for the directors to decide in accordance with the circumstances, or which may be governed by the Articles of Association. When the nature of the business is such as to necessitate expenditure in permanent form on fixed assets, buildings, plant and machinery and the like, for the purposes of manufacturing operations and the reproduction of value thereby, the amount of the profits reserved may in many cases be used to the greatest advantage as additional working capital. The arguments for its investment " outside " the business, in assets free from the immediate influences upon the fortunes of the concern, are in such instances less strong than where (as with banks, for example) the business operations are wholly financial in character and involve the continual liquidation of liabilities, independently of trade fluctuations, as they mature. In the latter case, it is obviously desirable that there should be assets in such form that, in times of stress, realisation can take place without risk of loss from those causes which have directly contributed to the financial strain upon the business. This, no doubt, would in every case be an advantage, but particularly so where the business is such as derives its profits from the facilities provided by it in assisting the credit and financial operations of its customers.

Summarising the points set out, the question of the *form* of the assets representing the Reserve Fund is a matter to be determined by the circumstances. If it is established to provide *funds*, to be available in all emergencies, it is desirable that it should be invested in assets readily realisable "outside" the business, but if, on the other hand, the object in creating the Reserve is that of providing additional working capital and generally of strengthening the business itself in its ability to carry out and extend its ordinary trading operations, it may appear that the funds are employed to best advantage as part of the general assets. A Reserve (or Reserve Fund) so used may ultimately prove so necessary to the conduct of the business that, although divisible, it could not be realised without detriment to the concern. Under such circumstances, it may, as explained in the chapter on Company Accounts, give reason for capitalisation of the Reserve.

Sinking Funds.

The purposes and characteristics of Sinking Funds demand consideration. Their primary purpose is the provision of funds, usually at some definite date. Where there is risk that investment in the general assets will render it difficult to have the required amount available when needed, the Sinking Fund will, as a rule, be specifically invested. Such funds are created by a transfer from the debit of Profit and Loss Account to the credit of the Sinking Fund of the sums desired, thus reducing the balance of profits available for division. All Sinking Funds are specific in that they are created for a definite purpose. This purpose may be such that the Sinking Fund provision forms a definite *charge* on profits in the sense that net profits are not truly ascertained until the charge has been made, or may in effect (even though the provision or charge be made under agreement) represent rather an *appropriation* of profits otherwise divisible.

A Sinking Fund, being created to provide funds, commonly renders the funds provided available for one or other of two main purposes, (*a*) the renewal of an asset, (*b*) the extinction of a liability. The *application* of assets for the purposes named does not of itself alter the true value of the surplus of assets over liabilities, but this is directly affected by the reservation or transfer from profits.

The matter may be illustrated by the Balance Sheets as shown on the next page.

In I, the Sinking Fund, created by a charge against Profit and Loss Account, serves the purposes of a Depreciation Fund. The Lease can be written off against the credit balance, the Sinking Fund investment realised (assumed as producing £10,000), and the proceeds applied in renewal of the expired lease.

I. The Use of a Sinking Fund Created with a View to Renewal of a Lease.

(*a*) Balance Sheet prior to realisation of Sinking Fund assets.

	£		£
Capital . . .	60,000	Sundry Assets . .	90,000
Sundry Liabilities . .	40,000	Lease, at cost . .	10,000
Sinking Fund . .	10,000	Sinking Fund Investment: Consols . . .	10,000
	110,000		110,000

(*b*) Balance Sheet subsequent to realisation of Sinking Fund Investment and application of proceeds.

	£		£
Capital . . .	60,000	Sundry Assets . .	90,000
Sundry Liabilities . .	40,000	Lease (renewed, at cost) .	10,000
	100,000		100,000

Note.—If the object in view had not been the provision of *funds* at a definite date (*i.e.*, the expiration of the lease) there might have been no advantage in creating distinctive investments against the amount reserved. Should it, for example, have been inexpedient or impossible to renew the lease, or to acquire another, it might have been preferable to permit the amount of the annual depreciation to be charged against Profit and Loss Account and to be absorbed year by year into the general assets without distinction.

II. The Use of a Sinking Fund, Created for the Purpose of Providing Funds to be Applied in Extinction of a Liability (Debentures).

(*a*) Balance Sheet at maturity of debt.

	£		£
Capital . . .	50,000	Sundry Assets . .	110,000
Debentures . . .	20,000	Sinking Fund Investment: Consols . . .	20,000
Sundry Liabilities . .	40,000		
Sinking Fund . .	20,000		
	130,000		130,000

(*b*) Balance Sheet after redemption of liability (assuming realisation of Sinking Fund Investment at cost).

	£		£
Capital . . .	50,000	Sundry Assets . .	110,000
Sundry Liabilities . .	40,000		
Sinking Fund . .	20,000		
	110,000		110,000

In the second illustration, upon the fulfilment of the object for which the Sinking Fund has been created, the credit balance, £20,000, will represent a general reserve, assuming the value of the assets to be fairly stated. If this is not the case, as in Illustration I (*a*), the Sinking Fund may be regarded, in whole or in part, as a provision for depreciation.

A Sinking Fund may thus be of two-fold nature. It is constructed by a charge against profits and has for its object in every case the provision of *funds*. Should the Sinking Fund charge be *in addition to* the fair charge in respect of depreciation, it is a general reserve; but should it, in whole or in part, represent or otherwise cover a provision of this nature, so that its charge against revenue is essential in determining the net profits, it will, in whole or in part, constitute in effect a Depreciation Fund.

A Sinking Fund usually, but not invariably, accumulates at interest, this being the amount actually earned by the Sinking Fund investments, or the fixed rate computed upon the credit balance and contributed, together with the nominal charge, from Profit and Loss Account. There is, however, nothing inconsistent with the objects of a fund of this nature in the immediate application of the annual or periodical instalments to the purposes for which they are provided.

Thus, debentures may be required to be cancelled by the operation of a Sinking Fund. The principal amount of the debt may mature at a definite future date, carrying interest in the meantime, and the Sinking Fund be so built up and invested as, with interest earned, to accumulate to the desired figure at the required time. On the other hand, it may be permissible, or even obligatory, to apply each annual instalment in redemption of a part of the debt as the instalment accrues due. In these circumstances, there may be no Sinking Fund investments, and no interest, but the interest payable will gradually be reduced as the debt is cancelled.

These remarks, given in general illustration, must not be taken as necessarily to imply an option to the borrower as to the method and time of redemption of debentures. This will be determined by agreement between the lenders and the company. The provisions of such agreements may simply require repayment at a definite date and may contain no restriction against the company borrowing elsewhere, subject to its not infringing its agreement, *e.g.*, by mortgaging property already charged or in other ways, to repay the debentures; but, on the other hand, the terms may require redemption year by year of an agreed part of the principal, and possibly require this to be made " out of profits."

ILLUSTRATION.—A Limited Company issues debentures to the amount of £100,000 at a discount of 10 per cent., upon terms *inter alia* of their redemption out of profits at the rate of £10,000 (nominal) in each year; redemption to be made either by drawings at the price of 105 or by purchases in open market.

In the circumstances stated, the Debentures Account will be credited from the opening entries with £100,000 and Discount on Debentures Account debited with £10,000.

Assume that the redemption of £10,000 (nominal value) of the debentures costs in successive years: £9,750, £9,850, £10,620, £10,500. These sums are the amounts of the contributions to be made in successive years from Profit and Loss Account. The following Journal entries illustrate the treatment in accounts at the end of the first year of the transactions referred to—

	£	£
Profit and Loss Account . . . . *Dr.*	9,750	
To Sinking Fund		9,750
Amount required to cancel £10,000 of Debentures redeemed during the year.		
Debentures Account . . . . . *Dr.*	10,000	
To Sundries—		
Sinking Fund		250
*Cash		9,750
Transfer from first-named account of nominal value of debentures redeemed during the year at a cost of £9,750.		

An alternative and more direct method of treatment would be as follows—

	£	£
Profit and Loss Account . . . . *Dr.*	9,750	
* To Cash		9,750
For cost of redemption of £10,000 nominal value of Debentures during the year.		
Debentures Account . . . . . *Dr.*	10,000	
To Sinking Fund		10,000
For nominal value of debentures redeemed during the year.		

