Principles of Accountancy

American Bookkeeping Series

BY

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Preface

Several considerations prompted in the publication of this book. To begin with, it has long appeared that the governing principles of accountancy—which in most bookkeeping texts are scattered about with other matter in various parts of the books—could be gathered in one volume, and topically labeled and indexed, for the convenience both of the student and of the bookkeeper. To thus arrange the essential principles within the limits of a book of less than two hundred pages, has been a lengthy and perplexing, but on the whole, a satisfactory task. It is believed, with this book, that a student may refer as readily to any governing principle of accountancy, as a bookkeeper may refer to a ledger account.

Again, the study of bookkeeping—though of great practical importance under any conditions—can be made much more direct in its application, by the selection of practical sets, based upon the kinds of business or industry prevalent in the locality where the subject is taught, or that may be of personal interest to the student.

Having placed the principles of accountancy in a small separate volume, we are enabled to prepare, by the unit plan, practice sets that severally afford a business routine which will directly familiarize the student with the commodities, processes, and trade conditions prevailing in any one of the hundred or more classified lines of business or organized interests. These units are graded, and can be selected from "The American Bookkeeping Series," for which this book is the reference in accountancy matters.

The division of bookkeeping sets into graded units, based on the principles of accountancy, has another advantage. Under some local conditions, or at certain stages of progress in the same class-room, problem work, without business papers, is preferable. Under other conditions or at other times, work with outgoing and incoming papers is better. Furthermore, there are few classes that should not have at least one unit of true business practice. Units constructed to accord with these needs can be selected from The American Bookkeeping Series, in their proper sequence, and without waste of time or material.

It is quite well established that students, especially immature students, have often had to work at a great disadvantage, and have been subjected to injurious eyestrain as well, by reason of certain mechanical defects in the text books placed in their hands. Two improvements in the make up of a bookkeeping text may be noted here:

(1) The reading line in a text book should not be over four and one-half inches in length. In a book for close study, three and one-half inches is better. In this book, which is to be studied closely, we adopted three and five-eighths inches. In the accompanying series of bookkeeping units, we adopted four and one-half inches.

(2) It seems that the illustrated forms of books of entry and account are examined and studied to much greater advantage, if the forms themselves are of full commercial size, making apparent all details in their proper surroundings. In many bookkeeping texts, the attempt to make a short reading line, together with illustrated forms of reasonable size, printed in the same book, has resulted in an unhappy compromise—the reading line being altogether too long, and the illustrations uncomfortably cramped and inadequate. In this book of principles, no illustrated forms are given; but there are constant references to a "Book of Forms," which supplies, under separate cover, a classified series of all forms under consideration.

We call attention to the "Index-Commentary," which provides, in a single alphabetical list, an index to topics and to model forms, a vocabulary of business terms and words, the standard abbreviations, and the working rules. The star (*) placed before words found in the body of the work, is to call attention to fuller discussion or definition in the Index-Commentary.

It is hoped that this book may be found useful to the business man, who needs a reliable, constructive guide when planning or overseeing his accounting records; to the bookkeeper, who will find it a convenient reference as to bookkeeping or office problems, as well as to the student of any modern bookkeeping course, who will, in The Principles of Accountancy, find an excellent supplementary reference text at all stages of his work. The student who works out the several units of The American Bookkeeping Series, will find The Principles of Accountancy indispensable.

Whatever credit may be due for the production of a work of this kind, should not be ascribed wholly to the author of the book. The growth of accountancy science is co-incident with the advance in co-operation and organization. For this, we are debtors to the Jew and the Greek, to the Roman and the Continental, to the Englishman and the American. In this small volume, it is impracticable to mention the many leaders in the profession whose works the author has consulted freely. To mention the names of a dozen leading accountants, would bring to mind a score of others that had been overlooked. Yet the author could not make this attempt to crystallize the mass of current accountancy authority—frequently diffuse, inconsistent, and even conflicting—without drawing upon his own stock of practical conservatism, gathered through years of service at the bookkeeper's desk.

Without question, advancement in the science of accountancy will necessitate some modifications in certain details of the following pages. Yet the form and arrangement of this book appear to us to be of a permanent nature. We shall appreciate any criticisms from either student, bookkeeper, accountant, or teacher, that may tend to make The Principles of Accountancy a more useful guide for all.

Accountancy is the branch of mathematical science that treats of the relations of values expressible in terms of money. It is useful in discovering the causes of success and failure in business. The principles of accountancy are applied to business concerns in three divisions of practical art, named accounting, bookkeeping, and auditing.

1. Accounting is the art of exhibiting the component parts of a business *organization through their expression in accounts, which are formed, continued and closed in accordance with a body of governing principles outlined in the course of centuries of progress in accountancy.

An accountant arranges and prepares a bookkeeping system adapted to the needs of a given business, and derives from the system an accumulation of guiding facts, for the benefit of the business organization. He is the architect of the bookkeeping structure.

2. Bookkeeping is the art of recording business transactions and operations.

There are two principal phases of bookkeeping: (1) the preservation of a true business history of some certain *concern; (2) the classification of the items recorded in such a way as to show the receipts and disbursements of cash, and the cost and yield of the other component parts of the given concern.

A bookkeeper, as such, should know: (1) how to record all transactions that occur in a given business; (2) how to post all entries to the proper accounts; (3) how to show the condition of any account, by means of a statement; (4) how to verify his work by a trial balance; (5) how to preserve *vouchers relating to his records.

3. Auditing is the art of examining books, records, accounts and the business interests with a view to discovering the actual conditions.

An auditor is employed, ordinarily, (1) to detect fraud; (2) to prove the mechanical and mathematical accuracy of books; (3) to discover points in which the books do not conform with the principles of accountancy; (4) to exhibit the true condition of a business; (5) to make recommendations with a view to improvement.

4. Business, in the commercial sense of the term, means the various processes by which *utilities are exchanged or otherwise operated upon, with a view to profit.

A private business organization is formed for the purpose of buying or securing certain utilities, combining these into a new utility, and selling the utility thus produced. Organizations for the transaction of public business render various services to the public, and are maintained from the collection of *revenues.

A business man must be guided in his transactions and operations by his books of record and account, if he would attain to business success. As a rule, the more profitable a business is, the more complicated are its processes that demand constant reference to records. With the advance of civilization, business becomes increasingly dependent upon accountancy.

Every business man should know enough about accountancy, bookkeeping and auditing, to construct a useful account analysis, to make or oversee the making of good records, and to devise an adequate proof of the reliability of his own books. He should also be able, when called upon, to take charge of the *finances of a society, church, school district, township, county, city, state, or nation, or of emergency undertakings.

5. Exchanges in business are of two kinds: (1) transactions—the exchanges between persons, as in buying and selling or in collecting and paying accounts; (2) operations—the change in the conditions of values within a business; as, for example, the manufacture, collection and distribution of *commodities.

6. Entries. Every exchange involves a book entry, which is a record of the facts about the exchange and an indication of the component parts of the business affected by the exchange. The records of the facts about exchanges are called the memoranda; the names of the component parts affected by the transactions are called the account titles.

7. **Books** used in bookkeeping are of two general kinds:

(1). Journals are books of original entry, in which the exchanges of the business are recorded consecutively as they occur. It is presumed that all journal entries were in former times made in one book called the journal, although modern bookkeeping assigns original entries to various books, according to the kind of entry. Among them are the journal, sales book, purchase book, inventory book, and other special books of original entry. The entries in all of these are properly called journal entries.

(2). Ledgers are books of entries that have been transferred from the journals or books of original entry, according to a scheme of classification, into separate accounts. Ledgers are also divided into various kinds, depending upon the nature of the accounts which they contain. Among them are the general ledger, customers' ledger, accounts payable ledger, and notes ledger.

Note.—The cash book generally contains a consecutive record of transactions involving cash receipts and payments, while it also contains the account of cash, thus combining the nature of journal and ledger.

The purpose of all special books of original entry is to admit of consecutive records and partial account classification.

8. **An Account** consists of a detailed summary of all the debits and credits pertaining to a given component part of a business. The name of that part is called the **Title.** The debits, regularly placed in a column to the left, show the value which the business organization as a whole has contributed to the named part. The credits, regularly placed in a column to the right,

show the value which the organization as a whole has received from the named part.

The **Balance** is the difference between the debit and credit sums, or totals.

Real Accounts are those that represent cash, or things of determined cash value either owned or owing; **Nominal Accounts** are those that represent profits or losses, resulting from business operations.

9. Standard Account System. All varieties of business are so similar in their financial organization that one uniform set of real account titles may be looked for in the ledgers of all concerns. By this is not meant that any one concern will have need for all the regularly named and defined real accounts, but that so far as its organization extends, standard account titles may be selected to represent all of its real component parts. Such standard titles should be selected because their use will render financial analysis much better understood by all persons interested than it would be if unusual titles were employed.

The nominal account titles, however, though quite extensively standardized, are subject to great variation, for they represent the results of ever expanding human operations and sometimes number as many as several hundred in the same concern. They are subject largely to the special needs of a given business.

10. A Statement of a Business is an exhibit of the condition and progress of the business as a whole.

There are two phases of the statement of a business: (1) the **Financial Statement,** which shows in detail the property and indebtedness of the business and the resultant net worth or insolvency; (2) the **Profit and Loss Statement,** which shows the causes and amounts of its profits and losses for a given period of time, and the resultant net profit or loss.

The financial statement is regularly taken from the real accounts, and the profit and loss statement, from the nominal accounts.

Recapitulation—1 to 10. The main processes of bookkeeping are determined by the principles of accountancy, and consist of: (1) the making of true original entries in the journal or in the books taking the place of the journal; (2) the posting of the original entries to the ledger, where they appear classified in account form; (3) the preparation of the statement of a business which exhibits the condition of its finances and the results of its operations, as shown by the records, in compact form for examination and comparison.

11. A Financial Statement of a concern consists of (1) a list of cash, claims collectible, and property owned, (called assets or resources), showing the amount all told; (2) a list of debts that must be paid out of the assets, (called liabilities), and their amount; (3) the difference between the total assets and liabilities, (called the net worth).

Note.—After opening a business, if the books are properly kept, it should be convenient to prepare a financial statement on the last day of any subsequent *fiscal period, from the results shown by a group of accounts, called real or financial. The manner of keeping such accounts so as to show the financial condition, is discussed in the chapter following. (Prin. 21-30).

12. Resources are the cash, claims, other property and advantages that have a value to a given business.

Examples.—Moneys, commodities, and *real property, owned and used. Services, or expense utilities bought, are resources during the period of their consumption, and are regularly included as such in the statements of banks and other concerns.

13. Assets are the cash, claims for cash, and other property that are of value not only to the concern owning them, but that have a value to the purchasing public.

13 B. Resources differ from assets in that the word resources implies that the valuation placed on the property so considered, is the cash amount that it would be worth to the going business, (i. e. the business in operation), while the word asset implies its value when offered in the general market without the aid of the business organization.

Example.—A patent right might be worth $10,000 to a going business as a resource, while it might not be worth $1 as an asset, if offered for sale, or on winding up the business.

14. Liabilities are the debts owed to others that are to be paid from the assets of the business.

14 B. A statement of "resources and liabilities" may or may not be identical with a statement of "assets and liabilities." If the former statement should show much greater net worth than the latter, the business is to be considered hazardous to that extent. The tendency of sound accountancy is to make clear distinctions between resource and asset valuations and to adopt the latter as a basis for financial statements.

15. The Credit of a business, which means the amount of money that can be borrowed for its use, is determined by bankers on the basis of *net worth as shown by a financial statement consisting of assets and liabilities. The credit basis may be modified by the lender's estimate of the borrower's business capacity and honesty.

16. The Assets of a business may consists of many different things, each having ledger accounts to show the cost and value. The most common assets are: cash; accounts receivable, showing amounts due from others on open account; bills receivable, the notes and acceptances collectible from others; inventory, showing the value of floating property and claims that may be realized on; ventures, showing value of moving property shipped out but owned until sold; investments showing value of income-earning property owned; real estate, showing value of real property owned for occupancy; furniture and fixtures, equipment, live stock, machinery, tools, etc., showing cost and value under separate account titles.

17. The Liabilities of a business commonly consist of accounts payable, showing amounts owed to others on book account; bills payable, showing the amounts of bills or notes or other written obligations owed to others; loans payable, showing long-time notes or bonds outstanding in favor of others; and capital, surplus or general reserves showing the amounts to be finally withdrawn from the business organization by the investors.

18. The Financial Statement may be explained by separate lists or schedules of the items making up single amounts in the statement. For example, Accounts Receivable, given at a certain amount in the fiinancial statement may be explained by a separate list of the persons or firms that owe the business on book account and the amounts they severally owe. Likewise an inventory list of floating property, a list of notes or bills, or articles making up furniture and fixtures, equipment, live stock, machinery, tools, etc., may often be necessary to explain in detail the articles making up the given amounts in the financial statement.

18 B. If a financial statement is made from estimate or appraisement of property, where no books have been kept, or where the books are defective in this respect, all items in it should be explained in the statement, or, if there is not enough room in schedules attached to the statement. (See forms 4 F to 4 H).

When a statement is made from properly kept books, a list of the items of the fixed property, personal accounts and bills may be found in the ledger, while floating property and claims should be found in special inventories.

19. Inventory lists of *merchandise should show the items extended at cost price in the first of two columns, and the estimated decrease in value, if any, in the second column. From the amounts of these two columns the asset value is to be determined.

19 B. Not infrequently certain kinds of goods or merchandise will increase in market value while awaiting sale. Such increase should not be added to inventory value for the reason that the increase is estimated and not fact, until it realized by actual sale. The best gauge of the value of property is the consideration actually given in the last bargain and sale, and not any person's estimate of what the property might be sold for.

However, the sum set by the purchase price must be reduced, when the value has evidently decreased, because safe business management demands that any impairment of the assets be noted.

20. Forms of financial statements are taken up in detail in this division, which should be read with the forms referred to before you. Notice that some of the financial statements are made from estimate or appraisement, others from the records of a bookkeeping system. Typical explanatory lists and schedules are also explained.

20 A. Form No. 1. The financial statement here given shows the net worth of the business interests of a certain person. If it is not derived from a set of books, the first item, 1 A, is found by actual count of the cash in possession of Mr. Weld. The second item, 1 B, is found by an examination and listing of the bonds which he owned at the time the statement was made. The third item, 1 C, is taken from a schedule of the furniture now owned. Since the furniture is entered at cost, without any mention of depreciation, it is assumed that the articles have not been in use long enough to deteriorate in value.

Since there are no liabilities, the total, 1 D, exhibits the net worth, which is always classed as a liability of a business organization to the owner or owners.

Should the owner intend to open a set of books, this statement would provide the entries for four accounts; viz: Cash; U. S. Bonds; H. H. Furniture; and Capital account.

Note.—If the proprietor had kept books prior to making the statement, the amounts there found would have been taken from the accounts in his ledger.

20 B. Form No. 2. This financial statement of the business interests of James Madison shows a number of assets and liabilities. After cash, there are entered three account balances, 2 A, showing money collectible for the business organization from three different persons who owe Mr. Madison on book accounts.

The item, 2 B, shows a result of a list, or inventory, of merchandise now in Mr. Madison's possession. The items making up this total have been computed at the price paid for them, and from this total there is deducted an amount equal to the diminishment in the value of any part of the merchandise, if there were such diminishment. It simply shows what the goods on hand were safely worth at the time the statement was made.

The item, 2 C, shows the cost of the lot and building occupied by the store. Unless there is a recorded decrease in the value of the property since purchase, the cost is considered the present worth of the property.

The items, 2 D, are balances payable by Mr. Madison to the firms mentioned. They are liabilities, which accounts for the amounts being carried to the right hand or liability column.

The total liabilities taken from the total assets, leave a remáinder of $6941.41, which is entered in red ink in the liability column, as the net worth, 2 E. It shows what would remain after paying all debts. After entering the net worth, the two columns are proved by footing them, and are then ruled.

20 C. Form No. 3. The financial statement of the business interests of Henry Morgan is evidently derived from bookkeeping records.

The items, 3 A, cash in hand and in bank would together appear as a cash balance of $470.10 in cash book. This balance should be verified by actually counting the cash on hand and adding the amount to the balance to Mr. Morgan's credit in the bank.

The item, 3 B, shows the value of household furniture by giving the cost of the various purchases of furniture amounting to $1579.40, as the basis. This basis is modified by a careful estimate that the furniture has, through *depreciation, lost 25 per cent of its original value, causing the deduction of $394.85. The remainder, $1184.55, is the present asset value of the furniture.

The items, 3 C, show that two pieces of real property cost respectively $3758.40 and $1600, which are considered their present worth. The items, 3D, show that there are owing two amounts to be paid. These amounts owed are secured by mortgage on the two items in 3 C, so that the equity of the owner in house and lot is the difference between the worth of the property and the mortgage against it or $2158.40. His equity in the farm is $800.

The sum of the assets, $7013.05, diminished by the sum of the liabilities, $2400, produces (3 E) a net worth of $4613.05, placed in the lesser column to show, by footing, the excess of assets over liabilities, and in red ink, to show that the figures are the result of computations derived from the previous parts of the statement.

20 D. Form No. 4. The financial statement of the Walters Grocery Co., illustrates a number of the items explained by separate schedules.

