LYONS' BOOKKEEPING AND ACCOUNTING Complete

LYONS AND CARNAHAN

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PREFACE

The tendency of modern Courses in Commerce is to study business and the various relations which grow out of business transactions; to understand credit and the things which affect credit relations; and to know the effect upon a business of certain well-defined economic principles.

Most educators agree that these ends may be attained through the medium of a bookkeeping course better than in any other way; and, while the general principles of business are being studied, it must not be forgotten that bookkeeping still remains a subject that is studied largely for practical purposes. Therefore, a course in bookkeeping should do at least two things for a student.

First, it should equip him to take a place in business and enable him to fill that place intelligently. Second, it should give him an equipment that is much broader, and, in a sense, much more important,—the power to analyze, to interpret, and to determine the results that are produced by business transactions, relations and conditions.

It is entirely proper that some students should desire to prepare themselves to become bookkeepers, but there are many more who will desire to study bookkeeping because of the benefit in after-life to be derived from such a course. Therefore, the bookkeeping course should be not only a study of office routine and business papers, but also a study of the construction and the interpretation of accounts.

No one has ever given a satisfactory reason why sound accounting practices should not be taught from the first; it certainly is no more difficult to do this than it is to teach practices that are not recognized by modern accountancy.

In the preparation of this textbook the authors set themselves the task of presenting, from the outset, sound accounting principles, and of making the course cumulative and the method inductive. Part I embraces a study of the following basic accounts: Personal, Proprietor's Capital, Profit & Loss, Expense, Purchases, Inventory, Sales and Cash, also a study of the purchases book, sales book, cash book and journal. Part II begins the use of short sets in which these basic accounts together with the books of original entry are constructed from related business transactions, and here also is introduced the preparation of the Profit and Loss Statement and the Balance Sheet. Additional accounts are then studied after which a short set is presented that compels the use of all accounts that have been studied thus far; etc. Much collateral work such as the analysis of accounts, preparation of comparative statements, etc., is explained, and the student is required to do similar work from the accounts and books which he has prepared.

Part III embraces a study of the Balance Sheet, Trading and Profit and Loss Statement, and bookkeeping devices, such as special columns, controlling accounts, memorandum books, etc.

Part IV presents an intensive study of a special business—Wholesale Grocery—and requires the use of almost all the books, accounts, and papers, that have been previously discussed in the course.

Business papers likewise have been segregated. In Set IV, the simplest "outgoing" papers are introduced and their forms and functions are explained. However, the use of any business papers in Set IV is optional.

In Set VI all business papers, which are incidental to a wholesale business, are introduced, and the transactions are so arranged that the use of the "incoming" papers is compulsory; the entries occasioned by these papers can not be made unless the student reads the papers; thus, he learns to determine the proper entries by an examination of the papers.

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LYONS' BOOKKEEPING AND ACCOUNTING

PART I. BASIC ACCOUNTS
THEIR CONSTRUCTION AND MEANING

INTRODUCTION

Business and professional men find it necessary to keep records of their financial transactions to which they may readily refer. These records are known as Books of Account.

Bookkeeping is the systematic recording of business transactions in books provided for that purpose. Good bookkeeping furnishes the management with any desired financial information concerning the business, on short notice, and results from a good system and a competent bookkeeper.

The Terms Debit and Credit, and the fundamental rules governing their use, have been handed down for generations. There has been and can be no change in the principles of bookkeeping but there has been decided improvement in the application of these principles to the records of modern business.

The Owner or proprietor of the business, no matter what its nature, is sometimes referred to in this textbook as the **Merchant**; more frequently persons, firms or corporations are mentioned by name as the owners or proprietors.

The Merchant, selling his goods on time, keeps a record of the charges to each customer; also of other facts such as goods returned, allowances made (to) each customer and payments made by him.

An Account is the name given to the record of related transactions and the heading under which they are placed in the ledger.

The Balance of an account is the difference between the totals of its amount columns. If the debit side is larger the difference is known as a debit balance, but if the credit side is larger the difference is known as a credit balance.

PERSONAL ACCOUNTS

Personal Accounts are accounts kept with persons, firms, corporations and associations. They are divided into two classes: Accounts Receivable and Accounts Payable.

An Account Receivable is a Personal account the balance of which is due the merchant, that is, an account with a customer to whom he sells goods on time.

An Account Payable is a Personal account owed by the merchant, that is, an account with a creditor from whom he purchases goods on time.

Submit written answers to the following:

PERSONAL ACCOUNT PROBLEMS

1. During January a merchant sold J. R. Hilton on account bills of goods of the following amounts: $23.41, $12.76, $11.64, $12.83, $22.42, $14.58. How much did Mr. Hilton owe at the end of the month? (a) Is the amount owed by J. R. Hilton to the merchant an account receivable or an account payable on the merchant's books? (b) Is it an account receivable or an account payable on Mr. Hilton's books?

2. During February The Original Dry Goods Co. purchased the following bills of goods on account from Marshall Field & Co: Feb. 1, $230.00; Feb. 10, $300.00; Feb. 20, $500.75; Feb. 27, $1,575.10. What was the total charge on Marshall Field & Co's. books to the account of The Original Dry Goods Co.? (a) Should the books of The Original Dry Goods Co. show a credit of the same amount to Marshall Field & Co's account? (b) Is the amount due by The Original Dry Goods Co. an account receivable or an account payable on the books of Marshall Field & Co.? (c) Is the amount owed Marshall Field & Co. an account receivable or an account payable on the books of The Original Dry Goods Co.?

3. On March 1, H. K. James owed the City Dry Goods Co. $27.50. During the month the sales to Mr. James, not paid for at the time, were: $4.34, $5.28,$10.26, $8.92, $12.20, $8.96, $12.58 and $7.26. How much did he owe March 31, no payments having been made? (a) Is the account against H. K. James showing the amount owed by him an account receivable or an account payable on the books of the City Dry Goods Co.?

4. April 1, H. K. James owed the amount determined in the previous problem. During April the City Dry Goods Co. sold him the following bills of goods on account: $12.20, $5.00, $8.75, $2.36, $5.20, $6.50, $12.70. On April 10, H. K. James paid his March account in full. How much was due the City Dry Goods Co. April 30?

5. May 1, King & Smith owed the Homer Hardware Co. $425.50. During May, King & Smith bought from the same company goods as follows: May 10, $350.90; May 20, $160.00; May 27, $15.40. The payments made during the month were: May 5, check $125.50; May 10, check $300.00. What was the balance due the Homer Hardware Co. May 31? (a) Is the amount due the Homer Hardware Co. an account receivable on their books? (b) Why? (c) Is the amount owed by King & Smith an account payable on their books? (d) Why?

6. June 1, King & Smith owed the Homer Hardware Co. the balance shown by the previous problem. During June the sales to King & Smith by the same company on account were $300.00, $261.51 and $91.50. On June 5 they paid the amount owed on June 1 less an allowance of $15.30 for goods returned. (Give them credit for goods returned.) What was the debit balance against Smith & King on the books of the Homer Hardware Co., June 30? (a) What was the credit balance to the Homer Hardware Co. on the books of King & Smith, June 30? (b) Is the account of King & Smith on the books of the Homer Hardware Co., a customer's account? (c) Why? (d) Is the account of the Homer Hardware Co. on the books of King & Smith a creditor's account? (e) Why? (f) What is the difference between customers and creditors? (g) Are both personal accounts?

ACCOUNTS RECEIVABLE

EXERCISE

The transactions assembled here represent an account as it would appear in a ledger. It is the account of W. B. Dewey on the ledger of the Homer Hardware Co. which has sold him goods.

The printed headings at the top of the account are the names of the different columns generally used in ledgers. The illustrative accounts that follow will be in the same form.

Trace mentally each item in this exercise to its place in the illustrative account.

Jan. 1. The Homer Hardware Co. sold W. B. Dewey, Galesburg, Ill., on account, goods amounting to $250.75.
2. Sold W. B. Dewey, on account, goods amounting to $17.50.
3. W. B. Dewey gave his note for $200.00 and his check for $50.75 in payment of the bill of goods sold him on the 1st.
4. W. B. Dewey returned goods amounting to $5.15 for which he was given credit.

Jan. 5. Sold W. B. Dewey, on account, goods amounting to $175.50.
5. W. B. Dewey claims an overcharge of $4.50. This was looked up, allowed, and credit given to him.
6. Received from W. B. Dewey check for $100.00 to apply on account.

W. B. Dewey
Galesburg Ill

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	Cr 19– DATE	EXPLANATION	Folio	AMOUNT
Jan 1	Goods	175	250 75	Jan 3	Note	12	200 00
2	"	182	17 50	3	Check	52	50 75
5	"	83.35 201	175 50	4	Goods Retd	39	5 15
			443.75	5	Overcharge	41	4 50
				6	Check	78	100 00
							360 40
							83 35

Just below the heading "W. B. Dewey," and a little to the right, is written in a smaller hand his address; in large cities the street and number also should be written in the heading of the account.

The figures in the folio columns refer to the pages of the books in which the transactions were first recorded. The left side of W. B. Dewey's account is the debit side, and the footing shows the total of the sales to him. The right side of the account is the credit side, and the total is the amount of notes, checks and returned goods received from him, plus, also, one item of allowance for an overcharge. The small pencil footings just below the last debit item and the last credit item give the total of these charges and credits, while the small pencil figures on the debit side at the left of the footing of the debit column show at a glance the amount due from W. B. Dewey. This account on the books of the Homer Hardware Co. is a personal account: it is also a customer's account and an account receivable.

QUESTIONS ON W. B. DEWEY'S ACCOUNT

1. What was the amount of the sales to W. B. Dewey in Jan. 19-? 2. Do debits and charges mean the same thing in this account with W. B. Dewey? 3. What was the amount of the credits? 4. How much was the balance? 5. Is this balance the amount due from W. B. Dewey? 6. Are all the credits payments of money? 7. What is the amount of credits given Mr. Dewey, that does not represent cash? 8. What amount of cash has Dewey paid? 9. If Dewey should pay the balance of his account, what effect would it have upon the account?

Purpose. To record, in the form of accounts, the charges made to customers for goods sold to them on time by a merchant; also the credits for payments, returned goods and allowances.

Method. Open an account with the customer and debit or charge this account with the sales to him. Credit the account with payments of money or notes, also with all returned goods and allowances.

The first step in opening an account with a person is to write his name and address on the ledger page, thus:

W. B. Dewey, Galesburg, Ill.

Result. The difference between the two sides of an account receivable is the balance due the merchant.

Observe carefully the ruling of this account for it is the ruling used in balancing all accounts. The blue line on which to draw the single lines is the first blue line below the longer side of the account. The footing line on the other side is always on the same blue line. The footing lines cut the amount columns only. Notice that the double red lines are both on the following blue line and that they cut all columns except the two explanation columns. The footings are always in black and are inserted just above the double red lines.

BALANCING AND RULING ACCOUNTS RECEIVABLE

In certain instances it is necessary or desirable to balance a personal account.

When the account has covered all the space allotted to it except sufficient space to balance it—never more than two lines—it is carried forward to another page, and re-opened with the balance.

When the account is long and complicated and an understanding has been reached concerning the amount due, the account should be balanced.

At one time it was the custom to balance all accounts at the end of each month.

The bookkeeper should not balance a personal account unless some advantage is to be gained by doing so.

The foregoing illustration shows the account of W. B. Dewey balanced and ruled.

W B Dewey Galesburg Ill

Dr. Cr.

DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT
19–				19–			
Jan 1	Goods	175	250 75	Jan 3	Note	12	200 00
2	"	182	17 50	3	Check	52	50 75
5	"	83.35 201	175 50 443 75	4	Goods Retd	39	5 15
				5	Overcharge	41	4 50
				6	Check	78	100 00 360 40
					Balance		83 35
			443 75				443 75
Jan 6	Balance		83 35				

Accounts well ruled make the books attractive. They may be ruled in either red or black ink, but red is preferable. Therefore, the bookkeeper should always have two penholders; one for red ink and one for black ink. These penholders should be of different colors and the pen intended for red ink should never be used for black ink.

QUESTIONS ON BALANCING AND RULING

1. Why is "6 Balance 83.35" written on the credit side? 2. Why are the single red line on the credit side, and, the single red line on the debit side on the same blue line? 3. Why are the double red lines on the credit side and the double red lines on the debit side on the same blue line? 4. Why is "Jan. 6 Balance 83.35" written on the debit side under the double ruling? 5. Why are the totals between the single and double lines the same?

EXERCISE II

Write up the transactions in this exercise on ledger paper, opening an account with another customer of the Homer Hardware Co., charging and crediting it in accordance with the method applicable to personal accounts receivable. The figures, such as are used in the folio columns of W. B. Dewey's account, are to be omitted in this account.

Jan. 1. The Homer Hardware Co. sold Martin A. Robbins, a customer at Milwaukee, Wis., on account, goods amounting to $365.25.
2. Sold Martin A. Robbins, on account, goods amounting to $49.55.
3. Received of Martin A. Robbins his check in full for goods sold him on Jan. 1.
4. Martin A. Robbins returned goods amounting to $2.75 for which he was given credit.
5. Sold Martin A. Robbins, on account, goods amounting to $164.95.
6. Received from Martin A. Robbins check covering charge to him Jan. 2, less the amount returned Jan. 4.

Foot the Martin A. Robbins account in pencil, ascertain the balance, place it in pencil on the proper side, then balance and rule it. Write answers to the following questions and submit your work for approval.

1. Are all the people to whom the Homer Hardware Co. sells goods known as customers of that company? 2. The manager asks, "Does Martin A. Robbins, Milwaukee, Wis., owe us anything?" "How much"? 3. What is a personal account? 4. What is an account receivable? 5. Is Martin A. Robbins' account on the books of the Homer Hardware Co. both a personal account and an account receivable? 6. Is it a customer's account?

ACCOUNTS PAYABLE

EXERCISE III

In Exercise I, the Homer Hardware Co. sold goods to a customer on time and kept an account with him. In the exercise following, the Homer Hardware Co. buys goods of others on time and keeps accounts with them. The Pratt Manufacturing Co., Providence, R. I., was one of the concerns from which they bought goods. Trace mentally the transactions in this exercise affecting the Pratt Manufacturing Co. to the illustrative account with that company as shown on the books of the Homer Hardware Co.

Feb. 1. The Homer Hardware Co. bought of Pratt Manufacturing Co., Providence, R. I., a bill of goods amounting to $745.65.
2. Bought of Pratt Mfg. Co. goods invoiced at $392. 50.
3. Gave Pratt Mfg. Co. note dated today and payable in one month for $500.00 to apply on account.
4. Bought of Pratt Mfg. Co. goods invoiced at $127.45.
5. Returned to Pratt Mfg. Co. damaged goods, invoiced to us at $32.50, and received a credit memorandum covering them.
6. Bought of Pratt Mfg. Co. goods amounting to $85.10.
7. Checking the goods, covered by the invoice of $85.10, we found a shortage amounting to $1.60. This was reported to Pratt Mfg. Co. and allowed.

Feb. 8. Received from Pratt Mfg. Co. goods invoiced at $27.80.

9. Bought of Pratt Mfg. Co. goods billed at $136.90

10. Goods received today from Pratt Mfg. Co. invoiced at $721.25 were found in good condition and in accordance with our order. The invoice was O. K'd for credit to their account.

15. Gave Pratt Mfg. Co. a check to cover the credits to their account of Feb. 1, 2, 4 and 6, less the charges to date. Amount of check $816.60.

Pratt Manufacturing Co
Providence R.I.

Dr | | | | | | | Cr

19– DATE	EXPLANATION	Folio	AMOUNT	19– DATE	EXPLANATION	Folio	AMOUNT
Feb 3	Note	17	500 00	Feb 1	Goods	101	745 65
5	Goods Retd	21	32 50	2	"	126	392 50
7	" Short	27	1 60	4	"	132	127 45
15	Check	225	816 60	6	"	147	85 10
			1,350 70				1,350 70
				8	"	152	27 80
				9	"	152	136 90
				10	"	154	721 25

The parties to whom the Homer Hardware Co. owes money are known as creditors; consequently the account with the Pratt Manufacturing Co. is a creditor's account, or an account payable.

The numbers in the folio columns are the pages of the books where the transactions were originally recorded.

QUESTIONS ON PRATT MANUFACTURING CO.'S ACCOUNT

1. What does the total of the credit side show? 2. What does the total of the debit side show? 3. How much is charged to Pratt Manufacturing Co. that is not cash? 4. What is the balance due on this account? 5. Is it an account payable? 6. What effect would payment of the balance have upon this account?

Purpose. To record, in the form of accounts, the credits due to the manufacturers, wholesalers and jobbers for goods purchased from them on time by a merchant, also the charges for payments, returned goods and allowances.

Method. Open an account with the person, firm, corporation or association from which the merchant purchases goods on time. Credit this account with all purchases. Debit or charge this account with all payments, goods returned and allowances.

Result. The difference between the two sides of an account payable is the balance owed by the merchant.

BALANCING AND RULING ACCOUNTS PAYABLE

What has been said in regard to ruling accounts receivable applies also to accounts payable.

The following illustration shows the account of the Pratt Manufacturing Co. ruled.

Pratt Manufacturing Co
Providence R.I.

Dr | | | | Cr

DATE 19..		EXPLANATION	Folio	AMOUNT	DATE 19..		EXPLANATION	Folio	AMOUNT
Feb	3	Note	17	500 00	Feb	1	Goods	101	745 65
	5	Goods Retd	21	32 50		2	"	126	392 50
	7	" Short	27	1 60		4	"	132	127 45
	15	Check	225	816 60		6	"	147	85 10
				1350 70					1350 70
						8	"	152	27 80
						9	"	152	136 90
						10	"	154	721 25

QUESTIONS ON RULING

1. The small, pencil totals just beneath the single red lines are equal. What does this mean? 2. How would you get the balance of this account? 3. In finding the balance due the Pratt Manufacturing Co. is it necessary to add each side to find the balance due the Pratt Manufacturing Co? 4. What is the effect of ruling this account at a point where it balances?

EXERCISE IV

The Homer Hardware Co. also bought goods from Brown & Smith, South Bend, Ind. Open an account with that firm and write it up, leaving out the folio figures from the transactions, taken from the books of the Homer Hardware Co. and shown in this exercise. Use ledger paper. Rule the account and submit work for approval.

Feb. **1.** The Homer Hardware Co. bought of Brown & Smith, South Bend, Ind. on account goods invoiced at $395.10.

2. Bought goods on account of the same firm to the amount of $19.10.

3. Gave a check in payment for the goods credited to Brown & Smith's account Feb. 1.

4. Received an invoice of goods from Brown & Smith, amount $516.85. In checking the bill an error of $20.00 was found in the calculations, the correct amount being $496.85. The correct amount was credited to Brown & Smith's account and they were advised of the error.

5. Paid Brown & Smith for the amount credited to their account Feb. 2 and 4.

6. Bought a bill of goods invoiced at $275.65. The goods were found to be as ordered, in good condition and the invoice correct.

7. Bought a bill of goods on account amounting to $215.75. Invoice correct.

Answer the following questions:

The manager of the Homer Hardware Co. asks: 1. "Do we owe Brown & Smith anything"? (a) "How Much"? (b) "What is the amount of the goods bought of them so far in February"? 2. Is this account with Brown & Smith an account payable on the books of the Homer Hardware Co.? (a) Is it a personal account? (b) Is it a creditor's account? 3. Which side of an account payable is larger, if either? (a) Which side of an account receivable is larger?

BOOKKEEPING ABBREVIATIONS AND CONTRACTIONS

Account	Acct.	Folio	Fol. F.
Balance	Bal.	Invoice	Inv.
Bookkeeper	Bkpr.	Ledger Folio	Led. Fol. LF.
Charge	Chg.	Months of the year	First three letters, except May
Credit	Cr.	Manufacturing	Mfg.
Days of the week	First three letters	Payable	Pay.
Debit	Dr.	Receivable	Rec.
		Returned	Retd.

Purpose. To save space and time.

Method. Write all abbreviations and contractions in the books without periods or apostrophes.

PROPRIETOR'S ACCOUNT

Business is undertaken with the expectation of producing profits and is successful when the earnings exceed the expenses, thus resulting in a net profit. When the expenses exceed the earnings, the result is a net loss. The net profit or the net loss is usually determined annually, semi-annually, quarterly or monthly, and these are termed closing periods.

The Fiscal Period or Fiscal Year of a business is the time between any two succeeding dates for ascertaining the gains and losses of that business. This may end on any date; but because the Federal Income Tax Law favors a year ending December 31, business houses so far as possible begin their fiscal year January 1. The railroads constitute an exception as the Interstate Commerce Commission requires them to make their annual reports as at the close of business June 30, each year.

When one person owns a business, he is known as the owner or proprietor. When two or more persons engage in business under a partnership agreement, they are known as the partners and the organization is known as a partnership or firm. When a number of persons are organized under the corporation laws of a state to do business as a corporation, the individual members are known as the stockholders and the organization is known as a corporation.

The assets, of a person, firm, or corporation, are the accounts, rights and properties owned, such as lands, buildings, patents, goods, notes and accounts receivable, money, etc. Resources is another name for properties and rights owned. When the assets exceed the liabilities, the difference is the net assets.

The liabilities, of a person, firm, or corporation, are the obligations owed by such person or organization, such as mortgages on the land and buildings, notes and accounts, payable. When the liabilities exceed the assets the difference is the net liabilities.

Balance Sheet is the technical name given to the statement of the assets, liabilities and capital of a business.

The proprietor's investment is the amount of the assets put into the business. The net investment is the amount of the assets put into the business less the liabilities.

The proprietor's withdrawals are the amounts taken out of the business, such as money and goods from the store at cost, which withdrawals reduce the investment.

The proprietor's net capital in the business, at any closing date, is his net investment plus the net profit or minus the net loss.

PROPRIETOR'S ACCOUNT PROBLEMS

1. January 1, a person began business with an investment of $10,000.00 cash. At the end of the first month, the net profit was $752.50. What was the amount of the investments and profit at the end of the month?

2. Feb. 1, W. H. Wylies began business with assets as follows: Money in bank $10,000.00; Accounts Receivable $1,750.75. His liabilities on the same date were as follows: Accounts Payable $254.15. What was his net investment?

3. During February, W. H. Wylies' net profit was $2,146.50 and his withdrawals amounted to $500.00. What was his net investment Feb. 28? What was his net capital Feb. 28?

4. H. N. Nolan, E. J. Doolin and E. C. McGuire began business as partners March 1 under the firm name of Nolan, Doolin & McGuire. Mr. Nolan invested $10,000.00. Mr. Doolin invested $8,000.00 but had debts amounting to $1,250.00 which were assumed by the firm. Mr. McGuire invested $7,500.00. During the month Mr. Doolin increased his investment $1,000.00 at one time and $250.00 at another. Mr. Nolan withdrew for his personal use during the month a total of $1,000.00 from his investment. The other partners made no withdrawals. At the end of March the net profit was found to be $4,500.00 which was divided equally and credited to each partner's account. What was the net capital of each partner at the end of March?

EXERCISE V

Trace the transactions in this exercise to the illustrative account with H. M. Strong, Proprietor.

Sep. 1. H. M. Strong, proprietor, began business with net assets amounting to $2300.00.
15. H. M. Strong made an additional investment of cash amounting to $1,000.00.
15. H. M. Strong withdrew for personal use cash $25.00.
15. Paid the personal electric light bill rendered H. M. Strong at his residence, $3.50.
30. The net profit for the month was $467.60

H M Strong Proprietor

Dr 19- DATE	EXPLANATION	Folio	AMOUNT	19- DATE	EXPLANATION	Folio	AMOUNT Cr
Sep 15	Cash	3	25 00	Sep 1	Net Assets	1	2300 00
15	Electric Light	14	3 50	15	Cash 271.50	3	1000 00
			28 50	30	Net Profit 3739.10	15	467 60
							3771 60

The credit side of this account shows H. M. Strong's original net investment of $2,300.00, his additional investment of $1,000.00 and the net profit for the month. The debit side shows his withdrawals, which consisted of cash and a personal bill paid by the business. The latter was in effect additional cash withdrawn. His net investment Sept. 30 in the business as shown by his account was $3,271.50, his net profit $467.60, and his net capital after crediting the net profit was $3,739.10.

Purpose. To contain a record of the proprietor's investments and of his withdrawals as made, and the net profit or the net loss at the end of a business period.

Method. Credit the proprietor's account with his investments as made and with the net profit at the end of the business period showing net profit. Debit or charge the proprietor's account with his withdrawals as made and with the net loss at the end of the business period showing net loss.

Result. The difference between the two sides of the proprietor's account, previous to the end of the business period, is his balance or net investment; after the net profit or the net loss has been entered, it is his balance or net capital.

BALANCING AND RULING PROPRIETORS' ACCOUNTS

The proprietor's account is balanced the same as an account receivable or payable as explained in the preceding chapter.

The ruling is the same as explained under accounts receivable.

The account of H. M. Strong, Proprietor, is here shown as balanced and ruled.

H M Strong Proprietor

Dr. 19- DATE	EXPLANATION	Folio	AMOUNT	19- DATE	EXPLANATION		Folio	AMOUNT Cr.
Sep 15	Cash	3	25 00	Sep 1	Net Assets		1	2300 00
15	Electric Light	14	3 50 28 50	15	Cash	3271.50	3	1000 00
				30	Net Profit	3739.10	15	467 60
			3767 60					3767 60
				Oct 1	Net Capital			3739 10

QUESTIONS ON H. M. STRONG, PROPRIETOR, ACCOUNT

1. What does the total of the credit side show? 2. What does the total of the debit side show? 3. What effect would it have upon the account, if the proprietor should withdraw all his capital?

EXERCISE VI

Write up an account with T. L. Foster, Proprietor, from the transactions in this exercise and submit it, together with written answers to the questions following the transactions, for approval. Balance and rule the account.

Oct. 1. T. L. Foster commenced business with assets as follows: Money in bank, $5,000.00; amounts due him from E. J. Whitney $1,500.00, W. L. Winter $250.00. His liabilities were an account due R. L. Speed $950.00.

10. An endowment life insurance policy held by the proprietor matured; and the amount, $2,000.00 cash, was invested in the business.
30. Paid the proprietor's grocery bill by check, $40.00.
31. The net profit for the month was $302.10.

QUESTIONS ON T. L. FOSTER'S ACCOUNT

1. What was the amount of T. L. Foster's original investment? 2. Did he make an additional investment? 3. Did you credit T. L. Foster with his investment? (a) Why? 4. Is there any difference between paying the proprietor's personal grocery bill of $40.00 out of the office cash and charging the amount to him, and his drawing $40.00 in cash and settling the bill himself? 5. If the proprietor invests $10,000.00 on the first of the month and withdraws $7,000.00 on the tenth of the same month, what is the difference called? 6. What was T. L. Foster's net capital after crediting the net profit of $302.10?

PARTNERSHIP

EXERCISE VII

Trace the transactions in this exercise to the illustrative accounts with Charles R. Blake and Henry B. Smith, partners, doing business under the firm name of Blake & Smith, dividing the net profits and the net losses equally:

Sep. 1. Charles R. Blake invested the following: Cash $3,500.00; $1,000.00 due him from W. B. Young Henry B. Smith invested cash $4,500.00. An account is opened at the First National Bank and the cash is deposited to the credit of Blake & Smith.
10. Henry B. Smith made an (additional) investment of $2,000.00 cash.
20. Charles R. Blake withdrew $150.65 to pay his personal life insurance premium. This was done by a firm check made payable to Charles R. Blake and by him endorsed to the Life Insurance Co.
25. Henry B. Smith withdrew $2,200.00 to pay off a mortgage on his residence. This withdrawal was made by means of a firm check to Henry B. Smith and endorsed by him.
30. The net profits for the month were $1,150.40, and were divided equally.

Charles R Blake Partner 1

Dr DATE 19–	EXPLANATION	Folio	AMOUNT	Cr DATE 19–	EXPLANATION	Folio	AMOUNT
Sep 20	Ins Prem	30	150 65	Sep 1	Net Assets 4349.35	1	4500 00
				30	Net Profit 4924.55		575 20
							5075 20

Henry B Smith Partner 2

Dr DATE 19–	EXPLANATION	Folio	AMOUNT	Cr DATE 19–	EXPLANATION	Folio	AMOUNT
Sep 25	Mortgage	104	2200 00	Sep 1	Cash	92	4500 00
				10	Cash 4300.00	102	2000 00
							6500 00
				30	Net Profit 4875.20	105	575 20
							7075 20

State in writing the original investment of each partner, the net investment of each partner, and the net capital of each partner after closing.

Purpose. To contain a record of the investments and of the withdrawals of each partner as made and of the agreed share of the net profit or the net loss at the end of the business period.

Method. Credit each partner's account with his investments as made and with his share of the net profit at the end of a business period showing net profit. Charge each partner's account with his withdrawals as made and with his share of the net loss at the end of a business period showing a net loss.

Result. The difference between the two sides of a partner's account, previous to charging his loss or crediting his profit, is his net investment; after his loss has been charged or his profit credited, it is his balance or net capital.

Two accounts are often kept with each partner, one containing the investments and the other, the withdrawals. This method of handling proprietors' and partners' accounts will be illustrated later in this textbook.

EXERCISE VIII

Open and write up the partners' accounts covering the transactions in this exercise and submit your work, together with written answers to the questions at the close of the exercise, for approval. Balance and rule each account.

Jan. 1. W. B. Warren, C. M. Hunter and A. B. Blanchard commence business under a partnership agreement which recites that the investments shall be $10,000.00 each; that each partner shall give all his time to the business; that the profits or the losses shall be divided equally; and that the firm name shall be Warren, Hunter & Co. The investments were made and the amount $30,000.00 deposited in the bank to the credit of Warren, Hunter & Co.

Dec. 31. There were no additionl investments and there were no withdrawals by the partners during the business year. The net loss for the twelve months was $1,592.40.

QUESTIONS ON PARTNERS' ACCOUNTS

1. What was the amount of each partner's original investment? What was the amount of each partner's net investment before balancing the account? 2. What was the amount of each partner's net capital after balancing the account?

PROFIT AND LOSS

The Gross Profit is the difference between the cost of goods sold and the net sales. This difference is sometimes spoken of as merchandise profit or trading profit.

The method of finding gross profit is fully treated in a following chapter.

General Expenses or General Expense includes such items as rent, salaries, postage, telephone, telegrams, etc. The total of General Expense is deducted from gross profit and the result is a net profit, if the gross profit exceeds the general expenses. But if the general expenses exceed the gross profit the result is a net loss.

Some bookkeepers use the term Loss & Gain instead of Profit & Loss but the latter is used in this book.

Submit answers in writing to the following:

PROFIT AND LOSS PROBLEMS

1. At the end of January the gross profit on the goods sold for the month was $590.40. The general expenses were $310.00. What was the net profit or the net loss?

2. The gross merchandise earnings for March were $800.00; the general expenses of running the business were $300.00. What was the net profit or the net loss?

3. The goods sold during the year ended Dec. 31 showed gross profits of $45,490.50; the general expenses were $47,510.35. What was the net profit or the net loss?

PROFIT & LOSS ACCOUNT

Profit & Loss is the account to which is credited gross profits and to which is charged all the losses.

EXERCISE IX

Trace the items making up the following illustrative Profit & Loss account from the statement of facts in this exercise:

Sep. 30. The merchandise sales made by H. M. Strong, proprietor, for September showed gross profits of $700.35.

Sep. 30. The general expenses for September amounted to $232.75.
30. What was the net profit or net loss of H. M. Strong for the month?

Profit & Loss

Dr. 19– DATE	EXPLANATION	Folio	AMOUNT	19– DATE	EXPLANATION	Folio	AMOUNT Cr.
Sep 30	General Expenses	18	232 75	Sep 30	Gross Profit	46	700 35

It is not necessary to write the word "Account" after Profit & Loss in the heading.

Purpose. To contain a record of the profits and the losses of the proprietor, firm or corporation.

Method. Debit Profit & Loss account with the totals of all losses.

Credit Profit & Loss account with the totals of all profits.

Result. When all entries have been made, the difference between the two sides is the net profit or the net loss for the fiscal period.

EXERCISE X

Operating Accounts is the name frequently applied to that group of accounts which show the profits and expenses necessary to conducting any particular business.

Write up a Profit & Loss account covering the following facts, foot in pencil and determine the net profit or the net loss, and submit for approval, together with a written answer to the question following the statement of facts.

Dec. 31. C. M. Warren's books showed that the gross profits from sales were $16,575.50. The general expenses of his business were $9,205.10. What was the net profit or the net loss?

GENERAL EXPENSE

The expenses of conducting a business include: rent, light, power, heat, salaries, telephone, telegrams, postage, advertising, printing, stationery, insurance, carfare, and numerous other items. Frequently in a small business these items are charged under one heading, General Expense, but in a large business each name used above may include hundreds of separate items. In such cases it becomes important to classify properly each item of expense. Then in order to determine the expenses for the year, the amounts charged under the above names are totaled. This total is frequently called General Expenses.

GENERAL EXPENSE PROBLEMS

1. The expenses of Smith & Jones, proprietors, during January were: Rent $75.00; salaries $236.62; office stationery $4.50; postage $12.70; electric light bill $3.42; telephone $12.00; sundries $1.25. What were the total expenses for the month?

2. The expenses paid by the above firm for February were: Rent $75.00; salaries $236.62; advertising $60.00; postage $4.50; stationery $2.90; telephone $13.40; sundries $2.75. They received $12.00 as an allowance on their advertising. What were the actual expenses for February?

3. During March the same firm actually paid for running expenses; Rent $75.00: telephone $12.25; postage $4.90; telegrams $2.50; interest for the month $30.00; salaries $236.62. They received $.75 from an employee for a long distance telephone call. What were the expenses for the month?

4. The same firm's expenses for April paid in cash were: Rent $75.00; salaries $236.62; telephone $13.50; postage $5.25; stationery $2.50; printing $4.00; sundries $3.00. They sub-let a small display space for $10.00. What was the general expense for April?

GENERAL EXPENSE ACCOUNT

General Expense is an account kept to show the expenses of running a business during a fiscal period.

EXERCISE XI

Trace the transactions from this exercise to the illustrative account, noting particularly the explanations:

Sep. 1. H. M. Strong, proprietor of the business, gave check for September rent $50 00.
2. Paid cash for postage $13.00.
3. Bought office stationery at City Book Store on account, $10.50.
4. Paid telephone bill by check, $12 50.
5. Paid electric light bill in cash, $3.25.
6. Paid office salaries in cash, $59.75.
8. Paid cash for telegram, $.50.
9. Sold postage for cash, $2.50.
10. Secured a rebate of 75c in cash from the Electric Light Co.
11. Paid cash for telegram, 50c.
12. Paid office salaries in cash, $60.50.
29. Paid office salaries in cash, $25.50.

General Expense

Dr 19— DATE	EXPLANATION	Folio	AMOUNT	19— DATE	EXPLANATION	Folio	AMOUNT Cr
Sep 1	Rent	14	50 00	Sep 9	Postage	42	2 50
2	Postage	16	13 00	10	Electric Light	58	75 3 25
3	Stationery	20	10 50				
4	Telephone	21	12 50				
5	Electric Light	30	3 25				
6	Salaries	31	59 75				
8	Telegram	40	50				
11	"	60	50				
12	Salaries	61	60 50				
29	" 232.75	75	25 50 236 00				

The general expenses for September as shown by the above account were **$232.75.**

Purpose. To show the expenses of conducting the business.

Method. Debit Expense or General Expense with all expenses. Credit Expense or General Expense with any deductions from the amount charged.

Result. The difference between the two sides of this account is the net amount of the general expense.

QUESTIONS ON GENERAL EXPENSE ACCOUNT

1. What were the total charges to this account for the month of September? 2. What were the total credits to this account for the month of September? 3. What was the actual charge for electric light for the month? 4. What did postage for the month actually cost? 5. Define General Expense. 6. Which side of the General Expense account is larger? (a) Why? 7. Do you think it would be possible for the credit side of the General Expense account to be larger than the debit side?

EXERCISE XII

Open an account with General Expense and write up the following transactions. Submit your work for approval.

Oct. 1. The proprietor, M. M. Huntington, gave check for office rent for October, $75.00.
2. Paid cash for telegram, 75c.
3. Paid cash for sundry expenses, $3.95.
4. Gave check for telephone bill, $6.75.
5. Paid cash for postage, $5.00.
6. Paid clerks' salaries in cash, $48.50.
8. John Adams has paid $10.00 cash for desk room sub-let to him.
9. Gave check for advertising, $8.50.
10. Paid interest on note, $25.00, by check.
11. Gave check for electric light bill, $3.25.
12. Paid clerks' salaries in cash, $51.20.
30. Paid clerks' salaries in cash, $30.00.

EXERCISE XIII

Open and write up an account with General Expense, covering the following transactions, and submit your work for approval:

Nov. 1. Same proprietor as in last exercise pays rent for November by check, $75.00.
5. Gave check for telephone bill, $7.50.
8. John Adams paid $10.00 for desk room sub-let to him.
10. Bought stationery for cash, $3.15.
13. Paid cash for telegram, $.40.
20. Gave check for electric light bill, $2.75.
26. Paid cash for typewriter repairs, $1.25.
30. Paid clerks' salaries in cash, $150.75.

ABBREVIATIONS AND CONTRACTIONS

Advertising	Adv.
Capital	Cap.
Corporation	Corp.
Expense	Exp.
Express	Ex.
General Expense	Gen. Exp.
Insurance	Ins.
Interest	Int.
Liability	Lia.
Net Investment	Net Inv.
Partner	Part.
Postage	Post
Printing	Ptg.
Profits	Prof.
Profit & Loss Account	P & L %
Proprietor	Prop.
Resources	Res.
Salary	Sal.
Stationery	Staty.
Telegrams	Tels.
Telephone	Tel.

SIMPLE BUSINESS FORMS

An Order is a request to ship, or otherwise deliver, goods or other property; it may be either written or verbal. Written orders are preferable and should be dated, numbered and signed. For example:

FORM OF ORDER FOR MERCHANDISE

Your No. **Williams Brothers Co.** Our No. *1218*

1242 E. Jackson St.

New Orleans, La.

To *James Lauer & Co.* *Sept. 24,* 19

Muskegon, Mich.

Please deliver the following:

125 bbl. Greening Apples @ $3.40
125 bbl. Steel Red Apples @ $3.00

Williams Brothers Co.

By____________________

A Bill or Invoice is the memorandum made out by the merchant selling the goods and is delivered to the buyer. It gives date, name of purchaser, terms, order number and date received, quantities, items, prices, extensions and amount. For example:

FORM OF BILL OR INVOICE

THE WAUKESHA CANNING CO
GROWERS AND PACKERS OF
FANCY CANNED GOODS
WAUKESHA, WIS.

BRANDS: MENU, OLD ABE, PEWAUKEE LAKE

SPARKLING WAUKESHA MINERAL SPRING WATER USED EXCLUSIVELY IN PRESERVING THESE GOODS

INVOICE NO 320
S. O. NO. 1
CONTRACT NO. 10 DATE March 23, 19 .
SOLD TO Western Grocery House,
VIA Wis . Cent. 45 E. Randolph St., Chicago.
CAR INITIAL W. C. CAR NO 44050 F. O. B. Waukesha TERMS 60 DAYS ACCEPTANCE 1½% CASH 10 DAYS

50 Cs. Old Abe 2# Corn 100 Doz.	77½	77.50	
50 " Pewaukee Lake 2# Tomatoes 100 Doz.	78½	78.50	$156.00

O. K.
R. E. P.

When goods are received they should be examined to see that they are as ordered and that they are in proper condition. The bill covering the goods should be checked as to quantities, items, prices, extensions and amount. The number of the order, the date the goods were received and notations that the order has been approved and entered should appear on the face or back of the invoice.

A credit Memorandum is the opposite of a bill. It is also made out by the seller of the goods and is the authorized allowance or reduction in the bill as rendered. For example:

CREDIT MEMORANDUM

Biloxi, Miss., Jan 18 19

M Western Grocery House

Chicago, Ill.

Biloxi Canning Co.

Packers of

Canned Shell Fish, Preserved Figs and Vegetables

Have credited your account as follows:

		Rebate on 360-1 gal cans Headless Shrimp .10			36	

A Physical Inventory is obtained by counting and listing the goods on hand. The items then should be priced, at never more than cost, which includes freight and cartage to the store or warehouse; the list should then be extended and footed.

An Inventory is a detailed list showing quantities of all goods on hand, unsold, at any definite date, together with cost prices, extensions and total.

H. W. BROOKS

Inventory of Merchandise Sep. 1, 19

100 bu. Apples	@	$1.10	$110.00
150 bu. Potatoes	@	1.20	180.00
50 bu. Peaches	@	3.00	150.00
60 bu. Onions	@	.95	57.00
			$497.00

A Perpetual, Book or Going Inventory is obtained from records showing the balance of each kind of goods on hand at any date. It should be verified occasionally by comparison with a physical inventory.

A Statement of Account is made out by the seller and shows the date and amount of each charge and of each credit to the customer in accordance with the books of the merchant. This statement is usually made out on the first of each month and, when received by the customer, should be checked to determine if it is in agreement with his own books. For example:

FORM OF STATEMENT

STATEMENT

CHICAGO, ILL. Mar. 31 19—

M C. E. Birch,

1224 Harrison St., City.

IN ACCOUNT WITH **H. T. RAYNOR**

364 WABASH AVE.

19—						
Mar.	10	To Mdse.	200	25		
	28	" "	72			
					272	75

STATEMENT

CHICAGO, ILL. Apr. 30 19—

M C. E. Birch,

1224 Harrison St., City.

IN ACCOUNT WITH **H. T. RAYNOR**

364 WABASH AVE.

19—						
Mar.	31	Stat. rendered,	272	75		
Apr.	10	To Mdse.	66	50		
	28	" "	327	50		
					666	75
		Credits				
Apr.	10	By note	66	50		
	25	" cash	272	75		
					339	25
		Balance due			327	50

MERCHANDISE ACCOUNTS—PURCHASES BOOK, SALES BOOK AND TRIAL BALANCE

Merchandise is goods bought for the purpose of being sold. One account may be kept in the ledger to cover all merchandise transactions, as General Merchandise account; but it is more satisfactory as a business record to keep separate accounts for the purchases, the sales, and the inventories.

The merchandise accounts should be so kept as to show conclusively these six things: The Gross Purchases and the Net Purchases, the Gross Sales and the Net Sales, the Cost of the Goods Sold and the gross Merchandise Profit or gross Merchandise Loss.

Merchandise Purchases or simply **Purchases** is the ledger account on the debit of which is entered the cost of the goods as shown by the invoices. **Freight and Cartage-in** is the name given to transportation charges on purchases. These charges include the cost of bringing the goods to the store or warehouse, and since they increase the cost of the goods they should be debited to Merchandise Purchases Account.

Returns and Allowances on Purchases is the name given to purchase items returned, allowances made because of defective goods and for errors in billing. These items reduce the net amount of the purchases and are credited to Merchandise Purchases account.

The difference between the two sides of Merchandise Purchases account is the net purchases.

MERCHANDISE PURCHASES PROBLEMS

1. The goods purchased by the Hinton Retail Hardware Company for the year amounted to $127,340.50 the freight paid on same was $846.95; the cartage from railroad freight houses to the store was $2,452.10. What was the total cost of the merchandise purchases, delivered at the store?

2. The City Grocery Co. purchased goods amounting to $75,640.75. They paid for freight and cartage, $1,275.60. The merchandise returned by them amounted to $751.30 and allowances to them were $645.25. What were the gross purchases? What were the net purchases?

MERCHANDISE PURCHASES ACCOUNT

EXERCISE XIV

Trace the transactions affecting the merchandise purchases from the following exercise to the illustrative Merchandise Purchases account.

The purchases of the National Jobbing Company for the three months ended March 31, 19— were as follows: January, $19,510.65; February, $19,675.15; March, $19,750.25. The freight and cartage-in (additional cost) by months was: January, $410.50; February, $425.75; March, $450.15. The goods returned by the National Jobbing Company during the three months follow: January, $90.15; February, $10.75; March, $65.40. The allowances for errors in billing, defects in goods, etc., follow: January, $437.50; February, $442.95; March, $518.45.

Mdse Purchases

Dr | Cr

19– DATE	EXPLANATION	Folio	AMOUNT	19– DATE	EXPLANATION	Folio	AMOUNT
Jan 31	Purchases	42	19510 65	Jan 31	Returns	22	90 15
31	Frt & Ctg	21	410 50	31	Allowances	31	437 50
Feb 28	Purchases	50	19675 15	Feb 28	Returns	24	10 75
28	Frt & Ctg	24	425 75	28	Allowances	37	442 95
Mar 31	Purchases	60	19750 25	Mar 31	Returns	27	65 40
31	Frt & Ctg 58657.25	25	450 15	31	Allowances	43	518 45
			60222 45				1565 20

Purpose. To show the total cost of goods, including the freight and cartage-in and the returns and allowances on account of purchases.

Method. Debit this account with the invoice cost of goods and the freight and cartage-in.

Credit it with the returns and the allowances on account of purchases.

Result. The difference between the two sides of this account is the net purchases of merchandise.

BALANCING AND RULING THE MERCHANDISE PURCHASES ACCOUNT

At the end of a business period the Merchandise Purchases account should be balanced and ruled as shown in the following illustration:

Mdse Purchases

Dr | Cr

DATE 19–		EXPLANATION	Folio	AMOUNT	DATE 19–		EXPLANATION	Folio	AMOUNT
Jan	31	Purchases	42	19510 65	Jan	31	Returns	22	90 15
	31	Frt & Ctg	21	410 50		31	Allowances	31	437 50
Feb	28	Purchases	50	19675 15	Feb	28	Returns	24	10 75
	28	Frt & Ctg	24	425 75		28	Allowances	37	442 95
Mar	31	Purchases	60	19750 25	Mar	31	Returns	27	65 40
	31	Frt & Ctg 58657.25	25	450 15		31	Allowances	43	518 45
				60222 45					1565 20
				60222 45					60222 45
Mar	31	Net Purchases		58657 25					

QUESTIONS ON MERCHANDISE PURCHASES ACCOUNT

1. What does the total of the debit side of this account show? 2. How much was paid for freight and cartage on the goods purchased during the three months shown by this account? 3. If the total cost of freight and cartage is taken out of the debit side, what would the remainder of the debit items show? 4. What was the total of the goods returned to our creditors for the three months? 5. What was the total of allowances made to us for the three months? 6. What does the balance of the account show? 7. Should the credit side of this account be larger than the debit side? Why? 8. Define freight and cartage-in. 9. What are defective goods? 10. What are returned goods? 11. What are errors in billing?

EXERCISE XV

Write up a Merchandise Purchases account, omitting figures in the folio column, from the information given in this exercise, and submit your work for approval. Balance and rule the account.

Feb. 28. Purchases $21,384.67, frt. & ctg.-in $83.76, returns $102.64, allowances $188.37.
Mar. 31. Purchases $16,984.72, frt. & ctg.-in $71.69, returns $75.11, allowances $108.47.
Apr. 30. Purchases $17,842.35, frt. & ctg.-in $74.46, returns $84.60, allowances $94.78.

MERCHANDISE INVENTORY PROBLEMS

1. M. M. Hunter, proprietor, purchased 1 dozen pocket knives at $12.00 per doz. and sold 9 at $1.50 each. The inventory at the closing period showed 3 knives at cost. What was the cost of the knives sold? What was the merchandise profit or the merchandise loss? What was the per cent of profit or the per cent of loss on the cost price of the goods? On the selling price of the goods?

2. Elmer Whipple, a trader, bought 150 hogs at an average cost of $21.50 each, 200 sheep at an average cost of $13.85 each, 80 cattle at an average cost of $114.75 each. He sold 110 hogs, 150 sheep and 60 cattle. Prepare an inventory sheet for Mr. Whipple.

3. In the above problem, Mr. Whipple sold his hogs at an average price of $26.80 each, the sheep at an average price of $16.40 each, and the cattle at an average price of $126.60 each. What was the total amount of sales? What was the gross profit?

4. Find the cost of the property sold in Problem 3.

Prove the result in Problem 4 in any manner you can.

MERCHANDISE INVENTORY ACCOUNT

Merchandise Inventory is the ledger account which is debited with the value of all unsold goods at the time of beginning a business or at the end of a business period. This account should agree in amount with a written list of the unsold goods generally made up by the proprietor of the business or some one familiar with the goods and their cost prices.

EXERCISE XVI

Trace the amount in the following exercise to the illustrative Merchandise Inventory account.

March 31, 19—. The merchandise on hand at the end of the fiscal period of the National Jobbing Company amounted to $15,997.73.

Mdse Inventory

Dr. | | | | | | | Cr.

DATE 19—	EXPLANATION	Folio	AMOUNT	DATE 19—	EXPLANATION	Folio	AMOUNT
Mar 31	Inventory	15	15997 73				

The inventory sheets showing items, prices, etc., are not supplied for the above illustration as they would require too much space.

Purpose. To show during the year, or other fiscal period, the value of goods on hand at the beginning of that period.

Method. Charge this account with the value of merchandise when beginning business, or with the value of the unsold goods at the beginning of a fiscal period. Credit this account at the end of a fiscal period with the amount of the merchandise inventory that was charged to it at the beginning of the period.

Result. This account should show, during a fiscal period, the goods on hand at the beginning of that period.

BALANCING AND RULING MERCHANDISE INVENTORY ACCOUNT

The Merchandise Inventory account when kept as outlined here would not need to be balanced, as the last item appearing on the debit side of this account would be the amount of the account to show during the following fiscal period.

Other items appearing on the debit and credit side of this account would balance, and they would be ruled the same as balancing items in a personal account.

COST OF GOODS SOLD

Another important step in bookkeeping is that of determining the "cost of goods sold" or "cost of sales." This is readily obtained, when the accounts show the net purchases and the unsold goods at the end of a business period, by deducting the merchandise inventory from the net merchandise purchases.

The Merchandise Purchases account of the National Jobbing Co. shows the net purchases for the three months ending March 31, to be $58,657.25. The Merchandise Inventory account of the same company shows goods on hand, March 31 at cost to the value of $15,997.73. To show the cost of goods sold, the amount of the inventory is deducted from the net purchases as follows:

Net Purchases	$58,657.25
Inventory Mar. 31	15,997.73
Cost of Goods Sold	$42,659.52

PROBLEMS IN COST OF GOODS SOLD

1. The net purchases of a business for one year were $10,500.00 and the inventory at the end of the year amounted to $7,200.00. What was the cost of the goods sold?

2. H. G. Schell bought a business and started with goods valued at $1,439.64. His net purchases during the year amounted to $11,397.86. What were his total net purchases of goods at the end of the year?

3. At the end of the year Mr. Schell had not sold all his goods. By making an inventory he found that his unsold goods cost him $1,374.94. What was the cost of the goods he had sold?

4. The inventory (or goods on hand) at the beginning of the year amounted to $15,640.20. The net purchases for the year were $40,160.35. The inventory at the close of the year was $8,141.10. What was the cost of the goods sold that year?

MERCHANDISE SALES

Merchandise Sales is the ledger account on the credit side of which is entered the gross amount of the sales for the day, week or month. **Returns and Allowances on Sales** is the term used to designate sales items returned by customers and allowances made for defective goods. **Freight and Cartage-Out** is transportation charges incurred in delivering the goods sold. It includes freight and express paid by the merchant and the cost of delivering the goods to the carrier.

These items reduce the amount of the sales and are, therefore, charged to Merchandise Sales account. The difference between the two sides of Merchandise Sales account is the Net Sales.

MERCHANDISE SALES PROBLEMS

1. The gross sales of a manufacturing company for the year amounted to $215,104.90. The returns and allowances amounted to $7,410.65. What were the net sales?

2. The Union Hardware Company's gross sales for the year amounted to $275,425.65. The returns and allowances were: Returned goods $3,950.20; allowances for defective goods $475.10; freight and cartage-out $3,871.40. What were the net sales for the year?

EXERCISE XVII

Trace the transactions affecting the merchandise sales from the following exercise to the illustrative Merchandise Sales account.

The sales of the National Jobbing Company for the three months ended March 31, 19— were as follows: January, $20,150.60; February, $19,410.25; March, $21,594.10. The record of returned goods by months follows: January, $375.10; February, $490.15; March, $700.45. The freight and cartage-out (delivery expense) by months follows: January, $260.40; February, $201.50; March, $275.00. The allowances made to customers were as follows: January, $190.15; February, $415.30; March, $435.20.

Mdse Sales

Dr Cr

19— DATE	EXPLANATION	Folio	AMOUNT	19— DATE	EXPLANATION	Folio	AMOUNT
Jan 31	Returns	2	375 10	Jan 31	Sales	20	20150 60
31	Frt & Ctg	3	260 40	Feb 28	"	32	19410 25
31	Allowances	15	190 15	Mar 31	" 57811.70	45	21594 10
Feb 28	Returns	5	490 15				
28	Frt & Ctg	5	201 50				
28	Allowances	17	415 30				
Mar 31	Returns	6	700 45				
31	Frt & Ctg	7	275 00				
31	Allowances	21	435 20				

Purpose. To show the gross sales, the returns, allowances and other deductions, and the net sales of goods.

Method. Credit Merchandise Sales account with all sales.

Debit Merchandise Sales account with the delivery expenses, with goods returned, and with allowances.

Result. The amount of the credit side of the account is the gross sales; the amount of the debit side is the returns, allowances and other deductions. The difference between the two sides is the net sales. The account should be balanced, ruled, and the balance brought down, at the end of the fiscal period.

BALANCING AND RULING THE MERCHANDISE SALES ACCOUNT

At the end of a business period the Merchandise Sales account should be balanced and ruled to show the net sales.

The Merchandise Sales account of the National Jobbing Co. when balanced and ruled is shown below:

QUESTIONS ON THE MERCHANDISE SALES ACCOUNT

1. What does the total of the credit side show? 2. What was the total amount of the goods returned during the period? 3. What was the total amount of allowances made during the period? 4. What was the total amount to be deducted from the gross sales? 5. What would the balance be called? 6. Should the debit side of this account be larger than the credit side? Why? 7. What is meant by freight and cartage-out?

Mdse Sales

Dr | *Cr*

DATE 19–	EXPLANATION	Folio	AMOUNT	DATE 19–	EXPLANATION	Folio	AMOUNT
Jan 31	Returns	2	375 10	Jan 31	Sales	20	20150 60
31	Frt & Ctg	3	260 40	Feb 28	"	32	19410 25
31	Allowances	15	190 15	Mar 31	" 57811.70	45	21594 10 61154 95
Feb 28	Returns	5	490 15				
28	Frt & Ctg	5	201 50				
28	Allowances	17	415 30				
Mar 31	Returns	6	700 45				
31	Frt & Ctg	7	275 00				
31	Allowances	21	435 20 3343 25				
			61154 95				61154 95
				Mar 31	Net Sales		57811 70

EXERCISE XVIII

Write up a Merchandise Sales account, omitting figures in the folio column, from the information given below and submit your work for approval. Balance and rule the account.

Feb. 28. Sales $18,437.12, frt. & ctg.-out $71.50, returns $106.37, allowances $41.12.
Mar. 31. Sales $20,294.86, frt. & ctg.-out $76.85, returns $94.16, allowances $44.78.
Apr. 30. Sales $21,162.34, frt. & ctg.-out $78.25, returns $98.32, allowances $43,80.

PROBLEMS IN GROSS PROFIT

The gross profit is obtained by deducting the cost of goods sold from the net merchandise sales.

1. The City Lumber Co., the first month they were in business, sold goods amounting to $12,386.92 net, and purchased goods amounting to $21,637.18 net. Their inventory showed goods on hand that cost $9,887.74. Find their gross profit.

2. The second month the City Lumber Co. purchased goods amounting to $30,216.90 net and made net sales amounting to $19,894.18. An inventory showed goods on hand that cost $21,869.73. What was their gross profit or gross loss?

3. Refer to page 23, the purchases of the National Jobbing Company, to page 25, the inventory of the same company, and to page 27, the sales of the same company. Determine their gross profit or loss.

BOOKS OF ORIGINAL ENTRY

All business transactions should be recorded. In the matter of leasing a store, the record is sufficient when a copy of the lease is on file. In many other matters a memorandum made at the time of the business agreement is all the record required; but when the transaction involves the purchase or sale of goods, a record should be made in some book of original entry.

Books of Original Entry are those in which the transactions are first recorded. They are: Purchases Book, Sales Book, Cash Book, Journal, and elaborated forms of these books or sections of them under special names.

Books of Final Entry are the Ledgers containing the accounts.

Auxiliary Books contain supplemental information, such as statistics, expiration of insurance, deliveries, order records, etc.

A Set of Books is a term used to cover all the books used to record the transactions of a business house.

PURCHASES BOOK

This is a book of original entry in which is entered a record of the invoices received from persons, firms or corporations from which goods are purchased on account, or on terms. It should show, at least, the date of the invoice, the name of the person, firm or corporation from which the goods were purchased, the terms of purchase and the amount of the invoice.

Posting is the process of transcribing in the ledger, to the proper account, the information contained in an entry in a book of original entry.

POSTING THE PURCHASES BOOK

The total of this book is posted to the debit side of the Merchandise Purchases account in the ledger.

The amount of each invoice is posted to the credit of some personal account in the ledger. Thus, if three invoices are received and entered in the Purchases Book from one creditor, there should be three amounts posted to the credit side of this creditor's account in the ledger.

It will be readily seen that the amount posted to the debit side of Merchandise Purchases account must equal the amounts posted (individually) to the credit side of the personal accounts. This results in what is known as double entry bookkeeping.

Double Entry Bookkeeping is the result of posting to the ledger both the debit amount or amounts and the credit amount or amounts contained in each original entry.

When all the debit amounts contained in the original entries are posted to the ledger as debit amounts and all the credit amounts contained in the original entries are posted to the ledger as credit amounts, it is clear that all the debit amounts (in the ledger) must equal all the credit amounts (in the ledger). The correctness of posting is tested by a trial balance.

A Trial Balance is a list of all the accounts in the ledger, that show a balance, together with the amounts of the balances. The total of the debit balances should equal the total of the credit balances. This is called a trial balance of differences. Instead of using the balance of each account, the total of the debits of each account and the total of the credits of each account may be used, and this is called a trial balance of amounts. The first method is preferable and is the one most commonly used in business.

The phrase, **terms of purchase** or **terms of sale,** refers to the agreement made between the parties to the transaction as to how or when payment is to be made. "Terms 30 days" means that the buyer of the goods does not need to pay for the goods until 30 days from the date of the invoice covering the goods sold. Of course, he may pay before 30 days if he desires to do so.

EXERCISE XIX

Trace the transactions in the following exercise to the illustrative Purchases Book and then trace the postings from the Purchases Book to the accounts in the ledger and to the trial balance. In posting, the page of the Purchases Book is entered in the folio column in the ledger account and the page of the ledger account is entered in the folio column in the Purchases Book.

Jan. 7. The proprietor, William H. Quarles, received a shipment of flour from Pillsbury Mills, Minneapolis, Minn. The invoice was dated Jan. 2, 19—, amount $1,122.50, terms 30 da.

12. Bought of the Lincoln Mills, Chicago, flour invoiced at $275.75. Date of invoice Jan. 11, 19—, terms 30 da.

15. Received of Pillsbury Mills a shipment of flour ordered Jan. 4, 19—. Date of invoice Jan. 12, 19—, amount $971.40, terms 30 da.

20. Bought of the Lincoln Mills flour invoiced at $840.25. Date of invoice Jan. 18, 19—, terms 30 da.

25. Received of Pillsbury Mills a shipment of flour invoiced at $1,521.50. Date of invoice Jan. 20, 19—, terms 30 da.

28. Received of the Lincoln Mills flour invoiced at $495.10. Date of invoice Jan. 27, 19—, terms 30 da.

Merchandise Purchases Book

Date 19—		Folio	Purchased From	Address and Terms		Amount		Total	
Jan	2	10	Pillsbury Mills	Minneapolis Minn	30 da	1122	50		
	11	14	Lincoln Mills	Chicago Ill	30 da	275	75		
	12	10	Pillsbury Mills		30 da	971	40		
	18	14	Lincoln Mills		30 da	840	25		
	20	10	Pillsbury Mills		30 da	1521	50		
	27	14	Lincoln Mills		30 da	495	10		
						5226	50		
		100	Total Mdse Purchases					5226	50

Pillsbury Mills

Minneapolis Minn

Dr | Cr

Date		Explanation	Folio	Amount		Date 19—		Explanation	Folio	Amount	
						Jan	7	Invoice Jan 2	15	1122	50
							15	" 10	15	971	40
							25	" 20	15	1521	50

Lincoln Mills

Dr Chicago Ill Cr

DATE	EXPLANATION	Folio	AMOUNT	19– DATE	EXPLANATION	Folio	AMOUNT
				Jan 12	Invoice Jan 11	15	27575
				20	" 18	15	84025
				28	" 27	15	49510

Mdse Purchases

Dr Cr

19– DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT
Jan 31	Purchase Book	15	522650				

Trial Balance Jan 31 19–

		DR AMOUNT	CR AMOUNT
10	Pillsbury Mills		361540
14	Lincoln Mills		161110
100	Mdse Purchases	522650	
		522650	522650

Purpose. To contain an original permanent record of the invoices for goods bought on account.

Method. As the invoices are approved they are entered in the purchases book and the footings of that book are posted monthly to the debit of Merchandise Purchases account in the ledger. The amounts of the several invoices should be posted daily to the credit of the persons from whom the goods were purchased on account, conforming to the method illustrated under accounts payable.

Closing and Ruling. In the preceding illustration the purchases book is shown as ruled and closed.

Closing the purchases book means that no more entries will be made in it for that particular period of time, whether one month or otherwise. Therefore it is footed, ruled, and the totals posted, thus being formally closed.

In a large business the purchases book is generally held open for two or three days following the end of a month. This is done to allow some time for the invoices for goods, purchased the last two or three days of the preceding month, to come through the mail and be verified.

The purchases book may be closed and ruled at any time, but this is usually done at the end of a month.

QUESTIONS ON THE PURCHASES BOOK

1. Write a short description of a purchases book. 2. To what account are the footings of this book posted? (a) Which side? 3. Is the account with Pillsbury Mills a personal account? (a) Is it a creditor's account on the books of William H. Quarles? 4. What is posting? 5. Define trial balance. 6. What is double entry bookkeeping?

EXERCISE XX

Write up a Merchandise purchases book from the following transactions. Post, take off a trial balance as at Feb. 28, and submit your work for approval.

Feb. 5. The Homer Hardware Co., received of the Simmons Hardware Co., St. Louis, Mo., goods ordered Jan. 28 19—. The invoice was dated Feb. 2, 19—, amount $391.55. Terms 30 days.

10. Received of Yale & Towne Manufacturing Co., New Haven, Conn., goods invoiced at $475.25. Date of invoice Feb. 6. Terms 60 days.

12. Received of Pratt Manufacturing Co., Providence, R. I., goods invoiced at $129.85. Date of invoice Feb. 8. Terms 30 days.

15. Received of Simmons Hardware Co. goods invoiced at $195.65. Date of invoice Feb. 12, 19—. Terms 30 days.

23. Received of Wilson Hardware Co., South Bend, Ind., an invoice of goods amounting to $475.62. Date of invoice Feb. 22, 19—. Terms 30 days.

24. Received of Yale & Towne Manufacturing Co. goods invoiced at $157.65, dated Feb. 21, 19—. Terms 30 days.

27. Received of Wilson Hardware Co., South Bend, Ind., goods invoiced at $450.25. Date of invoice Feb. 25. Terms 30 days.

SALES BOOK

This is the book of original entry in which is made a record of the goods sold on account. This record should contain the date of the sale, the name of the purchaser, the quantity, weight or number of articles sold, the price of the selling unit, the amount of the sale, and the terms of the sale.

It is generally the custom to make the bill, number it, and then record it in the sales book, after which it is sent to the purchaser. Sometimes a carbon copy of the bill is made at the time the bill itself is made; then the carbon copy is filed in a binder as a leaf in the sales book.

POSTING THE SALES BOOK

The total of the sales book is posted to the credit side of the Merchandise Sales account in the ledger. The amount of each sale is posted to the debit side of the account, in the ledger, of the person, firm or corporation to which the goods were sold.

The amount of each sale should be posted (from day to day) as the sale is made, while the total of the sales book should be posted at the end of the month. The sales book should be footed in pencil daily so that there will be no delay in ascertaining the total at the end of the month.

EXERCISE XXI

Trace the transactions in the following exercise to the illustrative Sales Book and then trace the postings from the Sales Book to the accounts in the ledger and to the trial balance. In posting, the page of the Sales Book is entered in the folio column in the ledger account, and the page of the ledger account is entered in the folio column in the Sales Book

Jan. 10. William Britten & Co., flour dealers, sold a bill of goods to W. B. Allen, 100 S. Wabash Ave., on account. 25 bbl. White Cap @ 9.02. Terms 30 days.

15. Sold to Boston Bakery Co., 300 W. Madison St., Chicago, 17 bbl. Star Pastry @ 9.25. Terms 30 days.

20. Sold to Stevens Bros. Corporation, 17 N. State St., 30 bbl. Star Pastry @ 9.25, 5 bbl. Columbus @ 8.85. Terms 30 days.

21. Sold to the Ward Bakery Co., 55th & Wabash Ave., terms 30 days, 75 bbl. Golden Fleece @ 10.00.

27. Sold to the Boston Bakery Co., 20 bbl., Star Pastry @ 9.25, 20 bbl. White Cap @ 9.52. Terms 30 days.

28. Sold to Stevens Bros. Corporation, 15 bbl. Golden Fleece @ 10.00. Terms 30 days.

Merchandise Sales Book

101

19— DATE	Folio	CUSTOMER AND ARTICLES	TERMS AND PRICES	EXTENSIONS	TOTALS
Jan 10	50	W B Allen 100 S Wabash Ave	30 da		
		25 bbl White Cap	9.02		225 50
15	52	Boston Bakery Co	30 da		
		300 W Madison St Chicago Ill			
		17 bbl Star Pastry	9 25		157 25
20	84	Stevens Brothers Corp	30 da		
		17 N State St			
		30 bbl Star Pastry	9 25	277 50	
		5 bbl Columbus	8.85	44 25	321 75
21	110	Ward Bakery Co 55th & Wabash Ave	30 da		
		75 bbl Golden Fleece	10.00		750 00
27	52	Boston Bakery Co	30 da		
		20 bbl Star Pastry	9.25	185 00	
		20 bbl White Cap	9.52	190 40	375 40
28	84	Stevens Brothers Corp	30 da		
		15 bbl Golden Fleece	10 00		150 00
					1979 90
	151	Total Mdse Sales			1979 90

W B Allen
100 S Wabash Ave

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT Cr
Jan 10	Sales #1	101	225 50				

Boston Bakery Co
300 W Madison St

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT Cr
Jan 15	Sales #2	101	157 25				
27	" 6	101	375 40 (532 65)				

Stevens Bros Corporation
17 N State St

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT Cr
Jan 20	Sales #3	101	321 75				
28	" 7	101	150 00 (471 75)				

Ward Bakery Co
55th & Wabash 407

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	DATE	EXPLANATION	Folio	AMOUNT Cr
Jan 21	Sales #4	101	750 00				

Mdse Sales

Dr DATE	EXPLANATION	Folio	AMOUNT	19– DATE	EXPLANATION	Folio	AMOUNT Cr
				Jan 31	Sales Book	101	1979 90

Trial Balance Jan 31 19–

		DR AMOUNT	CR AMOUNT
50	W B Allen	225 50	
52	Boston Bakery Co	532 65	
84	Stevens Brothers Corp	471 75	
110	Ward Bakery Co	750 00 (1979 90)	
156	Mdse Sales		1979 90
		1979 90	1979 90

Purpose. To provide an original permanent record of the sales of merchandise on account.

Method. As the bills are made they are entered in the sales book, and the footings of that book are posted monthly or more frequently to the credit of Merchandise Sales account in the ledger. The sales are posted daily to the debit of the account with the persons to whom the goods were sold on account, conforming to the method illustrated under accounts receivable.

Closing and Ruling. In the preceding illustration the sales book is shown as ruled and closed at the end of a month's business.

The sales book should be closed when the bills for all shipments and deliveries of sales for any one month have been made and entered. It may be closed and ruled at any time, but this is usually done at the end of each month.

QUESTIONS ON THE SALES BOOK

1. Write a short description of a merchandise sales book. 2. To what account are the footings of this book posted? Which side? 3. Are the personal accounts in this trial balance, customers' accounts? 4. Could the bills be made in duplicate on the typewriter and one copy sent to the customer and one copy kept in the office, instead of keeping a regular sales book? Would the same results be obtained if the posting were made directly from the duplicate bills to the customers' accounts; the bills then totaled and the amount posted to the credit of Merchandise Sales account? 5. Why is it necessary that a record of each sale made should be kept? 6. What information should the record of each sale contain?

EXERCISE XXII

Make out a sales book from the following transactions, post, take off a trial balance as at Feb. 28, 19—, and submit your work for approval:

Feb. 12. The Homer Hardware Co., sold to May & Son, 200 S. Clark St., 4 doz. No. 61 Night Latches @ $15.50 per doz. Terms 30 days.