* The entries relating to cash transactions would in practice appear in the Cash Book and be posted direct therefrom, but possibly in the first place to a Debentures Cancelled Account, the balance of which, £9,750, would be transferred to Profit and Loss Account.

It will be observed that the foregoing example has proceeded on the basis that each year bears the actual cost of redemption incurred in that year, and that the charge is not equalised over the whole period. This is the usual method of treatment where an equal proportion of debt is redeemable each year.

The illustration has not dealt with the Discount on Debentures Account. This, in ordinary circumstances, would be written off to Profit and Loss Account over the period of ten years for which the debt is outstanding, but, in the particular case under consideration, the latter account has already borne the full cost of redemption of the principal sum. It is fair, therefore, and usually not inconsistent with the terms of redemption agreed upon, to regard the provision as inclusive of the discount allowed upon the original issue. Discount on Debentures Account would then be written off, as to one-tenth each year, against the Sinking Fund, thus—

	£	£
Sinking Fund . . . . *Dr.*	1,000	
To Discount on Debentures Account . . .		1,000
For amount of discount on issue of £10,000 Debentures redeemed during year.		

It is obvious that by this latter method the ultimate total of the Sinking Fund will be £90,000, but that if the Discount on Debentures Account be written off to Profit and Loss, it will amount to £100,000.

Upon the facts stated, the Balance Sheet of the company at the end of the fourth year will appear in respect of the matters referred to as follows—

Liabilities.	£	£	*Assets.*	£	£
Debentures	100,000		Discount on Debentures as per last account . .	7,000	
Less, amount cancelled .	40,000		Less, proportion charged to Sinking Fund . . .	1,000	
		60,000			6,000
Sinking Fund . . .		36,000			
Profit & Loss Account, balance to credit . . .	57,350				
Less, cost of redemption of £10,000 Debentures . .	10,500				
	46,850				
Less, interim dividend paid .	16,000				
		30,850			

The redemption of debentures to a stated amount year by year is usual where the capital assets of the company forming the chief security for the debenture holders are of a wasting nature, or are being exhausted by the ordinary operations of the business, as in the case of nitrate-producing companies, mining concerns, and the like.

A Sinking Fund is in such circumstances commonly regarded as equivalent to a provision for depreciation in respect of the capital assets, and therefore deducted from the latter in the Balance Sheet of the company.

The calculation of the annual instalment required for a cumulative Sinking Fund introduces the factor of interest. Should the instalments when invested cease to produce the rate of interest assumed, the full principal sum required will not be provided at the necessary date. The realisation of Sinking Fund investments and the use of the proceeds to cancel a part of the loan debt interferes with the accumulation of the Fund to the extent of the cumulative interest upon the amount realised. In such circumstances, an adjustment must be made by a contribution from profits equal to the amount of interest that is required to maintain the Sinking Fund on the basis of the original calculation. The point is illustrated in the example that follows—

Illustration of the Working of a Sinking Fund of a Local Authority.

		£	s.	d.	£	s.	d.
1915.							
Dec. 31	Revenue Account . . . *Dr.*	22,777	–	–			
	To Sinking Fund				22,777	–	–
	Annual instalment on 2½ % Table required to repay £1,000,000 at end of thirty years at par.						
	Sinking Fund Investment . . *Dr.*	22,777	–	–			
	To Cash				22,777	–	–
1916.	Investment of annual instalment.						
Dec. 31	Sundries . . . . . . *Dr.*						
	To Sinking Fund				23,460	6	3
	Interest Account	683	6	3			
	Amount received during year on sums invested, bearing interest at average rate of 3 %, less tax (ignored).						
	Revenue Account, annual instalment .	22,777	–	–			
	Sinking Fund Investments . . . *Dr.*	23,460	6	3			
	To Cash				23,460	6	3
	Investment of annual instalment and interest accumulations.						
1917.							
June 30	Cash . . . . *Dr.*	27,900	–	–			
	To Sinking Fund Investments . .				27,900	–	–
	Amount realised this date						
	Sinking Fund . . . . . *Dr.*	27,900	–	–			
	To Cash				27,900	–	–
	Amount applied in redemption of £30,000 Stock @ 93 %.						

			£	s.	d.	£	s.	d.
1917.								
June 30	Loan Capital Account . . *Dr.*		30,000	–	–			
	To Cancelled Stock Account . .					30,000	–	–
	Nominal value of Stock redeemed.							
Dec. 31	Sundries— *Dr.*							
	To Sinking Fund					24,094	7	4
	Interest Account		968	12	4			
	Amount received on Sinking Fund Investments during year (assumed at average of 3 %) :							
	Half-year to 30/6/17— 3 % on £46,237 6s. 3d.	£693 11 2						
	Half-year to 31/12/17— 3 % on £18,337 6s. 3d.	275 1 2						
		£968 12 4						
	Revenue Account		23,125	15	–			
	Annual instalment .	£22,777 – –						
	Interest @ 2½ % on sums withdrawn, £27,900 ; for half-year .	348 15 –						
	Sinking Fund Investments . . *Dr.*		24,094	7	4			
	To Cash					24,094	7	4
	Investment of annual instalment and interest.							

NOTES.—Entries affecting Cash would appear only in the Cash Book, and are shown as above for convenience in illustration. The example has disregarded the effect upon the Sinking Fund of—

(1) The loss of interest arising from non-investment of small balances;
(2) Expenses of realisation and investment;
(3) Income Tax deductions from interest;
(4) Loss on realisation of investments.

These amounts are covered, wholly or in part, by the earning of a rate of interest above that necessary on an exact scale according to annuity tables, and the redemption of debt below par.

The matter set out has illustrated the ordinary form of a cumulative Sinking Fund. While there is no difficulty in creating a non-cumulative fund, setting aside periodically an amount equal to a stated proportion of the principal sum required, without allowance for the interest to be earned upon the investments made against the sum reserved, and treating such interest as an *ordinary* item of revenue, the non-cumulative form of fund is usually provided in cases where the instalments are immediately applicable, as, for instance, in the redemption of debt at annual intervals. It has been noted that the effect of such redemption is to reduce the charge for interest upon the loan, and thus to compensate to

18—(1377) 20 pp.

some extent for the loss of interest otherwise receivable upon invested instalments.

In some cases, as, for example, in regard to the loans made by the Public Works Loans Commissioners to local authorities, the annuity form of Sinking Fund is used. Under this method, which is illustrated herewith and which in principle is identical with the system of providing for depreciation described on page 253, repayment is made of a specific amount year by year. The amount is so calculated as to operate in reduction of principal and interest on principal from time to time outstanding, so that the last payment discharges the balance of principal owing with the interest accrued thereon.

Illustration : Loan £8,000, Repaid with 4% Interest, Over a Period of 12 Years, by an Annual Instalment of £852 : 8 : 8.

LOAN ACCOUNT.

		£	s.	d.			£	s	d
1913. Dec 31	To Cash	852	8	8	1913 Jan 1	By Cash	8,000	–	–
	„ Balance carried down .	7,467	11	4	Dec 31	„ Revenue A/c, Interest .	320	–	–
		8,320	–	–			8,320	–	–
1914 Dec. 31	To Cash	852	8	8	1913. Dec. 31	By Balance brought down .	7,467	11	4
	„ Balance carried down .	6,913	16	8	1914. Dec. 31	„ Revenue A/c, Interest .	298	14	–
		7,766	5	4			7,766	5	4
					1914. Dec. 31	By Balance brought down .	6,913	16	8

In the last year, the credit balance of capital outstanding will be such as will, with interest at the rate of 4 per cent. per annum, amount to £852 8s. 8d.

CHAPTER XX

MISCELLANEOUS

Deferred Interest Problems.

IN cases of purchases and sales of goods upon a system of deferred payment, the proper treatment of the portion of the total sum and periodical payments attributable as interest is of importance.

Thus, a dealer in pianos may sell an article at a price payable by equal quarterly instalments over a period of years. The price will naturally be in excess of that for a cash transaction, and the factor of interest necessarily enters into it. The latter, however, is in decreasing ratio year by year, for each successive instalment reduces the balance of "principal" (as the cash sale price may be termed) outstanding.

The problem indicated may be dealt with in various ways, which it is proposed to illustrate by example.

I. EXAMPLE. A Colliery Company acquires 40 wagons, of cash sale value of £60 each, upon terms of hire purchase involving payment of seven annual instalments of £429 18s. 11d. each, inclusive of interest.