The item, 4 A, comprises the total of uncollected charges to the customers for goods sold. This is explained in detail by referring to the list of Customers' Balances, 4 F, where the persons and firms owing, and the amounts owed are given in detail. The total of this list verifies the amount entered in the statement. The page numbers preceding the firm titles in the schedule refer to the ledger pages in which the customers' accounts are kept.

The item, 4 B, comprises the total face of notes owed to the firm. This is explained by the form, 4 G, giving the names of the note payers, the date, the maturities, and the amounts, also the numbers which were given to the notes when they were entered in a bills receivable book. The figures before the amounts in notes Nos. 9 and 13 show that No. 9 was originally for $82.50, but that $60 had been endorsed prior to taking the list. No. 13 shows an endorsement of $50.

The item, 4 C, in the statement comprises the total interest earned or accrued on the notes receivable. This is explained by the column in 4 G headed "interest accrued," where the amounts of interest accrued on the several notes are given.

The item, 4 D, in the statement shows the value of merchandise on hand at the time the statement was taken. This is explained by the inventory, 4 H, where all items on hand are listed at cost, showing a total of $2812.45. It is found that deductions should be made from several of the items in stock, because of reduction in value of the goods. The proportion of the reduction is indicated by fractions ¼, ½, etc., placed after. The amounts deducted are placed in the second column, footed, and the total, $467.31, subtracted from the gross inventory, leaving the net inventory, $2345.14, which is the amount carried to the statemnt.

The three items, 4 E, in the statement comprise the fixed property which should be found entered in detail in ledger accounts, and consequently require no explanatory schedules. In each case, however, there is deducted a certain per cent for depreciation.

Accounts payable is to be explained by a list of creditors' balances similar to form 4 F, showing the firms to whom payment is to be made and the amounts.

Bills payable, consisting of only one item, is explained fully on the statement. If the firm owes many notes, a list similar to form 4 G would be made.

20 E. Form 5. The form of a financial statement of a corporation does not differ from that of a sole proprietorship or partnership. In the form referred to, the items entered are so extensive and show so many revisions, that a better exhibit can be made on an open journal sheet with the assets on the left and liabilities on the right. Such a form is suitable for any extensive business whether organized as a corporation or not.

Item 5 A. Referring to the form, observe that the total cash balance is in three separate accounts. The first three items should agree with the balance in the cash book.

Item 5 B. After listing the balance of accounts due from customers, it is decided that the total cannot be collected but that 5 per cent of the total would equal the uncollectible part, or eventual loss. This amount is deducted from the face showing the asset value of accounts receivable, as the difference, or 95 per cent, of the face value.

The word reserve, indicates that a certain amount of the profits is reserved or kept in the business instead of being paid out as dividends to the shareholders. The amount reserved for depreciation plus the asset value of the accounts should together represent the cost of the accounts; and thus the net worth of the business is not diminished through shrinkage in collections. A reserve for diminishment or depreciation of any business property simply indicates that the owners of the business have kept in the business enough cash, which otherwise would have been paid out in dividends, to make good the diminishment, or depreciation in the business property. Thus the reduction in value of the property is replaced by an equal increase in the amount of other available assets.

Item 5 C. Bills receivable also show a shrinkage in value of 5 per cent, which amount has been reserved and credited to a reserve account instead of being paid as dividends.

Item 5 D. The floating property of the business in three lots: (1) product or goods ready for sale as shown by inventory in schedule A; (2) product in process of manufacture which carries a cost to date of three items taken from schedules B, C and D; (these three might be combined in one amount and entered as Unfinished Product if desired); (3) raw or crude material ready for manufacture but not yet *routed as explained in schedule E.

Item 5 E. The inventories of claims include earnings of the business not yet collected, and utilities paid for but not yet realized.

Item 5 F, 5 G, 5 H. The three accounts of fixed property each show cost diminished by depreciation covered by reserve as in 5 B.

Item 5 I. The four accounts here given differ in their significance, being both tangible and intangible, but are alike in this respect that depreciation is not represented in a reserve account, but depreciation is entered directly into the asset accounts so that the ledger balance represents the actual value.

Item 5 L. Among liabilities and liability inventories taken from labor included in schedule C, but not paid for, and interest accrued but not paid.

Item 5 M. This is the balance of the ledger account of bills receivable which have been discounted to other parties who will collect them in the ordinary course of business. Until they are collected, they remain a *contingent liability to be accounted for.

Item 5 N. The total reserve credited on the books is $5602.42. This reserve is divided into six subdivisions. The five named on the statement are to equalize the various deductions made from assets for diminishment in value. They amount, all told, to $3620.42. This amount taken from the total reserve leaves $2000, a general reserve, which is held in anticipation of business reverses. This general reserve is an addition to the capital, which has been derived from former profits.

Item 5 O. Of the capital stock, $13000 has not been issued, leaving $62000 on which dividends to stockholders are to be apportioned.

Item 5 P. The total liabilities deducted from the total assets leaves a remainder of $5602.65 to be distributed to dividends, reserve, surplus or wherever determined by the owners.

Recapitulation 11 to 20. A financial statement is made to show the net worth or insolvency of the business. It consists of a listing of all assets against all liabilities showing the difference, which is net worth, if assets exceed the liabilities, or net insolvency, if the liabilities exceed the assets.

Any item of value in a financial statement should be supported or explained by a special list, or schedule, of all the items making up the total amount of the unit, or by an itemized ledger account.

It is important that no items of value be entered in a financial statement at more than their asset value, especialy when such items are subject to waste, shrinkage, or depreciation. As a guide to a correct estimate of their worth, fixed property should be entered in the statement so as to show the cost. Appropriate reductions are made from cost in order to arrive at asset value. It is the best usage to reserve from profits a sufficient amount to offset estimated shrinkage or depreciation and show the same in a reserve account or several reserve accounts. By this means the net worth of the entire business is kept from falling below the net worth at starting.

The difference between total assets and total liabilities, including capital at begining, is the net profit or loss at the close of the period covered by the statement.

21. The Financial Ledger contains the **Real** accounts. These accounts show the financial condition, that is, the items making up the capital of the business. By this is meant, (1) the cash account which, although generally kept in a different book, is to be considered a part of the financial ledger; (2) the accounts of all other assets; (3) the accounts of all liabilities, including capital stock, and all varieties of reserve accounts.

When all accounts pertaining to the business are kept under one ledger cover, the financial ledger is that division of the whole ledger which contains the above named accounts, as distinguished from the **Business Ledger**, which contains the nominal accounts, or those which show the sources of revenue, income and other profits, and the expenses and other losses. (The chapter, "Prin. 72 to 72 S," discusses the ledger more fully.) The financial ledger registers the activities of the financial management, as distinguished from the operating activities.

21 B. The Financial Management of a business consists in providing and dispensing free cash (called working capital) to pay for the needed utilities which must be bought constantly. This working capital, or free cash, is secured, first from the investors, and afterward from receipts for services performed, from sales of property, from the collection of accounts, notes, or other claims, or from loans. Some of the business property may be kept for sale, some for permanent use. Good management requires that the investments in fixed property, or that property which is kept for permanent use and which cannot be disposed of at will, should not be in too large proportion to the floating, or more easily convertible, property.

22. Assets consist of cash and of property or claims convertible into cash. The different kinds of assets are divided into several groups with reference to the readiness with which they may be turned into working capital. They are as follows: (1) cash; (2) accounts receivable, notes receivable, bonds or other obligations of outside people to pay a determined amount of cash; (3) floating property, including merchandise, material for manufacture, shipping supplies, etc., not yet converted into cash or claims; (4) fixed chattel property, including furniture, fixtures, equipment, machinery, tools, etc.; (5) real property, including ownership of lots, lands and buildings; (6) rights or priveleges guaranteed by law, including franchises, right of way for railroads, patent and copyrights, good will, or business advantages derived from reputation and promotion.

23. Accounts of Assets should be kept in such a way as to show: (1) the case of cash, the receipts, the disbursements, and the amount on hand; (2) in the case of claims against others, when and how they are to be collected; (3) in the case of *fixed property, the cost separately from depreciation in order to determine asset value; (4) whether all shrinkages, waste, or depreciation in property have been made good to the business in reserves in order that the capital of the business may not diminish through the diminishment of any part of its property values.

24. The Cash Account is the first and, as a rule, the account most generally necessary to all business. It ranges from the simple record of receipts and disbursements, unconnected with any other books or accounts, to the elaborate special-column forms joined with the ledger accounts of intricate bookkeeping.

The cash account should show by its title whether it is a record of current cash (that is, for general expenditures), or whether it is a record of cash set aside in a fund to be paid only for some specific purpose. Ordinarily, the term, cash account, is understood to be an account of cash that is to be paid, in a general way, for all purposes of the business, while cash set aside for a specific kind of payments, is called a fund.

The cash account should show, at any time, (1) when and from what source cash has been received into the business; (2) when and to what purpose cash was disbursed or paid out of the business; (3) how much cash is remaining.

The cash account may be kept in a ledger with other accounts, but owing to the constant reference made to it, both in making entries and in ascertaining the amount on hand, this account is generally kept in a separate book ready for immediate entry or reference. The term, cash book, means the cash account kept by itself in a separate book of original entry. Study carefully the following forms:

24 B. Form 10 A. A simple cash account may be used without reference to any other accounts or books. In it are recorded all receipts and payments. The receipts are placed on the left, or debit side, and the payments on the right, or credit side. On any date, the total credits may be deducted from the total debits, to show the balance on hand. In the form given, this account was balanced on Saturday at the close of Jan. 5, and the amount remaining was carried down for the reopening of Jan. 6, under the double ruling, showing the amount unexpended. Such a cash book may be balanced daily, weekly, or monthly as may be most convenient.

Note.—In form 10 A, are two columns headed, "ledger account" and "postmark," which are to be disregarded if the entries in the cash book are not to be posted to the ledger.

24 C. Form 10 B. This is the same cash book as 10 A, with the addition of the entries of the ledger account titles and the pages of the ledger where they are found. These page numbers are to be entered prior to posting, and serve as guides to the pages in the ledger. When the posting is done, a check mark is placed after the page number. In the form, the entries from Jan. 1 to Jan. 5 are shown to have been posted; the entries from Jan. 6 to Jan. 12 are shown ready to be posted. Thus, the first entry on Jan. 1 may be found posted to the credit of the Capital account on page 3. (See form 10 E.) The last entry on Jan. 5 may be found posted to the debit of the Savings Fund account on page 1. (See form 10 C.)

24 D. When the payments and receipts of cash are entered, with other transactions, in a complete journal, the cash debits and credits are posted to a Cash account kept in the ledger. This account is illustrated in form 12 C. This form may be used where the payments are all made by check in a small business. In that case the check stubs must be looked to for a full record.

24 E. Form 10 C. Certain amounts of cash may be separated from the general cash, and held apart for some particular class of expenditures, or for some special purpose. Cash thus set aside is called a **fund.**

One may set aside cash in a bank savings account with a view to the accumulation of the amounts saved, and their accretions, for future needs, in a **Savings Fund.** One may set aside an amount of cash each year, and invest it in interest bearing securities, with a view to the final accumulation of enough cash to meet a future maturing debt. This would be called a **Sinking Fund.** Cash may be set aside in a **Building Fund,** with a view to constructing a building when sufficient savings are accumulated.

Funds are set up for temporary purposes: thus, a **Contingent Fund** consists of amounts set aside to pay obligations likely to arise, but not yet fully determined; a **Cashier's Fund,** or **Imprest Fund,** consists of amounts entrusted to the cashier, out of which he makes payments as occasions arise, and reports the payments, later, for entry.

The account of a fund is charged for the money transferred to it, or accruing to it; and is credited for any money withdrawn from it.

24 F. Cash accounts are kept in cash books of various forms adapted to various business requirements. (See Prin. 74 to 74 H.) These cash books may have many columns on both the debit and credit sides. Columnar cash books, if arranged to accord with correct accounting principles, must contain one certain debit column which includes all cash receipts, and one certain credit column which includes all cash payments. These two columns are to be regarded, respectively, as the debit and the credit sides of the account. Any extra columns found in a cash book are used for purposes of classification, and are to be distinguished from cash account.

25. Claims against others. After accounts of cash, there follow a number of accounts that represent a *contracted amount of cash collectible on demand or at some future time. These are divided into, (1) Accounts Receivable, or the current charges against persons and firms; (2) accounts of Bills Receivable, or notes and acceptances, evidenced by paper signed by payers and held in the business; (3) accounts of Bonds and Mortgages and other long-time interest-bearing obligations, issued by municipal authority, by corporations, or by individuals; (4) accounts of Stocks, which represent a part interest in the capital of other business concerns. These accounts all represent appropriations of the capital of the business, and are the result of the loan of money or of sales to others on credit. They are called quick assets, because they may be either collected in a short time, or, in the case of notes or securities, they may be disposed to investors for ready cash.

25 B. Accounts Receivable are the ledger records of the amounts owed to the business by persons and firms that have received value on book account. The terms "customers' accounts" or "trade debtors" are often used in the same sense. The arrangement of accounts receivable differs in the several ways mentioned in the following paragraphs.

25 C. Where the accounts consist of only one item to be collected from the person or firm named, they may be entered under the general heading, "Sundry Accounts Receivable." Each person's debit occupies one line, showing the date, payer, and amount. When payment is made, the credit should be posted to the line opposite the charge. (See Form 11 B.) Where a number of persons are assessed or subscribe certain amounts to be paid later, a similar account headed "Subscription" or "Assessments" is used.

The C. O. D. (Collect on Delivery) account contains the charges to sundry customers for goods to be delivered and paid for when delivery is made. In this account, a line is reserved for each sale, in which is posted the date, name of buyer, and amount on the debit side. Sometimes the sale-number or the name of the collector is entered instead of the buyer's name. At any rate, the explanation should be such as readily to refer to the item. When the sale is delivered and the cash is returned, a credit is entered on the same line as the corresponding charge. The C. O. D. account is kept among the other customers' accounts. (See Form 14 M.)

25 D. Where the accounts receivable consist of accounts on each of which there are a number of charges or of credits, or both charges and credits, each account should have, as its title, the name of the person or firm to which the charges or credits relate (See Form 12 H). The dates and amounts of the several charges are entered on the debit side, and the dates and amounts of the payments are entered on the credit side.

Customers' accounts should be kept with the utmost care, because they represent a certain portion of the capital of the business intrusted to outside persons, which capital will be lost if collection cannot be made. In addition to the customer's name as title at the top of the account, and the dates and amounts of charges on the debit side, with the dates and amounts of credits on the credit side, other needed memoranda may appear in the account, as follows:

(1) The address of the customer, which should follow the title.

(2) The credit limit or the largest amount which he is allowed to buy on account. If a person other than the buyer is responsible for payment, the fact should be noted in the explanatory space for debits.

(3) The terms of the sale, if special terms are granted, should also be entered.

(4) The credit side may specify whether credits are in cash or in part cash, and part discount, or notes, or allowances; also if sight drafts are drawn, this should be shown in pencil opposite the charge drawn against.

(5) Any memoranda that will aid in keeping the

account from becoming too large, or in collecting it promptly.

25 E. When the number of current accounts receivable increase so as to fill up the assigned division of the complete ledger (Prin. 72 B) too rapidly, they should be taken from the complete ledger and kept in a subsidiary ledger (Prin. 72 C) called the Accounts Receivable, Customers', Trade Debtors', or Individual ledger. When so kept, the aggregate amounts of debits and credits in the subsidiary ledger are posted to a controlling account in the general ledger. (Prin. 72 D).

25 F. Bills Receivable or Notes Receivable is the title charged for the notes or acceptances received into the firm from others. Such notes are ordinarily received from sale of goods, in settlement of book accounts, or for money loaned, and, as a rule, do not extend over one year in time, usually but a few months.

They may be recorded in two general ways:

25 G. Where few notes or acceptances are received, the record of each note may be made in a separate line under the ledger title, Bills Receivable, among the asset accounts. This line can show on the debit side the date received, payer, when due, and amount. When the note is paid, the credit should be entered in the credit side on the same line, opposite the charge for the note that the credit is payment for. Use x mark (See Form 11 C) to indicate settlement so that in making any list of notes, those without x mark only will be included.

Remark.—Business men frequently discount bills receivable, in order to secure ready cash, instead of holding the notes until maturity. Although a discounted note is supposed to be settled, so far as the payee is concerned, when he indorses it to another, yet, on failure of the maker to take it up at maturity, the endorser is ordinariy liable for its payment. The note is not to be credited off the Bills Receivable account until this obligation of the payee ceases. Its collection is a matter of concern to the payee as well as to the holder. **Bills Receivable**

Discounted should be credited with the face of the notes thus transferred. The account of Bills Receivable Discounted represents a contingent liability, and is placed in the liability division of the financial ledger (See Prin. 35 B).

Remark.—Notes usually draw interest . The collections of interest have no effect on the Bills Receivable account, but are credited to the Interest Account in the business ledger. payments to apply on principal only are credited to Bills Receivable account.

25 H. When bills receivable are sufficiently numerous, they are recorded in a bills receivable book or a note ledger which has columns for a complete description of each note. Each line of the bills receivable book is numbered and the number written on the note described in the given line, so that the notes are known by number, and the number of any note refers to its description in the note ledger.

When so entered, the title, Bills Receivable, among the assets in the financial ledger is debited or credited for the aggregate of all notes entered as received or paid, in the note ledger, or bills receivable book. Bills Receivable is the controlling account for the separate bill record.