15. Sold Ames & Smith, builders, 500 S. State St., 6 kg. 8d Nails @ $4.75; 2 doz. Mortise Locks @ $8.60. Terms 30 days.

16. Sold May & Son, 1 doz. No. 84 Shovels @ $11.85; 10 kg. 8d Nails @ $4.60; 6 rolls Rubberoid @ $2.20. Terms 30 days.

18. Sold to J. Williams & Co., 105 N. Clark St., 15 rolls Rubberoid @ $2.20; 3 kg. 6d Nails @ $4.90; 6 3-gal. Buckets @ $.65. Terms 30 days.

22. Sold Ames & Smith, 5 rolls 3 Ply Tar Roofing @ $2.10; 4 kg. 20d Spikes @ $4.60; 5 gal. No. 64 H. S. Paint @ $2.65. Terms 30 days.

27. Sold Fred F. Waters & Son, 264 E. Water St., 5 gal. No. 43 H. S. Paint @ $2.65; 50 lb. Puritan White Lead @ 11c; 5 gal. Linseed Oil @ $1.70. Terms 30 days.

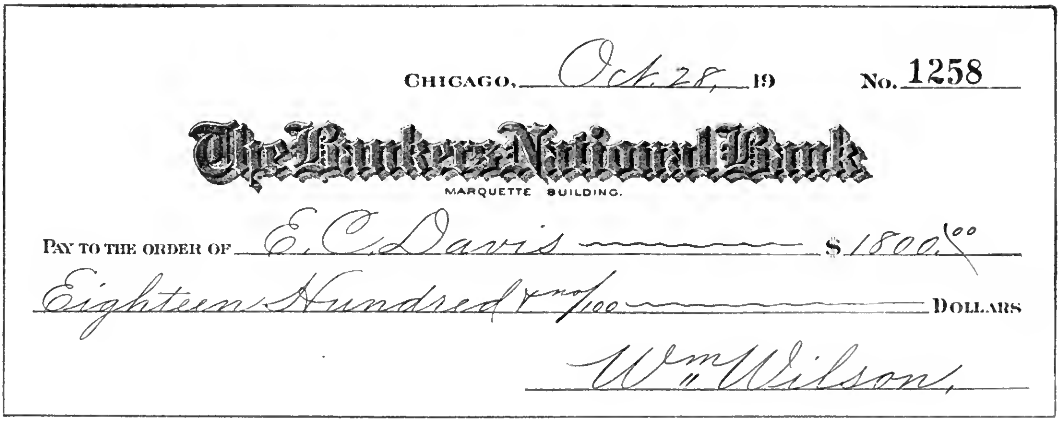
ABBREVIATIONS AND CONTRACTIONS

Allowances	Alls.	Merchandise	Mdse.
Credit Memorandum	Cr. Memo. C. M.	Purchases	Pchs.
Drayage	Dge.	Returns	Rets.
Freight & Cartage	Frt. & Ctg.	Returned	Retd.
Inventory	Invt.		

CASH ACCOUNT — CASH BOOK AND TRIAL BALANCE

A Check is a written order on a bank directing the bank to pay, on demand, the sum of money specified on the check to the order of the party named on the check.

CHECK


CHICAGO, Oct. 28, 19 No. 1258

The Bankers National Bank
MARQUETTE BUILDING.

PAY TO THE ORDER OF E. C. Davis $1800.00

Eighteen Hundred & no/100 DOLLARS

Wm Wilson,

Cash is the name bookkeepers give to currency, coin, checks, bank drafts, certificates of deposit, postal and express money orders, received or paid out by the merchant.

Cash is also the ledger account containing a record of the cash received and the cash disbursed. This may be in detail as in the illustrative cash account, page 37, or it may be in totals.

CASH PROBLEMS

Submit written answers to the following:

1. During January, C. M. Hudson collected $2,247.50 in cash and paid out $1,923.78. How much did he have on hand January 31?

2. During February, H. S. Munson received in cash the following amounts: $124.65, $52.73, $102.50, $73.49, $110.75, $100.00, $82.56. During the same period he paid out cash as follows: $100.50, $72.69, $83.47, $53.26, $84.75, $142.01. What was his cash balance at the end of the month?

3. J. H. Smith's cash transactions during March were as follows: March 1, received $115.26; March 2, paid out $5.72; March 4, received $100.00; March 8, paid out $104.73; March 10, received $105.83; March 14, received $104.50; March 17, received $108.73; March 21, paid out $111.54; March 23, received $125.32; March 30, paid out $103.75. How much did he have on hand March 31?

4. State in writing how to ascertain the balance (cash on hand) if you know the total amount received and the total paid out.

5. C. R. Grant began business April 1 with cash $2,000.00. During the month he collected $876.83 in cash and disbursed $357.86. What was his cash balance at the end of the month?

6. May 1 C. W. Barnes began business with $1,053.47 in cash. His cash collections during the month were as follows: $105.25, $116.72, $132.54, $113.21, $114.72, $117.50. His cash payments during the month were $104.25, $147.36, $103.73, $114.52, $121.14. How much did he have on hand at the end of the month?

7. State in writing how to determine the balance or cash on hand in any business, at any date, when you know (a) the cash balance at the beginning of the period; (b) the collections; (c) the disbursements.

8. A. L. Black began business June 1 with currency $1,000.00 which he deposited in the bank to his credit. He received during the month checks $300.00; bank drafts $200.00; money orders $25.50; currency $50.00; express money orders $10.00; all of which were deposited. His payments during the month were

all made by checks drawn on his bank and amounted to $475.10. What was his cash balance June 30? What was his bank balance?

9. July 1, A. L. Black had on hand the cash balance shown by the previous problem. His collections and payments for the month of July follow: Collections: From sales of merchandise $510.50; on James Johnson's account $50.25; on Wm. Brown's note $125.75 and interest $10.50; for sale of house and lot $3,500.00. Payments: for merchandise $310.25; rent $80.00; janitor $10.00; salaries $125.00; to Frank Smith on account $100.00. Find Black's cash balance July 31.

10. Make a list of all the words used in the foregoing problems that mean cash taken in. That mean cash paid out.

CASH ACCOUNT

This is an account in which is recorded the amount of cash received and the amount of cash paid.

EXERCISE XXIII

Trace the cash received and paid, from the transactions to the illustrative Cash account:

Aug. 1. J. P. Wilson, the proprietor, began business with a cash investment of $1,000.00.
2. Rented store and paid August rent, $35.00.
3. Bought goods of Wilson Bros. for cash, $350.00.
4. The cash sales for the day were $61.50.
5. The cash sales for the day were $42.75.
5. Paid $65.00 for a second hand cash register.
6. Bought of Jones & Co. for cash goods amounting to $130.75.
6. The cash sales for the day were $53.20.
7. The cash sales for the day were $51.75.
9. The cash sales for the day were $49.50.

Cash

Dr Cr

19- DATE	EXPLANATION	Folio	AMOUNT	19- DATE	EXPLANATION	Folio	AMOUNT
Aug 1	J P Wilson	1	100000	Aug 2	Rent Aug	1	3500
4	Mdse Sales	1	6150	3	Mdse Purchases	1	35000
5	" "	1	4275	5	Cash Register	1	6500
6	" "	1	5320	6	Mdse Purchases	1	13075
7	" "	1	5175				
8	" "	1	4950				

Purpose. To record the cash received and the cash paid out.
Method. Debit cash with all cash received. Credit cash with all cash paid out.
Result. The difference, if any, is the balance (the cash on hand).

BALANCING AND RULING THE CASH ACCOUNT

At the end of a business period the cash account should be balanced and ruled. The illustrative cash account which follows shows how this should be done.

QUESTIONS ON THE CASH ACCOUNT

1. What does the total on the debit side represent? 2. What does the total on the credit side represent? 3. What does the difference between the debit side and the credit side represent? 4. How may a bookkeeper know if the cash balance is correct? 5. Should the credit side of cash be larger than the debit side? Why? 6. What would be the condition of the cash account, if all cash received was paid out? 7. Must the debit side generally equal or exceed the credit side? Why? 8. Would the same results be obtained if the cash received and paid out were recorded in a book, using the left hand page for collections or receipts and the right hand page for disbursements or payments? 9. What name would you give to a book containing a record of receipts and payments of cash?

Cash

Dr | | | | | | | Cr

DATE 19-		EXPLANATION	Folio	AMOUNT	DATE 19-		EXPLANATION	Folio	AMOUNT
Aug	1	J P Wilson	1	1000 00	Aug	2	Rent Aug	1	35 00
	4	Mdse Sales	1	61 50		3	Mdse Purchases	1	350 00
	5	" "	1	42 75		5	Cash Register	1	65 00
	6	" "	1	53 20		6	Mdse Purchases	1	130 75 / 580 75
	7	" "	1	51 75					677 95
	8	" " 677.95	1	49 50 / 1258 70					
				1258 70					1258 70
Aug	9	Balance		677 95					

EXERCISE XXIV

Write up a Cash account from the following transactions and submit your work for approval. Balance and rule it.

Sep. 1. Wm. Reed, proprietor, began business with cash $3,000.00.
1. Paid September rent, $45.00.
1. Bought a bill of goods of Field & Co. for cash. Amount $675.00.
1. Paid $100 for a cash register.
1. Paid $125 for office furniture.
1. Paid for shelving, $61.50.
2. Cash sales for the day, $42.00.
2. Bought of Farwell & Co. a bill of goods for cash. Amount $425.50.
2. Paid drayage charges, $4.50.
3. Cash sales for the day, $47.50.
3. Paid for postage stamps $2.00.
3. Paid for letterheads and envelopes $12.75.
4. The cash sales for the day were $51.20.
4. Bought goods of Field & Co. for cash, $127.50.
4. Paid for business cards $3.00.
4. Paid for signs $19.50.
5. The cash sales for the day were $56.75.
6. The cash sales for the day were $62.25.
6. Paid clerk's salary for the week, $15.00.

CASH BOOK

A Cash Book is a double paged book of original entry on the left page or debit side of which is recorded the cash collected and on the right page or credit side of which is recorded the cash disbursed. In offices where all cash received is deposited and all money paid is by check, the difference between the two sides of the cash book should agree with the bank balance as shown by the check book.

In most offices the cash book is highly developed and special columns with printed headings are used. These special columns are devised for the purpose of lessening work and of making the books easy to prove.

POSTING THE CASH BOOK

The total cash collected is posted to the debit side of the Cash account in the ledger while each item is posted to the credit side of the proper account in the ledger; thus the ledger will show one debit equal to the sum of a number of credits. The total cash disbursed is posted to the credit side of the Cash account in the ledger while each item is posted to the debit side of the proper account in the ledger; thus the ledger will show one credit equal to the sum of a number of debits.

The posting of the "cash received" side of the cash book, items and total cash, is exactly like the posting of the purchases book, items and total merchandise purchases. The posting of the "cash paid" side of the cash book, items and total cash, is exactly like the posting of the sales book, items and total merchandise purchases. The initial of the cash book (C), placed in the explanatory column just to the left of the folio column of the ledger, indicates that the entry originated in the cash book.

EXERCISE XXV

Trace the cash collected and the cash disbursed as shown by the transactions in this exercise to the illustrative cash book, then to the ledger accounts and to the trial balance. Note the manner in which the cash book is balanced, ruled, and the balance brought down.

Sep. 1. H. M. Strong, the proprietor, began a loan and collection business with a cash capital of $2,150.25 which was deposited in the bank.
2. Lent money to Brown & Smith by issuing check for $504.75.
3. Paid E. A. Cummings & Co., agents, September rent by check, $75.00.
4. Lent to A. B. Warner $102.50, and issued a check for that amount.
5. Gave a check to James Wilson for cleaning windows and floors and doing some repair work, $8.00.
6. Paid salaries for the week, $35.25. Drew a check on the bank for this amount, had it cashed and paid employees in currency.
8. Received cash from Brown & Smith on account, $85; deposited it.
9. Paid Telephone Co. bill, $4.50. Gave a check on the bank.
10. Lent to W. H. Wells $256.25 and issued him a check for that amount.
11. Paid James M. Miller for legal advice, $15.00; gave a check.
11. Brown & Smith paid on account $279.75; this was deposited.
13. Paid salaries for the week, $35.25; drew a check for the amount.
13. Received from A. B. Warner on account $12.50; deposited it.
15. Lent to Thomas Brothers $528.75 and issued them a check for the amount.
15. Paid A. B. Shaw & Co. $12.50 for a set of books; gave a check on the bank.
16. Received cash on account of Brown & Smith, $60; this was deposited.
19. A. B. Warner paid $90 on account; this was deposited.
21. W. H. Wells paid $34.50 on account; it was deposited.
24. Collected for T. F. Sherman $246.50; this money was deposited.

10

Cash Received

19– DATE		Folio	ACCOUNT CREDITED	EXPLANATION	ITEMS	TOTAL
Sep	1	1	H M Strong Proprietor	Investment	2150 25	
	8	40	Brown & Smith	On account	85 00	
	11	40	Brown & Smith	On account	279 75	
	13	10	A B Warner	On account	12 50	
	16	40	Brown & Smith	On account	60 00	
	19	41	A B Warner	On account	90 00	
	21	42	W H Wells	On account	34 50	
	24	100	T F Sherman	Collection	246 50	
					2958 50	
		2	Total cash received			2958 50
						2958 50
Sep	16		Balance			1380 75

The following illustrations on pages 40, 41 and 42 show the accounts to which the illustrative Cash book entries were posted:

H M Strong Proprietor

1

Cr

19– DATE		EXPLANATION	Folio	AMOUNT
Sep	1	Investment	C 10	2150 25

Cash

Dr 2 Cr

19– DATE		EXPLANATION	Folio	AMOUNT	DATE		EXPLANATION	Folio	AMOUNT
Sep	30	1380.75	C 10	2958 50	Sep	30		C 10	1577 75

Cash Paid

10

19— Date		Folio	Account Debited	Explanation	Items	Total
Sep	2	40	Brown & Smith	Loan #1	504 75	
	3	20	General Expense	Rent for Sep	75 00	
	4	41	A B Warner	Loan #2	102 50	
	5	20	General Expense	Cleaning etc	8 00	
	6	20	General Expense	Pay roll—week 9/6	35 25	
	9	20	General Expense	Tele bill	4 50	
	10	42	W H Walls	Loan #3	256 25	
	11	20	General Expense	Atty fee J M M	15 00	
	13	20	General Expense	Pay roll—week 9/13	35 25	
	15	43	Thomas Brothers	Loan #4	528 75	
	15	20	General Expense	Office books A B S & Co	12 50	
					1577 75	
		2	Total cash paid			1577 75
						2958 50

General Expense

20

Dr

19— Date		Explanation	Folio	Amount
Sep	3	Rent Sep	C 10	75 00
	5	Cleaning	C 10	8 00
	6	Payroll 9/6	C 10	35 25
	9	Telephone	C 10	4 50
	10	Office books	C 10	12 50
	11	Atty fee	C 10	15 00
	13	Payroll 9/13	C 10	35 25

Brown & Smith

40

Dr / Cr

19— Date		Explanation	Folio	Amount	19— Date		Explanation	Folio	Amount
Sep	2	Loan #1	C 10	504 75	Sep	8	Cash	C 10	85 00
						11	"	C 10	279 75
						16	"	C 10	60 00
									424 75

W H Wells — 42

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	Cr 19– DATE	EXPLANATION	Folio	AMOUNT
Sep 15	Loan #3	221.75 C 10	25625	Sep 21		C 10	3450

Thomas Brothers — 43

Dr 19 DATE	EXPLANATION	Folio	AMOUNT	Cr
Sep 15	Loan #4	C 10	52875	

T F Sherman — 100

Cr 19– DATE	EXPLANATION	Folio	AMOUNT
Sep 24	Collection	C 10	24650

A B Warner — 41

Dr 19– DATE	EXPLANATION	Folio	AMOUNT	Cr DATE	EXPLANATION	Folio	AMOUNT
Sep 4	Loan #2	C 10	10250	Sep 13	Cash	C 10	1250
				19	"	C 10	9000
							10250

The following trial balance is taken from the illustrative accounts which show the posting of the cash book entries:

Trial Balance Sep 30 19–

		DR AMOUNT	CR AMOUNT
1	H M Strong Proprietor		215025
2	Cash	138075	
20	General Expense	18550	
40	Brown & Smith	8000	
42	W H Wells	22175	
43	Thomas Brothers	52875	
100	T F Sherman		24650
		239675	239675
		239675	239675

Purpose. To record the cash collected and the cash disbursed.

Method. Enter all cash collected on the receipt side and all cash disbursed on the payment side.

Result. The difference is the balance.

BALANCING AND RULING THE CASH BOOK

At the end of a month the cash book should be balanced and ruled as shown in the illustrative cash book. This is also referred to as closing the cash book. Study carefully the form of the ruling and compare it with the ruling in the sales book and purchases book.

In business the cash book is footed in pencil at the close of each day and proved. The difference between the pencil footings must agree with the cash in the bank as shown by the check book plus the cash not deposited.

QUESTIONS ON THE CASH BOOK

1. What book is posted similarly to the payment side of the cash book? 2. What book is posted similarly to the receipt side of the cash book? 3. If the amount paid as shown by the cash book was greater than the amount received as shown by the cash book, what conclusion would you come to? 4. Give the use of each column in the cash book, beginning at the left and proceeding toward the right. 5. If you were a cashier and cashed a check for someone, would you make any entry? 6. Would an entry be necessary if you changed a five dollar bill for someone?

EXERCISE XXVI

Write up a cash book covering the following transactions. Balance, rule, put in the footings and bring down the balance, post and take off a trial balance as of Oct. 20. Submit your work for approval.

Oct. 1. The proprietor, A. H. Arnold, started business by investing cash $2,500.00. This money was deposited in the First National Bank to the credit of Mr. Arnold.
2. Lent to Brown & Smith $310.75. Gave them check on First National Bank.
3. Collected for Nathan Hall $50.25; cash not deposited in bank.
4. Gave check to E. A. Cummings & Co., Agents, for January rent, $40.00.
5. Collected for Henry A. Smith, $35.90. Deposited in the bank.
6. Paid bookkeeper's salary for the week in cash, $20.00.
8. Paid cash for blank books, $3.75.
9. Lent to Albert Wilson $300.00. Drew check for that amount.
10. Brown & Smith paid on account $25.00; not deposited.
11. Paid cash for office towel supply, $1.50.

Mr. Arnold wants to know the cash balance, how much is in the bank and how much in the office; state in writing. Make all footings in pencil, and write the cash book balance in pencil just to the left of the folio column on the cash received side of the cash book.

EXERCISE XXVII

Oct. 13. Received from Brown & Smith on account $60.75; deposited it.
15. Albert Wilson paid on account $50.00; deposited it.
16. Paid cash for postage stamps, $3.00.
17. Received letterheads and envelopes ordered. The bill was $12.50; gave check.
18. Bought stationery (penholders, pens, pencils, etc.) for cash, $2.10.
20. Paid bookkeeper's salary for the week in cash, $20.00.

THE JOURNAL AND TRIAL BALANCE

Almost every business has something to sell and likewise must purchase something before a sale can be made. These two classes of transactions, together with the payment of the personal accounts they create, constitute, by far, the cause of the vast majority of entries on any set of books used by a mercantile or manufacturing concern.

Therefore it was the natural result of progress that the entries resulting from all similar transactions should be made in one book, and that that book was named for the transactions which were recorded in it. Hence, we find a record of sales on account made in a sales book, a record of purchases on account made in a purchases book, and a record of cash received and disbursed made in a cash book. But, there still remain the entries for a large number of transactions which can not be included in any of the above named books.

So, at the present time, the journal is used as the book of original entry for transactions not conveniently recorded in any of the other books of original entry. Among these are the entries necessary in opening a set of books where the original investment consists of items other than cash, entries to make corrections and entries to make adjustments. The word "Journal" should be written or printed at the top of each page.

The Ruling of the Journal generally consists of a column for the date, a column for ledger folios, a broad column for entries, and at least two amount columns, one for the debit and one for the credit of the entry. Paper ruled as shown in the illustrative journal page 49 is called journal paper. Frequently large stationery stores, carry, in stock, journal paper that has from two to twenty-four amount columns.

To Journalize is to determine the accounts affected by the transaction, correction, or adjustment. The formal expression or writing in the journal of the result of the transaction, correction, or adjustment is also called journalizing. In each journal entry there should be one or more debits and one or more credits, but in all cases the debit or total debits should equal in amount the credit or total credits. One line should be left between a journal entry with its explanation and the following journal entry with its explanation. For the arrangement of the entries, see the illustrative Journal, page 49.

Explanations should follow every journal entry. These explanations should be clear and concise as they remain the permanent record of the cause of the entry and frequently require several lines to state the facts. Study the illustrative journal entries for the use of explanations and also for their location with reference to the entries.

POSTING THE JOURNAL ENTRIES

Each debit amount in a journal entry is posted to the debit side of its account in the ledger and each credit amount in a journal entry is posted to the credit side of its account in the ledger.

But, it should be remembered that, since a variety of entries are made in the journal, it is not a sufficient explanation of the transaction to place "J," the initial of the journal, in the explanatory column of the ledger. Instead, the opposite side of the entry (as a rule) should be used as the explanatory matter. If some such method of explanation is not used, it is necessary to look into the journal for each reference to determine the nature of the transaction that affected the account.

Study carefully the explanations in the illustrative accounts showing the postings of the journal entries.

A set of books consisting only of journal and ledger could be used to record all the transactions, double entry, of a business but the work is greatly lessened by using other books.

USE OF JOURNAL ILLUSTRATED

EXERCISE XXVIII

Trace the following transactions to the journal and ledger. Study each journal entry and compare it with the entry that would be made to record the same transaction in the sales book, purchases book, or cash book.

Aug. 8, 19——. Goods bought of Brown & Smith on account were received: date of invoice Aug. 4, 19—, amount $48.25. As illustrated on page 31. Merchandise Purchases account must be debited with $48.25 and Brown & Smith's account must be credited with $48.25.

Entering this transaction in the purchases book, posting the item to the credit of Brown & Smith's account, and including it in the footing posted to the debit of Merchandise Purchases account conform to the principles illustrated on page 31.

The entry for this transaction, if made in the journal instead of in the purchase book, conforms to the same principle but would be as follows:

Journal

DATE 19—	DR ITEM	CR ITEM	L F	DR AMT	CR AMT
Aug 8	Mdse Purchases			48 25	
		Brown & Smith			48 25
	Inv Aug 4				

The above Journal Entry is read Merchandise Purchases to Brown & Smith $48.25. The debit amount is posted to the debit of Merchandise Purchases account as follows:

Mdse Purchases

19—					
Aug 8	Brown & Smith Inv 8/4	48 25			

The credit amount is posted to the credit of Brown & Smith's account as follows:

Brown & Smith

			19—		
			Aug 8	Inv 8/4	48 25

The posting of the debit and credit amounts is of primary importance: the entering of the explanations is secondary.

Aug. 10, 19—. Sold a bill of goods to A. W. Franklin on account, amount $118.25. As illustrated on page 34, Merchandise Sales account must be credited with $118.25 and A. W. Franklin's account, must be charged with $118.25.

Entering this transaction in the sales book, posting the item to the debit of A. W. Franklin's account, and including it in the footing posted to the credit of Merchandise Sales account conform to the principle illustrated on page 33.

The entry for this transaction, if made in the journal instead of in the sales book, conforms to the same principle but would be as follows:

Journal

19– DATE	DR ITEM	CR ITEM	LF	DR AMT	CR AMT
Aug. 10	A W Franklin			118 25	
		Mdse Sales			118 25
	Bill Aug 10				

The posting of this journal entry is as follows:

A W Franklin

19–					
Aug 10	Mdse	118 25			

Mdse Sales

			19–		
			Aug 10	A W Franklin	118 25

Aug. 12, 19—. Paid Chas. Smith, clerk, salary for the week ended today, amount $20.00. As illustrated on page 41, cash must be credited with $20.00 and General Expense must be debited with $20.00.

Entering this transaction in the cash book, posting the item to the debit of General Expense account, and including it in the footing posted to the credit of Cash account conform to the principle illustrated on page 41.

The entry for this transaction, if made in the journal instead of in the cash book, conforms to the same principle but would be as follows:

Journal

DATE 19-	DR ITEM	CR ITEM	L F	DR AMT	CR AMT
Aug 12	General Expense			20 00	
		Cash			20 00
	Chas Smith salary week ended Aug 12				

The posting of the journal entry follows:

General Expense

19-					
Aug 12	Chas Smith to 8/12	20 00			

Cash

			19-		
			Aug 12	Chas Smith to 8/12	20 00

The explanations used are alike in both ledger accounts.

Take a trial balance of the accounts to which the preceding journal entries were posted, using the form given here (you are to supply the amounts), and submit your work for approval.

TRIAL BALANCE AUG. 12, 19-.

Mdse Purchases		
Brown & Smith		
A. W. Franklin		
Mdse Sales		
Cash		
General Expense		

Purpose. To record transactions, transfers, adjustments and investments at the beginning of business, except cash investments.

Method. Write the date, the name of the account to be debited, and in the left hand amount column the debit amount. On the next line write the name of the account to be credited and in the right hand amount column the credit amount. Use one line for each debit entry and one line for each credit entry. An explanation follows the formal journal entry stating the purpose for which the entry is made.

Posting. Each debit amount is posted to the debit of the proper ledger account and each credit amount is posted to the credit of the proper ledger account, together with date, explanation, and page of the journal.

USE OF JOURNAL IN OPENING BOOKS

When a person begins business for himself, he should make out a statement of the money, accounts and other properties that he is investing, together with his debts. No matter how crude the statement is, it will greatly assist the bookkeeper in preparing the opening entry.

EXERCISE XXIX

Study the following illustrations of the use of the journal in opening entries.

Sep. 1. M. M. Hopkins began business with the following assets and liabilities: A. R. Wilson owes him on account $875.00 and C. D. Williams, $325.50; his inventory of merchandise amounts to $3,500.00. Mr. Hopkins owes S. B. Cummings $100.00 and W. B. Ross $257.25, both on account.

M. M. Hopkins' Statement of Assets and Liabilities covering the above facts follows:

M M Hopkins
Statement of Assets & Liabilities

Assets		
Mdse Inventory	3500 00	
A R Wilson	875 00	
C D Williams	325 50	
Total Assets		4700 50
Liabilities		
S B Cummings	100 00	
W B Ross	257 25	
Total Liabilities		357 25
Net Assets		4343 25

The journal entry, if only the journal and ledger are used, follows:

Journal

19— DATE		DR ITEM CR ITEM	L F	DR AMT	CR AMT
Sep	1	Mdse Inventory		3500 00	
		A R Wilson		875 00	
		C D Williams		325 50	
		S B Cummings			100 00
		W B Ross			257 25
		M M Hopkins Proprietor			4343 25
		To place the assets and liabilities on the books			

Where there are partners in the business, separate entries, similar to the preceding journal entry, should be made for the investment of each of them.

USE OF JOURNAL IN MAKING CORRECTIONS, ADJUSTMENTS AND RECORDING TRANSACTIONS

EXERCISE XXX

Trace the following transactions to the illustrative journal entries and the posting from the journal to the accounts in the ledger. Then trace the accounts in the ledger to the illustrative trial balance which follows.

The journal has been given 12 as the page number, and the pages of the ledger accounts are shown at the right of the headings.

July 1. J. P. Wilson, proprietor, made an investment consisting of 4¼ per cent Liberty Bonds. Amount, $2,000.00.

5. Merchandise amounting to $142.50 was sold, billed and shipped to A. W. Johnson, Portland, Me., on June 20, 19—. Through an error in posting, this sale was charged to another customer's account, A. W. Johnson, Paducah, Ky. The error was discovered and then corrected by a Journal entry.

10. Bennett & O'Brien, customers at Indianapolis, Ind., claim a shortage in the shipment to them June 25 of 100 booklets @ 6½c amounting to $6.50. The claim has been allowed, a credit memorandum sent to Bennett & O'Brien, and the bookkeeper instructed to make an entry covering the allowance.

Journal entries covering these transactions follow:

Journal 12

19— DATE		DR ITEM CR ITEM	L F	DR AMT	CR AMT
Jul	1	Liberty Bonds 4¼%	45	2000 00	
		J P Wilson Proprietor	2		2000 00
		To record the additional investment			
	5	A W Johnson Paducah Ky	236	142 50	
		A W Johnson Portland Me	218		142 50
		To adjust because of shipment to the wrong person			
	10	Mdse Sales	57	6 50	
		Bennett & O'Brien	160		6 50
		To adjust for a shortage of 100 booklets at 6½¢ Shipment 7/6			
	15	Boston Manufacturing Co	148	87 50	
		Mdse Purchases	63		87 50
		To adjust for allowance made by Mr King for poor quality			

15. Merchandise received from the Boston Manufacturing Co., Lynn, Mass., checked with the order for them and with their invoice dated June 27, 19- amounting to $475.25. This was entered in the Mdse. Purchases Book and credited to their account. Afterwards it was found that the goods were not up to the standard, and the Boston Manufacturing Co. made an allowance of $87.50, sending a credit memorandum dated July 12, the amount of which is to be charged to their account through the Journal.

Ledger accounts resulting from posting the above journal entries follow:

J P Wilson Proprietor 2

Cr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	1	Liberty Bonds 4¼%	J 12	2000 00

45 Liberty Bonds 4¼%

Dr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	1	#434 to 437	J 12	2000 00

Mdse Purchases 63

Cr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	15	Boston Mfg Co	J 12	87 50

54 Mdse Sales

Dr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	10	Bennett & O'Brien	J 12	6 50

148 Boston Manufacturing Co

Dr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	15	Allowance	J 12	87 50

A W Johnson 218

Portland Me

Cr

19– DATE		EXPLANATION	Folio	AMOUNT
Jul	5	Error–Bill 6/28	J 12	142 50

Bennett & O'Brien

160

Cr

DATE 19–	EXPLANATION	Folio	AMOUNT
Jul 10	Shortage Bill 7/6	J 12	6 50

236

A W Johnson
Paducah Ky

Dr

DATE 19–	EXPLANATION	Folio	AMOUNT
Jul 5	Goods	J 12	142 50

The use of the journal in making transfers is fully explained and the entries for the transfers illustrated in the following chapter.

The trial balance taken of the above ledger accounts, proving the accuracy of the posting from the journal and showing that the books are kept double entry, follows:

Trial Balance July 15 19–

L F		DR	CR
1	J P Wilson		2000 00
2	Liberty Bonds	2000 00	
14	Mdse Purchases		87 50
15	Mdse Sales	6 50	
17	Boston Mfg Co	87 50	
25	A W Johnson Portland Me	142 50	
28	Bennett & O'Brien		6 50
31	A W Johnson Paducah Ky		142 50
		2236 50	2236 50

BALANCING AND RULING THE JOURNAL

The journal as illustrated here is seldom ruled and totaled. Some bookkeepers, however, foot the amount columns, in pencil only, to determine whether the journal entries balance. If the journal entries should not balance, there would be no need of posting the entries until the error was located and corrected. This method is particularly advisable in using a journal that has several amount columns.

QUESTIONS ON THE JOURNAL

1. Define Journal. 2. Journalizing. 3. Journal entry explanations. 4. Could the journal be used as the only book of original entry? 5. Is this desirable? Why? 6. What does a statement of assets and

liabilities contain? What is the difference between the assets and liabilities called? 7. What is a credit memorandum? 8. What is meant by checking an invoice? 9. In Exercise XXX it is stated that goods were charged to A. W. Johnson, Paducah, Ky., June 20, 19— when they should have been charged to A.W. Johnson, Portland, Me., and the error was not found and corrected until July 5, 19—. Would the trial balance taken June 30, 19— balance? Why? 10. Explain the difference between the entries if made in the journal and the entries for the same transaction if made in the Cash book. The merchandise sales book. The merchandise purchases book. 11. If a journal entry had several debits and several credits should the amount of the debits equal the amount of the credits? 12. How would you know if the journal balanced? 13. Total the four illustrative journal entries on page 49 and compare your results with the totals of the trial balance on page 51.

EXERCISE XXXI

Journalize the following transactions, post, take off a trial balance, and submit your work with written answers to the questions for approval.

Aug. 1. W. B. Hays assigns to the partnership of Hays & Harrison an account due him from Wilson & Co. for $1,286.47. This sum, is to be an additional investment.

10. Wm. Watson, a customer, claims a clerical error of $10.00 was made in a bill to him dated July 15. This was looked up and his claim found to be correct as the bill was too large by $10. A credit memorandum was sent him and the bookkeeper instructed to make the proper correcting entry.

15. On rechecking a bill of goods bought of Williams & Co., dated July 25, to the amount of $287.50 and entered in July, an error of $20.00 was found in the extensions; the bill should have been $267.50. Williams & Co. were written concerning the mistake and agreed to send us a credit memorandum covering this error. Make the proper correcting entry.

20. A credit memorandum was issued today and sent to Wm. Watson, a customer, for $18.50 to cover claim for breakage on account of goods billed and shipped Aug. 11. These goods were improperly packed.

A GENERAL RULE

In the progress of the student as he has considered each separate account, he has reached certain conclusions and formulated his own rules as to what should be debited to each account and what should be credited to each account. Instead of trying to *Remember* all these rules for entries in each account, it will be more satisfactory for him to be familiar with the application of a general rule for debiting and crediting any account. This general rule follows:

Debit that which is received, who or what costs value.
Credit that which is disposed of, who or what produces value.

The student should now study each kind of an account treated in this book, up to this point, by beginning with the personal account on page 6. In this manner he can satisfy himself that the general rule given here will cover any and all special rules which he has formulated for debiting and for crediting any of these accounts.

ORAL EXERCISE XXXII

Study the following transactions and be prepared to make quickly the entries covering them, if only a journal were used.

1. A. B. Pratt and A. B. Whitney, partners, begin business with the following assets and liabilities: A. B. Pratt invests cash $10,000.00; A. B. Whitney invests cash amounting to $10,000.00.
2. Paid one month's rent, $100.00.
3. Bought goods of Field & Co. on account, $2,350.00.

4. Paid freight on the goods bought of Field & Co., $39.75.
5. Paid cartage from freight house to store on goods bought of Field & Co., $6.50.
6. Paid payroll for the week, $81.75.
7. A. B. Pratt drew for personal use, $100.00.
8. A. B. Whitney took from the store for his personal use goods which cost the firm $75.40.
9. Sold goods to Geo. Chapman on account, $80.20.
10. Sold goods to E. N. Bragdon on account, $135.10.
11. Bought postage stamps, $20.00.
13. Geo. Chapman returned part of the goods sold him, and we issued a credit memorandum for $18.25.
14. E. N. Bragdon returned part of the goods sold him, and a credit memorandum was sent him, amount, $14.50.
15. Paid Field & Co. on account $1,000.
16. Paid a cartage bill on goods sold to E. N. Bragdon, amount, $3.50.
17. Made a claim to Field & Co. that part of the goods bought of them was not satisfactory. After some correspondence they allowed $17.50 and sent a credit memorandum for that amount

ABBREVIATIONS AND CONTRACTIONS

Adjustment........................Adj.	Transfer..............................Tfr.
Journal..........................Jour. or J.	

CORRECTION OF ERRORS

If you know what you are doing and are careful there is no excuse for making an error. Errors result from either ignorance or carelessness.

Nevertheless errors are sometimes made, and it is important to know how to correct them properly.

IN BOOKS OF ORIGINAL ENTRY

If the error is in a book of original entry and is discovered before it has been posted, it should be corrected by drawing a single red line through each incorrect amount, and the correct figures placed just above in black ink. Or if the account charged or credited is the wrong account, the correction should be made by drawing a single red line through the wrong entry and writing in the correct entry in black ink.

If the error is not discovered until it is posted, the correction should be made in a book of original entry, and the explanation should state clearly the nature of the error and a reference to the entry it is intended to correct. In no case should an erasure appear in a book of original entry. Books are sometimes taken into court as evidence and erasures in them may destroy their value as evidence.

IN A LEDGER

The same general plan of correcting errors in books of original entry should also be followed in correcting errors in a ledger.

CLOSING THE LEDGER

At the end of a fiscal period it is the custom in almost every business house, large or small, to "close the books" as it is called. This is a very necessary part of the routine of a fiscal period. Most business houses close the books December 31 of each year, or on June 30 of each year, in order to determine the amount of the net gain or the net loss for the previous fiscal period. This practice has been generally followed since the Income Tax Law was enacted by the Congress of the United States.

Closing, or "Closing the Ledger," is the process of assembling in one account the whole balance or a part of the balance of all that group of accounts known as the operating or profit and loss accounts. This includes all accounts that show profit, or income, expenses, losses, and costs.

Closing accounts and "closing the ledger" must not be confused with closing the special books of original entry, as explained in preceding chapters of this book.

CLOSING AN ACCOUNT

Purpose. To transfer the balance or a part of the balance of an account to the same side of some other account.

Method. If the balance of an account is a debit, the whole balance or a part of it may be transferred to the debit side of some other account. If the balance of an account is a credit, the whole balance or a part of it may be transferred to the credit side of some other account.

In this textbook, the journal entry method of closing is illustrated and explained because it is the method very generally used by public accountants.

RULING A CLOSED ACCOUNT

After an account is closed it should be ruled, as the ruling, when properly done, adds to the appearance of the books. For this purpose it is advisable to use red ink, though black may be used.

Purpose. To set off in approved form the **closing,** also to balance accounts.

Method. Rule a single red line, on the last blue line upon which an amount is written, cutting both the debit and the credit amount columns only. On the first blue line below the one used for the single red line, rule the upper of double lines cutting the whole account except the explanatory columns. Rule the lower of the double red lines as close as possible to the upper one without touching it.

After an account has been closed and ruled, the amounts composing it should no longer affect the ledger, and so far as future transactions and entries are concerned that portion of the account is no longer in existence.

The accounts, treated so far in this book, that are closed or affected by closing are: Merchandise Inventory, Merchandise Purchases, Merchandise Sales, Profit & Loss, General Expense, and Proprietor's Capital. All other accounts that have been introduced, are balanced.

CLOSING MERCHANDISE PURCHASES ACCOUNT

Before this account is closed it is necessary to make an adjustment in it to obtain the **cost of goods sold.** In order to do this it is necessary to obtain information not contained in the ledger itself but secured by making an inventory of merchandise on hand.

By referring to the illustrative accounts in the chapter on merchandise, page 24, the student will find the amounts that are used in the following illustrations.

The method of finding the **cost of goods sold** is illustrated on page 26, and we should now give effect to this calculation by means of the following journal entry:

Mar 31	Mdse Inventory Mdse Purchases To record the inventory of merchandise Mar. 31 19-.	15997.73	 15997.73

The debit amount of this journal entry is posted to Merchandise Inventory account and is illustrated on page 25. The posting of this entry is really the beginning of that account.

When the credit amount of this entry is posted the Merchandise Purchases account will stand as follows, so that the balance of the account will be the **cost of goods sold:**

MERCHANDISE PURCHASES

Mar. 31	Net Purchases	58657.25	Mar. 31	Mdse Invt.	15997.73

Refer to the Merchandise Purchases account on page 24 where it was illustrated as balanced and ruled **but not closed,** and you will note the amount of net purchases brought down.

Since the balance of Merchandise Purchases account will now show the cost of goods sold it is **closed** by posting the following journal entry:

Mar. 31	Mdse Sales Mdse Purchases To close the latter account and transfer the cost of goods sold	42659.52	 42659.52

When the credit amount of this journal entry is posted the Merchandise Purchases account will be **closed** and should be ruled as shown by the following illustration:

MERCHANDISE PURCHASES

Mar. 31	Net Purchases	58657.25	Mar. 31	Mdse Invt.	15997.73
			31	Cost of Goods Sold	42659.52
		58657.25			58657.25

CLOSING MERCHANDISE SALES ACCOUNT

When the debit amount of the preceding journal entry is posted the **cost of goods sold** will appear in the Merchandise Sales account as shown by the following illustration. Observe that this illustration is but a continuation of the Merchandise Sales account that was balanced and ruled on page 28.

MERCHANDISE SALES

Mar. 31	Cost of Goods Sold	42659.52	Mar. 31	Net Sales	57811.70

This account when balanced as in the illustration on page 28 showed the amount of the net sales. It now shows the **cost of goods sold** as well, and is **closed** by posting the following journal entry:

Mar. 31	Mdse Sales	15152.18	
	Profit & Loss		15152.18
	To close the former amount and transfer the gross profit		

When the debit amount of this journal entry is posted the Merchandise Sales account will be **closed** and should be ruled as shown by the following illustration, which is but a continuation of the Merchandise Sales account shown on page 28:

MERCHANDISE SALES

Mar. 31	Cost of Goods Sold	42659.52	Mar. 31.	Net Sales	57811.70
31	Gross Profit	15152.18			
		57811.70			57811.70

By posting the credit amount of this journal entry the gross or merchandise profit will be transferred to the Profit & Loss account. This amount is sometimes known as a trading profit.

QUESTIONS ON CLOSING THE MERCHANDISE ACCOUNTS

1. Write the entry (without amounts) by which the cost of goods sold is obtained. 2. How do you obtain the amount of the inventory at the end of a fiscal period? 3. What is the amount called that closes the Merchandise Purchases account? 4. What is the amount called that is transferred into the Merchandise Sales account? 5. Write the entry (without amounts) that transfers the cost of goods sold into the Merchandise Sales account? 6. What is the amount called that closes the Merchandise Sales account?

CLOSING GENERAL EXPENSE ACCOUNT

On page 18 the General Expense account is shown with only pencil footings and the balance of the account also in pencil. No adjustment or change whatever is made in it, but the following journal entry is then made for transferring the balance of it to the Profit & Loss account:

Sep. 30	Profit & Loss	232.75	
	General Expenses		
	To close the latter account and transfer it to Profit & Loss account.		232.75

When the credit amount of this journal entry is posted the General Expense account will be **closed** and should be ruled as shown by the following illustration:

GENERAL EXPENSE

Sep. 30		236.00	Sep. 30		3.25
			30	Profit & Loss	232.75
		236.00			236.00

CLOSING PROFIT & LOSS ACCOUNT

When the debit amount of the last journal entry is posted the Profit & Loss account will stand as follows:

PROFIT AND LOSS

Sep. 30	General Expense	232.75	Sep. 30	Gross Profit	700.35

You will observe that the illustration above is the same as that given on page 17 which is the result of the transactions shown in the exercise on page 16. The following journal entry is then made for closing this account:

Sep. 30	Profit & Loss	467.60	
	H. M. Strong, Proprietor		467.60
	To close the former account and transfer the net profit.		

When the debit amount of this journal entry is posted the Profit & Loss account will be **closed** and should be ruled as shown by the following illustration:

PROFIT AND LOSS

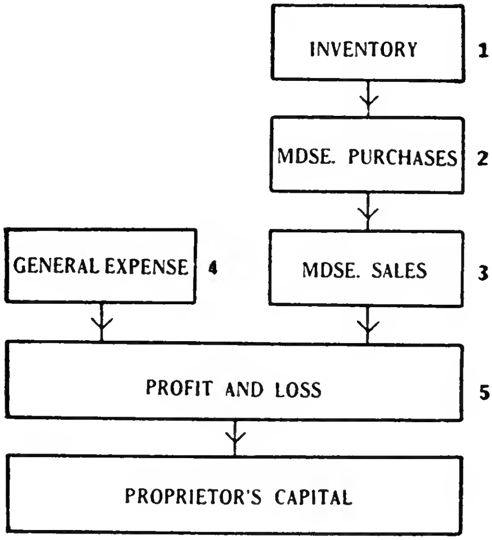
Sep. 30	General Expense	232.75	Sep. 30	Gross Profit	700.35
30	Net Profit-H M S	467.60			
		700.35			700.35

The posting of the credit amount of this journal entry brings the net profits for the period into the account of H. M. Strong, Proprietor. The proprietor's account is then balanced, ruled, and the balance brought down as in the illustration on page 14.

QUESTIONS ON CLOSING AND RULING PROFIT AND LOSS ACCOUNTS

1. Why are the accounts that show profits and those that show losses closed? 2. Are these accounts closed by recording entries for transactions? 3. What is the result of closing one of these accounts? 4. How are they closed? 5. Describe the form of ruling when one of these accounts is closed. 6. Make a list of the accounts closed. 7. Make a list of the accounts affected by closing, but **not closed**. 8. Does the ruling or the posting of the entry close the account?

CLOSING DIAGRAM



The above diagram represents the order in which the profit and loss accounts are closed and the net profit or the net loss brought into the proprietor's account. The student should memorize the order of this procedure.

EXERCISE XXXIII

Look in your outfit of supplies and get Test Ledger No. 1. Close and rule the accounts shown there. Follow the instructions of your teacher. The merchandise inventory on April 30, was $837.56.

PART II. BOOKKEEPING PRACTICE

SET I — COAL BUSINESS — ONE MONTH

The following books are to be used: Purchases Book, Sales Book, Cash Book, and Journal.

To the Student. The transactions in this set should be written up on journal paper and posted on ledger paper before the work is placed in your regular books. Otherwise, your work will probably not be so neat as it should be, and neatness is very essential in bookkeeping.

If you can not get journal paper and ledger paper, for practice work, rule some kind of paper to correspond with journal and ledger rulings as illustrated in this book.

MEMORANDA OF TRANSACTIONS FOR DECEMBER

James Gordon, Proprietor, started in the coal business last month at 187 Canal St., and has made a few sales and purchases to date. He wishes you to open a set of books and has furnished you the following information concerning his affairs:

Dec. 1. Merchandise on hand (Inventory) $685.75; cash in bank $978.36; accounts due him: Norton Hotel $120.80; Hammond Estate, 214 Hammond Bldg. $224.25; Porter Brothers, 118 N. 10th St., $62.75. He owed: Big Muddy Coal Co., Cincinnati, Ohio, $532.40; Kanawha Coal Co., Wheeling, W. Va., $261.80.

Post the amounts for the different accounts in the opening entries. On page 61 are instructions concerning the pages in the ledger on which these accounts should be opened.

Dec. 2. Sold Jenkins Hardware Co., 84 High St., 10 T Jackson Lump @ $6.75.
3. Received check from Hammond Estate for balance due Dec. 1, $224.25.
4. Sold Norton Hotel 20 T Pocahontas Lump @ $7.25, 3 T Egg @ $10.50.
5. Paid rent for yard for December, $100.00.
6. Paid Citizens Telephone Co. bill, $6.00.
8. Received bill from Jackson Hill Coal Co., Columbus, Ohio, terms 30 da., $412.80, date of bill Dec. 6.
9. Paid balance due Kanawah Coal Co., $261.80.
9. Sold Porter Brothers 5 T Pocahontas Mine Run @ $5.50, 3 T Nut @ $11.00.
10. Received bill from Kanawah Coal Co. dated Dec. 8 for $382.80, terms 30 days.
10. Sold Hammond Estate 10 T Jackson Lump @ $6.75, 5 T Pocahontas Lump @ $7.25.
12. Mr. Gordon drew cash $50 for personal use.

Dec. 13. Sold Montclair Realty Co., 618 Lincoln Bldg., 10 T Jackson Lump @ $6.75, 5 T Nut @ $11.00.
15. Paid freight on two shipments of coal, $102.86.
15. Porter Brothers paid balance due Dec. 1, $62.75.
16 Sold Board of Education 20 T Jackson Lump @ $6.75.
16. Cash sales of coal, $45.25.
17. Paid balance due Big Muddy Coal Co., Dec. 1, $532.40.
18. Paid for printing, stationery, books, etc., $26.85.
19. Sold Jenkins Hardware Co., 5 T Jackson Lump @ $6.75, 2 T Nut @ $11.00.
20. Received bill from Big Muddy Coal Co. for $297.25, terms 30 days, dated Dec. 18.
22. Received bill from Johnson & Foley, 428 King Bldg., City, for $428.60 for coal, terms 30 da., bill dated Dec. 19.
22. Kanawah Coal Co. allowed claim for shortage covered by bill received Dec. 11. Amount of claim, $24.80.
23. Porter Brothers paid bill of Dec. 10, $60.50.
23. Received from Hotel Norton $120.80, balance Dec. 1.
24. Sold Hammond Estate 15 T Jackson Lump @ $6.75, 3 T Egg @ $10.50.
25. Paid Edison Co's. bill for electric light, $3.86.
26. Mr. Gordon had 3 T Egg coal @ $6.80 delivered at his residence.
27. Paid freight on shipments bills Dec. 20, 22, $105.63.
29. Mr. Gordon invested cash $500.00.
30. Received cash from Jenkins Hardware Co. to apply on account, $75.
31. Allowed Montclair Realty Co. 50c per ton for stowing away 13 tons, $6.50.
31. Paid bookkeeper's salary, $100.

HOW TO CLOSE THE WORK AT THE END OF A MONTH

Study the Illustrations on pages 30, 33, 40, 41.

NOTE. It is generally advisable to defer the closing (in ink) of the books of original entry until the trial balance is obtained and the correctness of the entries established. Therefore, the books of original entry should show pencil footings and closings until after the trial balance is obtained. However, the instructions of the teacher should prevail, and in all cases the program for closing should be so construed.

1. First, total the Purchases book and write the total in pencil, just below the last amount in ink (be sure it is correct); then, on the first blue line below the last item write in black ink, "Total Mdse. Purchases" with the total extended into the second amount column. Rule with single and double red lines. Refer to the illustrative Purchases book, page 30.

2. Total the Sales book and write the total in pencil just below the last items (be sure it is correct); then on the first blue line below the last item write in black ink, "Total Mdse. Sales" with the total extended into the second amount column under the amount of the last sale. Rule with single and double red lines. Refer to the illustrative Sales book on page 33.

3. The closing of the Cash book is very similar to the closing of the Purchases book. Total the column of cash received and write the total in pencil just below the last amount in ink. Total the column of cash paid and write the total in pencil just below the last amount in ink, then ascertain the balance. Make sure the balance is correct before proceeding further.

On the first blue line below the last entry on the "cash received" side write, in black ink, in the explanatory column, "Total cash received" and extend the amount of the pencil total, of this side, into the second amount column. Then, on the first blue line below the last entry on the "cash paid" side write in black ink, in the explanatory column "Total cash paid" and extend the amount of the pencil total, of this side, into the second amount column. On the next blue line of the credit side write, in red ink, in the explanatory column, "Balance" and extend the amount of the balance (in red ink) into the second column, just under the total of cash paid. Then, total the amount of cash paid and the amount of the balance and write this total in black ink on the next blue line. On the "cash received" side bring down the total of cash received on the same line with the total of the balance and the cash paid. These two totals should always agree in amount and should always be on the same line, only on opposite sides of the cash book. Rule with single and double red lines. Study the closing of the illustrative Cash book on pages 40, 41.

4. Post from each book of original entry in the order in which they were ruled, posting from the journal last.

The accounts needed for this set follow and the headings should be written in the ledger in the order indicated below. There should be four accounts on a page, spaced as nearly equally as possible.

1. Cash. 2. Hotel Norton. 3. Hammond Estate. 4. Porter Brothers. 5. Jenkins Hardware Co. 6. Montclair Realty Co. 7. Board of Education. 8. Mdse Inventory. 9. Big Muddy Coal Co. 10. Kanawah Coal Co. 11. Jackson Hill Coal Co. 12. Johnson & Foley. 13. James Gordon, Proprietor. 14. Mdse Sales. 15. Mdse Purchases. 16. General Expenses. 17. Profit & Loss.

In a set of books already open the accounts would be in the ledger and only the necessary additional accounts would be opened. Most of these new accounts needed would probably be personal accounts with new customers or with new creditors.

When a set of books is opened for a new business it is generally the custom to decide upon the accounts needed, except personal accounts, before the books are opened. As a rule, the accounts would then be opened in the ledger so as to simplify the work at the end of a fiscal period.

5. Rule all personal accounts that balance, according to the illustrative account on page 11.

6. Balance, rule, and bring down the balance of the Merchandise Purchases account and the Merchandise Sales account.

7. Total, in pencil, all the remaining accounts in the ledger and write, in pencil, the balance of each account, just as in the illustrative accounts in the textbook.

8. Your ledger should now agree with the illustrative ledger on pages 62, 63, 64, 65 in this textbook.

Cash

19—					19—				
Dec	31	777.51	C	2066 91	Dec	31		C	1289 40

Board of Education

42 Park Row

19—					19—				
Dec	16		S	135 00					

Hotel Norton

Main & First

19—					19—				
Dec	1		J	120 80	Dec	23		C	120 80
	4		S	176 50					

Hammond Estate

214 Hammond Bldg

19—					19—				
Dec	1		J	224 25	Dec	3		C	224 25
	10		S	103 75					
	24		S	132 75					

Jenkins Hardware Co.

84 High St

19–					19–				
Dec	2		S	67 50	Dec	30		C	75 00
	19	48.25	S	55 75					

Montclair Realty Co.

618 Lincoln Bldg

19–					19–				
Dec	13	116.00	S	122 50	Dec	31	Allowance	J	6 50

Porter Brothers

118 N Tenth St

19–					19–				
Dec	1		J	62 75	Dec	15		C	62 75
	19		S	60 50		23		C	60 50

Mdse Inventory

19–					19–				
Dec	1		J	685 75					

Big Muddy Coal Co
Cincinnati O

19–						19–				
Dec	17		C	532 40		Dec	1		J	532 40
							18		P	297 25

Kanawah Coal Co
Wheeling W Va

19–						19–				
Dec	9		C	261 80		Dec	1		J	261 80
	22	Shortage	J	24 80			8	358 00	P	382 80

Jackson Hill Coal Co
Columbus O

19–						19–				
						Dec	6		P	412 80

Johnson & Foley
428 King Bldg

19–						19–				
						Dec	19		P	428 60

James Gordon Proprietor

19—					19—				
Dec	12		C	50 00	Dec	1		J	299 35
	26	Mdse	J	20 40		1		C	978 36
				70 40		29	1707 31	C	5000 00
									6277 71

Mdse Sales

19—					19—				
Dec	31	Allowance	J	6 50	Dec	31		S	854 25
						16	893 00	C	45 25
									899 50

Mdse Purchases

19—					19—				
Dec	31		P	1521 45	Dec	22	Shortage	J	24 80
	15	Freight	C	102 86		26	J G Proprietor	J	20 40
	27	Freight 1684 74	C	105 63					45 20
				1729 94					

General Expense

19—					19—				
Dec	5	Rent	C	100 00					
	6	Telephone	C	6 00					
	18	Stationery etc	C	26 85					
	25	Elec Light	C	3 86					
	31	Salary 236 71	C	100 00					
				236 71					

9. Take a trial balance of the accounts in the ledger by differences. When this work is completed the trial balance you have taken should appear as follows, except that you are to supply the balance of each account:

TRIAL BALANCE SEPT. 30, 19—

Cash	***	
Hotel Norton	***	
Hammond Estate	***	
Jenkins Hardware Co.	***	
Montclair Realty Co.	***	
Board of Education	***	
Mdse Inventory	***	
Big Muddy Coal Co.		***
Kanawah Coal Co.		***
Jackson Hill Coal Co.		***
Johnson & Foley		***
James Gordon, Proprietor		***
Mdse Sales		***
Mdse Purchases	***	
General Expenses	***	
	***	***

HOW TO LOCATE ERRORS IN TRIAL BALANCES

1. Total both sides of the trial balance, even though it is apparently wrong. Be sure your totals are correct. This will aid you to determine the exact amount of the error.

2. After the exact amount of the error has been determined, look in the ledger and books of original entry for a balance or an amount corresponding to the error. If no balance or amount is found corresponding to the error, then **divide the amount of the error by 2,** if the error is an even amount, i. e., if the last figure of the error is 0, 2, 4, 6 or 8. Should the error be exactly divisible by 2, there may be one account on the wrong side of the trial balance or posted to the wrong side of the ledger, corresponding to the result of the division.

3. **Divide the amount of the error by 9.** If the error should be divisible by 9 without a remainder, it may be that the error is caused by a transposition of figures, thus: If $35.00 should be posted as $53.00 the error would be $18.00 which amount is divisible by 9. Check the ledger for a balance, that if transposed in the trial balance, would produce the amount of the error. If this fails to locate the error, then look in the books of original entry for an amount that, if transposed, would produce the amount of the error.

4. **Divide the amount of the error by 99.** If the error should be divisible by 99 without a remainder, it may be a transplacement of figures, thus: If $18.00 should be posted as 18 cents the error would be $17.82. $17.82÷99=18. First, look for a transplacement of figures from the ledger to the trial balance. If this should fail to locate the error, then look for a transplacement of figures from one of the books of original entry to the ledger.

5. Should the error be 1c, 10c, $1, $10, $100, etc., it is probably an error in addition or subtraction and should be located by carefully re-adding both the ledger and books of original entry, or by balancing the ledger accounts again.

A great deal of time can be saved by using good judgment while looking for an error. Sometimes the balance of an account will be the same for two or three consecutive months;

therefore it is seldom worth while to examine such an account, if your previous trial balance was correct.

Should the error be in cents, look only in the "cents columns;" or should the error be in dollars, look only in the "dollars columns" for the error. If the error should involve four figures, say, two figures in dollars (tens) and two figures in cents, do not look in columns where "hundreds" should be written.

Failing in all these expedients, there is but one thing left to do: all the work for the month should be carefully re-checked, i. e., re-add all books of original entry, re-check all postings, and re-add all accounts in the ledger.

If the methods outlined here are followed intelligently, the error will always be located, though it may require considerable time and effort.

6. **Checking the amounts.** Some bookkeepers use a check mark ($\surd$) to show that the amount is correct and posted correctly. Others use only a period (.) for the same purpose.

The check mark, whichever one is used, should be placed just to the right or left of the amount. But, be systematic: do not place one check mark to the left of an amount and the next check mark to the right of an amount.

It is preferable to use the period as it keeps the books looking neater and is just as quickly made, by rolling the pencil between the thumb and the first finger.

HOW TO DETERMINE PROFIT AND LOSS

At the end of certain periods of time, usually, quarterly (three months), semi-annually (six months), or annually, it is customary to determine the net profits or the net losses of a business.

This is done by assembling all the accounts from the ledger that show expenses and losses and those accounts that show profits, into a form which is commonly called the Profit and Loss Statement. This form is frequently known as the Trading and Profit and Loss Statement.

PROFIT OR LOSS ON MERCHANDISE A PROBLEM IN ARITHMETIC

Before proceeding to the preparation of the Profit and Loss Statement, certain arithmetical calculations are necessary.

The trial balance as taken from the ledger shows the net purchases for December were $1684.74 and the goods on hand (Merchandise Inventory), when the books were opened on December 1, were valued at $685.75. The goods on hand (Merchandise Inventory) on December 31 were valued at $1796.75. Before the profit or loss from the sale of merchandise can be determined it is necessary to determine the **cost of goods sold** or **cost of sales.** This is a simple problem in arithmetic solved from the facts just stated, as follows:

SOLUTION

Merchandise Inventory Dec. 1, 19-	$685.75
Net Purchases during Dec. 19-	1684.74
Total Net Purchases	$2370.49
Merchandise Inventory Dec. 31, 19-	1796.75
Cost of Goods Sold during Dec. 19-	$573.74

It is evident, that if all the merchandise bought by Mr. Gordon cost $2370.49 and he now has merchandise unsold that cost $1796.75, the difference must have been sold. Therefore, the difference, or $573.74, was the **cost of goods sold, or cost of sales.**

The trial balance as taken from the ledger shows the net merchandise sales forDecember amounted to $893.00. This adds one more fact to the problem, and the solution follows:

SOLUTION

Net Merchandise Sales during December 19-	$831.00
Cost of Merchandise Sold during December 19-	573.74
Gross Profit from Merchandise Sales	$319.26

NET PROFIT OR NET LOSS

Certain expenses were incurred in making the sales and the amount of these expenses shown by the trial balance as taken from the ledger was $236.71, the amount of the General Expense account, which must be deducted from the gross profit.

SOLUTION

Gross Profit from Mdse. Sales	$319.26
Expenses incurred during December 19-	236.71
Net Profit made during December 19-	$82.55

FORM OF THE PROFIT AND LOSS STATEMENT

Having solved the problem to determine the net profit or the net loss, we must now assemble the facts of the solution in the proper form. The following is the form most commonly used by bookkeepers and accountants and is generally accepted as a standard, though it is sometimes expanded to meet the conditions of a particular business:

James Gordon
18 Canal St.
Profit and Loss Statement
For the month of December 19-

Net Mdse Sales Dec. 19-		****·**
Mdse Inventory Dec. 1, 19-	***·**	
Net Mdse Purchases Dec. 19-	****·**	
Total Net Mdse Purchases Dec. 19-	****·**	
Less-Mdse Inventory Dec. 31, 19-	****·**	
Cost of Goods Sold		***·**
Gross Profit		***·**
General Expenses		***·**
Net Profit		***·**

EXERCISE XXXIV

Prepare a Profit and Loss Statement, using the form given above and supplying the amounts from the solution of the problem which precedes the form.

HOW TO DETERMINE NET CAPITAL OF PROPRIETOR

At the end of a fiscal period, after the net profit or the net loss has been determined, it is customary to determine the net capital of the proprietor.

This is done by assembling all the accounts from the ledger, that represent the things owned by the proprietor, debts due him, and the debts that he owes, into a form which is commonly known as a Statement of Assets and Liabilities or Balance Sheet. It is also known as a Statement of Resources and Liabilities. In this book. the term Balance Sheet will be used.

WHAT THE PROPRIETOR OWNS

It is frequently necessary to look elsewhere than in the ledger or trial balance to determine the value of what the proprietor owns, as the value of the property represented by the account in the ledger may have changed.

One of the accounts representing property owned by the proprietor is Merchandise Inventory, but the value of merchandise on Dec. 31 was $1796.75 and not the amount shown by the ledger. Another account representing something owned by the proprietor is Cash as shown by both the cash book and ledger, which should agree with the actual cash when counted. The balance of this account is $777.51.

WHAT IS DUE THE PROPRIETOR

From an examination of the trial balance as taken from the ledger it is apparent that several persons, firms or corporations owe the proprietor for merchandise they purchased.

The amount due him is found by adding the balances of these different accounts as follows:

ACCOUNTS RECEIVABLE

Hotel Norton	$176.50
Hammond Estate	236.50
Jenkins Hdw. Co.	48.25
Montclair Realty Co.	116.00
Board of Education	135.00
Total Accounts Receivable	$712.25

WHAT THE PROPRIETOR OWES

From an examination of the trial balance as taken from the ledger it is evident the proprietor owes certain persons, firms, or corporations for merchandise purchased and not yet paid for.

The amount he owes is found by adding the amounts due these various creditors as fo'lows:

ACCOUNTS PAYABLE

Big Muddy Coal Co.	$297.25
Kanawah Coal Co.	358.00
Jackson Hill Coal Co.	412.80
Johnson & Foley	428.60
Total Accounts Payable	$1496.65

FORM OF THE BALANCE SHEET

A form of Balance Sheet very commonly used follows, though this is frequently expanded to meet the demands of a particular business.

James Gordon
18 Canal St.
Balance Sheet
As at close of business December 31, 19-

Assets		
Cash	****.**	
Accounts Receivable	***.**	
Mdse Inventory	***.**	
Total Assets		****.**
Liabilities and Capital		
Accounts Payable		***.**
Net Capital—James Gordon Proprietor		****.**

EXERCISE XXXV

From the calculations just made showing what the proprietor owns, what is due him, and what he owes, prepare a Balance Sheet in the form shown here and supply the amounts for each heading.

TO PROVE THE NET PROFIT OR NET LOSS

After determining the net profit or net loss and the net capital of the proprietor the results shown by the two statements should agree. In the chapter on proprietor's accounts it was stated that the net investment plus the net profit or minus the net loss equaled the net capital.

Therefore, in order to prove the accuracy of the Profit and Loss Statement and the Balance Sheet, a proof sheet is made from the following facts:

Net Investment of James Gordon Dec. 31, 19-	$1707.31
Net Profit for December	82.55
Net Capital of James Gordon Dec. 31, 19-	$1789.86

EXERCISE XXXVI

Prepare a proof sheet like the illustration and supply the amounts, for the headings, from the information given above.

FORM OF PROOF SHEET

Proof Sheet

James Gordon Net Invest Dec. 31, 19-	****.**	
James Gordon Net Profit for Dec. 19-	**.**	
James Gordon Net Capital		****.**

The proof sheet is sometimes **appended** to the Balance Sheet or it is made as a separate sheet. It is frequently desirable to make it a separate sheet, when there are partners. It should not be shown, as a rule, when preparing a balance sheet for a bank or for credit purposes. The proof sheet should be regarded only as a working paper for the use of the bookkeeper and the proprietor, or the proprietors.

CLOSING THE LEDGER

Thus far you have prepared a Profit and Loss Statement and a Balance Sheet. The next step is to close the ledger so that the results shown by the Profit and Loss Statement may be recorded in the books.

The recording of these results begins with a series of journal entries, as outlined on pages 55, 56, 57, known as closing journal entries, and is completed by ruling the accounts affected after posting the entries.

EXERCISE XXXVII

The closing journal entries for this set of books follow, but the amounts of the entries are omitted. You should copy the entries and supply the proper amounts by referring to the trial balance and to the Profit and Loss Statement. Notice that the entries follow in the same order that the accounts appear on the Profit and Loss Statement.

Dec. 31	Merchandise Purchases	***.**	
	Merchandise Inventory		***.**
	To transfer the inventory of Dec. 1 to the Purchases account.		
Dec. 31	Merchandise Inventory	***.**	
	Merchandise Purchases		***.**
	To record the inventory of Dec. 31.		
Dec. 31	Merchandise Sales	***.**	
	Merchandise Purchases		***.**
	To close the latter account and transfer cost of sales to Merchandise Sales account.		
Dec. 31	Merchandise Sales	***.**	
	Profit & Loss		***.**
	To close the former account and transfer gross profit to P. & L. account.		
Dec. 31	Profit & Loss	***.**	
	General Expense		***.**
	To close the latter account and transfer the Gen. Exp. to the P. & L. account.		
Dec. 31	Profit & Loss	**.**	
	James Gordon Proprietor		**.**
	To close the former account and transfer the net profit to the proprietor's account.		

The following accounts are now closed and should be ruled like the illustrations on pages 55, 56, 57: Merchandise Purchases, Merchandise Sales, Profit & Loss, and General Expense.

Merchandise Inventory account now shows three amounts. The first debit amount and the one credit amount balance, and the account should be ruled with a single red line through the amount columns only, thus leaving that account showing the amount of the inventory on December 31.

The proprietor's account should be balanced, ruled and the balance brought down as explained on page 14.

Take a trial balance of the remaining open accounts in your ledger. This is called a trial balance after closing, or a test trial balance. It is taken for the purpose of knowing whether the books are in balance before proceeding with the entries for the next month.

QUESTIONS ON CLOSING THE LEDGER

1. Compare the accounts in the trial balance, after closing, with the accounts in the Balance Sheet. 2. Compare the accounts closed with the Profit and Loss Statement. 3. Compare the amounts of the Merchandise Purchases and Merchandise Sales items in the Profit and Loss Statement with the amounts of the same accounts in the ledger. 4. How many accounts on the trial balance are not found in either the Profit and Loss Statement or the Balance Sheet? 5. Why is a list made of the accounts receivable and entered as one amount on the Balance Sheet? 6. Why are the accounts payable entered as one amount on the Balance Sheet? 7. How do you account for the use of two different amounts in the Merchandise Inventory account? 8. Under what circumstances might there be no inventory at the closing period? 9. What might cause the Balance Sheet to appear without this item: "Accounts Payable"? 10. What might cause the Balance Sheet to appear without accounts receivable? 11. Do you know of any kind of business that would have no accounts receivable?

NOTE. To provide additional drill in making journal entries and to secure rapidity of thought on the part of the student, it is here suggested that the transactions covered by this set be orally journalized in class. A good plan is to have the student rise in class, read the transaction, and then make the required journal entry. Journalizing these transactions in this manner, should require not more than 20 minutes.

From each of the following trial balances prepare a Profit and Loss Statement, a Balance Sheet, and the closing journal entries necessary to record the results shown by the Profit and Loss Statement:

EXERCISE XXXVIII

Trial Balance Dec. 31, 19-

Cash	847.93	
City Pattern Shop	476.83	
Douglas & Lomason	102.76	
Lee & Cady	86.92	
Herrick Brothers	184.39	
Mdse Inventory	1783.44	
National Tea Co.		148.92
American Radiator Co.		243.38
J. W. Garland Proprietor		2682.37
Mdse Purchases	3114.77	
General Expense	284.93	
Mdse Sales		3807.30
	6881.97	6881.97

Mdse Inventory Dec. 31, 19- $1638.46

EXERCISE XXXIX

Trial Balance Mar. 31, 19-

Cash	3879.62	
Ohio Dairy Co.	385.78	
National Forge Co.	576.18	
Tuttle & Clark	187.90	
Mdse Inventory	14784.68	
David C. Beggs Co.		837.29
National Twist Drill Co.		386.45
Grennen & Borden		183.11
L. W. Bowen, Proprietor		21821.49
Mdse Purchases	32311.72	
General Expense	4296.81	
Mdse Sales		33194.35
	56422.69	56422.69

Mdse. Inventory Mar. 31, 19- $19386.47

EXERCISE XL

Trial Balance June 30, 19-

Cash	1498.48	
F. G. Clayton & Co.	486.12	
C. W. Burroughs	112.83	
F. M. Berkley	73.21	
Culbertson & Kelly	281.17	
Mdse Inventory	8546.87	
Wolverine Saw Co.		386.42
Glass, Cook & Atkinson		298.73
D. J. Cooper, Proprietor		12984.17
Mdse Purchases	7463.84	
General Expense	1876.94	
Mdse Sales		6670.14
	20339.46	20339.46

Mdse. Inventory June 30, 19- $10238.12

SET II — FRUIT AND PRODUCE BUSINESS — TWO MONTHS

Continuing the use of: Purchases Book, Sales Book, Cash Book, and Journal. Terms of 30 days from date of bill are allowed on all credit sales.