The total sum payable is thus £3,009 12s. 5d., of which £609 12s. 5d. represents interest. It is ascertained upon inquiry from the Wagon Company that interest has been allowed for at the rate of 6 % per annum upon the diminishing balance of the capital value outstanding year by year.

It is desirable to note the following points—

(1) Each instalment represents a payment on account of:
Principal, of gradually increasing amount, and of
Interest, of gradually decreasing amount.

(2) The purchaser is under an immediate liability in each year of £429 18s. 11d., and not of the balance of the whole amount eventually payable if the contract is performed.

(3) As the purchaser eventually acquires the full ownership, he must from the date of purchase allow for depreciation on the full "cash value."

(4) The vendor generally has the right to retake possession of the subject-matter in the event of failure to pay any instalment due.

From the point of view of the vendor there is usually sufficient value in the subject-matter when retaken by him to cover the proportion of "cash sale value" outstanding. This, however, may not be so in the earlier years of repayment, but as lapses are infrequent in this period, the risk of loss from bad debts is not great.

(5) There may be an obligation or covenant on the part of the vendor to maintain the subject-matter in a proper state of repair for a period of years, for which some provision may be required in his accounts. This, however, is independent of the question of treatment of deferred interest.

The *pro formâ* accounts submitted illustrate the treatment in the books of the purchaser of the transactions referred to.

WAGONS ACCOUNT.

Dr. *Cr.*

		£	s.	d.			£	s.	d.
1913. Jan. 1	To Wagon Co., Suspense Account	2,400	–	–	1913. Dec. 31	By Profit & Loss A/c—Deprec'n at 5 % p.a.	120	–	–
					1914. Dec. 31	„ Do. do. do.	120	–	–
					1915. Dec. 31	„ Do. do. do.	120	–	–
					1916. Dec. 31	„ Do. do. do.	120	–	–
					1917. Dec. 31	„ Do. do. do.	120	–	–
					1918. Dec. 31	„ Do. do. do.	120	–	–
					1919. Dec. 31	„ Do. do. do.	120	–	–
						„ Balance carried down	1,560	–	–
		2,400	–	–			2,400	–	–
1919. Dec. 31	To Balance brought down	1,560	–	–					

WAGON CO., SUSPENSE ACCOUNT.

		£	s.	d.			£	s.	d.
1913. Dec. 31	To Wagon Co.	429	18	11	1913. Jan. 1	By Wagons A/c	2,400	–	
„	„ Balance	2,114	1	1	Dec. 31	„ Profit & Loss A/c, Interest at 6 % p.a.	144	–	–
		2,544	–	–			2,544	–	–
1914. Dec. 31	To Wagon Co.	429	18	11	1913. Dec. 31	„ Balance	2,114	1	1
„	„ Balance	1,810	19	1	1914. Dec. 31	„ Profit & Loss A/c, Interest at 6 % p.a.	126	16	11
		2,240	18	–			2,240	18	–

Dr. WAGON CO., SUSPENSE ACCOUNT—(*contd.*) *Cr.*

		£	s.	d.			£	s.	d.
1915. Dec. 31	To Wagon Co. . . .	429	18	11	1914. Dec. 31	By Balance . . .	1,810	19	1
"	" Balance . . .	1,489	13	4	1915. Dec. 31	" Profit & Loss A/c—Interest at 6 % p.a. .	108	13	2
		1,919	12	3			1,919	12	3
1916. Dec. 31	To Wagon Co. . . .	429	18	11	1915. Dec. 31	" Balance . . .	1,489	13	4
"	" Balance . . .	1,149	2	–	1916. Dec. 31	" Profit & Loss A/c, Interest at 6 % p.a. .	89	7	7
		1,579	–	11			1,579	–	11
1917. Dec. 31	To Wagon Co. . . .	429	18	11	1916. Dec. 31	" Balance . . .	1,149	2	–
"	" Balance . . .	788	2	–	1917. Dec. 31	" Profit & Loss A/c, Interest at 6 % p.a. .	68	18	11
		1,218	–	11			1,218	–	11
1918. Dec. 31	To Wagon Co. . . .	429	18	11	1917. Dec. 31	" Balance . . .	788	2	–
"	" Balance . . .	405	8	10	1918. Dec. 31	" Profit & Loss A/c, Interest at 6 % p.a. .	47	5	9
		835	7	9			835	7	9
1919. Dec. 31	To Wagon Co. . . .	429	18	11	1918. Dec. 31	" Balance . . .	405	8	10
					1919. Dec. 31	" Profit & Loss A/c, Interest at 6 % p.a. (say)	24	10	1
		429	18	11			429	18	11

WAGON CO.

		£	s.	d.			£	s.	d.
1913. Dec. 31	To Cash	429	18	11	1913. Dec. 31	By Wagon Co. Suspense A/c	429	18	11
1914. Dec. 31	" "	429	18	11	1914. Dec. 31	" " " " "	429	18	11
1915. Dec. 31	" "	429	18	11	1915. Dec. 31	" " " " "	429	18	11
1916. Dec. 31	" "	429	18	11	1916. Dec. 31	" " " " "	429	18	11
1917. Dec. 31	" "	429	18	11	1917. Dec. 31	" " " " "	429	18	11
1918. Dec. 31	" "	429	18	11	1918. Dec. 31	" " " " "	429	18	11
1919. Dec. 31	" "	429	18	11	1919. Dec. 31	" " " " "	429	18	11

NOTE.—The illustration as set out records both the value of the wagons, free from charge, but reduced by depreciation, and the " contingent " amount of indebtedness in respect of the capital value for future discharge. The value of the equity in the asset at any date is represented by the balance of Wagons Account, less that upon Wagon Co., Suspense Account.

In the books of the vendor-hirer, the method of accounting will be similar. It will be necessary to have regard, however, to the liability (if any) to repair, for which provision may be necessary out of profits, and to the risk of possible loss from bad debts. It has been pointed out that, in respect of the latter, the value of the wagons, of which possession may generally be retaken in the event of default of payment of any instalment, will after the first few years usually be found to exceed the capital value outstanding, while the probability of default in the earlier instalments is not so great as for later payments.

It will be observed that the transactions relating to the discharge of a liability by equal annual instalments representing both interest and capital present some analogy in treatment with the annuity system of depreciation.

II. The method illustrated has the merit of an exact apportionment of the transactions from the point of view of the purchaser, as between interest, depreciation, and the equity acquired, and from that of the vendor, as between gross profit and deferred interest. In the alternative system now described, which is applicable only in the books of the vendor, both gross profit and interest are taken to be earned evenly over the whole period of repayment.

EXAMPLE. A piano, cost price £120, is sold for £192, on terms of hire purchase, involving repayments of £4 per month for 48 months.

The following is the account in the Hire Ledger of the purchaser for the first 12 months—

JOSEPH JOHNSTON, 10 LIMEDALE ROAD, LIVERPOOL.

Dagmar Grand, Stock No. , etc., etc. (*full description*), sold under Hire Purchase Agreement Nod. , for £192, monthly instalments of £4.

Dr *Cr.*

1918.		£	s.	d.	1918.		£	s.	d.
Jan. 31	To Instalment due	4	–	–	Jan. 28	By Cash . .	4	–	–
Feb. 28	" " "	4	–	–	Mar. 2	" " . .	4	–	–
Mar. 31	" " "	4	–	–	Apr. 4	" " . .	4	–	–
Apr. 30	" " "	4	–	–	May 20	" " . .	4	–	–
May 31	" " "	4	–	–	June 6	" " . .	4	–	–
June 30	" " "	4	–	–	July 18	" " . .	4	–	–
July 31	" " "	4	–	–	Aug. 12	" " . .	4	–	–
Aug. 31	" " "	4	–	–	Sept. 24	" " . .	4	–	–
Sept. 30	" " "	4	–	–	Nov. 2	" " . .	4	–	–
Oct. 31	" " "	4	–	–	Dec. 4	" " . .	4	–	–
Nov. 30	" " "	4	–	–					
Dec. 31	" " "	4	–	–					
1919.									
Jan. 31	" " "	4	–	–					
etc.									

For the purposes of illustration, the general features of the system of accounts in relation to transactions of sale on hire-purchase terms must be considered.