25 I. Mortgage Loans are long-time (from one year to ten or more years) obligations, and draw a stated rate of interest payable annually, semi-annually (every six months) or quarterly (every three months).

They are usually received directly from the borrower or are bought as an investment by those who wish to place their money on a safe income-earning basis and who are satisfied with the profit derived from interest.

A ledger asset account under the title, **Mortgage Loans Receivable** may be kept. This is in the same form as the account of Bills Receivable (see Form 11 C). The account is charged for the face of the Loans and credited for the payment of principal. The interest receipts collected from them are credited to interest account which is kept in the part of the ledger reserved for nominal accounts.

Loan papers are often purchased for an amount equal to both principal and accrued interest In that case the interest accrued should be charged to Interest account (not to Mortgage Loans) so that the charge will be the face of the paper. When paid a credit is made opposite to the charge for the given payment.

Loan records may be kept in a separate subsidiary ledger or record, of which a controlling account in the general ledger will give the aggregates, or they may be recorded in an *auxiliary book. This subsidiary book contains ruled columns for description of each item like the bills receivable book.

25 J. Debenture Bonds or single **Bonds** are issued by the nation, state, city, county, township, school district or other public corporations; by transportation, trading, manufacturing, or service corporations, by firms and by private persons, as evidence of their promise to pay at a future time a sum of money with annual, semi-annual or quarterly payments of interest thereon. Bonds are frequently secured by mortgage on property. Bonds are bought by the investor at par, at a premium or at a discount. When bought, an account describing the kind of bonds is charged for their face, when sold, the account is credited at face and the difference to the Profit and Loss account.

When a premium is paid at purchase, the amount of the premium is to be charged to an account of **Premium on Bonds.** This premium account is an asset to be *amortized by annual proportionate amounts carried to Profit and Loss.

When bonds are bought at a discount, the amount of the discount should be credited to **Discount on Bonds** account, a resreve liability, such discount to be extinguished by annual charges as in the case of premium.

26. The Inventory Account is charged at the close of the fiscal period for the value of all floating property on hand and for unrecorded collectible claims and convertible values that have accrued during the fiscal period. These debits remain in the account as nominal assets during the following fiscal period and at the close are credited out of the inventory account and charged into the business accounts into which they are regularly absorbed.

At the time the old inventories (those carried from the begining of a fiscal period) are closed out of Inventory account into the business accounts, the new inventories (those made at the close of the fiscal period) are charged into the Inventory account where the latter remain to the close of the next following fiscal period and are in turn closed out as before. Thus reference to the Inventory account in the financial ledger at any time will exhibit the value of the otherwise unrecorded assets of the business at the begining of the given fiscal period. This amount may not be the real value of an inventory taken subsequent to the entry, but it is the nearest estimate that is suitable for record, and owing to its generally being taken when stock of merchandise is low, is considered safe.

(For taking inventory see Prin. 77; for charge and credit see Prin. 72 P; for liability inventory see Prin. 34.)

26 B. Merchandise, or stock of goods for sale, generally comprises the most important inventory and frequently the only one considered. The inventory value should be based on cost, not estimate.

The **Cost of Merchandise** is the purchase price and all the expenses necessary to lay the same down in the sales room. These expenses consist of freight and transfer charges necessary to place same in the store. It is customary for large stores to purchase goods long before they are to be placed in the sales room. Such goods are left in warehouses for storage until the sales season arrives. The warehouse expenses with the freight and transfer expenses, are included as part of the cost of the merchandise.

When the same articles have been bought at different times for different prices, the last price paid is to be used. After the cost of merchandise is found, depreciation in value of any of the articles should be taken into account before the real value can be determined. (See Form 4 H.)

Remark.—The inventory principles of determining the asset value of floating property is often applied to fixed properties such as furniture and fixtures, real estate and even notes and accounts. This should be discouraged because all such items remain in the business as charged and their value is more safely determined by estimating depreciation as a deduction from the cost already recorded in the ledger.

Remark.—When the Inventory of floating property is charged for material, or expense items, the corresponding credit is to the materials or expense account affected, and is continued into the next period precisely as in the case of merchandise.

26 C. Inventories of Claims Receivable. At the close of a fiscal period, certain assets that have not been previously recorded should be included. Among these are interest accrued on bills or accounts receivable and any other items chargeable and earned but not entered. Such items should be entered in the inventory book, and charged to Inventory account or the above title if a separate inventory account is desired, through the journal or from inventory book, and the account to which they pertain, credited. At the close of the following fiscal period, the nominal account to which they pertain is charged for the amount of the inventory and the **Inventory account** is credited to balance. The latter account is then charged for the new inventory as before.

27. Permanent property may be owned either for use or for sale. Furniture and fixtures, machinery, and other equipment are purchased for use. Chattels may be taken in payment of debt or purchased by way of investment or for speculation. There is a distinction between the accounts of property for use and for speculation. The forms explained under this article (27) refer to chattel property purchased to be retained for the use of the business. Such properties are called **Fixed Assets** because they occupy a fixed place in the business organization.

27 B. Equipment is a title referring in a collective way to the articles or property making up a special outfit for a given business use (see Form 10 D). Different business organizations may require delivery equipment, building equipment, heating equipment, threshing equipment, or other equipment. Certain universally used kinds of equipment are given special titles, like "Furinture and Fixtures," "Rolling Stock," "Machinery and Tools," etc.

The account is charged for the cost of the articles comprising the outfit. These charges should appear in the ledger account in detail, that is, the name and price of every article should be given a line.

If any of the articles of the equipment are sold, the account should be credited for the *cost* price of the item sold, the credit appearing on the same line of the ledger account with the charge, and the difference between the cost and selling price entered to Profit and Loss account, or to Reserve for Depreciation, if such an account is carried. By crediting sales from any property account at cost, the ledger account will show the balance of the account (or difference between the debit and credit footings) to be the exact amount invested in the remaining portion.

27 C. In view of the wear and tear incident to all buildings and equipment, the value of such property is constantly undergoing **depreciation**, that is, ordinary reduction in value by use. This depreciation is easily computed from a knowledge of the ordinary term of usefulness of the kind of equipment considered. In order that this depreciation may not impair the capital of the business, the correct practice is to charge as an expense, at the close of each fiscal period, an amount equal to the loss through depreciatoin; that is, to enter depreciation as an expense belonging in the fiscal period, in which the depreciation occurs. The account credited in the financial ledger for the amount thus charged is entitled **Reserve for Depreciation (Sundry)** if one reserve is kept for depreciation on all accounts. It is frequently advisable to open a separate reserve account for each fixed asset account, thus, **Reserve for Depreciation (Office Furniture), Reserve for Depreciation (Delivery equipment)**, etc.

When so treated, the accounts of fixed assets show the first cost, which should equal the present value plus amount credited in Reserve for Depreciation accounts.

When fixed business property is sold, the difference between cost and selling price is a charge to the Reserve for Depreciation account.

27 D. Furniture and Fixtures is the title of the account of the business equipment consisting of such items as desks, chairs, counters, shelving, showcases, the office and store appliances generally. Charge the account at cost for items bought; credit at cost any sales; apportion a reserve out of profits for depreciation as in special equipment accounts above.

28. Any real estate held for the use of the business should have a separate ledger title for each piece, thus "Building & Lot No. 58-60 Market St., "Lot 7, Blk. 2, McGrews 1st addition to Chicago," "Farm Property S. E. 1/4, N. W. 1/4, S. 5, Twp. 27, R. 5 W., 6 P. M.," etc.

These titles are long and cumbersome for ordinary posting entry, although useful in the ledger. They can easily be abbreviated in the books of original entry.

Real Estate accounts should be charged for the cost of the property, including expenses of securing title and preparing for occupancy, for the cost of any additions to buildings or permanent improvements, (but not for expenses in repairing or replacing damages). They should be credited at cost for sale of property or any part of it, and the difference between cost and selling price credited or charged as the case may be to Profit & Loss account, or if Profit & Loss account is reserved for the operating profits only, to Surplus account.

Remark.—The ordinary expenses of keeping the property up to the condition at starting and the income derived from the rent of the property are entered to an Income and Expense account, of the given property (See Prin. 59.)

28 B. The general tendency of land is to increase the value, of buildings to depreciate. Depreciation should be equalized by an appropriate reserve from profits, in order that capital may not be impaired.

Increase or appreciation in the value of the ground is not properly represented by an account of "Appreciation" for the reason that such increase in value contributes nothing to the available capital of a business before the property is sold. If a person were to enter appreciation in land value as a part of the business assets, a fortunate rise in a piece of property might cause that property to equal in value the entire original investment, causing all other property to appear as profits subject to conversion and withdrawal. Such action would result in there remaining no business organization.

Remark.—Where greater exactness is desirable, the general account of buildings and grounds should be divided into two accounts—one for buildings, or for each building, the other for grounds.

29. A number of intangible assets may, under certain circumstances, appear in the ledger; among them, **Good Will** (Prin. 29 B), which account is charged for the amount paid by a succeeding owner to the former owner for the various trade advantages accruing to the business from the advertising, promotion or location developed by the seller of the business who, through the sale, relinquishes his right to compete; **Franchise** (Prin. 29 C), or the special business rights conferred on a public service company; **Insurance** (Prin. 29 D), and **Taxes,**

when covering a period exceeding the fiscal period and to be absorbed in the course of time; **Copyrights** (Prin. 29 E), or **Patent Rights** (Prin. 29 F), etc.

Such accounts should be charged for the actual cost (not an estimated value) and ordinarily should be reduced by credit at the close of succeeding fiscal periods for an estimated reduction of the portion actually consumed, if such is plainly apparent, or arbitrarily reduced with a view to final extinguishment.

It is not advisable to credit a reserve account for the diminishing value of such assets (as is the better way to account for depreciation in fixed property), but instead, to credit the amount written off directly to the account with a corresponding charge to Profit and Loss.

29 B. Good Will account should be charged for cost at the time of purchase. Additional charges should not subsequently be made, even though it is apparent that the good will, if the business were sold, would bring a much higher figure than appears on the ledger. On the contrary, it should be reduced by credits out of the profits at as early a date as possible with a view to its final extinguishment.

29 C. Franchise account is similarly charged for the cost of a franchise conveyed to the business. It is ordinarily extinguished by limitation of the period during which it is enjoyed, and hence, represents a diminishing asset that should be equalized by charging Profit and Loss and crediting the franchise each year with the amount of the expired portion.

29 D. Insurance account is charged for the cost of premium on insurance policies. At the close of regular periods, sometimes monthly, sometimes annually, the account should be credited for the consumed portion and the expense account of the business, or of the department to which it belongs, charged.

29 E. Patent Rights account should be charged for the price paid to a patentee of a right to manufacture and sell a patented article. Such patents expire by time limitation. The account should be credited from time to time for an amount sufficient to equalize the diminishing value of the patent. The account-title should describe the particular patent.

29 F. Copyrights account covers the right to print and sell books, pictures or other copyrighted matter. This account is treated in the same way as patent rights.

30. Speculative Accounts. Speculation is business venture that involves unusual risk for the purpose of realizing unusual gain. Thus, a piece of land may be bought for a certain sum in the hope that a customer will be found who will buy it for a greater sum than that paid for it. Such speculation differs from business investment. In the latter, property is bought for use or for trading, that is, distributing goods to consumers by purchase and sale primarily without reference to market *fluctuations. Speculation may consist in buying commodities for shipment and sale in a distant market; development of patents or copyrights, or securing property or claims of any kind with a view to realizing more than their present current value. It may also consist in buying the obligation of another to deliver a commodity at a future date as is frequent in board of trade transactions.

Similarly treated, is property taken for debt, as when a bank or lender takes over property given for security. Likewise, when an educational or eleemosynary institution receives property as a gift to be disposed of for its benefit, the account of the property so treated would be that of a speculative account.

An account of the speculation is headed with a descriptive title, as: Shipment to Central Commission Co., Speculation in Oregon Timber, Publication of Base Ball Score Cards, Futures in May Wheat, Salvage of Jackson Elevator, "Maywood Addition."

Speculative accounts are charged for the cost of the property bought (or the appraised value of gifts), also, for expenses attached to the speculation, and are credited for incidental incomes derived therefrom. When the speculation is closed out by sale, the account is credited for an amount equal to the debit balance, and the difference between the debit balance of the account, and the amount realized from the sale is posted to Profit & Loss, from the original entry.

30 B. Shares of stock are the divisions of ownership in the capital of the companies issuing the shares. The stocks considered here are those issued by outside companies and purchased and held in the way of speculative investments The ordinary share of stock represents a par value of $100, that is, a part ownership amounting to $100 in the capital and a proportionate share of the profits of the given business. However, shares are made in different denominations, either greater or less than $100. A stock certificate is a written acknowledgement issued by the company that a given stockholder owns so many shares. A single certificate may be written for one share or for many.

When a business is successful and pays large dividends to stockholders, the stock in that company is in demand, and sells at or above par. When a business is less successful and pays a lower rate of dividends, its stock decreases in value.

In the city stock exchange, which is the market for the stocks of all kinds of financial and industrial enterprises, stocks are sold daily at varying prices, either below or above par.

Stocks Account is charged at cost, for the purchase of stocks by the business. Each purchase is allowed a line in which is entered the date, name, and the par amount of the share, or block of shares, in the explanatory column; and the cost in the money column.

Brokers who handle stocks freely, open separate ledger accounts for each kind of stocks. In that case the name of the issuing company appears in the title; thus, D. & R. G. Ry. Stock.

When a block of stock is sold, an entry is placed on the credit of the account on the same line as the debit for the same block of shares and at the same price. As it often happens that the stocks are sold for either more or less than their purchase price, the difference, if the selling price is less than the cost, is charged, or if greater, is credited, to Profit & Loss. Dividends from the stocks are credited to **Income From Stocks** account in the business ledger.

31. An Account Payable is a ledger record showing that we owe a person or concern on book account. The title of the account is the name of the person or concern we owe. The account is credited for our obligations to the concern when we assume them, and charged for payment to the concern when we make them. When the charges equal the credits, the account may be closed by ruling.

31 B. When accounts payable are opened for goods bought at retail, or for services as of transfer concerns, doctors, mechanics, etc., unless otherwise specified, it is customary to settle about the first of every month for the amounts credited during the preceding month. When so settled, a single charge for the cash paid will balance the month's credits. If a part payment is made, the amount paid should be entered as a charge to the account, which continues open until a settlement, when it should be ruled, new business being entered below the ruling.

31 C. When keeping an account payable for goods bought at wholesale, it is usually better, and often necessary, to pay each credit separately. This is done because wholesalers usually allow a specified term of credit, running from the date of the bill. Thus, an invoice of goods bought June 19th, on account at 30 days, should be paid by July 19. Such terms of credit as 30, 60, or 90 days, or 2, 3, or 6 months, are allowed. The difference in time varies in different lines of trade, or for other reasons.

Such accounts should show the credits entered when the invoices are allowed, and in the explanatory space of the ledger, the term of credit, should be entered, if any special term is granted. The payment of a specified credit should be charged on the same writing line as the credit, thus showing what charge is cancelled. It is a good plan to use a sign "x" before the credit amounts that have been paid, as a convenience in easily picking out the unpaid credits later. (See Form 13 I.)

When a deduction or allowance is made from an invoice of goods bought, it is a good plan to charge the allowance opposite the credit to which it applies above the writing line, so that full settlement of the credit may be charged on the writing line. (See Form 12 G.)

31 D. The title **Accounts Payable** is the name of the controlling account in the financial ledger or financial statement that represents the aggregate of all unpaid accounts in favor of other persons or firms. Sometimes the titles Purchase Ledger or Trade Creditors are used, meaning the same thing. When the voucher system is in operation, the title Vouchers Payable bears the same relation. The account is credited at the close of the month, or other posting period, for the total credits to firms for merchandise bought, and charged for the total debits to firms on account of payments or *allowances. The balance shown by the controlling account can be verified by a comparison with the total of a list of unpaid balances taken from the purchase ledger or, if a *voucher system is used, from a list of the vouchers payable.

32. Bills Payable or **Notes Payable** is the account in which notes or acceptances due to other persons or firms are credited. The account is credited for notes or acceptances as issued, and it is charged for all payments on notes for which the accounts have previously been credited. The record details of this account are identical with those of Bills Receivable. (See Prin. 25 F to 25 H.)

32 B. The title, **Bills Payable,** is the name of the controlling account that represents, in the financial ledger, the aggregate of outstanding notes, when the notes are entered in *subsidiary bills payable book, or bills payable ledger.

33. Mortgage Loans Payable is the title for the account of long-time loans secured by mortgages, kept in the same manner as Bills Payable.

34. Liability Inventory Account. At the close of a fiscal period, certain liabilities that have not been recorded should be taken into account. Among these, are accrued interest on notes or accounts payable, wages and salaries earned but not yet paid, or other payments to be made for unrecorded benefits already received. These should be listed in the inventory book and their total credited to the account of **Liability Inventory.** A corresponding charge is then made to the business account to which they pertain. At the close of the following fiscal period, the inventory account is charged and the business accounts involved are credited, thus balancing out the old inventory, when the new, or current, inventory is entered as before.

35. Contingent Liabilities are obligations to be met should another person, who is the principal debtor, fail to pay them. They consist principally of bills receivable discounted (Prin. 35 B) and *accommodation paper (Prin. 35 C). They should be entered among other liabilities in the financial ledger, as their settlement is an important matter, to be followed closely by the accommodation party. A failure to give due attention to contingent liabilities has ruined many an easy-going business man.