CLASSIFYING ACCOUNTS IN THE LEDGER

It is advisable to classify the accounts where a new ledger is being opened as it saves time, at the end of a fiscal period, in the preparation of the Profit and Loss Statement and the Balance Sheet.

In this set the accounts that make up the Balance Sheet will appear before the accounts that make up the Profit and Loss Statement.

ORDER OF ACCOUNTS IN THE LEDGER

Open the first account for September work on page 7, in the order following, and allow the amount of space indicated: Cash ⅓ page, customers accounts, as they occur in the entries, ⅓ page each. Merchandise Inventory (page 11) ⅓ page, follow on page 11 with accounts payable as they occur in the entries, allowing ⅓ page for each account. Charles Bowlus, Proprietor (page 14) 1 page, Merchandise Sales (page 15) ½ page, follow with Merchandise Purchases ½ page. General Expense (page 16) 1 page, Profit & Loss (page 17) 1 page.

MEMORANDA OF TRANSACTIONS FOR SEPTEMBER

Sep. 1. Charles Bowlus began a wholesale fruit and produce business at 386 Front St., the early part of August and now desires to open a set of books. He furnished the following information concerning his assets and liabilities: Merchandise Inventory $432.76; Cash $1286.42; accounts due him: Central Market Co. $130.48; Judson Restaurant $62.74; He owed, Central Fruit Auction Co. $121.80. Prepare opening entries from the above information.
1. Paid rent of store for Sep., $45.00.
2. Received a bill from Central Fruit Auction Co., Chicago, Ill., dated Aug. 31, terms 60 day; amount of bill $136.87.
2. Paid for stationery and books $22.65.
2. Paid for postage stamps $2.00.
3. Received a bill from Fruit Growers Exchange, St. Louis, Mo., dated Sep. 1, terms 30 da. Amount of bill $89.36.
3. Sold Central Market Co., 85 Broadway, 15 bu. Elberta Peaches @ $3.50.
3. Sold Judson Restaurant, 24 W. Main St., Terms 30 da., 1 ct Cabbage @ $2.50, 1 bu Elberta Peaches @ $3.75.
5. Received from Fruit Growers Exchange a credit memorandum for 1 bunch of Bananas that were worthless. Amount $1.85.
6. Paid to bookkeeper $15.00 for week.
6. Mr. Bowlus withdrew $25.00.
8. Sold John Blake & Co., 283 E. High St., 2 bx Red Peppers @ $.85, 4 bu Early Ohio Potatoes @ $1.80, 20 ct Damson Plums @ $2.30.
8. Central Market Co. paid balance of their account on Sep. 1, $130.48.
9. Paid balance due Central Fruit Auction Co. on Sep. 1, $121.80.
9. Paid bill of Fruit Growers Exchange less the amount of returned goods on 5th, $87.51.
10. Received bill from John Amidon Co., 185 River St., dated Sept. 8. Amount of bill $216.13, terms 30 da.
10. Sold Story Lunch Co., 146 Jefferson Ave., 2 bu Onions @ $1.55, 6 bx Michigan Celery @ $.78, 3 bu Apples @ $1.65.
11. Sold for cash 2 bu Elberta Peaches @ $4.00.
11. Allowed Story Lunch Co. a rebate of 15c per box for the celery purchased yesterday on account of poor quality. Total rebate $.90.
11. Sold Alkire Grocery Co., 152 Broadway, 2 ct Cabbage @ $2.50, 5 bx Michigan Celery @ $.75, 2 bunches Bananas @ $2.10, 10 bu Early Ohio Potatoes @ $1.75.
12. There was a shortage in bill of John Amidon Co. of 1 bu Elberta Peaches @ $2.55, 1 bx Michigan Celery @ $.60.
12. Received check from Judson Restaurant for balance of account on Sep. 1.
13. Paid bookkeeper for week $15.00; Mr. Bowlus withdrew $25.00.
15. Received from Central Fruit Auction Co. bill for $47.53, dated Sep. 12, terms 30 da.
15. Received from Fruit Growers Exchange bill for $92.85, dated Sep. 13, terms 30 da.
16. Received from Southern Fruit Co., New Orleans, La., bill for $106.47, dated Sep. 14, terms 30 da.
16. Sold John Blake & Co. 5 bu Early Ohio Potatoes @ $1.80, 2 bu Onions @ $1.65, 3 ct Damson Plums @ $2.30.
17. Sold Central Market Co. 15 bu Apples @ $1.60, 15 bx Michigan Celery @ $.80, 30 bx Red Peppers @ $.85.

To forward the total of the Sales Book. When nearing the bottom of a page in the sales book, determine if there is sufficient space for the next entry on that page before beginning to make the entry. If there is not sufficient space for the entry, the sales book should be totaled and ruled in the same manner as at the end of a month.

But instead of writing "Total Sales" write "Forwarded" in the explanatory column on the same line with the total. Then, at the top of the next page, on the first blue line, in the explanatory column, write "Brot forward" and extend the total of the previous page into the second amount column.

Begin the next entry on the next blue line and proceed the same as on the preceding page. When the second page is totaled, the amount brought forward should be included in the footing.

Sep. 17. Paid express charges on goods from Southern Fruit Co. Amount, $5.68.
18. Paid cartage on goods from Southern Fruit Co., $3.00.
18. Sold Peter Cella, 132 N. Market St., 5 bu Early Ohio Potatoes @ $1.85, 5 bunches Bananas $2.20, 6 bu Apples $1.80.
19. Sold Hill Brothers, 240 Maple St., 2 ct Damson Plums @ $2.40, 3 bx Michigan Celery @ $.80.
19. Sold Judson Restaurant 3 bx Michigan Celery @ $.85, 2 ct Cabbage @ $2.40.
20. Received cash from Story Lunch Co. for bill of 10th less rebate on 11th, $11.83.
20. Paid bookkeeper for week $15.00.
20. Mr. Bowlus withdrew $25.00.
22. Received check from Alkire Grocery for bill of 11th.
22. Sold Alkire Grocery 15 bu Early Ohio Potatoes @ $1.70, 10 bx Michigan Celery @ $.85, 2 ct Onions @ $3.20.
23. Sold Peter Cella 3 ct Cabbage @ $2.60, 4 bx Green Peppers @ $.45.
23. Paid General Ice Delivery Co. bill to 9/15, $3.50.
24. Sold Central Market Co. 20 bu Apples $1.60, 40 bx Michigan Celery @ $.75, 30 bunches Bananas @ $2.30, 20 bx Green Peppers @ $.35.
24. Sold Judson Restaurant 2 bu Apples @ $1.70.
25. Paid Southern Fruit Co. bill received 9/16.
26. Received bill from Fruit Growers Exchange for $76.84, dated Sep. 23, terms 30 da.
27. Received cash from John Blake & Co. for bill of Sep. 8, $54.90.
27. Paid bookkeeper $15.00.
27. Mr. Bowlus withdrew $25.00.
28. Received from Peter Cella on account $35.00.
28. Mr. Bowlus took for his personal use, 1 bu Apples @ $1.10, 2 bu Early Ohio Potatoes $1.20.
29. Received cash from Hill Brothers for bill Sep. 19, $7.20.

The inventory of unsold merchandise was $891.62.

PROGRAM FOR CLOSING SEPTEMBER WORK

1. Post and take a trial balance.
2. Close and rule the special books of original entry.
3. Prepare a Profit and Loss Statement.
4. Prepare a Balance Sheet.
5. Make the necessary closing journal entries and post them.
6. Rule the ledger.
7. Take a trial balance after closing.

SET II — CONTINUED

The entries for October transactions should be posted to the accounts that were used during September, except the new accounts which are opened as follows: Customers' accounts, ⅓ page for each account following the customers' accounts for September; accounts payable, ⅓ page for each account following accounts payable for September; William Thornton, Partner (page 14).

The same books of original entry that were used for September transactions will be continued for the transactions during October.

OPENING AN ACCOUNT

Writing the name of an account in the ledger preparatory to posting charges and credits to the account is called **opening an account.**

When a new customer wishes to buy goods on credit and his financial responsibility is not known, it is the custom to make inquiries concerning him.

These inquiries are usually made of business houses of which he has previously bought goods on credit, or at some bank where he has an account. If it should appear that he is accustomed to pay his bills promptly, he is allowed to purchase goods "on time" or "to open an account."

Frequently, large business houses employ one person whose duty it is to make inquiries concerning prospective customers and to decide upon questions of credit. This person is generally called the credit manager.

Where there is a credit manager no account with a customer should be opened until the credit manager has authorized it.

In smaller business houses the proprietor, manager, secretary, or perhaps the bookkeeper, is credit manager.

MEMORANDA OF TRANSACTION FOR OCTOBER

Oct. 1. Charles Bowlus desires to bring more capital into his business and has admitted, as a partner, William Thornton who is to invest cash equal to the net capital of Charles Bowlus on October 1, 19-. Make an entry for the investment of William Thornton, Partner, for $1728.21.

NOTE The partnership will be known as Charles Bowlus & Company. The agreement is that William Thornton is to take no active part in the management of the company, that Charles Bowlus is to be manager at a salary of $35.00 per week, and is to make a Profit and Loss Statement and a Balance Sheet at the end of each month.

Oct. 1. Make an adjusting entry to close the account of Charles Bowlus, Proprietor, and open an account for Charles Bowlus, Partner.

1. Paid rent for October, $45.00.
2. Paid balance due John Amidon & Co. Oct. 1.
2. Received of John Blake & Co. balance due on their account Oct. 1.
3. Sold Gilsey Hotel, 54 Congress St., 6 bu Elberta Peaches @ $3.50, 20 bu Early Ohio Potatoes @ $1.65.
3. Received bill from Conroy & Jacobs, Kalamazoo, Mich., terms 30 da., for $106.47, date of bill Oct. 1.
4. Received check from Central Market Co. for $114.00 on account.
4. Sold Hartman's Fruit Market, 518 Broadway, 20 ct Cabbage @ $2.45, 15 bu Apples @ $1.65.
5. Cash sales of merchandise, $42.60.
5. Paid telephone bill, $6.00.
6. Paid for electric light, $2.68; Paid salaries, $72.00.
6. Paid Central Fruit Auction Co's. bill of Aug. 31.

Oct. 8. Sold Hill Brothers, 5 bx Red Peppers @ 80c, 10 bx Michigan Celery @ 76c, 4 b Bananas @ $2.15.
8. Sold Alkire Grocery Co., 14 bu Early Ohio Potatoes @ $1.90, 12 bu Apples @ $1.70.
9. Received bill from Central Fruit Auction Co. for $85.73, terms 30 da., date of bill Oct. 8.
9. Received bill from Fruit Growers Exchange for $108.39, terms 30 da., date of bill Oct. 7.
10. Paid Fruit Growers Exchange $92.85.
10. Sold John Blake & Co., 20 bx Michigan Celery @ 78c, 10 bu Apples @ $1.80.
11. Received from Judson Restaurant $13 60 on account.
11. Sold Story Lunch Co., 2 b Bananas @ $2.45, 3 bu Applies @ $1.70, 4 bx Michigan Celery @ 85c.
12. Received credit memorandum from Conroy & Jacobs for $6.60, allowance of 6c per box on 110 bx celery.
12. Paid express on goods received from Fruit Growers Exchange as per bill of Oct. 7, $12.70.
13. Paid salaries, $72.00.
13. Received cash from Central Market Co., $138.00.
15. Paid for painting sign on store front $18.40.
15. Received bill from Central Fruit Auction Co., terms 30 da., for $123.18, dated Oct. 13.
16. Sold Central Market Co., 20 ct Cabbage @ $2.45, 40 bx Michigan Celery @ 85c, 10 bx Red Peppers @ 80c.
16. Mr. Bowlus took for his personal use 2 bu Apples @ $1.10, 1 bx Michigan Celery @ $.60.
17. Sold Gilsey Hotel 10 bu Apples @ $1.60, 15 bx Michigan Celery @ 90c, 3 ct Cabbage @ $2.45.
17. Received check from Peter Cella for $9.60.
18. Cash sales of merchandise, $31.68.
18. Allowed Central Market Co. credit of 6c per crate for 40 crates Celery sold to them on 16th.
19. Received bill from Conroy & Jacobs for $94.83, terms 30 da., dated Oct. 16.
19. Sold Peter Cella 15 bu Apples @ $1.70, 7 ct Cabbage @ $2.35.
20. Paid salaries, $72.00; Paid Central Fruit Auction Co. $47.53.
22. Received check from Alkire Grocery Co., $40.40.
22. Paid Fruit Growers Exchange $76.84.
23. Received bill from John Amidon & Co. for $186.92, terms 30 da., dated Oct. 20.
23. Received bill from Southern Fruit Co. for $204.98, terms 30 da., dated Oct. 19.
24. Sold Central Market Co. 5 bx Lemons @ $6.45, 8 bx Oranges @ $6.50.
24. Sold Judson Restaurant, 2 bu Apples @ $1.80, 3 b Bananas @ $2.90.
25. Paid express on goods from Southern Fruit Co., $31.68.
25. Sold Alkire Grocery Co., 5 bx Oranges @ $6.50, 12 bu Apples @ $2.10.
26. Sold Hartman Fruit Market, 10 bx Oranges @ $6.15, 10 bx Lemons @ $6.95, 15 bu Apples @ $2.05
26. William Thornton, Partner, took 4 bu Apples @ $1.45.
27. Paid salaries, $72.00; Cash sales, $51.18.
29. Received check from Judson Restaurant, $3.40.
29. Received bill fom Fruit Growers Exchange for $74.83, terms 30 da., dated Oct. 27.
30. Allowed Hartman Fruit Market a rebate of $2.50 on Lemons bought on Oct. 26.
30. Received cash from John Blake & Co., $25.00.
31. Sold Judson Restaurant 2 ct Cabbage @ $2.65, 4 bu Apples @ $2.15, 2 bx Oranges @ $6.25.
31. Received from Gilsey Hotel $54.00.
31. Sold Central Market Co. 20 bu Apples @ $2.10, 15 bx Oranges @ $6.35.
31. Received bill from John Amidon & Co. for $71.34, terms 30 da., dated Oct. 28.
31. Sold Hill Brothers 20 bu Apples @ $2.15, 6 bx Oranges @ $6.45, 5 ct Cabbage @ $2.45.
31. Sold Broadway Market, 20 Broadway, 20 bx Oranges @ $6.35, 25 bu Apples @ $2.15.
The inventory of unsold merchandise amounted to $1158.32.

PROGRAM FOR CLOSING

1. Post and take a trial balance.
2. Close and rule the special books of original entry.
3. Prepare a Profit and Loss Statement.
4. Prepare a Balance Sheet.

5. Make the necessary closing journal entries and post them.
6. Rule the ledger.
7. Take a trial balance after closing.

Note To provide additional drill in making journal entries and to secure rapidity of thought on the part of the student, it is here suggested that the transactions covered by this set be orally journalized in class. This work should not require more than 30 minutes.

STATISTICAL INFORMATION

The books of any business, when properly kept, should give the proprietor or manager of the business information that is valuable in planning for its future operation.

Many things not shown on the Profit and Loss Statement or on the Balance Sheet for a single fiscal period can be determined by comparing the Profit and Loss Statements and the Balance Sheets for two or more successive fiscal periods.

A comparison of two Profit and Loss Statements will show readily any increase or decrease in sales, expenses, gross profits, etc. Likewise, a comparison of two Balance Sheets will show any increase or decrease in assets, liabilities, and capital.

COMPARATIVE STATEMENT

The practice of making comparative statements is increasing until now almost every business house uses them, whereas in former years it was the custom only of railroads and other large corporations.

The following form illustrates the use of comparative statements for the two months of business just completed:

EXERCISE L

Prepare a form on journal paper (or other paper) like the illustration, and from the Profit and Loss Statement for September and the one for October supply the necessary amounts. Extend the increase or decrease of the balances for October, into the proper column.

Charles Bowlus & Company
Comparative Profit & Loss Statement

	19-	19-		
	September	October	Increase	Decrease
Net Sales				
Cost of Sales				
Gross Profit on Sales				
General Expenses				
Net Profit				

EXERCISE LI

Prepare a form on journal paper (or other paper) like the illustration, and from the Balance Sheet for September and the one for October supply the necessary amounts. Extend the increase or decrease of the balances for October, into the proper column.

Charles Bowlus & Company
Comparative Balance Sheet

	19- September	19- October	Increase	Decrease
Assets				
Cash				
Accounts Receivable				
Mdse Inventory				
Total Assets				
Liabilities				
Accounts Payable				
Capital				
Charles Bowlus, Proprietor				

In preparing comparative statements, if only one column is used for both increases and decreases, the increases should be written in black ink and the decreases should be written in red ink, or vice versa.

The increase and decrease column of the Comparative Balance Sheet may be used as a further proof of the accuracy of the results as shown by the Profit and Loss Statements and the Balance Sheets.

EXERCISE LII

From information given on the Comparative Balance Sheet, the Comparative Profit and Loss Statement, and the ledger, supply the amounts for the following form. Use journal paper or rule some kind of paper to correspond with journal rulings.

Summary of Distribution of Profits

Net Increase in Capital		
Less: William Thornton's Investment Oct. 1		
Net Increase in Capital due to profits		
Add: Withdrawals by: Charles Bowlus		
William Thorton		
Net Profit for the Fiscal Period		

QUESTIONS ON THE COMPARATIVE STATEMENT AND BALANCE SHEET

1. What per cent did the net sales for October increase over the net sales for September? 2. The gross profit on net sales for October was what per cent greater than the net sales for September? 3. The gross profit on net sales for October was what per cent of the net sales for October? 4. The gross profit on net sales for September was what per cent of the net sales for September? 5. What was the per cent of increase in the general expenses for October, over September? 6. The general expenses for September were what per cent of the net sales for September? 7. The general expenses for October were what per cent of the net sales for October? 8. The net profit for September was what per cent of the net sales for September? 9. The net profit for October was what per cent of the net sales for October? 10. The net profit for September was what per cent on the net capital? 11. The net profit for October was what per cent of the net capital for October? 12. How would you account for the unusual increase in the net capital at the end of October, over that at the end of September?

TEST EXERCISE LIII

Enter the following transactions, post, and take a trial balance. Use the following books of original entry: journal, cash book, sales book, and purchases book.

Time for This Work, 45 Minutes

May 1. James Clark invested cash $7500.00.
2. Bought merchandise of Strong, Carlisle & Hammond, $2150.25, terms 30 days.
3. Sold Kelsey Wheel Co. merchandise amounting to $838.75, terms 30 days.
4. Sold Hays Manufactuing Co. merchandise amounting to $486.15, terms 30 days
5. Paid rent, $125.00.
6. Paid salaries for one week, $75.00.
8. Sold Gilman & Bates merchandise amounting to $384.60, terms 30 days.
9. Bought goods of Beecher, Peck & Lewis, amount of bill $1538.00, terms 30 days.
10. Received check from Kelsey Wheel Co. for $500.00.
11. Paid freight bills to date on goods purchased, $83.16.
12. Paid salaries for one week, $75.00.
14. Strong, Carlisle & Hammond allowed a claim for shortage in bill of May 2, amount $43.80.
15. Sold Butler Brothers goods amounting to $712.50, terms 30 days.
16. Allowed claim of Gilman & Bates for damaged goods, amount $12.50.
17. Received check from Hays Manufacturing Co., $300.00.

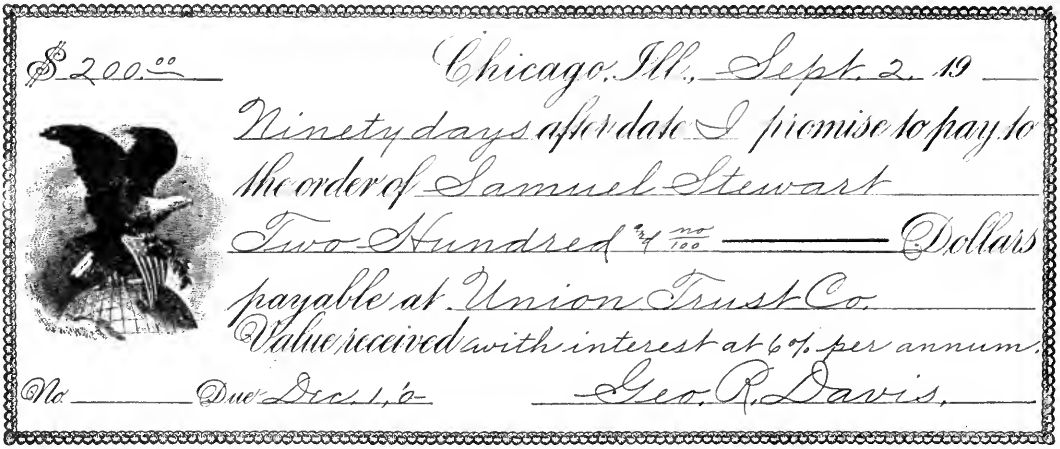
NOTES, INTEREST, AND PARTNERS' PERSONAL ACCOUNTS

PROMISSORY NOTES

Promissory notes are generally known as notes.

A note is a written promise, signed by the maker, to pay a certain sum of money, at a specified date or on demand, to a certain person.

A PROMISSORY NOTE



$200.00 Chicago, Ill., Sept. 2, 19

Ninety days after date I promise to pay to the order of Samuel Stewart

Two Hundred & no/100 Dollars

payable at Union Trust Co.

Value received with interest at 6% per annum.

No. Due Dec. 1, -- Geo. R. Davis.

In this illustration Geo. R. Davis and Samuel Stewart are the **parties** to the note.

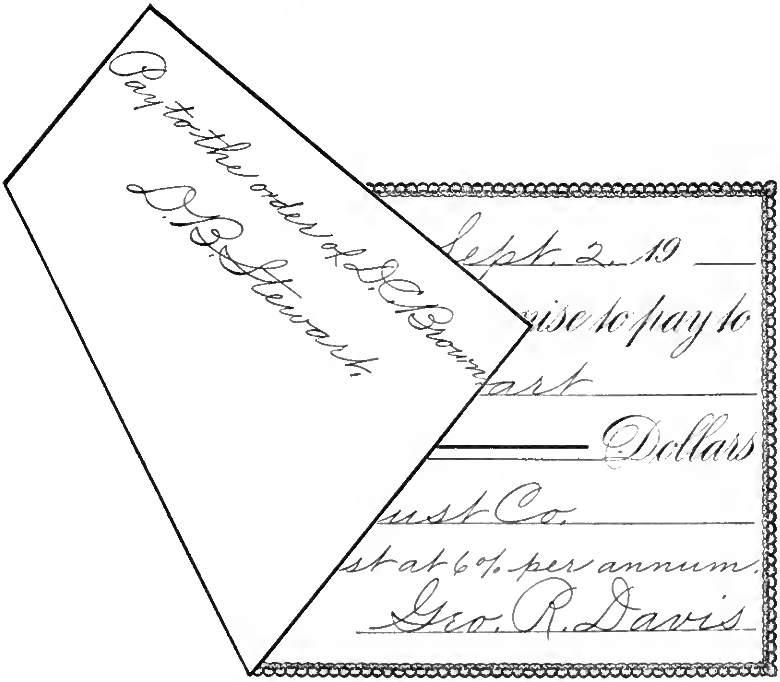
The **maker** of the note is Geo. R. Davis. When the note is due (Dec. 1-19-) Davis will pay to Stewart the amount of the note and interest.

The **payee** of the note is Samuel Stewart. When the note is due he will receive the money from Davis, the maker.

Notes like the illustration may be bought and sold the same as merchandise, except that the payee of a note should indorse it.

A note may be indorsed by the payee writing his name on the back of it.

AN INDORSEMENT



For the purpose of making bookkeeping records, notes are of two kinds, notes receivable and notes payable.

NOTES RECEIVABLE

Notes receivable usually originate from transactions in which the debtor desires to postpone payment, because of a lack of cash. In business, notes are frequently accepted from customers instead of selling the goods on account, or they are sometimes accepted from customers in order to close the customer's account.

PROBLEMS IN NOTES RECEIVABLE

1. During September and October W. F. Patterson sold goods and received the following notes from his customers: $125.00, $164.00, $85.50, $210.25, $116.75, $104.50, $162.75. Of these notes the following were paid when due: $125.00, $85.50, $116.75. What was the balance due him on notes?

2. On June 1, Henry Wilton had on hand notes receivable to the amount of $638.47. During June he received notes from his customers to the amount of $967.38, and customers paid notes when due to the amount of $897.94. What was the balance due on notes receivable June 30?

3. On May 1, James Hines held the following notes made by his customers: Lilly Brothers $785.00, Yates & Thorn $682.75, F. F. Benton $476.83. During May he received money on these notes as follows: May 4, Lilly Brothers paid $125; May 10, F. F. Benton paid $100; May 11, Yates & Thorn paid $210.40; May 21, F. F. Benton paid $216.30; May 26, Lilly Brothers paid $326.45. No other transactions involving notes having been made, find the balance due on notes receivable on May 31.

4. Make a list of the notes in the third problem, show how much was paid on each note and the balance due on each note. Total the balances due on all the notes and compare this total with the result in the third problem.

5. On April 1, Alton Brooks & Co. had on hand two notes as follows: One made by City Dry Goods Co. for $2850 and one made by Sproat & Clark for $2245.50. Apr. 10, City Dry Goods Co. paid $1000; Apr. 15, Sproat & Clark paid $1200.00; Apr. 24, City Dry Goods Co. paid $750.00 and gave a new note for the balance due on the old note. Apr. 27, Sproat & Clark paid $545.50. What was the balance due on notes receivable?

6. Oct. 1, Watkins & Son had notes receivable to the amount of $3268.54. During October they received notes from customers to the amount of $1647.83. During the month customers paid $1159.75 on notes and Watkins & Son sold to a bank customers' notes to the amount of $2185.96. What was the balance due on notes receivable on Oct. 31?

NOTES RECEIVABLE ACCOUNT

This is an account in which is recorded all notes received from customers, and all notes disposed of, either by payment, renewal, or transfer.

Higgins & Black received and disposed of notes as follows during the month of September. Trace, mentally, the records of each transaction to its place in the illustrative Notes Receivable account.

EXERCISE LIV

Sept. 3. Received from A. J. Blue a note for 10 days for bill of goods sold, $316.80.
9. W. F. Hawkins gave a note for 30 days to close his account. Amount of the note, $1000.00.
12. Sold James Dudley goods amounting to $450.00 and received his note at 10 days.
13. A. J. Blue paid his note in full, $316.80.
20. Received from Chas. Sherman a note for 30 days to close his account, $500.00.
22. James Dudley paid $300 on his note and gave a new note at 10 days for the balance.
26. Received a note at 30 days from James Brown for $276.50 for goods sold to him.
28. Sold to the Union Trust Co. the note of W. F. Hawkins.
30. Chas. Sherman paid $200 on his note.

NOTES RECEIVABLE

Sept.	3	A.J.B.—10 da.	J		316	80	Sept.	13		C		316	80
	9	W.F.H.—30 da.	J		1000	00		22	J.D.	C		300	00
	12	J.D.—10 da.	J		450	00		22	J.D.	J		150	00
	20	C.S.—30 da.	J		500	00		28	W.F.H.—Union Trust Co.	C		1000	00
	22	J.D.—10 da	J		150	00		30	C.S.—part pmt.	C		200	00
	26	J.B.—30 da.	J		276	50		30	Balance			726	50
					2693	30						2693	30
Sept.	20	C.S.—balance			300	00	Sept.	20					
	22	J.D.			150	00							
	26	J.B.			276	50							

Purpose. To contain a record of all notes, signed by other people, received in the course of business, and collected or disposed of by endorsing them to other parties.

Method. Debit Notes Receivable account when a note signed by another is received. Credit Notes Receivable account when one of these notes has been disposed of, or partly paid.

Result. The difference between the two sides of this account should show the Notes Receivable on hand.

QUESTIONS ON THE NOTES RECEIVABLE ACCOUNT

1. What is the total of notes received by Higgins & Black during September? 2. What is the total of notes paid by customers, received or sold by Higgins & Black? 3. What is the total of notes paid by customers? 4. What is the total of notes renewed by customers? 5. What is the total of notes sold by Higgins & Black? 6. Make a list of the notes on hand and show who made them. 7. Which side of this account should first show the amount of a note or notes? 8. When all the notes have been paid, what will be the condition of the account?

BALANCING AND RULING NOTES RECEIVABLE ACCOUNT

This account is seldom balanced and ruled as there is no advantage in doing so. But if there should be a cause for balancing and ruling, it would be balanced and ruled like the illustration.

In bringing down the balance, each note making up the balance should appear as a separate item unless there are too many notes. If there should be many notes it would be advisable to have a special book in which to record each note separately.

The balance due on notes receivable should be included (just preceding accounts receivable) among the assets when a Balance Sheet is prepared. But, before the amount is placed on the Balance Sheet the balance should be proved by comparing the actual notes with the balance as shown by the account.

EXERCISE LV

Write up a Notes Receivable account from the information given in the third problem on page 81. Balance, rule and bring down the balance, and submit your work for approval.

NOTES PAYABLE

Notes payable are generally issued by a person, firm or corporation when goods are not purchased on account. Or, they may be issued to close an account, to renew an old note, or to show an obligation for money borrowed.

PROBLEMS IN NOTES PAYABLE

1. During the months of January and February Wells & Co. issued notes payable amounting to $1473.50. They paid during this time notes amounting to $1232.25. What was the amount due on notes payable Feb. 28?

2. During March, Smith & Young gave notes to others as follows: March 1, in favor of C. E. French, $45.75; March 2, to the First National Bank $250.00; March 5, to E. N. Banks $100.00; March 15, to Gill & Co. $82.57. On March 25, Smith & Young took up (paid) the note given E. N. Banks, $100.00; March 31, they paid the note due C. E. French, $45.75. How much did Smith & Young owe on notes payable March 31?

3. April 1, D. B. Williams owed on notes as follows: First National Bank $250.75; H. E. Baker $169.45 April 5, he issued a note to L. H. Hawkinson for $225.25. April 7 he paid the note issued to the First National Bank. April 10 he made a note in favor of M. B. Conway $220.75. April 15 he gave M. M. Goodhand a note for $175.00. April 25, he paid the note given L. H. Hawkinson. How much did D. B. Williams owe on notes on April 30? Make a list of the notes not paid on that date.

4. Henry Lane owed the Merchants National Bank $500.00 on a note on June 1. June 5 he paid $200 on this note. June 12 he borrowed, on a note, $1000.00 at the Mechanics & Traders Bank. June 18, he issued a note to Hornblower & Weeks for $1500. June 21 he paid the balance due on the note to the Merchants National Bank. June 25, he paid $500.00 on the note in favor of the Mechanics & Traders Bank and gave a new note for the balance. How much did he owe on notes on June 30? Show what notes or parts of notes were still unpaid.

NOTES PAYABLE ACCOUNT

This is an account in which is made a record of all notes issued and all notes paid by the business.

EXERCISE LVI

Trace, mentally, the record of the transactions in the following exercise to the illustrative Notes Payable account.

Sept. 1. The proprietor, M. M. Hunter, started in business owing Jas. Hammond on a note $2000.00.
2. Bought goods of Wilton & Hoyne amounting to $120.00. Gave them 60 day note in payment.
3. Gave Longworth & Co. note for $250.00, due in 30 days, for the amount owed them on account.
4. Gave check to Jas. Hammond for $500.00 to apply on note owed him.
5. Gave check to Longworth & Co. for $100.00 in part payment of the note to them.
6. Paid the note in favor of Wilton & Hoyne, $120.00.

NOTES PAYABLE

Sept.	4	J.H.—part pmt. C		500	00	Sept.	1	J.H. J		2000	00
	5	L. & Co.—part pmt. C		100	00		2	W. & H.—60 da. J		120	00
	6	W. & H. C		120	00		3	L. & Co.—30 da. J		250	00
	6	Balance		1650	00						
				2370	00					2370	00
						Sept.	4	J.H.—Balance		1500	00
							2	L. & Co.—Balance		150	00

Purpose. To contain a record of all notes issued in the course of business by the person, firm or corporation, and all notes paid, renewed, or paid in part.

Method. Credit Notes Payable account when each note is issued. Debit Notes Payable account when each note is paid, renewed, or partly paid.

Result. The balance of the account is the amount of notes payable not paid.

QUESTIONS ON THE NOTES PAYABLE ACCOUNT

1. What is the total amount of notes issued by M. M. Hunter? 2. What is the total amount of notes paid by M. M. Hunter? 3. On which side of Notes Payable account should a note or notes first be entered? 4. Which side of Notes Payable account should always be larger, if the account is not closed? 5. What will be the condition of the account when all notes were paid?

BALANCING AND RULING NOTES PAYABLE ACCOUNT

This account is not often balanced and ruled except to forward it. But, when it is balanced, the amount of each note or the balance of each note should appear in the account as a separate item, unless there are many notes. (See the illustrative account.) In that case a special book should be provided to contain a record of each note separately.

This account represents a liability, and at the end of a fiscal period the balance should be included (just preceding accounts payable) in the Balance Sheet.

EXERCISE LVII

Prepare a Notes Payable account from the information given in the third problem on page 83. Balance, rule and bring down the balance, and submit your work for approval.

INTEREST

Interest is the use of money for which compensation is paid.

Legal rate. This is the rate of interest fixed by law to apply to interest bearing obligations when the parties to the obligation have not agreed upon a rate of interest.

Maximum rate. This is the highest rate, that is permitted by law to be collected.

PROBLEM IN INTEREST

Nov. 1. Henry Wilson, the proprietor, paid a note and interest due today. Amount of interest, $5.83.
7. A customer paid an old account and interest due on it. Amount of interest, $1.67.
15. Collected cash for interest coupons on some Liberty Bonds, $7.00.
24. A customer paid a note and interest; the interest was $2.14.
30. The Dime Savings Bank allowed him credit for interest on his bank balance, $4.13.

How much did Mr. Wilson receive for interest in excess of what he paid?

INTEREST ACCOUNT

This is the account kept for the purpose of showing how much is paid for the use of money and how much is received for the use of money.

EXERCISE LVIII

Trace, mentally, the record of each of the following transactions to its place in the illustrative Interest account:

Dec. 4. James Lewis, the proprietor, received payment for a note and interest, the interest being $3.74.
10. Paid a note and interest due at the Federal State Bank; the interest was $51.83.
16. Received a check in payment of an old account and interest; the interest was $2.87.
22. Received cash for interest due on a mortgage, $12.00.
31. The interest on Lewis' bank balance was $5.62.

INTEREST

Dec.	10	C		51	83	Dec.	4	C		3	74
							16	C		2	87
							22	C		12	00
							31	C		5	62

Purpose. To contain a record of all amounts paid for the use of money and of all amounts received for the use of money.

Method. Debit interest for all payments made for the use of money belonging to some other person, firm or corporation. Credit interest for all amounts received for the use of money belonging to the business.

Result. The balance of the account will be either the net amount paid for the use of money or the net amount received for the use of money.

It is sometimes desirable in a large business to keep two accounts for interest, one known as Interest Paid and the other, as Interest Received. The title of each account suggests what it should contain. When these two accounts are kept, Interest Paid is treated as a loss or expense, while Interest Received is treated as an income, or profit.

QUESTIONS ON THE INTEREST ACCOUNT

1. What does the total of the debit side show?
2. What does the total of the credit side show?
3. If the credit side of the account were larger than the debit, what would the balance show?
4. If the debit side of the account were larger than the credit side, what would the balance show?

CLOSING AND RULING THE INTEREST ACCOUNT

The Interest account is closed or transferred into the Profit & Loss account at the end of a fiscal period, and is then ruled the same as the General Expense account.

EXERCISE LIX

From the information given in the interest problem on page 85, prepare an Interest account and submit your work for approval.

PROPRIETOR'S OR PARTNER'S PERSONAL ACCOUNT

It is frequently necessary or desirable to keep an account for the proprietor or for each partner to show how much money and property are taken from the business for personal use. This account should also show all allowances for salary, as it is often the custom to allow the proprietor or the partner a salary the same as any employee.

This method of caring for personal charges and allowances is particularly desirable in a partnership business or in a manufacturing business where accurate cost records are necessary.

EXERCISE LX

Trace, mentally, the record of each transaction in the following exercise to its place in the illustrative account:

Sept. 4. Charles Markley, proprietor, drew cash, $15.00.
10. Paid proprietor's life insurance premium by a check for $41.83.
14. Paid bill for gas used at Markley's residence, $4.18.
18. Paid F. G. Clayton Co. $15.85 for clothing purchased by Markley.
24. Paid Peck & Lewis $28.73 for groceries for proprietor.
29. Paid $4.00 for proprietor's telephone at his residence.
30. Gave proprietor credit for his salary for September, $250.00.

CHARLES MARKLEY PERSONAL

Sept.	4		C		15	00	Sept.	30	Salary	J	250	00
	10	Ins. premium	C		41	83						
	14	Gas bill	C		4	18						
	18	F.G.C. Co.	C		15	85						
	24	P. & L.	C		28	73						
	29	Telephone	C		4	00						

Purpose. To show amounts withdrawn by the proprietor or a partner either as cash or the equivalent of cash and to show the allowances made to him as salary.

Method. Debit the proprietor's or the partner's personal account for all money paid to him, for all personal bills paid for him from the partnership funds, and for all merchandise at cost taken by him.

Credit the proprietor's or the partner's personal account for salary allowances, bonuses, and for other personal funds that come into the business.

Result. The balance of the account will be the amount due the business by the proprietor or the partner, or the amount due the proprietor or the partner by the business.

BALANCING AND RULING PROPRIETOR'S OR PARTNER'S PERSONAL ACCOUNTS

While a proprietor or partner can not legally owe himself money, nevertheless, if the balance is a debit, it is generally considered as a debt due the business by the proprietor or partner. However, the balance should not be included with customers' accounts receivable on the Balance Sheet at the end of a fiscal period, but should appear as a separate item in accounts receivable.

Should the balance of the proprietor's or a partner's personal account be a credit, it should not appear among the liabilities, on the Balance Sheet, as a creditor's account, but should be included with an appropriate title as an account payable. If the proprietor or the partner can not owe the business money, it follows that the business can not (legally) owe him money.

The personal account of the proprietor or the partner is merely an accounting device used to show the financial relationship, to the business, of the proprietor or partner outside of his capital account.

SET III — HARDWARE BUSINESS — TWO MONTHS

Books Used. Purchases Book, Sales Book, Cash Book, and Journal.

In this set all credit sales will be made on 30 days' time.

CLASSIFICATION OF LEDGER ACCOUNTS

The accounts for this set will begin on page 19 of the ledger. You should open the accounts on the pages indicated and allow the amount of space specified for each account.

If you follow directions carefully, each account will have sufficient space for all the entries for March and April transactions.

Begin at top of page 1, Cash ⅓ page, accounts receivable follow; allow ⅓ page for an account with each customer (there are 12 customers). On page 5 Notes Receivable (middle ⅓); the lower ⅓ of page 5, Merchandise Inventory; follow on page 6 with accounts payable, allowing ⅓ page for an account with each creditor (there are 7 creditors). On page 8 allow ⅓ page (lower ⅓) for Notes Payable. On page 9 John Harris, Proprietor, ⅓ page; John Harris, Personal, ⅓ page; on page 10 Harry T. Mitchell, Partner. Page 11; Merchandise Sales and Merchandise Purchases ½ page each; page 12, General Expense; page 13, Interest; page 14, Profit & Loss.

MEMORANDA OF TRANSACTIONS FOR MARCH

John Harris has been engaged in the wholesale hardware business at 68 W. State St. He has decided to take in a partner, Harry T. Mitchell, who is to invest cash equal to one fourth of the net assets of Harris. The firm is to be known as Harris & Mitchell.

All profits and losses are to be divided as follows: Harris ¾ and Mitchell ¼.

A new set of books is to be opened, and for this purpose you are given the following information supplied by Harris from a set of books which he had kept.

Mar. 1. Cash	$ 842.78
Notes Receivable:	
Note by Guilbert Construction Co., at 30 days interest at 6%, dated Feb. 24, 19—, for	248.60
Note by William Fisher, at 90 days, interest at 6%, dated Jan. 24, 19—, for	300.00
Accounts Receivable:	
Bates & Rogers, 1018 Lincoln Bldg.	429.86
General Construction Co., 327 Hammond Bldg.	287.95
Fuller Construction Co., 114 Union Trust Bldg.	214.39
Foley Brothers, 618 Washington St.	102.12
City Gas Co., 100 E. Adams Ave.	192.13
Mdse. Inventory	2187.44
Accounts Payable:	
Cincinnati Saw Co., Cincinnati, O.	218.47
American Steel & Wire Co., Cleveland, O.	108.76
Stanley Rule & Level Co., New Britain, Conn.	85.62
Yale & Towne Mfg. Co., Bridgeport, Conn.	143.84
Harry T. Mitchell invested cash	1062.15

Prepare the necessary opening entries and post the amounts to the proper ledger accounts.

After the above work is completed, proceed with the work for the month.

Mar. 1. Paid rent for March, $125.00.
2. Sold Thomas Paving Co., 1142 Carroll St., 4 doz. Shovels @ $18.50, 3 doz. Picks @ $20.60.
2. Sold General Construction Co., 25 r Building Paper @ $1.85, 10 kg. 8d Nails @ $4.30, 3 doz. Shovels @ $18.60.
3. Paid balance due American Steel & Wire Co, Mar. 1.
3. Received bill from Yale & Towne Manufacturing Co. for $82.47, terms 30 da., bill dated Feb. 28.
4. Sold Citizens Telephone Co., 112 Summit St., 2 doz. Rim Locks @ $6.15, 8 kg, 20d Spikes @ $4.10, 4 doz. Picks @ $20.25.
4. Sold Builders & Pavers Supply Co., 718 Cherry St., 20 r Tar Paper @ $2.45, 4 doz Shovels @ $18.20.

Mar. 5. Received bill from American Steel & Wire Co., for $216.28, terms 30 da., bill dated Mar. 3.
5. Received check from Bates & Rogers for balance of account on Mar. 1.
6. Paid Stanley Rule & Level Co., balance due Mar. 1.
6. Received check from Foley Brothers for balance due Mar. 1.
8. Sold Inland Steel Co., 2400 S. Park St., 2 doz. Yale Locks @ $16.25, 10 doz. Shovels @ $17.65, 12 kg. 20d Spikes @ $4.05.
8. Sold Davis Building Co., 814 Ford Bldg., 1000 ft, Ridge Roll @ 4½c, 20 kg. 8d Nails @ $4.30, 3 doz. Shovels @ $18.25.
9. Received check from City Gas Co., for balance due Mar. 1.
9. Allowed General Construction Co., 15c per roll on 25 rolls building paper delivered in bad condition.
10. Received from Fuller Const. Co. a note for $150 at 30 days, interest at 6%, to apply on account.
10. Sold Bates & Rogers, 10 kg 6d Nails @ $4.50, 20 kg 20d Spikes @ $4.15, 12 kg 8d Nails @ $4.25.
11. Received credit memorandum from Yale & Towne Manufacturing Co. for $6.85, shortage in shipment, bill Feb. 28.
11. Paid Morton Cartage Co. for freight and cartage to date on goods purchased $62.86.
12. Sold to the City Water Works, 3 doz. Shovels @ $18.35, 2 doz. Picks @ $21.15, 15 r Tar Paper @ $2.45.
12. Received from General Construction Co. a note for 60 days, at 6%, for balance due Mar. 1.
13. Sold Fuller Construction Co., 25 r Tar Paper @ $2.45, 40 r Building Paper @ $1.95.
13. Cash sales of merchandise, $102.68.
15. Paid Cincinnati Saw Co. balance due Mar. 1.
15. Received bill from American Steel & Wire Co. for $91.67, terms 30 da., bill dated Mar. 12.
16. Paid salaries, $112.75.
16. Paid Yale & Towne Manufacturing Co. balance due Mar. 1.
17. Paid Citizens Telephone Co's. bill, $12.85. Paid Union Towel Supply Co. $3.50.
17. Paid premium due on Harris' life insurance policy, $102.18.
18. Sold Foley Brothers, 24 r Building Paper @ $1.85, 3 doz. Shovels @ $18.15.
18. Received bill from General Manufacturing Co., New Britain, Conn., for $286.46, terms 30 da., date of bill Mar. 14.
19. Sold City Gas Co., 2 doz. Picks @ $20.60, 4 doz. Shovels @ $18.30, 1 doz. Yale Locks @ $12.40.
19. Paid Edison Light & Power Co's. bill, $18.68.
20. Sold Union Hardware Co., 412 Maple St., 12 r Tar Paper @ $2.55, 2 doz. Mortise Locks @ $21.65.
20. Sold Thomas Paving Co. 10 r Tar Paper @ $2.55, 4 kg. 10d Nails @ $4.25, 2 doz. T Hinges @ $2.45.
22. John Harris, partner, withdrew $100.00 for personal use.
22. Received bill from Buhl Stamping Co., Detroit, Mich., for $187.12, terms 30 da., date of bill Mar. 15.
23. Received bill from Rex Paper Products Co., Buffalo, N. Y., for $482.58, terms 30 da., date of bill Mar, 18.
23. Sold Citizens Telephone Co., 10 doz. T Hinges @ $3.10, 4 doz. Yale Locks @ $18.40.
24. Sold Builders & Pavers Supply Co., 20 kg. 20d Spikes @ $4.00, 50 r Tar Paper @ $2.45, 80 r Building Paper @ $1.80.
24. Sold Inland Steel Co., 6 doz. Shovels @ $18.00, 24 Circular Saws @ $4.30.
25. Received check from Bates & Rogers, $178.50.
25. Cash sales of merchandise, $121.86.
26. Paid for books and stationery, $21.85.
26. Received from Fuller Construction Co. $175.00 on account.
26. Received from Guilbert Construction Co. a check for note and interest due today. Amount of note, $248.60; amount of interest, $1.24.
27. Paid Morton Cartage Co. for freight and drayage to date $108.64, on goods purchased.
27. Sold Davis Building Co. 10 doz. Mortise Locks @ $23.85, 12 kg. 20d Spikes @ $4.00.
29. Received credit memorandum from General Manufacturing Co. for $27.18 for goods not shipped, but included in bill of Mar. 18.

Mar. 29. Allowed a credit to Builders & Pavers Supply Co. for $8.00, overcharge of 10c per roll for 80 rolls Building Paper sold Mar. 24.

30. Received bill from Yale & Towne Manufacturing Co. for $102.18, terms 30 da., date of bill Mar. 24.

30. Received bill from Rex Paper Products Co. for $315.80, terms 30 da., date of bill Mar. 26.

30. Received bill from Buhl Stamping Co., for $218.97, terms 30 da., date of bill Mar. 27.

31. Paid salaries to date, $229.75.

31. Received check from General Construction Co. for $141.30.

31. Davis Building Co. returned 10 doz. Mortise Locks @ $23.85, billed them on Mar. 27, as they were the wrong kind.

PROGRAM FOR CLOSING

1. Post and take a trial balance.
2. Close and rule the special books of original entry.
3. Prepare a Profit and Loss Statement.

One new account (Interest) will appear on the Profit and Loss Statement. It should be placed immediately after, and be added to the gross profit to show the total profit for the period; then from the total profit, deduct the expenses for the period; and the remainder should be the net profit for the period.

Study the following illustration:

Gross Profit	***.**
Interest	*.**
Total Profit	***.**
General Expenses	***.**
Net Profit	***.**

4. Prepare a Balance Sheet.

Two new accounts will appear on this Balance Sheet, John Harris, Personal and Notes Receivable.

The former account is in the nature of an account receivable and is included as such though it should appear with a separate heading. Notes Receivable should immediately precede Accounts Receivable on the Balance Sheet.

Study the following illustration:

Notes Receivable		****.**
Accounts Receivable:	Customers	***.**
	John Harris, Personal	***.**

5. Make the necessary closing journal entries, and post them.
6. Rule the ledger.
7. Take a trial balance after closing.

MEMORANDA OF TRANSACTIONS FOR APRIL

Apr. 1. Harris and Mitchell have decided to dissolve partnership. Mitchell is to withdraw from the business, in cash, the amount of his net capital as shown by his capital account. Make the proper entry.

DISSOLUTION OF A PARTNERSHIP

A partnership may be dissolved in any of the following ways:

I. By agreement; II. By Act of One Party; III. By Decree of Court; IV. By Operation of Law.

Upon dissolution there should be an accounting of partnership property and a settlement of their affairs. The method of the accounting would seldom differ no matter which one of the above causes brought about the dissolution.

It should be understood that in the preceding partnership the remaining partner is not buying the interest of the outgoing partner, but rather the outgoing partner is withdrawing from the business. The effect of the one partner in leaving is to reduce the capital employed in the business.

If Harris were purchasing the interest of Mitchell and used funds outside the business for it, a different entry would be required to record the transaction. The entry in that case would be as follows:

Harry T. Mitchell, Partner	$1119.58	
John Harris, Partner		$1119.58

This transaction does not reduce the capital employed in the business.

If Harris purchased the interest of Mitchell, using funds from the business, the effect would be to reduce the capital employed in the business, and the entry would be similar to the one made for Mitchell's withdrawal.

No mention has been made here of the value of the good will of the outgoing partner, though this is usually an important question in partnership affairs. Good will will be treated in a subsequent chapter.

Apr. 1. Paid rent for April, $125.
2. Received cash from Thomas Paving Co., $135.80.
2. Received bill from General Manufacturing Co. for $214.93, terms 30 da., date of bill Mar. 29.
3. Sold Bates & Rogers 20 kg. 8d Nails @ $4.15, 2 doz. Yale Locks @ $18.75.
3. Paid American Steel & Wire Co. $307.95.
5. Borrowed $500 of the Union Trust Co. on a note for 60 days, at 6% interest.
5. Sold Fuller Construction Co. 10 kg. 20d Spikes @ $3.95.
5. Received check from Citizens Telephone Co. for $126.10.
6. Received bill from Stanley Rule & Level Co. for $76.48, terms 30 da., date of bill Apr. 1.
6. Sold General Construction Co., 5 kg. 4d Nails @ $4.75, 30 r Building Paper @ $1.80.
7. Paid Yale & Towne Manufacturing Co. $177.80.
7. Received check from Builders & Pavers Supply Co., $113.80.
8. Received bill from American Steel & Wire Co. for $182.19, terms 30 da., date of bill Apr. 4.
8. Sold Foley Brothers 4 doz. Picks @ $19.85, 15 r Tar Paper @ $2.40.
9. Received check from Inland Steel Co. for $257.60.
9. Received note for 30 days, at 6% interest, from Davis Building Co. for $233.75.
9. Received from Fuller Construction Co. a check for note and interest due today. Amount of note $150.00, interest $0.75.
10. Sold Thomas Paving Co. 3 doz. Shovels @ $17.40, 20 r Tar Paper @ $2.30, 4 kg. 8d Nails @ $4.10.
10. Paid freight and cartage on merchandise purchased, $63.94.
12. Cash sales, $120.18.
12. Paid General Manufacturing Co. $259.28.
13. Sold Union Hardware Co., 40 r Tar Paper @ $2.25, 100 r Building Paper @ $1.75.
13. Sold City Water Works, 2 doz. Shovels @ $18.00, 20 r Tar Paper @ $2.40.

Apr. 14. Received bill from Rex Paper Product Co. for $507.28, terms 30 da., dated Apr. 10.
14. Paid Buhl Stamping Co. $187.12.
15. Received check from City Water Works, $134.10.
15. Paid salaries, $116.50.
16. Returned to Stanley Rule & Level Co. part of goods covered by bill of Apr. 1, $21.08.
16. Sold Inland Steel Co. 16 Saws @ $11.20, 2 doz. Shovels @ $17.20.
17. John Harris took for his own use 2 Yale Locks @ $1.20, 5 r Tar Paper @ $1.90.
17. Union Hardware Co. was allowed credit for 5 rolls Building Paper @ $1.75, badly damaged.
19. Received bill from Buhl Stamping Co. for $132.67, terms 30 da., dated Apr. 14.
19. Received bill from Rex Paper Products Co. for $214.35, terms 30 da., dated Apr. 16.
20. Paid Rex Paper Products Co. $482.58.
20. Sold Citizens Telephone Co. 14 Saws @ $6.20, 100 r Building Paper @ $1.80.
21. Received check from Foley Brothers for $98.85.
21. Sold Builders & Pavers Supply Co., 25 kg. 8d Nails @ $4.25, 35 r Building Paper @ $1.85.
22. Received check from City Gas Co. for $126.80.
22. Paid Citizens Telephone Co. bill, $10.85; Union Towel Supply, $3.50; Edison Light & Power Co., $16.74.
23. Received bill from American Steel & Wire Co. for $247.86, terms 30 da., dated Apr. 20.
23. Received bill from Cincinnati Saw Co. for $110.69, terms 30 da., dated Apr. 19.
24. Received check from Citizens Telephone Co. for $104.60.
24. Sold City Gas Co. 21 kg. 16d Spikes @ $4.05, 8 Saws @ $16.40.
24. Received from William Fisher check for note and interest due today. Amount of note $300.00, amount of interest $4.50.
26. Received check from Inland Steel Co. for $213.60.
26. Sold General Construction Co., 10 doz. Yale Locks @ $19.60, 11 Saws @ $7.85.
27. Received check from Builders & Pavers Supply Co., $346.50.
27. Paid Buhl Stamping Co. $218.97.
28. Paid Rex Paper Products Co. $315.80.
28. Paid freight and cartage on merchandise purchases, $51.87.
29. Sold Davis Building Co. 3 doz. Mortise Locks @ $21.50, 2 doz. Yale Locks @ $20.25, 20 r Building Paper @ $1.80.
29. Received bill from General Manufacturing Co. for $118.47, terms 30 da., dated Apr. 24.
30. Paid salaries, $116.35.
30. Paid for catalogs, list prices, and some special advertising $427.80.

PROGRAM FOR CLOSING

1. Close and rule the special books of original entry.
2. Post all entries and take a trial balance.
3. Prepare a Profit and Loss Statement.
4. Prepare a Balance Sheet.

In preparing the Balance Sheet you will have one new account,—Notes Payable. This account is included among the liabilities and is placed immediately preceding accounts payable.

Study the following illustration:

Notes Payable	***.**	
Accounts Payable	****.**	
Total Liabilities		****.**

Each item of the liabilities is placed in the first amount column and the total is extended to the second amount column where it is conveniently placed to subtract it from the total assets.

5. Make the necessary closing journal entries and post them.
6. Rule the ledger.
7. Take a trial balance after closing the ledger.

NOTE.—To provide additional drill in making journal entries and to secure rapidity of thought on the part of the student, it is here suggested that the transactions covered by this set be orally journalized in class. This work should be completed in 20 minutes.

HOW TO ANALYZE AN ACCOUNT

It frequently becomes necessary to know what has actually been included in an account during a previous period. This information is readily obtained by analyzing the account.

The following illustration is an analysis of the General Expense account on page 18.

ANALYSIS OF GENERAL EXPENSE

Salaries	Elec. Light	Telephone	Stationery	Postage	Rent
$59.75	$3.25	$12.50	$10.50	$13.00	$50.00
60.50	.75			2.50	
25.50					
	$2.50			$10.50	
$145.75					
		Telegrams	*Summary*		
		$ .50	Salaries	$145.75	
		.50	Elec. Lt.	2.50	
			Telephone	12.50	
			Stationery	10.50	
		$1.00	Postage	10.50	
			Rent	50.00	
			Telegrams	1.00	
				$232.75	

An analysis serves two purposes: First, it shows in detail all the different items that compose the account. Second, it will reveal any improper charges or credits to the account analyzed. Auditors frequently analyze accounts to determine incorrect debits and credits.

The principle of analysis can be used to determine the component parts of any account, the accuracy of which is questioned.

EXERCISE LXI

1. Analyze the General Expense account shown on the ledger of Harris & Mitchell at the end of March.
2. Analyze the General Expense account shown on the ledger of John Harris at the end of April.
3. Compare the two General Expense accounts just analyzed and note carefully any unusual change in the amounts of the items composing these accounts.

EXERCISE LXII

Make a Comparative Profit and Loss Statement and a Comparative Balance Sheet for the months of March and April.

QUESTIONS ON COMPARISON

1. Did the net purchases for April increase or decrease as compared with the net purchases for March? 2. Did the general expenses for April increase or decrease as compared with the general expenses for March? 3. What particular item caused the unusual increase in general expenses for April? (Refer to your analysis of General Expense account for March and April.) 4. Make a list of the asset and liability accounts that increased during April. 5. Make a list of asset and liability accounts that decreased during April. 6. The Profit and Loss Statement for April shows a net loss. What was the cause of the loss? 7. If the one large bill for catalogs etc. had not been charged to expenses for April, what would the profits for April have been? 8. Omitting this one item (the charge for catalogs etc.), were the expenses for April more or less than those for March?

TEST EXERCISE LXIV

In the following test use, as books of original entry, a purchases book, a cash book, and a journal. In this business all sales are made for cash, hence no sales book is used. The volume of sales each day is determined from a cash register.

Make the necessary entries, post and take a trial balance, use journal and ledger paper.

Time necessary, 45 minutes

June 1. John B. Terns invested cash $1200.00.
1. Received bill from Parke, Davis & Co., $108.78, terms 30 days.
1. Sales for the day, $76.84.
2. Paid rent for June, $50.00.
2. Sales for the day, $72.37.
3. Sales for the day, $77.10.
4. Paid electric light bill, $12.18.
4. Sales for the day, $68.58.
5. Sales for the day, $78.52.
6. Received bill from Dow Chemical Co., $68.43, terms 30 days.
6. Sales for the day, $72.85.
8. Paid gas bill, $6.72.
8. Sales for the day, $70.80.
9. Gave Parke, Davis & Co. a 30-day note for $95.00.
9. Received credit memorandum from Parke, Davis & Co. for $13.78 for goods returned.
9. Sales for the day, $72.94.
10. Received bill from Eastman Kodak Co., $86.39, terms 30 days.
10. Sales for the day, $78.59.
11. Paid express charges on goods from Eastman Kodak Co., $10.43.
11. Sales for the day, $64.18.
12. Received bill from Central Drug Co., $58.13.
12. Sales for the day, $84.90.
13. Sales for the day, $79.64.
13. Paid salaries, $120.00.

OFFICE EQUIPMENT AND DELIVERY EQUIPMENT ACCOUNTS

PROPERTY USED IN THE BUSINESS

Many of the things purchased by a business are for its own use. It is generally necessary to have some equipment for an office and for delivering goods sold, such as desks, chairs, tables, filing cabinets, typewriters, rugs, safe, horses and wagons, motor vehicles, etc.

OFFICE EQUIPMENT ACCOUNT

This is an account kept to show the amount of the investment in equipment used in the office.

EXERCISE LXI

Trace the record of the items in the following exercise to the illustrative account with Office Equipment:

Oct. 1. John Gilman, proprietor, opened a set of books for his business and among the assets was office equipment, $185.00.
10. Bought a desk for a typewriter, $30.00.
18. Bought a filing cabinet, $45.00.
25. Bought 3 chairs, $24.00.
30. Sold at cost, $10, a table which he had when the books were opened.

OFFICE EQUIPMENT

Oct.	1	Inventory	J		185	00	Oct.	30	Table	C		10	00
	10	Typewriter desk	C		30	00							
	18	Filing Cabinet	C		45	00							
	25	Chairs	C		24	00							

Purpose. The purpose of the Office Equipment account is to show, at cost, the amount invested in office equipment.

Method. Debit this account for the cost of all office furniture, furnishings and appliances.

Credit it for the cost of all office furniture, furnishings and appliances disposed of.

Result. The balance of this account should show, at cost, the amount of money invested in office equipment.

As a convenient record there should be on file in the office safe a complete inventory of all articles, and their costs, that have been charged to the Office Equipment account. This inventory should be brought up-to-date at the end of each fiscal period and its total should agree with the balance of the Office Equipment account.

Furthermore, it furnishes an excellent record, in connection with the account, for proving the amount of a loss in case of fire.

BALANCING AND RULING OFFICE EQUIPMENT ACCOUNT

It is not necessary to balance this account except to forward it to another page or to show the total investment as one amount. After balancing it is ruled with single and double red lines like the Cash account.

QUESTIONS ON OFFICE EQUIPMENT ACCOUNT

1. What should the debit side of this account show? 2. What should the credit side show? 3. What should the balance of the account show? 4. What kind of a balance should the account always show? 5. How would the accuracy of the balance of this account be proved? 6. Under what circumstances would this account have no balance?

DELIVERY EQUIPMENT ACCOUNT

This account should show, at cost, the amount invested in equipment used for delivering goods.

EXERCISE LXII

Trace the record of the items in the following transactions to the illustrative account:

Oct. 1. John Gilman, proprietor, opened a set of books for his business and among other assets he had delivery equipment valued at $490.00.
10. Bought a brown horse, Dick, for $160.00.
12. Bought a delivery wagon for $200.00.
15. Bought one set of harness for $35.00.
27. Sold one horse, Tom, at cost, $100.00.

DELIVERY EQUIPMENT

Oct.	1	Inventory	J		490	00	Oct.	27	Tom	C		100	00
	10	Dick	C		160	00							
	12	Wagon	C		200	00							
	15	Harness	C		35	00							

Purpose. The purpose of the Delivery Equipment account is to show, at cost, the amount invested in delivery equipment.

Method. Debit this account for the cost of all horses, wagons, harness, motor vehicles and other equipment used for delivering goods.

Credit it for the cost of any article that is disposed of.

Result. The balance of this account should show, at cost, the amount invested in delivery equipment.

As a ready reference from which may be obtained information as to what has been charged to this account, there should be on file in the office safe a complete inventory of all things, at cost, composing it. This inventory should be brought up to date at the end of each fiscal period and its total should agree with the balance of the Delivery Equipment account.

The inventory also furnishes complete information for obtaining insurance and for proving the amount of the loss in case of fire. Business houses maintaining a large equipment of motor vehicles for delivery purposes find a subsidiary record of this sort almost indispensable.

BALANCING AND RULING DELIVERY EQUIPMENT ACCOUNT

This account should not be balanced except to forward it or to show the balance of it as one amount. When it is balanced it should be ruled with single and double red lines like the Cash account.

QUESTIONS ON THE DELIVERY EQUIPMENT ACCOUNT

1. What should the debit side of this account show? 2. What should the credit side of this account show? 3. What should the balance of it show? 4. What kind of a balance should it always show? 5. How would the accuracy of the balance be proved? 6. Under what circumstances would this account have no balance?

SOME ACCOUNTS WHICH MAY CONTAIN DEFERRED CHARGES

A deferred charge is an item or items which were included in expenses during a particular fiscal period but not actually consumed during that period.

The following are examples of items that may be charged to expense during a fiscal period, yet may not be consumed during that period.

EXAMPLE I. On December 27, a wholesale house received and entered a bill for catalogs amounting to $400.00, charging it to general expense. These catalogs were for distribution during the following year when new prices were to be in effect.

Should this amount be included in the general expense and charged to Profit & Loss, or should it be "carried over" to the following fiscal period?

EXAMPLE II. November 4, a bakery received and entered a bill for 50,000 cardboard cartons used for packing and shipping cookies; the amount of the bill was $1500.00 and it was charged to expense. On Dec. 31, the bakery had used only 10,000 of these cartons, having on hand 40,000.

(a) Is it proper to include the whole amount of this bill as an expense for this year?
(b) How much of the bill is really expense for this year?
(c) How much of the bill should be "carried over" to the following fiscal period?

INSURANCE

Property may be damaged or destroyed by fire, water, storms, accidents, etc. The owner of property may provide for compensation in case of loss by insuring the property. There are companies organized for the purpose of entering into contracts by which they agree to indemnify an owner for damage to property, or loss of property, from almost any cause imaginable.

The person insured pays the insurance company for entering into such a contract a certain sum of money known as a premium.

The rate of premium varies according to the risk assumed by the insurer.

Some of the most common kinds of insurance are fire, theft, storm, collision, fidelity, and employee's liability.

It is not uncommon for a small corporation to carry life insurance upon the life of the person or the persons responsible for the success of the business. The premiums, in such cases, are paid by the corporation.

Insurance premiums are usually paid one year in advance, except for employee's liability insurance which is paid monthly, quarterly or semi-annually. In this form of insurance the premium is generally estimated as a certain per cent of the pay roll.

PROBLEMS IN INSURANCE

June 1. William T. Mason paid $74.62 for fire insurance for 1 year, policy dated June 1.
15. The premium paid on another policy dated June 1, for one year, amounted to $83.12.
30. A refund of $4.73 was received from the company that issued the first policy.

1. What was the net amount paid for insurance during June?
2. Since these policies were issued for one year, what part of each premium paid would represent the insurance expense for June?
3. What is the total amount of the insurance expense for June?

INSURANCE ACCOUNT

This is an account kept to show the amount of insurance premium paid during a fiscal period.

EXERCISE LXIII

Trace, mentally, the items in the following exercise to the illustrative Insurance account:

June 1. The Insurance account on the books of H. T. Barber & Co. showed a debit balance of $238.14.
10. Paid premium on a policy of fire insurance, issued for 1 yr., dated June 1, $38.74.
14. Received check from Weaver & Haskell, insurance agents, on account of the cancellation of a policy on June 1, amount, $34.92.
15. Paid insurance premium on policy on the life of H. T. Barber, in favor of the company, $110.18; due June 15.
27. Paid automobile insurance on a delivery car, $115.68, policy dated June 20.
30. The credit of $32.56 represents the amount of the expired premium for the month of June.

INSURANCE

June	1	Unexpired	J		283	14	June	14	Refund	C		34	92
	10	Fire	C		38	74		30	Expired	J		32	56
	15	Life	C		110	18							
	27	Auto	C		115	68							

QUESTIONS ON INSURANCE ACCOUNT

1. What does the total of the debit side represent? 2. What does the total of the credit side represent? 3. What does the balance represent? 4. The credit item of $32.56 represents the amount of insurance premium which expired during the month of June. Estimate the expired premium to determine this amount. 5. What kind of a balance should this account always show? 6. Under what circumstances might the insurance account show no balance?

In a large business where a great many policies are issued, it is the practice to have a special book in which to enter a record of each policy.

In this book the policies are classified according to the risk assumed by the insurance company in each policy, say, one page for each kind of insurance, such as, insurance on buildings, insurance on merchandise and office equipment, insurance on delivery equipment, and employee's liability insurance.

It is also found convenient in a large business to have an insurance account for each kind of insurance instead of one account for all kinds of insurance.

Purpose. To show the amount of insurance premium paid or due during a fiscal period.

Method. Debit the Insurance account for all premiums paid for insurance or for all amounts due, but not paid, for insurance premiums.

Credit Insurance account for any amounts received because of cancelled policies, or because of a reduction of premium rates, and for the amount charged to Profit & Loss each month.

Result. The balance of the insurance account represents the amount of premium paid that is chargeable to a future fiscal period. It is what is commonly called a deferred charge.

BALANCING AND RULING THE INSURANCE ACCOUNT

In most instances this account should be balanced and ruled at the end of a fiscal period as it would be advisable to reduce to one amount the cost of insurance in effect. This would be especially true if the books were closed only semi-annually or annually, as a great many items would appear on both the debit and credit sides of the account.

Single and double red lines should be used in ruling this account, just as in the Cash account.

EXPENSES CLASSIFIED

The student has already learned by analyzing the General Expense account that it is composed of a number of items in well defined classes, such as charges for rent, salaries, telephone and telegraph, postage, stationery and printing, electric light, etc.

These classifications of expense may be continued almost indefinitely and in many large business houses there are sometimes a hundred or more such accounts, yet they are all similar in principle.

NOTE.—Because of the great number of expense accounts and because the General Expense account was illustrated in a previous chapter, each separate classification of expense will not be illustrated in this textbook.

If, for any reason, it is desired to show the total amount spent for salaries, this can be done by opening a Salaries account and charging all salaries to that account. The same is true of any classification of expense mentioned in this chapter; and as a matter of fact, many business houses have found that where, in the beginning of the business, one expense account was sufficient, they need to have their expenses classified as they expand the volume of their business.