The form of an individual debtor's account is illustrated by the example given. The method of record consists, so far as the system of book-keeping is concerned, in a debit to the purchaser's account, year by year, of the total of the instalments due in respect of each year, with a corresponding credit to a Hire Sales Account. The credits upon the accounts of debtors will be made by posting from the Cash Book in the usual manner.

There is thus no immediate debit of the *full* sale price, and the particulars at the head of the Ledger accounts will be adapted as may be necessary to ensure correctness of entry of debits when made.

Hire Sales Account will appear in the General Ledger. To this account will be charged the stock value of pianos sold on hire-purchase (by transfer from Pianos Trading Account), while it will be credited year by year with " sales," which are for this purpose taken to be the instalments due in the year under review.

In the event of default in payment of instalments due, the vendors may resume possession of the subject-matter of sale. In such circumstances, the purchaser usually forfeits any cash paid, but the right, if any, to recover unpaid instalments due or to become due is in practice abandoned. The resumption of possession, indeed, is usually profitable, from the fact of forfeiture by the purchaser of past payments. In the books of account, the hirer's account will stand debited with instalments for the year ; payments received may cancel a portion ; the balance will be transferred to the debit of Hire Sales Account.

The resumption of possession will imply a retransfer of the stock values (revised if necessary) from Hire Sales Account to Pianos Trading Account.

From the foregoing, it will be seen that the aim of this method is to show as profit the difference between the " sales," *i.e.*, instalments attributable to the year, and the proportionate part of the cost of the pianos assumed to have passed to the purchaser.

Thus, in the illustration submitted, the piano is sold on 1st January, 1918. At 31st December, 1918, the stock valuation is the proportion of the cost, £120, borne by the instalments unaccrued to the total sale price, in this case $\frac{144}{192}$ of £120.

At the end of each financial year, a valuation of the whole of the stock sold on hire-purchase terms and not fully paid for will be necessary. This valuation will disclose the profit on Hire Sales Account, while the balances of the debtors' accounts will show the arrears.

Under the method described, gross profit on trading and interest on deferred instalments are dealt with together, and it is assumed that the profit is earned evenly over the period. This is perhaps not so sound in theory as the earlier method illustrated, but it will be found on examination that it has the effect of deferring somewhat the crediting of profit to the Profit and Loss Account, and is therefore to be commended on the ground of prudence.

Dr. HIRE SALES ACCOUNT. *Cr.*

		£	*s.*	*d.*			£	*s.*	*d.*
1917. Dec. 31	To Balance, value of stock	3,562	–	–	1918. Dec. 31	By Sundry Persons, instalments receivable in respect of the year .	1,825	–	–
1918. Dec. 31	„ Pianos A/c, stock valuation of pianos sold on hire purchase during the year . . .	1,586	–	–		„ Pianos A/c, value of pianos returned. .	464	–	–
	„ Sundry Persons, balance of instalments debited, irrecoverable	132	–	–		„ Balance, value of stock	3,850	–	–
	„ Profit & Loss A/c, profit for year . .	859	–	–					
		6,139	–	–			6,139	–	–
1918. Dec. 31	„ Balance, value of stock	3,850	–	–					

Both methods so far dealt with have proceeded on a precise examination of the facts in regard to each transaction. This has been necessary, as substantial value is concerned in each case, but may be inadvisable, and perhaps impossible, in other circumstances, where sales are of small amount, are numerous, and are made upon uniform terms as to period, amount of instalments, rate of interest, etc., etc.

Where these facts apply, the following method may be found of advantage—

III. Each sale, when entered in the Sales Day Book, is analysed as between Ordinary Sale Price, and Interest, columns for Total Amount and the other headings being provided.

The gross amount is debited to the purchaser, whose account is credited with repayments in the ordinary way.

Under this system, ordinary gross profit and deferred interest are distinguished; the former is treated as earned at time of sale, the latter is carried to a Deferred Interest Account (the interest on each year's sales being kept distinct), and credited to Profit and Loss Account year by year as earned.

It has been stated that terms of sale are uniform as to rate of interest, period of payment, etc. It therefore becomes possible to ascertain the percentage of total interest attributable to each year over which instalments are payable. Thus, in respect of the illustration applicable to Wagon Hire Purchase (p. 267) the interest is—

	£	s.	d.
First year	144	–	–
Second „	126	16	1
Etc.			

and these figures may be expressed in percentages of the total interest, £609 12s. 5d. In respect of this illustration, an alternative method would be possible, by debiting the purchaser originally with £3,009 12s. 5d. (crediting each repayment as received), crediting Sales Account, £2,400, and Deferred Interest (1913) Account with £609 12s. 5d. The latter account would be absorbed by transfer to Profit and Loss Account of the percentage of interest earned each year.

This system is open to objection in that it records as a debt an amount representing instalments not immediately receivable; it has, however, in some circumstances, advantages of convenience and simplicity.

The method under consideration will operate on lines similar to that in the theoretical illustration just submitted in respect of which, as a fact, the value and importance of the transaction require more detailed treatment.

Assume for consideration the case of a business dealing in gramophones, of values from £5 to £35. Assume further that such as are sold on hire-purchase terms are upon an exactly similar basis as regards period of payment and rate of interest. All that is then necessary to apportion accurately the amount at credit of the various accounts open for Deferred Interest is to obtain the average due date of the sales in each year.

Reverting to the illustration already considered, interest falls as follows—

1913	24 %
1914	21 %
1915	18 %
1916	15 %
1917	11 %
1918	7 %
1919	4 %

Deferred Interest Account could be cleared year by year by transfer of the percentages stated.

But in this illustration, the sale was made on 1st January, 1913, and, when dealing with many transactions in total taking place throughout the year, it will be incorrect to give to each year the percentages as shown. An average due date must be ascertained. Assume that this is calculated and fixed as 30th June. The following would then be the correct percentages to apply in making the transfers year by year from Deferred Interest (1913) Account—

1913	12 %
1914	12 % + 10½ %
1915	10½ % + 9 %
1916	9 % + 7½ %
1917	7½ % + 5½ %
1918	5½ % + 3½ %
1919	3½ % + 2 %
1920	2 %

Where repayments entered over seven years, there will be eight accounts for Deferred Interest open at any one time. Thus, in the year 1917, Profit and Loss Account will be credited with—

12 % of Deferred Interest on 1917 Sales
22½ % " " " 1916 "
19½ % " " " 1915 "
Etc., etc.

upon the assumption that the average due date remains constant each year.

The practical illustration of this method has been given in relation to transactions already dealt with, with the object of greater clearness. It has been stated, however, that the actual illustration is not in itself one to which it is desirable that this method be applied. It is applicable where the values of sales are small, repayments frequent, and transactions numerous. For example: a gramophone, saleable for cash at £24, is sold for £30, on hire purchase, on terms involving quarterly payments of £2 10s. each over a period of 3 years. To these facts, the system first described is unsuited by reason of the detail involved, and one or other of the remaining two is preferable.

A note in explanation of the method of calculation of average due date may be of interest. Assume sales as given in the following table.

	£
January	3,200
February	4,100
March	5,000
April	4,800
May,	6,200
June	2,300
July	2,600
August	1,800
September	4,200
October	5,200
November	6,000
December	6,300
	51,700

For purposes of approximation, monthly sales are assumed to be "equated" as at 15th of each month. The calculation will then be as follows—

Sales—January,	3,200	×	350	(days to 31st Dec.)	1,120,000
February,	4,100	×	319	,, ,, ,,	1,307,900
March,	5,000	×	291	,, ,, ,,	1,455,000
April,	4,800	×	260	,, ,, ,,	1,248,000
May,	6,200	×	230	,, ,, ,,	1,426,000
June,	2,300	×	199	,, ,, ,,	457,700
July,	2,600	×	169	,, ,, ,,	439,400
August,	1,800	×	138	,, ,, ,,	248,400
September,	4,200	×	107	,, ,, ,,	449,400
October,	5,200	×	77	,, ,, ,,	400,400
November,	6,000	×	46	,, ,, ,,	276,000
December,	6,300	×	16	,, ,, ,,	100,800
	51,700				8,929,000

8,929,000 divided by 51,700 gives approximately 173.
173 days from 31st December is 11th July, average due date.

Royalties and Minimum Rents.