35 B. Bills Receivable Discounted account should be credited for the face of all bills receivable which have been endorsed over to the bank or to other individuals for cash or credit. The items should be entered and described as in the Bills Payable account. The corresponding charges are to Cash and to Interest & Discount. When the notes are paid by the makers to the holders, entries are to be made charging Bills Receivable Discounted account and crediting Bills Receivable account.

If the endorsee fails to collect, the endorser is obliged to pay the amount of the indorsed paper. In that case he charges Bills Payable Discounted for the notes returned to him, the Bills Receivable account standing without any change.

35 C. Accommodation Paper account is credited for the face of paper signed for the accommodated party. Each item should be entered with the same attention that is given to a bill payable. The corresponding charge is to the party accommodated, thus, "John Smith, Accommodation." When the paper is paid to the holder, an entry is made charging Accommodation Paper, and crediting the party who was charged for the accommodation.

36. Reserve Accounts. Profits of the business, after the deduction of expenses, may be accounted for in two general ways, depending on the disposition made of the profits:

(1) In a private business, it is usual to carry the amount of net profit to the credit of the Capital account, thus increasing the credited investment of the owner or owners, or it may be carried to separate drawing or private accounts of the owner or owners, to be drawn out at their option, without increasing the capital.

In the case of a stock company, the same effect is secured by apportioning the profits to the *stockholders in a Dividend account which is closed when the dividends are paid.

(2) Before allowing all apparent profits to be withdrawn, the prudent directors of a business may find it advisable to keep or reserve some of the profits in the business, either as an offset against diminishing capital, through depreciation in value of property owned, or as an offset against bad debts, or as an addition to the general resources of the business. Such amounts reserved

are represented by **Reserve accounts**, which receive credit for the amount retained in the business. The cash or property reserved is included in the aggregate of the asset accounts which balances the credit in the Reserve account, in the same way that the accounts of the remainder of the assets (less liabilities) balances the Capital account. Reserve accounts have the same physical relation to the business that the Capital account has, and indeed they are really special capital accounts.

36 B. Reserve for Depreciation account is credited for the loss sustained through the diminishing value of fixed property through ordinary wear. The credits to this account should, in the explanatory column, show the particular property account that each item pertains to, if one reserve for depreciation account is kept for all property. If the number of entries is great enough, or if a close classification is desired, a separate reserve account may be opened for each property account; as, Reserve for Depreciation (Plant), Reserve for Depreciation (Delivery Equipment), etc. These accounts should show enough reserved to equal the difference between the cost of the property and its present market value. The credit to Reserve for Depreciation account is balanced by a charge against the revenues in the business ledger. Depreciation is an expense, as real as the payment of rent or salaries and should be charged regularly, regardless of whether the business is being run at a profit or at a loss.

When any given building or machinery carrying a reserve for depreciation, is sold, the entry of the sale should contain a charge to the Reserve for Depreciation for an amount to balance the credit in the reserve account applying to the sold property.

36 C. Reserve for Doubtful Accounts. When an examination of the accounts receivable discloses the fact that any of the accounts cannot be collected, or that losses will probably occur in enforcing collection, it is apparent that the total of accounts receivable balances is greater than the asset value of the accounts. This estimated shrinkage in value should be offset by an amount taken from profits and credited to an account of Reserve for Doubtful Accounts. The amount of this reserve should be watched and revised annually to an amount equal to the probable losses to be incurred through bad debts. When such reserve has been set up at the end of a fiscal period, the actual losses incurred from accounts becoming worthless in the following period should be charged to the reserve account and not to the Profit & Loss account.

36 D. General Reserve Accounts. This account may be used to contain credits or reserve for depreciation or bad debts, or to meet any future contingencies of the business, or it may be used to increase the amount of working capital. The objectionable feature of carrying reserves beyond business needs is, that such reserves may be made without the knowledge or consent of certain investors, who would be entitled to a larger share of profits, if such profits were not retained in the business.

36 E. Surplus Account is an account credited for cash profits reserved from time to time to increase the working capital of the business and to provide reserve capital to meet losses that are not chargeable to other revenues. The report of the United States comptroller of the currency shows statements from many banks that have surplus accounts equal to, or even greatly in excess, of the capital stock. Any business concern other than a bank should build up a surplus if there is risk of loss through a wasting away of the assets.

36 F. The Undivided Profits Account is credited for part of the profits neither paid to owners of the business nor placed in any permanent reserve account, but retained until definitely disposed of. The account should be charged when disposition is made. When it is the policy or obligation to pay a fixed annual, semi-annual or quarterly dividend regularly, a fund to meet such dividends may be taken out of undivided profits, when the current profits of a dividend period are insufficient to meet the required dividend.

37. The Capital Account of an Individual Proprietorship is the account credited for the money claims or property (assets) invested, or that the proprietor owns as component parts of the business concern for which the books are kept. The amount of this credit is diminished by the amount of any liabilities that are to be paid out of the assets. It shows, therefore, the net worth of the concern, though not necessarily the net worth of the owner, who may or may not have his entire possessions included in the concern.

The *capital* of the concern is its cash and property, less debits, represented in the financial accounts. Capital should be distinguished from the *Capital account*.

The Capital account is a credit, because it is a liability of the concern to the owner; it equals the net amount of assets standing in all other accounts of the financial ledger.

37 B. The revenues and incomes of the business increase the capital, and the expenses diminish it. If both were credited or charged to the Capital account, as they occur, the Capital account would at all times represent the worth of the business. This may be done, but the custom is to credit the revenues and incomes and charge the expenses to certain **nominal** accounts which, once a year or other period (called the fiscal period), are combined into one result and carried to the Capital account. Thus, the Capital account of an individual proprietorship shows the exact capital or net worth of a business only once a year, the nominal accounts showing the increase or decrease in that capital during the intervening time.

37 C. As a general rule, in the larger business concerns, as well as in many of the smaller ones, the capital of a concern is fixed at an amount not to be increased or diminished by the profits and losses of the business operations. In this case, the amount of the net profit of loss of a fiscal period is not carried from the nominal accounts to the Capital account, but is carried to the proprietor's Drawing account, an account credited for amounts which he may draw out of the concern for his personal use.

37 D. The title of the capital account is written in various ways; thus, John Smith, Capital; John Smith, Proprietor; John Smith, Investment; John Smith, Stock; or simply John Smith. The title may also be unpersonal, as Stock or Capital. The form John Smith, Capital, is preferred. The position assigned to the capital account in the ledger varies with different bookkeepers. It seems preferable to make it the last account in the financial ledger, wherein asset accounts appear first, in the order of their convertibility, followed by liability accounts in the order of their immediate or remote demand for payment, the last of these being the Capital account.

This is also the most convenient place for reference when making a trial balance or a financial statement; especially since, once a year, all the nominal accounts following the financial ledger are closed, leaving the ledger intact to that point.

37 E. Forms of individual Capital account:
Forms 10 E and 10 F. The account is here credited for investment and for revenues and charged for expenses item by item. The balance of this account, taken at any time, is the amount of net worth.

Form 10 H. The Capital account remains as at the beginning of the fiscal period, while the revenues are credited in a nominal account (Form 10 I) and the expenses in another (Form 10 J).

The same accounts, copied on the opposite page, show the revenue (Form 10 M) and the Expense (Form 10 N) carried to Profit & Loss (Form 10 O) from which account the balance is carried to the Capital account (Form 10 L). This account, when balanced, exhibits the same amount as did Form 10 F by the former process.

If, after showing the net profit of $4.75, (Form 10 O) it had been decided not to increase the capital, but to withdraw the profits, the balance of the Profit & Loss account would have been carried to the credit of another account entitled, Charles Burton, Drawing. This account would be charged later for the amounts drawn out by Burton for his personal expenditures.

38. The Capital Accounts of a Partnership are credited for the investments of each of the partners separately. Thus, if John Smith and Lewis Jones enter into partnership, on opening the firm books, an account entitled, John Smith, Capital, or John Smith, Partner, will be credited for the capital which he invests, as is done in the capital account of a sole proprietor; an account entitled, Lewis Jones, Capital, or Lewis Jones, Partner, will be similarly credited for the capital contributed by the latter. If there are several partners, a like entry will be made crediting the capital account of each.

When the Profit and Loss account is made up at the close of the fiscal period, the net profit or loss, in the absence of any agreement to the contrary, is divided equally among the partners. If there is a special agreement as to the proportion each is entitled to, the profits are divided according to that agreement, and the part belonging to each partner is carried to his Capital account or to his Drawing account as explained in Prin. 37 C.

38 B. Agreement of Partnership. The relations between partners are so likely to be misunderstood, and the power of one partner to involve the others in undesirable business obligations is so great, that a mutual agreement in writing should be made to govern their actions and authority as affecting one another.

39. The Capital Account of a Corporation is credited for the amount of the authorized capital of the concern. If this amount is paid into the company in cash or property by the investors when the concern is established, the opening entry is very simple—the asset accounts are charged; and the Capital account is credited. But this condition rarely exists, for the reason that the entire capital cannot ordinarily be secured from the investors at one time, but is frequently collected in installments. Furthermore, subscribers for the entire amount of the authorized capital stock may not be found at the time of organization. Again the legal obligations of each of the members to the company, and the obligation of the corporation to the state require special records to guide in their enforcement. Thus, if the capital is not all paid in, the Capital Stock account should be diminished by certain accounts, the debits of which show how much of the amount credited to the Capital Stock account exceeds the real capital of the business. The principal accounts of this nature are entitled, Subscriptions, Unsubscribed Stock, Unissued Stock, and Treasury Stock.

Profits or losses are not carried to the Capital Stock account of a corporation, but are carried to Reserve, Surplus, Dividend, or Assessment account in the financial ledger.

39 B. After a sufficient number of subscriptions are secured to enable a corporation to organize, an entry is made charging Subscriptions account and crediting Capital Stock account. If the subscriptions fall short of the proposed capital, the amount not subscribed is charged to an account of Unsubscribed Stock. These two debits equal the amount of credit to the Capital Stock account. When they are posted, the Capital Stock account will stand without further change, unless the capital stock is increased or diminished by some future action.

39 C. The Share of Each Stockholder in the capital stock must be recorded also. If there are few stockholders, and these do not expect to transfer their shares actively, a line in the Capital Stock account may be given to each stockholder, showing his name and the amount to his credit. The amount standing to the debit of Unsubscribed Stock will also be given a line following these credits, making the total equal to the entire capital as shown by the articles of incorporation.

If a stockholder transfers his shares to another person, a debit opposite his credit is entered, and the person receiving th transferred shares is credited on the next line below as before. If unsubscribed stock is taken, the line in the Capital Stock account credited for unsubscribed stock is debited for the full amount, and two credits are entered—one for the new stockholder, and one for the remainder unsubscribed. Thus, the Capital Stock account shows the names of stockholders and the amount of stock belonging to each, together with the unsubscribed portion.

39 D. When there are many stockholders, and when the shares are transferred from one holder to another quite freely, an auxiliary **Stock Ledger** should be used which will contain separate accounts with all stockholders. Each is credited for his holdings, and charged for his transfers of stock to others. It should be remembered that the transfer of stock from one shareholder to another does not involve any change of values so far as the company is concerned, but merely shows who is entitled to the benefits of the stock and the amount held.

The total credits in the stock ledger should be equal to the credits of the Capital Stock account, less the amount standing in undescribed or treasury stock.

Recapitulation 21 to 40. The financial accounts provide the data for the financial statement or detailed statement of the worth of the business. They are kept in the financial ledger or financial division of the general ledger. These accounts are divided into asset accounts and liability accounts.

Asset accounts begin with accounts of cash, followed by accounts of property, arranged in the order of their convenient convertibility into cash as follows: (1) cash; (2) accounts and bills receivable, bonds, and mortgage loans; (3) inventory of merchandise and other floating assets; (4) equipment, including furniture and fixtures, machinery and tools, etc.; (5) real property; (6) intangible assets, including good will, franchise, patent rights, etc.

The liability accounts follow: They include, (1) accounts, bills, mortgages and bonds payable; (2) liability inventory; (3) accounts of contingent liabilities; (4) reserve accounts; (5)accounts of capital investment.

The Cash account should be kept in such a way as to show conveniently at any time, the amount of cash on hand.

The Inventory account should show the net totals of all floating assets as taken from an inventory made at the close of each fiscal period, where cost price is diminished by the amount of any reduction in the value of the property.

The accounts of fixed property should show, as ledger debits, the cost of all items. Depreciation in the value of fixed property should be offset by appropriate Reserve accounts.

Intangible assets should be entered in their respective accounts at cost, and diminishing value offset by credits in the same accounts.

The liabilities should follow in the order of their necessity for settlement.

The difference between the total of assets and liabilities, is the value or worth of the ownership, either in the form of investment or profits, which the proprietors have in the business.

41. Profit and Loss Statements. A profit and loss statement may consist of a very simple showing of the sources and amounts of income or revenue, diminished by a showing of kinds and amounts of expenses, leaving as a remainder, the net profit or loss for the given period under consideration. (See Form 10 R.) It may be more complicated, showing the revenues, incomes, and expenses classified in greater detail. (Forms 12 N, and Forms 6 to 9). One essential to be insisted on at all times is that the statement must not show, as profit, any income or revenue resulting from a reduction of the capital of the business, as shown by the books at the beginning of the fiscal period, and must not show, as loss, any expenditures for property that remains in the business as an asset.

41 B. Profits are derived from, (1) **Revenues,** (the collections coming to the business from the regular business processes, such as sales and services performed); (2) **Incomes,** (the collections coming to the business from the use of capital, such as interest and rents); (3) **Unclassified Profits,** or returns from irregular or accidental sources, as, for instance, the amounts realized from speculation and subsidy.

41 C. Losses are expenditures which result in a diminishment of the assets of the business. They are divided into (1) expenses; (2) unclassified losses.

Expenses are the outlays for things to be consumed in carrying on the business. Such outlays may be for rent, light, heat, fuel, insurance, interest, taxes, hired help, and like things, also for such property as coal for fuel, office stationery, office blank books, and such other things as would be consumed within the fiscal period, or, if lasting over, would be so damaged by use as to be unsalable. Unclassified losses arise from irregular causes, such as theft, gifts, fires, accidents, or speculations.

41 D. In preparing a profit and loss statement, the first distinction to be noted is that revenues, incomes, and unclassified profits are (in the American form) carried to the right hand, or credit column, and the expenses and unclassified losses to the left hand, or debit column. (The English form reverses these columns.)

The difference between the two columns, or the net profit or loss, is entered as a balance, and the two columns are then footed and ruled. (See Form 10 R.)

A second section may be added, by carrying the net profit or loss below the ruling, and balancing it by an entry showing the disposition. (See last section, Form 12 N.) Such a statement is often sufficient, but more detail is ordinarily desirable, or even necessary, especially in an extensive business, where the different classes of profits and losses are given separate sections in the statement as discussed in Prin. 42 to 49.

42. Trading Profit. The principal revenue of a trading business is derived from merchandise sold. To exhibit this revenue, a trading statement is drawn up, in the first section of the profit and loss statement (See Form 12 N). This section shows, in the credit column, the net amount of collections made, or receivable, from merchandise sold during a given fiscal period. Against the proceeds of merchandise sold, are entered in the debit column, the cost of the merchandise sold, meaning by cost, the price paid plus freight and other expenses incurred in connection with the goods, up to the time when they are laid down in the storeroom for sale. The difference between the net amount of merchandise sold and the cost of the merchandise sold is entered as a balance, with the explanation, Gross Trading Profit.

The trading statement is then ruled, and the gross trading profit is carried down to the credit side, below the ruling, to be further increased by other revenues and incomes (if any) and to be diminished by such expenses as may be incident to any kind of business, as explained in Prin. 46-49.

43. Manufacturing Profit. The principal revenue of a manufacturing business, like that of a trading business, is derived from the sale of merchandise. The net merchandise sold of a fiscal period is entered to the credit of the trading section of the profit and loss statement, and a corresponding entry of the cost of merchandise sold is entered in the debit column; by so doing, the difference may be entered as a balance, called, "Gross Trading Profit," to be carried down to a following section. This may be increased by other revenues or incomes, if any, and reduced by such expenses or losses as may be incident to any kind of business, as explained in Prin. 46-49.

The trading section of a manufacturing profit and loss statement may be the first or the second section of the statement. Its position depends on whether the details of the manufacturing (which include items showing cost of material, labor, and manufacturing expenses), can be conveniently entered on a first section, (See Form 6) or whether they are so complex and diversified as to require a separate manufacturing statement, supplementary to the profit and loss statement.

44. Service Profit. The principal revenues of a service business include the earnings from its sales of service,which are carried to the first section of the profit and loss statement from the accounts showing their amount.

Thus, in a livery and transfer business, livery hire, stable board, drivers and transfer service might include the principal earnings; a hotel might classify lodging, table board, news stand, pool room, etc.; a railroad must classify passenger, freight, express, and mail earnings, as separate items. These revenues are entered to the credit column (See Form 7) of the first section of the statement, and a balance, called **Gross Earnings** is carried down below the ruling, to be increased by other incomes and diminished by expenses, incident to any kind of business, as explained in Prin. 46-49.