Expense accounts are usually grouped according to the department of the business which should bear the expense, or according to the purpose of the expense. Conditions peculiar to each business will so affect this grouping that it is impossible to do more here, than to give a general outline, for a mercantile business, which follows:

GENERAL EXPENSE GROUP	SELLING EXPENSE GROUP
Office Salaries	Salaries of Salesmen
Rent	Expenses of Salesmen
Stationery and Printing	Advertising
Miscellaneous	Delivery Expense

It should be kept in mind that each kind of business has expense accounts peculiar to that business. The expense accounts of a mercantile business would not all be the same as the expense accounts of a theatre, a manufacturing business, a hotel, a restaurant, a bakery, etc., though many of these accounts would be the same.

Purpose. To show the expenses incurred chargeable to the particular classification, during the period.

Method. Debit each particular classification for the expense incurred during the period.

Credit each particular classification for any amounts deducted from the charges during the period.

Result. The balance of each particular classification will show the net amount charged to that classification during the period.

BALANCING AND RULING EXPENSE ACCOUNTS

After these accounts are "written down" to agree with the inventories, or deferred charges, they are then balanced and ruled and the balance brought down just as is the Cash account.

The inventories used in these accounts are sometimes referred to as deferred expenses, deferred charges to operations, or prepaid expenses.

The balances remaining in these accounts should appear on the Balance Sheet as assets under the heading of Deferred Charges.

EXERCISE LXIV

To what expense account given on page 99 would you charge each of the following items:

1. Paid salary of Marcus Green, a salesman, for one month, $250.00.
2. Paid expense bill of Marcus Green for one week, $55.80.
3. Bought gasoline for delivery trucks, $18.40.
4. Paid garage rent for 3 trucks for one month, $60.00.
5. Bought coal, $142.60.
6. Bought U. S. postage stamps, $50.00.
7. Received a bill from McLen Printing Co. for letterheads, envelopes, etc., amounting to $63.75.
8. Paid Edison Light & Power Co's. bill for $10.62.
9. Paid salary of truck driver for week, $25.00.
10. Paid rent for one month, $300.00.
11. Paid Bell Telephone Co's. bill, $18.74.
12. Paid for towel supply for office $2.50.
13. Paid for space on bill boards for 3 months $285.00.
14. Paid for printing new price lists $18,75.
15. Paid City Gas Co's. bill for gas, $3.85.
16. Paid salaries of bookkeeper and stenographer, $45.00.
17. Paid Hayes Cartage Co. for delivering goods to customer $3.15.
18. Paid Mineral Springs Water Co. for water supplied to office $6.20.
19. Paid for street car tickets $5.00.
20. Paid for a half-page advertisement in a trade journal $75.00.

HOW TO PROVIDE FOR THE DEFERRED EXPENSE

At the end of a fiscal period the amount of the deferred items is obtained by making an inventory of the things that were charged to the various expense accounts but remain unused.

After the total of the deferred items for each expense account has been determined, the difference between the balance of the account and the amount of the inventory is charged to Profit & Loss account, by a journal entry.

Example I. On Dec. 31, the Advertising account on the books of the Star Cereal Co. showed a debit balance of $3000.00. It was estimated that advertising paid in advance amounted to $600.00. How shall the proper amount be "written off" and the deferred expense be "carried over"?

It is evident that if $3000.00 represents the amount of advertising paid for and there still remains in effect $600.00 worth, that $2400.00 worth has been used. Therefore, this amount ($2400.00) is charged to Profit & Loss account by a journal entry as follows:

Profit & Loss	$2400.00	
Advertising		$2400.00

After the amounts of this entry have been posted, the balance of the Advertising account will show the amount of the inventory, or deferred charge. Then by balancing and ruling the account, it is started anew at the beginning of the next fiscal period with the inventory, or deferred charge, standing as the first debit amount.

No definite rule can be stated for determining the inventory for all these accounts; in fact, many of them might not have an inventory, or deferred charge. Experience and good judgment must determine that matter.

EXERCISE LXV

In each of the following statements of fact, determine the amount to be "written off" and make the journal entry necessary to reduce the account to agree with the inventory:

1. On Dec. 31, the Delivery Expense account on the books of Hopkins & Adams showed a debit balance of $6287.42. An inventory on that date showed gasoline, oils, etc., valued at $327.25. (a) Determine the net amount of the Delivery Expense account chargeable to the present fiscal period. (b) Make the necessary journal entry to "write off" the expense for the fiscal period.

2. On June 30, the Stationery & Printing account on the books of the Davis Amusement Co. showed a debit balance of $2847.32. Of this amount, $610.50 was charged on June 27, but it was for use during the coming fall season. (a) Determine the net amount of the Stationery & Printing account to be charged to Profit & Loss on June 30. (b) Make the journal entry necessary to "write off" the expense for the fiscal period.

3. On Dec. 31, the Advertising account of the Holly Chemical Co. showed a debit balance of $10,842.90. They had advertised extensively in magazines and on bill boards, and estimated that they had paid in advance for space, amounting to $5,825.00. (a) Determine the net amount of the Advertising account chargeable to Profit & Loss. (b) Make a journal entry that would "write off" the proper amount of the Advertising account.

ACCOUNTS AFFECTING PURCHASES AND SALES ACCOUNTS

DISCOUNTS FOR CASH

Business houses have found by experience that it is a good policy to allow a reduction in the amount of a bill to those customers who pay their bills promptly.

Therefore, sales are frequently made on "terms", i. e., terms is the agreement between the buyer and seller relating to the time the bill is to be paid and the amount of the deduction for prompt payment.

The terms of a sale are usually written or printed on the bill as follows: 2/10 n/30 (2% 10 days, Net 30 days), which means that if the bill is paid within 10 days of its date, 2% of the bill may be deducted, or if not paid within 10 days no deduction will be allowed but the net amount of the bill must be paid not later than the end of the 30 day period of time.

These deductions are known as discounts, and since discounts are allowed on purchases they are known as **discounts on purchases, purchase discounts,** or **discounts taken.**

The same business may allow discounts on sales; therefore, such discounts are known as **discounts on sales, sales discounts** or **discounts allowed.**

PROBLEMS IN PURCHASE DISCOUNTS

Mar. 21. The Wolverine Saw Co. received a bill from the Crucible Steel Co. for $1282.76, dated March 15, "Terms 2/10 n/30."

(1) What is the last day on which the Wolverine Saw Co. may pay this bill and deduct the discount?

(2) When is the bill due if not paid in time to deduct the discount?

(3) What is the amount of the discount if paid in time to deduct it?

(4) What is the amount of cash required to pay the bill?

PURCHASE DISCOUNTS ACCOUNT

This is an account kept to show the amount of discount deducted from bills for goods purchased.

EXERCISE LXVI

Trace the record of the transactions in the following exercise to the illustrative account with Purchase Discounts on the books of Benj. Wells & Co:

Jan. 31. The cash book shows that the total amount deducted from bills paid was $141.87.
Feb. 28. The cash book shows deductions from bills for goods purchased amounting to $122.14.
Mar. 18. An error was reported to us by Andrews & Co. We deducted 3% instead of 2%; amount of error, $3.42.
Mar. 31. Deductions for discount on purchases amounted to $136.12.

PURCHASE DISCOUNTS

Mar.	18	Andrews & Co. J		3	42	Jan.	31	C		141	87
						Feb.	28	C		122	14
						Mar.	31	C		136	12

QUESTIONS ON PURCHASE DISCOUNT ACCOUNT

1. What does the credit side of this account show? 2. What does the debit side of this account show? 3. What does the balance represent? 4. Which side of this account should always be larger?

Purpose. To show the amount of discount deducted from bills for purchases made by the business.

Method. Debit this account with the amount of errors made when too much has been deducted from the invoice.

Credit this account with the amount of all discount deducted from purchases.

Result. The balance will be the net amount of discount deducted from bills for purchases.

CLOSING AND RULING PURCHASE DISCOUNTS ACCOUNT

This account should not be balanced, as a rule, except to forward it to another page

At the end of a fiscal period it should be closed, but the practice of bookkeepers in closing it is not uniform. Some close it into the Profit & Loss account; while others close it into the Purchases account, because they consider it as reducing the net amount of merchandise purchased. The latter plan seems preferable and is used in this book in the succeeding sets.

This account is ruled at the end of a fiscal period, after closing, by single and double red lines like the General Expense account.

PROBLEMS IN SALES DISCOUNTS

Mar. 24. The Wolverine Saw Co. received from Wilson Body Co. a check for $214.36. Before giving the Wilson Body Co. credit for this payment the bookkeeper referred to the Wilson Body Co's. account in the ledger and found them charged, Mar. 15, with $218.73. The Wolverine Saw Co. made all sales, "Terms 2/10 n/30."

How would you account for the difference between the amount of the charge and the amount of the check?

Mar. 24. The Wolverine Saw Co. received a check from the Central Mill & Lumber Co. for $132.67. Before crediting the account of the Central Mill & Lumber Co. for this check the bookkeeper referred to the account of the Central Mill & Lumber Co. He noticed there was no charge, for this amount, to their account but there were three charges as follows: Feb. 15, $28.73; Mar, 2, $42.94; Mar. 12, $63.12. All sales were made "Terms 2/10 n/30."

1. Did the Central Mill & Lumber Co. send the proper amount to pay all bills?
2. Did they discount all their bills?
3. Should you determine if possible, before making entry, whether a customer is paying certain particular bills with the proper discount deducted?

Mar. 27. Douglas & Lomason, another customer of the Wolverine Saw Co,, sent a check for $112.64. The bookkeeper for the Wolverine Saw Co. in referring to this account found it charged on Apr. 28 with $136.82 and credited on Mar. 10 with $24.18 for some saws that were returned. All sales were made, "Terms 2/10 n/30."

1. Did this check pay the balance of the account?
2. Before making an entry, when a remittance is received, what should the bookkeeper do?
3. If you could not determine what particular bill or bills are being paid, what would you do?

SALES DISCOUNTS ACCOUNT

This is an account kept to show the amount of discount deducted, by customers, from sales on which discounts are offered.

EXERCISE LXVII

Trace, mentally, the items in the following exercise to the illustrative account with Sales Discount on the books of Benj. Wells & Co:

Jan. 31. The cash book shows that customers deducted discount amounting to $237.58.
Feb. 28. The cash book footings for customers' deductions amounted to $183.12.
Mar. 31. Discounts deducted by customers amounted to $246.83.

SALES DISCOUNTS

Jan.	31		C	237	58						
Feb.	28		C	183	12						
Mar.	31		C	246	83						

QUESTIONS ON SALES DISCOUNTS ACCOUNT

1. What does the debit side of this account show? 2. What should the credit side of this account show? 3. What does the balance of this account show? 4. Which side of this account should be larger? 5. If a customer never discounted a bill, when terms of discount were offered, what would seem to be wrong?

Purpose. The purpose of the Sales Discount account is to show the net amount that customers deduct from bills because of payment within the time allowed for discount.

Method. Debit this account for all deductions for discount in accordance with the terms of the sales.

Credit this account for errors made by customers in taking discounts to which they are not entitled.

Result: The balance of this account should show the net amount of discounts taken by customers.

CLOSING AND RULING SALES DISCOUNTS ACCOUNT

This account should not be balanced unless it is desired to forward it to another page.

At the end of a fiscal period it is closed. Some bookkeepers close it into the Profit & Loss account, while others close it into the Sales account and thereby show it as a deduction from the net sales. The latter method seems preferable and is used in the succeeding sets of this book.

When closed, this account is ruled with single and double red lines the same as the General Expense account.

FREIGHT-OUT ACCOUNT

This account is kept when it is desired to show, as a separate amount, the total expenditure for freight on goods delivered to customers.

In the beginning chapters of this book the freight paid on sales was charged to the Merchandise Sales account, which reduced the net amount of sales. This method of handling freight-out is followed by many small business houses, but among the larger establishments it is the practice to have a separate account for Freight-Out.

Goods are sometimes sold f. o. b. (free on board) destination. This means that the seller is to deliver the goods to their destination, (the place to which the goods are shipped) free of all freight charges. For example: A. of Chicago sells goods to B. of Omaha f. o. b. destination. This means that A must pay all freight charges on the goods for delivering them in Omaha, and that all B has to do is call at the office of the railroad company and claim the goods.

Sometimes, the terms of sale are expressed as, f. o. b. cars, f. o. b. warehouse, or f. o. b. point of shipment; and while these terms are technically different, they all mean that the one buying the goods must pay the freight on them.

It is necessary for the bookkeeper to be familiar with these terms and the customs of the house by which he is employed in order to make the proper entry for freight and other transportation charges. In the larger business houses where a purchasing agent is employed, it is his duty to make agreements in reference to these charges.

Sometimes the seller pays the transportation charge and includes the amount of it in the bill sent to the purchaser.

The Freight-Out account is so similar in principle to many of the other accounts treated in previous chapters in this book that it is not necessary to illustrate it here.

Purpose. To show the net cost of transportation for delivering goods sold.

Method. Debit the Freight-Out account for all amounts paid for freight or express charges in delivering goods.

Credit the Freight-Out account for all rebates for over-charges of freight and express, also for refunds of freight and express made by our customers.

Result. The balance of this account should show the net cost of transportation of goods sold.

QUESTIONS ON FREIGHT-OUT ACCOUNT

1. What should the debit side of this account show? 2, What should the credit side of this account show? 3. What should the balance of this account show? 4. What kind of a balance should it show? 5. Why may it be regarded as reducing the amount of sales? 6. Why may it be regarded as a selling expense?

CLOSING AND RULING FREIGHT-OUT ACCOUNT

There is no need to balance this account except to forward it to another page of the ledger.

At the end of a fiscal period it should be closed into the Sales account or into the Profit & Loss account. The practice of bookkeepers in this respect is not uniform, but it would seem to be more logical to consider the freight-out as reducing the amount of sales. In the preparation of the Profit and Loss Statement, if not shown as affecting the Sales account, it should be classed as an expense and should be included in the Selling Expense group of accounts. When the account is closed it should be ruled with single and double red lines like the General Expense account.

FREIGHT-IN ACCOUNT

Sometimes it is desirable to know the total amount of freight, as a separate item, that is paid on merchandise purchased. This can be accomplished by a Freight-In account properly kept.

The freight paid on purchases has been treated, in the early chapters of this book, as a proper charge to the Merchandise Purchases account. When this method of treatment is not used, but a separate account is kept for Freight-In, it should be regarded as an expense account and treated in the same manner as any other expense account. For this reason, it has not been thought necessary to illustrate it in this textbook.

Purpose. To show the total amount paid for freight on merchandise purchased.

Method. Debit this account for all payments of freight on merchandise purchased.

Credit this account for all allowances on account of over-charges on freight bills.

Result. The balance of this account will show the net cost of freight on merchandise purchased.

CLOSING AND RULING FREIGHT-IN ACCOUNT

It is not necessary to balance this account except to carry it forward.

At the end of a fiscal period it is closed into the Purchases account in order to show the total net purchases of merchandise. But, some bookkeepers close it into the Profit & Loss account and also show it on the Profit and Loss Statement.

In this book it is closed into the Purchases account as that seems to be the logical method of disposing of it.

After closing, it is ruled with single and double red lines the same as the General Expense account.

SALES REBATES AND ALLOWANCES ACCOUNT

This is an account kept to show the allowances, other than discounts, made to customers during a fiscal period.

As the Sales, Rebates and Allowances account is really a part of the Sales account it will not be illustrated here.

Purpose. The purpose of this account is to show the deductions made from customers' accounts due to errors in billing, filling orders, and other causes.

Method. Debit this account for all allowances and deductions made from customers' accounts due to errors.

Credit this account only for errors made in debiting the wrong account.

Result. The balance of this account should show the net amount deducted from customers' accounts due to errors.

As a general rule it should never be necessary to keep this account. If the account is large it indicates the business is not giving proper service to its customers, or that the various departments of the business are not properly conducted.

However, there are certain kinds of business where such an account is a necessary part of the accounting system.

CLOSING AND RULING SALES REBATES AND ALLOWANCES ACCOUNT

This account is not balanced unless it is desired to forward it to another page.

It is closed, at the end of a fiscal period, into the Sales account in order to determine the net sales of merchandise.

It is ruled, after being closed, with single and double red lines the same as the General Expense account.

PURCHASES, REBATES AND ALLOWANCES ACCOUNT

This account is kept to show during the fiscal period the allowances, other than discounts, made by the persons, firms or corporations from which goods are purchased.

These allowances may be caused by the goods being defective in quality or damaged in transportation, by errors in billing, etc.

This account is really a part of the Purchases account and, therefore, will not be illustrated here.

Purpose. The purpose of the Rebates and Allowances on Purchases account is to show the deductions allowed from the invoices for goods purchased.

Method. Debit this account only for errors made in crediting it for the wrong amounts.

Credit this account for all allowances and deductions, due to errors, made from invoices for merchandise purchased.

Result. The balance should show the net amount deducted from the invoices for merchandise purchased.

CLOSING AND RULING PURCHASES REBATES AND ALLOWANCES ACCOUNT

There is no need to balance this account except to forward it to another page. At the end of a fiscal period it is closed into the Purchases account to determine the net purchases for the period.

After it is closed it is ruled with single and double red lines like the General Expense account.

SET IV — RETAIL PIANO BUSINESS — TWO MONTHS

This set may be studied either with or without the business papers; but if the papers are used, you as bookkeeper, will prepare all outgoing papers such as bills, checks, notes and monthly statements to customers, you will also prepare all notes receivable ready for the signature of the customer, but you will not prepare incoming invoices or incoming checks, neither will these papers be furnished in the outfits.

There are manufacturers who will place on their pianos any name desired by the dealer. These pianos are known in the trade as "stenciled" pianos. This practice is not uncommon in other lines of business as well.

W. H. Watkins is a dealer in pianos. He has a "going" business and, in anticipation of its increase, has leased and moved into a new store at 364 Wabash Ave. He has decided to open a new set of books and for this purpose has furnished the following information concerning his affairs on May 1, 19—:

Assets	
Cash (Now in Merchants Exchange Bank.)	$3254.90
Notes Receivable:	
Wm. A. Hunt—dated Apr. 20—30 da., interest at 6%	250.00
B. P. Taylor—dated Apr. 5—30 da., interest at 6%	475.00
Accounts Receivable:	
C. H. Banks, 482 Yale Ave. (Sale made Mar. 24)	125.00
T. F. Robson, 286 Maple St. (Sale made Apr. 26)	350.00
E. R. Simmons, 857 Park Ave. (Sale made Apr. 10)	190.00
Mdse. Inventory	4282.50
Office Equipment	227.85
Liabilities	
Accounts Payable:	
Michigan Bench Co., Michigan City, Ind.	238.75
Piano Products Co., Maywood, Ill.	846.50

Take from the pad of note forms two blanks, and fill them out to correspond with the information given concerning these notes. Have them approved and signed by the teacher, with the name of the maker in each case. Then file them in the envelope marked, "Office Safe."

Make an opening entry to record the above assets and liabilities, but before posting the amounts of the entry study the following instructions which show the accounts necessary for this set, and the page of the ledger on which these accounts should begin.

Begin this ledger on page 16 and use pages 16, 17 and 18 for Cash and customers' accounts (6 accounts to each page); all other accounts may be opened four accounts to a page, except General Expense and Selling Expense which require one-half page for each account. The following is the order in which the accounts should appear in the ledger: Cash, Accounts Receivable, Notes Receivable, Mdse. Inventory, Office Equipment, Delivery Equipment, Excelsior Piano Co., Maynard Sales Co., Michigan Bench Co., Piano Products Co., Notes Payable, W. H. Watkins, Proprietor, W. H. Watkins, Personal, Sales, Purchases, General Expense, Selling Expense, Insurance, Interest, Freight-In, Freight-Out, Discount on Purchases, Discount on Sales, Sales Rebates and Allowances, Profit & Loss.

PRICE LISTS

The following price lists may be used in this set for credit sales, except when otherwise directed, but not for cash sales:

	1	2	3	4	5	6	7	8	9	10
Watkins Pianos	$310	$315	$320	$330	$335	$340	$312	$322	$318	$328
Watkins Player Pianos	670	675	680	685	690	695	672	682	648	658
Benches	15	14	12	13	11	10	9	10.50	12.50	9.50

These price lists, when assigned to students, should not be used in certain transactions. These transactions are indicated by instructions not to use the price lists.

MEMORANDA OF TRANSACTIONS FOR MAY

May 1. Gave a check for $125.00 to Wilson & Co. for the rent of the store for the month of May.

CHECK STUB

Balance May 1, 19—	3254	90
No. *1*		
Date *May 1* 19—		
To *Wilson & Co.*		
For *Rent for May*		
Amt. $ *125.00*	125	00
No.	3129	90
Date 19—		
To		
For		
Amt. $		

Enter on the stub of the check book, the amount of the bank balance on May 1, like the illustration.

In writing a check which has a stub, it is advisable to fill out the stub first, and then fill out the check form. If this practice is closely followed, it will prevent a check getting into circulation without a record of it being made.

Select a form of signature and never use any other form. Banks require each depositor to make a record of his signature in the form he intends to use when signing checks. For this reason, one form of signature should be adopted and should be strictly adhered to.

Take, from the outfit, the check book and write a check payable to Wilson & Co. for the amount of the rent. Sign the check "W. H. Watkins, per (your name)". Place the check after having it O. K.'d by the teacher, in the envelope marked "Outgoing Papers". Follow the form of the check shown on page 36.

May 2. Bought a delivery truck of the Maynard Sales Co. for $2150.00; terms, $650 cash, balance in three equal notes ($500.00 each). The first note due in 30 da.; the second, in 60 da.; the third, in 90 da.

Write the check and the notes. After they are approved by the teacher place them in the envelope marked "Outgoing Papers".

First, enter the amount of the purchase in the journal; second, enter the cash in the cash book, charging the Maynard Sales Co.; third, enter the notes separately in the journal, charging the Maynard Sales Co. for the total.

May 3. Sold Mrs. H. S. James, 354 Adams Ave., one Watkins Piano @ $355.00, 1 Bench @ $10.00; terms, $250 cash, balance within 90 days.

Take a blank from the pad of bill heads and make out a bill for this sale and have it approved by the teacher. Study the form of bill given on page 20. The bill should show the amount of the cash payment made at the time of the sale. Therefore, write on the first space below the last item of the bill, the following: "Credit by Cash" and extend the amount of the payment into the second amount column of the bill, just under the total, and deduct the amount of the payment from the amount of the bill. The difference will be the balance due on the bill.

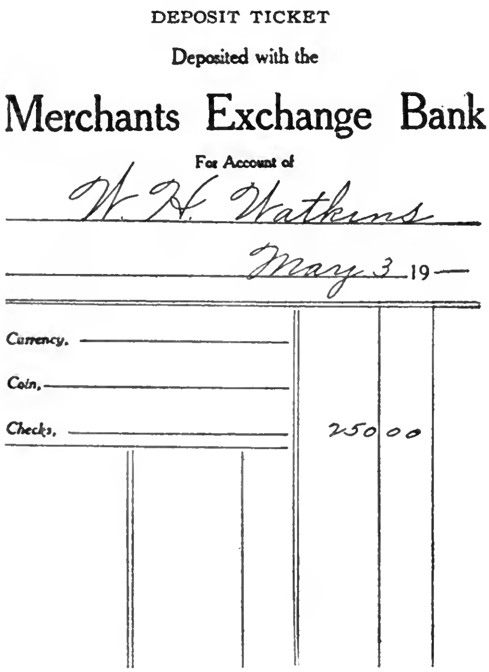
Enter the full amount of the sale ($365.00) in the sales book, charging the personal account, and then make an entry in the cash book for the check received for the cash payment, crediting the personal account for the amount of it.

The student should remember that the illustration of a deposit ticket which is given here is the form generally used in making a deposit for a commercial account. This form differs from the deposit ticket generally used when a deposit is made for a savings account. A commercial account is one on which money is always drawn by the use of a check, and a savings account is one on which money is drawn by means of a receipt that is used in connection with a bank book.

A person who has a savings account should never attempt to draw money on such an account by a check,—checks are used only in connection with a commercial account.

When a sum of money is drawn on a savings account, it is the custom of most banks to make, immediately, an entry on the depositor's bank book, showing the amount withdrawn and the balance, if any, on deposit. This is not done when a check is drawn against a commercial account; instead, a bank will pay all checks (as they are presented to the bank) against a depositor's account until one of the checks drawn is greater than the balance of the account; in this event, a check that overdraws an account will not be paid by the bank.

In many states banks are forbidden by law to pay checks that overdraw a depositor's account.


DEPOSIT TICKET

Deposited with the

Merchants Exchange Bank

For Account of

W. H. Watkins

May 3 19—

Currency.

Coin.

Checks. 250 00

A deposit should now be made for the amount of the check received in this transaction. Among the business forms in the outfit is a pad of deposit tickets. Take one of these blanks and fill out the necessary information on it. Take the deposit ticket together with the bank pass book to the teacher and have the amount of the deposit entered in the pass book. The pass book will be found among the supplies in the outfit. Make no entry, in the books of original entry or in the ledger, for the deposit, but enter the amount of the deposit and the date of it on the check book stub. Add the amount of the deposit to the last balance; the total will then be the new balance.

May 4. Received from T. F. Robson, a check for $343.00, in payment of the balance due. There was a $7.00 discount on this account.

Make an entry in the cash book for the amount of cash received ($343.00), then make an entry in the journal for the amount of the discount, charging Discount on Sales account and crediting the personal account.

All similar transactions are entered in this same manner.

May 4. Paid Michigan Bench Co's. account, check $233.97, discount $4.78.

Write the check, make an entry in the cash book for the amount of it ($233.97), then make a journal entry, charging the personal account and crediting Discount on Purchases account.

All similar transactions are entered in this same manner.

May 5. Received from B. P. Taylor, a check in payment of note due today, $475.00, interest $2.38; amount of the check $477.38.

Take from the office safe the note signed by B. P. Taylor and receipt it by writing across the face of the note the following, "Paid May 5, 19— W. H. Watkins per (your name)". Then deliver the note to the teacher. Proceed in the same manner with other notes receivable when paid.

Prepare a deposit ticket, include the checks received on the 4th and 5th. Proceed with this deposit as you did with the other deposit. All deposits are made in a similar manner.

May 5. Paid by checks: Edison Light and Power Co., $13.85; City Gas Co., $4.37; Bell Telephone Co., $7.80.

Write the checks and after having them approved place them in the "Outgoing Papers" envelope. Proceed in the same manner, in all future transactions, when checks are issued.

May 7. Paid the Evening News, by check, for advertising $36.50.

7. Bought, by check, a check writer of the Wilkins Office Supply Co. for $45.00.

8. Sold the Arlington Hotel 3 Watkins Pianos @ $325, 3 Benches @ $12.00; terms $500 cash, balance 30 days.

(Do not use the variable price lists for this transaction.) The words "cash" and "check" frequently mean the same and, in this set, they are interchangeable terms. This is likewise true in business.

May 8. Paid balance due the Piano Products Co. on May 1, less 2% discount; discount $17.93, check $828.57.

9. Paid the Clayton Advertising Co., by check, for advertising space on bill boards, 6 months in advance from May 1, $300.00.

10. Received bill from the Piano Products Co., dated May 5, for $1248.75; terms 2/10, n/30.

11. Sold B. M. Anderson, 1418 Kenmore Ave., 1 Watkins Player Piano @ $675.00, 1 Bench @ $15.00; terms, cash $340, balance $50 per month until paid.

Deposit the checks received on May 8th and 11th.

May 12. Paid freight on the shipment of pianos, billed May 5, $47.68.

Make the check payable to a railroad company in your own town or city.

May 14. Sold the Board of Education, 50 Broadway, 2 Watkins Pianos @ $300; terms cash. Charge this the same as any other sale. Watkins has agreed to wait a few weeks for new appropriations for the money.

15. Paid salaries by checks as follows: S. N. Monroe, salesman, $75.00; (yourself), bookkeeper, $60.00; Roy Thomas, truck driver, $50.00.

May 15. W. H. Watkins drew $100.00 by check.

16. Sold Dreamland Amusement Co., 756 Lincoln Bldg., 1 Watkins Piano $325, 1 Bench $15.00; terms 2/10, n/30.

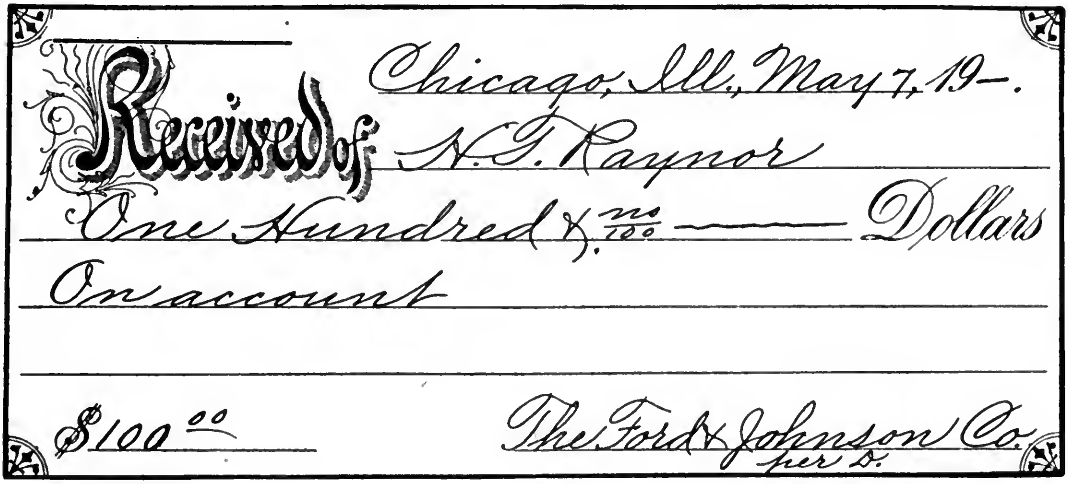
(Do not use variable price lists for this sale.) This piano is to be delivered by Watkins f. o. b. Lakeside Park.

May 17. Paid freight on piano and bench shipped to the Dreamland Amusement Co., $5.74.

Make this check payable to a local railroad company.

May 18. Received cash from C. M. Banks, $125.00.

A RECEIPT


Chicago, Ill., May 7, 19—.

Received of N. G. Raynor

One Hundred & no/100 —— Dollars

On account

$100 00 The Ford & Johnson Co.
per D.

Write a receipt in favor of C. M. Banks for the amount paid by him. In writing the receipt follow the form which is shown by the illustration. Always issue a receipt when you receive money on account. However, if you receive a check, it is not necessary to issue a receipt as the cancelled check becomes a valid receipt.

May 19. Sold Charles B. Barrett, 1285 Kenwood Ave., 1 Watkins Piano @ $330.00, 1 Bench @ $15.00; terms $200 cash, balance note at 60 days, interest at 6%.

Write the bill and note.

May 21. Received a check for $251.25 from Wm. A. Hunt for note due today; amount of note $250.00, interest $1.25.

Deposit all checks on hand.

May 22. Received bill from Excelsior Piano Co., New York, N. Y., for $1151.25, dated May 18, terms 2/10, n/30.

May 23. Sold the Strand Theatre Co., 220 Washington Ave., 1 Watkins Piano $330.00; terms 2/10, n/30.

(Do not use variable price lists for this sale.)

24. Received a check from Wilkins Office Supply Co. for $10 for use of the truck (credit Selling Expense).
25. Bought by check a cabinet safe of the Wilkins Office Supply Co., for office, $85.00.
26. Paid freight on shipment of pianos received from Excelsior Pianos Co., $61.83.

Make this check payable to a local railroad company.

May 26. Received cash from Dreamland Amusement Co., $333.20, discount $6.80.
28. Sold for cash to Mrs. J. W. Fowler, 1 Bench, $12.00.

Make a bill for this sale the same as for a credit sale. Then receipt the bill in the same form as you receipted the note paid on May 5. Deliver the receipted bill to the teacher.

Deposit all checks on hand.

May 29. Paid the Standard Garage, by check, for gasoline and oil $22.70.
30. Sold the First Baptist Church, 938 Maple St., 1 Watkins Piano $340, 1 Bench $12.00; terms $150.00 cash, balance $25.00 per month until paid.

Deposit the check received from the First Baptist Church.

May 31. Paid salaries by checks as follows: S. N. Monroe, salesman, $75.00; (yourself), bookkeeper, $60.00; Roy Thomas, truck driver, $50.00.

May 31. W. H. Watkins has decided to allow himself a monthly salary of $250.00. It is estimated by Watkins that he spends about half his time in selling goods and the other half in the management of the business. Therefore, make the necessary journal entry, charging one half of Watkins' salary to Selling Expense and one half to General Expense, crediting his personal account for the amount of his salary.

PROGRAM FOR CLOSING

1. Post and take a trial balance.
2. Close and rule the special books of original entry.

The ledger for this month will not be closed but will be continued for another month before closing.

3. Reconcile the bank balance.

After obtaining a trial balance, it is the usual practice of a bookkeeper to reconcile the bank balance, as shown by the bank, with the balance as shown by the cash book. Most banks prepare monthly statements and send these statements, together with all cancelled checks, to the depositors.

The depositor, for his own benefit, should make it a regular practice to reconcile his bank account at least once each month. The reconciliation should not be delayed after the cancelled checks are returned. Promptness may discover a forged or a "raised" check before it is too late to take appropriate action, or it may save a great amount of labor in detecting an error at the bank or in the depositor's own records.

In the outfit of forms is a bank statement. Check this statement with the "paid side" of the cash book to determine which check or checks have not been returned by the bank. The difference between the balance, shown by the bank, and the balance shown by the cash book should equal the amount of the check or checks not returned by the bank.

After the reconciliation has been completed a record of it should be made so that it may be preserved for future use. Some bookkeepers use printed forms for recording the reconciliations while others record them in one of the books of original entry, preferably the cash book, upon the page on which the cash book is balanced.

The following is suggested as a good form to follow in making a reconciliation with the bank:

Reconciliation		
Balance shown by bank		$1262.37
Balance shown by cash book		1186.45
Difference		$ 75.92
Outstanding checks.		
No. 286	$15.00	
No. 294	41.17	
No. 306	19.75	75.92

Record the reconciliation for the month of May on the "Cash Received" side of the cash book.

4. Prepare a monthly statement for each customer whose account is not closed.

A part of the regular routine of bookkeeping is the making of monthly statements to customers. Many business houses insist upon mailing statements to their customers not later than the first day of the month following the month for which the statement was made, i. e., on June 1 a statement, covering transactions for May, must be mailed to each and every customer whose account has not been paid in full. Various plans have been devised for preparing these statements as the business for the month proceeds.

In the outfit of forms is a pad of statement blanks. For a model statement turn to page 22. Have each statement approved by the teacher.

Many bookkeepers, to be certain that the statements of account are correct as mailed to customers, total the balances of the statements, and this total should agree with the total of the customers' accounts receivable on the same date.

SET IV CONTINUED

MEMORANDA OF TRANSACTIONS FOR JUNE

June 1. Received bill from the Excelsior Piano Co., dated May 28, for $1354.75; terms 2/10, n/30.

1. Gave check to Wilson & Co. for rent for June, $125.00.

2. Paid, by check, the note due today in favor of Maynard Sales Co.; amount of note $500.00, interest $2.50.

Write the check for $502.50. Take the note from the file and have it receipted by the teacher for the Maynard Sales Co., after which it should be filed in the office safe. Notes, when paid, should be filed for future reference. It is not considered good practice to destroy them immediately after payment.

June 4. Paid Piano Products Co. bill of May 5; check $1223.77, discount $24.98.
5. Sold Loewe Theatre Co., City, 5 Watkins Pianos @ $330.00; terms 2/10, n/30, and accepted in part payment 5 old pianos @ $50.00 each.

(Do not use the price lists for this sale.) Enter the sale as usual, then make an entry in the journal charging, Purchases account, and crediting Loewe Theatre Co. for the used pianos.

June 6. Paid, by check, the freight on four of the pianos, sold to Loewe Theatre Co., which were to be delivered f. o. b. to different theatres of the Loewe circuit, by Watkins; amount of the freight $34.86.

Make the check payable to a local railroad company.

This kind of a transaction is common in business as one theatre company may own and operate several theatres, or one hotel company, several hotels, etc. In such cases, most of the buying is done at the main office, frequently, by a purchasing agent.

June 7. Gave check for the freight on pianos received from the Excelsior Piano Co., $63.28. Billed May 28.

Make this check payable to a local railroad company.

June 8. Gave the Lane Furniture Co. a check for repairing a defective bench bought of the Michigan Bench Co. Charge the Michigan Bench Co. for the amount, $2.75, as they have authorized the repairs.

This kind of a transaction is not unusual in many lines of business, and rather common in the sale of furniture, machinery, automobiles, etc.

June 9. Received check from the Arlington Hotel for balance due.
9. Received check from E. R. Simmons for $100.00, to apply on account.

Deposit the checks received today.

June 11. Received bill from the Michigan Bench Co., dated June 7, for $216.25; terms 2/10, n/30.
12. Gave check to the Evening News for advertising, $42.75.
13. Paid the following expenses by checks: Edison Light & Power Co., $14.18; City Gas Co., $5.25; Bell Telephone Co., $8.55; C. F. Nagle, Postmaster, for stamps, $10.00; Union Towel Supply Co., $3.00.
14. Sold Solvay Process Co., 849 Solvay Building, 1 Watkins Player Piano @ $650.00, 1 Watkins Piano @ $330.00, 1 Bench @ $12.00; terms of sale 2/10, n/30. Took in exchange one used piano and allowed them $75.00 for it.
15. Paid salaries by checks as follows: S. N. Monroe, salesman, $75.00; (yourself), bookkeeper, $60.00; Roy Thomas, truck driver, $50.00.
15. Received from Loewe Theatre Co., cash $1367.00, discount $33.00.
16. Paid Excelsior Piano Co. for bill of May 18, check $1128.22, discount $23.03.
18. Sold Hovey Candy Co., 18 Main St., 1 Watkins Player Piano @ $675.00, 1 Bench $10.00; terms $300.00 cash and note for the balance, at 60 days, 6%.

Deposit all checks on hand.

June 18. Paid Lane Furniture Co. by check for repairing the used pianos received from Loewe Theatre Co. $106.50. (Charge Purchases account.)

19. Paid The Parker Insurance Agency for fire insurance policy covering stock, $48.60, and automobile insurance, $108.95; both policies were dated May 1, amount of check $157.55.

20. Received check from B. M. Anderson, $50.00.

21. Sold J. B. Marks, 1236 Forest Ave., 1 Steck Piano @ $135.00, 1 Bench @ $15.00; terms $50 cash and $10 per month until paid.

(This was one of the used pianos.)

June 22. Received cash from Strand Theatre Co. in full of account.

Deposit all checks on hand.

June 23. Received bill from Piano Products Co. for $1824.75, dated June 18; terms 2/10, n/30.

25. Sold F. W. Brooks, 3125 Woodlawn Ave., 1 Watkins Player Piano @ $675.00, 1 Bench @ $15.00; terms $250 cash, note at 90 days, 6% for the balance.

25. There was an error of $10 in the amount of the bill sent to J. B. Marks. The piano should have been billed for $125.00 instead of $135.00. Make the proper correcting entry.

26. Paid expense bills of salesman, $21.85, for an out of town trip. Make the check payable to S. N. Monroe.

27. Sold F. H. Dodd, for cash, 1 Steck piano and 1 bench, $135.00.

Treat this cash sale the same as you did the cash sale on May 28.

June 27. Received check for $15.00 from Wilkins Office Supply Co. for use of truck.

Deposit all checks on hand.

June 28. Paid Standard Garage for gasoline and oil $28.64; Wilkins Office Supply Co. for stationery, $15.75; McLen Printing Co. for printing, $11.80.

28. Gave W. H. Watkins check for $250.00.

29. Gave check to The Parker Insurance Agency for W. H. Watkins' life insurance premium, $83.78.

30. Paid salaries, by checks, as follows: S. N. Monroe, salesman, $75.00; (yourself), bookkeeper, $60.00; Roy Thomas, truck driver, $50.00.

30. Make entry for salary allowance of W. H. Watkins.
Merchandise Inventory June 30, $4738.50.

PROGRAM FOR CLOSING

1. Post and take a trial balance.
2. Close and rule the special books of original entry.
3. Compare each of the notes receivable in the office safe and their total with the postings to the Notes Receivable account and its balance as shown by the ledger for the month of June. (They should agree.)

4. Reconcile the balance of the cash book with the balance shown by the bank statement on June 30, and record the reconciliation in the cash book.

In making the reconciliation remember there were certain outstanding checks on May 31.

5. Make monthly statements to customers.

6. Prepare a Trading and Profit and Loss Statement.

It is advisable to use journal paper with three amount columns, but, in case such paper is not obtainable, rule a third column immediately to the left of the first amount column of the regular two-column journal paper. This paper will then suffice for both the Trading and Profit and Loss Statement, and the Balance Sheet.

Because of the introduction of the accounts affecting Purchases and Sales accounts, it is necessary also to introduce a new section for the Profit and Loss Statement, known as the Trading Statement, or trading section of the Trading and Profit and Loss Statement. The form for this statement follows. Study it.

TRADING STATEMENT

Gross Sales		****.**	
Less: Discount on Sales	**.**		
Sales Rebates & Allowances	**.**		
Freight-Out	**.**		
Total deductions		***.**	
Net Sales			****.**
Mdse. Inventory May 1	****.**		
Purchases	****.**		
Add: Freight-In	***.**		
Gross Purchases		*****.**	
Less: Discount on Purchases		**.**	
Net Purchases		*****.**	
Less: Inventory June 30		****.**	
Cost of Goods Sold			****.**
Gross Profit			****.**

After determining the gross profit, proceed as in former statements except with Selling Expense and Insurance accounts which, owing to the deferred charges they contain, are handled as follows:

On May 9 a bill for advertising on bill boards was paid 6 months in advance and the whole amount was charged to Selling Expense account, whereas on June 30 two months' advertising (1/3 of the whole amount) had actually expired. Therefore, there were four months' advertising paid for, and W. H. Watkins is still entitled to four months' service which amounts to $200.00. This amount should be "carried over" and charged in the next fiscal period. Therefore, the amount of the Selling Expense account chargeable to the present fiscal period is the balance of the account minus the **deferred charge,** and it should be placed on the Profit and Loss Statement immediately following the "General Expense" item.

The amounts charged on June 19 to the Insurance account were for payments of premium for one year in advance from May 1. On June 30 only two months' time, (1/6 of one year) has expired, and this proportionate amount of premium is an actual expense chargeable to the present fiscal period. The remainder of the Insurance account should be "carried over" as a **deferred charge** and charged to expense in the following fiscal period. Therefore, one sixth of the amount of the present Insurance account should appear in the Profit and Loss Statement immediately following the "Selling Expense" item.

By footing the amounts of these three items the total expense for the present fiscal period may be obtained.

7. Prepare a Balance Sheet.

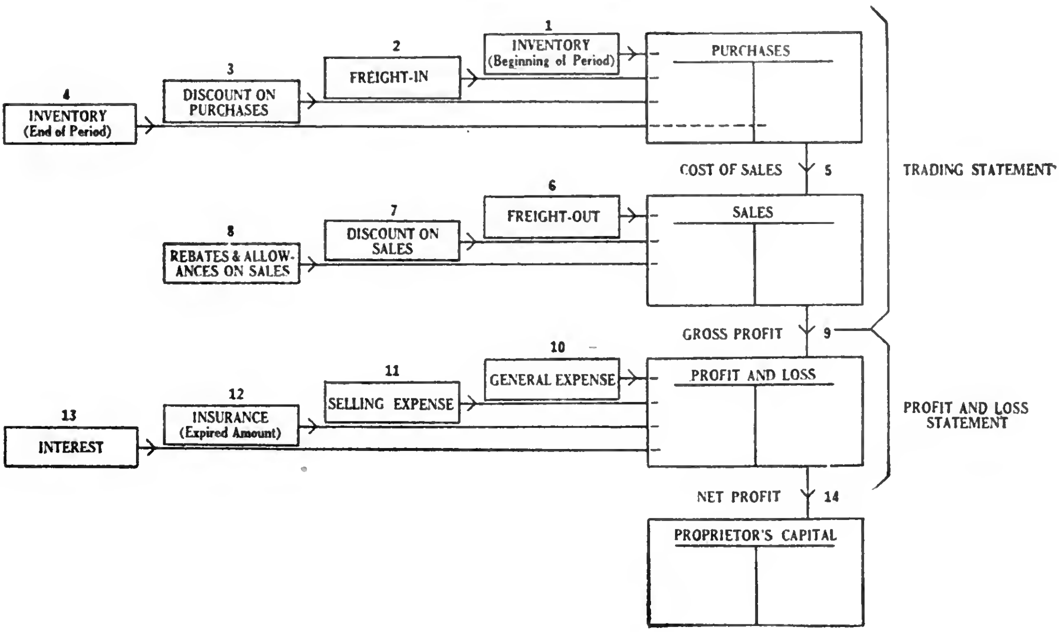
In the preparation of the Balance Sheet four new accounts will be used: Office Equipment, Delivery Equipment, Selling Expense, and Insurance, the two latter accounts composing Deferred Charges.

These accounts should appear on the Balance Sheet, in the order named, immediately following the "Mdse Inventory 6/30" item as follows:

Office Equipment		**.**
Delivery Equipment		***.**
Deferred Charges		
Selling Expense	***.**	
Insurance	***.**	****.**

8. Make the necessary closing journal entries and post them.

CLOSING DIAGRAM



There are now two classes of accounts affected by closing journal entries: those accounts composing the trading section of the Trading and Profit and Loss Statement, and the accounts closed into the Profit & Loss account.

First, close into the Sales account all those accounts which are used in the Trading Statement to obtain **net sales.**

Second, close into the Purchases account all those accounts, which are used in the Trading Statement to obtain **net purchases.**

Third, proceed in the usual manner to close the accounts showing profits, losses, etc., including the amounts shown on the Trading and Profit and Loss Statement as Selling Expense and Insurance.

9. Rule the ledger.

Proceed in the usual way to rule the accounts affected by the closing entries. However, two new accounts will be encountered: Selling Expense, and Insurance.

After posting the closing journal entries made for this set, the Selling Expense account balance should show only the amount of the deferred charge, or the amount "carried over". The same is true in regard to the Insurance account. Therefore, these two accounts are simply **balanced, ruled** and the **balances brought down,** which begins them anew for the next fiscal period, showing the amount of the deferred charge in each account as the first debit item.

10. Take a trial balance after closing.

Compare this trial balance with the Balance Sheet.

EXERCISE LXVIII

Analyze the General Expense account for May and June.

For this purpose it is advisable to use journal paper, or rule some kind of paper with four columns. Head the columns according to the expense groups given on page 99. Then show the amount of expense under each heading and compare the amount under each heading for May and for June. The totals of the two sheets should agree with the amount of the General Expense account on June 30.

EXERCISE LXIX

Analyze the Selling Expense account for May and June.

Rule four columns the same as for the analysis of the General Expense account, but head the columns according to the Selling Expense group given on page 99. Compare the amount under each heading for May and June. The totals of the two sheets should agree with the amount of the Selling Expense account on June 30, according to the Trading, Profit and Loss Statement.

EXERCISE LXX

Take from the outfit, Test Ledger No. 2, and proceed as follows with it: 1. Take a trial balance; 2. Prepare a Trading and Profit and Loss Statement; 3. Prepare a Balance Sheet; 4. Make the necessary closing journal entries, post them, close the ledger and rule the necessary accounts.

The Merchandise Inventory on June 30 was $9138.42; there was advertising, paid in advance, which amounted to $150.00. One twelfth of the amount of the Insurance account should be charged off. (1/12 equals the expired premium for the month of June.)

SUPPLEMENTARY EXERCISES

The following exercises are given that they may be made an important part of the course. Each exercise represents a thought problem, or presents a form or device with which the student should be familiar.

These exercises may be postponed to the end of a semester or they may be interspersed with the work of the sets. If the latter plan is used, care should be taken that an exercise, assigned to the class, contains only the principles with which the students are familiar.

Accuracy, rapidity and neatness should be emphasized in this work the same as in the sets—these are the prime requisites of a bookkeeper or office clerk.

The solution of each exercise should require from 15 minutes to 40 minutes.

EXERCISE LXXI

The trading accounts on the ledger of the Dahl-Milligan Co. for the three months ended June 30 show the following balances: Sales $75,683.14, Discount on Sales $837.40, Sales Rebates and Allowances $1418.72, Freight-Out $437.63, Inventory Apr. 1 $21,647.18, Purchases $70,496.35, Freight-In $597.78, Discount on Purchases $1321.92, Inventory June 30 $28,682.94.

Prepare a Trading Statement showing the gross profit from sales.

EXERCISE LXXII

The profit and loss accounts on the ledger of the Dahl-Milligan Co. for the three months ended June 30, show the following balances: Gross Profit $———— (from the previous exercise), General Expense $3282.77, Selling Expense $4172.93, Insurance $1282.64. The deferred charges are as follows: Selling Expense account $650.00, Insurance account $961.98.

Prepare a Profit and Loss Statement showing the net profit for the three months.

EXERCISE LXXIII

As an additional study of the use of the journal and ledger the following exercise will be found beneficial.

The accounts in skeleton ledger form may be placed on a blackboard, or each student may copy them on a piece of paper large enough to contain all the accounts.

Determine orally the entry for each transaction, then place the results of each entry in the proper account. Note the change in each account particularly as to whether the entry causes the balance of both accounts to increase or diminish, or one to diminish and the other to increase.

Cash	2000	
James Brown	200	
John Black	300	
Henry James		400
J. Phelps, Proprietor		2100
Sales		
Purchases		
Expense		

1. James Brown paid $100 on account.
2. Paid rent for one month, $50.
3. Bought of Henry James, on account, goods amounting to $250.
4. Sold to James Brown, on account, for $325 all the goods that have been purchased.
5. Paid Henry James $500 on account.
6. Received from John Black $300 on account.
7. James Phelps, proprietor, withdrew $100.
8. Paid for advertising $5.00.
9. J. Phelps, proprietor, invested cash, $300.

EXERCISE LXXIV

Take a trial balance from the ledger contained in Exercise LXXIII after the entries are made. Prepare a Profit and Loss Statement and a Balance Sheet.

EXERCISE LXXV

Arrange a trial balance from the following accounts, supply the amounts and observe that each account shows the balance on the proper side of the trial balance: Cash, Accounts Receivable, Notes Receivable, Accounts Payable, Proprietor's Capital, Sales, Purchases, General Expense, Interest.

EXERCISE LXXVI

Arrange a trial balance from the following accounts, supply the amounts and observe that each account shows the balance on the proper side of the trial balance: Cash, Accounts Receivable, Notes Receivable, Accounts Payable, Notes Payable, Proprietor's Capital, Sales, Purchases, General Expense, Selling Expense, Discount on Sales, Discount on Purchases, Freight-In, Freight-Out, Interest, Rebates and Allowances on Sales, Insurance.

EXERCISE LXXVII

Arrange in proper form for a Profit and Loss Statement, the following accounts: Sales, Inventory (at beginning of the period), Purchases, Inventory (at close of period), General Expense.

EXERCISE LXXVIII

Arrange the following accounts in proper form for a Balance Sheet: Cash, Accounts Receivable, Accounts Payable and Proprietor's Capital.

EXERCISE LXXIX

On June 30, by analyzing the General Expense account, it was found to contain an amount of $150 that should have been charged to Selling Expense. Make the proper correcting entry for this error. If this error had not been corrected, how would it have affected the net profit or the net loss on June 30?

EXERCISE LXXX

On May 10 the bookkeeper for Judson & Co. charged an amount of $210.00 to Office Equipment account, which should have been charged to General Expense account. Make an entry correcting the error.

State in writing what effect this erroneous entry would have had upon the Profit and Loss Statement and the Balance Sheet on June 30, if not corrected.

EXERCISE LXXXI

Below is a trial balance taken from the books of B. F. Williams, on May 31, 19—.

	Trial Balance May 31		Journal Entries		Trial Balance June 30	
Cash	1319.74					
Accounts Receivable	3682.94					
Notes Receivable	800.00					
Mdse. Inventory	6352.76					
Accounts Payable		2183.96				
B. F. Williams, Prop.		9640.84				
Sales		8474.61				
Purchases	7392.47					
General Expense	755.18					
Interest		3.68				
	20303.09	20303.09				

During the month of June the following transactions were made:

Sales on account $4264.12, purchases of merchandise on account $3889.74, cash received from customers on account $5,297.38, cash paid to creditors on account $3211.86, cash received on notes $500.00, cash received for interest $2.72, cash paid for items charged to general expense $218.64, notes received from customers $250.00, B. F. Williams, proprietor, withdrew cash $500.00.

Rule paper to provide six columns and head the columns to correspond with the headings shown in the illustration for this particular exercise. Make the necessary journal entries on a separate sheet of journal paper to record the transactions enumerated; post the entries to the proper columns and take a trial balance as of June 30.

EXERCISE LXXXII

The following Balance Sheet (in trial balance form) shows the financial condition of Hunter & Hunter on Sep. 30, 19—. They have been operating a cash business and have decided to discontinue it and dissolve partnership.

	Trial Balance Sep. 30		Journal Entries		Trial Balance	
Cash	3218.64					
Mdse. Inventory	3968.42					
Office Equipment	483.62					
Delivery Equipment	1283.46					
Accounts Payable		846.12				
H. B. Hunter, Partner		4036.18				
J. F. Hunter, Partner		4071.84				
	8954.14	8954.14				

During October they sold all property for cash as follows: Merchandise inventory $2657.75, office equipment $200.00, delivery equipment $750.00; they also paid all accounts which they owed on Sept. 30.

The difference between the sale price of the property and the value at which it was carried on the books was charged to profit and loss. Under the partnership agreement all losses and gains were to be divided equally.

Record the transactions, post, take a trial balance, make statements showing the loss from dissolution and also showing the amount of cash taken by each partner.

EXERCISE LXXXIII

This work may be done on a blackboard or as a desk exercise.

Sales		Purchases		Inventory	
	1250.00	1183.00		937.00	

General Expense		Profit and Loss		J. B. Hanly, Prop.	
115.00				1000.00	

The inventory of merchandise at the time of closing amounted to $1015.00.

Make, mentally, the necessary closing journal entries and write the results of the different journal entries into the accounts, and after closing the accounts, rule them.

EXERCISE LXXXIV

The capital accounts of J. W. Hall and F. R. Shane, partners, were as follows:

J. W. Hall, Partner		F. R. Shane, Partner	
	6387.42		5892.64

(a) Hall bought Shane's interest in the business for $5892.64, and gave in payment a personal note for $3000.00 and the balance in cash *from* the business.

Make a journal entry for this transaction.

(b) Hall bought Shane's interest in the business for $5892.64 and gave cash in payment for the amount of Shane's investment. The cash with which the payment was made was not taken from the business, but from Hall's personal funds outside the business.

EXERCISE LXXXV

Make entries for the following:

Dec. 14. The office safe was broken open the previous night and all cash, amounting to $237.83, was taken.
Feb. 17. The store room was entered the previous night and merchandise, which cost $418.75, was taken.
Mar. 20. A counterfeit $10.00 bill is discovered among the cash. It can not be determined from whom it was received.

EXERCISE LXXXVI

J. W. Beech began business with the following assets and liabilities for which proper opening entries should be made: Assets; Cash $1150.00, Notes Receivable $1758.50, Accounts Receivable $2120.50, Mdse. Inventory $1865.00, Store Equipment $1380.00. Liabilities; Notes Payable $500.00, Accounts Payable $935.00.

EXERCISE LXXXVII

R. B. Downey and W. T. Grant began business on Sept. 1. Each partner contributed to the firm the following assets and liabilities: R. B. Downey invested; Cash $2500.00, Accounts Receivable $2250.00, Mdse. Inventory $2025.00, Store Equipment $1275.00. Downey's liabilities consisted of Accounts Payable, $940.00.

W. T. Grant invested; Cash $1150.00, Notes Receivable $450.00, Accounts Receivable $2850.00, Mdse. Inventory $2670.00, Store Equipment $1450.00. Grant's liabilities were as follows: Notes Payable $750.00, Accounts Payable $1050.20.

Make proper opening entries for the respective investments by the partners.

EXERCISE LXXXVIII

James Hadley owns a business and on Dec. 31 a Balance Sheet of his business showed the following: Cash on hand $2150.00, Notes Receivable $1500.00, Accounts Receivable $3285.50, Inventory of Merchandise $4750.50, Store Equipment $940.00, Delivery Equipment $1175.00, Accounts Payable $1275.00.

Thomas McNeal owns a business and on Dec. 31 a Balance Sheet of his business showed the following: Cash on hand $4620.00, Notes Receivable $2500.00, Accounts Receivable $8420.00, Inventory of Merchandise $7290.00, Store Equipment $2150.00, Delivery Equipment $1950.00, Notes Payable $500.00, Accounts Payable $1020.00.

Hadley and McNeal are going to combine their respective businesses and the firm name will be Hadley, McNeal & Co.; also, they are going to open other places of business and will need additional capital which they are to supply as follows: McNeal is to add cash sufficient to bring his investment to $30,000.00; Hadley is to transfer to the partnership Liberty Bonds valued at par at $5000.00 and is to pay in cash sufficient to increase his total investment to $20,000.00.

Prepare a Balance Sheet for Hadley and one for McNeal after they have made the necessary additional investments.

EXERCISE LXXXIX

Prepare opening entries to record the investments of the partners in the firm of Hadley, McNeal & Co. in Exercise LXXXVIII. Post the opening entries and take a trial balance after which prepare a Balance Sheet for the partnership.

EXERCISE XC

George Peters and Samuel White are partners and according to their partnership agreement they are to divide profits and losses according to their investments which are respectively 2/3 and 1/3.

A Balance Sheet of their business on June 30 showed the following: Cash $2120.00, Notes Receivable $650.00, Accounts Receivable $3850.00, Inventory of Merchandise $4260.00, Office Equipment $635.00, Store Equipment $1682.50, Delivery Equipment $1875.50, Notes Payable $1000.00, Accounts Payable $1380.00.

Their books had been poorly kept and no trial balance had been obtained after June 30, and much information which would be necessary to obtain a trial balance had been omitted from the books. On Dec. 31, following, all the property was inventoried and the personal accounts and cash were verified; likewise, the notes receivable and the notes payable. The results of this work were as follows: Cash $1850.00, Notes Receivable $1000.00, Accounts Receivable $5235.00, Inventory of Merchandise $3975.00, Office Equipment $575.00, Store Equipment $1825.00, Delivery Equipment $1875.50, Notes Payable $500, Accounts Payable $1450.50.

Prepare a Comparative Balance Sheet and from the increases and the decreases in the various accounts, determine the net profit or the net loss for the period. Apportion the net loss or the net profit to the proprietors.

PROBLEMS BASED UPON TRADING AND PROFIT AND LOSS STATEMENT

Fowler & Jackson

Trading and Profit and Loss Statement
For the year ended December 31, 19—.

Sales		$75,000.00
Mdse. Inventory Jan. 1	$ 4,300.00	
Purchases	56,000.00	
Freight-In	890.00	
Total Purchases	$61,190.00	
Mdse. Inventory Dec. 31	4,800.00	
Cost of Goods Sold		$56,390.00
Gross Profit		$18,610.00
Rent	$ 2,250.00	
Salaries	6,000.00	
Advertising	525.00	
Heat and Light	375.00	
Delivery	1,500.00	
Supplies twine, paper, bags, etc.	225.00	
Insurance and Taxes	300.00	
Miscellaneous	225.00	
Depreciation	450.00	
Bad Debts	225.00	
Total Expenses		$12,075.00
Net Profit		$ 6,535.00

1. Fowler & Jackson buy a certain article at $21.00 per dozen. For how much should one of these articles be sold in order to cover all expenses and maintain the ratio of net profit which is shown by their Trading and Profit and Loss Statement?

2. They are about to become agents for an article which is produced by the Star Manufacturing Co. That company desires to maintain a uniform price for its products; therefore, it requires all dealers to sign a contract which fixes both a dealer's cost price and selling price of the article. These prices are as follows: Cost per dozen, $42.60; selling price per article, $4.25. Will these prices allow a margin for expenses and profit that corresponds to the present margin of the business?

3. Assume that Fowler & Jackson were permitted to sell the article at $4.75 each; would this allow them a sufficient margin upon which they could maintain their present ratio of net profit?

4. The inventories of Fowler & Jackson show an average value of $4550.00. How many times during the year have they "turned" the capital that is invested in merchandise?

5. What per cent of the sales is used to meet each kind of expense?

6. The total investment in the business is $15,000.00. The net profit for the year is what per cent of the total investment?

7. What per cent is added, by freight-in, to the invoice cost of the goods?

8. Fowler & Jackson are equipped to handle a larger volume of business than they did during the past year, without materially increasing their expenses. They estimate that their sales should be $90,000.00 during the coming year and that the ratio of gross profit to sales should remain the same as this year. They also estimate an increase of 5% in the total expenses during the year. Prepare a statement which will show the estimated gross profit, total expenses, and net profit.

9. Arrange all expenses in two groups, viz., General Expenses and Selling Expense, and show what per-cent of the gross profit is absorbed by each class of expense.

10. What per cent of the sales is each class of expense?

11. Fowler & Jackson buy a certain article which costs them $8.34 per gross, including freight. How much should be added to the cost of one of these articles in order to cover expenses? How much should be added to the cost in order to cover expenses and maintain the present rate of profit?

PART III.

BUSINESS ANALYSIS AND ACCOUNTING DEVICES

A STUDY OF THE BALANCE SHEET

HOW TO CLASSIFY ASSETS AND LIABILITIES

Assets may be divided into four general classes, namely, current, fixed, accrued, and deferred.

Current Assets are those which represent investments of capital that mature in a short time, that is, those assets which may be converted readily into cash, and which, for this reason, are available for the payment of current liabilities.

These assets include cash on hand, deposits of cash, notes receivable, inventory of merchandise, and accounts receivable; they are sometimes called liquid or quick assets. In a mercantile business this class of assets constitutes the working capital of the business.

Fixed Assets are those which represent investments of capital that are more permanent in their nature than the current assets. Fixed assets generally include the following: land and buildings, delivery equipment, office equipment, etc. In this same class are investments outside the business, such as liberty bonds and the stocks and bonds of corporations. This group of assets is sometimes referred to as permanent assets.

Accrued Assets, or non-ledger assets as they are sometimes called, include accumulations of interest on notes and accounts receivable, on liberty bonds and on other similar investments, accumulations of rent, etc. The value of a note or bond changes each day because of the accumulation of interest on it. Since it would be impractical to make an entry or entries each day to "take up," on the books, this accumulation, it is the custom to do it periodically, generally at the end of a fiscal period.

Some accountants consider accrued assets as a part of the current assets, and place them on the Balance Sheet as a part of the current assets. If this be done, the Balance Sheet will then show three groups of assets instead of four groups.

Deferred Assets, or deferred charges to expense, may be defined as expenditures of capital for items of expense that are not applicable to the fiscal period in which such charges originate; hence, they are deferred, or "carried over" to a future fiscal period. Prominent among such charges are the following items: taxes, insurance, rent, advertising, etc.

Liabilities also may be divided into four general classes, namely, current, fixed, accrued, and deferred.

Current Liabilities include all debts that become due in comparatively short periods of time, such as notes payable, accounts payable, unpaid wages, etc. In other words, these liabilities represent the debts that must be paid out of current funds, or funds realized from the current assets. Therefore, to meet these constantly maturing obligations, the business man must see that too much of the capital of the business does not become "tied up" in permanent investments.

Fixed Liabilities, sometimes called permanent liabilities, may be defined as those liabilities which mature at a fixed time, usually a number of years in the future. Mortgages payable and bonds payable are examples of this class of liabilities. They are also known as capital liabilities.

Accrued Liabilities include the accumulations from day to day of wages, taxes, rents, interest accrued on notes and accounts payable, etc., that cannot readily be "taken up" on the books except at certain intervals; but in order to show the correct financial condition of the business, these things must be considered. Thus, if it is desired to prepare a Balance Sheet as at December 31, it is necessary to determine the amount of the debts, if any, that have accrued to this date, but that do not show on the ledger.

For example: Employees may be paid each week; but if the end of the week does not coincide with the end of the month, there will be an accruement of wages at the end of the month. Therefore, this accumulation of wages must be "taken up" if the correct financial condition is to be shown by the Balance Sheet.

These liabilities may be included in the Balance Sheet with the current liabilities, or they may be considered as a separate class of liabilities. However, if the accrued liabilities are placed among the current liabilities, it is advisable to give them a special heading so that they may be distinguished from the other current liabilities.

Deferred Liabilities, or deferred credits to income, constitute the last group of liabilities on the Balance Sheet. This class is composed of credits to income, during a fiscal period, for which full value has not been given during the period. For example: If a business should sub-let a part of a building and the tenant should pay rent on December 1 for three months in advance, the two months' rent which is unexpired on December 31 would be a deferred credit to income, since no value has been given for it. A transaction which produces a deferred credit to income on the books of one party to a transaction will produce a deferred charge on the books of the other party.

Deferred credits to income must be considered in the preparation of a Balance Sheet, because, by crediting the full amount to income, the net profit will be too large; and this, in turn, will increase the net capital of the business,—a manifestly incorrect result. Therefore, such unearned income is deferred, or "carried over" to the next fiscal period to which it is applicable. Unearned income assumes considerable importance in the bookkeeping of banks, insurance companies, etc.

ARRANGEMENT OF THE BALANCE SHEET

It has been explained that there are several classes of assets and liabilities. In the preparation of a Balance Sheet these various classes of assets and liabilities might be included without regard to any particular plan,—in fact this is often done. But most business men and accountants prefer some general plan of arrangement. The plan followed in this textbook is that of arranging the different classes of assets according to their availability for the payment of debts.

Thus, the current assets are placed first, the permanent or fixed assets second, and the prepaid or deferred assets third. The accrued assets may be included with the current assets, or they may be considered as a separate class. If, however, they are considered as a separate class of assets, they should constitute the second group, thus causing the fixed or permanent assets to become the third group, and the prepaid or deferred assets, the fourth group.

The liabilities should be arranged in a similar order: first, the current liabilities; second, the fixed or permanent liabilities; third, the deferred credits to income. Accrued liabilities may be included with the current liabilities or they may be considered as a separate class of liabilities. If they are considered as a separate class, they should constitute the second group of liabilities, thus causing the fixed or permanent liabilities to become the third group, and the deferred credits to income to become the fourth.

With the liabilities, though not itself a liability, should be placed the net capital of the proprietor or proprietors. This represents the proprietary interest in the business.

AVAILABILITY OF ASSETS FOR PAYMENT OF DEBTS

Thus, it will be seen that under this plan of arrangement the current assets may be compared instantly with the current liabilities, as these two groups are, for many purposes, the most important on the Balance Sheet.

Cash is the first asset required for the payment of debts. If the cash balance is low, the notes receivable may be discounted at a bank and additional cash acquired; or if there are no notes receivable, the accounts receivable may be sold to obtain cash.

Accrued assets may in time supply a certain amount of cash; but, in the ordinary business, these assets are almost negligible as a source of cash. The fixed assets of a going business cannot be utilized in meeting current obligations, except by making them the basis of a loan. This is seldom done, and only in extreme cases; because, if it should become necessary to sell the fixed assets to meet the loan which they secure, the business could not, in most instances, be continued to advantage and would, consequently, be forced into liquidation. Therefore, in a going business, it is necessary that sufficient current assets be maintained to meet current liabilities.

In liquidation, the fixed assets of a business usually undergo tremendous shrinkage. They can be sold only as used or second-hand articles, for which buyers are not anxious to pay more than a small per cent of the book value,—the value at which they are carried on the books of the business.

Deferred assets have but little value in liquidation, though accrued assets may have about the same value in liquidation that they would have in a going concern.

It is clear, therefore, that if a loan is made or credit is extended, the creditor must have in mind not only the value of the assets as in a going business but also the value of the assets as in a business which is being liquidated. If he does not do so, he may have cause for grief.

The current assets of a business are frequently spoken of as the working capital. This simply means that the current assets measures the volume of capital that remains liquid in the business and therefore available for conducting the operations of the business. Or, in other words, it is the amount of capital with which the business must be conducted.

FORMS OF BALANCE SHEET

The form of Balance Sheet previously used in this textbook is commonly known as the report form while the Balance Sheet following is in the account form. It will be observed that either form must contain the same information and in this respect there can be no difference. It is probable that the report form is the more popular, and, since it is more easily placed on ordinary journal paper the student would do well in adapting himself to this form for all his work unless instructed otherwise.

Study the following account form of a Balance Sheet.

William Harper

Balance Sheet Dec. 31, 19—.

Assets			*Liabilities and Capital*		
Current			*Current*		
Cash	$2000.00		Notes Payable	$2000.00	
Notes Receivable	1500.00		Accounts Payable	1000.00	$3000.00
Accounts Receivable	2500.00				
Mdse. Inventory	3000.00	$9000.00	*Capital*		
			Net Capital—		
Fixed			William Harper		$7000.00
Office Equipment	$ 500.00				
Delivery Equipment	500.00	$1000.00			
		$10,000.00			$10,000.00

This Balance Sheet was prepared from the accounts shown by the ledger and was correct according to the ledger.