The treatment in accounts of royalties and minimum or dead rents frequently arises for consideration in connection with Colliery and Mining Companies. The provisions of the lease of the coal or mine-field in such cases commonly provide for a royalty proportionate to the minerals worked, and also for a fixed minimum, which to some extent ensures that the property will be adequately exploited.

Inasmuch as companies of this character cannot arrive at full production in the earlier stages of development, during which period the obligation to pay the minimum rent will apply, the terms of the lease usually give a permission to the lessee to recoup Short Workings, that is, to recover the excess of rent paid over actual royalties incurred, within a specified or unlimited period, from future royalties.

Where there exists a reasonable probability of recoupment, there is no objection to the treatment of Short Workings in the accounts as expenditure paid in advance, but when it appears that these cannot or are unlikely to be recovered by deduction from subsequent royalties they represent a loss, and should therefore be written off. There is, again, a clear distinction between the minimum rents paid year by year in respect of property of which the development is not in immediate contemplation, and which are paid rather to maintain a monopoly over a certain area, and those paid by a concern in the initial stages of development.

Example. A colliery holds a lease of lands upon the following terms *inter alia*—

Minimum rent, £300 per annum, merging in a royalty of 6d. per ton; Short Workings recoverable within five years.

Tonnage raised for successive years is—

1914	2,000 tons
1915	8,600 ,,
1916	15,100 ,,
1917	16,800 ,,
1918	19,000 ,,
1919	14,200 ,,

MINIMUM RENT ACCOUNT.

Dr. *Cr.*

		£	s.	d.			£	s.	d.
1914.	To Landlord . .	300	–	–	1914.	By Royalties A/c .	50	–	–
1915.	" " . .	300	–	–	1915.	" " " .	215	–	–
1916.	" " . .	300	–	–	1916.	" " " .	377	10	–
1917.	" " . .	300	–	–	1917.	" " " .	420	–	–
					1918.	" " " .	137	10	–
		1,200	–	–			1,200	–	–

ROYALTIES ACCOUNT.

Dr.		£	s.	d.		Cr.	£	s.	d.
1914.	To Minim. Rent A/c	50	–	–	1914.	By Profit & Loss A/c	50	–	–
1915.	„ „ „ „	215	–	–	1915.	„ „ „ „	215	–	–
1916.	„ „ „ „	377	10	–	1916.	„ „ „ „	377	10	–
1917.	„ „ „ „	420	–	–	1917.	„ „ „ „	420	–	–
1918.	„ „ „ „	137	10	–					
	„ Landlord . .	337	10	–	1918.	„ „ „ „	475	–	–
1919.	„ Landlord . .	355	–	–	1919.	„ „ „ „	355	–	–

LANDLORD.

		£	s.	d.			£	s.	d.
1914.	To Cash . . .	300	–	–	1914.	By Minim. Rent A/c	300	–	–
1915.	„ „ . . .	300	–	–	1915.	„ „ „ „	300	–	–
1916.	„ „ . . .	300	–	–	1916.	„ „ „ „	300	–	–
1917.	„ „ . . .	300	–	–	1917.	„ „ „ „	300	–	–
1918.	„ „ . . .	337	10	–	1918.	„ Royalties A/c .	337	10	–
1919.	„ „ . . .	355	–	–	1919.	„ „ .	355	–	–

Valuation of Goodwill.

The value of goodwill may have to be ascertained upon—

(1) Purchase or sale of a business;

(2) The adjustment as between partners of the share due to a deceased or outgoing partner;

(3) Disturbance of a business by a local or other authority acting under compulsory powers;

(4) A claim for compensation for loss of earning power resulting from accident;

and in other less frequent cases.

The factors involved in calculation of value naturally include the amount and nature of the profits and the number of years purchase. The latter varies greatly with circumstances, from a nominal figure to as much as five years.

While the value is a matter of bargain and may, indeed, not be represented by a specific figure, but enter into and form part of a transaction involving transfer of numerous assets, the price is obviously dependent upon the probability of continuance of value to the purchaser. In estimating this probability, many factors may require consideration, *e.g.*, locality (as regards, say, a theatre), terms of lease (where retention of premises is desirable), personality (in the case, say, of a medical specialist), reputation (in the case, say, of a firm of consulting engineers), connection (as regards, say, a patented article); any one or more of these may have influence in determining value in a particular case. Their influence will have effect upon the number of years' purchase to be paid, but obviously the main consideration is the financial results forming the reason for such value as exists.

Assuming that accounts submitted are in themselves accurate, it may yet be for consideration how far they may be taken as a guide for future earnings. Thus, adjustment would ordinarily be necessary in respect of abnormal profits or losses, such, for example, as profit on investments made by a trading concern, or resulting from speculative transactions in markets outside the regular course of business.

Assuming that such matters are correctly dealt with, the purchaser, in deciding upon a figure which he is prepared to pay, will naturally make allowance from the profits to which he hopes to succeed for interest on the sum to be invested in purchase of goodwill; for this interest represents income presently receivable, and he will pay to acquire only that further speculative return above what he now derives from other investments. It must not be supposed that a purchaser does, in the majority of cases, resolve the elements of the transaction into the theoretical factors indicated, but these nevertheless do substantially enter into the transaction.

In addition to capital invested in purchase of goodwill, the purchaser will require to employ working capital, and will expect that the profits will compensate him for the interest thereon. The purchaser, therefore, should not base his price upon the full profits, but upon the balance remaining after deduction of interest on capital diverted from other investments.

Should the business require personal attention from the owner, it is to be presumed that he, by diverting them from other objects, has contributed to the business the value of his services (otherwise producing income). For this, further allowance will be necessary, for the purchaser will not expend capital to acquire a right to the value of his own services.

Thus, if the profits be assumed to appear as follows, after all adjustments other than those shown have been made, the method of calculation of the purchase price will be as now shown—

	1915.	1916.	1917.
	£	£	£
Profits	3,160	3,500	3,925
Less, Management Salary (say) . .	300	300	300
	2,860	3,200	3,625
Less, Interest on Average Working Capital, at 5% per annum . .	1,000	840	920
	1,860	2,360	2,705
			2,360
			1,860
			3)6,925
Average			£2,308

Assume, further, that the purchaser has agreed to offer, or is prepared to give, four years' purchase—

	£	s.	d.
Average profits	2,308	–	–
Less, Interest on £7,693 6s. 8d. @ 5 % per annum	384	13	4
Balance	1,923	6	8

At four years' purchase, value of goodwill is £7,693 6s. 8d., representing a further investment of capital over and above working capital to this extent, in respect of which an allowance for interest has been duly made.

While the method of valuation on principles of theoretical accuracy has been indicated, it should be emphasised that this exactness may be found in practice to have degenerated into a matter of bargaining in respect of approximate values, from which theory is notably absent.

INDEX

Printed by Sir Isaac Pitman & Sons, Ltd., Bath, England
v—(1377)

BUSINESS TRAINING

LECTURES ON BRITISH COMMERCE, including Finance, Insurance, Business and Industry. By the Rt. Hon. Frederick Huth Jackson, G. Armitage-Smith, M.A., D.Lit., Robert Bruce, C.B., Sir Douglas Owen, W. E. Barling, J. J. Bisgood, B.A., Allan Greenwell, F.G.S., James Graham. With a Preface by the Hon. W. Pember Reeves. In demy 8vo, cloth gilt, 295 pp., **7s. 6d.** net.

THE THEORY AND PRACTICE OF COMMERCE. Being a Complete Guide to Methods and Machinery of Business. Edited by F. Heelis, F.C.I.S., Assisted by Specialist Contributors. In demy 8vo, cloth gilt, 620 pp., with many facsimile forms, **6s.** net. Also in 2 vols.,each, price **3s. 6d.** net.

THE PRINCIPLES AND PRACTICE OF COMMERCE. By James Stephenson, M.A., M.Com., B.Sc. In demy 8vo, cloth gilt, 650 pp., with many facsimile forms, **7s. 6d.** net.

THE PRINCIPLES AND PRACTICE OF COMMERCIAL CORRESPONDENCE. By the same Author. In demy 8vo, 320 pp., **7s. 6d.** net.

THE PRINCIPLES OF COMMERCIAL HISTORY. By the same Author. In demy 8vo, 279 pp., **7s. 6d.** net.