45. Financial Profits. The principal incomes of a financial business are derived from the loan of money or credit, and the rent of property, or other earnings, derived from the use of the firm's capital by others. Such incomes are entered to the credit column of the profit and loss statement, followed by the revenues for such services as generally are included in financial business. The expenses are entered in the left or debit column, and the difference or "net profit for distribution" is carried down to the second section.

46. Selling Expenses. Having found the gross trading, service or financial profit, the first of the three general classes of expense to be deducted in the typical statement, is the group comprising Selling Expenses. This group may occupy a section in the statement, or be included in the same section with others, depending on the extent of primary classification. Among these, may be included advertising, commissions paid, transportation on shipments to customers prepaid but not charged, salesman's and shippers' salaries and expenses, and any other expenditures for promoting or effecting sales. When these expenses are deducted from the gross profit, the remainder is the net financial, service, or trading profit as the case may be.

47. Office Expense. After deduction of selling expenses, a group called Office Expenses, Administrative Expenses, or Overhead Expenses, is to be deducted. These include the cost of management. Among them are, office salaries, books and stationery, postage, insurance, taxes, light, heat, and other expenses not directly entering into the production of the utility sold, or of expenses incurred in securing customers. After this deduction, there remains the Ordinary Business Profit.

48. Capital Expense and Income. Having found the ordinary business profit, the group of expenditures chargeable to Capital Expenses follow. These include interest for money used for the support of the business, and discounts on bonds or stocks of the business that have ben sold. In this division also appears the interest credits arising from surplus money loaned; some concerns frequently having a large surplus of cash in the fall and winter, making them lenders, while they are borrowers in the spring and summer.

49. Special Income and Expense. When capital is invested in property which is not a necessary part of the business organization, but is held either for the income it produces, or to be disposed of at a favorable time, or for speculation, the incomes from the property and the expenses of its upkeep are considered in one item called Income and Expense (of Property). This account shows the net profit or loss arising from the given property during the fiscal period. If the special income exceeds the special expense, the difference is carried to the right, or profit, column of the profit and loss statement; if the special expense exceeds the special income, it is carried to the left, or loss, column.

50. After deduction of the above, (Prin. 46-49) there remains the Net Profit for Distribution.

Note.—The disposal of the net profit for distribution may be shown on the Profit and Loss statement as in Form 7 D or 8 E.

In making a Profit and Loss statement, the bookkeeper should remember that not all of the divisions outlined in Art. 42 to 49 necessarily appear in all cases.

While there are business concerns in which the classification of profits and losses is of no practical importance whatever, such is not generally the case. Such a classification should go into detail, to such an extent that it will give exact information on all elements of profit and loss that may be controlled, or even modified, by the management.

The steps outlined above provide the accountancy basis for an exhibition of the following matters vital to the interests of any business organization conducted for profit:

(1). The volume of the sales of goods during a given period, the percentage of sales, as compared with capital and with the cost of sales, and the percentage of profit, as compared with sales, and with the investment.

(2). The cost and percent cost of effecting sales or securing a market.

(3). The cost and percent cost of general direction, management and control.

(4). The cost and percent cost of the capital or credit used to conduct the business.

Illustration of Profit and Loss Statements. In order to illustrate the general resemblances in the business statements of representative kinds of business, and to draw general distinctions between them, we refer, in the following paragraphs, to model statements suitable for the following enterprises that have to do with a loaf of bread from the time the wheat is produced to the time when the bread appears on the table. The lines of business involved are: (1) first production; (2) milling; (3) transportation; (4) wholesaling; (5) retailing; (6) household; (7) banking.

The student will bear in mind that the business statements used for illustration can be made only from carefully kept business accounts. Yet any business man, whether he can keep books or not, should be able to read and understand the points to be looked for in a business statement.

50 B. The wheat first appears as the production of the wheat grower. At the close of the year, having kept an account of the expenses entering into the wheat crop, he is able to show the entire cost of the crop in an exhibit similar to the first section of Form 6. Instead of the items there given, the main divisions of seed, labor, and farm expenses (including ground rent, supplies, depreciation on machinery, harvesting expenses, and the like) would be used. The result would be the production cost.

A second section showing the gross trading profit, in similar form to 6 B may follow. All general expenses may be included in the detail desired in one section, instead of being divided as in Form 6 C to 6 E.

Having deducted the general expenses, the remainder shows the net profit for the year.

50 C. Form No. 6. The next statement taken up is that of the miller who converts the wheat into flour. This is a manufacturing business, and the results of the bookkeeping for a year should be condensed into a Profit and Loss statement similar to the given form. Note that the first section (Manufacturing) gives in general items the costs entering into the production of flour and other output. These costs are taken from a complete record of the payments and expenses, the total of which constitutes the "cost of product."

The trading section shows that there was billed out during the year, mill product valued at $26943.87, but that the mill took back product amounting to $1497.83, leaving net sales $25464.04. The cost of these sales is found by adding to the inventory at begining of year, $5291.63, the cost of the year's product, $22967.39, and from the sum, deducting the inventory of stock on hand, $9647.83, leaving $18611.19, the net cost of the product sold.

The difference, or gross trading profit, $6852.85, is carried down to the next section. Against this are entered selling expenses, office expenses and capital expenses, given in some detail.

The final result, after all deductions, is the "net profit for the year."

50 D. Form No. 7. The railroad, which carries the flour to the wholesale house, secures its profit from carrying passengers, freight, express and mail. The primary accounts of income and expenditures in a large undertaking of this kind may number 200 more or less, but these primary accounts are brought together into general accounts, of which the items in the statement are representative. First, are listed four items of income; the first is from ticket sales; the second from freight charges; the third, from an express company for carrying express; and the fourth, from the government for carrying mail. These combined produce the gross earnings which are carried down to the next section.

Against the gross earnings are charged five general divisions of operating expenses.

A proper understanding of the operating expenses necessitates some knowledge of railroading. Under the regulation of railway accounting through the Interstate Commerce Commission, each of the five items represents a definite kind of charges applying to all roads. For example, the first expense, Maintenance of Right of Way and Structures, represents a group of over twenty primary charges; among these are, cost of repairing and replacing ballast, ties, rails, bridges, buildings, etc. The fourth expense, Transportation Expenses, include about fifty primary charges, among them fuel, water, lubricants, wages to conductors, brakemen, switchmen, telegraph and telephone operation, etc.

After deducting operating expenses from the gross earnings, there remains the net earnings which, in the following section, are diminished by the capital charges. The item, "Interest on Bonds," in this group, arises from the fact that a large part of the working capital of many railroads is provided by the sale of bonds on which interest must be paid periodically.

This profit and loss statement for a railroad is referred to as a representative statement for a service business, and may be adopted for any other service business, such as livery stable, garage, hotel, repair shop, gas or electric light and power companies, educational institutions, etc., the titles for sources of income and for operating expenses being varied to suit the business.

50 E. Form No. 12 N and 8. The statements of profit and loss for trading business here given are typical for wholesale and retail trading business generally, and may be in more or less elaborate form. The statement may be written on a single page (like Form 12 N) or on two opposite pages like Form 8, depending on the amount of analysis thought desirable.

In Form 8, the first section, 8 A, shows the sales for the period, diminished by the cost of the merchandise sold, leaving as a remainder the gross trading profit. This section is of the utmost value, as from it may be taken the volume of business, and the percent of gross profit.

The second section, 8 B, shows the gross trading profit, diminished by selling expenses, leaving net trading profit.

The third section, 8 C, shows net trading profit diminished by office or administrative expenses, producing the business profit.

The fourth section, 8 D, shows the business profit diminished by capital expenses, or the expenses of borrowing, and maintaining the value of capital accounts. The remainder is the net profit for distribution.

The fifth section, 8 E, shows net profit for distribution and how it was distributed.

50 F. Form No. 9. In the household profit and loss statement, there appears first a list of the revenues and incomes received from various sources. The item, "5th Ave. Property," shows the rents received, diminished by the expenses for maintainance of the property. The total income is carried to the second section.

From the total income are taken the current expenses divided into such primary accounts as desired, leaving net profit or deficit for the year.

50 G. Form No. 7 D. The bank statement of profits and losses is the simplest of all. As shown from the first section of the statement, the profits are derived from, (1) interest on the money loaned to customers; (2) exchange on drafts sold to customers who buy drafts for remittance; (3) interest on bonds or other securities owned by the bank; (4) charges for collecting paper for customers. The losses are, (1) salaries paid to the working force of the bank; (2) interest paid to certain depositors who leave money at interest; (3) general expenses, including cost of books and stationery, heat, light, rent, insurance, etc.

The second section shows the distribution of profits into two reserve accounts, and the remainder paid as dividend to the owners.

Recapitulation 41-50. The profit and loss statement of a business is derived from the accounts that show the incomes and expenditures of the business operations, covering a definite period of time, called the fiscal period. There are three general kinds of business; viz: trading, service, financial. In a typical profit and loss statement for any of these, the leading section exhibits the income derived from the ordinary business operations, diminished by the direct cost of producing any utilities sold. This section thus exhibits gross business profit.

This gross business profit is diminished by selling, administrative, and capital expenses, and increased by capital earnings, if any. The result is an exhibit of the net profit for distribution.

The detail to which the various items of income and expenditure given in the statement may be carried, depends on the amount of information sought, but, in the typical statement, shows the following distinct items of information:

(1). The gross volume of business and the gross profit in the form to derive the percentage of profit.

(2). The cost of securing sales.

(3). The cost of supervision.

(4). The cost for capital, and the profit from surplus capital.

(5). The net profit for distribution.

51. Nominal Accounts. The **Profit and Loss** account is the permanent ledger record of the profits (on credit side), and the losses (on debit side), accumulated during a given fiscal period.

The profits consist of revenues, incomes, and unclassified profits. The revenues and incomes are carried to the credit of the Profit and Loss account, at the close of a fiscal period, from the primary accounts described in Prin. 52 to 55. Unclassified profits are credited directly to the Profit and Loss account from the original entries.

The losses consist of expenses and unclassified losses. The expenses are carried to the Profit and Loss account, at the close of the fiscal period, from the primary expense accounts described in Prin. 56 to 59. The unclassified business losses are charged to the Profit and Loss account directly from the original entries, with the exception of losses that have been anticipated by a reserve, such losses being charged to a reserve account.

After all the above charges and credits have been carried to the Profit and Loss account at the close of the fiscal period, the credit excess is a net profit, or the debit excess is a net loss, for the period.

The net profit or loss is carried out of the business ledger into the financial ledger, or from the business division to the financial division of a complete ledger, to the credit (if a profit), or to the debit (if a loss), of such accounts as the owners of the business determine.

51 B. When the business is owned by a sole proprietor, the net profit is very generally credited, or the net loss charged, to the Capital account. (See Form 10 O closed into 10 L by direct closing; or Form 12 V closed into 12 P by the last journal entry on 12 O.)

If it is not desirable to increase the capital, the net profit may be closed either into the proprietor's drawing account, or into a reserve account.

51 C. When the business is owned by partners, the net profit or loss may be divided according to agreement, and closed out of the Profit and Loss account into the several partners' Capital accounts, or into Drawing or Reserve accounts as above.

51 D. When the business is owned by stockholders, the net profit may be closed into one or into several accounts, of the financial ledger. It may be closed into Dividend account, into Surplus account, into Undivided Profits account, or into Capital Stock account by an issue of *stock dividends, or into a reserve, or any or all of these.

The net loss may be closed into Undivided Profits, Surplus or other general reserve account, if such account shows reserve sufficient to offset the loss in question; or it may be closed into Assessment account, in which the stockholders are individually charged pro rata, for their assessments to meet the loss.

It is not good practice to leave the Profit and Loss account open from one fiscal period to another, which is sometimes done when the management fails to make a financial disposition of the net losses.

52. Revenue Accounts are credited for the earnings arising from the sale of commodities or services, and show, at the close of a given fiscal period, the amounts of gross profits from the ordinary business operations.

While revenue is the general term for business earnings, a more specific title is ordinarly used to show the particular kind of business service sold. It is impracticable to enumerate all titles of revenue accounts; a few follow:

Wages, earnings of a person, usually for manual labor.

Salary, earnings of a person for personal service engaged for a period of time.

Attorney's Fees, earnings of a lawyer for legal counsel.

Livery Hire, earnings of a liveryman for use of vehicles.

Light, earnings of a light company for furnishing light.

Lodging, earnings of a hotel for the use of rooms.

Passenger Earnings, earnings of a railroad for carrying passengers.

Cartage, earnings received by a dray line for moving goods.

Collection, earnings received by a bank or person for collecting paper.

Commission, earnings of a commission merchant for selling another's goods.

Trading, earnings of a merchant or dealer for collecting and distributing goods. The trading account contains several factors requiring somewhat lengthy comment. (See Prin. 53.)

After the titles of the revenue accounts are determined, such accounts receive credit from the books of first entry, for the given revenues, as earned, and are charged for any deductions from such earnings. At the close of the fiscal period, the revenue accounts are closed and the balances carried to the credit of Profit and Loss.

(See Form 12 M closed directly into Form 10 O; or 12 S closed by journal entry into 12 V.)

53. The Trading Account (see Form 12 S, or 14 J) is set up to show the revenue arising directly from merchandise sold during a given fiscal period. It is charged for the amount of merchandise inventory carried over as stock from the previous fiscal period, also for the net merchandise bought or of merchandise manufactured, during the fiscal period which it closes. These charges include the invoice cost of merchandise, the in-freight, and any other expenses necessary to lay the goods down in the store ready for sale.

It is credited for the inventory of merchandise carried over as stock into the following fiscal period, also, for the net amount of merchandise sold during the fiscal period closing.

After these items are posted, the difference between the debit and credit sides is a profit, if the credit side is greater, and a loss, if the debit side is greater. This balance is carried to Profit and Loss.

Note.—The trading account, under the name of Merchandise account, has by many bookkeepers been charged and credited directly from the books of first entry, but the more detailed attention given to that most extensive of all the business processes—the purchase and sale of the stock in trade—has convinced most accountants that, as a rule, the Trading account should receive its debit and credit entries from certain primary accounts of which the Merchandise Inventory, Merchandise Sold, Merchandise Bought, and Merchandise Manufactured accounts are the most important examples. The principal primary accounts are discussed in Prin. 52 B to 52 F.

53 B. The Merchandise Sold account (see Forms 12 E, 12 A or 14 G), frequently called Sales account, is credited for the amounts of merchandise sold from the sales records, and charged for any rebates, allowances, or incidental deductions, which diminish the amount of the collections realized, or to be realized, from the merchandise sold.

At the close of a fiscal period, the account is closed and the balance is carried to the credit of the Trading account.

53 C. The Merchandise Bought account (see Form 12 F, 12 R or 14 H), also called Purchase account or Purchases account, is charged for the cost of all merchandise bought for sale. This cost includes invoice price, in-freight, transfer, and storage or warehouse charges, if any, all told, being the cost of laying the merchandise down in the store. It is credited for any rebates, allowances, or other incidental deductions which diminish the amounts paid, or to be paid, for the merchandise bought.

At the close of the fiscal period, the account is closed and the balance carried to the debit of the trading account.

Note.—The Merchandise Bought account is sometimes divided by opening a separate account of Freight on Merchandise Bought. (Prin. 53 D.)

53 D. The Freight on Merchandise Bought account (see Form 14 I) is debited for the freight and transfer charges on the merchandise bought, and credited for any freight deductions, allowances or rebates. The balance, at the close of the period, is carried to the Trading account. (See Form 14 I.)

53 E. The Freight on Merchandise Sold account is to be handled in one of two ways: (1) If it represents freight prepaid and charged to the customer in his bill—a custom in many houses—the account is handled precisely as with **Freight on Merchandise Bought,** that is, closed into Trading account. (2) If it is prepaid but not charged to the customer, that is, if the prepayment is a selling inducement to the purchaser, the account is treated as a selling expense. (See Prin. 56.)

53 F. The amount of merchandise standing in the Inventory account at the beginning of a fiscal period, is charged, at its close, to the Trading account, along with the merchandise bought during the period. The reason for this is that merchandise on hand is received into the trading operations from the owner out of his capital. The merchandise bought is received into the trading operations from outside sources.

The inventory of merchandise at closing is credited, along with the total of merchandise sold, to the Trading account, the merchandise inventoried being returned from the trading operations, the owner's assets, while the value of merchandise sold has already been returned to the assets in cash or book accounts. (See Form 14 J.)

Remark.—In the Trading statement, the inventory at closing is deducted from the other debits of the Trading account to show cost of merchandise sold in one amount. In the ledger, Trading account, which is a ledger record of the trading statement, it is usual to post deductions from one side of an account as additions to the opposite side, thus securing the same aggregate result without resorting to both addition and subtraction in the same column of the ledger.

Thus the amount of the current inventory, which, must, in the statement, be subtracted from the amount of merchandise bought, on the debit side, to show the cost of merchandise sold, in the ledger account is added to the amount of merchandise sold, on the credit side. The resultant difference or profit is the same in either case.

53 G. The Merchandise Manufactured account, or Production Cost account, is the account showing the costs entering into the finished product which is offered for sale.

This account is, as a rule, made up from several primary accounts which are closed into it before Merchandise Manufactured is closed into the Trading account. The four principal primary manufacturing accounts are:

(1). Materials, charged, like Merchandise Bought account, for the cost of material entering into manufacturing.

(2). Labor, charged for the wages of operatives.

(3). Factory Expenses, charged for the miscellaneous expenses in the factory.