But, it was discovered that there were certain assets and liabilities that the ledger did not show. They were as follows: Assets; accrued interest on notes receivable $20.00, accrued interest on the bank balance $30.00, insurance premiums paid in advance $100.00, and prepaid advertising $50.00. Liabilities; interest accrued on notes payable $25.00 and there had been omitted from the accounts payable, certain bills which had not been received from creditors on December 31, but the goods represented by these bills had been received and had been included in the inventory of merchandise on December 31. The amount of these bills was $1000.00.

EXERCISE I

Prepare a Balance Sheet in the account form and include all assets and liabilities that had been omitted from the previous Balance Sheet. Use the form which follows:

William Harper

Balance Sheet Dec. 31, 19—.

Assets			*Liabilities and Capital*		
Current			*Current*		
Cash	***.**		Notes Payable	***.**	
Notes Receivable	***.**		Accounts Payable	***.**	
Accounts Receivable	***.**		Accrued Interest	***.**	***.**
Mdse. Inventory	***.**		*Capital*		
Accrued Interest	***.**	***.**	Net Capital—William Harper		***.**
Fixed					
Office Equipment	***.**				
Delivery Equipment	***.**	***.**			
Deferred Charges					
Insurance	***.**				
Advertising	***.**	***.**			
		***.**			***.**

QUESTIONS ON WILLIAM HARPER'S BALANCE SHEET

1. By what amount was the total assets of the business increased by including the accrued and prepaid assets?

2. By what amount was the total liabilities of the business increased by including the accrued liabilities and the liabilities for goods received for which no bills had been received?

3. What was the net increase or the net decrease in the capital of William Harper?

4. Should property, only partially paid for, be included among the assets without including the unpaid amount among the liabilities? Why?

5. If accrued assets and accrued liabilities are omitted from the Balance Sheet, will it show the correct financial condition of the business?

6. What value would the two items of deferred charges have for conversion into cash with which to pay the debts of the business?

7. Suppose you were trying to prepare a Balance Sheet and there were some accounts with such indefinite titles that you would not know whether they represented assets or expenses. How would you determine which they were?

HOW A BALANCE SHEET IS USED AS AN AID IN FINANCING

Frequently a business man may find it necessary to borrow money with which to pay his current obligations, even though his current assets may exceed his current liabilities. Such a situation is generally due to a temporary shortage of cash. By creating other liabilities which will mature at a later date and exchanging these for cash, he is thus enabled to pay his current liabilities. This gives him time to convert his receivables into cash with which to meet the newly created liabilities.

This means of financing is quite commonly employed for maintaining good credit relations and also for taking advantage of discounts available on purchases of merchandise or raw materials.

In case it becomes necessary to seek a loan, a business man may call on his bank or banks with which he has money on deposit, or he may call on friends for financial aid. It makes no difference from whom he may wish to secure the loan, a Balance Sheet properly prepared will aid him greatly in explaining his financial affairs.

Study the following Balance Sheet:

James Wilcox

Balance Sheet June 30, 19—.

Assets			*Liabilities and Capital*		
Current			*Current*		
Cash	$ 200.00		Notes Payable	$1500.00	
Notes Receivable	3500.00		Accounts Payable	2250.00	
Accounts Receivable	9500.00		Accrued Accounts	250.00	$ 4000.00
Mdse. Inventory	8800.00		*Capital*		
Accrued Accounts	200.00	$22200.00	Net Capital—James Wilcox		$21600.00
Fixed					
Office Equipment	$ 750.00				
Delivery Equipment	2250.00	$ 3000.00			
Deferred Charges		$ 400.00			
		$25600.00			$25600.00

An examination of the individual accounts composing accounts payable shows that they will all mature within the next 20 days. An examination of the individual notes and accounts receivable shows that, according to past experience, about $1000.00 may be received from that source within the next 20 days, but that upwards of $3000.00 may be expected within 60 days. Wilcox has decided to ask his bank to loan him $1500.00 for 60 days, since the notes already outstanding fall due at a later date,—one for $1000.00 matures in 90 days, and one for $500.00 matures in 4 months. The cash now on hand may be needed for current expenses.

EXERCISE II

Prepare a Balance Sheet showing the effect of the loan which has been granted by the bank.

When a business man is seeking credit from concerns from which he desires to make purchases of goods, it is customary for him to furnish them with information concerning his financial standing, if they are not already familiar with it. Or, he may be asked to give this information to certain credit agencies such as Dun or Bradstreet's.

It cannot always be decided from the Balance Sheet alone whether the business is worthy of credit or not. Many things not appearing on the Balance Sheet must be taken into consideration, as will be shown in a following exercise.

NOTE.—Attention is called to the fact that the expressions "business," "a business" or "the business" is often used instead of the word "proprietor" or the name of the proprietor. In fact, it is important for bookkeeping and for other purposes to distinguish between the proprietor and the business. It is only in rare instances that the Balance Sheet of a business will show the same results that a Balance Sheet or Statement of Assets and Liabilities will show for the proprietor or proprietors of that business. In other words, A may be engaged in the wholesale hardware business and may have an excellent system of keeping his books. The books may show his net worth in the business to be $25,000.00, and yet may not reveal the ownership of any property outside the business, while at the same time he may own $10,000 worth of property of various kinds, not recorded by the books of the business nor used as a part of the capital of his business.

Study the two Balance Sheets following, first, by reading the questions carefully to be sure you understand them, second, by assuming that you were trying to decide upon extending credit to both men. You will notice that (upon their faces) these Balance Sheets are very much alike.

James Hays
Balance Sheet Dec. 31, 19—

Cash	$3000.00	
Notes Receivable	500.00	
Accounts Receivable	2500.00	
Mdse. Inventory	1500.00	
Total Current Assets		$7500.00
Notes Payable	$1000.00	
Accounts Payable	1500.00	
Total Current Liabilities		$2500.00
Net Capital—James Hays		$5000.00

William Duffy
Balance Sheet Dec. 31, 19—.

Cash	$ 100.00	
Notes Receivable	3400.00	
Accounts Receivable	1500.00	
Mdse. Inventory	2500.00	
Total Current Assets		$7500.00
Notes Payable	$1000.00	
Accounts Payable	1500.00	
Total Current Liabilities		$2500.00
Net Capital—William Duffy		$5000.00

QUESTIONS ON HAYS'S AND DUFFY'S BALANCE SHEET

1. What is the total capital employed in each business?
2. How much of the capital belongs to Hays? To Duffy? How much to others?
3. Should either Hays or Duffy be allowed to take his own capital before he pays his creditors? Why?

4. Who, then, has first claim upon the capital of the business?

5. Does Hays have sufficient "ready money" to pay his creditors? Does Duffy?

6. Is it necessary for either business to keep sufficient cash on hand to pay all its debts at any given time?

7. If either business did not have cash sufficient to pay its debts, what assets here given could be converted quickly into cash?

8. What is the ratio existing between the total current assets and the total current liabilities of each business?

EXERCISE III

Prepare a new Balance Sheet for Duffy after taking into consideration the following facts:

1. Holland & Co., who owe Duffy $3400.00 on the note receivable, have just gone into bankruptcy, and the note is regarded as worthless.

2. The inventory of merchandise consists almost entirely of old-style, shop-worn goods. It is estimated to be salable at 20% of its inventory value.

After making allowance for the losses on the notes receivable and the inventory, is Duffy able to pay his creditors, all other accounts being considered good at their book values?

EXERCISE IV

Prepare another Balance Sheet for William Duffy from the following facts:

1. It has been determined that he owns the house in which he lives. It is valued at $5000.00 and is free from all encumbrances.

2. He also owns $2000.00 in Liberty Bonds, fully paid.

3. After bringing the value of his residence and his investment in Liberty Bonds into the Balance Sheet, is he able to pay his debts?

4. Would you extend him credit, say, for $500.00 worth of goods?

5. Submit your conclusions in writing and state why you would or would not extend him credit.

EXERCISE V

It has been determined that the notes and accounts receivable of James Hays are all good at their book values. No notes or accounts are past due, and his customers have met their obligations promptly. His stock of merchandise is new, in good condition, and readily salable for, at least, its cost value

1. Outside of the capital employed in his business he owns the house in which he lives. It is worth $3500.00 and is free and clear.

2. He owns an automobile worth $800.00 on which there are no claims.

3. He owns $500.00 in Liberty Bonds, fully paid.

Prepare a Balance Sheet for Hays and include the above facts. Would you extend him credit, say, for $1000.00? Submit your conclusions in writing as to the comparative worthiness of Hays and Duffy for a loan.

Credit relations may be affected by conditions not shown by a Balance Sheet and by property owned outside the business. It sometimes happens that the personal habits or tendencies of the proprietor may affect questions of credit.

Study the following Balance Sheet for the purpose of deciding whether or not credit shall be extended to the business:

J. B. Hoover
Balance Sheet Dec. 31, 19—.

Cash	$1200.00	Notes Payable	$1500.00
Notes Receivable	2400.00	Accounts Payable	2000.00
Accounts Receivable	2200.00	Net Capital—J. B. Hoover	4800.00
Mdse. Inventory	2500.00		
	$8300.00		$8300.00

EXERCISE VI

Prepare a revised Balance Sheet for Hoover after taking into consideration the following facts:

1. He owns the property in which he lives, but there is a mortgage on it for $3500.00. The property is valued at $6000.00. In preparing the revised Balance Sheet treat the mortgage as a liability and the value of the property as an asset. It must be understood that the mortgage is a liability which must be satisfied before other creditors could claim any right to payment out of money arising from the sale of the real estate. The mortgage may be regarded as an illustration of a fixed liability and the real estate as another fixed asset.
2. He owns an automobile, not used in his business, which cost $1500.00, but there are unpaid purchase notes against it to the amount of $1000.00.
3. He owes various stores on book accounts for groceries, provisions, clothing, etc., for family use to the amount of $300.00. These places inform you that he keeps his accounts fairly well paid up.
4. An investigation shows that his accounts receivable are made up as follows: not due and subject to discount $700.00, past due 30 to 90 days $1100.00, past due more than 90 days $300.00, worthless $100.
5. The notes receivable show the following conditions: not due $1400.00, past due but probably worth face value $800.00, worthless $200.00. Many of the notes not due are renewals of former notes, some of which show no payment to apply on the principal, though the interest has been paid and the notes promptly renewed.
6. The stock of goods on hand is new, in good condition and should, at least, sell at cost.
7. It is well known that he is inclined to be extravagant.
8. State in writing if you consider it advisable to make him a loan of $1000.00. Give reasons.

PROFITS NOT ALWAYS CASH

Sometimes a business may have produced profits during a fiscal period, but at the end of the period, when it is desired to "draw out" the profits, there may not be sufficient cash for this purpose. It frequently happens that a business man does not understand accounts and accounting principles sufficiently to know that profits do not always produce cash. He may think that if a business shows $5000.00 in profits, there ought to be $5000.00 in cash to correspond with the volume of profits. This, however, is not always the result; in fact, it seldom is. In most instances, the business is very fortunate if the profits remain liquid, that is, remain in the current assets; much less ought the proprietor to excpet that the cash shall show all the profits.

A business may be prosperous, entirely solvent, and be considered as in good financial condition; yet it may, at times, find itself very much in need of "ready" cash with which to pay current expenses or current bills for merchandise and supplies.

It is difficult to determine, without making a comparison of two or more Balance Sheets for successive periods, just what has become of profits and cash during a particular period. But, the business man frequently wants to know what has happened to his profits and why the cash has all but disappeared.

There are several things, among which are the following, that may lead to a condition of this kind: the terms of sale to customers may be too long; the customers may not be compelled to pay their bills promptly; the stock of goods carried may be too large; there may be too large an investment in fixed assets, etc.

Study the following Comparative Balance Sheet and try to determine what may have caused the present lack of cash with which to meet maturing bills.

J. H. Phillips
Comparative Balance Sheet Dec. 31

	This Year	Last Year	Increase	Decrease
ASSETS				
Current				
Cash	$ 500.00	$ 2500.00		
Notes Receivable	2500.00	1500.00		
Accounts Receivable	8500.00	5500.00		
Mdse. Inventory	12500.00	8000.00		
Fixed				
Office Equipment	2000.00	500.00		
Delivery Equipment	4000.00	1000.00		
	$ 30000.00	$ 19000.00		
LIABILITIES AND CAPITAL				
Current				
Notes Payable	$1500.00	$2500.00		
Accounts Payable	6500.00	1500.00		
Capital				
J. H. Phillips	22000.00	15000.00		
	$30000.00	$ 19000.00		

EXERCISE VII

1. What was the ratio between current assets and current liabilities last year?
2. What was the ratio between current assets and current liabilities this year?
3. The total fixed investment last year was what per cent of the total assets? This year?
4. By what per cent did the total current assets this year increase over the total current assets last year? Fixed assets?
5. Which class of assets is increasing the more rapidly?
6. Phillips says that the prospects for next year's business are unusually good. His notes and accounts receivable are all good, the stock of goods is new and in good condition. He explains the increase in the fixed assets as being demanded by an expanding business. He also says that a loan of $1500.00 for 60 days will carry him over the present difficulty as the majority of his accounts receivable and some of the notes receivable will mature and will be paid within that time. He has a very good reputation among business men. Would you recommend a loan to him? State why fully.

EXERCISE VIII

Mr. Phillips does not understand bookkeeping very well and has some doubts about the amount of his net profit inasmuch as the business has but little cash. Prepare a summary of the increase and decrease of the accounts contained in the Comparative Balance Sheet that will prove the correctness of his net profit.

Arrange the summary in the following form:

Total increase in assets		******.**
Total decrease in assets		******.**
Net increase in assets		******.**
Total increase in liabilities	******.**	
Total decrease in liabilities	******.**	
Net increase in liabilities		******.**
Net profit—(Increase in capital)		******.**

A STUDY OF THE TRADING AND PROFIT AND LOSS STATEMENT

ITS ARRANGEMENT TO CLASSIFY INCOME AND EXPENSES

A business usually has some major source of income; that is, a hardware business generally buys and sells hardware as its principal source of profits; it may have, however, other sources of profits. It may sub-let a portion of its premises; it may sell waste material; it may hire out its delivery equipment for a portion of the time; it may find still other sources of income by engaging in ventures outside its regular channels of trade.

A good system of accounting should classify properly these different sources of income to show whence they are derived.

The Trading Statement which was prepared at the end of Set IV shows the principal accounts that usually affect the purchases and sales of merchandise in a trading or merchandising business. There may be other accounts that affect sales or purchases, depending upon the nature of the business and upon its size. It would be almost impossible to illustrate, either by a set of books or simply as individual accounts, all the different accounts that might be found in a trading business. But certain general principles concerning the preparation of a Trading Statement should be kept in mind.

MAJOR INCOME SHOWN BY TRADING STATEMENT

In a trading business the major income is derived from the purchase and sale of goods. Therefore in the preparation of a Trading Statement, the Sales account and all accounts directly affecting the volume of sales should be so arranged that they will show the net sales for the current period.

The accounts commonly considered as affecting the volume of sales are the following: Rebates and Allowances on Sales, Freight-Out, and Discount on Sales. It may be that these three accounts are not kept, but that the items usually composing them are charged directly to the Sales account. If these charges are handled in this manner, it is easily seen that the Sales account when balanced must show the net sales, and this balance should appear as the first item on the Trading Statement.

Sometimes the manager or the proprietor of the business wants to know not only the volume of net sales but also the volume of gross sales and the amounts which have been deducted from the gross sales. When all this information is desired, separate accounts should be kept for the deductions from sales; but, if separate accounts are not kept with the deductions, the debit side of the Sales account must be analyzed to determine the nature of the items composing it. These results, then, ought to appear on the Trading Statement.

It is possible that some business men and some accountants may consider freight-out not as a deduction from the sales but as a selling expense. In such a case these charges should not appear on the Trading Statement but among the selling expenses on the Profit and Loss Statement.

The next account or group of accounts to appear on the Trading Statement should be the Purchases account or the Purchases account and all those accounts directly affecting it. The accounts which usually affect the Purchases account are the following: Inventory (at beginning of the period), Freight-In, Discount on Purchases, and Inventory (at close of the period).

It may be that the freight-in has been charged directly to the Purchases account and that the discount on purchases has been credited directly to the Purchases account. In such a case, the amounts of the freight-in and the amount of the discount on purchases may be determined by an analysis of the Purchases account. If it is desired to have shown on the Trading Statement the gross purchases, the net purchases, and the cost of goods sold, this may be done as follows: add the inventory (at the beginning of the period) and the freight-in to the balance of the Purchases account, the sum will be the gross purchases. From the gross purchases deduct the discount on purchases, and the difference will be the net purchases. From the net purchases deduct the inventory (at the close of the period), and the difference will be the cost of the goods sold. Now, if we deduct the cost of the goods sold from the net sales, our difference will be the gross profit or profit from merchandise sales.

This completes the preparation of the Trading Statement. This statement may be, and often is, found in various forms, but the principles here outlined are always applicable in the preparation of this statement, regardless of its form or regardless of the number and variety of the accounts composing it. However, in some business houses the Discount on Purchases is regarded as an income. If this practice is followed, this account should appear in the Profit and Loss Statement as an income, but the tendency is to regard the discount on purchases as a deduction from the Purchases account.

It is probable that the accounts in one business may be named quite differently from the accounts found in another business of exactly the same kind. The names of the accounts, however, should not defeat the application of the principles just stated. The accounts should be examined to determine the functions of their component parts, and from the conclusions reached by such an examination it is usually a simple matter to decide whether or not the account under consideration is a trading account. Of course, it must be expected that accountants or business men should not always agree upon the question of whether a particular account should be classed as a trading account or as a profit and loss account; but the differences existing are not so great as they are sometimes thought to be. There is a remarkable similarity in both the names of the books and the names of the accounts used in any one line of business, as, for example, a wholesale business, no matter what is sold or where the business is located.

Since the gross profits of the business have been determined, the next step is to decide which accounts are next to be brought into the Profit and Loss Statement.

CLASSES OF EXPENSES

The next group of accounts to be considered are those that reduce the major income, or those accounts that have been accumulated by payments that should logically come from the gross profits, in short—the expenses of the business. Expenses fall logically in two classes: first, those incurred in promoting sales; second, those incurred in administering the business, i. e., the expenses incidental to a business and without which the business could not exist. These two groups of expenses may be found under various names, but any change in name would not change the nature of the expense or of the account.

Business men have found by experience that it is possible to increase the volume of their sales by advertising. Expenses incurred for the purposes of publicity or making the goods attractive are, therefore, logically selling expenses and should be considered as such.

Expenses incurred in the operation or administration of the business such as rent, taxes, insurance, etc., have nothing to do with the promotion of sales but are, in the very nature of things, general and are, therefore, called general, or general and administrative expenses. In a very large business this group of expenses is sometimes divided into two groups, (1) general expenses and (2) administrative expenses; the name in each case is suggestive of what the account should contain.

After these expenses are deducted, the result is the net profit arising from the major income. It may be that this is the only source of income the business has; and, if this is true, the net income is also the total income and measures the amount by which the net capital of the business has been increased during the fiscal period.

OTHER INCOMES

If there are other, or minor, sources of income, the accounts which show this income should be included in the Profit and Loss Statement, so that these amounts may be added to the net amount of the major income. Thus, if there are three accounts which show minor sources of income, each account should be included in the Profit and Loss Statement so that the business man may see, at a glance, just how much income was derived from each source. Then, the total of the minor incomes and the net profit of the major income produce the total net income of the business. Sometimes the minor incomes are grouped under a separate heading as, "Other Income." It is also the practice in some business houses to include minor income in the Profit and Loss Statement just following the gross profit from sales. But this arrangement has been criticized as being illogical.

By separating the major and minor sources of income it is possible to make certain reliable calculations based upon the ratio which exists between gross profit and sales, net profit and sales, expenses and sales, etc. So if one or all of the minor sources of income should be cut off, the ratios obtained would not be disturbed, but would still apply to the major source of income. A clear illustration of this is found in the case of a business which pays, say, $200.00 per month rent, sub-lets a portion of its premises for $50.00 a month, and credits the rent account with this income. Suppose this source of income should be suddenly terminated and should be permanently lost to the business, the result would be that the ratio between the expenses and the sales would be disturbed by something that should not affect it. As an illustration of this principle, study the following partly condensed Profit and Loss Statement:

J. J. Moore
Statement of Profit and Loss
For the year ended December 31, 19—.

Net Sales			$62800.00
Cost of Goods Sold			46500.00
Gross Profit			16300.00
Selling Expenses		$6350.00	
General Expenses			
Office Salaries	$2050.00		
Rent	1800.00		
Stationery and Printing	480.00		
Miscellaneous	1840.00	6170.00	12520.00
Net Profit			$ 3780.00

By investigation, it was determined that the rent should have been $2400.00, and that there was a minor income produced by sub-renting a part of the building for the year at $50.00 a month.

EXERCISE IX

Prepare a revised Profit and Loss Statement which will show the correct amount of rent and which will show the minor income as a separate item. What per cent of the gross profit was the rent before the statement was revised? What per cent, after the statement was revised?

The general principles formulated in this study of the Profit and Loss Statement should be understood to apply to any line of merchandising or trading regardless of whether the person, firm, or corporation is engaged in retailing, wholesaling, or jobbing. In the books of a manufacturing business a different set of accounts would be found and different principles would be encountered; the same is also true in the case of certain special types of business, such as the operation of theatres, hotels, clubs, etc.

EXERCISE X

1. (a) Name what you would consider the principal source of income in the theatre business. (b) name other sources of income for a theatre. (c) Would a theatre need a sales book such as you are familiar with? Why? (d) What are the principal expenses of a theatre? Make a list of them.
2. (a) What would you consider as the major income of a hotel? (b) Name some minor sources of income in the hotel business. (c) Would a hotel need a sales book such as you are familiar with? Why?
3. What would you consider as the major income of an automobile club? (b) name some of the minor sources of income of such a club. (c) If a club of this kind would not need a sales book, what kind of a record would it need to serve a similar purpose? (d) What are the principal expenses of a club of this kind? (e) What might cause accounts receivable to appear upon the books of a club?
4. Your class has an organization for its own benefit and charges a membership fee. Outline a simple accounting system for the treasurer of the class.
5. Suppose you are a member of a school where the outside activities of the school are conducted by the student body under supervision of the faculty. Outline a simple accounting system that will show the receipts and expenditures on account of athletic events, theatricals, school publication, etc. (Avoid too much detail. Try to show the different sources of income, the expense incurred to produce each kind of income, and the net profit or the net loss from each.)
6. Outline a simple accounting system for a boy or girl who has a newspaper route and delivers an evening paper each day and also delivers a magazine once each week. You should be able to determine from your records the total sales of newspapers and the total sales of magazines for a week or for a month, the profit, the balance of cash, and the accounts receivable.

A Suggestion—It is a simple matter to be able to bring to class, for discussion, both Balance Sheets and Profit and Loss Statements from various kinds of business. These may be obtained from brokerage offices, and often the members of a class may obtain from various sources similar material for discussion.

A teacher may secure any amount of this material by writing to a brokerage house for it or by asking to be placed upon the mailing list of a brokerage house. Life insurance companies generally mail a report of their affairs, at the end of a fiscal period, to each policyholder. These reports are full of interesting information for a student of accounting.

Another source of information is the annual reports of the governmental units prepared by a city treasurer, a county treasurer, or similar officials.

PROFIT AND LOSS STATEMENT AFFECTED BY IMPROPER ACCOUNTING

ORAL EXERCISE XI

James Morton is the proprietor of a wholesale confectionery business which he desires to sell. He claims to have made an annual profit from this business of $6000.00. He has a very poor accounting system. His books contain only the personal accounts, both payable and receivable, cash, and one expense account. He has never taken a trial balance. He has agreed to allow you the privilege of examining his books so that you may satisfy yourself as to the truth of his statements in regard to his profits.

1. How would you determine the volume of his sales for a year?
2. How would you determine the amount of goods he had purchased for a year?
3. How would you determine the amount of his expenses for a year, or would you assume that the expense account on his books was correct?
4. How would you determine the value of his inventory of merchandise?

You have completed the investigation of Morton's accounts and are somewhat in doubt as to the correctness of the volume of sales which you obtained as, $40,000.00; there were only a few bills, and these showed that the purchases for the year were $21,000.00. You are convinced that the amount of the expense account, $5000.00, as shown by his books, is correct. However, during the investigation you find that the amount of his inventory last year was $7000.00, and this year it was $8000.00.

EXERCISE XII

From the facts just stated, prepare a Profit and Loss Statement that will either prove or disprove your estimate of the amount of the sales made.

It is advisable to start with the amount of the net profit stated by Morton and to work backwards with the Profit and Loss Statement to arrive at the volume of the sales.

The following is a Profit and Loss Statement from the books of J. H. Harley. He was engaged in the coal business.

Sales		$45000.00
Net Purchases	$38000.00	
Inventory Dec. 31	6000.00	
Cost of Goods Sold		$32000.00
Gross Profit		$13000.00
Expenses		8000.00
Net Profit		$ 5000.00

EXERCISE XIII

An investigation of the accounts disclosed the following facts:

1. That the Sales account included an item of $500.00 for the sale of a truck, an item of $250.00 for the sale of a horse, and an item of $50.00 for the sale of an old wagon.
2. The Purchases account included an item of $2100.00 for the purchase of a new truck.
3. That an inventory had been taken of the Delivery Equipment account. This inventory showed an amount of $8500.00, but the account in the ledger showed a balance of $11000.00.

Prepare a revised Profit and Loss Statement which will show the net profit of the business for the fiscal year, after giving effect to the necessary adjustments.

On Dec. 31, 1921, the Profit and Loss Statement of Harding & Davis, who were engaged in the wholesale flour and grain business, showed the following results:

Sales		$58490.00
Inventory Dec. 31, 1920	$16500.00	
Net Purchases	41400.00	
Total Net Purchases	$57900.00	
Inventory Dec. 31, 1921	9260.00	
Cost of Goods Sold	$48640.00	
General Expense	3850.00	
Selling Expense	3280.00	$ 55770
Net Profit		$ 2720.00

EXERCISE XIV

The partners did not understand bookkeeping but believed that the net profits for the year were too small, all things considered. They consulted an accountant and engaged him to audit the books.

The audit revealed the following facts:

1. That in preparing the inventory on Dec. 31, 1920, the bookkeeper had included in the inventory of merchandise the amount of the inventory of the delivery equipment which was $3275.00.

2. That the inventory of merchandise on Dec. 31, 1921 did not include a shipment of flour which was in the cars at the time the inventory was taken, but that the bills for the shipment had been received and properly entered in the books during the month of December. The amount of the shipment was $2135.00.

3. That on Oct. 10, there had been entered and charged to the General Expense account a bill for $250.00 for a new safe for the office.

4. That the firm on Aug. 5, had advanced, as a loan, to a salesman $150.00. The bookkeeper had charged this amount to the Selling Expense account instead of charging it to the salesman.

Prepare a revised Profit and Loss Statement after making adjustments for the errors reported. By what amount is the net profit increased or decreased? In your opinion, do errors like those just related actually occur in business?

The following is a Profit and Loss Statement for Sheill & Read, prepared by their bookkeeper to show their operations for the year ended Dec. 31, 1920:

Sales		$83500.00	100%	
Inventory Dec. 31, 1919	$12280.00			
Net Purchases	60350.00			
Total Net Purchases	$72630.00			
Inventory Dec. 31, 1920	13180.00			
Cost of Goods Sold		$59450.00	71.2 %	
Gross Profit		$24050.00	28.8 %	
Administrative Expense	$ 7800.00		9.34%	
General Expense	4350.00		5.21%	
Selling Expense	6280.00		7.52%	
Total Expense		18430.00		
Net Profit		$ 5620.00	6.73%	28.80%

EXERCISE XV

An investigation disclosed the fact that the following errors had been made during the year:

1. That the inventory of merchandise on Dec. 31, 1920 included an amount of $780.00 covering certain goods that had been sold, billed, and the amount of the bills included in the sales for the current year. These goods were being held pending orders as to the place of shipment.

2. That the General Expense account had been credited with the rent received during the year, which amounted to $600.00. The rent was received entirely from allowing exhibits and demonstrations, for advertising purposes, by manufactures of novel goods. The store was not leased by Sheill & Read with the intention of sub-leasing it as a means of additional income.

3. The Selling Expense account had been credited with the amount of $800.00, parts of which had been received at various times during the year. This sum was received for use of their delivery equipment by different concerns, though this equipment had not been purchased with the intention of hiring it out.

Adjust the profit and loss accounts affected by the facts stated in this problem and show as additional income the amounts which have been used to reduce expenses.

Prepare a revised Profit and Loss Statement. Show the percentages in the revised statement as they are shown in the statement of the problem, and determine the amount which these percentages are affected by the adjustments.

HOW TRANSACTIONS AFFECT THE BUSINESS

The bookkeeper and the business man should visualize the effects of each transaction upon the business. The Balance Sheet must, ultimately, reflect both the favorable and the unfavorable transactions. It may also be affected by happenings within the business which are not, strictly speaking, business transactions.

The following exercise may be worked either on paper or on a blackboard, or a part on one and a part on the other. The effect of each entry upon the Balance Sheet should receive particular attention, whether the entry results from a transaction or from some happening within the business. In order that this work may be done rapidly and effectively, it is advisable to show the accounts in skeleton ledger form, or, as they are sometimes called, T accounts.

EXERCISE XVI

J. R. Bowen began business with the following assets, having, at the time, no liabilities:

Cash	$2000.00
Notes Receivable	1000.00
James Stillman	1500.00

PROBLEM I. Prepare an opening entry for J. R. Bowen. Why did you credit J. R. Bowen with the amount of the assets? Is the business indebted to Bowen? Has Bowen the right to demand a return of the capital he has put into the business? Will the entry, when completed, produce the equivalent of both a trial balance and a Balance Sheet? Prepare the Balance Sheet.

If Bowen should not buy anything, his net capital would probably remain as it is, unless he lost some of the money (cash), or unless some of the debtors became unable to pay him.

TRANSACTION No. 1. The debtor on the note paid Bowen the full amount, $1000.00, and the proper entry was made.

PROBLEM II. Prepare a Balance Sheet which shows the effect of the entry. Was the capital of the business affected? Was the Balance Sheet affected?

TRANSACTION No. 2. Stillman paid the amount due on his account, $1500.00, and the proper entry was made for the payment.

PROBLEM III. Prepare a Balance Sheet which shows the effect of this entry. Was the capital of the business either increased or diminished? Was the appearance of the Balance Sheet affected?

TRANSACTION No. 3. Bowen bought from the Lincoln Mills 100 bbl. Flour @ $8.00 per bbl. and *promised* to pay for it in 30 days. The proper entry was made to record this purchase.

PROBLEM IV. Prepare a trial balance and a Balance Sheet which show the effect of this entry. Was the capital of the business increased? Was Bowen's net capital increased? Was there any capital in the business besides Bowen's capital? Was the appearance of the Balance Sheet changed?

TRANSACTION No. 4. Bowen sold 100 bbl. Flour @ $10.00 per bbl. to the Ward Baking Co. who *promised* to pay him in 30 days. The proper entry was made to record this sale.

PROBLEM V. Prepare a trial balance and a Balance Sheet showing the effect of this transaction and entry. Did this transaction change the amount of the capital in the business? Did it change the amount of Bowen's net capital in the business? Why was Bowen's capital affected by this transaction? Prove that Bowen's capital was increased or decreased by this transaction.

NOTE.—The increase or the decrease of Bowen's capital may be proved in two ways: first, by a Profit and Loss Statement; second, by the net increase in assets over liabilities which may be obtained by comparing his Balance Sheet just preceding the transaction with the one immediately following the transaction.

TRANSACTION No. 5. Bowen paid rent, in cash for one month, which amounted to $50.00. The proper entry was made for this payment.

PROBLEM VI. Prepare a trial balance and a Balance Sheet after giving effect to the entry. Was the capital of the business affected by this transaction? Was Bowen's capital affected by this transaction? Prove your answers to these two questions.

It has been clearly demonstrated by the preceding transactions and problems that certain transactions affect the Balance Sheet. Similar transactions and problems could be continued almost indefinitely by assuming different facts; and if the teacher desires to devote further time to the study of the effects of individual transactions upon the Balance Sheet, there still remain several types of transactions for this purpose.

However, it should be remembered that the business is affected by *the transaction*, not the entry. The entry merely records such effects in a more or less formal way, so that if the entry is not properly made, the condition of the business shown by the books is false.

ACCOUNTING DEVICES AND MECHANICAL APPLIANCES

You have studied thus far the construction, meaning and application of certain accounts—the principal accounts of a mercantile business. You have studied, also, the principal, special books of original entry. Consequently, you should now be capable of appreciating the various devices used by accountants to save time, to divide the work among departments, to secure important business data, etc.

Chief among these devices are special columns in books of original entry, ledgers subsidiary to the general ledger, books for memorandum entries, and loose leaf books.

These devices together with the various mechanical appliances for office work, such as billing machines, comptometers, adders, etc., have resulted in greatly increasing the volume of work done by one person and, at the same time, they have largely reduced the drudgery of office work.

If these accounting devices and mechanical appliances were suddenly eliminated from the modern business office, it would be impossible to calculate the additional expense that their elimination would entail. In fact, large business organizations would be almost impossible.

SPECIAL COLUMNS

It has already been seen that the use of special books of original entry saves time in recording the entries for certain transactions because of the number of similar transactions, common to almost any business, that may be entered in each of these special books.

By the use of special columns in books of original entry, the amounts, for all entries of the same kind, may be gathered in one column and posted as one amount; thus saving time in posting. The posting of one amount instead of several also saves space in the ledger, so that one ledger page is sometimes used for several months, or even years, for one account.

The posting from special columns is similar to the posting from special books, inasmuch as the totals are transferred to the account indicated by the name of the column.

Another valuable feature of special columns is, that they often enable the bookkeeper to test the correctness of the entries and of the totals for a month's work before the totals are posted.

The use of special columns may be summarized as follows:

Purpose. To save time in making entires, and in posting the entries at the end of a month or other fiscal period.

Method. Each special column should bear a heading, which should be the same as that of the account to which the individual items in the column should be posted, if not posted as a total. The amounts of the entries in each column are totaled to determine the aggregate charge or credit to that particular account, originating from entries recorded in that book.

RECEIPTS

Date		LF			Foot Ball		Basket Ball		Base Ball		General	
Sep.	22		Sale of tickets		40	00						
	29		" " "		45	00						
Nov.	6		" " "		42	00						
Jan	4		" " "				30	00				
	11		" " "				40	00				
	18		" " "				37	00				
May	10		" " "						15	00		
	17		" " "						21	00		
	22		Theatricals	Advertising space							20	00
	25		Theatricals	Sale of tickets							65	00
					127	00	107	00	36	00	270	00
											355	00

Posting. The total of each special column is posted to the proper side of the proper account, which is usually indicated by the heading of the column.

Quite frequently the word "general" is used as a heading for a column in some book of original entry. As a rule, a column so headed is not a special column but is what the name implies—a general column. Such a column is used for the amounts of entries that can not properly be placed in the special columns. Then, too, the amounts in such a column are usually posted, individually, to the proper account or accounts.

There is no particular limit to the use of special columns. Indeed, in many offices, books are used having as many as thirty or forty special columns. Sometimes books of this size are rather cumbersome and difficult to handle.

SPECIAL COLUMNS IN A CASH BOOK

Any or all books of original entry may contain special columns. In a cash book, special columns may be used to classify both receipts and expenditures of money according to some plan convenient for the accounting system.

Study the preceding illustration of a cash book which may be used by a school to record the receipts and expenditures on account of its different activities.

The amounts and entries contained in this cash book are posted as follows:

Foot Ball

35.00	127.00

Basket Ball

80.00	107.00

Base Ball

22.00	36.00

Theatricals

14.00	20.00
22.00	65.00

Cash

335.00	153.00

EXPENDITURES

Date		LF			Foot Ball	Basket Ball	Base Ball	General
Sep.	27		Union Printing Co.	tickets	5 00			
	27		Officials for game		10 00			
Oct.	2		Officials for game		10 00			
Nov.	10		Officials for game		10 00			
Jan.	25		Officials for games	3 games		15 00		
	27		Union Printing Co.	tickets		5 00		
	29		Williams & Co.	Uniforms		60 00		
May	20		Officials for games				10 00	
	27		Theatricals	Programs				14 00
	29		Theatricals	Costume rent			12 00	22 00
					35 00	80 00	22 00	137 00
								173 00
			Balance					182 00
								355 00

This simple illustration shows the use that may be made of special columns in a cash book and the convenience of special columns for posting.

SPECIAL COLUMNS IN A PURCHASES BOOK

Special columns may be introduced into a purchases book to show the total purchases for particular departments of a business; to make charges to particular accounts, or to be used for both these purposes in one book.

A business maintaining departments may use a purchases book similar to the following:

PURCHASES

Date		LF			Groceries	Clothing	Meats	Total
Sep.	1		Armour & Co.	1/10, n/30	50 00		100 00	150 00
	5		Western Grocery House	2/10, n/60	100 00			100 00
	10		Crowley Brothers	2/10, n/30		200 00		200 00
	15		Armour & Co.	n/30			75 00	75 00
	20		Western Grocery House	2/10, n/60	300 00			300 00
	25		Crowley Brothers	1/10, n/30		100 00		100 00
					450 00	300 00	175 00	925 00

The total of each special column is the amount purchased during the period for that department of the business. The total purchases for the month are $925.00, which is also the total amount of liabilities incurred from that source. If it is desired, additional columns may be provided for the purchases book, and these columns may be used to show the purchases, chargeable to expense, made for each department. These expenses may include the charges for such articles as wrapping paper and twine, cardboard boxes, etc.

In some business houses, all bills for purchases whether or not an account is opened with the creditor, are recorded in a book similar to the purchases book here illustrated. This is done to determine the amount of the accounts payable for each fiscal period.

The following accounts show the results of posting the illustrative purchases book:

Groceries	
450.00	

Clothing	
300.00	

Meats	
175.00	

Accounts Payable	
	925.00

A ledger sometimes becomes too large because of the great number of accounts which it contains. When this happens, it is the practice to remove from the ledger certain classes of accounts, say, the personal accounts payable, and to place them in another ledger which is commonly called the accounts payable ledger.

Thus, in the above illustrative posting, the total ($925.00) is posted to an account called Accounts Payable. This account is kept in the same ledger with the accounts headed: "Groceries," "Clothing," "Meats." If the amounts due the creditors are posted to the personal accounts, which are in the accounts payable ledger, the total of these accounts must be the same as the total of the Accounts Payable account which is shown above.

When the amounts, which affect the personal accounts payable, are posted from the purchases book, these personal accounts will stand (in an accounts payable ledger) as follows:

Armour & Co.	
	150.00
	75.00

Crowley Brothers	
	200.00
	100.00

Western Grocery House	
	100.00
	300.00

It will be seen that the total of all these personal accounts ($925.00) is equal to the total of the Accounts Payable account which is contained in the general ledger.

SPECIAL COLUMNS IN A SALES BOOK

In a sales book special columns are frequently used to show sales by departments, by certain salesmen, in certain territories, or sometimes all three of these results may be shown in one book.

The following illustration shows how a sales book may be used to distribute sales according to the different departments of a business:

SALES

Date	LF			Hard-ware		Painters' Supplies		Glass		Total	
June 1		Union Bldg. Co.	2/10, n/30	50	00	100	00	40	00	190	00
5		Brown & Sons	2/10, n/30			200	00			200	00
10		Holmes Realty Co.	2/10, n/30	100	00			150	00	250	00
14		Brown & Sons	2/10, n/30			50	00	25	00	75	00
20		Holmes Realty Co.	2/10, n/30	50	00	125	00			175	00
				200	00	475	00	215	00	890	00

NOTE.—The items composing each sale have been omitted, in order to make the illustration brief.

The amount of the sales made by each salesman may be determined by providing a column for each salesman and extending the sales made by each into the proper column. Furthermore, the amount of the sales for certain territories may be determined in a similar manner. However, the sales book may become unwieldy if too many columns are provided; therefore, it is often necessary to prepare a recapitulation of the sales book, in order to determine some of the information which may be desired by the management.

The following accounts show the results of posting the illustrative sales book:

Hardware		Painters' Supplies		Glass		Accounts Receivable	
	200.00		475.00		215.00	890.00	

When a business sells its goods on credit, the personal accounts receivable generally outnumber any other class of accounts. Therefore it is a common practice to remove these accounts and to place them in a special ledger called the accounts receivable ledger. If this is done, the total of all amounts posted to the personal accounts in this ledger must equal the amount posted to the Accounts Receivable account in the general ledger.

When the amounts which affect the personal accounts receivable are posted individually (in an accounts receivable ledger) these accounts will stand as follows:

Union Building Co.		Brown & Sons		Holmes Realty Co.	
190.00		200.00		250.00	
		75.00		175.00	

If the amounts which are posted to these accounts are added it will be seen that the total will agree with the total ($890.00) which has been charged to the Accounts Receivable account in the general ledger.

SPECIAL COLUMNS IN A JOURNAL

A journal also may have its special columns, and it usually does have them in a business that has a well organized accounting system. The headings of the columns of a journal, in that event, are usually determined by the uses of the special books of original entry and by the number and kinds of ledgers used; but, it is well to have both a debit and a credit column for each ledger, in which to enter amounts that affect the accounts in the different ledgers. That is, if there are three ledgers in use, the journal should, as a rule, contain six columns, thus, there would be one debit and one credit column for each ledger.

SUBSIDIARY LEDGERS

When more than one ledger is used, there must be some way of distinguishing the different ledgers, and of distinguishing the accounts which properly belong in each ledger. This is usually done by giving a special name to the ledger containing a particular class of accounts; thus, by this plan the ledger which contains all the personal accounts receivable is called the *Accounts Receivable Ledger.* The ledger which contains all the personal accounts payable is called the *Accounts Payable Ledger,* and the ledger from which the accounts receivable and the accounts payable have been removed is called the *General Ledger.*

Sometimes the expense accounts are removed from the general ledger, and are kept in a separate ledger which is called the *Expense Ledger.*

These special ledgers are known as subsidiary, or auxiliary, ledgers, and sometimes they are known as controlled ledgers.

If the balances of all the accounts which are contained in a subsidiary ledger are added, the total will agree with the balance of an account which bears the name of the subsidiary ledger and which is contained in the general ledger. The account which bears the name of the subsidiary ledger is said to control that ledger. Hence, such accounts are commonly known as controlling accounts.

ACCOUNTS PAYABLE LEDGER

In almost any business that sells on credit, the accounts payable are few in number, as compared with the number of accounts receivable of the same business. Yet it is often found convenient to have an account with each creditor in a separate ledger. Such a ledger is commonly called an accounts payable ledger, creditors' ledger, or purchase ledger. It is very seldom that use is found for more than one ledger for accounts payable.

The sum of the balances of all accounts in this ledger should agree with the balance of Accounts Payable account in the general ledger.

The accounts payable ledger may be known also as the purchases ledger or creditors' ledger.

ACCOUNTS RECEIVABLE LEDGER

It has already been stated that when a business adopts the policy of selling on credit, it is necessary to open an account with each person, firm, or corporation to which a sale has been made on credit. The customers may be few or they may be many; but, sometimes there are hundreds or thousands of them. The number of customers may be so great that it would be inconvenient to have one book large enough to contain accounts with all of them. Therefore, instead of providing one subsidiary ledger, several such ledgers may be used for the customers' accounts.

Some of the larger mercantile houses divide their accounts receivable according to the territory served by the house, and name the ledgers to indicate the general location of the customers. Thus, there may be a city ledger, in which accounts are kept for all customers located in the city; and a country ledger in which accounts are kept for all customers outside the city. Sometimes a foreign ledger, or export ledger, may be used for customers in a foreign country.

An electric light company must have an account with each user of electricity; therefore, in cities like New York or Chicago these accounts number by thousands. In such cases it is evident that some method must be devised of subdividing the accounts receivable into several different groups. This may be done by dividing the city into districts and providing one ledger for all customers in each district; or, it may be done by arranging the names of all customers alphabetically, and by dividing the list of names into as many groups as may be convenient; then, for each group of names, one ledger should be provided; etc.

The accounts receivable ledger may also be known as the customers' accounts ledger or as the sales ledger.

EXPENSE LEDGER

In certain lines of business, particularly manufacturing and utilities, there are a great many expense accounts. Frequently, all these accounts are placed not in the general ledger, but in a subsidiary ledger known as an expense ledger. The sum of the balances of all such accounts should agree with the balance of the Expense account in the general ledger.

In its use and operation an expense ledger does not differ from the other subsidiary ledgers. The use of an expense ledger is not so common as the use of accounts receivable and accounts payable ledgers.

CONTROLLING ACCOUNTS

When a subsidiary ledger is used, there should be an account in the general ledger the title of which corresponds to that of the subsidiary ledger. Thus, if all customers' accounts are carried in a subsidiary ledger there should be an account in the general ledger known as Customers Accounts, Accounts Receivable or Sales Ledger Accounts, the balance of which is equal to the total of the balances of all accounts which are contained in the accounts receivable ledger.

Likewise, if all accounts payable are kept in a subsidiary ledger, there should be an account in the general ledger known as Accounts Payable or Purchase Ledger Accounts, the balance of which is equal to the total of the balances of all accounts which are contained in the accounts payable ledger.

A controlling account, for a particular class of accounts, is established by posting to the general ledger, the aggregate of all entries (in each book of original entry) that affect that class of accounts. Thus, to establish a controlling account for accounts receivable, it is necessary to post to the debit side of this account in the general ledger, the aggregate of all debit entries (in the books of original entry) that are posted individually to the various accounts in the accounts receivable ledger. Similarly, it is necessary to post to the credit side of this account in the general ledger the aggregate of all credit entries (in the books of original entry) that are posted individually to the various accounts in the accounts receivable ledger. The controlling account for accounts payable is established in a similar manner.

The same result may be obtained without the use of special columns, by posting (twice) the amount of each entry that affects the accounts receivable; once to the accounts

NOTES

Date Issued	Our No.	Maker or Acceptor	In Favor of	Where Payable	Given for	Date of Paper

receivable ledger, and once to the Accounts Receivable account in the general ledger. But, by the use of special columns in the books of original entry for each class of accounts for which a controlling account is to be established, considerable time is saved in posting the work at the end of a fiscal period. Furthermore, since the use of special columns segregates all the entries, which affect a particular class or group of accounts, it follows that any errors which may occur in such a class or group of accounts are more easily located; because it is not necessary to look for the error or errors outside the particular class or group that is affected. This means that the ultimate result of the use of controlling accounts is to simplify the work rather than to complicate it.

The use and operation of a controlling account is really not a new principle of bookkeeping, but rather, a device for entering and for posting the entries (with which the student is already familiar) from books of original entry.

BOOKS FOR MEMORANDUM ENTRIES

Almost every business has certain books in connection with the accounting system that do not perform the functions of books of original entry; nor do these books, as a rule, have any part in the general scheme of "double entry" bookkeeping. Of course, any one or all of them may in some form, be made a part of the books of original entry and thereby become a part of the "double entry" scheme. But such books are generally used for memorandum entries only. The most common kinds of memorandum books are the following: notes receivable and notes payable books, insurance records, store or stock records, time records for employees, and the various forms used for keeping costs.

The notes receivable book should contain a record (the history) of each, individual note that comes into the business. The balance of this book should always agree with the balance of the Notes Receivable account. Such a record for notes is particularly

NOTES

Date Received	Our No.	Maker or Acceptor	In Favor of	Where Payable	Received for	Date of Paper

PAYABLE

Time	Rate of Int.	When Due													Amount	Amount of Interest	Total	Redeemed	
		Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.				When	How

desirable in certain kinds of business in which it is the custom to sell goods on notes; otherwise, the record is unnecessary. Dealers in agricultural implements, machinery, automobiles, etc., generally do a large proportion of their business on notes, and, therefore, find a record of this kind almost indispensable.

The notes payable book should contain a record of each individual note issued by the business. The total of the unpaid notes as shown by this book should agree with the total of the Notes Payable account in the general ledger.

INSURANCE RECORD

Policy No.	Company	Premium	Date of Policy	Term	Expiration	Amount	Remarks

The insurance record should contain the history of each insurance policy issued to the business, and should show, at least, the number of the policy, the name of the company using it, the amount of the premium paid, the date of the policy, the time for which the policy was issued, the date of expiration, the amount of the policy, and the character of the risk assumed. From a record of this kind it is a simple matter to determine the amount of the unexpired insurance at the end of a fiscal period.

RECEIVABLE

Time	Rate of Int.	When Due													Amount	Amount of Interest	Total	Disposed of	
		Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.				When	How

STORES LEDGER

Date	Quantity Received	Order No.	Quantity Sold	Balance on Hand	Price per Unit	Value

A stores, or stock record sometimes called a stores ledger, or stock ledger, should contain a record or an account, with each kind of merchandise purchased. Stores records usually become voluminous in a large business and require a great deal of attention. The keeping of these records is a source of a large amount of expense in any business in which they are necessary. It is from such records that a perpetual, book, or going inventory may be taken. These records should show, at least, the quantity of each kind of goods on hand at beginning, the quantities purchased, and the quantities taken from the stores, or stock,—thus dealing with quantities only. The total of the balances of all the accounts should agree with the amount of the inventory at any time.

The time records, or time book, should contain the daily time of each employee; the total time; the rate of pay per day, week, or month, and the total amount due at the end of each pay period. There are so many methods and devices employed for keeping time records and making up pay rolls that the space required for their treatment can not be spared in this textbook.

Cost records vary in each kind of business such as wholesaling, retailing, manufacturing, etc. This variation is due to the different elements of cost that must be considered in each kind of business or in each individual business of a given kind.

Every well-stocked library contains special books which deal with cost finding and cost records in almost any kind of business, and such books may be found beneficial in a more extensive study of cost accounting in particular kinds of business.

LOOSE-LEAF BOOKS

Any book or record essential to a business office may be in loose-leaf form, or it may be that the individual sheets are bound together and thus form what is commonly called a bound book.

In some instances a loose-leaf book may be more suitable than a bound book, while in others a bound book may be more suitable. This must be decided by the needs of the business and the wishes of the management.

Another device, which may be classed as a loose-leaf book, is the card ledger. It consists of cards which are cut in an appropriate size and ruled in ledger form. These cards may be used for keeping any account, but they are generally used for keeping the personal accounts receivable and for keeping the stores accounts.

However, the *form* of the books does not change the principles applicable to the keeping of the books; therefore, the term "loose-leaf" applies only to the construction of the books, and not to the methods by which they are kept.

MECHANICAL APPLIANCES

The labor required in recording the affairs of a modern business has been reduced by the use of such machines as the typewriter, adder, comptometer, recording clocks, etc., yet the need for a knowledge of the principles of bookkeeping has not been reduced.

To use many of these appliances effectively, the operator must be familiar with the fundamental principles of bookkeeping.

SET V—AUTOMOBILE AGENCY—ONE MONTH

James Armstrong and C. O. Miller have formed a partnership for the sale of automobiles. They have obtained from the Douglas Motor Co. an agency for the sale of that company's products in Columbus, Ohio.

The firm is to be known as Armstrong & Miller, and they have leased a building at 324 West Broad St., in which will be located the office, sales rooms, and stock rooms of the firm. The lease is for a period of five years and permits the firm to remodel the building in such manner that it will be suitable for their purposes.

The partners are to invest as follows: Armstrong, $15,000.00, and Miller, $5,000.00. Each partner is to be allowed interest at 6% upon his net investment, and is also to be allowed a salary of $250.00 per month; both interest and salary are to be credited at the end of each calendar month. Also, at the end of each calendar month, the partners are to determine the net profit or the net loss for that month; the net profit or the net loss is to be divided equally between them after allowing interest upon the investments of the partners and after crediting each partner with his salary each month.

The profits are to be divided equally although the partners' investments are not equal; this is due to the fact that Miller, whose investment is smaller, is an automobile mechanic and salesman of considerable experience.

The following books of original entry are to be used: purchases book, sales book, cash book, and journal. Three ledgers are to be used; the names of the ledgers and a schedule of the accounts for each ledger follow:

SCHEDULE OF GENERAL LEDGER ACCOUNTS FOR SET V

Cash	Sales
Deposit on Agency Contract	Discount on Sales
Notes Receivable	Purchases
Accounts Receivable	Discount on Purchases
Accrued Interest	Freight-In
Inventory	Advertising
Office Equipment	Labor
Tool Equipment	Gasoline
Garage Equipment	General Expense
Notes Payable	Building Expense
Accounts Payable	Insurance
Accrued Wages	Income from Storage
James Armstrong, Partner	Interest
James Armstrong, Personal	Interest on Investment
C. O. Miller, Partner	Profit and Loss
C. O. Miller, Personal	

SCHEDULE OF ACCOUNTS FOR ACCOUNTS RECEIVABLE LEDGER, SET V

William Headly
Newton Tracey
James B. Doyle
William Vaughan
Jeffrey Manufacturing Co.
Ohio Tool Co.
Richard Wright
Daniel Glacken
Harry Timmons
James Bartlett
W. D. Culp
Columbus Machine Co.

SCHEDULE OF ACCOUNTS FOR ACCOUNTS PAYABLE LEDGER, SET V

Douglas Motor Co.
Auto Accessories Co.
Goodrich Rubber Co.
Columbus Machine Co.
Ohio Tool Co.
Buckeye Manufacturing Co.
National Cash Register Co.

Each account in the general ledger requires ¼ page; each account in the accounts receivable ledger ⅙ page; and all the accounts in the accounts payable ledger should be opened on one page.

SPECIAL COLUMNS IN SET V

The cash book contains the following special columns on the "Cash Received" side: Accounts Receivable Cr., Discount on Sales Dr., and Net Cash Dr. These columns are used only for recording the amount with which a customer is credited; the amount of discount which is deducted from a sale; and for recording the net amount of cash received from a customer. Thus these columns are concerned with customers' accounts only, and any cash that may be received from other sources should be entered in the General column.

The cash book contains the following special columns on the "Cash Paid" side: Accounts Payable Dr., Discount on Purchases Dr., and Net Cash Cr. These columns are used for recording the amount with which creditors are charged; for recording the amount of discount that is deducted from purchase invoices; and for recording the net amount of cash paid to creditors. It will be seen, therefore, that these columns are concerned only with the payment of creditors' accounts, and any cash that may be paid out for any other purpose should be entered in the General column.

The journal likewise contains two special columns as follows: Accounts Receivable Cr. and Accounts Payable Cr. These columns should receive only the amounts of entries that are posted to the personal accounts receivable and the personal accounts payable. All other journal entries are made in the usual way and the amounts of such entries are entered in the general columns.

It is usually a simple matter to determine the proper column in which the amount of an entry should be placed; this may be done by referring to the schedules of ledger accounts for this set, and by determining the ledger in which the particular account is contained. Thus, if the account under consideration is contained in the general ledger, then the amount of the entry must be placed in the general ledger column; if the account under consideration is contained in the accounts receivable ledger, then the amount of the entry must be placed in the accounts receivable column; etc.

The special columns used in this set are for the purpose of establishing controlling accounts with the subsidiary ledgers, and, consequently, these columns should receive only the amounts of those entries that affect the accounts of the subsidiary ledgers.

MEMORANDA OF TRANSACTIONS FOR MARCH

Mar. 1. James Armstrong delivers to the firm his personal check for $7,000.00 which is to be credited as a part of his investment.

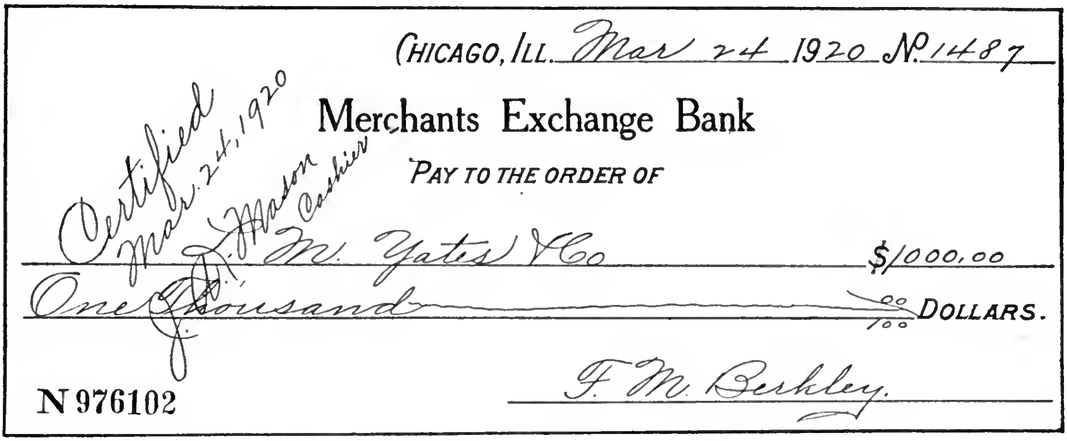
Enter the amount of this check in the column headed, "General". Business papers are not to be used in this set.

Mar. 1. C. O. Miller delivers to the firm his check for $5,000.00 as his investment.

1. Armstrong, at the time the agency was obtained, gave the Douglas Motor Co. a certified check for $1500.00 as a deposit to be held by the company during the term of the agency. This deposit is to be returned upon the expiration of the contract of agency or sooner at the option of the company. This deposit is also to form a part of the investment by Armstrong. Therefore, make the proper journal entry for it.

The proper entry for this transaction may be made by charging a special account which will be known as Deposit on Agency Contract, and by crediting James Armstrong, Partner. However, the amounts of this entry should be entered in the general ledger columns.

A CERTIFIED CHECK


Chicago, Ill. Mar 24 1920 No. 1487

Merchants Exchange Bank

Certified Mar. 24, 1920 J. Mason Cashier

Pay to the order of F. M. Yates & Co $1000.00

One Thousand 00/100 Dollars.

F. M. Berkley.

N 976102

Mar. 1. Paid rent for March, $250.00.

The amount of this entry should be placed in the column headed "General".

Mar. 2. Received bill from Douglas Motor Co., Detroit, Mich., for $6750.00; terms, 2/10, n/30; bill dated Feb. 26.

2. Paid bill of The Columbus Bill Posting Co. for space on bill boards for three months, from Mar. 1. Amount of bill, $450.00.

The amount of this entry should also be written in the column headed "General".

Mar. 3. Paid for delivery of cars which were billed on Feb. 26, $82.50.

These cars were delivered overland instead of being shipped by freight; charge Freight-In account for the amount of the expense incurred in their delivery.

Mar. 3. Received bill from the Auto Accessories Co., Toledo, Ohio, for $382.75; dated Mar. 1; terms 1/10, n/30.

Enter this bill in the purchases book.

Mar. 3. Sold to William Headly, 1262 E. Broad St., for $1425.00, 1—5 Passenger Touring Car, #18642, motor #42816; terms $500.00 cash; balance 30 days. Make the proper entries.

When making a sales book record for this sale, include in the record the number of the car and the number of the motor. It is frequently necessary to refer to these numbers since the firm agrees to maintain a free service for each car for a period of six months from the date of its sale, and these numbers are used as a means of identifying the cars that have been sold.

The credit for cash received from this transaction should be entered in the cash book, and the amount of the credit should appear in both the accounts receivable column and the net cash column.

Mar. 3. Paid for a gasoline tank and an air pump, and for installing them, $950.70.

Charge this amount to Garage Equipment account. Though this account has an unfamiliar name, it will be treated in the same manner as other equipment accounts which have been studied previously.

Mar. 4. The building was repaired and put in good condition for occupancy on Mar. 1. Armstrong paid all bills for repairing and for equipment and supplies; he now submits a list of his expenditures, for which his investment account is to be credited. These expenditures should be charged to the proper accounts. The list follows: Office Equipment, $525.00; General Expense (office supplies), $54.75; Building Expense, $768.60; General Expense (rent while repairs were being made), $85.00. Make the proper entry.

Note.—Entries may be posted as the work for the month progresses, or the posting may be deferred until all the entries for the month are made. However, no amounts should be posted during the month to the two controlling accounts, *viz.*, Accounts Receivable and Accounts Payable, as the posting to these accounts will be done after the books of original entry are closed.

Mar. 4. Armstrong gave the firm a check for a sum sufficient to bring his investment up to the required amount. Make the proper entry for the check.

4. Sold Newton Tracey, 1483 W. Broad St., for $1425.00, 1—5 Passenger Touring Car, #18648, motor #42783; terms $1000.00 cash, balance, note at 30 days, interest at 6%. Make proper entries.

Before recording this transaction, study the entries for the sale on Mar. 3. The sale to Tracey differs from the sale on Mar. 3 since Tracey is giving a note for the balance of his bill; therefore, an entry to record this note should be made in the journal. The debit amount of this journal entry should be placed in the column headed "General Ledger Dr.", and the credit amount of the entry should be placed in the column headed "Accounts Receivable Cr."

All similar transactions should be treated in a similar manner.

Mar. 5. Received bill from The Goodrich Rubber Co., Akron, Ohio, for $432.50; dated Mar. 2; terms 2/10, n/30.

5. Cash sales of accessories, $62.80.

5. Paid for tools $131.85.

Charge this to Tool Equipment account. This account will be treated similarly to the other equipment accounts that have been studied thus far. This account represents an investment in property which is used in the business.

Mar. 6. Paid salaries as follows: bookkeeper, $25.00; mechanic, $37.50.

Charge the salary of the bookkeeper to General Expense, and the salary of the mechanic to Labor. The Labor account will include the wages of those who are engaged in preparing the automobiles for delivery to customers. When automobiles are shipped by freight or express, as a rule, they are not completely assembled. Therefore, the dealers must complete the assembly and prepare the cars for delivery. In addition to completing the assembly, the mechanics are to keep all mechanical parts of the car in good condition.

Mar. 6. Paid Douglas Motor Co. for bill of Feb. 26.

Enter the full amount of the bill in the column headed "Accounts Payable Dr."; enter the amount of the discount in the column headed "Discounts on Purchases Cr."; then enter the net amount of the bill in the column headed "Net Cash Cr.". Treat all similar transactions in a similar manner.

Mar. 8. Sold James B. Doyle, 937 Neal Ave., for $1425.00 1—5 Passenger Touring Car, #18645, motor #41992; terms, less 1% for cash.

Enter this sale in the same manner that you entered the other sales even though it is sold, "Terms, less 1% for cash." The firm wishes to open an account for each customer who purchases a car. Why?

Enter the full amount of the credit, $1425.00, in the column headed "Accounts Receivable Cr."; enter the amount of the discount, $14.25, in the column headed "Discount on Sales Dr."; then enter the net amount of cash received in the column headed "Net Cash Dr.".

Treat all similar transactions in a similar manner.

Mar. 8. Paid bill of the Auto Accessories Co. Make the proper entry.

The entry for this transaction is similar to the entry on Mar. 6 for the payment to the Douglas Motor Co.

Mar. 8. Paid freight on the shipment of goods from The Goodrich Rubber Co., $16.48. Make the proper entry.

9. Received bill from the Douglas Motor Co. for $11,250.00; terms 2/10, n/30; bill dated Mar. 7.

9. Paid the Sinclair Refining Co. $23.50 for gasoline for use in demonstrating the cars. (Charge to Gasoline account.)

What kind of an expense is this? Why?

Mar. 10. Sold William Vaughan, 864 E. Gay St., for $1425.00, 1—5 Passenger Touring Car, #18674, motor #41993; terms $500.00 cash; balance, note at 30 days, interest at 6%.

10. Bought a typewriter for $125.00, cash.

10. Paid for circular letters and other advertising matter $24.80. Bought postage stamps, $20.00.

Mar. 11. The cars which were billed on the 7th have been delivered overland. The expenses incurred in obtaining these cars is $128.85, which has been paid in cash. Make the proper entry.

11. Sold the Jeffrey Manufacturing Co., 1184 N. Grand Ave., for $1487.50, 1—5 Passenger Touring Car, #18667, fully equipped, motor #41386; terms $500.00 cash; balance 30 days.

In the automobile trade, the manufacturers furnish certain standard equipment with a car. The dealers may add certain equipment to the standard equipment and then sell a car as "fully equipped." This causes the variation in the price of the car which was sold to the Jeffrey Manufacturing Co.

Mar. 11. Received $10.00 for rental of space for storage for one month.

Credit Income from Storage account. The firm has more space than is needed for sales rooms; therefore they have decided to rent this space for storage purposes.

Mar. 12. Cash sales of accessories, $26.85.

12. Received bill from the Columbus Machine Co., 124 N. Front St., for repairing a defective car. Amount of bill, $18.75; terms, 30 da. net; date of bill, Mar. 10.

Enter this bill in the journal crediting the amount of it to the Columbus Machine Co.; extend the amount into the column headed "Accounts Payable Cr." Debit the amount of this bill to the Douglas Motor Co. The Douglas Motor Co. has agreed to pay the cost of repairing defective parts. Therefore extend the amount, in red ink, into the column headed "Accounts Payable Cr."

It will be observed that, according to the instructions for this entry, there is a debit entry in a column which should contain only credit entries. However, since the debit entry is written in red ink, this calls attention to the fact that this entry is different in character from the entries that are usually made in this column. Therefore, when obtaining the total of the accounts payable column, do not include the amounts which are entered in red ink.

The use of red ink to distinguish debit entries in credit columns or credit entries in debit columns is generally employed by bookkeepers and accountants. It is not uncommon to find a transaction in business, the entries for which are not easily recorded in the usual, formal way owing to the use of special columns and special books.

Moreover, it is sometimes necessary to re-name special columns or to rule (by hand) additional special columns in cases in which a change in a business requires a change in the methods of recording transactions or of obtaining additional statistics.

In all such instances the bookkeeper should be equal to the emergency, and, by the use of devices similar to those which are suggested here, he may overcome many difficulties.

Mar. 12. Paid for painting signs on building $65.00.

12. Received from the Ohio Tool Co., 834 Harrison Building, an invoice for tools; date of invoice Mar. 11; amount, $62.70; terms, 2/10, n/30.

Enter this transaction in the journal (charging Tool Equipment account) and credit the Ohio Tool Co. in the column headed "Accounts Payable Cr."

Mar. 13. Paid salaries due today.

13. Paid for gasoline $115.00.

13. Paid Goodrich Rubber Co.'s bill of Mar. 5th.

15. Sold the Ohio Tool Co. 1—5 Passenger Touring Car, #18685, motor #41976, for $1425.00; terms, $425.00 cash; balance 30 days.

There is an account with this company in the accounts payable ledger; but, since it has become a customer, there should also be an account with it in the accounts receivable ledger. It is not unusual in business to carry two accounts with one person, firm, or corporation; one an account payable, and the other an account receivable.

Mar. 15. C. O. Miller drew $100.00, cash.
15. Paid for James Armstrong $84.38. This was for his life insurance premium.
15. William Headly paid balance due on his account, and the firm allowed him a discount of 1% on the selling price of his car.
15. Received $10.00 for storage space for one car.
16. Sold William Headly, 1 Goodrich Tire @ $42.85; terms, 2/10, n/30.
16. Paid Douglas Motor Co. $5000.00 to apply on bill of Mar. 7.

The Douglas Motor Co. has agreed to allow a proportionate amount of discount on payments that are made within the period in which discount is allowed. In calculating the discount, remember that the amount of the payment sent to the company is 98% of the amount to which the firm is entitled to credit.

Mar. 16. Gave the Douglas Motor Co. a note at 30 days for the balance of the account.

The debit amount of this entry should be placed in the (journal) column headed, "Accounts Payable Cr.", and the credit amount, in the column headed "General Ledger Cr."

Mar. 17. Cash sales of accessories, $103.28.
17. Sold Richard Wright, 384 Sullivant Ave., for $1425.00, 1—5 Passenger Touring Car, #19316, motor #45118. Took, in exchange, 1 used car at $425.00; balance, cash.

Enter in the sales book in the usual way; credit his account in the usual way with the payment of cash. Then, make a journal entry debiting Purchases account and crediting Richard Wright in the accounts receivable column.

Mar. 17. Received invoice from the Auto Accessories Co. for $192.70; dated Mar. 15; terms, 1/10, n/30.
18. Received invoice for merchandise from the Buckeye Manufacturing Co., 824 Parsons Ave., for $124.80; dated Mar. 16; terms, 2/10, n/30.
18. Gave James Armstrong a check for $50.00.
18. Paid freight on shipment from Auto Accessories Co., $12.84.
19. Paid premium on fire insurance policies covering office equipment, tools, and accessories, $142.74. The policies are dated Mar. 1.
19. Received $10.00 for storage space for one month.
19. Paid $427.50 for building shelves, bins, etc., for store room for parts and supplies.

This and other similar expenditures should be charged to the Garage Equipment account.

Mar. 20. Paid invoice of the Ohio Tool Co., less discount.
20. Paid Salaries due today. The pay roll for this week should include, in addition to the usual charges, the wages of a mechanic's helper, who is to receive $30.00 per week.
20. Cash sales of supplies and accessories, $61.82.

Mar. 20. Received invoice from The National Cash Register Co., Dayton, Ohio, for $425.00 for cash register. This bill is dated Mar. 18; terms, $100.00 cash; balance $25.00 per month until paid.