THE PRINCIPLES AND PRACTICE OF COMMERCIAL ARITHMETIC. By P. W. Norris, M.A., B.Sc. (Hons.). In demy 8vo, 452 pp., **7s. 6d.** net.

MODERN BUSINESS AND ITS METHODS. A Manual of Business Organization, Management and Office Procedure for Commercial Students and Business Men. By W. Campbell, *Chartered Secretary.* In crown 8vo, cloth, 493 pp., **6s.** net. Also in 2 vols., each **3s. 6d.** net.

INSURANCE

INSURANCE. A Practical Exposition for the Student and Business Man. By T. E. Young, B.A., F.R.A.S. With a Practical Section on Workmen's Compensation Insurance, by W. R. Strong, F.I.A.; and the National Insurance Scheme, by Vyvyan Marr, F.F.A., F.I.A. Third Edition. Revised and Enlarged. In demy 8vo, cloth gilt, 440 pp., **10s. 6d.** net.

INSURANCE OFFICE ORGANISATION, MANAGEMENT, AND ACCOUNTS. By T. E. Young, B.A., F.R.A.S., and Richard Masters, A.C.A. Second Edition, Revised. In demy 8vo, cloth gilt, 150 pp., **5s.** net.

ORGANISATION AND MANAGEMENT

OFFICE ORGANISATION AND MANAGEMENT. Including Secretarial Work. By Lawrence R. Dicksee, M.Com., F.C.A., and H. E. Blain, *Late Tramways Manager, County Borough of West Ham.* Fourth Edition. Revised. In demy 8vo, cloth gilt, 314 pp., **7s. 6d.** net.

COUNTING HOUSE AND FACTORY ORGANISATION. A Practical Manual of Modern Methods applied to the Counting House and Factory. By J. Gilmour Williamson. In demy 8vo, cloth gilt, 182 pp., **6s.** net.

FILING SYSTEMS. Their Principles and their Application to Modern Office Requirements. By Edward A. Cope. In crown 8vo, cloth gilt, 200 pp. with illustrations, **2s. 6d.** net.

INDUSTRIAL TRAFFIC MANAGEMENT. By Geo. B. Lissenden, *Author of "Railway (Rebates) Case Law," etc., etc.* With a Foreword by Charles E. Musgrave, *Secretary, London Chamber of Commerce.* In demy 8vo, cloth gilt, 260 pp., **7s. 6d.** net.

THE PSYCHOLOGY OF MANAGEMENT. By L. M. Gilbreth. In demy 8vo, 354 pp., **7s. 6d.** net.

EMPLOYMENT MANAGEMENT. Compiled and edited by Daniel Bloomfield. In demy 8vo, 507 pp., **8s. 6d.** net.

MUNICIPAL OFFICE ORGANISATION AND MANAGEMENT. Edited by William Bateson, A.C.A., F.S.A.A. With contributions by eminent authorities on Municipal Work and Practice. In crown 4to, half-leather gilt, with about 250 diagrams and forms, 503 pp., **25s.** net.

CLUBS AND THEIR MANAGEMENT. By Francis W. Pixley, F.C.A., *Barrister-at-Law.* In demy 8vo, cloth gilt, 240 pp., **7s. 6d.** net.

SOLICITOR'S OFFICE ORGANISATION, MANAGEMENT, AND ACCOUNTS. By E. A. Cope and H. W. H. Robins. In demy 8vo, cloth gilt, 176 pp., with numerous forms, **5s.** net.

COLLIERY OFFICE ORGANISATION AND ACCOUNTS. By J. W. Innes, F.C.A., and T. Colin Campbell, F.C.I. In demy 8vo, **6s.** net.

DRAPERY BUSINESS ORGANISATION AND MANAGEMENT. By J. Ernest Bayley. In demy 8vo, cloth gilt, 300 pp., **7s. 6d.** net.

GROCERY BUSINESS ORGANISATION AND MANAGEMENT. By C. L. T. Beeching. With Chapters on Buying a Business, Grocers' Office Work and Book-keeping, etc., by J. A. Smart. Second Edition. In demy 8vo, cloth, 160 pp., **6s.** net.

SHIPPING OFFICE ORGANISATION, MANAGEMENT, AND ACCOUNTS (*see below*).

BANK ORGANISATION, MANAGEMENT AND ACCOUNTS (p. 4).

INSURANCE OFFICE ORGANISATION (p. 2).

THE HISTORY, LAW, AND PRACTICE OF THE STOCK EXCHANGE. By A. P. Poley, B.A., *Barrister-at-Law;* and F. H. Carruthers Gould. Third Edition, revised. In demy 8vo, cloth gilt, 348 pp., **7s. 6d.** net.

SHIPPING

SHIPPING OFFICE ORGANISATION, MANAGEMENT, AND ACCOUNTS. A comprehensive Guide to the innumerable details connected with the Shipping Trade. By Alfred Calvert. In demy 8vo, cloth gilt, 203 pp., with numerous forms, **6s.** net.

THE EXPORTER'S HANDBOOK AND GLOSSARY. By F. M. Dudeney. Foreword by W. Eglington, *Founder and Editor of "The British Export Gazette."* In demy 8vo, cloth gilt, 254 pp. **6s.** net.

THE PRINCIPLES OF MARINE LAW. (*See* p. 7.)

CASE AND FREIGHT COSTS. The Principles of Calculation relating to the Cost of, and Freight on, Sea or Commercial Cases. By A. W. E. Crosfield. In crown 8vo, cloth, 62 pp., **2s.** net.

BANKING AND FINANCE

MONEY, EXCHANGE AND BANKING, in their Practical, Theoretical, and Legal Aspects. A complete Manual for Bank Officials, Business Men, and Students of Commerce. By H. T. Easton, *Associate of the Institute of Bankers.* Second Edition, Revised. In demy 8vo, cloth gilt, 312 pp., **6s.** net.

FOREIGN EXCHANGE AND FOREIGN BILLS IN THEORY AND IN PRACTICE. By W. F. Spalding, *Certificated Associate, Institute of Bankers, etc., etc.* Third Edition. In demy 8vo, cloth gilt, 227 pp., **7s. 6d.** net.

EASTERN EXCHANGE, CURRENCY AND FINANCE. By the same Author. Second Edition. In demy 8vo, cloth, 375 pp., with 1 coloured and 6 black-and-white full-page plates, **12s. 6d.** net.

FOREIGN EXCHANGE, A PRIMER OF. By the same Author. In crown 8vo, cloth, 108 pp., **3s. 6d.** net.

PRACTICAL BANKING. By J. F. G. BAGSHAW, *Certificated Associate of the Institute of Bankers*. With chapters on "**The Principles of Currency,**" by C. F. HANNAFORD, *Associate of the Institute of Bankers*, and "**Bank Book-keeping,**" by W. H. PEARD, *Member of the Institute of Bankers in Ireland*. In demy 8vo, cloth gilt, 397 pp., **6s.** net.

BANK ORGANISATION, MANAGEMENT, AND ACCOUNTS. By J. F. DAVIS, D.Lit., M.A., LL.B. (Lond.). In demy 8vo, cloth gilt, 165 pp., **5s.** net

BILLS, CHEQUES, AND NOTES. A Handbook for Business Men and Lawyers. Together with the Bills of Exchange Act, 1882, the Amending Act, Bills of Exchange (Crossed Cheques) Act, 1906, and the Bills of Exchange (Time of Noting) Act, 1917. By J. A. SLATER, B.A., LL.B. Lond.), *Barrister-at-Law*. Third Edition. In demy 8vo, cloth gilt, 214 pp., **6s.** net.

BANKERS' SECURITIES AGAINST ADVANCES. By LAWRENCE A. FOGG, *Certificated Associate of the Institute of Bankers*. In demy 8vo, cloth gilt, 120 pp. **5s.** net.

BANKERS' ADVANCES. By F. R. STEAD. Edited by SIR JOHN PAGET, K.C. In demy 8vo, cloth., 144 pp., **6s.** net.

THE EVOLUTION OF THE MONEY MARKET (1385-1915). An Historical and Analytical Study of the Rise and Development of Finance as a Centralised, Co-ordinated Force. By ELLIS T. POWELL, LL.B. (Lond.), D.Sc. (Econ., Lond.), *Barrister-at-Law*. In demy 8vo, cloth gilt, 748 pp., **10s. 6d.** net.