(4). Overhead, charged for the prportion of the general office expenses that are absorbed in production.

The manner of gathering these costs and assigning them to production units are discussed in a separate division entitled **Cost Accounting.**

At the close of the fiscal period, the Merchandise Manufactured account is closed and the balance carried to the debit of Trading account.

54. Income Accounts are to show the yield to the business from money or other capital in the hands of others. Such accounts are credited for the cash or collections yielded to the business during the fiscal period, and are charged for any deductions from such yield. At the close of the fiscal period they are closed into Profit and Loss. Several titles of income are:

Interest, (see Form 12 U) the earnings from loaning money.

Premiums, the earnings from financial assurance against fire or loss of life, etc.

Exchange, the earnings from transfer of money by means of credit.

Cash Discount, the earnings arising from the use of ready cash in paying future maturities.

Rents, the earnings from the use of property.

55. The Complete Expense account is charged for money, or its equivalent, spent to procure things consumed in maintaining the business organization. Thus, the cost of rent, light, heat, stationery, and office books, salaries, interest, depreciation, etc., and the like are charged to Expense. In a simple business, the single Expense account may include them all, but a more extensive business demands that expenses be subdivided into various primary expense accounts, of which the three kinds named in Prin. 56, 57 and 58 are observed by careful business men and accountants.

The complete expense account is closed into Profit and Loss at the close of the fiscal period. (See Form 10 N closed direct into 10 O, or by journal entry 12 T into 12 V.)

55 B. Department Expense. When business is departmentized, the expenses should be charged to the consuming department, instead of to the organization as a whole. Thus, in a department store, which may have all the way from two to two hundred departments, selling as many kinds of merchandise, each department is under a manager, or buyer, who is responsible for the success of his department. Each department is charged for all expenses incurred for its maintenance, including its share of floor space, light, heat, salaries, advertising, depreciation, interest on capital used, stationery, etc.

A branch store is similarly conducted by a manager, and the expenses pertaining to the store are included in a separate expense account.

55 C. Speculations and Ventures give rise to accounts of various kinds of property, bought with a view to selling when the market price advances. Such accounts represent the cost of distinct things, as a piece of land, a car of wheat, a block of stock. These would be charged severally for all costs. The account is closed when sale is made. The expenses pertaining to a speculative account are charged directly to the account of the speculation, which is kept in the financial ledger, and considered a part of the cost.

Thus a piece of land bought for speculation would be directly chargeable for the expenses, and credited for the incomes from the speculation, rather than in an Income and Expense account as would be the case if the property in question were purchased for business use.

56. Selling Expense includes the outlays made in effecting sales of the merchandise from the time the merchandise is laid down in the store, until it is disposed of. It is often best to charge all selling expenses to one account, and, under conditions, a number of primary accounts will serve the purpose better. Among these primary accounts are, (1) Store Room Help; (2) Salesmen's Salaries and Road Expenses; (3) Advertising, including postage and expressage applied to advertising; (4) Supplies, including cartons, wrapping material and incidentals; (5) Delivery Expense (not charged to customers); and (6) Depreciation (on property used by the selling department).

Such primary accounts are to be opened separately, as they are needed, to give detailed information about this class of expenditures, and are to be discontinued when they are not needed.

At the close of the fiscal period, the primary accounts are closed into Profit and Loss, or they may be closed into the general Selling Expense account which, in turn, is closed into Profit and Loss.

Remark.—The inventories may include property on hand or obligations pertaining to any of the above accounts. If assets, the inventories are entered to the credit of the Selling Expense account as in the Trading account. If a liability, the inventory is entered to the debit, as in the Interest account. (See Form 14 K.)

57. **Office Expense,** variously called **Administrative Expense,** or **Overhead Expense,** or **General Expense,** includes the expenses of the general oversight and management of the business, and may be charged to either of the foregoing titles, or may be charged to various primary accounts; these are: (1) Salaries of the office force; (2) Office Supplies, including blank books, stationery and postage, not directly applied to advertising; (3) Light, Heat, Rent, Taxes and Insurance; (4) Depreciation, in property for office use.

Such primary accounts may be closed directly into Profit and Loss at the close of the fiscal period, or they may be closed into Office Expense, which in turn is closed into Profit and Loss.

58. **Capital Expenses** include the expenditures or losses incurred in securing or retaining capital. This

account may be divided into several primary accounts; among them are: (1) Interest and Discount Paid, charged for payments for the use of money borrowed from others; (2) Expense of a specified property as of a house and lot owned by, but not used in the business. Such expenses are usually charged to income from the given property. (See Prin. 59.) (3) Depreciation in property which is not assigned to any business use.

Such primary accounts may be closed into Profit and Loss direct, or through Capital Expense and Incomes at the close of the fiscal period.

58 B. Depreciation is the expense sustained by the business, or any part of it separately considered, through the ordinarary wearing out of the fixed property assets. The amount of this diminishment in value is estimated when the books are closed, and is charged to that nominal account which explains the use of the property in the business economy. Thus depreciation in delivery equipment is charged to Delivery Expense; in machinery, to Manufacturing Expense, etc., and a corresponding credit is made on the account of **Reserve for Depreciation**, in the financial ledger.

To estimate the actual depreciation in the value of machinery, furniture, fixtures, or other property, requires that one should be familiar with the proprety in question, and know how long it should be useful under the wear to which it is subjected. Much equipment and machinery is assumed to be useful for ten years; this would place the depreciation at one-tenth, or ten per cent, each year, provided the entire value is extinguished at the end of the ten years. A certain per cent of depreciation annually computed on the remainder after previous deductions, is often recommended by accountants, especially in the case of property which may be sold, after it has ceased to be useful to the business. It is easily seen that some property, under certain conditions, would not last for ten years. In this case, the annual depreciation would be greater than ten per cent. Other property might be useful much longer, making the annual depreciation less than ten per cent. Hence, the amount to charge off for depreciation must be governed by circumstances.

The effect of charging the expense account for the decrease in value during a fiscal period, is to reduce the profit for distribution by the amount charged—in other words, to leave enough cash in the business to offset the diminishing value of the depreciating property.

This amount, while charged like any other expense, does not represent any cash paid out, but is accounted for by the credit to the account of Reeserve for Depreciation, as previously explained.

58 C. Good Will, Patent Rights, Franchises, Patterns and Drawings, Premiums on Bonds, and any accounts of assets of an intangible or a strictly temporary nature, (which will be valueless after a lapse of time, whether used or not) but whose life may extend over years, should be reduced each year by writing off the portion of diminishment sustained during the year. This is done by charging the proper expense account, and crediting an equal amount to the asset account (not by crediting a Reserve for Depreciation account). The reason for doing so, is that the accounts represent assets, which cannot be replaced by purchase, that, practically speaking, they have no independent market value, also, that they are to be absorbed in profits as rapidly as possible.

Small and frequently replaced articles of equipment, such as tools, may be treated in the same way. Their presence must be accounted for by their being checked up with an itemized record of them in the tools ledger, (an auxiliary book) as any other fixed assets are compared with the ledger accounts; yet, their diminishing value must be determined by estimate, since they must be replaced, when missing, or supplied in greater or less quantity as needed. Thus, the annual diminishment in the value of tools, while chargeable to the proper expense account, should be credited to the

Tools account direct, to which account the tools ledger bears the relation of an inventory.

Note.—Losses and gains arising from no ordinary operation of the business, but in the way of accident, are not to be connected with depreciation. They should be entered directly into Profit and Loss or, when desired, in a reserve account to be closed later into Profit and Loss. Among such causes may be mentioned theft of money, or, receipt of money by gift, also destruction of property by fires, accidents, etc.

59. Income and Expense accounts contain, as credits, the incomes earned from a certain investment of capital, and as debits, the expenses pertaining to the particular investment that yields the income. Thus, the investment in a piece of property, which we may call "Irving Flats," may yield a rent income, but will require expenditures for repairs, and taxes, and perhaps for advertising and commissions to an agent. (See Form 11 E.) The income would be credited, and the expenses charged, to an account of Income and Expense, Irving Flats. The balance of this account, called the net income, would be closed into Profit and Loss, at the end of the fiscal period.

59 B. Interest received is an income; interest paid is an expense. The former may be credited and the latter charged to a single Interest account, (which, when so treated, is really an income and expense account) and the balance of this account closed into Profit and Loss at the end of the fiscal period. (See Form 12 U.)

It is often better to divide the general interest account into primary accounts entitled, Interest Paid and Interest Received.

60. Before closing nominal accounts into Profit and Loss, the Inventories account must be considered.

(1). All resource or liability inventories, standing in the financial ledger since the close of the previous fiscal period, should, when the ledger is again closed, be closed into the nominal accounts to which they belong.

(2). All inventories taken at the closing time, should be entered in the nominal accounts, resource inventories on the credit side, and liability inventories on the debit side.

The most common inventories are:

(1). In Trading account, stock of merchandise on hand at closing.

(2). In other revenue accounts, services rendered but not yet charged.

(3). In Income accounts, interest or rents accrued but not collected.

(4). In expense accounts, material or labor charged to the account but not yet consumed.

The most common liability inventories are:

(1). In Expense account, wages accrued or material consumed but not yet paid for.

(2). In Interest account, interest payable accrued but not yet paid.

After the entry of the inventories, the difference shown by a nominal account is a profit or a loss pertaining to the fiscal period under consideration.

Recapitulation 51 to 60. The Profit and Loss account shows, as credits, all profits, and, as debits, all losses of a given fiscal period. The balance, which is net profit or loss, is closed into the financial ledger.

The profits are principally derived from revenues and incomes which are posted from the books of original entry to primary revenue and income accounts, these accounts closing either directly, or through some intermediate accounts, into Profit and Loss at the end of the fiscal period. Added to these, may be unclassified profits, which are posted to the credit of Profit and Loss from the original entries.

The losses consist of expenses or unclassified losses. Expenses are first posted to certain primary expense accounts, which are closed into Profit and Loss at the end of the fiscal period. Unclassified losses are posted directly from the original entries to the Profit and Loss account.

Before closing current nominal accounts into Profit and Loss, such accounts require credits for resource inventories, and charges for liability inventories, taken at the time of closing.

After the ledger is closed, all nominal accounts appear in a closed condition, and their net result appears in the financial ledger.

61. Auditing (see Prin. 3) involves a review of books and records, with attention to their supporting vouchers, or other evidences of their correctness, accuracy or adequacy for the purpose intended.

The special purposes of an audit may be either one or more of the following:

(1). To prove the mechanical and mathematical accuracy of a set of books. (Prin. 63.)

(2). To show that the entries and accounts are true records of actual transactions and existing values. (Prin. 64.)

(3). To show fraud, or absence of fraud, on the part of officers or other employes of the business. (Prin. 65.)

(4). To show that books and records kept are suitable, economical and complete. (Prin. 66.)

(5). To show, or to verify, an exhibit of the worth of the business and its earning power, for the benefit of the owners or of prospective investors. (Prin. 67.)

61 B. A general auditor should be a bookkeeper, accountant and business man, well informed in commercial law and business mathematics, and withal, have a faculty of applying sound business principles to existing conditions.

A special auditor should be familiar with the business, books and conditions of the particular set of books which he is to audit.

In making an audit, there is a certain order of procedure to be followed, as in all other matters pertaining to business records. To follow this order may be all that is necessary, or the order of procedure may be only beginning for additional investigations, which may be found necessary, because of the insufficiency of the records at hand.

A bookkeeper may keep a set of books in such a way that an audit is merely a formality, or they may be kept in such a way that an auditor will be obliged to do the bookkeeper's work from the start. Good bookkeeping is the forerunner of inexpensive auditing.

62. General Conditions. Before undertaking an audit, the auditor should determine whether his examination is to cover the entire period from the beginning of a business, or from any given date in its progress. If an audit between given dates is undertaken, the prior records are the subject of inquiry only as they affect the given period.

62 B. The auditor should first determine the purpose of the audit, which may be one or more of the five purposes specified in Prin. 61. His preparation should accord with the purpose.

62 C. The auditor should study the conditions of the business and estimate the probable volume and kind of its business operations, consider the ordinary terms of purchase and sale, investigate manufacturing processes, if any, and the ordinary conditions under which the business is operated. He should then make an outline of the accounts and books that should be kept for that business. Having in mind what the books should be, and what they should show, he should make a complete list of the books that are actually kept, separating the posting books from the auxiliary books.

62 D. Auditor's Records. An auditor should prepare a record, setting forth his agreement as to the general conditions of the audit, and covering the important matters connected therewith.

An auditor's record may contain abstracts from the books, totals, proofs, and computations to verify the books; or it may extend to an entire re-writing of the books, in skeleton form, from the original data. It should be so arranged as to exhibit any vital points that may not be shown in the bookkeeper's records.

62 E. The amount and kind of work demanded of an auditor depends on the amount and kind of work previously done by the bookkeeper. His researches may include the following: (1) A rearrangement of vouchers and substitution of missing vouchers; (2) a comparison of the cash account with the bank account; (3) a comparison of the accounts of customers and creditors with the book records of the persons with whom the accounts are kept; (4) a comparison of the account of invoices with the goods actually received; (5) the substitution of a correct account analysis for a faulty one.

The auditor must supplement the omissions and deficiencies in the bookkeeping. These involve matters which are taken up in detail in the sets accompanying this text, and are too numerous and far reaching for discussion in a single chapter.

63. The Audit for Mechanical and Mathematical Accuracy is to show that transactions have been properly entered; that the proper accounts have been correctly charged and credited; and that the resultant trial balance is correct. Proceed as directed in 63 B to 63 D.

63 B. Compare the vouchers with the entries. The vouchers consist of invoices, receipts, legal papers, charge and credit tickets made in the office, or any other supporting records. A note should be made of any entries for which no vouchers are found. They should be supplied, if practicable, or attention should be called in the auditor's record to their absence.

63 C. When the proof sheet or the trial balance does not foot equally, there is an error, in the ledger or in the proof sheet, or there may be several errors, to be discovered. If the bookkeeper is generally accurate, and has reviewed all footings and transfers to the trial balance, and if the audit period is short, there are not likely to be more than one or two errors. To locate these, proceed as follows:

(1). Find which side of the ledger is short and the amount of the discrepancy.

(2). If the error is a number like 1, 10, 100, 1000, or contains a single figure with or without ciphers, review the additions.

(3). Review post marks on the short side, to discover any omissions in posting.

(4). Look for the exact amount of the discrepancy on the short side of any posting books not posted.

(5). Look on the short side of the posting books for one-half of the discrepancy (if any even number) which may have been posted, by mistake, to the long side.

(6). If the discrepancy is divisible by 9, any of several transpositions may be suspected; thus, 29 for 92, discrepancy 63; $51.60 for $60.51, discrepancy $8.91; $29.64 for $24.69, discrepancy $4.95; 10 cts. for $10, discrepancy $9.90, etc. In looking for a discrepancy in the cents column, give no attention to figures in the dollars column.

(7). See if the ledger was out of balance at the beginning of the audit period. This can be found by comparing the accounts, as they formerly stood, with the last previous trial balance, if there was one. It has happened many times that an error in a previous trial balance was discovered, corrected in the trial balance, but not in the ledger account, with the result that the next subsequent trial balance was wrong.

(8). See if the posting-books are in balance for the audit period. A journal, sales book, cash book, voucher register, or other posting-book (especially if it has many columns) may not show an equality of charges and credits, with the result that the ledger, after posting, could not possibly balance.

(9). Check back the entries. This means to review every item posted during the period. Although checking back probably involves more labor than all of the above methods, it may often be best to do this first, especially if the bookkeeper's work is evidently faulty in many points. Note that it is unnecessary to check back the work if the method in 63 D is followed.

To check back, arrange all posting books in a given order, and, as a rule, check first, through all the posting books, the entries that have been posted to the short side. Place a check-mark before each amount in both posting book and ledger, using a mark that is different in kind or color from any used before.

If no errors are found in the short side, check back the long side.

If an error is found at any time, subtract it from or add it to the amount of the first discrepancy, so that the figures sought are always before you.

If the discrepancy is not found, after checking, review the ledger to see if there are any amounts, within the audit period, which you have not checked.

By this means a balance should be found.

63 D. Though a trial balance may be taken, there remains a question whether all items were posted into the right accounts. A trial balance or prooof sheet will not determine this question, as the auditor while doing the checking is occupied with pages and amounts, and is likely to overlook titles. If the accounts are to be proved, it will not be necessary to check back, as explained above, but to go directly to the **Abstract of the Accounts.** This consists of rather large sheets of paper ruled with pairs of columns (debit and credit) as many as the page will hold, in which the amounts from the posting books are carried.

Transfer the account-titles from the ledger to the columns, in the Abstract of Accounts, leaving as much space below each title as the entries under this title will require when written in closely. To aid in locating personal accounts, which may be numerous, place them in alphabetical order, since the comparison is to be by titles, not by pages.

The general accounts (financial and business) will be easily located without re-arrangement if they are in their places, if not, arrange them in their proper order. (See Prin. 72 B.)

Carry all amounts from the trial balance at the beginning of the audit period to the abstract, and all amounts during the period from the posting books.

The results should balance when the posting is finished, and each item in the abstract of accounts should check with the previous trial balance taken from the ledger, if the work is correct.