Enter this invoice in the journal. Treat it as you did the invoice of the Ohio Tool Co. on Mar. 11; then make the proper charge for the payment of cash.

Mar. 22. Sold Daniel Glacken, 964 State St., for $1425.00, 1—5 Passenger Touring Car, #19320, motor #45328; terms $1000.00 cash; balance, note at 30 da. at 6%.

22. Sold Harry Timmons, 1280 Mt. Vernon Ave., for $1425.00, 1—5 Passenger Touring Car, #19337, motor #45437; terms, $1200.00 cash; balance, 30 days.

22. Cash sales of accessories and supplies, $84.25.

23. Sold James Bartlett, 420 E. Broad St., for $1425.00, 1—5 Passenger Touring Car, #19338, motor #45442; terms, 1% discount for cash.

23. Received invoice from the Auto Accessories Co. for $126.80; dated Mar. 20; terms, 1/10, n/30.

24. Paid for gasoline $46.00.

24. Paid for advertising $42.60.

24. Paid Auto Accessories Co. for bill of Mar. 15.

25. Received check from the Ohio Tool Co. for balance of account, $985.75.

The firm has allowed this company 1% discount on selling price of car since the account has been paid in full within 10 days.

Mar. 25. Sales of accessories and supplies, $38.50.

25. Received bill from the Columbus Machine Co. for $16.70 for repairing a defective car. Date of bill Mar. 20; terms, 30 da. net.

Charge this bill to the Douglas Motor Co. Refer to an entry on Mar. 12 for a similar transaction.

Mar. 26. Paid bill of the Buckeye Manufacturing Co., less discount.

26. Received bill from the Douglas Motor Co. for $7875.00; terms, 2/10, n/30; bill dated Mar. 23.

26. Cash sales of accessories and supplies, $21.38.

27. Paid salaries due today; the amount is the same as on the 20th.

27. Sold W. D. Culp, 1017 W. Broad St., for $525.00, the used car which was received on Mar. 17; terms, $200.00 cash; balance, $25.00 per month until paid.

27. Received bill from the Columbus Machine Co. for $68.40 for repairing the used car; dated Mar. 24; terms 30 da. net.

In what book should this bill be entered?

Mar. 29. Paid for delivery of the cars, which were billed on Mar. 23, $93.85.

29. Sold the Columbus Machine Co., for $1425.00, 1—5 Passenger Touring Car, #19339, motor #45448; terms, $1000.00 cash; balance, 30 days.

Open an account with the Columbus Machine Co. in the accounts receivable ledger.

Mar. 29. Received $10.00 for storage space for 1 month.
30. Newton Tracey paid his note with accrued interest.
30. Paid a personal bill for James Armstrong, $160.75.
30. C. O. Miller withdrew $100.00 cash.
31. Cash sales of accessories and supplies, $50.20.
31. Paid Douglas Motor Co., $5000.00 to apply on note which was given on Mar. 16.
31. Make the proper entry to credit each partner with his salary for the month and to charge the salaries to General Expense account.

ADJUSTING ENTRIES PREPARATORY TO CLOSING THE LEDGER

In some business houses, no record is made of accruals, or non-ledger assets and liabilities, except to show them on the Balance Sheet. This plan is objectionable, since the ledger thus shows results which are different from the results shown by the Balance Sheet and the Trading and Profit and Loss Statement. For obvious reasons the accounts contained in the ledger should agree with the accounts used in the preparation of the Balance Sheet and the Trading and Profit and Loss Statement. This agreement can be effected by recording the accruals.

The entries which record accruals of assets, liabilities, expenses and income may be made before the books of original entry are closed, or these entries may be made along with the closing entries. Either plan will produce the same results in the accounts, and consequently will produce the same results on the Balance Sheet.

The plan which is adopted in this textbook is that of recording the accruals before closing the books of original entry; thereby, these entries are removed from among the closing entries, which follow the preparation of the Trading and Profit and Loss Statement and the Balance Sheet.

Accruals, prepaid expenses, and deferred credits to income are sometimes called sundry resource and sundry liability inventories, and accounts with them may be opened under the following names: Sundry Resource Inventories and Sundry Liability Inventories.

Mar. 31. Calculate the accrued interest on the two notes receivable, and after you have determined the amount of the interest, make the following journal entry to record it:

Accrued Interest
    Interest

Mar. 31. The agreement between the partners stipulates that each partner is to be allowed interest at 6% per annum on his investment. Therefore, calculate the interest on each partner's investment for the month of March, and make the proper entry for the interest. This entry should be as follows:

Interest on Investment
    James Armstrong, Partner
    C. O. Miller, Partner

The interest thus allowed should not be posted to the Interest account that is already in the ledger, since the interest that is allowed to the partners is used merely as a device for partly equalizing the difference between the partners' investments. Furthermore, this charge for interest is not an operating expense, and should not appear on the Trading and Profit and Loss Statement as such an expense; but, it should appear on this statement as the last charge, or deduction, from the total net income.

Mar. 31. Determine the amount of the wages due employees. They have earned wages for 3 days, and the following journal entry, when completed, will record the accrued wages:

General Expense
Labor
    Accrued Wages

MERCHANDISE INVENTORY, PREPAID EXPENSE, AND DEFERRED INCOME

The Inventory of Merchandise is	$15,585.15
Advertising paid 2 months in advance	300.00
Gasoline on hand	61.50
Insurance	130.84

The building is leased for 5 years, and the firm has decided to charge off, each month, 1/60 of the Building Expense account; therefore, the amount of the deferred charge is $839.37

The income from storage is not all earned during the month of March since each person is paid in advance for one month. The portion which will have to be earned in April is $23.83.

Entries for these inventories may also be made before the books of original entry are closed. However, they will be treated in the same manner as all the inventories in the previous sets have been treated.

PROGRAM FOR CLOSING

The program for closing this set differs somewhat from that for closing the previous sets. This variation is due to the fact that special columns and special ledgers are used. The changes in the program for closing will reveal to the student the adaptability of special columns and special books in proving portions of the work and in locating certain errors, which may occur.

1. Obtain (in pencil) the total of each column in the books of original entry.
2. Close and rule the books of original entry which contain special columns.

In the explanatory column of the journal, on the first blue line which has not been used for an entry, insert the following: "Accounts Receivable Cr.", and "Accounts Payable Cr." Opposite these terms and on the same blue line with them, insert, in black ink, in their respective columns, the total of the accounts receivable column and the total of the accounts payable column. Then, rule with single and double red lines just as you did in the sales books of previous sets.

Do not forget to post the three amounts, which are in the accounts payable column of the journal and which are debits, to the Accounts Payable account.

On the debit side of the cash book, extend the amount of the net cash column (on the same blue line) into the general column, and then add it with the other amounts of that column to obtain the total amount of cash received. On the credit side of the cash book, extend the amount of the net cash column (on the same blue line) into the general column to obtain the total amount of cash paid. The difference between the totals of the two general columns will be the balance of cash. The cash book is then ruled with single and double red lines like the previous cash books. Study the following illustration of the ruling of a special column cash book. Observe that the pages in the ledger, to which the totals of the special columns have been posted, are indicated just below the ruling of the special columns.

A CLOSED CASH BOOK

											275 00
						31	Notes Pay J A D 128				225 00
					1050 00						
		600 00	10 00	590 00	590 00			800 00	15 00	785 00	785 00
		(42)	(127)					(71)	(132)		
	Total Cash Received				1640 00		Total Cash Paid				1285 00
							Balance (Red)				355 00
					1640 00						1640 00

3. Close and rule the purchases book and the sales book as follows:

In the explanatory column of the purchases book, on the first blue line which has not been used for an entry, insert the following: "Purchases Dr." and "Accounts Payable Cr." On the same blue line with these names, write in black ink, in the second amount column, the total purchases for the month. Then rule this book in the usual manner.

The sales book is closed in a similar manner; however, in the explanatory column of this book, insert the following: "Accounts Receivable Dr." and "Sales Cr." Extend the total sales into the second amount column.

4. Post the totals of the various special columns according to the heading of each column. All these totals are posted to accounts in the general ledger, except the totals (in the cash book) of the two columns headed "Net Cash Dr." and "Net Cash Cr." Remember also that the totals of the two general ledger columns in the journal are not posted, but that the individual items in these columns are posted.

5. Test the correctness of the subsidiary ledgers.

First, test the accounts receivable ledger to determine whether or not it agrees with the Accounts Receivable account in the general ledger. This test should be made by preparing a list of the balances of the accounts, which are in the accounts receivable ledger, and by totaling these balances; this total should agree with the balance of the Accounts Receivable account in the general ledger. This is a proof of the accounts receivable ledger.

Second, test the accounts payable ledger in a similar manner to determine whether or not it agrees with the Accounts Payable account in the general ledger.

The lists of accounts which are prepared from the subsidiary ledgers are commonly called schedules, and are frequently designated by letters, that is, the list of accounts receivable may be designated as Schedule A, and the list of accounts payable as Schedule B. Any list of accounts or items which is prepared in detail and which is used to prove the accuracy of an account, is commonly called a schedule.

6. Prepare a trial balance from the general ledger.

7. Prepare a Trading and Profit and Loss Statement.

In the preparation of this statement, you should obtain the net profit from sales; then, write the heading "Other Income", and under this heading place the accounts which show the minor sources of income.

8. Prepare a Balance Sheet.

9. Prepare the necessary journal entries for closing.

10. Rule the general ledger accounts which are affected by the closing entries, and bring down the balances of those accounts which contain deferred charges.

11. The accrued accounts, which were opened in the general ledger and which resulted from "taking up" the accrued interest and the accrued wages, may be left as they are, or they may be closed. If these accounts are left open in the ledger, they should be treated as follows: When the interest on the notes is paid, enough should be credited to Accrued Interest account to close it; likewise, when the employees are paid, enough should be charged to Accrued Wages account to close it.

A very simple way, however, to treat these accounts is to reverse the journal entries by means of which the accounts originated. Then, by posting these reversed entries, the accrued accounts are closed and the amounts of the accruals are distributed back to their proper expense and income accounts. The accounts which are closed by these entries should then be ruled in the usual manner.

12. Prepare a test trial balance from the general ledger to determine whether or not this ledger is in balance to begin the following period.

EXERCISE XVII

If you have *studied* Set V,—not merely recorded the transactions—you should understand the necessity for certain special columns in the books of original entry. Moreover, you should be able to suggest changes that will simplify and improve the accounting system which is used in Set V.

The firm of Armstrong & Miller has obtained the agency for the state of Ohio for the sale of the products of The Johnson Truck Co., who manufacture motor trucks and accessories. The trucks will be sold throughout the state to dealers as subagents, but Armstrong & Miller will reserve all rights for the city of Columbus and Franklin County.

The firm wishes to know the net profit or the net loss, resulting from the sales of trucks, as separate from the income from other departments of the business. Consequently, you may devise such additional accounts, columns, or books as you may consider necessary to obtain the information desired by the firm.

Explain your suggestions fully, and illustrate them by drawing or sketching the accounts, columns, or books which you consider necessary.

ACCOUNTS RECEIVABLE—EXERCISE XVIII

Among the supplies in your outfit is Test Ledger III, which represents the accounts receivable ledger of the National Manufacturing Co. as at Mar. 31, 19—. This ledger is supposed to be in balance with the Accounts Receivable account in the general ledger. Proceed with the work as follows:

1. In order to know that this ledger is in accord with its controlling account, you should prepare a list of the balances and total them; this will also determine the accuracy of the work that preceded yours.

2. Post the amounts shown by the following Recapitulation of Sales for the month of April. Open the new accounts, as they occur, on the fourth page of the ledger, as indicated by the lines for headings.

Note.—If desirable, the student may copy these entries on journal paper; however, the time required for copying these entries may be saved by posting directly from the textbook to the test ledger.

3. Post the amounts that affect the accounts receivable and that are shown by the following journal entries made during April.

Remember that since you are in charge of the accounts receivable ledger, you should post only those amounts that affect the individual accounts of the customers.

SUMMARY OF SALES FOR APRIL 19—.

Date		To Whom Sold	Folio	Sale No.	Amount
Apr.	1	Wright Kay & Co.		173	134 60
	1	Manning, Merrill & Co.		174	62 18
	2	James A. Evans		175	82 94
	3	Nordyke & Marmon Co.		176	236 84
	4	John D. Dickman		177	104 67
	5	Holton & Barnes		178	48 32
	6	Novelty Manufacturing Co.		179	184 62
	8	Wright Kay & Co.		180	48 64
	9	Clayton & Lambert, Memphis, Tenn.		181	136 82
	10	National Brass Co.		182	84 96
	11	Merrill Lynch & Co.		183	63 75
	12	Carson Pirie Scott & Co.		184	198 46
	13	National Brass Co.		185	72 42
	15	Acme Forge & Foundry Co.		186	84 62
	16	Tuttle & Clark, New Orleans, La.		187	62 39
	17	Carson Pirie Scott & Co.		188	41 39
	18	Thomas McNulty & Co.		189	84 62
	19	Novelty Manufacturing Co.		190	104 39
	20	National Electric Co., Lynn, Mass.		191	86 48
	22	Holton & Barnes		192	60 34
	23	Wright Kay & Co.		193	67 80
	24	Dobson Evans & Co.		194	136 47
	25	Nordyke & Marmon Co.		195	138 78
	25	Manning Merrill & Co.		196	58 11
	26	Acme Forge & Foundry Co.		197	59 82
	28	John J. Dickman		198	43 86
	29	Thomas McNulty & Co.		199	83 45
	30	Novelty Manufacturing Co.		200	79 38

JOURNAL

			Gen. Ledger Dr.	Gen. Ledger Cr.	Accounts Payable Dr.	Accounts Receivable Cr.
Apr	10	Sales	8 64			
		Wright Kay & Co.				8 64
	20	Freight-Out	7 24			
		National Electric Co.				7 24
	22	Notes Receivable	363 85			
		Acme Forge & Foundry Co.				363 85

4. Post the amounts contained in the accounts receivable column to the proper accounts in the subsidiary ledger, from the following cash book: (Do not post any other amounts; they would be posted by the head bookkeeper.)

The following illustration represents a page from the debit side of the loose-leaf cash book of the National Manufacturing Co. You will note that the balance of cash at the beginning of the month is omitted. The amount of the cash balance and other important business facts are known only by those who have access to the general ledger, which, in many business houses, is locked.

CASH RECEIVED

				Accts. Rec. Cr.	Dis. on Sales Dr.	Net Cash	General
Apr	1	Holton & Barnes	On Acct.	95 77	1 92	93 85	
	2	Wright Kay & Co.	"	36 80	74	36 06	
	3	Thomas McNulty & Co.	"	51 86		51 86	
	4	National Brass Co	"	15 39		15 39	
	5	Carson Pirie Scott & Co.	"	87 20	1 74	85 46	
	6	James A. Evans	"	136 18		136 18	
	8	Merrill Lynch & Co.	"	85 00	1 50	83 50	
	10	Novelty Manufacturing Co.	"	84 10	1 68	82 42	
	11	Manning Merrill & Co.	"	102 38		102 38	
	12	Notes Receivable	J L A				500 00
	13	Nordyke & Marmon Co.	On acct.	546 37	10 93	535 44	
	14	Sales	For cash				46 38
	15	Rent	To May 15				50 00
	22	National Brass Co.	On acct.	218 00	4 36	213 64	
	27	Wright Kay & Co.	"	163 42	3 27	160 15	
	29	Manning Merrill & Co.	"	46 83		46 83	
	30	Sales	For cash				39 86

5. Prepare a list of the personal accounts with their balances; the total of these balances should agree with the balance of the Accounts Receivable account of the general ledger.

6. Submit your ledger and the list, or schedule, of the personal accounts to your teacher for examination

ACCOUNTS PAYABLE—EXERCISE XIX

Take Test Ledger IV from your outfit; this represents the accounts payable ledger of the National Manufacturing Co. as at Mar. 31, 19—. It is supposed to be in accord on this date with the Accounts Payable account in the general ledger. Proceed with your work as follows:

1. Prepare a list of the balances on this date, and total them to determine whether or not this ledger agrees with its controlling account. It is usually advisable to test the correctness of ledgers when continuing work someone else has begun.

2. Post all entries that affect the personal accounts payable in the subsidiary ledger from the following purchases book. Open the new accounts, as they occur, on the second page of the accounts payable ledger.

PURCHASES

Apr.	3	United States Metal Co.	1/30, n/60		439 62
	8	Bauer & Black	2/10, n/30		196 76
	10	Williams Brothers & Co., Buffalo, N. Y.	2/30, n/60		352 60
	18	Russell Ware & Co.	2/10, n/30		241 37
	21	The General Aluminum Co.	2/10, n/30		116 37
	23	National Woodenware Co., Grand Rapids, Mich.	2/10, n/30		102 30
	24	Bauer & Black	2/10, n/30		84 37
	26	American Steel Ball Co., Philadelphia, Pa.	2/10, n/30		127 94
	27	Thomas Page & Son, Boston, Mass.	2/10, n/30		138 78

3. Post all entries that are contained in the special columns and that affect the individual accounts payable in the subsidiary ledger, from the following journal:

JOURNAL

				Gen. Ledger Dr.	Gen. Ledger Cr.	Accounts Payable Dr.	Accounts Receivable Cr.
Apr	24	Russell Ware & Co. Purchases			41 27	41 27	

4. Post all amounts (contained in the accounts payable column) that affect the individual accounts payable in the subsidiary ledger, from the following cash book.

CASH PAID

				Accts. Pay Dr.	Dis. on Purch.Cr.	Net Cash	Expense	General
Apr	1	Rent	Apr.				150 00	150 00
	2	Notes Payable	U. T. Co.					500 00
	5	The General Aluminum Co.	On acct.	238 94	2 39	236 55		
	8	Edison Light & Power Co.	Mar.				28 62	
	8	Bell Telephone Co.	Mar.				8 00	
	10	Russell Ware & Co.	On acct.	227 08	4 54	222 54		
	14	Freight-In	B & B					12 82
	15	Office Salaries	To 4/15				187 50	
	17	Leather Specialties Co.	On acct.	264 28	2 64	261 64		
	17	Bauer & Black	On acct	196 76	1 97	194 79		
	20	Notes Payable	M. E. Bk.					250 00
	23	Russell Ware & Co.	On acct.	241 37	2 41	238 96		
	24	Freight-Out	W.K.& Co.					6 84
	26	Insurance	Ntl.Agency					48 64
	29	The Gen. Aluminum Co.	On acct.	116 37	2 33	114 04		
	30	Office Salaries	To 4/30				187 50	

5. Prepare a list of personal accounts with their balances, from the subsidiary ledger, and obtain the total of the accounts payable. This total should agree with the balance of the controlling account in the general ledger.

6. Submit your work and the list, or schedule, of accounts to the teacher for examination.

RECAPITULATION OF BOOKS OF ORIGINAL ENTRY

A recapitulation of a book of original entry is simply a summary of the various columns and entries; it should show the distribution, in totals, of charges and credits to various accounts. Perhaps the most common use of a recapitulation is to prove the mathematical accuracy of entries and columnar totals.

Books, which contain special columns, should be recapitulated before posting as a recapitulation may reveal errors that would not otherwise be discovered until a trial balance is attempted.

EXERCISE IN RECAPITULATION XX

You should now obtain the totals of all columns in the books that have been used in the two exercises in accounts receivable and accounts payable, which immediately precede this exercise. Supply the proper amounts from the totals which you have obtained and complete the following recapitulations:

Sales

Accounts Receivable Dr.	$______	
Sales Cr.	$______	

Purchases

Purchases Dr.	$______	
Accounts Payable Cr.	$______	

Cash Received

Cash Dr.	$______	
Discount on Sales Dr.	$______	$______
Accounts Receivable Cr.	$______	
General Cr.	$______	$______

Journal

General Ledger Dr.	$______	
Accounts Payable Dr.	$______	$______
General Ledger Cr.	$______	
Accounts Receivable Cr.	$______	$______

Cash Paid

Accounts Payable Dr.	$______	
Expense Dr.	$______	
General Dr.	$______	$______
Cash Cr.	$______	
Discount on Purchases Cr.	$______	$______

The cash book entries, which affect the accounts in the subsidiary ledgers, may be recapitulated and their accuracy tested before posting, as follows:

Accounts Receivable

Net Cash Dr.	$______	
Discount on Sales Dr.	$______	$______
Accounts Receivable Cr.		$______

Accounts Payable

Accounts Payable Dr.		$______
Net Cash Cr.	$______	
Discount on Purchases Cr.	$______	$______

After the books of original entry have been recapitulated and the accuracy of the entries determined, mistakes may be made in posting; but, such mistakes as may be made can then be localized. That is, if there is an error in some account in the general ledger, it is necessary to check only the postings to that ledger. The same plan may be followed in locating errors in the subsidiary ledgers.

DRAFTS AND ACCEPTANCES

It is probable that the draft, in some form, is the oldest kind of commercial paper known. It has been used for various purposes for hundreds of years.

The most common kinds of drafts in use today are (1) sight drafts and (2) time drafts. The latter may be divided into three principal kinds as follows: bills of exchange, trade acceptances, and bank acceptances.

SIGHT DRAFTS

The sight draft is similar in many respects to a check. When a customer is slow to pay his bills, it is the practice of many business houses to draw a sight draft on him in order to hasten payment of the debt.

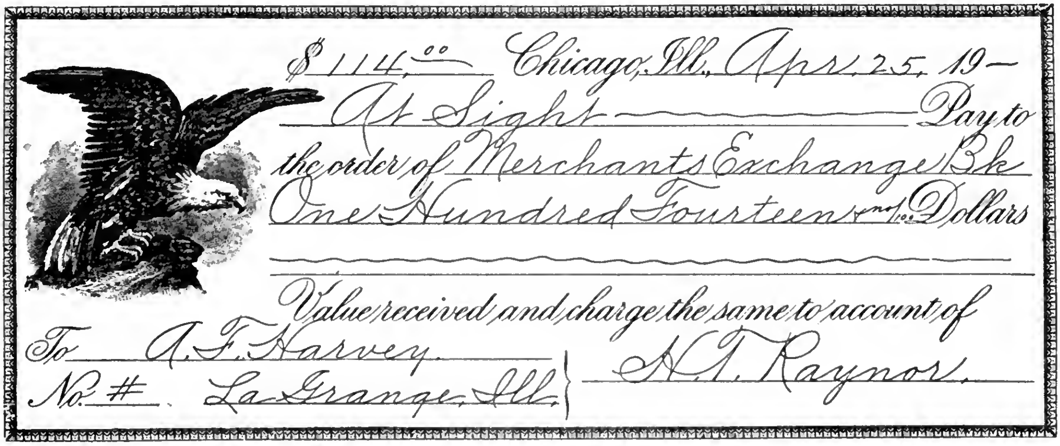
After the draft is made, it is delivered to a bank by the business house making it. The bank then presents the draft to the debtor or, in case he is located in another city, sends the draft to a bank in his city, which presents it to him for payment.

The debtor must either pay the draft or refuse to pay it. If he chooses the latter course, he is frequently embarrassed for the lack of a good excuse and is placed in a very unfavorable position. Many business men do not like to have drafts made upon them, but, in order to maintain good credit relations with their banks, will pay drafts rather than refuse payment of them.

Of course the draft might be given to a lawyer or to an agency for collection, instead of being given to a bank; but, if the customer lived in another city, the procedure for collection would be about the same as if given to a bank for collection.

If the customer pays the draft, the money is sent by the bank to the drawer of the draft; but if the customer refuses payment of the draft, the transaction is at an end. The draft is then returned to the drawer of it, and other means for collecting the claim must be found.

A SIGHT DRAFT



$114.00 Chicago, Ill., Apr. 25, 19—

At Sight —————— Pay to

the order of Merchants Exchange Bk

One Hundred Fourteen & no/100 Dollars

Value received and charge the same to account of

To A. F. Harvey

No. # La Grange, Ill.

H. T. Raynor

The main thing that concerns the student of bookkeeping is the entry to be made if the debt is collected. The entry for the collection does not differ from the usual entry made for the payment by a customer, of an open account.

No entry should be made at the time a sight draft is drawn, other than a memorandum in pencil, in the ledger, on the account of the customer. This memorandum is sufficient if it states the fact that a draft was drawn, together with the date of the draft. This memorandum is made in order that the history of the account may be more complete, and that the record may show what has been done to collect the account.

To determine the entries for a sight draft, let us assume that A. F. Harvey paid the illustrative draft when it was presented to him by a bank in La Grange.

The bank in La Grange would send the payment on to the Merchants Exchange Bank in Chicago. The Merchants Exchange Bank would then notify Raynor that the draft had been paid, in which case it would either place the amount of the collection to Raynor's credit or send him a check for it. The bank would probably deduct a small amount as compensation for its services in making the collection. Therefore the question arises: What kind of an entry must Raynor make in his books? The answer is that he must make exactly the same entry that he would have made, had the remittance been received directly from Harvey, the debtor. This entry, in journal form, which assumes that there was no charge for collection, follows:

Cash	$114.00	
A. F. Harvey		$114.00

The entry, in journal form, if we assume that the bank made a charge of 9 cents (Chicago Clearing House rates) for collection, follows:

Cash	$113.91	
Expense (Collection & Exchange)	.09	
A. F. Harvey		$114.00

The form in which either of these entries may appear in the cash book will depend, of course, upon the form of the cash book itself. If this transaction is analyzed, it is easily seen that it really amounts to two transactions: first, the collection of the debt; second, the payment of the bank for its services in making the collection.

EXERCISE XXI

In this exercise the student is bookkeeper for Hatfield Brothers. The teacher will perform the duties of a bank or will appoint a student to act in that capacity. Each student may prepare, on ledger paper, imaginary accounts, or imaginary accounts may be placed on a blackboard, to show a balance due from each of the persons, firms, or corporations which are mentioned in this exercise. The drafts which are to be drawn in the following exercises may be made payable to a local bank.

Mar. 1. The account of Robert Brooks & Co., Pittsburgh, Pa., is past due for 60 days, and during that time they have not made any purchases nor have they replied to the statements of account mailed to them each month.

Draw on them, at sight, for the balance of their account, $248.80, in favor of a local bank. Prepare a draft, which should correspond to the form given in the illustration of a sight draft, and hand it to your teacher for approval and for collection. What entry or memorandum should be made for this draft?

Mar. 1. The account of James Holden & Co., Atlanta, Ga., is past due, and they have not responded to the statement of account mailed them last month. The balance of their account is $184.22.

Draw, at sight, on them for the balance of their account, and deliver the draft to your teacher for approval and for collection. Make the proper entry or memorandum.

Mar. 10. Received notice from your bank that the draft drawn on Robert Brooks & Co., Pittsburgh, Pa., had been returned unpaid. What entry or memorandum is necessary?

Mar. 12. Received notice from your bank that the draft drawn on James Holden & Co., Atlanta, Ga., has been collected and the proceeds placed to our credit. The proceeds amounted to $183.76, and the collection fee, charged by the bank, amounted to $.46.

Make the proper entry or memorandum for the payment of this draft.

Mar. 15. Hatfield Brothers have been negligent and have allowed their account with Parker & Thomas, New York, N. Y., to become overdue. Their bank has just handed them a sight draft, which was drawn by Parker & Thomas, for $342.50. They (Hatfield Brothers) have decided to pay this draft and have issued a check for the amount.

Make the necessary entry to record the payment of this draft.

ACCEPTANCES

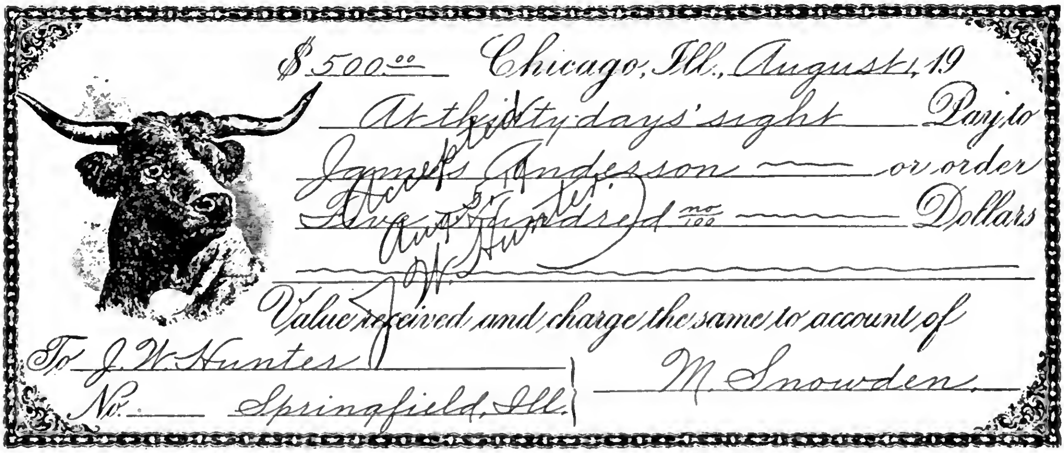
Acceptances may be of three kinds, viz., time drafts, trade acceptances, and bank acceptances. The first one is a very ancient form of commercial paper; but the other two, since they were authorized by the law creating the Federal Reserve Banks, are of more recent origin. All these forms are sometimes referred to as bills of exchange, or drafts.

TIME DRAFTS

A draft, such as the following, is usually drawn by one person, firm, or corporation upon another person, firm, or corporation. A paper of this kind is of no effect whatever until it is *accepted* by the drawee; then it *becomes a promissory note,* and it is subject to the same laws exactly as a promissory note.

This form of draft, or bill of exchange, is not commonly used in business. The entry, or entries, originating from its use are very similar to the entry, or entries originating from the use of the ordinary promissory note.

A TIME DRAFT


$500.00 Chicago, Ill., August 1, 19
At thirty days' sight Pay to
James Anderson or order
Five Hundred no/100 Dollars
Accepted Aug 5, J. W. Hunter
Value received and charge the same to account of
To J. W. Hunter
No. Springfield, Ill.
M. Snowden

In the preceding illustration of a time draft, M. Snowden is the drawer and J. W. Hunter is the drawee. Snowden would probably make a notation on the account of Hunter that a draft had been drawn; or it may be that the entire transaction may have been arranged previous to the time the draft was drawn. When this draft is presented to Hunter by James Anderson, Hunter either accepts it or refuses to accept it. If he refuses to accept it, the entire transaction is at an end; the draft is returned to Snowden, and no entries are required. But if Hunter accepts the draft, as shown by the illustration, the question arises: What kind of an entry must he make? The answer to this question is very simple, if it is remembered, that Hunter's *obligation* is the same as the obligation of the maker of a note. Thus, his entry would be as follows:

M. Snowden	$500.00	
Notes Payable		$500.00

James Anderson now has in his possession a note made by J. W. Hunter and the question arises: What kind of an entry must Anderson make on his books? This question is also easily answered if it is remembered that Anderson has received a promissory note to apply upon the account owed him by M. Snowden. Anderson's entry would be:

Notes Receivable	$500.00	
M. Snowden		$500.00

Now another question arises: What kind of an entry should Snowden make? His obligation on the note is secondary, that is, if Hunter fails to pay the note, Snowden must pay it. However, since his obligation is secondary, there is no need to record his liability on the note; but by this transaction at least two accounts on his books have undergone a change which should be recorded. These two accounts are the personal accounts of Anderson and of Hunter. By this transaction Hunter owes Snowden less and Snowden owes Anderson less; therefore, in order to record this result, the following entry should be made:

James Anderson	$500.00	
J. W. Hunter		$500.00

It must be remembered that not all of the entries for this one transaction would appear on one set of books; instead, just one of them would appear upon each set of books.

The first entry would appear on Hunter's books; the second entry on Anderson's books, and the third entry on Snowden's books. This form of draft is not often used in business, and, for this reason, it is of slight importance.

EXERCISE XXII

In this exercise the student is bookkeeper for Hatfield Brothers. This work may be done in the same manner that the work was done in the last exercise. It will be assumed that all arrangements between the parties for the acceptance of the drafts have been made before the drafts are drawn.

Mar 5. A draft drawn by F. W. Owens & Co. for $782.94, payable in 30 days, has just been presented to R. W. Hatfield, and he accepted it for Hatfield Brothers. This amount is for the balance due Owens & Co. on account.

Make the proper entry to record the acceptance of this draft.

Mar. 10. A draft has been returned to Hatfield Brothers after it was accepted by William Dobbs & Co., at 30 days, for $487.12. This draft is for the balance of Dobbs & Co's. account.

Make the proper entry to record this draft.

Mar. 20. Davis & Thornton owe Hatfield Brothers on account $639.84. Hatfield Brothers owe Martin Chadwick $321.40. An arrangement has been made whereby Hatfield Brothers are to draw on Davis & Thornton, at 30 days, in favor of Martin Chadwick for the amount due Chadwick.

Write the draft, using the illustration of a time draft as your model, and have your draft approved by your teacher who will take it as the agent of Martin Chadwick.

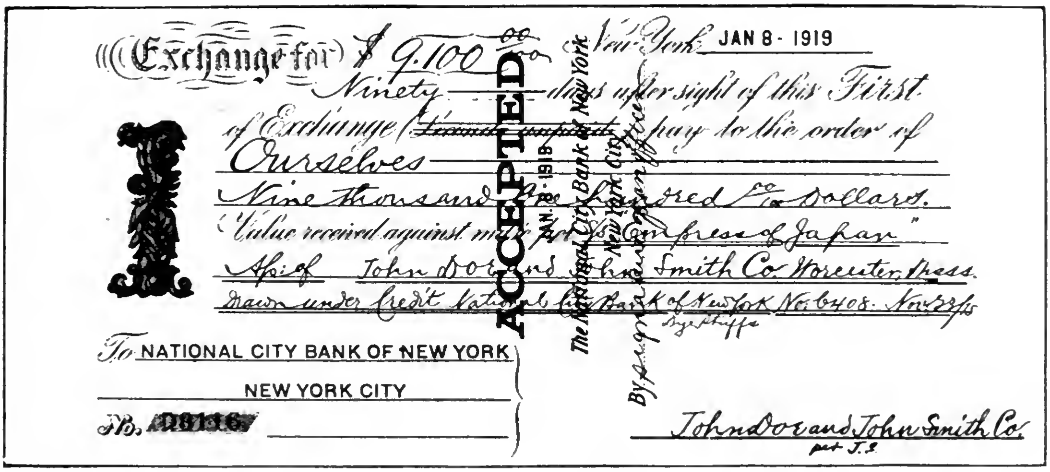
Prepare the proper entry for Hatfield Brothers to record this transaction.

BANK ACCEPTANCES

By the Act of Congress which created the Federal Reserve Banks, a bank may issue an acceptance for the purchase of goods or materials by a manufacturer, importer, or jobber. A transaction of this kind may originate as follows: A, a wholesaler, may desire to purchase a large quantity of canned goods for which there is a ready market; but in order to do so, he finds it necessary to borrow money. He will go to his bank and arrange for the bank to accept a draft drawn by the seller of the goods for the amount of the sale. Then, when the goods are delivered, the bank will place them in storage and hold the warehouse receipts for the goods. In the meantime, A has completed arrangements with the bank for the payment of the purchase price of the goods. These arrangements may be as follows:

He may pay the bank cash for whatever goods he takes from the storehouse at the time he takes them; or, he may give the bank a series of notes, maturing at different dates, for the amount of the goods he has purchased. Under either plan the bank is secured at all times and is reimbursed for the loan it has made.

A BANK ACCEPTANCE



Exchange for $ 9,100 00/100 New York JAN 8 - 1919
Ninety days after sight of this First of Exchange (Second unpaid) pay to the order of
Ourselves
Nine thousand one hundred 00/100 Dollars.
"Value received against mdse per S/S Empress of Japan"
A/c of John Doe and John Smith Co. Worcester Mass.
Drawn under Credit National City Bank of New York No. 6408. Nov 23/18

ACCEPTED
JAN. 8 1919
The National City Bank of New York
New York City
By

To NATIONAL CITY BANK OF NEW YORK
NEW YORK CITY
No. 08116

John Doe and John Smith Co.
per J.S.

The only question with which the bookkeeper is concerned is the form of the entry to record this kind of a transaction, which does not differ essentially from other transactions in which a note is issued, or a note is received.

A may make the following entry:

Purchases
    Notes Payable

The seller of the goods may make the following entry:

Notes Receivable
    Sales

The person, firm, or corporation which sold the goods would probably offer the note, or bank acceptance, for sale or discount at current rates of interest. If the acceptance were sold, the one who sold it may make the following entry:

Cash
Interest
    Notes Receivable

TRADE ACCEPTANCES

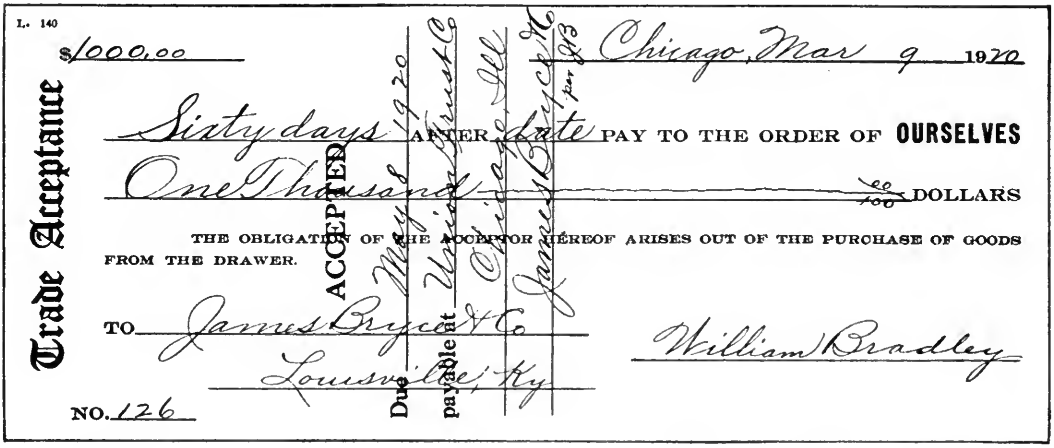
The trade acceptance is a draft which is drawn by the seller of the goods upon the purchaser and which is accepted by the purchaser. The acceptance must bear *upon its face* a statement that the obligation of the acceptor arises out of the purchase of goods from the drawer.

The entry or entries necessary to record this transaction would not differ from the entries made for the issuance or receipt of a note. The explanation of the entry should state that the obligation arose from a trade acceptance.

The trade acceptance is usually distinguished from the common form of draft, or bill of exchange, by its bearing the words "Trade Acceptance." The transaction out of which a trade acceptance arises is usually made with the understanding that a trade acceptance is to be given.

The old form of draft may be drawn as the result of any kind of a transaction, whether it were drawn for the purchase and sale of goods, wares and merchandise, or for a transaction on a stock exchange or for an ordinary loan, would make no difference.

A TRADE ACCEPTANCE


L. 140

Trade Acceptance

$1000.00 Chicago, Mar 9 1920

Sixty days after date PAY TO THE ORDER OF OURSELVES

One Thousand 00/100 DOLLARS

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER.

TO James Bryce & Co
Louisville, Ky

NO. 126

William Bradley

ACCEPTED
Due May 8 1920
payable at Union Trust Co
Chicago Ill
James Bryce & Co
per J.B.

Thus it is seen that the trade acceptance becomes, simply, either a note receivable or a note payable, and that it is so treated from the bookkeeper's standpoint.

PROVISION FOR DEPRECIATION AND LOSSES

DEPRECIATION

Depreciation is the lessening in value of property or rights of any kind due to lapse of time, usage, and other causes.

Office equipment and delivery equipment depreciate from use and, in most cases, could not be sold for what they cost after being used for only a few days or weeks.

A horse may be used for months or for a year or two and then it may be sold for more than cost; but, if kept long enough, it will gradually become useless and its value will decrease to nothing. Many articles of merchandise, such as millinery, suits, shoes, etc., depreciate in value and sometimes become worthless owing to changes in styles. Machinery depreciates from use; or, it may become worthless because of the invention of better machinery.

Copyrights and patent rights are issued for a limited term of years; and, therefore, these rights become less valuable as the time for their expiration approaches.

Mines and quarries decrease in value as the mineral deposits are taken out of them. Timber lands also become less valuable as the standing timber is cut and manufactured into lumber.

This gradual wastage is going on all the time whether a provision is made for it or not; and, sooner or later, the value of the property affected by it is reduced to nothing, or almost nothing. If no provision has been made for the restoration of the capital represented by these wasting assets, there may come a time when it will prove burdensome to the business to restore such property. For, to continue to show profits and to take such profits out of the business under these conditions, is but to return to the owners a part of the original capital invested in the business.

After property has become worthless for the purposes for which it was intended, it may have a value for some other purpose; thus, worthless machinery has a value as old iron; books have a value as old paper, etc. This value is commonly known as the *junk* value, *residual* value, or *salvage* value, and it is sometimes taken into consideration when estimating a rate of depreciation.

TO DETERMINE A RATE OF DEPRECIATION

Every business is confronted by the problem of determining a rate of depreciation, as there is no fixed rate that will apply to any one class of property under all conditions. Depreciation of property must vary greatly according to the uses to which the property is put; the climatic conditions under which it is used; the qualities inherent in the property itself, which may differ from similar properties; and the habits of those to whom the property is intrusted.

A simple method for estimating a rate of depreciation follows: Determine the probable life, in years, of the property; this number of years is considered as 100 per cent; so the rate of depreciation for one year in per cent, would be the quotient, which results from the division of 100% by the number of years the property is estimated to last. Thus if the probable life of the property is 10 years, the annual rate of depreciation would be 10%.

There are other methods for estimating a rate of depreciation of property, but they are more or less complicated. The method explained here is simple and is quite generally used by business houses, particularly those houses engaged in handling merchandise. Many large corporations, such as those engaged in transportation, in manufacturing, or in supplying public necessities, etc., employ appraisers or engineers to value their property and to determine a rate of depreciation. The bookkeeper, then, by means of certain entries gives effect to the rate or rates of depreciation which were decided upon. While it can hardly be considered the work of a bookkeeper to decide upon rates of depreciation, nevertheless he should be reasonably familiar with the principles by which rates of depreciation are determined.

PROBLEMS IN DEPRECIATION

1. The Bowen Products Co. has office equipment that cost $4,298.64. They estimate the life of this property as 10 years. What should be the annual rate of depreciation? How much depreciation must they provide for annually? How much depreciation each month?

2. A certain department store has show cases, display fixtures, and other store equipment that cost $10,876.80. If the management of the store estimates an annual rate of depreciation of 20%, how much depreciation should be provided for annually? How much each month?

3. Crowley Brothers own the following property for which they must provide depreciation: Store equipment $8,418.75, office equipment $3,264.12, delivery equipment $6,382.94. The rates of depreciation follow: Store equipment 20%, office equipment 10%, delivery equipment 15%. What is the total annual charge for depreciation? The total charge each month?

4. The Anchor Manufacturing Co. bought a light delivery truck for $1,640.00. They estimated depreciation at 20% annually. After using the truck two years they decided to buy a heavier truck, which cost them $3,650.00. They traded in the old truck on the new one and were allowed $1,000.00 for it. Was their allowance for depreciation sufficient?

DEPRECIATION ACCOUNT

This is an account used to show the periodic charge for the wasting or decrease in value of certain property.

If a particular business has, say, two different classes of property which are used in the business, there may be two separate accounts with depreciation. The title of each account recording depreciation (if separate accounts are used) should contain words descriptive of the class of property on which the depreciation was estimated. Thus, by this plan, the proper title for an account with the depreciation estimated on office equipment would be, Depreciation of Office Equipment; likewise, the proper title for an account with the depreciation estimated on delivery equipment would be, Depreciation of Delivery Equipment.

It is easily understood that, if there were many different classes of property used in the business, the accounts necessary for depreciation would be equal in number and would add considerably to the number of accounts carried in the ledger. It is desirable in many instances, particularly in the smaller business houses, to eliminate as many accounts as possible, provided the books still show correct results. Therefore, it is not uncommon to find depreciation charged directly to one or more of the expense accounts which are contained in the two groups of expense accounts previously discussed.

If depreciation is to be charged directly to an expense account, or to one of the minor classes of expense, the only question to decide is: To what expense account should it be charged? This is usually a very simple matter to decide, if the use to which the property is put is kept in mind. Thus, depreciation of office equipment may be charged to an account in the general expense group, and depreciation of delivery equipment may be charged to an account in the selling expense group.

Depreciation is an expense regardless of the particular manner in which it may be handled; and, to whatever account it may be charged, that account should be closed at the end of a fiscal period just like any other expense account.

RESERVE FOR DEPRECIATION

Every charge for depreciation has its corresponding credit. Thus, if a charge of $50.00 is made for the depreciation of a particular asset or assets, some account should be credited with a like amount. Since the charge is made because of the depreciation of a particular asset, it would seem natural to credit the account, which included that asset for the amount the asset has depreciated. It would not be wrong to do this as the balance (of the account), which would be obtained after allowing for depreciation, would be correct.

But while the account would show the correct balance, the balance would not be the original cost of the assets represented by the account; and it is sometimes important to know that cost.

Instead of crediting the particular asset account with an amount which is the estimated depreciation, it is a common practice to credit this amount to an account which is commonly known as Reserve for Depreciation.

PARTICULAR RESERVES

If there were only one account for Reserve for Depreciation, it would be impossible to determine without an analysis the amount contributed to this account by each asset or class of assets. So, in order to simplify the bookkeeping, it is a good plan to have as many reserve accounts as there are classes of property that may depreciate. In a business having, say, two classes of such property, there should be two accounts for Reserve for Depreciation. Thus, the Office Equipment account would have its corresponding account, which would be known as Reserve for Depreciation of Office Equipment, and the Delivery

Equipment account would have its corresponding account, which would be known as Reserve for Depreciation of Delivery Equipment.

It is possible that more appropriate titles might be found for accounts of this nature, but the titles suggested in the preceding paragraph are the ones most commonly used in business.

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

This is an account to which is credited the estimated decrease in value of the office equipment.

EXERCISE XXIII

Trace, mentally, the items in the following exercise to the illustrative account with Reserve for Depreciation of Office Equipment.

June 1. Meyer & Donaldson's books showed an account with Reserve for Depreciation of Office Equipment amounting to $504.30, which had accumulated in two years.

2. They bought a new typewriter for $150.00 and traded in the old typewriter (which cost $100.00) at $30.00. They had used this machine for 2 years and allowed 20% depreciation annually.

30. The Office Equipment account showed a balance of $1,336.50, and 20% depreciation annually was allowed for the month just ended.

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT

June	2	Typewriter		40	00	June	1	Balance		504	30
							30	For June	J	22	28

QUESTIONS ON RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

1. What should the credit of this account show? 2. What should the debit of this account show? 3. What should the balance of this account show? 4. What kind of a balance should this account show?

Purpose. The purpose of this account is to show the provision made for the decrease in value of the office equipment.

Method. Debit this account with the amount of the reserve that some particular asset has contributed to it, when that asset is sold, traded, or otherwise disposed of.

Credit this account with the estimated, periodical allowance for the decrease in value of some asset which is used in the business, and which has been previously charged to the Office Equipment account.

Result. The balance of this account should show the net amount which has been provided for the decrease in value of office equipment.

METHOD OF CREATING RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

Depreciation, which is an expense, must not be confused with the reserve for depreciation; they are dissimilar in every way. The Reserve for Depreciation account is used as a means of showing the book value of the asset account to which the reserve is related.

It is, therefore, commonly called an evaluation account. At the end of a fiscal period, before the books are closed, a journal entry may be made to provide for the reserve. The following is an example of how the amount of the depreciation is estimated and of the journal entry by means of which the estimate is recorded on the books:

June 30. Meyer & Donaldson's Office Equipment account showed a balance of $1,336.50. A rate of 20% depreciation, annually, was allowed for the month just ended.

Solution

20% of $1336.50 = $267.30 depreciation for one year.
$267.30 ÷ 12 = $22.28 depreciation for one month.

Entry

Depreciation	$22.28	
Reserve for Depreciation of Office Equipment		$22.28

Or, the journal entry might be:

General Expense	$22.28	
Reserve for Depreciation of Office Equipment		$22.28

The explanations, which are omitted, would be the same for both these journal entries.

BALANCING AND RULING RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

There is seldom any need to balance this account, but if such a need arises, it is balanced and ruled like the Notes Receivable account. It should be closed only when all the property for which it was provided has been sold or disposed of in some nanner.

At the end of a fiscal period, in the preparation of the Balance Sheet, it is deducted from the net amount of the account for which it was provided and the difference, or present value of the property, is included among the assets as follows:

Office Equipment	$3852.18	
Less: Reserve for Depreciation	770.44	
		$3081.74

The general principles just explained, which pertain to the account with Reserve for Depreciation of Office Equipment, will apply as well to all Reserve for Depreciation accounts, no matter what kind or class of property is represented by the asset account to which the reserve account relates.

LOSS ON ACCOUNTS RECEIVABLE

When business is done on credit, there must be more or less loss due to the failure of customers to pay their bills. It is the common experience of business men that such losses will occur, no matter what precautions may be taken to prevent them. But these losses may be provided for in advance by means of proper accounting.

BAD DEBTS ACCOUNT

There are several different methods in common use to care for personal accounts which are known to be worthless. For example, suppose John Hollis owes Meyer & Donaldson $350.00, and he is bankrupt; Meyer & Donaldson receive a check for $175.00 to apply on Hollis' account, and they are informed that they will receive no further payment. They may make the following entry:

Cash	$175.00	
Profit & Loss	175.00	
John Hollis		$350.00

Or, an entry may be made as follows:

Cash	$175.00	
Bad Debts	175.00	
John Hollis		$350.00

If the first entry is made, the amount of the loss is charged directly to the Profit & Loss account; this entry also closes the account with Hollis. If the second entry is made, the amount of the loss is charged to the Bad Debts account, which may be held as an open account until the end of the year, when the balance of it may be charged to the Profit & Loss account. Either method will show the losses caused by bad debts during the year. If there are several such losses, the Bad Debts account may appear as follows:

BAD DEBTS

Mar	10	John Hollis	J 100	350	00					
May	1	Davis Bros.	J 140	100	00					
Aug	15	F. Bowen	J 168	75	00	Nov	10	F. Bowen	25	00

The credit to this account represents a payment during the current period on a personal account that had been previously charged to the Bad Debts account.

CLOSING AND RULING BAD DEBTS ACCOUNT

It is evident that this account is used as an intermediate step between closing the personal account of the debtor and finally charging it to the Profit & Loss account. Since the balance of the Bad Debts account is charged to the Profit & Loss account at the end of a fiscal period, the Bad Debts account is closed and ruled like any other account that is closed into the Profit & Loss account.

PROVISION FOR LOSS ON ACCOUNTS RECEIVABLE

At the end of a fiscal period when profits and losses are being determined, it is customary to make some provision for losses which may arise from nonpayment of some of the accounts receivable. Of course it is not possible to determine which particular account may prove bad, but there is a probability that some loss will occur before all the accounts are collected. If it could be foreseen which particular account would prove bad, this account could be charged to the Bad Debts account at the end of a fiscal period, and removed from among the accounts receivable; but since this is not possible, the most logical thing to do is to provide in advance for such losses.

Since it is not known how much may be lost from bad debts, it is customary to estimate the amount. A good guide for making this estimate is the loss in former years from bad debts. This loss may be determined as a certain per cent of the total sales for a year; or it may be determined as a certain per cent of the total accounts receivable at the end of a fiscal period. One method is perhaps as good as the other, because it must be remembered that such a calculation is at best nothing more than a guess. Yet it is surprising how slight the variation in the rate will be if the losses from this source are averaged, for a number of years, in one business or in one particular kind of business.

RESERVE FOR LOSS ON ACCOUNTS RECEIVABLE ACCOUNT

After the probable amount of loss from bad debts has been determined, the next thing to consider is the form in which the entry must be made to give effect to the estimate. Say that $300.00 is the amount which has been decided upon as the probable loss from bad debts. The entry to record this estimate may be as follows:

Bad Debts	$300.00	
Reserve for Loss on Accounts Receivable		$300.00

Or, it may be:

Profit & Loss	$300.00	
Reserve for Loss on Accounts Receivable		$300.00

The amount which was estimated as the probable loss, by means of either entry, finds its way to the Profit & Loss account and thereby reduces the profits for the period.

There is always a possibility that the expected loss may occur. If this happens in the following period, the proper adjustment may then be made. Suppose Harris & Co., who became indebted during a previous period and whose balance of $400.00 was included among the accounts receivable at the end of the period, should fail and pay only 60% of the debt. The following entry may then be made:

Cash	$240.00	
Reserve for Loss on Accounts Receivable	160.00	
Harris & Co.		$400.00

It will be seen that this loss would not affect the profits for the current period and since provision has been made for it, it apparently has no effect upon the business. In other words, the business was prepared for a "shock" of this kind.

BALANCING AND RULING RESERVE FOR LOSS ON ACCOUNTS RECEIVABLE ACCOUNT

There is seldom any need to balance and rule this account. Like all other accounts of a similar nature it continues from month to month or year to year as an open account. It may be ruled and balanced if it is desired to carry it forward to another page in the ledger.

It is also an evaluation account and, at the end of a fiscal period it may be deducted on the Balance Sheet from its related account. Thus, when the Balance Sheet is prepared, these accounts would appear as follows:

Notes Receivable		$ 6000.00
Accounts Receivable	$30,000.00	
Less: Reserve for Loss	600.00	
		29,400.00

Under no circumstances should the accounts receivable appear among the assets, and the reserve for accounts receivable among the liabilities.

GENERAL USE OF RESERVES

In a mercantile business, the most common reserve accounts are those which are related to office equipment, delivery equipment, store equipment, and accounts receivable; though in many of the smaller establishments no account of this nature will be found. Of course depreciation of equipment and losses on accounts receivable do occur whether the firm be large or small, but the smaller business houses have usually considered these matters unimportant. There has, nevertheless, been a tendency toward more careful bookeeping on the part of such concerns since the passage of the Income Tax Law. A moment's reflection will show why this is so.

The principle of providing a reserve to cover probable losses from certain sources and to cover the depreciation of certain kinds of property is now very generally accepted in business, since there are certain lines of business which are specially hazardous, and other lines of business which require a large investment of capital, and in which the return of the capital is more or less doubtful.

Examples of such lines of business are the manufacturing of chemicals and explosives, mining, lumbering, engineering projects, etc. Many, if not most, of the hazards incidental to business may be covered by some kind of insurance, but there are other businesses in which the risks are so great that the rates of insurance are prohibitive. Therefore business men have attempted to protect their investments in such cases by means of a reserve. In a book of this nature it would be impossible to attempt to discuss these various reserves in special lines of business.

However, the general principles which underlie the creation and use of reserves as here explained and outlined, would apply in any line of business, though the names of the particular accounts and the particular entries which affect the accounts may vary.

A COMMON ERROR

It is a common error to confuse the ordinary *reserve for depreciation* with a *reserve fund*, though these terms are exactly opposite in meaning.

Just as a business man may think that profits are cash so he may sometimes think that a reserve for depreciation or a reserve for bad debts is the same as a reserve fund; but it does not follow that because a reserve has been created that there also has been set aside, in a special fund, an equivalent amount of cash that is to be used only for the restoration of the property on which the depreciation has been estimated. A fund that is equal to depreciation may be set aside, but it seldom is.

The general distinctions between a reserve and a reserve fund are as follows: A reserve account is an evaluation account and usually is deducted, on the Balance Sheet, from the amount of the asset account for which the reserve is created. Thus, while the reserve may appear on the credit side of a ledger along with the liabilities, it is not a liability because it does not represent a debt that will have to be paid. It is merely a bookkeeping device which registers the estimated decrease in the value of an asset account, although at the same time an amount equal to the estimated depreciation is charged to an expense account and thus becomes a charge against the profits of the business.

A reserve fund is an amount of cash actually set aside for a specific purpose; this cash generally cannot be used for the payment of ordinary liabilities; nor is it available for use except for the purposes for which it was set aside.

The cash which has been put in a reserve fund may be invested in securities in order to obtain a higher rate of interest than that paid on deposits by banks; therefore, the reserve fund may be represented by investments rather than by cash. Consequently a reserve fund is always an asset.

Reserve funds are usually established by appropriating a part of the net profits or income for the purposes of the fund. Thus it is seen that these appropriations usually follow the determination of net profit, though in certain cases a fixed amount of cash is paid into a reserve fund throughout a fiscal year. Mining companies may pay into a reserve fund as a provision against depletion of the mines, so many cents per ton for all ore taken from a mine; lumber companies may pay into a reserve fund a certain amount per thousand feet of all standing timber that is cut; etc.

Many corporations are required by law to maintain reserve funds for certain purposes. Common examples of such legal requirements are the reserve funds of insurance companies, banks, trust companies, etc.

ABBREVIATIONS AND CONTRACTIONS

Acceptance	Accptn.	Deferred	Defd.
Accrued	Accd.	Deposit	Dep.
Cash Book	C. B.	Depreciation	Depr.
Certificate	Ctf.	Draft	Dft.
Certified	Ctfd.	Payment	Pmt.
Check	Ck. or Chk.	Provision	Provn.
Collection	Coll.	Recapitulation	Recap.
Controlling Account	Contr. Acct.	Reserve	Res.
Currency	Cy.	Sight Draft	St. Dft.

PART IV.

THE STUDY OF A PARTICULAR BUSINESS

SET VI—WHOLESALE ACCOUNTING FOR GROCERY BUSINESS—TWO MONTHS

Almost every city containing 20,000 inhabitants or upwards has at least one wholesale grocery. Sometimes a smaller city, which has a favorable location, may contain one or more wholesale groceries. The cause of this is obvious. But, as may be expected, the larger houses are located in the larger cities, in which the facilities for distribution are better.

While the accounting system outlined in this set is peculiarly adaptable to a wholesale grocery business, similar systems of accounting, with minor modifications, will be found in various other kinds of wholesale establishments.

Most of the transactions in this set are so arranged that the entries must be made from the documents themselves. This brings the student face to face with actual business conditions; because, in business the entry or entries must be determined very largely from the papers which the bookkeeper sees and must interpret, or from statements of fact by someone who may know of the transaction. Therefore, the bookkeeping work for this set cannot be done without the use of incoming papers that are incidental to the business.

BOOKS USED

In this set, the following books of original entry are used; purchases book, sales book, cash book, journal, sales rebates and allowances book, and purchases rebates and allowances book.

The following memorandum books are used: notes receivable book, notes payable book, and petty cash book.

In the departmental accounting the following books are used: department purchases register, department sales register, department costs of goods sold register, and department profits register. However, the use of these departmental books is optional as they are used only for determining the departmental costs, sales, and profits.

Three ledgers are to be used; the names of the ledgers and the names of the accounts for each ledger follow:

NAMES OF GENERAL LEDGER ACCOUNTS, SET VI

Cash; Petty Cash; Notes Receivable; Accounts Receivable; Reserve for Loss on Accounts Receivable; Mdse. Inventory; Accrued Interest; J. C. Kennedy; Office Equipment; Reserve for Depreciation of Office Equipment; Notes Payable; Accounts Payable; Accrued Wages; Herbert Templeton, Partner; Herbert Templeton, Personal; Ray E. Parker, Partner; Ray E. Parker, Personal; Sales; Sales Rebates and Allowances; Discount on Sales; Purchases; Freight-In; Purchases Rebates and Allowances; Discount on Purchases; Salesmen's Salaries; Traveling Expense; Box & Shipping; Advertising; Freight & Cartage—Out; General Expense; Administrative Expense; Insurance; Interest; Bad Debts; and Profit & Loss.

NAMES OF ACCOUNTS FOR ACCOUNTS RECEIVABLE LEDGER, SET VI

J. W. Bredin & Co., No. 1; J. H. Walters & Bro., No. 2; C. E. Brooks & Bro., No. 3; Benjamin Tarner, No. 4; G. A. & C. L. Adkins, No. 5; A. M. Royce Grocery Co., No. 6; L. S. Terrell & Co., No. 7; L. E. Megan Grocery Co., No. 8; L. M. Wetzel, No. 9; J. W. Chaffee & Co., No. 10; W. H. Callow Grocery Co., No. 11; Shaw Grocery Co., No. 12; Hamlin & Walker, No. 13; Tri City Grocery Co. (C. O. D.), No. 14; Armstrong Grocery Co., No. 15; and Walker & Holmes (C. O. D.), No. 16.

NAMES OF ACCOUNTS FOR ACCOUNTS PAYABLE LEDGER, SET VI

American Cereal Co.; American Sugar Refining Co.; American Tobacco Co.; A. H. Andrews & Co.; The J. K. Armsby Co.; Biloxi Canning Co.; The Diamond Match Co.; The N. K. Fairbank Co.; International Salt Co.; Francis H. Leggett & Co.; Pillsbury Washburn Co., Ltd.; Rathbon Ridgway Co.; Remington Typewriter Co.; Rubel Manufacturing Co.; Sheboygan Cheese Co.; John C. Siegfried Co.; Waukesha Canning Co.; and Westfeldt Bros.

In the general ledger allow ¼ page for each account; also allow ¼ page for each account in the accounts receivable ledger; and in the accounts payable ledger allow ⅙ page for each account.

THE LOOSE-LEAF ORDER SYSTEM

The loose-leaf order system, used in this set, is the most popular of all the more recent labor saving devices for accounting purposes. The system is in general use in the wholesale trade in paper, lumber, iron, groceries, drugs, dry goods, etc.; it is also in use in some manufacturing concerns. In a wholesale business there are many more sales than purchases; therefore any saving of time or effort in handling the sales becomes in the aggregate a very important matter.

Orders are received in the three following ways: First, they may be sent in by traveling salesmen. Order blanks are in pad form, and are supplied by the firm and carried by the salesman. These orders, when received by the firm, are properly filled out, and the prices are already affixed.

Second, orders may be received from city and suburban customers who either call or order by telephone. These orders are then entered on regular blanks by some clerk in the office, and prices are affixed as they are agreed upon.

Third, orders may come by mail from out-of-town customers. These orders are copied from the customers' letters on the regular order blanks, and standard, though varying, prices are affixed by someone designated for that duty.

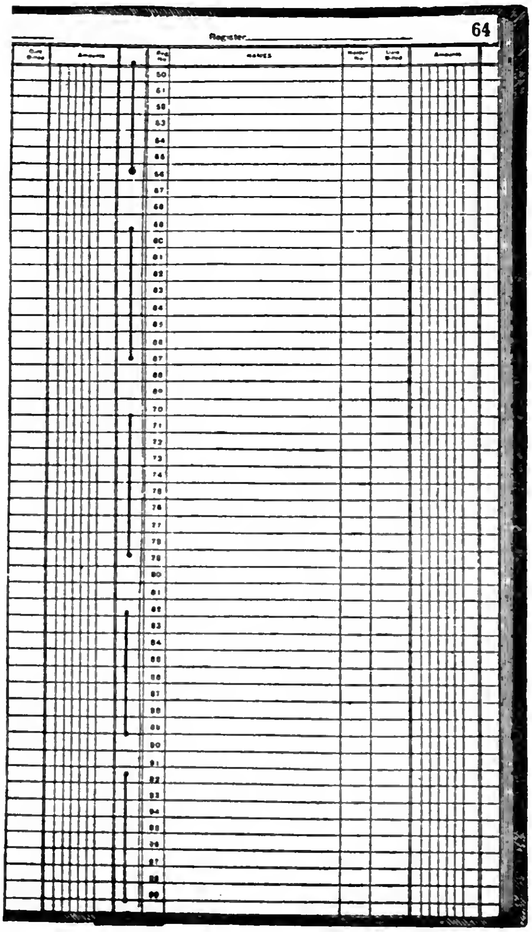
In this set the student is to affix these prices, and for this purpose a series of ten price lists has been provided. One of these lists is to be assigned to each pupil by the teacher, and this list he must always use in affixing prices to mail orders; this will cause each pupil's results to differ from those using other lists.

HOW AN ORDER IS HANDLED

The success or failure of a business depends, to a large extent, upon the care bestowed upon each order received from a customer. The managers of every business enterprise should establish a particular system for the proper handling of all orders; then they should follow carefully the details of the system. This is especially necessary in a large organization, and the smaller business houses will profit, as well, by such a procedure.

The general plan of handling customers' orders, as outlined here, is followed by many wholesale houses and by some manufacturing concerns.

ORDER REGISTER



When an order is received, it is first handed to the credit manager, who either O. K.'s or rejects the request for credit. If the credit is allowed, the order is given a number called "Register Number", and it is immediately recorded in a Register. The first order would be numbered as "1", the second as "2", etc., consecutively. When the order is registered, it is placed in a clip file and sent to the stock room. The stock clerk selects the stock called for by the order, and, as he does so, checks (√) each item in the column, which is headed "Shipper's Check." The order blank and stock are then turned over to the shipping clerk, who packs, marks, and ships the goods. As he does so, he crosses the check of the stock clerk, and writes his initials in the space which is headed "Order filled by." Thus, there are two persons to certify to the correct filling of the order. If, in any case, there are weights to be determined, this is done by the shipping clerk, who inserts the amount of the weights in the column headed "Weight." When the goods have been shipped, the shipping clerk returns the order blank to the registry clerk, who marks in the Register, opposite the record of the order, the date the goods were shipped. He then gives the blank a new consecutive number called "Order Number," or "Holder Number." Some houses record even the hour and minute when the goods were shipped. Should the record of an order in the Register fail to show the date of shipping and the "Order Number," these omissions would cause inquiry to be made as to what had become of the order. The order blank is next passed to the bill clerk, who makes the extensions and footings on the order blank and prepares the bill or bills for the customer. The order is then handed to the profit clerk and, finally, it is passed to the bookkeeper, who posts the amount or amounts of the order directly to the customer's account in the sales ledger. The order blank, which now contains a complete history of the transaction, is filed in the sales binder.

ORDER REGISTER

The order register is a long, narrow book with the lines of its left hand pages numbered from 00 to 49 and of its right hand pages numbered from 50 to 99. The columns of this book are headed as follows: "Names", "Holder (Order) Numbers", "Dates Billed", and "Amounts". Higher consecutive numbers on succeeding pages are made by inserting the necessary digit or digits on the top line of each page.

The purpose of the order register is to afford an index, numerically, of all orders; therefore any order can be found almost instantly when wanted, and this book also enables the management to keep a close watch on the shipping room. However, this book is not used in this set; and, consequently, no register numbers appear on the order blanks.

THE SALES BINDER (SALES BOOK)

After the orders are billed and posted, the order blanks are placed in a sales binder according to order number (order No. 1 at the bottom; then, order No. 2; etc., consecutively); thus each constitutes a page of the sales book. The order blanks, however, make no provision for carrying the total sales forward from page to page; but, for this purpose sales recapitulation sheets are provided.

SALES RECAPITULATION SHEETS

Sales recapitulation sheets are of the same size as the order blanks and are ruled for the insertion of the date, the number, and the amount or amounts of each order. When one column of a sheet is filled, it is footed and the total is carried forward to the top line of the next column, and so on. When the first sheet is filled, its total is carried to the top line of the first column of a second sheet, etc.

At the end of a month, or other period, when it is desired to post for the purpose of taking a trial balance, the total of the sheets is posted to the credit of Sales account and also to the debit of Accounts Receivable account, thus maintaining the balance of the general ledger. In large houses, recapitulation sheets are kept in separate binders; but in this set they are kept in the sales binder, following the last order that is listed for the month for which the recapitulation is made.

EXCHANGE

Remittances, in settlement of accounts, should be made in funds "current" in the locality in which the creditor is established. Express money orders are current everywhere, while certain bank drafts are current in some cities, but, in other cities they are not current. Postal money orders are drawn by one postmaster upon another and are limited to one endorsement. The term "current" does not properly apply to these papers, unless they are drawn upon the postmaster residing in the same locality as the creditor. Almost without exception personal checks are current only in the town or city in which they are drawn; therefore they are subject to a collection fee, if they are deposited in a bank in another city.

The charges which are made by the associated banks of Chicago for collecting out-of-town checks are called "exchange." These charges range from 50c to $2.00 per $1000.00, with a minimum charge of 5c for each item of $10.00 or under, and a minimum charge of 10c for each item above $10.00.

In this set, therefore, personal checks which are received from out-of-town customers include such charges for exchange as the firm is obliged to pay the bank. These charges for exchange are deducted (on the deposit ticket) from the amount of the checks which are listed on it.

Banks in Chicago do not charge their depositors for exchange on drafts on New York, because New York is one city on which charges for exchange are "discretionary." Therefore, New York drafts, in this set, do not include exchange. Neither is exchange collected on checks which are drawn on banks in the county in which Chicago is located (Cook County). In this set, the only out-of-town check of this kind, is check No. 16 (La Grange).

While New York checks and drafts are current in Chicago, Chicago paper is subject to an exchange charge of 1/10 of 1% in New York. Therefore, when checks are forwarded to firms located in New York City, the exchange must be included in the remittance. Jersey City, N. J., also requires its bills to be paid in "New York funds," but in all other cities Chicago paper is at par and no exchange is included in checks sent to such cities in settlement of accounts.