SIMPLE INTEREST TABLES. By SIR WM. SCHOOLING, K.B.E. In crown 8vo, cloth gilt, 188 pp., **21s.** net.

TALKS ON BANKING TO BANK CLERKS. By HAROLD E. EVANS, *Certificated Associate of the Institute of Bankers*. In crown 8vo, cloth, 152 pp., **2s. 6d.** net.

DICTIONARY OF BANKING. A Complete Encyclopaedia of Banking Law and Practice. By W. THOMSON, *Bank Inspector*. Third Edition, Revised and Enlarged 1919. In crown 4to, half leather gilt, 642 pp., **30s.** net.

SECRETARIAL WORK

THE COMPANY SECRETARY'S VADE MECUM. Edited by PHILIP TOVEY, F.C.I.S. In foolscap 8vo, cloth, **2s.** net.

SECRETARY'S HANDBOOK. A Practical Guide to the Work and Duties in connection with the Position of Secretary to a Member of Parliament, a Country Gentleman with a landed estate, a Charitable Institution, with a section devoted to the work of a Lady Secretary and a chapter dealing with Secretarial work in general. Edited by H. E. BLAIN. In demy 8vo, cloth gilt, 168 pp., **5s.** net.

GUIDE FOR THE COMPANY SECRETARY. A Practical Manual and Work of Reference for the Company Secretary. By ARTHUR COLES, F.C.I.S. Second Edition, Enlarged and thoroughly Revised. With 76 facsimile forms, and the full text of the Companies Acts, 1908 and 1913, the Companies Clauses Act, 1845, Companies (Foreign Interest) Act, 1917, Companies (Particulars as to Directors) Act, 1917, and War Legislation. In demy 8vo, cloth gilt, 432 pp., **6s.** net.

COMPANY ACCOUNTS. By the same Author. (See p. 1.)

DICTIONARY OF SECRETARIAL LAW AND PRACTICE. A Comprehensive Encyclopaedia of Information and Direction on all matters connected with the work of a Company Secretary. Fully illustrated with the necessary forms and documents. With Sections on special branches of Secretarial Work. Edited by PHILIP TOVEY, F.C.I.S. With contributions by nearly 40 eminent authorities on Company Law and Secretarial Practice, including: The Rt. Hon. G. N. Barnes, M.P.; F. Gore-Browne, K.C., M.A.; A. Crew, F.C.I.S.; J. P. Earnshaw, F.C.I.S.; M. Webster Jenkinson, F.C.A.; F. W. Pixley, F.C.A. Third Edition, enlarged and revised. In one handsome volume, half leather gilt, gilt top, 1011 pp., **35s.** net.

THE TRANSFER OF STOCKS, SHARES, AND OTHER MARKETABLE SECURITIES. A Manual of the Law and Practice. By F. D. HEAD, B.A. (Oxon.), *Barrister-at-Law.* Second Edition, Revised and Enlarged. In demy 8vo, cloth gilt, 220 pp., **5s.** net.

THE CHAIRMAN'S MANUAL. Being a guide to the management of meetings in general, and of meetings of local authorities, with separate and complete treatment of the meetings of public companies. By GURDON PALIN, *Barrister-at-Law.* and ERNEST MARTIN, F.C.I.S. In crown 8vo, cloth gilt, 192 pp., **3s. 6d.** net.

HOW TO TAKE MINUTES. Edited by ERNEST MARTIN, F.C.I.S. Second Edition, Revised and Enlarged. In demy 8vo, cloth gilt, 130 pp., **2s. 6d.** net.

WHAT IS THE VALUE OF A SHARE? Tables for readily and correctly ascertaining (1) the present value of shares; and (2) what dividends should be paid annually to justify the purchase or market price of shares. By D. W. ROSSITER. In demy 8vo, limp cloth. 20 pp., **2s. 6d.** net.

PROSPECTUSES: HOW TO READ AND UNDERSTAND THEM. By PHILIP TOVEY, F.C.I.S. In demy 8vo, cloth, 109 pp., **2s. 6d.** net.

INCOME TAX

INCOME TAX AND SUPER-TAX PRACTICE. Including a Dictionary of Income Tax and Specimen Returns, incorporating the Consolidation Act of 1918. Third Edition, Revised and Enlarged. By W. E. SNELLING. In demy 8vo, cloth gilt, 518 pp., **15s.** net.

INCOME TAX AND SUPER-TAX LAW AND CASES, including the Finance Act, 1918. A Practical Exposition of the Law, for the use of Income Tax Officials, Solicitors, Accountants, etc. Third Edition, Revised. By W. E. SNELLING. In demy 8vo, cloth gilt, 472 pp., **12s. 6d.** net.

COAL MINES EXCESS PAYMENTS, Guarantee Payments and Levies for Closed Mines. This book deals with the Agreement entered into between the Coal Controller and the colliery owners. By W. E. SNELLING. Demy 8vo, cloth gilt, 176 pp., **12s. 6d.** net.

EXCESS PROFITS (Including Excess Mineral Rights) DUTY, and Levies under the Munitions of War Acts. Incorporating the Provisions of the Income Tax Acts made applicable by Statute and by Regulation, the provisions of the Finance Act, 1919, and also the Regulations of the Commissioners of Inland Revenue, and of the Minister of Munitions. By W. E. SNELLING. Fifth Edition, Revised and Enlarged. In demy 8vo, cloth gilt, 458 pp. **15s.** net.

ECONOMICS

ECONOMIC GEOGRAPHY. By J. MCFARLANE, M.A., M.Com. In demy 8vo, cloth gilt, 568 pp., with 18 illustrations, **8s. 6d.** net

OUTLINES OF THE ECONOMIC HISTORY OF ENGLAND. A Study in Social Development. By H. O. Meredith, M.A., M.Com., *Fellow of King's College, Cambridge.* In demy 8vo, cloth gilt, 376 pp., **6s.** net.

THE HISTORY AND ECONOMICS OF TRANSPORT. By Adam W. Kirkaldy, M.A., B.Litt., Oxford; M.Com., Birmingham; and Alfred Dudley Evans. In demy 8vo, cloth gilt, 348 pp., **7s. 6d.** net.

THE ECONOMICS OF TELEGRAPHS AND TELEPHONES. By John Lee, M.A.. *Traffic Manager, Post Office Telegraphs.* In crown 8vo, cloth gilt, 92 pp., **2s. 6d.** net.

INDUSTRY AND FINANCE. (Supplementary Volume.) Edited by Adam W. Kirkaldy, M.A., B.Litt., M.Com. Dealing with the results of inquiries arranged by the Section of Economic Science and Statistics of the British Association, and bringing the information as to the replacement of men by women in industry, and that regarding currency, finance, banking, etc., up to date. In demy 8vo, cloth, **5s.** net.

TALKS WITH WORKERS. On Wealth, Wages and Production. In crown 8vo., 124 pp., limp cloth, **2s.** net.

ADVERTISING AND SALESMANSHIP

THE CRAFT OF SILENT SALESMANSHIP. A Guide to Advertisement Construction. By C. Maxwell Tregurtha and J. W. Frings. Size, 6½ in. by 9½ in., cloth, 98 pp., with illustrations. **5s.** net.

THE NEW BUSINESS. A Handbook dealing with the Principles of Advertising, Selling, and Marketing. By Harry Tipper, *President, Advertising Men's League, New York.* In demy 8vo, cloth gilt, 406 pp., **8s. 6d.** net.

SALESMANSHIP. By W. A. Corbion and G. E. Grimsdale. In crown 8vo, cloth, 186 pp.. **2s. 6d.** net.

PRACTICAL SALESMANSHIP. By N. C. Fowler, Junr. In crown 8vo. 337 pp., **5s.** net.

COMMERCIAL TRAVELLING. By Albert E. Bull. In crown 8vo, cloth gilt, 174 pp., **3s. 6d. net.**

THEORY AND PRACTICE OF ADVERTISING. By W. Dill Scott, Ph.D. In large crown 8vo, cloth, with 61 illustrations, 240 pp., **7s. 6d.** net.

THE PSYCHOLOGY OF ADVERTISING. By the same Author. In large crown 8vo, cloth, with 67 illustrations, 282 pp., **7s. 6d.** net.

ADVERTISING AS A BUSINESS FORCE. By P. T. Cherington. In demy 8vo, cloth, 586 pp., **7s. 6d.** net.