64. An **Audit to Show True Record** goes into the the matter of the first entries to determine whether they are the records of actual transactions, of which the party or department charged, received the full benefit. This is not entered into with a view to the discovery of fraudulent intentions, but to determine whether there is any business laxity in failing to exact full value for any of the obligations or payments. The following are examples of this kind of items: (1) entries for invoices before receipt of the goods billed, or before the amounts of the invoice are verified, or before any allowances against the bill are noted; (2) the charge of an invoice to the wrong department; (3) cash payments without any equivalent item, (an instance of the last mentioned is the acceptance by a city council, and payment to an agent, for the purchase of a park buffalo which was neither purchased nor received); (4) donations of the firm's funds to charitable ends, by individuals in the firm, or the taking of firm goods for personal use by partners; (akin to this, is the action of the bank teller who, on days when cash was "over," placed the surplus in a box, to be returned to the till, on days when cash was "short;" (5) laxity in collections, until claims become outlawed or otherwise uncollectible. Serious matters, along this line, concern the entry of assets which do not exist, or which have not the value shown on the ledger. There might be entries of real property, of great value, to which the firm has no recorded title, or against which there are liabilities not shown on the books. Obsolete patterns, models and

machinery, may be carried on the books at a nominal value, after they are worthless. There is a case of a ship load of hemp appearing on the books as an asset, ten years after the vessel and cargo foundered in mid ocean. Any injury to property by fire or accident must also be charged off.

Ordinary depreciation in property should be represented in sufficient reserves.

The false record that has probably caused most havoc among business men is the inflated inventory. Every dollar of inflation in an inventory is that much deception as to profits. The inventory may contain items not really in stock, or may be priced too high, or may contain old and worthless stock at the price it was worth, which amounts to the same thing. The auditor must use care to discover, if possible, what the goods are really worth.

The ledger may show intangible assets, which are not only intangible, but that do not exist. Good Will account is sometimes in this condition; Patent Right and Copy Right accounts often are.

The liability accounts also demand inspection. Are all accounts payable and bills payable on the books entered at their full amount? Have bills receivable, when discounted, been entered as contingent liabilities? Is the firm liable on accommodation paper?

The books which show either an inflation in assets or a false diminution in liabilities, require adjustment.

A firm's books may show a condition contrary to the foregoing, that is, assets may be entered too low, or liabilities too high, resulting in a showing of less worth or capital than the business really posseses. Such a condition, called a **secrete reserve,** may work hardship on the shareholders of a corporation, who may be entitled to dividends which do not show on the books, or who may be induced to sell their stock, while believing it to be worth less than it really is.

The capital stock account may need auditing. There are many ways in which this account may be misleading. It would be difficult to estimate the number of corporations that have been at fault in issuing shares of stock to individuals in exchange for promissory notes, or for considerations other than cash, the value of which is less than the par value of the stock.

The Cash account needs looking into for unintentional regularities. Is the balance in the cash book all real money? A cash balance running into four figures has been known to represent a few coins, a few bills and a large quantity of expense tickets, due bills, protested paper and other items carried in the hope of a future convertion into money.

Is the bank account correct? This can best be ascertained by a reconciliation of the bank statement with the depositor's record discussed in detail in Prin. 64 B.

64 B. Reconciliation of Bank Statement. A bank usually delivers a statement of the checking account to the depositor on the first of the month. This statement is accompanied with the depositor's paid and cancelled checks, which should agree with the debits in the statement. The deposits, as credited in the statement, should agree with the amounts entered in the depositor's bank book or his bank account. The difference between total deposits and total checks, as appearing on the statement, is entered by the bank as a balance due the depositor.

If the balance on the statement agrees with the balance in the depositor's books, the statement is assumed to be correct, without further attention, except that the checks should be compared with the depositor's entries, in order to make sure that no cancelled checks are missing. This comparison is indicated by check-marks in the depositor's cash book.

For several reasons, the bank balance does not often agree with the depositor's balance on a given day; among these reasons are: (1) certain checks issued by the depositor may be in *transit; (2) deposits charged to the bank, on the depositor's books at the end of the month may not have been credited by the bank during the month covered by the statement; (3) the bank may have made charges for collections or other items, from its own tickets, which have not been credited on the depositor's account; (4)the bank may have credited collections made for the depositor, which the latter has not entered; (5) there may be mistakes in the bank statement or in the depositor's account.

To reconcile, make additions to and deductions from the balance reported in the bank statement, as follows:

(1). Check your record of checks issued, with the charged and cancelled checks returned; If any checks are found to be in transit, subtract their sum from the balance shown on the bank statement.

(2). Check your record of deposits with the deposits entered in the statement; if any deposits are missing from the statement, add their sum to the bank's balance.

(3). Check the bank statement to discover any petty charges made by the bank that you have not had notice of, or have not credited. If any are found, add their sum to the bank's balance. (Do not overlook making an entry of them in your current account, if they are allowed.)

(4). Look for any credit given in the bank statement for collections or other items that have not been entered; if any are found, subtract their sum from the bank's balance as shown on the statement. (Do not neglect to make an entry in your current account for such items.)

(5). If there are errors either on the bank statement or in your account, revise the bank balance for the errors in the bank statement, making memoranda in red ink, showing the revision, or revise your own account for your errors, as the case may be.

After you have accounted for discrepancies between the two accounts, report to the bank any errors in the bank statement and have these corrected.

Pin to the bank statement the sheet on which the foregoing computations have been made, in order to show the reconciliation of the two accounts, and file them for reference when you reconcile the next following statement.

65. An **Audit to Show Fraud or Its Absence** involves tests to show whether or not defalcation, embezzlement, or misrepresentation has occurred. These may take several forms; among them, are, (1) defalcation of cash or securities; (2) misappropriation, or theft of property; (3) misrepresentation of business condition to the injury of investors or outside persons.

65 B. Such an audit goes into the matter of the discharge of trust delegated to officers and employees or other agents, of the concern. The direct question to be answered is, "Has any one misappropriated cash or property, or made any showing on the books that would cause either investors or outside parties to take unwarranted financial risks?"

Where deliberate fraud is practiced, the concealment may be more or less ingenious, depending upon the skill of the offender; yet in the great majority of cases when a fraudulent entry is discovered, that entry affords the key to the entire defalcations, for embezzlers, as well as others, do not wish to confuse themselves by a variety of methods.

It is the province of accountancy to outline accounting records of such a nature that the opportunity for concealment is reduced to the minimum. Systems can be devised, that, if followed out to the letter, would reduce the risks of fraud to a negligible quantity. But to avoid the expense of operating such systems, certain safeguards are often omitted; especially where the reputation and moral qualities of the trusted persons entitle them to confidence, or where the risk is not great. There is a widespread disposition among business men to pay larger salaries to employes who are trustworthy, rather than to provide mechanical safeguards against fraud, the added expense of which would necessitate lower salaries.

The first safeguard, then, is a suitable accounting system which, so far as practicable, eliminates opportunities for the grosser forms of attempt at fraud. The student who has followed the bookkeeping sets in this text should be familiar with the more important of these safeguards provided by good accountancy.

In looking for fraud, the auditor should first determine how far the bookkeeping system in use affords a check, and how faithfully this check has been carried out; then he must devise and put into execution such further tests as may be needed to reduce the matter to a reasonable degree of certainty. Among these tests are the following:

65 C. Defalcation of Cash or Securities. The auditor's first step is to count the cash actually on hand. This means to make list of the money, checks, or whatever passes as cash, whether in the till or cash drawer, or in the safe or vault—all cash and the bank balance, if this is included in the cash account. This should agree with the cash book balance taken at the time the cash is counted.

Before going further, keep in mind that many tricks may be practiced on the cash drawer by which the cashier may abstract money without making any permanent record. To do so is foolish as well as dishonest, but both foolish and dishonest people continue to take the places of those already in jail. Among these devices of the tricky cashier are the following:

(1). The cashier may simply take an amount out of the drawer, and leave in its stead a **cash ticket** which is counted as so much money. This looks like a harmless practice because there are times when one must take cash for a purchase or a payment of some amount not yet determined, the intention being to return the unused cash, make a charge for the amount spent, and destroy the memorandum ticket. Such tickets should be examined closely, for a ticket of that kind should, as a rule, not be over a day old.

(2). A cashier may take a **perpetual loan** out of the cash drawer in this wise: A customer may pay an amount, say $100, for which the cashier makes a credit ticket dated one day later. He makes no entry of the ticket on the day received, and "borrows" the cash for his own use. The following day he credits the ticket properly (except one day late) and holds out credit for another payment or other payments, enough to make the $100, which is borrowed from the next day, and so on, indefinitely. As the larger collections are usually checks, the dishonest cashier must pay into, or take out of, the drawer the difference between the original $100, and the nearest approach he can make to the required amount, or else increase or diminish his "loan." An auditor should compare the dates of all checks and drafts in the drawer with the dates of entry in the books, and the date of the receipt if possible. Where remittances are received through the mail, the date of receipt, even to the hour, if necessary, should be stamped on the letters.

(3). There may be **dummy checks** in the drawer, that is, imitations of checks left there to be counted as cash.

Having satisfactorily shown that the cash on hand agrees with the cash balance, the next step is to follow the receipts and payments of cash during the audit period.

(4). A cash balance may have been **forced**, that is, a smaller amount than the real balance may have been placed in the books, and footings entered as equal, when they really would not be equal if properly added. Such a forced balance necessitates an equal change in some amounts posted to the ledger; in other words, an amount from the cash book must be omitted in the ledger, or else posted as an amount sufficient to equalize the discrepancy in cash. Thus, cash might be forced, $9.90 and an item of $10 posted as 10 cents to satisfy the trial balance.

The way to detect a forced cash book, is to review the footings. Although the cash book may have been balanced many times during the audit period, the debits and credits can be footed separately on two lists covering the entire period. Whatever the number of columns in a cash book, there should be one column for net cash receipts, and one for net cash payments. In some cash books, this may not be the case. Then the items must be picked out of various columns.

(5). After the cash book is found to be mechanically correct, the **cash payments** demand attention. Cash may have been taken out and wrongfully charged to some nominal account. The accounts of Expense, Merchandise Bought and unclassified losses should be examined with a view to unreasonable or unnatural charges. Also, the vouchers should be scrutinized, and all payments should be reviewed with care. Payments to persons, if in the correct amounts, are assumed to be correct, otherwise there would be complaint from the persons paid.

(6). The cash **receipts** demand attention. Were the amounts entered on the debit or receiving side of the cash book the amounts actually received? Were the discounts deducted from customers' invoices actually allowed? Attention may be called to allowances, recorded as deducted from bills, although neither called for nor allowed. For example, a remittance of $100 on account might be entered for only $80, and an entry made crediting the customer for $20 allowed for damaged goods or other cause. For this reason, rebates and allowances need attention.

If in doubt as to the correctness of the entries of checks and drafts received, secure the deposit tickets, for the period, from the bank, and compare the items thereon with the entries in the cash book. The bank account itself may be carried on the books at a greater than the real balance. Reconcile the bank statement. (Prin. 64 B.)

(7). **Securities** (stocks, bonds and notes) must be checked to see that they are all there, are genuine, and that they agree with the records. The matter of dates and signatures of notes is important. A spurious note might represent the loss of a great deal of money.

The foregoing suggestions afford a beginning from which the auditor may extend research as occasion demands.

65 D. An **Audit to Show Misappropriation of Property** refers to the kind of property, how it is held, and the system of records already pertaining to it.

Commodities in store room, warehouse or with agents, or wherever kept, are easily abstracted unless properly guarded.

If charges are made for merchandise bought when it is suspected that the goods were not received, an auditor should first eliminate the invoices from reputable houses, whose statements show agreeing entries. Having found such to be correct, there may remain miscellaneous purchases of a more or less irregular nature. These may be traced in various ways. If there is no invoice from the seller, there is likely to be at least a memorandum of what was bought. Anything bought would ordinarily be either sold, used, destroyed or still in stock. If none of the last three dispositions can be shown to account for purchased goods, a record of the sale should exist. Certain items especially looked for, may be checked through the sales records to show disposition. A sufficient number of such items, thus verified, should establish a fair presumption that all are correct.

Managers of branch stores and other agents having goods in stock belonging to the principal, should render periodic inventories of stock on hand. The correctness of the inventories must be verified by checking the inventory with the goods, where practicable.

A rough way of determining whether there is any great loss in stock, is to compare, from previous periods, the average percent profit on merchandise sold. By deducting this percentage from the total sales of an audit period, a remainder would be left which should approximate the cost of the merchandise sold for the period. The auditor must use his judgment as to applying this plan, as conditions differ.

Goods may be passed out of the store and charged to fictitious persons. An examination of the accounts receivable would probably disclose any such. This examination should extend especially to overdue accounts, or accounts containing irregular entries.

A shortage in the inventory may be fraudulently covered by raising the prices in a subsequent inventory over what they were in a previous inventory. See whether this has been done.

65 E. A Misrepresentation of the Business may be made to accomplish fraud upon investors or creditors. An insolvent bank may be represented as solvent, in order to attract deposits which are likely not to be repaid. A merchant may represent himself as being worth more than he is, in order to secure larger credit in goods or money than he otherwise is entitled to. A business manager may overstate the profits of a given period, in order to secure the approval of stockholders and a continuance of management. Directors of a company may declare and pay dividends on stock, by borrowing money to do so, or by taking the so-called dividends out of the capital. This is done to make the stock appear more valuable than it is, and thus attract other investors. On the other hand, the profits of a business may be concealed, although great enough to entitle stockholders to receive dividends which are not declared. Under such conditions, dissatisfied stockholders might be induced to sell their stock for less than it is worth.

Many kinds of misrepresentation have been used to make the business appear either better or worse than it really is. The auditor should proceed under such conditions as outlined in Prin. 64.

66. An **Audit to Show Suitable Books** involves a knowledge of the business considered, so far as its needs of record are concerned, and a knowledge of the most suitable books and records for the transactions and operations. The auditor should begin with an outline of books, rulings, records, etc., theoretically suited to the conditions.

He should compare the books under examination, step by step, with the system he has in mind, and should look for, and note, the specific deficiencies of the former, and make a note of the economies or advantages possible.

Changes advised by an auditor should not be of indefinite advantage, but should compute time saved by the proposed method, on the basis of a year; the specific economies to be effected should be reduced to dollars and cents, and the safeguards should be suggested, with a good reason for them.

He should propose changes, with a view to retaining all of the old features that can be made to work in with his plan. To change a bookkeeper's long established habits, is to take away from him facility of action which it has taken time to acquire. For example, a bookkeeper who has posted from right to left for many years, would probably make many mistakes and go through much hardship in learning to post from left to right with anything like equal ease. To even change the position of a light might disturb a habit, and give rise to numerous errors. The auditor must study the working force as well as the system.

Again, it is practically useless to recommend an otherwise good system, that will show results so finely analyzed that the manager himself cannot understand it, or will not use it. This great mistake has been made by many well-intentioned systematizers, who gauged the manager's power to grasp and utilize information derived from the books, by their own practice in this direction. The auditor must keep in mind that the manager often gauges the capacity of every one else by his own. The constructive auditor should recommend office changes with a careful regard to the ability of those who are to utilize the system, as well as to the ideal advantages of the system itself.

He should not feel that his labor is wasted merely because he cannot secure the installment of as fine a bookkeeping system as he would like. He has done his part when he has provided the best that his employer can use. Even when his well-considered plans are rejected, he may feel some satisfaction in knowing that more than one great business organization owes its existance to a manager who understood bookkeeping better than his fellows.

67. An **Audit to Show Worth and Earning Power** involves the verification of existing records, and the preparation of such additional data as is needed to answer the questions: "What is the physical worth of the property?" "What does it earn per year?"

The exhibit from the books may be complete, correct, and satisfactory, or it may be only partial, but good so far as it goes. Where the system falls short, constructive auditing begins.

67 B. The worth of the business is exhibited in the financial ledger, or where the different groups of accounts are not segregated, in the capital or financial accounts. These consist of, (1) cash and cash collectible; (2) floating property; (3) fixed property; (4) speculative property; (5) intangible property; (6) indebtedness to persons outside the firm; (7) indebtedness to the owners.

Cash, accounts, notes, and other claims, should be verified as to amounts and collectibility; floating property should be verified from inventories, as should also unrecorded amounts of money due (for example, accrued interest, rent or insurance prepaid). Fixed property should appear itemized in the ledger at cost; and depreciation should be represented in reserve accounts.

Speculative property should be viewed particularly as to its present worth, and a sufficient reserve account kept to make good any fall in value. Intangible property should be examined with a view to the expiration of its value, and the required amount to be written off.

The liabilities should be carefully gone over to see that all are included. Often a search for contingent liabilities will disclose matters that should be recorded. The owners' credits consist of reserves, surplus, undivided profits, and capital. The reserves must be looked into to see what portion, if any, should be allotted to depreciation, bad debts or other shrinkage in assets.

Having reduced all of the above to their correct value as assets and liabilities, the net worth of the business may be found from their assemblage in a financial statement.

67 C. Having determined the net worth of the business, the profits for the year are found by comparison of the present net worth with the net worth at the beginning of the year. The profits may be found analyzed in more or less detail in the nominal accounts, if such have been kept.

The net profit of the current year should undergo comparison with the net profits of preceding years, to determine, (1) the average profit, year after year; (2) whether the annual profits have been variable—some years much more than others—and the reasons for any such variations should be clearly established.