The rates of exchange given above may be changed from time to time by the Chicago or New York banks, or, it may be that banks in cities in which Chicago paper is current at the time this is written, may adopt a schedule of charges and may make New York or Chicago paper subject to an exchange charge. Such changes, if they occur, are not to be considered in working this set.

POSTING TO THE ACCOUNTS RECEIVABLE LEDGER

In posting, the charges are entered in the debit column; payments, discounts, or other credits are entered in the credit column. The first debit entry is extended into the balance column and subsequent debits are added to this amount. The credits, then, are subtracted from the amount in the balance column. Therefore the balance column, at all

ACCOUNT NO 1

J. W. T. Bredin & Co.
615 W. 63rd St. Chicago, Ill.

DATE		ITEMS	FOLIO	DEBITS	✓	CREDITS	BALANCE
1905 Jan	4	60-2/10	1	x 75 66			75 66
	6	60-2/10	6	x 99			174 66
	11	Cash	8			171 17	3 49
	11	Dis	8			3 49	— —
	16	30-1/10	14	x 8 61			8 61
	16	60-2/10	14	x 119 85			128 46
	20	Cash	8			125 97	2 49
	20	Dis	8			2 49	0 00
	28	30-1/10	26	x 1 85			1 85
	28	60-2/10	26	x 38 17			40 02
Feb	7	Cash	10			39 24	78
	7	Dis	10			78	— —
	7	30-1/10	34	x 27 38			27 38
	7	60-2/10	34	x 179 25			206 63
	17	Cash	12			202 77	3 86
	17	Dis	12			3 86	— —
							etc. etc.

ACCOUNT NO 2

J. H. Walters & Bro.
356 Milwaukee Ave. City

DATE		ITEMS	FOLIO	DEBITS	✓	CREDITS	BALANCE
1905 Jan	4	30-1/10	2	x 51 32			51 32
"	4	60-2/10	2	x 85 15			136 47
	10	30-1/10	9	x 58 76			195 23
	10	60-2/10	9	x 24 90			220 13
	13	Cash	8			134 26	85 87
	13	Dis	8			2 21	83 66
	18	30-1/10	18	x 75 36			159 02
	18	30-1/10	19	x 4 63			163 65
	18	60-2/10	19	282 89			446 54
	20	Cash	8			82 57	363 97
	20	Dis	8			1 09	362 88
	24	30-1/10	23	x 5 10			367 98
	24	60-2/10	23	x 51 20			419 18
	28	Cash	8			79 19	339 99
	28	Dis	8			80	339 19
Feb	3	Cash	10			55 23	283 96
	3	Dis	10			1 07	282 89
							etc. etc.

times, shows the exact amount of the indebtedness. When an account is closed, dashed (—|—) are drawn through the balance column, or ciphers (00|00) are inserted in it. (Study the illustration of accounts No. 1 and No. 2.)

POSTING FROM THE ORDER BLANKS TO THE ACCOUNTS RECEIVABLE LEDGER

The amount of each 30-day, 60-day and 4-mo. bill is posted *separately* to the customer's account in the accounts receivable ledger; and instead of using the expression "Mdse" as an explanation in the items column, the terms of the bill or bills are recorded in this column as follows: "30-1/10", "60-2/10", "4-mo.-4/10".

The terms of the bill are used in order that the account may show the different discount limits, and that the bookkeeper may determine from the account the dates on which the different bills mature. If this information cannot be obtained from the account itself, it is necessary to refer to the order blank for it,—this would require too much time. The number of the order is written in the folio column of the account, and the number of the personal account is written in the space headed "Ledger Folio", which is on the right-hand side of the order blank.

POSTING FROM THE CASH BOOK TO THE ACCOUNTS RECEIVABLE LEDGER

The amount of each cash payment and the amount of each discount on a sale are also posted *separately* to the proper personal account; the latter amount should be posted after the former amount has been posted. This is done so that the account will show, fully, in what manner the account was settled.

Sometimes a remittance is made "in full"; or, sometimes it is made "on account", covering specific bills of different dates. In either case, it is practicable also to post these amounts so that the account will show the particular bills paid. This will necessitate, of course, separate cash book entries for the amount of each bill that was covered by the remittance; but if this plan is followed, the bookkeeper will be able to determine not only the bills that are paid but also the bills that remain unpaid. Bills that are paid are "checked out" of an account; that is, they are marked in some way to indicate that they are paid. The check mark column and the ordinary check mark(√) are often used for "checking out" purposes. Such a method is permissible, but this column is generally intended for check marks when proving a trial balance, so that confusion may result from its use for other purposes. It is a good plan to "check out" paid bills by placing a certain, specially adopted mark, in red ink, upon, or immediately after, the vertical line separating the folio and the debit columns. (Study the illustration of accounts No. 1 and No. 2.)

POSTING FROM THE SALES REBATES AND ALLOWANCES BOOK

The amounts for which the customers' accounts should be credited, are posted separately from this book to the credit side of the particular account of the customer who returned the goods or to whom the credit is granted. The nature of the credit should be indicated in the items column of the ledger by the use of such words as "returned", "rebate", "allowance," etc.

The total of the entries in this book is posted to the credit side of the Accounts Receivable account, and to the debit side of the Sales Rebates and Allowances account.

POSTING FROM THE PURCHASES RETURNS AND ALLOWANCES BOOK

The amounts for which the creditors should be charged are posted separately from this book to the debit side of the account of the creditor, to whom the goods are returned or by whom the allowances are granted. The nature of the charge should be indicated in the explanation column of the ledger by the use of such words as "returned", "allowance", "damaged", etc.

The total of the entries in this book is posted to the credit side of the Purchases Returns and Allowances account, and to the debit side of the Accounts Payable account.

INSTRUCTIONS FOR BILLING

In this set, the student assumes the duties of a bill clerk as well as those of a bookkeeper and a cashier.

The first step in doing the work of the bill clerk is to make the extensions on the order blank, after it is returned by the shipping clerk. The extensions are made in accordance with the following terms:

In the column headed "30 days" are placed the amounts of such items as are sold on the following terms: 30 days net, 1%, 10 days. These items are flour, sugar, salt, matches, dried fruits, cheese, cereals, sardines, and olive oil.

In the column headed "60 days" are placed the amounts of such items as are sold on the following terms: 60 days net, 2% 10 days. These items are coffees, soaps, canned goods, tobaccos and cigars.

The only item sold on the following terms, 4 months, 4% 10 days, is tea. A sale of this commodity occurs infrequently; and when it does, the amount of the sale is extended in the margin which is on the right of the column headed "60 days."

Each column is then totaled and the order is billed.

Billing really consists of making a copy of the completed order blank. That is, one bill is made for all 30-day items in an order; the total of this bill should agree with the total of the corresponding column of the order blank. A second bill is made for all 60-day items, and a third bill is made for tea, if the order contains such an item; each of the latter should agree with its corresponding column on the order blank.

The terms should be written on each bill in the proper space, and the date of each bill should be placed on the order blank in the space provided for the date.

SPECIAL COLUMNS

The special columns that are used in this set are similar to the special columns that were used in Set V. The following columns, however, were not used in the cash book in Set V, but they will be introduced in this set. The column headed "Balance" on the debit side of the cash book should contain (for January) only the total cash received which is obtained by adding the totals of the net cash column and the general column. No entries should be made in the balance column during the month.

On the credit side of the cash book there is a special column—General Expense—in which should be entered all items that are to be charged to the General Expense account. At the end of the month the total of this column and the total of the net cash column are added, and the amount thus obtained is extended into the general column; the general column is then totaled, and the sum of this column is the total amount of cash paid out. The total amount of cash paid out is then deducted from the total amount of cash received and the difference is the balance.

When the amount of the cash balance on January 31 is carried forward to begin the cash book entries for February, this amount should appear as the first and only item in the balance column for February, until the total of the net cash column and the general column is extended into the balance column on February 28. The cash book for February is then balanced like it was on January 31.

The special columns in the journal are the same as they were in Set V and are used for the same purposes.

VARIABLE SELLING PRICES

To be used only in connection with orders 13, 21, 24, 25, 30, 31, 35, 43 and 47.

	1	2	3	4	5	6	7	8	9	10
Apples, Fancy Evap............lb.	$0.10½	$0.10⅝	$0.10¾	$0.10½	$0.11	$0.10¼	$0.10⅞	$0.11	$0.10⅝	$0.10¾
Beans, 2 lb. P. L. String.......doz.	1.19	1.17	1.20	1.18	1.22	1.16	1.20	1.18	1.17	1.21
Cigars, Cremo..................M	35.00	34.50	35.50	34.00	33.75	34.75	35.00	34.00	34.50	34.75
Francis Wilson...............M	65.00	64.50	65.75	64.00	64.75	65.25	64.50	64.60	64.70	64.75
Cheese, Swiss..................lb.	.17¼	.17⅛	.17⅜	.17⅛	.17⅝	.17½	.17	.17⅛	.17¼	.17⅜
Young American.............lb.	.14½	.14⅜	.14⅝	.14¼	.14¾	.14¾	.14⅜	.14⅝	.14½	.14
Coffee, Select Golden Rio........lb.	.14⅜	.14½	.14⅝	.14¼	.14¾	.14	.14½	.14¾	.14⅝	.14¼
Best O. G. Java..............lb.	.24½	.24¼	.24⅝	.24⅛	.24¾	.24	.24¼	.24⅛	.24	.24⅞
Fancy Santos................lb.	.11⅞	.11¾	.12	.11	.11½	11¼	.11½	.11¾	.11⅞	.11
Corn, Old Abe................doz.	1.62½	1.62	1.65	1.60	1.55	1.50	1.60	1.65	1.64	1.65
Flour, Ceresota ¼............bbl.	6.80	6 75	6 85	6.70	6.65	6.80	6.65	6.70	6.85	6.75
Pillsbury Best, ⅛............bbl.	6.75	6.70	6.80	6.65	6.60	6.75	6.60	6.65	6.80	6.70
Pillsbury Best, bbl...........bbl.	6.70	6.65	6.75	6.60	6.55	6.70	6.55	6.60	6.75	6.65
Matches, B. & C...............bx.	1.57	1.50	1.60	1.55	1.58	1.53	1.54	1.57	1.58	1.59
Oysters, 1 lb. Cove............doz.	.92	.91	.93	.95	.94	.92½	.94¼	.93	.92	.90
Peaches, Muir..................lb.	.10¼	.10⅛	.10⅜	.10⅝	.10¾	.10¼	.10¼	10⅜	.10¼	.10⅛
Peas, 2 lb. Menu..............doz.	1.40	1.45	1.50	1.55	1.47	1.45	1.50	1.47	1.46	1.45
Prunes, 60–70 California.........lb.	.10¼	.10½	.10⅝	.10⅜	.10¾	.10	.09¾	.09⅞	.10	.10¼
70–80 California.............lb.	.10	.10¼	.10⅜	.10½	.11⅛	.09¾	.09½	.09⅝	.09¾	.10
Salmon, Columbia River.......doz.	1.25	1.22	1.24	1.30	1.26	1.28	1.20	1.22	1.23	1.21
Salt, Michigan 3's.............bbl.	1.75	1.70	1.80	1.85	1.77	1.79	1.80	1.78	1.76	1.75
Michigan 5's...............bbl.	1.70	1.65	1.75	1.80	1.79	1.74	1.75	1.82	1.80	1.80
Michigan kegs..............keg	.95	.92	.96	.97	.94	.95	.94	.93	.95	.96
Sardines, Messir................cs.	16.60	15.90	16.25	16.00	15.95	15.75	15.80	15.85	16.10	15.60
Shrimp, 1 lb. Dried...........doz.	1.10	1.07	1.12½	1.08	1.09	1.07½	1.08	1.07	1.10	1.06
1 gal. Headless.............can	.75	.70	.77	.80	.79	.81	.76	.78	.77	.75
2 gal. Headless.............can	1.50	1.40	1.54	1.55	1 45	1.47	1.52	1.56	1.54	1.50
2 lb. Pickled...............doz.	2.20	2.25	2.30	2.15	2.17	2.25	2.19	2.21	2.24	2.30
Soap, Chicago Family..........bx.	4.75	4.65	4 80	4.60	4.55	4.85	4.75	4.80	4.60	4.55
Glycerine Tar...............bx.	5.90	5.80	5.95	5.75	5.65	5.95	5.90	5.95	5.75	5.60
Old Brown.................bx.	3.30	3.10	3.20	3.15	3.25	3.35	3.30	3.35	3.15	3.25
Santa Claus................bx.	4.85	4.75	4.90	4.80	4.70	4.95	4.85	4.90	4.70	4.75
Tea, Basket Fired Japan........lb.	.37	.36	.37½	.38	.36½	.35½	36¾	.37¼	.36½	.37
Sun Dried Japan.............lb.	.33	.32	.32½	.31	.32¾	.32¾	33	.33¼	.34⅛	.35
Tomatoes, 2 lb Pewaukee Lake..doz.	1.12½	1.10	1.15	1.14	1.11	1.09	1.10	1.12½	1.15	1.10
3 lb. Pewaukee Lake.........doz	1.37½	1.30	1.35	1.36	1.34	1.33	1.35	1.37½	1.40	1.35
Tobacco, Star Plug............lb.	.62	.60	.61	.59	.58½	.58¾	.61	.60	.59	.58

MEMORANDA OF TRANSACTIONS FOR JANUARY

Herbert Templeton and Ray E. Parker, partners, began a wholesale grocery business in the city of Chicago under the firm-name and style of "Western Grocery House."

The terms and purposes of the copartnership are set forth in a document called "Articles of Co-Partnership," which has been properly executed, signed by the partners, and witnessed. Take this document from the "Incoming Papers" envelope, study it carefully, then file it in the envelope labeled "Outgoing Papers."

The firm engages you as bookkeeper at a salary of $20.00 a week, Herbert Slater as shipping clerk, whose wages are to be $20.00 a week, and J. C. Kennedy as a traveling salesman, who is to receive a salary of $100.00 a month and traveling expenses. After three months Mr. Kennedy is to receive a bonus, each month, equal to 10% of the gross profits on each order of goods which he sells. The salaries of each partner, as stipulated by their agreement, is $100.00 per month.

Mr. Templeton is to assume the duties of office manager, credit manager, and correspondent; Mr. Parker will do the buying and will have charge of the stock.

According to their respective duties, Mr. Templeton will O.K. all orders and all incoming invoices for office supplies; while Mr. Parker will O. K. all invoices for merchandise, stock room, and shipping supplies. All invoices will come to you O. K.'d as to quantities and prices. It will be your duty to examine these invoices carefully and to verify their extensions and footings. Adopt some form of check mark and check with this mark which you adopt the items as you verify them. When you find a bill to be correct, place your initials below those of Mr. Parker or Mr. Templeton.

Jan. 2. As his investment in the firm, Mr. Templeton delivers to you his personal check for $1600.00, currency amounting to $200.00, and two promissory notes; one for $1000.00 and one for $800.00. The notes are accepted by the firm at face value.

Detach check No. 1 from the pad of incoming checks and drafts; then take the currency from the envelope labeled "Incoming Papers." Examine the check carefully to see that it is properly dated, that the written amount agrees with the amount in figures, that it bears a signature and that it is made payable to the firm. Count the currency. Now make *one* entry in your cash book for this cash investment, crediting the account of Herbert Templeton, Partner; then place both the check and the currency in the pocket labeled "Cash Drawer," which is a part of the pocket file. Detach notes No. 2 and No. 3 from the pad, inspect them as to dates, amounts, signatures, etc., just as you did the check; ask the teacher to endorse these papers to the firm. First make entries for them in the bill book; then credit Herbert Templeton, Partner, with their amount. These entries are made in the journal. Place the notes in the cash drawer.

Jan. 2. Mr. Parker's investment consists of a New York bank draft for $1800.00.

Detach draft No. 4 from the pad, and after carefully examining it, make an entry for it in the cash book, crediting the account of Ray E. Parker, Partner. Place this draft in the cash drawer.

The firm has made arrangements with the Merchants Exchange Bank for the usual banking facilities. Therefore you may now deposit the check and the bank draft. Take these papers from the cash drawer and indorse them by writing on the back of each paper the name of the firm.

Do not add "per (your name)"; this is superfluous, since in business such indorsements are usually made with a rubber stamp.

Now take a deposit ticket from your outfit and supply the necessary information to complete the deposit ticket. Next, enter the amount of the deposit in the amount column on the stub of the check book, marking it "Deposit." Place the check, draft, and deposit ticket (the latter on top) in your bank book (pass book); present the bank book, with the papers, to your teacher, who represents the receiving teller of the bank. File the papers in the pocket headed "Bank" in the pocket file.

No entry for this deposit is to be made in your books. Cash in the bank is the same, for all practical purposes, as cash in the drawer.

Jan. 2. Pay one month's rent in advance; the amount of the rent is determined by a lease.

Take the lease from the incoming papers envelope; read it carefully; then file it in the Outgoing Papers Envelope. Pay, in currency, the amount of rent stipulated in the lease; detach from the pad paper No. 5 which is the receipt for the rent. Make an entry in the Cash Book, charging General Expense account. Enter the amount in the proper column; and, since the item is to be posted in the total of the column, check it in the folio column; but in the column for entries charge Rent, which is one of the accounts composing the General Expense group. If this general plan of indicating the sub-account is followed, it will be a simple matter to analyze the General Expense Account at the end of the month, because the sub-accounts may be readily picked out from among the other charges. File the currency in the outgoing papers envelope and the receipt in the paid invoices pocket of the pocket file.

Jan. 3. Receive a bill from The A. H. Andrews Co. for office equipment, which has been installed.

Detach bill No. 1 from the pad of incoming bills. This is not a bill for merchandise and it is, therefore, not entered in the purchases book. After you have found it to be properly O. K.'d, and have verified and checked its extensions and footings, make an entry for it in the journal. The credit amount of this entry should be extended into the column of the journal headed "Accounts Payable Cr." Treat all similar purchases in like manner. Why is this bill not entered in the purchases book? File it in the pocket headed "Unpaid Invoices."

Jan. 3. Receive a bill from the Remington Typewriter Company for typewriter, desk, and supplies, which have been delivered.

Detach bill No. 2 from the pad; make the proper entry; then file it in the unpaid invoices pocket.

Jan. 3. Receive an invoice from the Waukesha Canning Co. for a carload of canned goods which have been delivered to the stock room and checked with the invoice.

Detach bill No. 3. This is an invoice for merchandise. Although the goods were shipped Dec. 30, of the previous year, the invoice is dated, by request of the firm, Jan. 2, of this year. It bears Mr. Templeton's O. K., which is for quantities and prices only. You should calculate the extensions and footings, as you have on the other bills.

Note the terms of the bill. What are they? When must the firm pay this bill in order to save the discount? Where should this bill be filed?

Jan. 3. Receive a bill from the Wisconsin Central Railway Co. for freight on the carload of canned goods from Waukesha. Pay it in currency.

A railroad freight bill is called an expense bill. Detach No. 1 from the pad of expense bills. The weight given is O. K.'d by Mr. Parker as approximately correct, also the rate. Check the extensions on this bill; then pay it with currency from the cash drawer, and have it receipted by your teacher. Make an entry for it in the cash book, charging Freight-In account. File it in the paid invoices pocket, and place the currency in the outgoing papers envelope.

When paying with currency, always use the highest possible denominations; in paying this bill, for example, use the following: one $10.00 bill, one $5.00 bill, two $2.00 bills, one 50c piece and one 10c piece.

Jan. 3. Mr. Templeton asks you to hand Mr. J. C. Kennedy, who will start upon a trip this morning, $50.00 for traveling expenses.

Take the money (one $50.00 bill) from the cash drawer and transfer it to the outgoing papers envelope. Charge this payment to J. C. Kennedy, *not* to Traveling Expense account.

Jan. 3. Receive a bill for office supplies from the Rubel Manufacturing Co.

Detach bill No. 4 from the pad of incoming bills. Make the proper entry for it in the journal, charging General Expense account; then file it in unpaid invoices pocket.

Jan. 3. Receive order No. 1, which has just been taken from Mr. Bredin of the firm of J. W. Bredin & Co., this city.

Detach this order from your pad of orders and pass it to the shipping clerk, by depositing it in the pocket which is headed "shipping clerk." See that it bears Mr. Templeton's O. K. as to credit before doing so; no entry is to be made for it until the goods are shipped and the order is returned by the shipping clerk.

Jan. 3. Receive also orders No. 2 and No. 3, which have been taken from city customers, and No. 4, which was sent in by Mr. Kennedy, the traveling salesman.

Treat these orders as you did order No. 1. Do they bear proper O. K.'s as to credit?

Jan. 3. Receive a bill from P. F. Pettibone & Co., terms C. O. D., for account books and miscellaneous office supplies.

C. O. D. denotes "collect on delivery," and you must pay this bill at once in order to obtain possession of the goods. Detach bill No. 5 from the pad of incoming bills, verify and check its extensions and footings. Pay it with currency and make an entry charging General Expense account. File it, after you have had it receipted by your teacher, in the paid invoices pocket. File the currency in the outgoing papers envelope.

Jan. 4. The shipping clerk returns order No. 1, as the goods have been delivered.

Take this order from the shipping clerk's file, extend the amounts of the items into the proper column and foot the extensions. Then take a blank billhead from your outfit and prepare the bill. In billing, first insert the date, which should be the date of shipping; next, fill in the customer's name and address; then, write the terms in the proper space and copy the items and amounts exactly as they appear on the order blank. When you have done this, write the date of the bill on the order blank in the space which is headed "date billed."

Have the bill O. K.'d by your teacher; then place it in the outgoing papers envelope.

Now post the amount of this order. Turn to J. W. Bredin & Co.'s account in the customers' ledger (Account No. 1), and post the amount according to the illustration of Bredin & Co.'s account which is given on page 185.

Write the number of the account in the space on the order blank headed "ledger folio", and insert the order blank, which is now the first page of the sales book, in the sales binder.

Jan. 4. Receive an invoice from the Pillsbury-Washburn Flour Mills Co., Limited, for flour, which has been delivered on Mr. Parker's order.

Detach bill No. 6 from the pad and treat it as you did bill No. 3.

As you will be required to sign all checks, it is necessary for you to have a Power of Attorney. Mr. Parker and Mr Templeton have joined in executing this instrument.

Take the Power of Attorney from the incoming papers envelope and read it carefully. Have your teacher write your name in the proper space. This instrument bestows upon you the privilege of signing the firm name to all checks, drafts, receipts, and notes. Since you have this privilege, the Merchants Exchange Bank will now require you to record your signature at the bank. This signature will be in the following form:

Western Grocery House,
Per (your name).

When making indorsements on checks for deposit, it is not necessary to use "per (your name)", the reason for which has already been explained; but when signing checks this is, for obvious reasons, necessary. It is imperative also that the style of your signature should always be the same.

You will find in the incoming papers envelope a signature card; fill this out properly. Exhibit both the Power of Attorney and the signature card to your teacher, who represents the bank cashier, and deliver the signature card to the bank by filing it in the bank pocket. Deliver the Power of Attorney to the bank by placing it in the bank file.

The student must not infer from the fact that a Power of Attorney to sign checks, etc., is given to the bookkeeper in this set, that such is the general custom; this privilege is seldom conferred upon an employee.

Jan. 4. Receive an invoice of soaps from The N. K. Fairbank Company.

Detach bill No. 7, and treat it as you have treated similar bills.

Jan. 4. The shipping clerk returns orders No. 2 and No. 3, showing deliveries.

Follow the instructions given for order No. 1. Each of these orders contains 30-day and 60-day items. Extend the amounts in the proper columns. Prepare one bill for the 30-day items and one for the 60-day items. Also post the bills *separately*. Study the illustrative accounts on page 185. File these orders numerically.

Jan. 4. Receive an invoice for shrimp and oysters from the Biloxi Canning Co.

Detach bill No. 8 from your pad. This invoice is dated Jan. 4, 19—, though the goods were shipped Dec. 29, 19—. The "post-dating" is an accommodation to the new firm. Make the proper entry.

Jan. 4. Receive an expense bill from the Chicago & Eastern Illinois Railway Co. for freight on the shipment from Biloxi. Pay this bill by check.

Detach expense bill No. 2. Verify and check it.

Take the check book from your outfit. First fill out the stub, entering upon it a proper number (No. 1), the date, to whom paid, for what paid, and the amount. Then extend the amount to the column on the right and subtract this amount from the amount of the deposit, which was entered on January 2. Now write the check in the proper manner.

Have your teacher examine it, also have him receipt the expense bill; then file the check in the outgoing papers envelope and the expense bill in the paid invoices pocket.

Make the proper entry for the check.

Jan. 4. Orders No. 5 and No. 6 were received from customers who called at the office.

If these orders are properly certified as to credit, pass them to the shipping clerk.

Jan. 5. The goods for order No. 4 have been shipped.

Treat this order as you have treated all previous orders.

Jan. 5. Our salesman (Kennedy) sent in an order, which has been recorded as order No. 7. Receive it and treat it in the usual manner.

5. The shipping clerk returns order No. 5; the goods have been delivered.

6. Receive an invoice from The Diamond Match Co. (No. 9), also two invoices from The J. K. Armsby Co. (No. 10 and No. 11).

6. The shipping clerk returns orders No. 6 and No. 7.

6. Receive order No. 8, sent in by Kennedy.

7. Kennedy's traveling expenses for the week, January 2 to 7, have been $15.60.

Make a journal entry, charging Traveling Expense account and crediting J. C. Kennedy's account; supply the proper explanations. The amounts of this entry should be placed in the general ledger columns only.

Jan. 7. Pay $2.50 in currency for postage stamps.

Transfer the currency from the cash drawer to the outgoing papers envelope. Make the proper entry, charging General Expense account. Enter the amount in the general expense column and check the entry.

Jan. 7. Pay the salaries due today.

By examining the currency in the cash drawer, you have found that there is not enough cash with which to pay the salaries. Since you may need this currency with which to pay petty cash items during the following week, you are requested to draw from the bank the amount of cash necessary to pay the salaries. Write a check payable to "currency" for $40.00; draw the cash and distribute the salaries.

The bank requires checks payable to "currency", to be indorsed by the person who receives the money at the bank. Indorse the check with your name only. Fill out the stub of the check book properly and deduct the amount of the check from the previous balance.

Charge the shipping clerk's wages to Box & Shipping account.

Jan. 9. Receive orders No. 9 and No. 10.

9. Order No. 8 is returned by the shipping clerk.

9. G. A. & C. L. Adkins claim that the headless shrimp which were sold to them on the 5th inst., are not of the quality which the firm represented them to be. Therefore, they ask the privilege of returning the shrimp; but, if an allowance of 55c a case is made, Adkins will keep them. The firm consents to the latter offer.

Make an entry in the sales rebates and allowances book for this allowance. Supply the proper explanation. Then take a credit memorandum blank from your outfit and fill out this blank in the proper manner. Have it O. K.'d by your teacher, and file it in the outgoing papers envelope. Post the entry to the customer's account.

Jan. 9. If the business desires to discount its bills, it must send its remittances so that they may reach their destinations on, or before the day on which the bills are due. The invoice of Jan. 2 from the Waukesha Canning Co. is due in Waukesha on the 12th inst. Therefore you should pay this bill today. Write a check for the proper amount, and make the proper entry.

Draw a check for the net amount. Chicago "paper" is current in Waukesha and therefore no exchange is to be included in the check. File the check in the outgoing papers envelope.

Jan. 10. Receive an invoice for coffees from Westfeldt Bros.

Detach bill No. 12. Treat it in the usual manner.

Jan. 10. The terms of the invoice just received are as follows: "60 days—Net 2%—Spot Cash on receipt of pro forma invoice." Although the coffee has not arrived, the invoice must be paid at once in order to save the discount. You are, therefore, instructed to pay this invoice by check.

Follow the instructions which were given when you paid the invoice of the Waukesha Canning Co. You should include exchange in this check, as a Chicago check is not current in New York. The charge for collecting the check will be 1/10 of 1%; therefore the amount to be added to the net amount of the bill is $1.19. Make an entry for the exchange, charging General Expense account.

Jan. 10. Receive orders No. 11 and No. 12, left by customers who called.
10. The shipping clerk returns order No. 9.
10. Receive order No. 13, sent in by mail.
11. Receive an expense bill from the Pennsylvania Railroad Company for the shipment of coffee, which has been received (No. 3). Pay the expense bill by check, and make the proper entry.
11. Pay, by check, the invoices of The J. K. Armsby Co. of the 6th inst., and make the proper entry.

These bills are due today. Armsby & Co. are located in the city; consequently, if the check is sent promptly, it will reach them within the proper time.

Jan. 11. Receive check from J. W. Bredin & Co. in settlement of bills of January 4 and 6. Make the proper entry.

Detach check No. 6 from your pad. Compute the discount to which Bredin & Co. are entitled; you may obtain data from their account in the ledger.

Post these credits to the account with Bredin & Co. But, before doing this, be sure you understand the instructions for posting to the accounts receivable ledger. The instructions were given on a previous page. Study the illustration of the account with Bredin & Co. on page 185.

Posting to the personal accounts of customers should be kept, as near as possible, up to date, since it is necessary to know at all times the standing of these accounts. It is not advisable to defer until the end of the month posting to personal accounts.

Jan. 11. Receive order No. 14.

Jan. 12. Receive orders No. 15 and No. 16, both sent in by Mr. Kennedy.
12. The shipping clerk turns in orders No. 10 and No. 11 as shipped.
12. Receive invoice of salt from the International Salt Co.
12. Determine the amount of cash balance. Several large bills will mature in a few days. The partners have conferred in regard to discounting at the bank the note which was a part of the investment of Mr. Templeton on Jan. 1, and which was made by Mr. Erskine. The bank has agreed to discount it at 6%.

Compute the discount and indorse the note. Your Power of Attorney gives you authority to do this. Since this is not an indorsement for deposit, you must add your name to the indorsement.

Your teacher, who represents the note teller of the bank, will enter the amount of the proceeds in your pass book. This is equivalent to making a deposit, and you should enter on the stub of your check book the amount of the proceeds. Enter the amount of the note on the debit side of the cash book and the amount of the discount on the credit side of the cash book, debiting Interest account. In your notes receivable book make the proper notation for the discounting of this note. File the note in the bank pocket.

Jan. 12. Pay, by check, the bill of the Pillsbury-Washburn Flour Mills Co., Limited, of the 4th. Follow instructions given previously.
13. Order No. 12 is returned by the shipping clerk, also order No. 13.

Order No. 13 was received by mail; but no prices were agreed upon at the time the order was received. You are to supply prices from the lists of Variable Selling Prices which are given on page 188. Ask your teacher to assign to you one of these lists. For all mail orders use the list which has been assigned to you, as the use of this list will cause your results to differ from the results of another who has a different price list.

Jan. 13. Receive a check from J. H. Walters & Bro. in payment of invoices of the 4th. (No. 7)
13. Receive a check (No. 8) from C. E. Brooks & Bro., in settlement of invoices of the 4th. Receipt the bills.
13. Pay, by check, the bill of the Rubel Mfg. Co. of the 3d.

Make the payment and entries as usual; take the bill from the unpaid invoices pocket and file it in the paid invoices pocket.

Jan. 13. Pay, by check, the invoice of the Biloxi Canning Co. of the 4th.

Chicago paper is at par in Biloxi; therefore no exchange is to be included in the check.

Jan. 14. Deposit all checks on hand. (Retain the currency.)
14. Pay the salaries for the week.

Follow instructions (relative to paying salaries) which were given to you on the 7th.

Jan. 14. Receive Mr. Kennedy's report for the week, Jan. 9 to 14, of traveling expenses which amount to $22.50. Make the proper entry.
14. Pay, by check, the invoice of The N. K. Fairbank Company of the 4th.
16. Draw a check for traveling expenses, for $50.00 in favor of J. C. Kennedy. This check is to be sent to him.
16. Receive order No. 17, which was sent in by Mr. Kennedy.
16. Pay, by check, the invoice of the 6th of The Diamond Match Co.
16. Orders No. 14, No. 15, and No. 16 have been filled, and the goods shipped.
16. Receive check (No. 9) from the A. M. Royce Grocery Co. in payment of bills of the 6th.

This check includes 10c exchange, which, in turn, you must pay to the bank when the check is deposited. Make a separate entry for the exchange; place the amount in the "general" column and credit General Expense account.

Jan. 17. Receive orders No. 18, No. 19, and No. 20; the latter was sent in by the traveling salesman.
17. Receive check (No. 10) from L. S. Terrell & Co. in settlement of bills of the 9th. This check includes exchange, 10c.
17. Receive order No. 21, which was forwarded to the firm by mail and which was copied on one of the regular order blanks.
17. The goods for order No. 17 have been shipped.
18. Receive from The American Sugar Refining Co. an invoice for sugar (No. 14).

Sugar is sold by the refining company "freight paid." It is put up in barrels, the contents of which weigh from 330 to 360 lbs.; but the average weight is about 350 lbs. It is also put up in sacks, the contents of which weigh 100 lbs. uniformly. 100 barrels or 400 sacks always constitute one carload.

Wholesalers and jobbers who deal in the products of The American Sugar Refining Co. are required by that company to make a separate bill and a separate order blank for each sale of sugar manufactured by The American Sugar Refining Co. Therefore, when an order is received which includes sugar with other goods, a separate order is made out for the sugar and it must be billed separately; but all the goods for the order are shipped together.

Note the terms which are as follows: "Cash 1%—7 days, New York Funds."

Jan. 18. Receive a check (No. 11) from C. E. Brooks & Bro. for the 30-day bill of Jan. 12th.

18. The goods for orders No. 18 and No. 19 have been shipped.

18. L. M. Wetzel also complains of the quality of the headless shrimp which were sold to him on the 16th. Allow him 15c per can, send him a credit memorandum, and make the proper entry.

19. Receive a bill from the Joseph Stockton Co. for teaming, and pay it by check.

Detach bill No. 15. Observe that this bill is *not* O. K.'d by Mr. Parker or by Mr. Templeton. You are to determine the correctness of it, and, if it is found correct, to O. K. it. Charge Freight & Cartage-Out account.

Verify it as follows: turn to order No. 4, which was shipped on Jan. 5 via the C. B. & Q. R. R.; you will find that this order contains 4 cases of peas, 6 cases of corn, 7 cases of oysters, and 10 cases of shrimp;—27 pieces in all, which number tallies with the number given on the bill. Now, turn to order No. 7. You will notice that this order contains 8 bbl. of flour, 3 bbl. of flour (in 1/8 sacks), 4 cases of matches, and 3 cases of salmon; apparently only 18 pieces, while the bill has 39. This discrepancy is caused by the number of sacks of flour, which are counted, instead of the number of barrels. The difference between the number of barrels (3) and the number of sacks (24,—8 to a barrel) accounts for this seeming discrepancy and gives the correct number of pieces. Then turn to order No. 8, which contains 19 pieces, and to order No. 13, which contains (by counting the sacks of flour instead of barrels) 95 pieces. Compute the items at 5c a piece. O. K. the bill, write your initials below the O. K., pay the bill, and file both the bill and the check.

Jan. 20. The shipping clerk returns orders No. 20 and No. 21, the goods for which have been shipped.

Remember that you must affix prices to the items in order No. 21 according to the price list assigned to you by your teacher. Be sure not to use another price list; if you do, your results will be wrong.

Jan. 20. J. W. Chaffee & Co. also complain of the headless shrimp which were sold to them on the 16th. Allow them a rebate of 15c per can, prepare a credit memorandum and make the proper entry for this credit.

20. Deliver to the shipping clerk order No. 22, which has just been received from the traveling salesman.

20. Receive check (No. 12) from the L. E. Megan Grocery Co. for bills of the 12th.

20. Receive credit memorandum from the Biloxi Canning Co., for rebate on the headless shrimp found to be of poor quality (No. 16).

Make an entry for this credit memorandum in the purchases rebates and allowances book.

Jan. 20. Receive check (No. 13) from J. H. Walters & Bro. in payment of bills of the 10th.

20. Receive check (No. 14) from G. A. & C. L. Adkins for the 60-day bill of the 13th.

Jan. 20. Receive check (No. 15) from J. W. Bredin & Co. in settlement of bills of the 16th.
20. Deposit all checks on hand.

The bank will charge 20c exchange (10c each on the Naperville and Aurora checks). In business some houses will pay the exchange in cash, and have the total deposit placed to their credit; others will have the exchange deducted from the deposit and the remainder placed to their credit. Follow the latter method, make the deductions on your deposit ticket, and have your teacher enter the correct amount in your pass book. Make an entry for the exchange, which is charged to General Expense account, on the credit side of your cash book.

Jan. 20. Pay, by check, The American Sugar Refining Co.'s invoice of the 15th.

Since this bill is payable in "New York funds", you must include in the amount of the check, an amount equal to 1/10 of 1%, which is charged by members of the New York Clearing House Association for collecting the check. Make a separate entry for the exchange.

Jan. 21. Receive order No. 23.
21. Pay the salaries in the usual manner.
21. Pay $2.00, in currency, for postage stamps.
21. Mr. Kennedy's traveling expenses for the week, January 16 to 21, have been $25.67.
23. Order No. 22 is returned by the shipping clerk.
23. Receive order No. 24, which was sent in by mail.
24. Order No. 23 has been returned by the shipping clerk.
24. Receive an order by mail and record it as No. 25.
25. Order No. 24 is returned by the shipping clerk.
25. Receive an invoice for matches from The Diamond Match Co. (No. 17).
26. The shipping clerk returns order No. 25; the goods have been shipped. Use prices from your price list.
27. Receive check (No. 16) from Benj. Tarner in settlement of the 60-day bill of the 5th.

This is an out-of-town check, but it is not subject to exchange, owing to the fact that LaGrange is located in the same county (Cook) as Chicago. No exchange is charged in Chicago on checks drawn on banks in Cook county.

Jan. 27. Deposit the check just received.
27. Receive order No. 26.
27. Receive a bill for advertising (No. 18) from The Grocers' Criterion Company. Pay it by check. Charge Advertising account.
27. Receive an invoice of soaps from The N. K. Fairbank Co. (No. 19).
28. Order No. 26 has been returned by the shipping clerk.
28. Receive order No. 27.

Although this order is received from an out-of-town customer, it is not a mail order, which is subject to variable prices. While on a visit in Chicago, Mr. Helmer of the Tri City Grocery Co. gave the order, and, since he is unknown to our firm he asked that the goods be shipped C. O. D. Read the notation at the bottom of the order blank.

Jan. 28. Receive check (No. 17) from J. H. Walters & Bro. for the two 30-day bills of the 18th.

Jan. 28. Mr. Kennedy's traveling expenses for the week, Jan. 23 to 28, have been $23.85.
28. Receive an invoice for packing boxes from Rathborne, Hair & Ridgway Co. (No. 20).

Note that it is dated Jan. 2, and marked "Duplicate." This bill was rendered by request of Mr. Parker, whose attention had been called to the fact that no bill for boxes, received early in the month, was on file in the office. The original bill, if it had been received at all, had probably been lost in the shipping room. Charge Box & Shipping account. Use Jan. 2 as the date of the entry.

Jan. 28. Pay the salaries in the usual manner. Include $8.00 for assistant shipping clerk.
30. Receive check (No. 18) from the Shaw Grocery Co. for bills of the 20th. This check includes an amount for exchange.
30. Deposit all checks on hand. Pay exchange.

Follow instructions given when paying exchange January 20.

Jan. 30. Draw a check for $50.00 to be sent to J. C. Kennedy.
30. Receive orders No. 28 and No. 29.
30. Order No. 27 is returned by the shipping clerk. There is a Bill of Lading with the order.

To ship goods C. O. D., by freight, is common in a mercantile business. You will do well to study the procedure for a C. O. D. shipment. Do not pass this transaction until you are entirely familiar with the procedure.

The order blank bears the following notice: "Ship to order of Western Grocery House; notify Tri City Grocery Co." The shipping clerk has marked the cases with this notice and the commercial agent of the railroad company has, on presentation of the shipping receipt, issued a Bill of Lading. To prevent issuing a second B/L he has stamped upon the freight receipt, which he retains, the following: "Bill of Lading issued on this receipt."

Take the Bill of Lading from the incoming papers envelope. Indorse it "Western Grocery House, per (your name)." Draw a draft, at sight, on the Tri City Grocery Co. for the amount of the bills, less discount, and make this draft payable to the order of the First National Bank, Clinton, Iowa. Write an appropriate letter to the bank; when this has been approved by your teacher, mail the letter, the draft, and the endorsed Bill of Lading which are pinned together by filing them in the outgoing papers envelope. Send to the customer, the bills, regularly made out but bearing the following notation: "B/L at First National Bank."

The railroad company will not deliver the goods until the B/L, properly endorsed, is produced. The Tri City Grocery Co. must pay the draft, which is at the bank, and secure the B/L, with which to procure possession of the goods.

Post the bills to C. O. D. account, using the explanation "Tri City Grocery Co." in the "Items" column.

Jan. 31. Receive bill from the Joseph Stockton Co. for teaming (No. 21). Pay it by check.

Verify this bill as you did a previous teaming bill and O. K. it. ½ cases are counted as one piece.

Jan. 31. The firm has been advised by The American Sugar Refining Co. that it is entitled to a credit of $71.08 as a rebate on purchases of sugar during January. Make the proper entry.
31. The goods for orders No. 28 and No. 29 have been shipped.
31. Give Mr. Templeton, Mr. Parker, and Mr. Kennedy credit through the journal for their respective salaries.

Charge the amount of the salaries allowed to Templeton and Parker to Administrative Expense. Charge the amount of the salary allowed to Kennedy to Salesmen's Salaries.

Jan. 31. Pay Mr. Kennedy's salary by check.

ADJUSTING ENTRIES PREPARATORY TO CLOSING THE BOOKS

Jan. 31. Interest for three months has accrued on the note receivable which was made by A. A. Blair.

Make a journal entry for this accrual of interest. Charge Accrued Interest account and credit Interest account.

Jan. 31. All employees (except J. C. Kennedy) are paid each week. The last pay-day was Jan. 28; and (since the next day is Sunday) two days' wages have been earned by the employees.

Part of this accrual is to be charged to General Expense account and part to Box & Shipping account, but the total is to be credited to Accrued wages account. Make the proper journal entry.

Jan. 31. The office equipment has depreciated during the month and, in order to show correct results, this loss must be considered. Estimate the depreciation at 2½% of the cost of the office equipment.

Make a journal entry charging the amount of the depreciation to General Expense account and crediting a like amount to Reserve for Depreciation of Office Equipment account.

MERCHANDISE INVENTORY AND PREPAID EXPENSES

Merchandise on hand, January 31, $2895.63. This amount includes freight paid.
Advertising—⅔ of the bill of The Grocers' Criterion Co., $21.67.
Box and Shipping—Boxes on hand, at cost, $12.50.
General Expense—Unused stationery and office supplies, at cost, $10.00.

PROGRAM FOR CLOSING

1. Obtain (in pencil) the total of each column in the books of original entry. Prepare a recapitulation of the sales.

2. Prepare a recapitulation of the debit side of the cash book.

3. Prepare a recapitulation of the credit side of the cash book.

4. Verify the balance of the cash book by comparing this balance with the total of the balance of the check book and the balance of currency on hand.

5. Prepare a recapitulation of the journal; remember that the total debits must equal the total credits.

6. Test the correctness of the subsidiary ledgers.

In business houses in which the bookkeeping is done by several persons, the accounts receivable usually are kept by one or more employees, who give their entire time to this work. The head bookkeeper is, in most instances, directly responsible for the correctness of the general ledger accounts. Therefore, in order to test the correctness of a subsidiary ledger, the person in charge of the subsidiary ledger prepares a list of the balances of that ledger and compares the total of his list with the balance of the controlling account, which, in the meantime, has been obtained by the head bookkeeper.

7. Close and rule the books of original entry.

In the explanatory column of the purchases rebates and allowances book, on the first blue line which has not been used for an entry, insert the following: "Accounts Payable Dr." and "Purchases Rebates & Allowances Cr." Opposite these terms and on the blue line with them, record, in black ink, in the second amount column the total (for the month) of the rebates and allowances by creditors. Then rule this book as you ruled the purchases book.

In the explanation column of the sales rebates and allowances book, on the first blue line which has not been used for an entry, insert the following: "Sales Rebates & Allowances Dr." and "Accounts Receivable Cr." Opposite these terms and on the blue line with them, record, in black ink, in the second amount column the total (for the month) of the rebates and allowances to customers. Rule this book as you ruled the purchases book.

8. Post from all books of original entry, and take a trial balance of the general ledger. In posting the special columns follow instructions previously given, remember also that the total of the general expense column should be posted instead of the individual items in this column. Instructions for posting the totals of the sales rebates and allowances book and the purchases rebates and allowances book were given on page 186.

9. Compare the balance of the Notes Receivable account with the notes on hand as shown by the notes receivable book.

10. Prepare a statement of account for each customer whose account shows a balance. Study the illustration, given in this book, of a statement of account.

11. Prepare a Trading and Profit and Loss Statement. Follow the form, which has been used for this kind of statement in other sets. There are, however, the two following exceptions to that form:

First, treat Freight Cartage-Out as a selling expense by including the amount of this account in the selling expense group of accounts. The only reason for doing this is, as has been previously explained, freight-out may be regarded either as a selling expense or as a deduction from gross sales.

Second, analyze the General Expense account and determine the amount chargeable to each of the following sub-accounts: Rent, Office Salaries, Office Supplies, Depreciation, Postage, Collection & Exchange.

12. Prepare a Balance Sheet.

In the preparation of this Balance Sheet there will be three classes of assets as follows: current, permanent, and deferred charges. There will also be an accrument of interest, which may be included among the current assets. There will be only one class of liabilities, —current; the accrued wages of the employees should be included among the items which compose this class of liabilities.

However, a new and interesting situation arises from the accounts payable ledger. The account with Biloxi Canning Co. and the account with The American Sugar Refining Co. show debit balances. These results are due to the adjustments, which were made in these accounts, after they had been paid in full. Therefore, these accounts are, at the present time, really accounts receivable instead of being accounts payable; and, for this reason, the total of these accounts should be included among the accounts receivable, under the heading of "Rebates due from Creditors."

Likewise, the amount of the creditors' accounts to be included in the Balance Sheet must be, not the net amount of the balances of the accounts payable ledger, but the gross amount of the credit balances of this ledger.

It will be observed that the balance of the Accounts Payable account, therefore, does not agree with the total of customers' accounts payable as shown by the Balance Sheet; this difference, however, is caused by the two accounts which have just been discussed and which show debit balances. It would be manifestly wrong to state incorrectly the liabilities of the firm. We cannot say that the liabilities are less because one or two business houses, which usually are creditors, happen to owe the firm on account, even though such accounts are in the accounts payable ledger. It would be equally logical to cancel the entire balance of accounts payable for no other reason, than that the balance of accounts receivable is the larger, in which case, the accounts payable may be omitted from the Balance Sheet, and the accounts receivable stated as the result of such a cancellation—this, of course, is not reasonable.

As an illustration of this principle, suppose A has accounts receivable which amount to $1000.00, and accounts payable which amount to $400.00. It would be wrong for him to say that his accounts receivable amount to $600.00. Accounts receivable should never be used as a means by which to reduce the amount of the accounts payable, or *vice versa.* There may be an exception to this rule in a case in which accounts with a person, firm, or corporation appear in both the accounts receivable ledger and the accounts payable ledger; but such instances are rare.

13. Prepare closing journal entries in the usual manner.

14. Rule the general ledger accounts, which are affected by the closing journal entries. Do not forget to bring down the balance of those accounts, which contained deferred charges.

15. Make the proper adjustments for the accrued accounts.

16. Prepare a trial balance from the general ledger, to determine the correctness of that ledger, before proceeding with the work for the following month.

STORES LEDGER

The use of a stores ledger is not common except in the larger business houses in which it is necessary to account for each article of merchandise. This necessity generally arises from the fact that several persons have access to the stores. In such cases it is difficult to fix upon one person responsibility for the safekeeping of the stores unless a stores ledger is in use.

In a smaller business the owner or manager comes more directly into contact with the handling of the merchandise and, therefore, may observe any unusual procedure in this department.

However, a growing business must solve the problem of whether its probable losses from peculations and carelessness are more or less than the cost of maintaining a stores ledger would be, since the keeping of such a book usually involves considerable expense. This problem is not always easily solved.

The principles which govern the use and operation of a stores ledger are not difficult. A slight knowledge of bookkeeping is all that is necessary since in many stores ledgers, quantities only are recorded. The headings of the various columns are usually self-explanatory.

In this set, the use of a stores ledger is optional with the teacher and student.

HOW TO USE THE STORES LEDGER

The number and names of the departments into which a business is divided depend upon many things, but one of the main things is the size of the business. However, the number of departments into which a business might be divided would not affect the use of a stores ledger.

The business of the Western Grocery House is handled by eight departments. The number and name of each department and the articles handled by each department are shown by the following schedule:

SCHEDULE OF DEPARTMENTS

No.	Name	Articles Handled by Each Department
1	Fancy Groceries	Apples, Peaches, Prunes 60/70, Prunes 70/80.
2	Sundries	Matches; Soap, Chicago Family; Soap, Fairy White; Soap, Glycerine Tar; Soap, Old Brown; Soap, Santa Claus.
3	Sugar	Barrels, Granulated; Sacks, Granulated.
4	Coffee and Tea.	Coffee, O. G. Java; Coffee, Fancy Santos; Coffee, Select Golden Rio.
5	Canned Goods	Beans, 2# P. L. String; Corn, 2# Old Abe; Peas, 2# Menu; Pumpkins, 2# Menu; Salmon, Col. River; Shrimp, 1# Dried; Shrimp, 1 gal. Headless; Shrimp, 2 gal. Headless; Shrimp, 1# Pickled; Shrimp, 2# Pickled; Succotash, 2# Old Abe; Tomatoes, 2# Pewaukee Lake; Tomatoes, 3# Pewaukee Lake.
6	Flour and Cereals	Flour, ¼ sacks Ceresota; Flour, ⅛ sacks P. B.; Flour, bbl. P. B.
7	Cheese, Fish and Salt	Salt, Mich. bbl; Salt, Mich. Kegs; Salt, Mich. 3's; Salt, Mich. 5's.
8	Cigars and Tobacco	No purchases or sales during January.

Proceed as follows to open the proper accounts:

1. Rule sheets of paper to correspond with the illustration of a stores ledger, page 150. These sheets should be approximately 8½ in. by 11 in., or about the size of ordinary "typewriting" paper. First, write the name or the number of a department at the top of the page; then, underneath the name of the department open an account for each article handled by that department. The names of the articles, in alphabetical order, are shown by the Schedule of Departments.

If you use sheets of paper of the size that has been suggested, you can place from four to six accounts on each page.

After accounts have been opened for all the articles in, say, the Fancy Groceries Department, proceed in a similar manner with Sundries Department, etc. However, it is not necessary to open any accounts for Department No. 8 as there are no purchases or sales in this department during January.

2. Arrange, according to dates, all the invoices for purchases of merchandise; then enter in the proper column each item which appears on these invoices. The column which is headed "Price" refers to the cost price of the article as shown by the invoice.

Some business houses do not record in the stores ledger the cost prices of the goods purchased. In such cases the stores ledger becomes a record of quantities only, and that is the real function of this book.

3. When you have entered all the items from the invoices, proceed in a similar manner with the orders. Turn to order No. 1; the first item is "16 doz. Menu Peas," which is entered (on the proper line) by writing the date of the bill for this order, the order number, and the quantity sold,—do not use the selling price. Proceed in a similar manner with the other items on this order; then with order No. 2, etc., until all the items on all the order blanks have been entered.

The unit of measure, weight, or quantity for each commodity should be the same for both purchases and sales. For example: the quantity of an article purchased should not be expressed as "cases" and the quantity sold expressed as "dozen," but both purchases and sales should be expressed in the same denomination. It would perhaps be better to use the units which are used for the distribution of freight charges.

HOW TO OBTAIN THE INVENTORY

When this work is completed, the quantity on hand, if any, is shown by extending the difference between the quantity received and the quantity sold into the column headed "Balance on Hand."

It is a common practice to add to the cost value of the goods the freight charges which have been incurred in obtaining them. Therefore, the following table of freight charges is given for your use in determining the value of the inventory. The amount of the freight charge for each unit of goods should be added to the invoice cost of each unit of goods; the result is the cost per unit (freight paid) of the goods.

This cost per unit, which is written in the column headed "Price," is then used as the number by which to multiply the quantity of each article on hand. The products of these multiplications will be the cost (freight paid) of the goods on hand; these amounts are then placed in the column headed "Value." The total of all these amounts is the value (freight paid) of the inventory of merchandise.

However, in order to ascertain the proper value of the sugar on hand, 10% of the amount which is now shown by the "Value" column must be deducted. This is to allow for the rebate which was given on the purchases of sugar during January. The rebate allowed on the 1 gal. cans of headless shrimp must be treated in a similar manner.

The information obtainable from a stores ledger is sometimes valuable in matters not concerned with internal or departmental accounting. If the stores accounts are properly kept and the books properly protected, they are excellent aids in establishing the value of goods destroyed by fire or lost by burglary.

The inventory now shows the invoice cost of the goods on hand, and it has also absorbed its proportion of the freight charges. Therefore, the remainder of the freight charges must be absorbed by the goods sold. The manner in which this is done will be explained in connection with the work of the cost clerk.

DEPARTMENTAL ACCOUNTING

In a large business in which departments are maintained, each department may sometimes be in charge of one person who may share in the profits of that department. He is known as the head of the department and he usually buys all goods for his department. Naturally he is interested in knowing the profits produced by his department because his own salary is affected thereby.

The management of the business may also wish to know whether or not a department is being maintained at a loss. If a department should happen to show a loss, it is possible by means of departmental or internal accounting to determine this fact and to take proper action to avoid such losses in the future. The remedy, however, may not be determined by accounting, since that is a question of management.

To be able to show the profits for each department, you must ascertain, first, what the sales for each department are; and, second, what the cost of the sales for each department is. This cost should include the proper amount of the freight charges for each department. The difference between the cost of sales and the sales is the gross profit.

FREIGHT CHARGES

To be added to invoice prices in figuring costs for inventories and for use of the profit clerk. No freight charges are added in figuring costs on articles bought freight prepaid.

Articles	Cents	Per
†Beans, 2# Pewaukee Lake String	1 69/100	doz. cans
Cheese, Swiss	13 3/5	100 lbs. net weight
" Young American	13 9/10	" " "
Cigars, Cremo and Francis Wilson	21 12/100	M
*Coffee	45/100	lb. net weight
†Corn, 2# Old Abe.	1 69/100	doz. cans
" 2# " "	3 15/100	" "
Olive Oil	28	case
Oysters, 1# Cove	12 15/100	"
†Peas, 2# Menu	1 69/100	doz. cans
†Pumpkins, 2# Menu	1 69/100	" "
Sardines, Messir ¼'s	33 3/5	case
Shrimp, 1# Dried	8 55/100	"
" 1 gal. Headless	26 77/100	"
" 2 gal. "	38 1/4	"
" 1# Pickled	12 15/100	"
" 2# "	22 27/100	"
†Succotash, 2# Old Abe	1 69/100	doz. cans
†Tomatoes, 2# Pewaukee Lake	1 69/100	" "
" 2# " "	3 15/100	" "
† " 3 " "	2 47/100	" "

*On shipment of Jan. 2 only. Shipment of Feb. 6 received freight paid; see explanation, when bill is received Feb. 13.

†Received in carload lots. All other articles are received in less than carload lots.

WORK OF COST AND PROFIT CLERKS

On the left-hand side of the order blank are two columns which are to be used for showing the cost of the goods sold on each order. The general heading of these two columns is "Cost."

One of the columns is headed "Price," and the other "Amount." These columns are for use in determining the cost of the goods which were shipped or delivered on each order. In order to estimate the cost of these goods, it is necessary to know the cost of each unit of the goods sold. This cost is the cost of the unit when it is delivered at the store (freight paid).

In the column which is headed "Price" you will enter the cost of the goods. This price is the invoice price of each unit plus the freight charges for the unit. Thus, in order No. 1, the first item is 16 doz. Menu Peas. The invoice cost of these peas is 82½c per doz. and the freight charge is 1 69–100c per doz. Therefore, the cost (freight paid) is $.8419 per doz. and this is the number to be placed in this column.

Now multiply 16 x $.8419, and place the result in the column headed "Amount." Proceed in a similar manner with each item on this order.

You will now distribute these costs in the column which is headed "Cost," and which is just above the other cost column. This distribution is made according to departments, and when completed the total of this column must, of course, be exactly the same as the total of the lower amount column.

In the column headed "Sales" you will enter, by departments, the amounts in the 30 days and 60 days columns, which are on the right-hand side of the order blank. The total amount of the sales column must, of course, equal the total of the two columns from which the amounts were taken. Proceed in a similar manner with order No. 2 and likewise with all other orders.

Note that sardines, although they are marketed in cans, are not handled by the Canned Goods Department, but by the Fancy Groceries Department. In calculating the cost of order No. 24, remember that of the 8 boxes of matches sold, 7 were bought at $1.15, and one at $1.12½.

TO OBTAIN TOTAL COST OF GOODS SOLD

Now turn to the department costs register (Blank Book No. V) and enter in this book in the proper department columns the amounts in the upper cost columns of the order blanks. Total all columns; be sure that the sum of all the department columns equals the sum of the total column, which is the last column of this book.

You now have, by departments, the cost of the goods sold, except the cost of the goods sold by the Sugar and Canned Goods departments. A rebate of 10% was allowed on the sugar purchased and a rebate of 10c per can on the 1 gal. cans of headless shrimp. Since the cost of the sugar was 10% less than the amount shown by the sugar column, you may now enter, in red ink, in this column, an amount equal to 10% of the price of the sugar sold. Ascertain also the number of cans of 1 gal. headless shrimp which were sold, and enter, in red ink, in the canned goods column the amount of this allowance at 10c per can. Extend the total of these deductions to the right into the total column, in red ink. Then subtract, again, all these amounts, total the columns and rule them properly.

TO OBTAIN TOTAL SALES, BY DEPARTMENTS

Next enter in the proper columns of the department sales register the amounts which are in the sales columns at the top of the order blanks. Total all the columns and enter, in red ink, in the canned goods column and also in the total column the amount of the rebates which were allowed customers during the month. Total the columns again and rule them properly. The amount now shown in the total column must, of course, agree with the balance of the Sales account in the general ledger, before this account is closed.

TO OBTAIN PROFITS BY DEPARTMENTS

Now, enter upon the first line of the department profits register the totals of the department sales register; then, enter upon the second line of this same register, the totals of the department costs register. Subtract the latter amounts from the former, and enter the differences on the next line below. These differences are the gross profits of the departments. Rule this book properly. In the order number column make the proper explanation, by writing on the proper lines the following: "Sales," "Cost of Goods Sold," "Profit."

The results which are obtained by this book and which relate to the cost of the goods sold may be verified by referring to the Trading Statement, which shows a slightly different result. But, the variation is caused by the following two items: first, the discount on purchases, which did not enter into the calculations for the cost of goods sold in the departments, but which does appear on the Trading Statement as a deduction from purchases. Second, after the discount on purchases has been deducted from the department costs, there still remains a discrepancy of 82c, which is due to differences in fractional prices and variations of weights.

This difference will also occur in the verification of the inventory, and the cause of it will be made clear as the inventories of the various departments in which the differences occur are verified.

It will be observed that there is also a difference between the net sales as shown by the Trading Statement and by the department profits register. This difference is caused by the discount on sales, which is deducted from the sales on the Trading Statement, but which is not considered in the department profits register.

PROOF OF INVENTORY BY ACCOUNTING

The inventory, which was taken from the stores ledger, may be verified now by accounting.

Enter in the department purchases register the amount of each invoice for goods purchased. Place the amount of each purchase in the proper column, according to departments, and enter, also, in these columns the amounts of freight paid, if any, on such purchases, using *one* line for both amounts. Total each column of this book. Be sure that the total of the total column is equal to the total of all the department columns. This amount is equal to the total purchases as shown by the Purchases account of the general ledger plus the total of the Freight-In account. It is also equal to the total purchases as shown by the Trading Statement.

Certain rebates were allowed during January to the firm. 10% of the total of the sugar column should be subtracted from that total; and $36.00 should be subtracted from the total of the canned goods column, after these amounts are entered in their respective columns and their total extended into the total column. The amount of each column should then be brought down on the next line. The totals of these columns should now prove in the same manner that they did before the deductions for rebates were made.

Moreover, the footing of the total column is equal to the total purchases (Purchases account plus Freight-In account) minus the amount of the Purchases Rebates and Allowances account; it is also equal to the total purchases (as shown by the Trading Statement) minus the purchases rebates and allowances as shown by the same statement.

On the 15th line of the department profits register, draw two heavy, black lines across the page. Then, in the order number column on the next blue line, write "Purchases;" and on this same line write the net amount of purchases for each department. The amounts should be obtained from the department purchases register.

On the next blue line in the order number column, write "Cost of Goods Sold;" and, on the same line in the proper columns, write the net cost of goods sold in each department. These amounts should be obtained from the department costs of goods sold book.

Then deduct the costs of the goods sold from the costs of the goods purchased, and the differences will be the costs of goods on hand, or the inventories of merchandise by departments. These remainders should be written on the next blue line and the book properly ruled.

The amounts here obtained should agree with the amounts of the inventory, which was taken from the stores ledger. However, there are certain minor discrepancies due mostly to variations on account of fractions or variations in weights. These differences are as follows: 1c in the Sundries Department, 78c in the Coffee and Tea Department, and 3c in the Canned Goods Department. Below the reconciliation of these inventories, bring down the amounts of the inventories, by stock, preparatory for the work of the next month.

One always discovers differences of this kind in attempting to verify inventories. But if all the departments are being managed properly, the discrepancies should not be large. Futhermore, if the discrepancy in the inventory of a department is too large, an investigation of that department will usually lead to the discovery of the causes. Then the proper remedies may be applied.

PETTY CASH BOOK

The petty cash book is a device by means of which a great many entries for small amounts that have been paid in currency are excluded from the general cash book; by this device the latter book is reserved for the purpose of recording payments by checks only.

It is advisable to make all payments by checks whenever it is possible to do so, as a cancelled check is almost indisputable evidence that the amount for which it is made payable has been paid. However, there are many small items that must be met from day to day, and to pay them by checks would be inconvenient to both parties. Therefore, it is a general practice to establish a petty cash fund from which these small items may be paid, and, whenever it becomes necessary, to replenish this fund by paying into it a sum of money equal to the amount that has been expended.

By this plan the petty cash fund, or imprest fund, is always maintained on the general ledger at a uniform amount. It may become necessary, at times, either to increase or to decrease this fund. However, the fund should be established for such an amount that its replenishment every few days will not be necessary, nor should a change in the amount of the established fund be necessary. But it is not always possible to determine in advance the amount of money needed for this fund.

In a large business it is not unusual to find a very elaborately arranged petty cash book. The credit side of it may contain many special columns for the classification of the expenditures; in fact, it may resemble the credit side of the general cash book, or check register. But in a small business a simpler form of book will answer every purpose; therefore, it is a common practice to use a small book about the size of a bank book, or to turn to such use a portion of a journal or of some other book of original entry.

The entries which are made in a petty cash book should be in the same form as if they were made in the general cash book. There is seldom, if ever, any need to change the form of an entry for an expenditure just because it is made in a petty cash book.

The advantages in the use of the petty cash book are many, but the principal ones may be stated as follows: (1) it prevents the pages of the general cash book from being encumbered with a great many small charges which may as well be disposed of by one charge for a larger amount; (2) it is not necessary to balance the general cash book each day, as its balance must be in accord with the bank balance or balances.

The petty cash book should be balanced and ruled each day at the close of business, and the cash on hand should be counted in order to verify the balance of the petty cash book. The charges which are made in this book are distributed by means of a journal entry to their proper accounts.

MEMORANDA OF TRANSACTIONS FOR FEBRUARY

Feb. 1. It has been decided to establish a petty cash fund by transferring to this fund the amount of currency on hand Jan. 31. Make the proper entry for the transfer.

The entry to create a petty cash fund may be made as follows: On the credit side of the general cash book write "Petty Cash Fund" and extend into the general column of the cash book the amount of the fund. Then, in the general ledger open an account under the same name.

For a petty cash book, use the last four pages of your bank book. On the debit side of the petty cash book write, "Feb. 1, Cash received $12.45." Whenever a petty item is paid make an entry for it on the credit side of the book, just as you would if the entry were made in the general cash book.

No Outgoing Papers used for this month.

Feb. 1. In order to meet all obligations promptly, the partners have decided to discount the Blair note. The bank has agreed to discount it at 6%. Make the proper entries.

Follow the instructions that were given when the Erskine note was discounted on the 12th ult.

Feb. 1. Pay, by check, the invoice of Jan. 12 of the International Salt Co.

1. Pay, by check, the bill of the 3d ult. of The A. H. Andrews Co.

1. The stock and fixtures have been insured; receive and pay, by check, the bill of Geo. S. Haskell for the premium.

Take the insurance policy from your outfit and read it carefully. When you understand it thoroughly, file it in the outgoing papers envelope. Next detach bill No. 22 from your pad, have it receipted by the teacher, and then file it. Draw the check in favor of Geo. S. Haskell, the agent, who will settle with the insurance company for the premium paid.

Feb. 1. Draw a check for $50.00 in favor of Ray E. Parker, and another check for $60.00 in favor of Herbert Templeton.

These amounts are drawn against their salaries; therefore, charge these to their personal accounts.

Feb. 1. Pay, by check, the rent for February.

1. Receive invoice of oysters from the Biloxi Canning Co. (No. 23).

The bill is dated January 25th. It is to be entered and posted as of that date.

Feb. 1. Receive an expense bill from the Chicago & Eastern Illinois Railway Company for freight on the shipment of oysters. Pay the bill (No. 4) by check.

2. Receive orders No. 30 and No. 31; both were sent in by mail and have been copied on regular order blanks.

Feb. 2. Receive bank draft (No. 19) from Hamlin & Walker for the 30-day bill of January 23, less discount.

3. The goods for orders No. 30 and No. 31 have been shipped.

3. Receive order No. 32, sent in by Mr. Kennedy.

3. Three boxes of Santa Claus soap, purchased of the N. K. Fairbank Company on the 27th ult., have been found to be defective. This soap has been returned to them for credit.

The N. K. Fairbank Company will issue a credit memorandum on receipt of the goods; but, instead of waiting for this, make out a bill as if these goods had been sold to the Fairbank Company. It is the custom with many concerns to "bill back" goods that have been returned. This is, of course, not a sale, and should not be treated as such; instead, it is to be entered in the purchases rebates and allowances book in the usual manner.

Feb. 3. Receive check (No. 20) from J. H. Walters & Bro. in settlement of bills of January 24, less discount.

3. Pay $5.00 in currency for postage stamps. Make the proper entry in the petty cash book.

3. Pay, by check, the bill of the Remington Typewriter Company of January 3.

3. Pay, by check, the invoice of the Biloxi Canning Co. of the 25th ult., less rebate on January 18 and less discount.

The rebate on the headless shrimp was 10c per can; this reduced the price per can to 40c. When the invoice of the Biloxi Canning Co. was paid on Jan. 13, our firm, however, took discount on the original price of 50c. This was proper at the time the invoice was paid, but it is now (since a rebate was allowed), wrong in amount, to the extent of the discount on the allowance. Therefore, the amount of the rebate is to be deducted from the invoice to be paid now; then, discount should be taken on the difference.

Feb. 4. Receive two invoices from The American Tobacco Company (No. 24 and No. 25).

The goods for bill No. 24 are sold, "F. O. B. New York," while the goods for bill No. 25 are sold "Freight Paid." The two lots were shipped together and the freight, properly proportioned to the goods sold f. o. b. New York, is charged on the bill. This freight is to be charged to Freight-In account, therefore only the amount of the merchandise is entered in the purchases book. An entry for the freight should be made in the journal.

Feb. 4. The bank balance is low, and some large bills will mature soon. Mr. Templeton and Mr. Parker have conferred regarding what is best to do. The credit of the firm must be maintained. It has done a good business thus far and has excellent prospects for the future. Everything, however, depends on keeping its credit good and on being able to discount its bills. It is possible that the volume of business being done is too large for the amount of the capital.

Mr. Templeton states that he has no cash which he may add to his investment. Mr. Parker offers to invest $1000.00 more, and Mr. Templeton is willing that he should. But even this additional capital will still leave the firm unable to meet all its bills. Of the accounts receivable, only one 30-day bill, which is for a small amount, will mature within the next few days; and, consequently, the firm cannot depend on the payment of accounts receivable as a source from which to obtain the necessary cash.

Receive Mr. Parker's check (No. 21) and make the proper entry for it.

Feb. 4. Mr. Templeton has asked the bank for a loan of $1500.00; and the bank has requested him to furnish it with a Balance Sheet of the firm.

Take the bank statement from the incoming papers envelope. Read and study it carefully. Prepare the report for the bank. It would perhaps be better to prepare it first on a sheet of paper, taking the necessary amounts from the Balance Sheet which you made on January 31. Have the report approved by your teacher. Then copy it on the bank form; date this form February 1; sign it properly, but use Feb. 4 as the date on which the report is signed. Deliver the report to the bank by filing it in the bank pocket of the pocket file.