THE PRINCIPLES OF ADVERTISING ARRANGEMENT. By F. A. Parsons, Cloth, 128 pp., illustrated, **7s. 6d.** net.

HOW TO ADVERTISE. By G. French, *Editor of the "Advertising News."* In crown 8vo., **8s. 6d.** net.

THE MANUAL OF SUCCESSFUL STOREKEEPING. By W. A. Hotchkin. In demy 8vo, 298 pp., **8s. 6d.** net.

ADS. AND SALES. By Herbert N. Casson. In demy 8vo, cloth, 167 pp. **7s. 6d.** net.

THE PRINCIPLES OF PRACTICAL PUBLICITY. By Truman A. de Weese. In large crown 8vo, cloth, with 43 illustrations, 266 pp., **7s. 6d.** net.

LAW

MERCANTILE LAW. By J. A. Slater, B.A., LL.B. A practical exposition for Law Students, Business Men, and Advanced Classes in Commercial Colleges and Schools. Fourth Edition. In demy 8vo, cloth gilt, 464 pp., **7s. 6d.** net.

COMPANIES AND COMPANY LAW. Together with the Companies (Consolidation) Act, 1908, and the Act of 1913. By A. C. CONNELL, LL.B. (Lond.), *of the Middle Temple, Barrister-at-Law.* Second Edition, Revised. In demy 8vo, cloth gilt, 348 pp., **6s.** net.

COMPANY CASE LAW. By F. D. HEAD, B.A. (Oxon.), *Barrister-at-Law.* In demy 8vo, cloth gilt, 314 pp., **7s. 6d.** net.

THE LAW OF CARRIAGE. By J. E. R. STEPHENS, B.A., *of the Middle Temple, Barrister-at-Law.* In demy 8vo, cloth gilt, 340 pp., **5s.** net.

THE LAW RELATING TO THE CARRIAGE BY LAND OF PASSENGERS, ANIMALS, AND GOODS. By S. W. CLARKE, *Barrister-at-Law.* In demy 8vo, cloth gilt, 350 pp., **7s. 6d.** net.

INCOME TAX AND SUPER-TAX LAW AND CASES. (See p. 5.)

THE LAW RELATING TO SECRET COMMISSIONS AND BRIBES (Christmas Boxes, Gratuities, Tips, etc.); The Prevention of Corruption Act, 1906. By ALBERT CREW, *Barrister-at-Law; Lee Prizeman of Gray's Inn.* In demy 8vo, cloth gilt, 198 pp., **5s.** net.

BANKRUPTCY, DEEDS OF ARRANGEMENT, AND BILLS OF SALE. By W. VALENTINE BALL, M.A., and G. MILLS, B.A., *Barristers-at-Law.* Third Edition, Revised in accordance with the Bankruptcy and the Deeds of Arrangement Acts, 1914. In demy 8vo, 364 pp., **5s.** net.

PRINCIPLES OF MARINE LAW. By LAWRENCE DUCKWORTH, *Barrister-at-Law.* Third Edition, Revised. In demy 8vo, about 400 pp., **7s. 6d.** net.

GUIDE TO THE LAW OF LICENSING. The Handbook for all Licence-holders. By J. WELLS THATCHER, *Barrister-at-Law.* In demy 8vo, cloth gilt, 200 pp., **5s.** net.

RAILWAY (REBATES) CASE LAW. By GEO. B. LISSENDEN. In demy 8vo, cloth gilt, 450 pp., **10s. 6d.** net.

THE LAW RELATING TO THE CHILD: Its Protection, Education, and Employment. With Introduction on the Laws of Spain, Germany, France, and Italy; and Bibliography. By ROBERT W. HOLLAND, M.A., M.Sc., LL.D., *Barrister-at-Law.* In demy 8vo, 166 pp., **5s.** net.

GUIDE TO THE REGISTRATION OF BUSINESS NAMES ACT, 1916. By KENNETH BROWN, *Solicitor.* In crown 8vo, paper boards, **1s.** net.

CONVEYANCING. By E. A. COPE. In crown 8vo, cloth, 206 pp., **3s. 6d.** net.

WILLS, EXECUTORS, AND TRUSTEES. By J. A. SLATER, B.A., LL.B. With a chapter on Intestacy. In foolscap 8vo, cloth, 122 pp., **1s. 6d.** net.

INHABITED HOUSE DUTY. By W. E. SNELLING. In demy 8vo, cloth gilt, 356 pp., **12s. 6d.** net.

THE LAW OF REPAIRS AND DILAPIDATIONS. By T. CATO WORSFOLD, M.A., LL.D. In crown 8vo, cloth gilt, 104 pp., **3s. 6d.** net.

THE LAW OF EVIDENCE. By W. NEMBHARD HIBBERT, LL.D. *Barrister-at-Law.* Second Edition, Revised. In crown 8vo, 144 pp., **5s.** net.

THE LAW OF PROCEDURE. By the same Author. In demy 8vo, cloth gilt, 122 pp., **5s.** net.

BILLS, CHEQUES, AND NOTES. (See page 4.)

THE HISTORY, LAW, AND PRACTICE OF THE STOCK EXCHANGE. (See page 3)

BUSINESS REFERENCE BOOKS

COMMERCIAL ENCYCLOPAEDIA AND DICTIONARY OF BUSINESS. A reliable and comprehensive work of reference on all commercial subjects, specially designed and written for the busy merchant, the commercial student, and the modern man of affairs. Edited by J. A. SLATER, B.A., LL.B. (Lond.), *of the Middle Temple and North-Eastern Circuit, Barrister-at-Law.* Assisted by upwards of 50 specialists as contributors. With numerous maps, illustrations, facsimile business forms and legal documents, diagrams, etc. In 4 vols., large crown 4to (each 450 pp.), cloth gilt, **£2** net. Half-leather gilt, **£2 12s. 6d.** net.

BUSINESS MAN'S GUIDE. Seventh Revised Edition. With French, German, Spanish and Italian equivalents for the Commercial Words and Terms. Edited by J. A. Slater, B.A., LL.B. (Lond.). The work includes over 2 000 articles. In crown 8vo, cloth, 520 pp. **5s.** net.

COMMERCIAL ARBITRATIONS. By E. J. Parry, B.Sc., F.I.C., F.C.S. An invaluable guide to business men who are called upon to conduct arbitrations. In crown 8vo, cloth gilt, **3s. 6d.** net.

PERSONAL EFFICIENCY IN BUSINESS. By E. E. Purington. In crown 8vo, cloth gilt, 279 pp., **7s. 6d.** net.

DICTIONARY OF COMMERCIAL CORRESPONDENCE IN SEVEN LANGUAGES: ENGLISH, FRENCH, GERMAN, SPANISH, ITALIAN, PORTUGUESE AND RUSSIAN. In demy 8vo, cloth, 718 pp., **1 s. 6d.** net.

FILING SYSTEMS. (See page 2.)

SIMPLE INTEREST TABLES. (See page 4.)

A MANUAL OF DUPLICATING METHODS. By W. Desborough. In demy 8vo, cloth, 90 pp., illustrated, **2s.** net.

COMMON COMMODITIES AND INDUSTRIES SERIES. Each book in crown 8vo, cloth, illustrated, **2s. 6d.** net. Volumes already published on **Tea, Coffee, Sugar, Oils, Wheat, Rubber, Iron and Steel, Copper, Coal, Timber, Cotton, Silk, Wool, Linen, Tobacco, Leather, Clays, Paper, Soap, Glass, Gums and Resins, The Motor Industry, Boot and Shoe Industry, Gas and Gas Making, Petroleum, Salt, Furniture, Coal Tar, Knitted Fabrics, Zinc, Asbestos, Photography, Silver, Carpets, Paints and Varnishes, Cordage and Cordage Hemp and Fibres, Acids and Alkalis, Gold, Electricity, Butter and Cheese, Aluminium, The British Corn Trade, Engraving, Lead, Stones and Quarries.**

BUSINESS ORGANISATION AND MANAGEMENT.

A Monthly Magazine of High Standard for Business Men.

Price **1s. 6d.**; **1s. 9d.** Post Free.

COMPLETE LIST POST FREE ON APPLICATION

Sir Isaac Pitman & Sons, Ltd., 1 Amen Corner, London, E.C. 4

And at Bath, Melbourne and New York