Feb. 4. The statement is satisfactory to the bank, and it offers to lend the firm, for 30 days, at 5% interest, the necessary amount.

Now, take from your outfit a promissory note blank; fill it out properly; and sign it in the same manner as you sign the checks. Deliver it by filing it in the bank pocket. It is customary with banks to take in advance, interest on notes. Compute the interest, and have your teacher enter the proceeds of the note in your pass book. Enter the amount also in your check book as "Loan."

Make the proper entries for the loan and the interest.

Feb. 4. Deposit all checks on hand.

4. Although the shipment of tobaccos and cigars has not arrived, the bills for it must be paid in due time in order to save the discount. Pay them today, by check.

The check will arrive in New York on Monday, Feb. 6. This is apparently a day late, but it is not as the 5th is Sunday. Include, in your check, 1/10 of 1% for exchange.

Feb. 4. Receive order No. 33.

4. The goods for order No. 32 have been shipped.
4. Receive an invoice of cheese from the Sheboygan Cheese Co. (No. 26).
4. Receive an expense bill from the Goodrich Transportation Co. for freight on the shipment of cheese. Pay it by check (No. 5).
4. Pay the salaries.
4. Mr. Kennedy reports his expenses for the week, January 31 to February 4, as $19.26.
4. Pay, by check, the bill of The Diamond Match Co. of the 25th ult.

This bill is due today; and if the check is sent by the office assistant, it will reach them in time to entitle us to the discount.

Feb. 6. J. H. Walters & Bro. return six bags of Best O. G. Java Coffee sold them on the 18th ult. The weights of the bags are as follows: 134, 133, 132½, 134, 133, 132 lbs.

Make the proper entry and send them a credit memorandum. Be sure to deduct the tare, which in the sale of coffees is always 1% of every full 100 lbs.

Feb. 6. The goods for order No. 33 are shipped.

6. Pay, by check, the bill of The N. K. Fairbank Company of the 27th ult., less credit and less discount.

Feb. 6. Mr. Parker informs you that the tobaccos and cigars have arrived and that the bills are correct as to quantities and prices. He asks you to O. K. the bills for him.

6. Receive orders No. 34 and No. 35; the latter has been received by mail.

6. J. W. Chaffee & Co., ask for duplicate bills for their purchases of January 16. Comply with their request.

Prepare these bills just as you did the original bills, but mark them "Duplicate." Make no entry for them as they were issued as an accommodation to the customer.

Feb. 6. Receive a Chicago bank draft for returns on the C. O. D. shipment of the 30th ult., less 15c collection fee (No. 22).

Enter the full amount of the draft on the debit side of the cash book and 15c on the credit side of the cash book, charging General Expense. Compare the form of this draft with that of an ordinary check.

Feb. 7. The shipping clerk returns order No. 35.

7. Receive a bill from the Chicago Telephone Company for telephone service for one quarter in advance; the instrument was installed Feb. 1 (No. 27). Pay the bill by check.

7. Receive a check (No. 23) from J. W. Bredin & Co. in settlement of invoice of Jan. 28.

7. The goods for order No. 34 have been shipped.

Place this order in proper numerical place in the sales binder.

Feb. 7. Receive orders No. 36 and No. 37, the former sent in by Mr. Kennedy.

7. Mr. Templeton informs you that he has had a conference with Mr. Tarner concerning the latter's account. Mr. Tarner is willing to give his note with C. E. Blank, whom Mr. Templeton knows to be responsible, as surety. The note is not to include his last order. It is to be dated Feb. 10, payable in 40 days, with interest at 5%.

Draw the note and submit it to your teacher for signatures, then make the proper entries.

Feb. 8. The goods for order No. 37 have been shipped.

8. Receive a bill from Rathborne, Hair & Ridgway Co. (No. 28) for shipping boxes.

9. The shipping clerk returns order No. 36.

9. Draw a check for $15.00 in favor of Mr. Parker and charge it to his personal account.

10. Receive orders No. 38, No. 39, and No. 40.

Note that the coffee, which is ordered in No. 40, is to be roasted. The coffee cannot be shipped until the roasting is done.

Feb. 10. Receive a check (No. 24) from the L. E. Megan Grocery Co. for the bills of Jan. 31.

10. Pay, by check, the bill of the Sheboygan Cheese Co., of the 1st inst.

Chicago paper is current in Sheboygan; therefore no exchange is to be included in the check.

Feb. 11. The goods for orders No. 38 and No. 39 have been shipped.
11. Pay the salaries.
11. Mr. Kennedy's traveling expenses for the week, Feb. 6 to 11, have been \$17.88.
11. Draw a check for \$50.00, to be sent to Mr. Kennedy for traveling expenses.
11. Receive a check (No. 25) from G. A. & C. L. Adkins in settlement of the 30-day bill of Jan. 13.
11. Deposit all checks on hand.
13. Receive an invoice for coffee from Westfeldt Bros. (No. 29). By its terms, if we desire to take advantage of the cash discount, we must pay it at once. Pay it, by check, and include in the amount of the check 1/10 of 1% for exchange.

Note that this shipment was sent freight paid. The original order for coffee was for 50 bags of Fancy Santos, but only 30 bags were sent in the shipment of Jan. 2. Therefore Westfeldt Bros. agreed to pay he freight on the so-called "back order." This is often done in such cases.

Feb. 13. The goods for order No. 40 have been shipped.

In roasting, coffee shrinks about 15%. However, it is to be billed at the green weight, and 30c a bag for the cost of roasting is to be added.

Feb. 13. Receive order No. 41, sent in by Mr. Kennedy.
13. Mr. Templeton wishes to draw \$25.00. Write a check for that amount and charge his personal account with it.
13. Receive a bank draft (No. 26) from J. W. Chaffee & Co. for the bills of the 4th inst., less discount, also for the 30-day bill of Jan. 16. The balance of the payment is to apply to the 60-day bill of Jan. 16.

When a debtor who owes several bills remits and, in doing so, specifies that his remittance is to be applied on a certain bill or bills, his instructions must be followed. Check out of the account the bills paid.

In case a remittance includes bills of different dates, it is advisable to make separate entries for these bills and separate postings, for this will facilitate checking out the bills.

Feb. 15. Order No. 41 has been filled, and the goods shipped.
15. Receive order No. 42, which was sent in by the traveling salesman.

Note that this order calls for a cereal which the firm does not carry in stock. In the trade this is called a "pick-up" order. The goods will be ordered from The American Cereal Co.

Feb. 15. Receive a check (No. 27) from L. M. Wetzel for the 60-day bill of the 16th ult., less rebate and plus exchange.
16. Receive an invoice from The American Cereal Company for merchandise which was ordered yesterday. (No. 30).

Note that Quaker Oats are billed to the firm at the same price at which Mr. Kennedy sold them to the customer, and on the same terms.

Cereals are generally sold by the manufacturers to the jobbers, and by the jobbers to the retailers at what is called a list price. The jobber pays the bills which are rendered to him, and at stated periods the manufacturer accounts to the jobber for the commission on the goods which the jobber bought. The probable object of this plan is to maintain uniform prices.

There are several other kinds of merchandise in handling which jobbers in groceries use this plan in part; that is, in addition to a fixed price, there is a rebate which is allowed at stated periods.

Feb. 16. The shipping clerk returns order No. 42.
16. Receive a check (No. 28) from J. H. Walters & Bro. in settlement of a bill of Feb. 6.
17. Receive order No. 43, sent in by mail.
17. Receive a check (No. 29) from the W. H. Callow Grocery Co. for the 30-day bill of Jan. 17; the balance of the check is to be applied on the 60-day bill of the same date. 10c exchange is added.
17. Receive a check (No. 30) from J. W. Bredin & Co., to pay the bills of the 7th inst.
18. Order No. 43 has been filled.
18. Mr. Kennedy's expenses for the week, Feb. 13 to 18, have been $22.55.
18. Receive check (No. 31) from C. E. Brooks & Bro. for bills of the 8th inst.
18. Pay the salaries.
18. Deposit all checks on hand; deduct the amount of the exchange.

Exchange paid to the bank equals the amount of the exchange which was included in the checks. Follow instructions on Jan. 20th as to making the proper entries.

Feb. 18. Pay $2.00 in currency for postage stamps. Enter in the petty cash book.
18. Pay 45c in currency for miscellaneous office supplies. This is also a petty cash charge.
18. Balance and prove your petty cash book.
20. Receive an invoice of teas from John C. Siegfried & Co. (No. 31).

Note the terms, which are unusual, also the peculiar form of the bill.

Feb. 20. Receive a bill for teaming from the Joseph Stockton Co. (No. 32). Pay it by check.

Barrels of salt, in sacks, are counted as bbl. Swiss cheese is counted as one piece, and both kinds of cigars are put up in one package.

Feb. 21. Receive order No. 44.
21. Receive a check (No. 32) from G. A. & C. L. Adkins for the bills of Feb. 11, less discount.
23. Order No. 44 has been shipped.

Since the sale of tea is an infrequent occurrence, a special column for 4-mo. items has not been provided on the order blank. 4-mo. items are extended, in the margin, to the right of the 60 days column. This order requires three bills. Remember that tea is sold on the following terms: "4% cash in 10 days."

23. Receive check (No. 33) from the L. E. Megan Grocery Co. for bills of the 13th inst.
23. Receive order No. 45.

Since the financial responsibility of the parties who sent in this order is unknown to the firm, the shipment is to be made C. O. D. Although it is a mail order, prices are not to be supplied from the variable price list. They have been agreed upon by correspondence.

Feb. 24. Receive an invoice from Francis H. Leggett & Co., for sardines and olive oil (No. 33).

24. Receive an expense bill from the Lake Shore & Michigan Southern Railway Co. for freight on the shipment from Francis H. Leggett & Co. (No. 6). Pay it by check.

24. Receive order No. 46, which is sent in by the traveling salesman.

24. Order No. 45 is filled.

Follow instructions, which were given when the C. O. D. shipment was made on Jan. 30. Draw at sight through the Farmers State Bank, Janesville, Wis.

Feb. 24. Five cases of Barber's 200's B. & C. Matches are found to be defective and are being returned to the Diamond Match Company.

Bill these goods back to the creditor. See instructions on Feb. 3.

Feb. 25. Order No. 46 has been shipped.

25. Draw a check for $50.00 in favor of Mr. Kennedy, to be sent to him for traveling expenses.

25. Receive a check (No. 34) from the Shaw Grocery Co. for the bill of the 15th inst. less discount, but including exchange.

25. Pay, by check, the invoice of The American Cereal Co. of the 16th inst.

25. Deposit all checks on hand; allow for exchange.

25. Pay the salaries.

25. Receive orders No. 47, No. 48, and No. 49; the first has been received by mail.

25. The traveling man's expenses for the week, Feb. 20 to 25, have been $17.95.

27. The W. H. Callow Grocery Co. write that, in their oponion, they are overstocked with sardines. Therefore, they are returning, with transportation paid, 4 cases of sardines which they purchased on the 25th inst.

Send a credit memorandum and make the proper entry.

Feb. 27. By examination of the accounts receivable, you find that the following bills are past due:

G. A. & C. L. Adkins, 30-day bill of Jan. 5, $34.13.

L. M. Wetzel, 30-day bill of Jan. 16, $70.85.

L. M. Wetzel, 30-day bill of Jan. 25 (variable amount).

Draw drafts, at sight, on these customers. Make the drafts payable to the Oak Park Trust and Savings Bank, Oak Park, Ill., and the First National Bank, Batavia, Ill., respectively.

The drawing of drafts on debtors is usually the first step taken in the collection of delinquent accounts. One or more "dunning" letters may, or may not, have preceded the drawing of a draft. Drafts may be drawn in favor of the bank with which a (creditor) firm does its banking, in which case the draft is then forwarded by this bank to some bank in the debtor's town; or the draft may be sent direct to a bank in the city or town in which the debtor resides.

Draw these drafts in the proper manner on blanks which will be found in your outfit. Write appropriate letters to accompany the drafts. Submit the drafts and letters to your teacher for criticism, after which file both in the outgoing papers envelope.

Until these drafts are collected, make no entry for them in your books; but make a notation on the account of each debtor to the effect that a draft has been drawn; give the date of the draft.

Feb. 28. Receive a credit memorandum from The American Cereal Company, for rebate (commission) on cereals bought during February (No. 34).

28. Receive a bill (No. 35) from the Joseph Stockton Co., for teaming. Pay it by check.

28. Credit Mr. Templeton, Mr. Parker and Mr. Kennedy, each, with his salary.

28. Pay $2.50, from petty cash fund, to Chicago Window Cleaning Co. for cleaning windows.

28. Pay Chicago Towel Supply Co., $2.50 for supplying towels and soap for office use during February. Pay the bill from the petty cash fund.

28. Summarize the entries from the petty cash book by showing the amounts that are chargeable to the different expense accounts. Then make a journal entry which charges the proper expense accounts and which credits the Petty Cash Fund account.

28. Draw a check, payable to Petty Cash Fund, for the total amount of expenditures of petty cash and make the proper entry for this check.

It will be seen that the two entries, for which instructions were just given, will, when they are recorded, restore the petty cash fund to its original amount. Cash will be obtained on this check at the bank.

ADJUSTING ENTRIES PREPARATORY TO CLOSING THE BOOKS

Feb. 28. Compute the accrued interest on the note receivable which was made by Benj. Tarner. Make the proper entry for this accrual. The amount of this accrual will depend upon the price list which you are using.

28. Estimate the amount of wages accrued to date. This includes the accrued wages for 2 days of all employees except the traveling salesman. Make the proper entry.

28. Make the proper entry for the depreciation of office equipment. Follow the form of the entry which was made at the end of January.

28. While the firm has not been in business long enough to determine by experience its probable losses from bad debts, yet it is evident that some provision should be made against losses of this kind. Therefore, it has been decided that a sum equal to 1% of the sales for February shall be reserved for losses from bad debts. Make the proper entry to create this reserve.

MERCHANDISE INVENTORY AND PREPAID EXPENSES

Merchandise inventory (freight paid), $5095.16.
Advertising—1–3 of the bill of The Grocers' Criterion Co., $10.83.
Box and Shipping—Shipping boxes valued, at cost, $11.60.
Expense—Office supplies on hand, $5.00; 2–3 of telephone bill, $10.00.
Insurance—Premium paid in advance for 11 months.

PROGRAM FOR CLOSING

1. Total all the columns in all the books of original entry, and prepare a recapitulation for each book of original entry for which a recapitulation was made on January 31.
2. Verify the balance of the cash book in the same manner that it was verified on January 31.
3. Test the correctness of the subsidiary ledgers. Do this in the same way it was done on January 31.

4. Close and rule the books of original entry. In doing so follow the instructions for the closing of these books on January 31.

5. Verify the Notes Receivable account.

6. Post from all books of original entry and take a trial balance from the general ledger.

7. Prepare a statement of account for each customer whose account shows a balance.

8. Prepare a Trading and Profit and Loss Statement in the same form in which it was prepared on January 31, and analyze the General Expense account.

9. Prepare a Balance Sheet in the same form in which the one for January 31 was prepared.

In doing this, however, the mount of customers' accounts and the amount of the reserve for loss on accounts receivable should be interpolated in the Balance Sheet in a manner similar to that of office equipment and its reserve.

10. Prepare the necessary closing journal entries.

11. Rule the general ledger accounts which are affected by the closing journal entries. Remember that there are certain accounts which contain deferred charges.

12. Make the proper adjusting entries for the accruals of interest and wages.

13. Take a trial balance from the general ledger.

STORES LEDGER

If it is desired to continue the use of a stores ledger for the transactions for February, this may be done by ruling sheets of paper to correspond with the ruling of the stores ledger which was used for the work in January, and by entering upon these sheets, in the proper accounts, the various quantities of each kind of merchandise bought and sold in the transactions of February.

DEPARTMENTAL ACCOUNTING

It should be understood that in a large business the departmental accounting is done simultaneously with the other accounting of the business. That is, by the time the work on the general books is finished, the work on the departmental books is also completed. Therefore, those in charge of special books of original entry, subsidiary ledgers, or departmental books, may compare their results with the results obtained by those in charge of the general books. For example: By the end of a month, the cost clerk and the profits clerk have each completed his work. They now may compare their results (totals) with the results which, in the meantime, have been obtained by the head bookkeeper.

This general perspective of the work should be perceived clearly by the student before beginning the departmental accounting for February. This work should be done in the following order:

1. Determine the cost (freight paid) of the goods which were delivered on each order during February. Distribute this cost, also the sales, on the order sheets to the proper department; then, enter the costs, by departments, in the department costs book.

2. In the department sales book, enter the amounts of the sales (by departments) which are shown on the order sheets.

3. Transfer the sales, by departments, and the cost of the goods sold, by departments, to the departments profits book. Then determine the total gross profit and the gross profit, by departments, for the month; these two amounts should agree.

4. Distribute, by departments, the purchases for February. Be sure to include in this distribution all freight charges on the goods purchased.

5. Transfer the totals of the departments purchases book to the departments profits book. Record these totals on the next blue line just underneath the inventories by stock for January. Then add the inventories for January and the purchases for February; the result will be the total purchases by departments. These results should be recorded on the next blue line.

On the first blue line, below the total purchases for February, place the total cost of goods sold, by departments. Then subtract the cost of the goods sold (by departments) from the total purchases (by departments) and the remainders will be the inventories by departments.

The total of all inventories by departments will be the inventory of merchandise on hand. This amount should agree with the inventory which is taken from the stores ledger.

However, there will be a slight difference between these inventories. The difference this month, like that last month, is due to the apportionment of freight charges, tares in the weights of coffee, etc.

COST OF DOING BUSINESS

Every business incurs certain expenses in conducting its affairs. These expenses, while they may be reduced to a minimum amount, cannot be entirely eliminated. This fact, of course, is common knowledge; therefore, the business man is interested in knowing to what extent he may reduce the expenses of the business, and also what proportion of the gross profits is being used to defray the expenses of doing business.

The expenses or costs of doing business are commonly called overhead; and while this term is sometimes used in a more specific sense, it is sufficiently accurate here to refer to all the expenses, or cost of doing business, as the overhead.

It is a general custom to determine the ratio between overhead and sales, overhead and gross profits, etc. Sometimes this is done for the purpose of determining a base price, to which may be added a certain margin of profit. Thus it will be seen that these ratios may be an aid in determining a selling price for an article. But selling prices are not always determined in this manner. Perhaps the greatest factor in determining the price at which an article may be sold, is competition. This element cannot be wholly eliminated in business any more than can the expenses of doing business. However, if a certain line of merchandise is being sold at a loss, this fact will be revealed when the ratio or percentage of overhead to gross sales is known.

In many instances the percentage of profit is low, but this defect is often overcome by the large volume of business in those articles which show this low rate of profit and for which there is a constant demand.

PROBLEMS IN COST OF DOING BUSINESS

1. What per cent should be added to the cost of goods sold in order to cover the overhead of the business for January? During February? 2. The overhead is what per cent of the net sales for January? For February? 3. The overhead is what per cent of the gross profits for January? For February? 4. The net profit is what per cent of the net sales for January? For February?

EXERCISE XXIV

Prepare for the Western Grocery House a Comparative Trading and Profit and Loss Statement for the two months just ended. Arrange this comparison so that the increase or the decrease may be extended to the proper column on the right. Prove the results of this statement.

QUESTIONS ON THE COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT OF THE WESTERN GROCERY HOUSE

1. What was the per cent of increase in the volume of the net sales for February over those for January? 2. The cost of the goods sold during January was what per cent of the net sales for January? For February? 3. Did the overhead for February increase by a greater per cent over the overhead for January than the net sales for February increased over the net sales for January? 4. The selling expense was what per cent of the net sales for January? For February? 5. The general expense was what per cent of the net sales for January? For February? 6. The net profit was what per cent of the net sales for January? For February? 7. The net profit for each month is what per cent of the capital invested by the proprietors?

EXERCISE XXV

Prepare a Comparative Balance Sheet for the Western Grocery House for the two months just ended. Arrange this comparison so that the increase or decrease in assets, liabilities, and capital may be extended into the proper columns on the right of the statement. Prove the results by a summary of the increases and decreases.

QUESTIONS ON THE COMPARATIVE BALANCE SHEET OF THE WESTERN GROCERY HOUSE

1. By what per cent did the total assets on February 28 exceed the total assets on January 31? 2. By what per cent did the current assets on February 28 exceed the current assets on January 31? 3. By what per cent did the total current liabilities on February 28 exceed the total current liabilities on January 31? 4. What ratio exists on February 28 between the total current assets and the total current liabilities? What ratio existed on January 31? 5. The total current assets are what per cent of the total assets on February 28? On January 31?

EXERCISE XXVI

The contract of the firm with J. C. Kennedy, salesman, provides that after three months Kennedy is to receive a bonus of 10% of the gross profit on all orders that are taken by him. The firm now desires to know what a bonus of this kind would amount to, if the agreement for a bonus were applied to the orders which were taken by Kennedy during January and February.

Therefore, you are to prepare a report of Kennedy's sales as follows: Arrange, numerically, all orders that have been taken by Kennedy; do this in such a manner that the report will show the amount of each sale, the cost of the goods sold on each order, and the gross profit on each order; then, compute the amount of the bonus for the two months.

COMPARATIVE STATISTICS

It is a common practice in business to make tabulated comparisons that will show increases or decreases in the volume of sales, gross profits, expenses, etc. These comparisons may be made by departments, by salesmen, by territories, etc. Sometimes the comparisons are made by means of graphs instead of tabulations.

These comparisons often furnish information that is valuable to the management of a business in planning extension of the business; in determining economies in expenses, etc.

EXERCISE XXVII

Arrange, in tabular form for comparison, the sales of the Western Grocery House, by departments, for the months of January and February; this information can be obtained from the department sales register. Rule paper to correspond with the following illustration:

Comparative Sales

	January	February	Increase	Decrease
Department No. 1				
No. 2				
No. 3				
No. 4				
No. 5				
No. 6				
No. 7				
No. 8				

In doing this work, the total sales for January and the total sales for February should correspond with the total sales, respectively, as shown by the Trading and Profit and Loss Statements for January and for February. Likewise, the net increase or the net decrease should agree with the difference between the total sales for January and the total sales for February.

EXERCISE XXVIII

It is extremely important in a large business to know whether the gross profits, by departments, is increasing or decreasing from month to month, or from year to year. Therefore, you may arrange a comparison of the gross profits, by departments, from the information that is contained in the departments profits register of the Western Grocery House, for the months of January and February.

This comparison should be arranged similarly to the comparative sales sheet that was prepared in Exercise XXVII. The total gross profit for January and the total gross profit for February should agree with the gross profit that is shown by the Trading and Profit and Loss Statement for each month, respectively.

EXERCISE XXIX

Arrange a comparative expense report for the months of January and February. Show whether the different expenses increased or decreased during February over that of January.

The amount of each kind of expense may be obtained from the Trading and Profit and Loss Statements for the two months which are being compared. The net increase or the net decrease should agree with the difference between the total expenses for January and the total expenses for February.

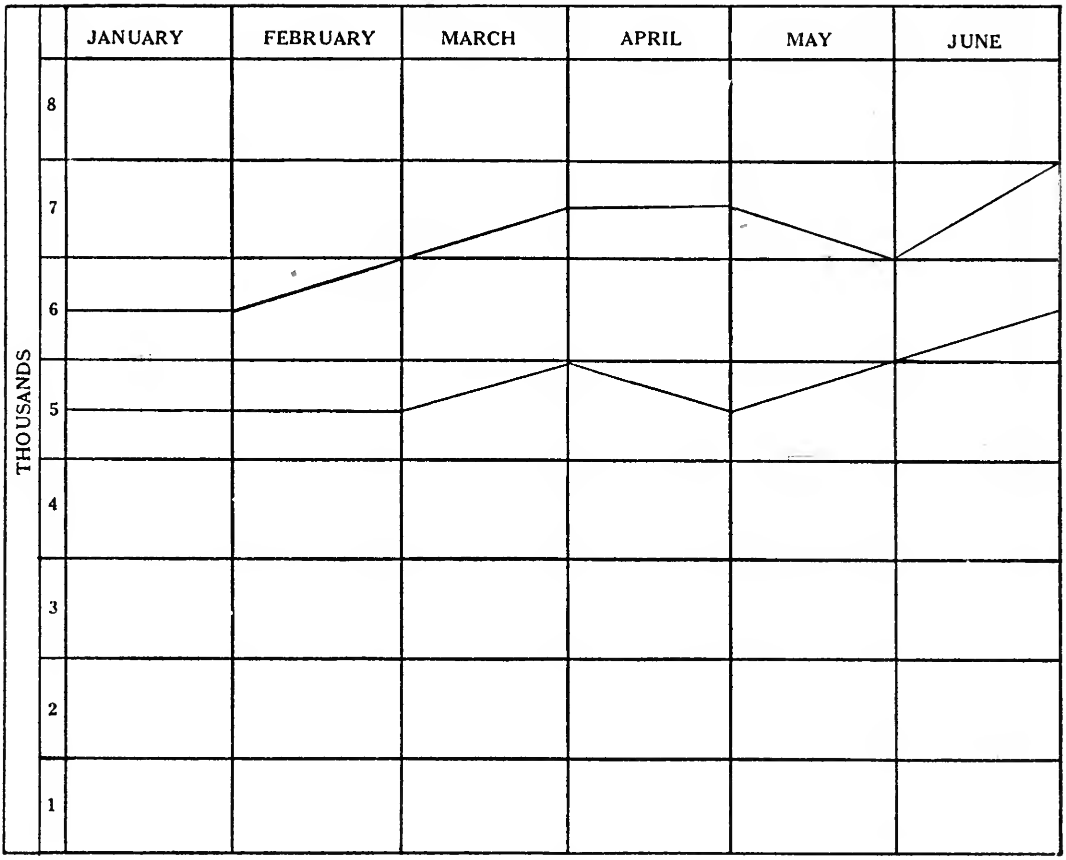
GRAPHIC ILLUSTRATIONS, OR CHARTS

In many instances the manager of a business desires to know the tendencies of departments, of sales, of expenses, of gross profits, etc., rather than the exact figures which show the tendencies. This information may be furnished to him by means of graphs. The indicant lines of a graph may be drawn in different colors to represent different results; thus, gross profits may be represented by a black line and expenses by a red line.

It sometimes happens that the sales of a business will increase during a certain month without a corresponding increase in expenses during that month, or the sales may decrease without a corresponding decrease in expenses. If this information is compiled in chart form and continued from month to month or from year to year, it will show to the owner or manager of a business that there is a point beyond which the sales must reach in order to produce a net profit or that the expenses must be reduced proportionately with the sales.

Graphs may be arranged from circles, squares, rectangles, lines, etc. The illustration on the next page shows a graph arranged from rectangles.

A GRAPH



EXERCISE XXX

The gross profits and the expenses respectively of The Walker-Gordon Co. for six months follow: January, $7500.00, $6500.00; February, $8000.00, $6500.00; March, $8500.00, $7000.00; April, $8500.00, $6500.00; May, $8000.00, $7000.00; June, $9500.00, $7500.00.

Prepare a graph in two colors that will show the results for the six months.

EXERCISE XXXI

The Clayton Lambert Co.'s sales, cost of sales, and expenses for one year are as follows:

Sales	Cost of Sales	Expenses	Sales	Cost of Sales	Expenses
Jan. $100,000	$60,000	$30,000	July $110,000	$70,000	$25,000
Feb. 120,000	70,000	40,000	Aug. 100,000	70,000	25,000
Mar. 140,000	80,000	40,000	Sep. 125,000	75,000	35,000
Apr. 110,000	70,000	35,000	Oct. 130,000	75,000	40,000
May 120,000	80,000	30,000	Nov. 140,000	80,000	45,000
June 100,000	70,000	30,000	Dec. 150,000	85,000	45,000

Prepare two graphs; one that will compare sales and cost of goods sold; and one that will compare gross profit and expenses.

REAL ESTATE—ITS IMPROVEMENTS, EXPENSES, AND INCOME

The ownership of real estate is seldom essential to a business; but there are certain conditions, however, under which the ownership of this class of property is desirable. A business usually purchases real estate to use it as a home or as an aid in the operation of the business, but sometimes real estate is purchased for speculation.

In many kinds of business, in which it may seem that the ownership of land is essential, sufficient land may be leased for the purposes of the business.

Consequently, it is generally a question of which plan—owning or leasing—is the more economical one for the business. It may be that ownership is more economical than leasing, but, on the other hand, ownership may require an investment of a large portion of the capital of the business; and it may be that the investment required is entirely beyond the financial means of the business.

When real estate is purchased for the use of a business, the capital required for its purchase is no longer a liquid asset but a fixed asset, and, therefore, can not be considered as working capital available for the expansion of the business.

Land is usually considered as improved or unimproved. These terms are almost impossible of exact definition as their meanings depend entirely upon the uses to which the land is to be put. Land that is well improved and suitable for the purposes of a farmer may be unimproved and unsuitable for the purposes of a factory or for the erection of modern buildings in a city.

It may be stated, however, as a general rule that any expenditure that increases the value of the land may be regarded as an improvement of the land.

LAND AND BUILDINGS ACCOUNTS

It is a common practice to establish one account that is used to show the cost of land, and its improvements, and another account that is used to show the cost of the buildings erected upon the land. Sometimes, only one account is kept for both land and buildings.

EXERCISE XXXII

Trace the transactions in this exercise to the illustrative accounts which follow:

Feb. 2. The Fireside Baking Co. purchased a tract of land, 100 ft. x 160 ft., for $3500.00.
10. Paid a recording fee of $4.28.
15. Paid a surveyor $15.00 for surveying the property.
25. Paid attorney's fee, $50.00, for examination of the title.
May 31. Paid $260.00 for the construction of a sewer.
June 20. Paid for paving, $428.50.
25. Paid on contract for the building, $3000.00.
July 15. Paid on contract for the building, $6500.00.
20. Paid for sidewalks, $385.00.
31. Paid for fences, $185.00.
Aug. 10. Paid on contract for the building, $2132.75.

BUILDINGS

June	25	Pm't on bldg.		3000	00						
July	15	Pm't on bldg.		6500	00						
	31	Fences		185	00						
Aug.	10	Pm't on bldg.		2132	75						

LAND

Feb.	2	Purchase Price		3500	00		
	10	Recording Fee		4	28		
	15	Surveying		15	00		
	25	Exam. of title		50	00		
May	31	Sewer		260	00		
June	20	Paving		428	50		
July	20	Sidewalks		385	00		

QUESTIONS ON THE ILLUSTRATIVE LAND AND BUILDINGS ACCOUNTS

1. What does the debit side of the Land account show? 2. What does the debit side of the Building account show? 3. What does the total of both these accounts show? 4. Has any income been derived from this property? 5. Has there been any expense incurred on behalf of this property? 6. What is the nature of the expense, if any? 7. If you wanted to show both these accounts, as one account, how would you do it?

BALANCING, CLOSING, AND RULING LAND AND BUILDINGS ACCOUNTS

If one account is kept to show the amount of the investment in land and another for the investment in buildings, each account is regarded as an asset and, at the end of a fiscal period, each should appear upon the Balance Sheet among the fixed or permanent assets of the business.

There is seldom any need to rule either account. It may be desirable or necessary, at times, to show the value of the property represented by each account, as one amount, or it may be necessary to forward either or both accounts to another page of the ledger. In such instances they may be balanced and ruled just like the Cash account.

It is seldom necessary to close either of these accounts. In case the property, represented by them, is sold at a profit, each account may be credited for enough to close it. The difference, or profit, should be credited as a profit to the Profit & Loss account or to some account which bears an appropriate title. Such a title may be as follows: Appreciation of Land & Buildings, Appreciation of Real Estate, Profit on Real Estate, etc.

However, if the property be sold at a loss, each account should be credited with an appropriate amount and the amount of the loss (which should be enough to close each account) should be charged to the Profit & Loss account or to the proper reserve account, provided a reserve has been established.

EXERCISE XXXIII

Prepare separate accounts, which will show the cost of the land and the cost of the buildings, from the following statement of facts:

Oct. 1. The Danforth Dairy Co. purchased and paid for 5 lots, each 30′ x 140′, at $500 per lot.
12. Paid recording fee and stamp tax $7.82.
25. Paid surveyor's charges $41.50.
Nov. 1. Paid sewer assessment, $225.00.
20. Paid for paving, $785.50.
Dec. 10. Paid $2500.00 on the building contract.
21. Paid $1500.00 on the building contract.
Jan. 20. Paid $5000.00 on the building contract.
Feb. 18. Paid $2750.00 on the building contract.
Mar. 15. Paid $2118.50 on the building contract.
Apr. 20. Paid for cement driveway, $324.85.

QUESTIONS ON THE ABOVE LAND AND BUILDINGS ACCOUNTS

1. What does the debit side of each account show? 2. What does the credit of each account show? 3. What does the balance of each account show? 4. If the company sold one of the lots at cost, for what amount would you credit the Land account? 5. If the company sold one of the lots at a profit of $200.00, for what amount would you credit the Land account? 6. To what account should the profit from the sale of the lot, mentioned here, be credited?

MORTGAGE ON REAL PROPERTY

Frequently the purchase of real estate involves the issuing of a mortgage as security for a part of the purchase price. That is, a note or a series of notes is issued for that part of the purchase price, which remains unpaid, and the note or notes are secured by a mortgage upon the property purchased. This liability may be included in the Notes Payable account; but this is not the usual practice. It is better to establish a separate account for a liability of this kind and to designate the account in such a manner that its title will indicate the nature of the liability as follows: Mortgage Payable; Mortgage Payable on Real Estate; Mortgage Payable, on 142 Elm St.; etc.

A mortgage is a preferred claim upon the particular property which is given as security for the obligation as well as a liability of the person issuing the mortgage. Consequently, a mortgage is a liability of a different class from the ordinary promissory note payable, and, for this reason, the former should be placed on the Balance Sheet as a fixed or permanent liability, not as a current liability.

However, the account itself is treated on the ledger in the same manner as the Notes Payable account.

PROPERTY EXPENSES AND INCOME

There are certain expenses attendant upon the ownership of real estate, whether it is improved or unimproved; and it should be understood that the term, improved property, as used here, means property that has been put in such condition that it is capable of producing income. There are exceptional cases, however, in which unimproved property may produce income, but improved property should always produce income sufficient to pay expenses and to leave a net income for the use of the capital employed.

One account usually is sufficient to provide for the expenses and income from real property, unless the rental and care of the property really constitute a separate business. In such a case it would perhaps be necessary to establish several accounts with which to show the income and the operating expenses.

The income from real estate is usually derived from renting or leasing it. The expenses include such items as taxes, insurance, repairs, depreciation, etc. If only one account is kept to show the expenses and income from land and buildings, it may be called Property Expenses and Income, Real Estate Expense and Income, Expenses and Income on Land and Buildings, etc. Whatever title is selected for the account, it should be a title that is suggestive of what the account contains.

It is not unusual for a business that occupies its own property to "charge itself rent" for the use and occupation of the property. This expression simply means, that although the business occupies its own property and is free from the usual charge for rent, to which competing businesses may be subjected, nevertheless some charge should be made for the use of the property which represents a considerable portion of the capital of the business.

The amount to be charged as rent is usually determined by what would have to be paid for similar quarters in a similar location. When the amount that is to be charged as rent has been computed, the bookkeeper may give effect to this computation by means of a journal entry similar to the following:

Rent
  Building (Property) Expense & Income

Such an entry produces a charge for the use of the capital which is represented by the investment in land and buildings, and this charge becomes one of the factors in estimating the cost of doing business or in estimating the cost of production in a manufacturing business. Altogether, it is a very simple way of making an allowance for the use of capital which is invested in property for the use of the business.

CLOSING AND RULING PROPERTY EXPENSE AND INCOME ACCOUNT

At the end of a fiscal period, this account, which shows either a net loss or a net profit, should be closed into the Profit & Loss account.

When the Property Expense and Income account has been closed it should be ruled the same as an expense account.

EXERCISE XXXIV

Prepare an account for Property Expense and Income from the following statement of facts:

James Bowen owned property at 137-139 High St. consisting of two stores, and 1 flat above each store. Bowen took possession of the property on Oct. 27.

Nov. 1. Received rent, for November, from one store and flat, $90.
2. Received rent, for November, from one store and flat, $90.
10. Paid for repairs to furnace, $10.80.
20. Paid for insurance, $22.50.
27. Paid for replacing broken glass, $12.50.

Dec. 1. Received rent, for December, from one store and flat, $90.00.
2. Received rent, for December, from one store and flat, $90.00.
10. Paid coal bill, $113.80.
27. Paid taxes for following year, $182.60.
28. Paid for insurance on building, $22.80.

QUESTIONS ON THE ABOVE PROPERTY EXPENSE AND INCOME ACCOUNT

1. What does the debit side of this account show? 2. What does the credit side of this account show? 3. What does the balance of this account show? 4. If the debit side of this account were larger than the credit side, what would the balance show?

DEPRECIATION OF BUILDINGS

One of the expenses incidental to the ownership of a building is depreciation. Buildings, like other kinds of property, are constantly being worn out. The rate of depreciation depends upon the kind of material that has been used in the construction of the building and the uses to which the building has been subjected. A building constructed of wood depreciates more rapidly than a building constructed of stone, brick, or concrete. The rate of depreciation will probably vary from 1½% to 4% per year.

If depreciation is to be estimated upon a building, it is necessary to know either the original cost of the building or its fair value at the time the depreciation is to be estimated. In many instances this necessitates two accounts, one for the land and one for the building or buildings because depreciation is seldom estimated on land. After the depreciation has been estimated, it is given effect by means of a journal entry, as follows:

Expenses & Income (Depreciation of Building)
    Reserve for Depreciation of Building

ACCOUNTS WHEN MORE THAN ONE PROPERTY IS OWNED

It follows, therefore, that when more than one piece of improved property is owned there should be a series of accounts for each piece of property, in order to make a correct accounting for each.

Assume that James Fraser owns two pieces of property, both free from encumbrances, and desires to keep accounts with each according to the plan just outlined. His accounts would be as follows:

Land—118 Fourth St.	Building—118 Fourth St.
Expenses & Income—118 Fourth St.	Reserve for Depreciation—118 Fourth St.
Land—Wilson Apartments	Building—Wilson Apartments
Expenses & Income—Wilson Apartments	Reserve for Depreciation—Wilson Apartments

Thus it will be seen that the address or the name of the property is used to designate the accounts properly.

If only one account is kept to show the value of the land and building or buildings, it is not always possible to determine from the account the value of the building or buildings, apart from the land. This may be done, however, by making, upon the account, a notation as to the value of each. For a small business, this is perhaps a very satisfactory way of treating this account, but in most instances two accounts should be kept.

ACCOUNTS DURING CONSTRUCTION OF BUILDING

When a contract is let for the construction of a building, an entry, similar to the following, may be made to record the liability:

Building Contract	$20,000.00	
Fuller Construction Co.		$20,000.00

Then, when a payment is made on the contract, it should be charged to the personal account of the contractor, and the final payment should close the personal account. The account with Building Contract may then be closed into an account called Building or into the Land and Building account, if only one account is maintained. If there were several contractors for different portions of the building, the amount of the contract with each may be charged to the Building Contracts account and credited to a personal account with each contractor. Then, the amount of the payment, when made to each contractor may be charged to his personal account.

The accounts which have been treated here are those accounts peculiar to the *ownership* of real property, and, therefore, in no manner do they concern the accounts of a building contractor or the accounts of a real estate operator, though there is a certain similarity. In order to become familiar with the accounts, which are peculiar to these two kinds of business, it would require the study of each business.

REAL ESTATE PROBLEMS

1. George Wilkins owns a house and lot which cost him $6500.00. What would the interest on his investment amount to at 6% per annum?

(a) If this house were not occupied what would be the loss to Wilkins, disregarding taxes and other expenses?

(b) If Wilkins, himself, occupies the house, would you consider the interest on the investment as a loss?

(c) If Wilkins did occupy it, what would you consider the use of the house worth?

2. Charles Davis owns a business building and lot which cost $12,500.00. He rents it for $90 per month. He pays taxes, $110.40 per year; insurance, $32.00 per year; repairs, $26.75. What is the net income from the property?

3. George Jones bought a lot for $1200.00, and erected a dwelling on it. He paid the following: to a contractor for construction of the house, $4387.50; for fences $56.85; for building a garage which will accommodate two cars, $435.00. What was the total cost of the property? How much was invested in land? How much was invested in buildings?

4. L. M. Hazen purchased a house and lot for $6500.00. The house, which stood on the lot at the time of purchase, was sold for $500.00 and removed. He then erected an apartment building that cost as follows: general contract for construction of the building, $31,385.00; fences, $110.75; garage for 4 cars, $875.00. What was his total investment? How much was invested in the land and how much in the buildings?

5. At present the Modern Manufacturing Co. is renting quarters that cost $3000.00 per year. It will cost $30,000.00 to erect a suitable building for the company and the annual expenses of maintaining the building will be $1500.00; in addition to this maintenance charge, insurance and taxes will cost $550.00 per year. Allowing 6% interest on the cost of the building to be erected, which would be the more economical, to continue to rent or to erect and occupy the proposed building?

MISCELLANEOUS ACCOUNTS

Unusual conditions sometimes arise and must be met in any business, regardless of its form of organization; in meeting these conditions the bookkeeper often finds it difficult to invent appropriate names for the necessary accounts and to record properly the transactions which are essential because of the peculiar conditions.

A few of the things that are not encountered in everyday bookkeeping are here explained in the hope that they may prove helpful.

LOSSES FROM FIRE

Most business men make some provision, by insurance, for possible losses from fire, theft, storms, or other casualties, and, in case a loss occurs, the bookkeeper should be able to make the proper entries to record the loss and to make all necessary adjustments. Losses sometimes occur regardless of the kind of business or the form in which the business is organized.

As an illustration of proper adjusting entries, let us assume the following facts: A warehouse and stock of merchandise of Logan & Bryan were totally destroyed by fire on June 10. Their books showed the building to be valued at $20,000.00 and the merchandise to be valued at $30,000.00. They received from insurance companies, $12,000.00 for loss of building, and $20,000.00 for loss of merchandise.

Proper entries to record the losses and to show the necessary adjustments because of these losses may be made as follows:

Fire Loss on Building	$20,000.00	
Building		$20,000.00
Cash	$12,000.00	
Fire Loss on Building		$12,000.00
Profit & Loss	$ 8,000.00	
Fire Loss on Building		$ 8,000.00

If a new building is erected, the proper accounts may then be created for the building at the time it is built.

Fire Loss on Merchandise	$30,000.00	
Purchases (or Inventory)		$30,000.00
Cash	$20,000.00	
Fire Loss on Merchandise		$20,000.00
Profit & Loss	$10,000.00	
Fire Loss on Merchandise		$10,000.00

Losses from other sources may be treated similarly.

The account, which represents the property that has been damaged or destroyed, or to which the cost of the property has been charged, should be kept in such a manner that the value of the property may be determined from the account. The object of the first entry is to remove from the account the value of the property that is damaged or destroyed. The object of the second entry is to apply the amount of the compensation to the reduction of the loss. The object of the third entry is to dispose of the loss that has been caused by the casualty.

EXERCISE XXXV

On February 15, the Hamlin Trading Co. lost, by fire, one of its warehouses which was valued at $15,000.00 and which was known as the Denver warehouse. The property had been carried on the books of the company at that valuation, in an account called Land & Buildings. The company received $10,000.00 from insurance and the bookkeeper credited this amount to the Land & Buildings account. Afterwards, a new building was erected at a cost of $20,000.00 and this amount was charged to the Land & Buildings account. This account then showed a balance of $125,000.00.

Make proper entries to record this loss and all necessary adjustments and to show the correct balance of the Land & Buildings account after the erection of the new building.

EXERCISE XXXVI

Thomas Peters & Co. sustained a loss by fire on December 20. The stores ledger and similar records were totally destroyed, therefore, the amount of the loss could not be estimated from the information which these records contained. The following facts, however, were obtained from the general books and subsidiary records which had been kept in a safe: The inventory of merchandise on November 30 (preceding) was $75,000.00. The purchases of merchandise, which had been received and placed in stock, to December 20, amounted to $28,500.00. The records also showed that goods amounting to $34,300.00 had been sold during the first 20 days of December, and that the sales for the past three years had been made at a gross profit of 40%.

The undamaged goods of the company were inventoried at $24,000.00, and the insurance companies settled the claim by paying 80% of the cost of the goods damaged or destroyed by fire. Determine the amount of the loss and make the proper adjusting entries to record it.

CONTINGENT LIABILITIES

Dishonored Notes

If a business discounts its notes receivable, there is always a possibility that the maker or makers of a note which has been discounted may fail to pay the note at maturity. If this occurs the party who discounted the note becomes responsible for the payment of it.

In a business which sells most of its goods on notes and makes a regular practice of discounting them, it is often necessary to create an account for the contingent liabilities which arise from the indorsements of discounted notes.

This may be done as follows:

At the time a note is discounted, the amount of it is credited to an account called Notes Receivable Discounted. Then, at the time the maker of the note pays it, at the bank, a journal entry may be made which charges the amount of the note to the Notes Receivable Discounted account and credits it to the Notes Receivable account.

For example, let us assume that a note receivable for $1,000.00 is discounted, at 6%, for 60 days, at a bank and afterwards is paid by the maker; the following entries may be made as the transactions occur:

WHEN DISCOUNTED

Cash	$ 990.00	
Interest	10.00	
Notes Receivable Discounted		$1000.00

WHEN PAID

Notes Receivable Discounted	$1000.00	
Notes Receivable		$1000.00

A notes receivable book, if properly kept, will show the date of maturity of each note, and it will show also whether or not a note has been discounted; then, it is a simple matter to determine by inquiring at the bank whether or not the maker of a discounted note has paid it.

It sometimes happens that the maker of a note does not pay it at maturity. If this should occur in the case of a discounted note, the one who discounted the note then becomes liable for the payment of it; consequently, the liability is no longer contingent, but real, and the one who discounted the note must "take it up," that is, he must pay to the bank the amount of the dishonored note.

In addition to the amount of the note he may also have to pay a fee for protesting the note. Protest fees are not charged on every note or draft that is dishonored, but such a charge generally accompanies the protesting of a foreign note or draft. Therefore, it is important to know how to record a transaction of this kind.

For example, let us assume that the note receivable of the preceding illustration is not paid, by the maker, at maturity; that there is a protest fee of $2.50 which has been charged by the bank; and that the note has been paid by the one who discounted it. He may then make the following entry:

When Paid—After Protest

Notes Receivable Protested	$1000.00	
Protest Fees	2.50	
Cash		$1002.50

Or, he may make this entry:

Notes Receivable Discounted	$1000.00	
Protest Fees	2.50	
Cash		$1002.50

If the latter entry were made it would not record, in a separate account, the amount of the note that has been dishonored, as the amount of it will still remain in the Notes Receivable account. The first entry is preferable, because a note which has been dishonored and protested for nonpayment does not rank equally among the assets with other notes receivable.

Let us assume now that after a short delay, the maker of the note pays, in cash, the protested note and the protest fees, thus reimbursing the indorser; the endorser then may make the following entries:

Reimbursement After Protest

Cash	$1002.50	
Notes Receivable Protested		$1000.00
Protest Fees		2.50

This entry, alone, does not record all the facts; the payment of the note by its maker discharges all obligations on account of the note and the following entry is necessary to record these additional facts:

Notes Receivable Discounted	$1000.00	
Notes Receivable		$1000.00

Now let us assume that the maker of the note did not pay it at maturity, but renewed the obligation by giving a new note for $1,000.00, and that he paid the protest fees in cash. These facts may be recorded by the following entries:

Renewal After Protest

Notes Receivable (New note)	$1000.00	
Notes Receivable (Old note)		$1000.00
Cash	$2.50	
Protest Fees		$2.50

This entry does not record all the facts in connection with the transaction. The renewal of the obligation by a new note should cause an adjustment in the accounts which were affected by the protest and payment of the old note. These accounts may be adjusted by the following entry:

Notes Receivable Discounted	$1000.00	
Notes Receivable Protested		$1000.00

Sometimes a note receivable is not paid at maturity, but a new note is given to continue the obligation. This kind of a transaction is simply the substitution of a new note for an old note, and one account only is affected,—Notes Receivable.

There are two types of entries in general use to record a transaction of this kind. One of these entries follows:

Notes Receivable (New note)		
Notes Receivable (Old note)		

There is an objection to this type of entry as the debit and the credit are both to one account; but, it is evident that the new note should be recorded and the charge for the old note offset, since the charge for the old note would not represent the obligation on the new note, even though both amounts are alike.

The second type of entry that is sometimes made for the renewal of a note follows. In this transaction James Marshall is assumed to be the maker.

James Marshall	$500.00	
Notes Receivable		$500.00

Then the following entry also is made:

Notes Receivable	$500.00	
James Marshall		$500.00

It will be observed that the first entry charges the note to the personal account of the maker, and that the second entry credits the note to the personal account of the maker.

It may be that in some cases the former method is preferable while, in others, the latter method is preferable.

Contingent Liabilities on the Balance Sheet

At the close of a fiscal period it is not unusual for the books of a business to show all these accounts. When such a condition exists, the amount of the contingent liabilities, —Notes Receivable Discounted—should be deducted from the amount of Notes Receivable account and the net amount of the latter is then extended into the proper column of the Balance Sheet. Thus the treatment of these accounts is similar to the treatment of a property account and its reserve for depreciation.

The Protested Paper account is also shown on the Balance Sheet as an asset, and should be placed immediately following the amount of the notes receivable Likewise, the account with Protest Fees, which is in the nature of a personal account, should be placed on the Balance Sheet and included with the accounts receivable.

It should be understood also that contingent liabilities are incurred in connection with the indorsement of any kind of negotiable paper and that such liabilities may become real. In case the contingent liabilities on other forms of commercial paper become real, their treatment would not differ essentially from the treatment of dishonored notes receivable.

The instructions which are given here and which relate thus far to notes receivable may be applied similarly with reference to notes payable and to mortgages payable.

INSTALLMENT ACCOUNTS RECEIVABLE

It is a common practice in many lines of business to sell goods on installments, or deferred payments as the plan is sometimes called. The sale may be made on open account or it may be made on a series of notes, each of which matures at regular intervals.

Such a plan of selling goods does not greatly affect an accounting system only insofar as the personal accounts receivable or notes receivable are affected by it.

If the volume of business is large it is usually desirable to have a specially-ruled ledger made, and perhaps a specially-ruled cash book. In the specially-ruled cash book the payments by each customer may be entered; the total of this cash book is then entered each day in the general cash book; consequently, this practice avoids a great number of entries in the general cash book.

The methods of keeping accounts receivable and notes receivable in an installment business vary so greatly according to the nature of the business and according to the conditions on which the sales are made, that it can not be fully treated in a book of this kind. Many concerns that sell goods on installments require the purchaser to sign a written contract of sale; on the back of the contract is a form which corresponds to ordinary ledger ruling; and this combination contract and ledger page is then placed in a binder which constitutes a loose-leaf ledger.

Each contract sheet is numbered and a summary of the contract sheets is made at the end of a month, from which the total sales may be obtained; thus, it is seen that the contract sheet becomes the original record and a ledger page as well.

ASSIGNMENTS OF ACCOUNTS RECEIVABLE

Sometimes a business man when badly in need of money will assign his accounts receivable as security for a loan. A simple method of dealing with a transaction of this kind is to make entries that will record the liability, and that will, at the same time, show that certain accounts were assigned. Such entries may be as follows:

Cash	$1000.00	
Loans (or Notes) Payable		$1000.00
Accounts Receivable Assigned	$1000.00	
Accounts Receivable		$1000.00

The explanation of the second entry should state in particular the accounts which have been assigned. This entry also removes from the accounts receivable the accounts that have been assigned, since the assigned accounts no longer belong to the assignor, but to the person or bank to which they were assigned.

Then, when a payment is made on an assigned account, the amount of the payment is credited to the proper account by an entry similar to the following:

Cash
    Accounts Receivable Assigned

The amount of the payment, or a proper proportion of it, should be immediately forwarded to the one from whom the loan was obtained, and an entry, similar to the following, may then be made:

Loans (or Notes) Payable
    Cash

Accounts are generally assigned to individuals or to private banks though some "regular" banks engage in this practice. The terms of the loan may, or may not, state that the persons, firms, or corporations which are indebted on the assigned accounts are to be notified of the assignment; but, in case the terms of the loan do provide that the debtors on the assigned accounts shall be notified of the assignment and that their remittances on the assigned accounts shall be made to the assignee, then the accounting would be somewhat affected. However, the entries that would be made in such an event would be similar to the entries made when a discounted note is paid at the bank at which it is discounted.

Almost innumerable situations may arise in connection with the assignment of accounts receivable; nevertheless, a bookkeeper should have but little difficulty if he will only realize the nature of the obligation that has been incurred by the assignment, and the effect of such an assignment upon the accounts assigned.

SUPPLEMENTARY EXERCISES

DIRECT METHOD OF CLOSING A LEDGER

In former years it was the general custom to close the ledger by what is commonly called the direct method. By this method of closing the ledger journal entries are not used, but an amount that is sufficient to close the account is written (in red ink) on the smaller side of the account; then, an equal amount is written (in black ink) on the opposite side of the Profit & Loss account or other account into which the former account is being closed.

Inventories are also written, in red ink, in the accounts that are affected by the inventories; then, after the accounts are closed the inventories are brought down, in black ink, on the opposite side of the accounts. Thus, the inventory of merchandise would be written first on the credit side of the Purchases account and after the account is closed the amount of the inventory would be brought down on the debit side of the Purchases account, unless an Inventory account is kept, in which case the amount of the inventory would appear as a debit in the latter account. All other inventories are handled in a similar manner.

For example: It is desired to close the Sales account into the Profit & Loss account. An amount is written on the *debit* side of the Sales account and an equal amount is written on the *credit* side of the Profit & Loss account. This is, in effect, a journal entry, but as an entry it is not recorded in a book of original entry.

There are, however, those who desire to close the ledger by the direct method, and this method is illustrated by the following accounts:

Sales

P. & L.	5000.00		5000.00

Purchases

	6000.00	Invt.	3000.00
		P. & L.	3000.00

Inventory

	3000.00		

Selling Expense

	400.00	P. & L.	400.00

General Expense

	200.00	P. & L.	200.00

Administrative Expense

	300.00	P. & L.	300.00

Profit & Loss

Purchases	3000.00	Sales	5000.00
S. Exp.	400.00		
G. Exp.	200.00		
Adm. Exp.	300.00		
H. B.	550.00		
G. B.	550.00		

H. Brown, Proprietor

			2000.00
		P. & L.	550.00

G. Brown, Proprietor

			2000.00
		P. & L.	550.00

The accounts, which are affected by the closing, are then balanced and ruled just as if journal entries had been used to close them; the balances are brought down in the proprietors' accounts also:

EXERCISE XXXVII

Prepare proper accounts in a ledger for the following accounts and then close them by the direct method: Sales $15,000.00, Purchases $12,000.00, Discount on Sales $200.00, Discount on Purchases $100.00, Selling Expense $2,000.00, and General Expense $1,000.00. The inventory of merchandise is $4,000.00.

INCOME TAX RETURNS

Any plan of bookkeeping, provided it is based upon sound accounting principles, should readily furnish all information that is demanded by the Income Tax Law of the United States.

The general plan of the (individual) income tax return is to report; first, the income from the major source, showing also the expenses of the business; second, to show the minor income or incomes (if any) that have been received during the fiscal period (year).

The list of expenses which are reported under "Other Business Deductions" does not correspond to the usual classifications of expense, that are used in business; but, no great difficulty will be experienced in re-classifying the expenses to meet the requirement of the return. A re-classification of expenses, by analysis, may be made to conform to this report.

The form which is shown here is known as the Individual Income Tax Return, Form 1040 A. If sufficient space is not provided on the return, a schedule that contains the necessary information may be made; and the schedule, properly marked to identify it, may be attached to the return at the proper place. A schedule attached to the return is commonly called a "rider."

There are various forms upon which returns may be made by tax payers. All the forms, however, are similar in principle, but some of the forms which are adapted to the use of individuals under certain conditions or to certain types of business organization as follows: individuals with incomes over $5,000.00, partnerships, corporations, etc., are larger and therefore contain more space for explanatory matter. It is sometimes necessary to attach riders to these larger returns in order to show in detail some matter that requires explanation.

Income tax blanks are furnished by the government through the Bureau of Internal Revenue and each blank has attached to it a work sheet which should be filled out by the taxpayer, detached, and kept by him for reference. In compiling the return, it is advisable to prepare the work sheet first, then, copy it on the return after which the latter should be attested by a notary public and mailed to the office of the United States Collector of Internal Revenue for the district in which the taxpayer lives.

CALCULATION OF TAX

M. Net income shown on page 2, Item J........	$............	......	P. Tax due (4% on amount of Item O)..........	$............	......
N. Less personal exemption (see Instruction VII)	....	......	Q Less normal tax of 2% on amount of Item F.	....	......
O. Balance (income taxable at 4%)............	$............	......	R. Balance of tax due........................	$............	......
NOTE.—If the amount on line O exceeds $4,000, the excess is taxable at 8%, and your return should be made on Form 1040.			S. Amount of tax paid on submission of return...	$............	......

Page 2 of Return

INDIVIDUAL RETURN OF TAXABLE INCOME

(Including income of wife (or husband) and dependent minor children, unless reported in separate returns)

A. INCOME FROM BUSINESS OR PROFESSION.

1. Kind of business............ 2. Business address............
3. Total sales and income from business or professional services .... $

COST OF GOODS SOLD:

4. Labor........ $
5. Material and supplies........
6. Merchandise bought for sale........
7. Other costs........
8. Plus inventories at beginning of year........
9. TOTAL........ $
10. Less inventories at end of year........
11. NET COST OF GOODS SOLD........ $

OTHER BUSINESS DEDUCTIONS:

12. Salaries and wages not reported as "Labor" under "Cost of Goods Sold"........ $
13. Rent on business property in which taxpayer has no equity........
14. Interest on business indebtedness to others........
15. Taxes on business and business property........
16. Repairs, wear and tear, and property losses........
17. Bad debts arising from sales or professional services........
18. Other expenses (attach classified statement)........
19. TOTAL (Items 12 to 18 inclusive)........ $
20. NET COST PLUS TOTAL DEDUCTIONS (Item 11 plus Item 19)........ $
21. NET INCOME FROM BUSINESS OR PROFESSION (Item 3 minus Item 20)........ $

B. INCOME FROM SALARIES, WAGES, COMMISSIONS, BONUSES, DIRECTOR'S FEES AND PENSIONS.

1. By whom received.	2. Occupation.	3. Name and address of employer.	4. Amount received.
			$

Salary to self and dependent minor children included in any deduction in Schedule A ....

TOTAL INCOME FROM SALARIES, ETC........ $

C. INCOME FROM PARTNERSHIPS, PERSONAL SERVICE CORPORATIONS, AND FIDUCIARIES REPORTING ON A CALENDAR YEAR BASIS

(not including amounts reported under F and K).
(State name and address of partnership, etc.)........ $

D. PROFIT FROM SALE OF LAND, BUILDINGS, STOCKS, BONDS AND OTHER PROPERTY, AND FROM LIQUIDATING DIVIDENDS.

1. Kind of property.	2. Name of purchaser or broker.	3. Sale price or liquidating dividends.	4. Date acquired.	5. Cost or market value Mar. 1, 1913, if acquired prior thereto.	6. Cost of subsequent improvements, if any.	7. Depreciation subsequently sustained.
		$		$	$	$
	NET PROFIT (total of cols. 3 and 7 minus total of cols. 5 and 6)........	$		$	$	$

$

E. INCOME FROM RENTS AND ROYALTIES.

1. Kind of property.	2. Name and address of tenant, lessee, etc.	3. Amount (cash or equivalent)	4. Repairs, wear, tear, and property losses.	5. Other expenses.
		$	$	$
	NET INCOME FROM RENTS AND ROYALTIES (total of col. 3 minus total of cols. 4 and 5)........	$	$	$

$

F. INTEREST ON CORPORATION BONDS CONTAINING TAX-FREE COVENANT, ON WHICH A TAX OF 2% WAS PAID BY DEBTOR CORPORATION

(including such interest received through partnerships, personal service corporations and fiduciaries reporting on calendar year basis)........ $

G. OTHER INCOME (not including dividends, which should be reported in Item K).

Amount received.

Amount paid for you by debtor corporation on tax-free covenant bonds (Item Q, page 1)........ $

TOTAL........ $

H. TOTAL NET INCOME FROM ABOVE SOURCES........ $

I. GENERAL DEDUCTIONS NOT INCLUDED ABOVE.

1. Interest paid on indebtedness........	$	3. Losses by fire, storm, or casualty not claimed above........	$	5. Bad debts and other deductions, if any (attach detailed statement)	$
2. Taxes paid........		4. Contributions........		TOTAL........	$

J. **Total net income on which normal tax is to be calculated (H minus I)** (Enter as Item M, page 1)........ $

K. **Cash or Stock Dividends from corporations which are taxable by the United States upon any portion of their net incomes** (including dividends received through partnerships, personal service corporations, and fiduciaries reporting on a calendar year basis)........

L. **Total net income** (if this amount is over $5,000, make your return on Form 1040)........ $

2—9397

EXERCISE XXXVIII

William F. Bartlett

Profit and Loss Statement for Year ended Dec. 31, 19.....

Sales		$35,000.00
Inventory Jan. 1, 19—.	$ 4,500.00	
Purchases during year	28,200.00	
Freight-In	220.00	
Total Purchases	$32,920.00	
Less: Inventory Dec. 31, 19—.	4,800.00	
Cost of Goods Sold		$28,120.00
Gross Profit		$6,880.00
Expense		3,640 00
Net Profit		$ 3,240.00

An analysis of the Expense account showed that it was composed of the following items: wages, $1300; rent, $1500; interest on notes payable, $24.00; taxes, $85.00; depreciation, $125.00; bad debts, $110.00; miscellaneous expense, such as, telephone, postage, electric light, heat, attorney's fees, etc., $496.00.

In addition to his other income Bartlett derived income from the following sources: he was secretary of a club that paid him $250.00 per year. He owned a house that rented for $50.00 per month, and that cost him as follows during the year: taxes, $86.00; insurance, $12.50; repairs, $21.80; interest on mortgage, $240.00.

Bartlett is married, and has two children under 18 years of age; prepare a return for him, and calculate the amount of tax that he should pay. The form for the calculation of the tax is given on page 233

WORK SHEET

Accountants and auditors frequently employ a device which is known as a work sheet and which is usually one or more sheets of journal paper containing a total of ten amount columns.

The illustration on pages 236 and 237 shows a work sheet.

There are other forms for work sheets; but, the one most commonly used is the form shown in this illustration.

Let us assume that the trial balance (on the work sheet) on Dec. 31 is correct; but, that certain adjustments in the accounts are necessary and advisable. These adjustments should be made in accordance with the following facts: An analysis of the Freight account showed that Freight-In amounted to $700.00 and that Freight-Out amounted to $200.00. An analysis of Expense showed that it was composed of the following accounts: Salaries, $5,000.00; Rent, $2,000.00; Miscellaneous Expense, $1,500.00.

The Inventory of Merchandise on Dec. 31, amounted to $8,000.00; Accrued Interest on notes receivable amounted to $50.00; and Deferred Advertising amounted to $100.00.

The following journal entries are then made to provide for the adjustments:

(a)	Freight-In	$500.00	
	Freight-Out	200.00	
	Freight		$700.00
(b)	Salaries	$5000.00	
	Rent	2000.00	
	Miscellaneous Expense	1500.00	
	Expense		$8500.00

ILLUSTRATION OF

C. S. Cooke

Work Sheet for the current

	Trial Balance December 31		Adjustments	
Cash	1500.00			
Notes Rec.	2000.00			
Accounts Rec.	6000.00			
Mdse. Inventory	7000.00		(c) 1000.00	
Office Equipment	1000.00			
Store Equipment	2000.00			
Notes Payable		1500.00		
Accounts Payable		2500.00		
C. S. Cooke, Proprietor		10800.00		
C. S. Cooke, Personal	200.00			
Sales		75000.00		
Purchases	60000.00			(c) 1000.00
Freight	700.00			(a) 700.00
Expense	8500.00			(b) 8500.00
Advertising	900.00			(e) 100.00
Freight-In			(a) 500.00	
Freight-Out			(a) 200.00	
Salaries			(b) 5000.00	
Rent			(b) 2000.00	
Miscellaneous Expense			(b) 1500.00	
Accrued Interest			(d) 50.00	
Interest				(d) 50.00
Deferred Expense			(e) 100.00	
	89800.00	89800.00	10350.00	10350.00

(c)	Mdse. Inventory	$1000.00	
	Purchases		$1000.00
(d)	Accrued Interest	$50.00	
	Interest		$50.00
(e)	Deferred Expense	$100.00	
	Advertising		$100.00

These journal entries are then posted to the proper accounts, but in the columns headed "Adjustments", and after the balance of each account is obtained, the balance is extended into the columns headed "Adjusted Trial Balance." Then all the accounts on the adjusted trial balance are extended into the proper columns according to whether the account should appear on the Profit and Loss Statement or on the Balance Sheet. Of course it should be remembered that each account that appears on the adjusted trial balance must be placed in one or the other of these reports.

A WORK SHEET

year ended Dec. 31, 19—

Adjusted Trial Balance December 31		Profit and Loss Statement		Balance Sheet	
1500 00				1500 00	
2000 00				2000 00	
6000 00				6000 00	
8000 00				8000 00	
1000 00				1000 00	
2000 00				2000 00	
	1500 00				1500 00
	2500 00				2500 00
	10800 00				10800 00
200 00				200 00	
	75000 00		75000 00		
59000 00		59000 00			
800 00		800 00			
500 00		500 00			
200 00		200 00			
5000 00		5000 00			
2000 00		2000 00			
1500 00		1500 00			
50 00				50 00	
	50 00		50 00		
100 00				100 00	
89850 00	89850 00	69000 00	75050 00	20850 00	14800 00

After the work sheet has been completed and the Trading and Profit and Loss Statement and the Balance Sheet have been made, the journal entries may then be recorded in the journal and posted to the ledger; this will cause the ledger to show the same results that are shown by the work sheet. The ledger should then be closed and ruled in the usual manner.

Devices similar to this may be used by bookkeepers to prepare reports or to prove the work in certain books. In fact, the resourceful bookkeeper seldom meets a situation that he can not overcome in some manner.

EXERCISE XXXIX

Prepare a Trading and Profit and Loss Statement and a Balance Sheet from the results shown by the work sheet. Then, prepare proper closing journal entries to record the results which have been obtained.

GOODWILL

The question of the valuation of goodwill seldom arises except in connection with the sale of a business. The factors which are said to produce goodwill are favorable reputation, good location, and perhaps trade names or brands that have become household words.

In the purchase of a going business it is a common practice to call the amount paid, in excess of the assets purchased, goodwill. For example: A purchases a business from B for $10,000.00, but the value of all assets purchased is only $8,000.00. The difference, $2,000.00, is said to be goodwill, and in opening a set of books for A this amount ($2,000.00) would be charged to Goodwill account.

This account is an asset; but when a Balance Sheet is prepared Goodwill should not be included in any of the various classes of assets that have been discussed in this book, but it should stand as an unclassified asset.

Goodwill may depreciate or it may increase in value from year to year. As to whether or not the bookkeeping records should show the fluctuations in the value of this asset, there is considerable difference of opinion. It is perhaps a good plan to provide a reserve for it, and thus accumulate a sufficient amount to "write it off" the books. In doing this, however, an amount equal to the credit to the reserve each fiscal period should not be charged to expenses as such a charge to expense would not be permissible under the Income Tax Law. But, after the taxable income had been determined and before the net profit is distributed to the partners or credited to a sole proprietor, an amount equal to the reserve may be charged to the Profit & Loss account. This procedure, of course, has the effect of reducing the net profits for the period and ultimately of reducing the net capital of the proprietor or proprietors.

EXERCISE XL

N. A. Townsend owns a business which he desires to sell. The following is a statement of the assets (at book value) which he offers for sale:

Notes and Accounts Receivable (Good)	$2250.00
Stock of Goods	3450.00
Store Equipment	1250.00

He offered these assets and the goodwill of the business for $8,000.00, and the business was purchased by A. H. Sells who now asks you to open a set of books for him. By the terms of sale Sells is to pay $5,000.00 cash and give three notes for $1,000.00 each, payable respectively in 6 months, 9 months, and 12 months. Make the necessary entries to record the purchase of the business by Sells.

A similar question may arise for the vendor of a business. For example: A may sell his business, which includes assets amounting to $4,500.00, for $6,000.00. The difference between these amounts, $1,500.00, must represent the value placed upon the goodwill of the business by the purchaser. It is a profit to A since he has received $1,500.00 in excess of the tangible assets that he sold; therefore, this amount may be credited to the Profit & Loss account or it may be credited to the capital account of the proprietor, as it would be a rather unusual procedure to credit a Goodwill account in such a case.

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