Furthermore, it is essential that an apparent net profit be analyzed, to see whether it is profit resulting from the revenues, or from capital and fluctuation. Thus, the fortunate sale of real estate owned by a factory, might swell the gains of a certain year to double their ordinary amount, while the business profits might be the same as before. A stock of goods purchased before a war or other great disturber of values, might be sold for double or treble its former value. Profits under such circumstances as these, are not a criterion as to the earning power of the business.

68. Legal Aspects:

The Exchanges between persons as recorded in bookkeeping, are assumed to be in accordance with contracts, but, in ordinary selling, the details of these contracts are not often referred to, it often being understood that they are determined by custom. This may sometimes give rise to misapprehensions that have a decided bearing on the condition of the business, or of the individual investors, and an auditor should not overlook them. Persons frequently enter into business relations without clearly understanding the risks involved, and may not properly safeguard their own interests. Also, they may have overlooked rights which would materially advance their interests if enforced. A number of matters relating to the legal aspects of business are referred to in this chapter.

68 B. Sale of Goods. To sell, is to transfer property in the thing sold for a money consideration. The seller of commodities is chiefly interested in knowing whether a supposed sale of merchandise is really a sale, when the transfer takes place, and who is to bear the legal risks of losses in connection with the sale.

A sale is the execution of a contract. This consists of an offer on the part of the seller and its acceptance on the part of the buyer, or the reverse, which is sufficiently definite to be enforced by legal measures.

Having made a contract to sell, the important question arises as to whether the sale has been so made that the buyer cannot legally avoid payment.

Sales of goods on credit are made either on a verbal or a written order, which order is delivered to the seller or to his authorized agent.

(1). If on verbal order without any restrictions, the acceptance of the commodity by the buyer is evidence of his agreement to pay for it. If no price is specified, the regular published price, or the regular market price of the goods on the day named is collectible. To avoid paying for goods, the buyer may refuse to accept them when they are offered, or else must show that they were not as represented.

(2). When goods are sold on unqualified written order by mail, wire, or messenger, the transfer of the property from the seller to buyer ordinarily takes place when the seller delivers the goods to the railroad or other carrier as designated or implied in the order. In this case any loss or injury to the property while in transit, or any risk incurred in connection with it is borne by the buyer, who looks to the carrier for damages.

(3). Either the offer to sell or the order for the goods may specify certain conditions of time or place; that would place the risk upon the seller. Thus when sale is made "on approval," the goods may be received by the buyer, examined and refused. In that case the seller is under obligation to see to their return. But if the buyer holds the goods without refusal, beyond the time set, or beyond a reasonable time, if no time is set, his acceptance is implied, and the account would probably be collectible.

(4). Manufacturers and others desiring to promote the sale of goods, sometimes ship them out "on sale," that is, to be paid for when the buyer sells them. In such case, the buyer is accountable in cash for the part that he has sold. When goods are regularly kept on sale, it is customary for the selling agent to render statements and remit proceeds of sales monthly, quarterly, or annually. The conditions should be specified in a written contract.

(5). The sale of goods C. O. D., gives rise to a variety of legal opinions as to whether the title to the goods passes at the time of sending the goods out of the sales room, or at the time they are received by the buyer. Since the terms signify that the buyer is not entitled to possession until he pays for them, the practical outcome is, that regardless of any legal rights, the seller generally pays the expense of their transportation both out and in, if they are refused.

(6). In some instances, the title passes without the property being handled at all, as when grain transferred by the delivery of warehouse receipts, or where title to property is transferred by delivery of a bill of sale.

68 C. Collection of Accounts and Notes. After a time-sale is made, provision must be made for collection. The first step is usually to send the customer a statement of the amount owed on the first of the month following the sale. This statement may not be a reminder to pay, if the account is not due; it may merely afford the customer an opportunity to compare accounts and note discrepancies. Where the account is due, the statement is regarded as a notice that payment is expected.

(1). Wholesalers usually allow customers a certain term of credit, but offer a discount from the bill, for immediate or early cash payment. As a cash discount is usually considerably more than the current rate of interest on the amount for the given time, the seller has a right to assume that a customer who will not take a cash discount is either unable to borrow money of his banker to meet bills, or is negligent of the profit he could make by discounting. In either case, the customer's credit is affected and his account is to be more closely watched.

(2). When the unpaid account becomes due, a letter of reminder is usually sent. This bringing no response, a notice of sight draft may follow, and a sight draft on the customer for the amount may be sent to a bank for collection. If still unpaid, correspondence should disclose the reason for non-payment. It may be that more time is desired. This is frequently granted by taking the customer's note to settle the account. This resolves the debt into a form to be more easily handled, besides making it draw a specified rate of interest, and extending the period beyond which it would be outlawed.

Doubt as to the customer's ultimate ability to pay might justify the taking of a mortgage on his real or personal property to secure the debt.

In extreme cases, a mortgage given would be followed by foreclosure, and the sale of the mortgaged property, with a view to apply the proceeds on the debt.

(3). If other means fail, the debtor may be sued for the account or note, and if the claim be proved correct, a judgment will be entered against the debtor. This would be followed by a forced sale through a court officer of any of the debtor's property which is not exempt from execution. The legal expenses of securing judgment are paid by the creditor, and, with the exception of lawyers' fees, are added to the claim against the debtor.

(4). An account, note, or judgment may remain unpaid for so long a time that the debtor can refuse payment under the statute of limitations. There is much variation in the different states as to the time when this statute applies. It may be from two to eight years, on accounts; from three to fifteen years on notes; and from five to twenty years on judgments. When this time has expired in the several cases, the debtor may plead the statute of limitations and thus avoid payment.

68 D. The Purchase of Land is a more formal matter than the purchase of goods, and must be evidenced by a written contract, called a deed, which is given by the seller to the buyer. Land is perpetual, and title to it is a matter that in course of time, passing through many hands, would be hopelessly confused, if a public record of all transfers, liens, or encumbrances were not required. An officer variously called a county recorder, recorder of deeds, register of deeds, or recording clerk, whose duty it is to make permanent public record of the documents affecting the title of land, is regularly elected or appointed in each county. It is assumed that any prospective purchaser of land will satisfy himself as to the title of the land, by referring to the public records, where conflicting claims upon the property, if there are any such, should be recorded. Purchasers of land do not often do this personally, but secure an Abstract of Title, which is a carefully prepared explanation or digest of all documents that affect the title of the given property. This abstract is based on the county records. Any doubtful question about title to property should be submitted to a real estate lawyer.

The purchaser, on receiving a deed to the property, should send the deed to the county recording office for record at once. To do so, is highly important since this record alone conveys notice to the public of the purchaser's title. He will thus have priority of record as protection against other claimants who might, through the errors or double dealing on the part of the seller, have mortgages, or other liens of which the purchaser had no notice, and which might be recorded by these claimants.

Some of the liens which should be looked for are the following: Mortgages; rights of heirs of a former deceased owner; rights of spouse or others through imperfect previous conveyance or disability of the conveyor; unpaid taxes; mechanics' liens for unpaid labor or material in the property; judgments against a former owner; a lease of the property to a tenant.

On the other hand, persons interested in any of the above or other liens against property, should have the same recorded, in accordance with the state laws, in order to secure their priority of record, which is a notice to subsequent parties of their interest in the property.

After being recorded, the deed should be preserved by the owner of the land.

68 E. Commercial Papers consist of drafts and checks, acceptances, promissory notes, and bonds. They are demands upon a person (the drawee) or promises made by a person (the maker) to pay to the order of another person, a sum of money at a given time.

(1). Negotiability is the distinguishing mark of commercial paper. By this is meant that the given paper can be passed in the course of business from one holder to another, and that any bona fide holder or authorized payee, has the legal right to collect the paper in his own name, regardless of equities existing between the original parties to the instrument. Negotiable paper passes current as money in the great majority of business settlements.

(2). The draft is a written form, used by a first person (the drawer), in directing a second person (the drawee), to pay a given sum of money to a third person (the payee), or to some one (the endorsee), whom the payee directs. Foreign drafts are called bills of exchange.

Suppose that two men named, respectively, Mr. Give and Mr. Take, live in your home city; and that Mr. Owe, who is indebted to Mr. Give, lives in New York City. Also, Mr. Give owes Mr. Take, and the latter, who is about to go to New York City, accepts from Mr. Give a letter directing Mr. Owe to pay Mr. Take a sum of money. On arrival, Mr. Take hands the letter to Mr. Owe and receives the money. Such a letter would be called an order. But if the letter were changed so as unconditionally to direct Mr. Owe to pay the money **to the order of** Mr. Take, then Mr. Take would not need to present it personally to Mr. Owe, but, by endorsement, could pass the paper to any other person, whom we call Mr. Collect. Mr. Collect could take the paper to Mr. Owe and secure the money as well as Mr. Take could. Mr. Collect, if he chose, could endorse the paper to another person, and this person to still another, until finally the last endorsee could present it to Mr. Owe for payment. Papers in form to be handled in this way are called drafts.

(3) All banks have money on deposit in other banks, located at a distance in trade centers, upon whom

they draw bank drafts for sale to customers who wish to transmit money safely through the mail. A properly endorsed draft is collectible by only one person—the payee—or by an endorsee. A lost or stolen bank draft is worthless to the finder or thief, unless he successfully forges the payee's endorsement.

(4) Merchants draw drafts, which they call bills of exchange, on distant merchants in settlement of the balances due between them. Such drafts when payable a certain time after presentation, are called time paper.

The drawee of a time bill of exchange, by his "acceptance" promises to pay it at the expiration of the specified time. An acceptance usually consists in the drawee's writing across the face the word "Accepted," "O. K.," or some similar form of assent, followed by his signature. An accepted bill of exchange, or draft payable, is equivalent to a note payable, and is entered, in the books, in the accounts of Bills Payable or Notes Payable.

(5) Slow customers are reminded of their indebtedness by collection drafts sent through banks for presentation to the drawees. Collection drafts are little more than duns, and are of no value until paid.

(6) A bank check is essentially a draft drawn by a depositor on the bank that holds his deposit. Checks are negotiable, as ordinarily made. Payment by check is the safest way to disburse money, as the payer thus has a record of each payment on his check stub. Also, the endorsement on the back of the check operates as a receipt from this payee. Banks discourage the circulation of checks beyond the locality where issued.

Checks may be presented to the drawee bank for certification, which is a writing across the face obligating the bank to pay the check when presented. The word "certified," with the signature of a bank officer is sufficient. A certified check is an obligation of the bank in all legal essentials like an accepted bill of exchange.

(7). Bonds issued by corporations, municipalities, and individuals, are usually drawn in negotiable form, like notes, and can be transferred by endorsement.

All commercial paper received as cash, should be collected or deposited promptly, checks especially, within a day after receipt, as there are contingencies that might stop payment.

68 F. Agents are persons authorized to act and who do act for others. General agents represent the principals in all business covered by the agency; special agents have authority extending to special acts only. An agent may receive "power of attorney" from his principal, thus authorizing him to attach his principal's name and seal to contracts. Agents intrusted by a principal with merchandise, ordinarily have a lien against the goods in their hands, to secure payment for services.

Salesmen, collectors, commission merchants, auctioneers, attorneys-at-law, officers of corporations, members of firms, and many other agents, have their duties and obligations pretty clearly defined by law and custom. However, it is possible for almost any agent to exceed his authority, and to involve his principal in obligations not intended by either of them. In such cases the principal might, to his damage, be bound to third parties and possibly be unable to recover from the agent who had exceeded his authority.

When an agent is appointed for a special purpose, the contract should be in writing, and should clearly explain the agent's duties.

68 G. Partnership is a relation between two or more persons who unite capital, labor and management for joint profit.

The relations of the partners should be written in an agreement, clearly stating, (1) the names of the partners and of the firm; (2) the nature of the business; (3) the time of the partnership; (4) the investments of the partners; (5) the salary allowed partners for services; (6) the interest allowed partners for capital invested; (7) the proportion of net profit or loss assigned to each partner; (8) a limitation preventing any partner from involving the firm in unnecessary obligations; (9) a provision for the continuation or the dissolution of the partnership.

Ordinarily each partner, as agent of the firm, has power to bind the others in the firm contracts. Each is personally liable for the entire indebtedness. A close relation of trust exists between the partners, so that it is unwise for anyone to join business interests with persons in whom he has not entire confidence, or who are not financially responsible. Every partnership should be qualified in a definite written agreement.

A partnership may be dissolved at any time by consent of the partners, or by expiration of the time named in the agreement. One partner may withdraw without consent of others, before the time set in the contract, and this will effect a dissolution of the partnership, but the partner who does this, becomes liable for damage to the other partners for doing so. The death or bankruptcy of a partner dissolves the firm. A partner cannot, by withdrawal, escape liability for existing debts of the firm to third parties, even though these may be assumed by the remaining members of the firm. The estate of a deceased partner is also liable for the firm debts at the time of his death.

An auditor frequently discovers that one partner has unfair advantages over another which are difficult to adjust. In a retail store, it not infrequently occurs that one partner takes out for his own use, goods greatly in excess of the other's drawings. He may also unwisely create debts which the firm must pay, and, in other improper ways, involve his partner's capital. An honest, capable person is frequently at the mercy of a dishonest partner, and cannot escape loss, so long as the partnership continues. Some of the heaviest business losses are traceable to an unwise choice of partners.

68 H. A Corporation enables several persons to combine their capital and services under one management, while avoiding some of the disadvantages of the partnership relation.

The ordinary private corporation is formed by virtue of general acts of legislation, which specify the steps to be taken by persons intending to incorporate, and which authorize the issuance, to the incorporators, of a certificate, or license, which evidences their compliance with the law. Their compliance with the legal provisions enables the corporators to act through the corporation in the following ways: (1) the capital stock (divided into shares) may be owned by stockholders, who can dispose of their interests in the company to other persons, and withdraw entirely from it, without affecting the continuance of the corporate organization; (2) the corporation may appoint, or remove officers or agents who conduct its business and make contracts; (3) the corporation may use a corporate seal and may acquire and dispose of real property in its own name; (4) the corporation may incur debts for which the stockholders are not individually liable beyond the amount of their stock in the company, or such additional amounts as may be specified by the laws relating to specified kinds of corporations; (5) a corporation may perform all the ordinary business transactions that an individual may, provided they are within the purposes for which the corporation was formed.

Specific information about the powers, rights, and obligations, must be looked for in the laws of the state where incorporated.

When the authorized number of persons desire to incorporate, they draw up articles of incorporation or a certificate of incorporation. A blank incorporation form, to be filled out by the incorporators, can usually be secured from the Secretary of State in the state where the corporation is organized. These articles give the name of the corporation, purposes, amount of capital stock, number of shares, principal place of business, duration of corporation, number, names and addresses of the incorporating stockholders, the number of shares held by each, and other provisions.

A subscription list is signed by persons who organize the corporation, each agreeing to take the number of shares specified. This list is a contract upon which payment may be legally enforced, should any subscriber refuse to pay his pro rata. The payments made by the subscribers constitute the capital of the corporation.

When the stock is paid for, the officers issue stock certificates to the subscribers, who then become stockholders.

The incorporating stockholders elect from their number, certain members to be directors. The directors in turn, elect the officers. The officers usually include president, vice-president, secretary and treasurer. The treasurer usually has in charge the bookkeeping records of the business.

68 I. Bankruptcy is the legal condition of an insolvent person whose property has been ordered by court decree to be placed in the hands of a receiver for the winding up of his affairs. The court order may be made on petition of creditors, who are aware of the firm's insolvency, or believe that deception is being practiced upon them, or have reason to think other creditors have undue preference; and bring the action in bankruptcy as a means of securing their share of the assets, rather than risk further delay. It may be made on petition of the owner himself, who goes into bankruptcy in the desire to turn over his property to creditors, and, in so doing, to escape further liability through the provisions of the law.

One national bankruptcy law provides relief in this matter, and specifies that any person, except municipal, railroad, insurance, or banking corporations, may secure the benefits of this act by becoming a voluntary bankrupt.

The bankrupt is entitled to the benefit of state exemption laws, which permit him to retain certain property for his personal use—the amounts he may retain varying in different states.

68 J. Executors and Administrators are officers appointed by a court to close up the estates of deceased persons. The person appointed is called an executor when he is named by the deceased in his will, and he receives his court appointment from this fact. When no executor is named by the deceased, the officer appointed is called an administrator. Among the duties of an executor or administrator are to inventory and secure appraisal of the personal assets belonging to the estate, to pay the debts of the estate out of the assets, to distribute the estate, and make an accounting to the court. The executor or administrator usually performs these duties under legal advice. The administrator should open a separate set of books for the estate, and a bank account of the moneys should be kept as a separate fund. The compensation of executors and administrators for their services is usually fixed by a statute in the several states, and is a preferred expense.

68 K. Income Tax. The federal laws provide for an annual income tax to be paid by all persons who receive income in the United States in excess of the **specific exemption**, consisting of $3,000 for individuals, or $4,000 if it is the combined income of husband and wife.

At this writing (November, 1913) many features about this law are subject to dispute, and must be settled in course of time by rulings from the Treasury Department of the United States and by the courts. The bearing it has on accountancy and on the duties of an auditor, may be gathered in a measure from the following brief summary derived from a synopsis written by Judge Hull, who prepared the income tax provision of the law (see Congressional Record, Vol. 50, p. 6330).

The **Normal Tax** of 1 per cent on annual income applies to individuals within the provisions, and to all corporations conducted for gain. The **Additional Tax** applies to individuals only, and is added to the normal tax as follows:

One per cent on incomes from $20,000 to $50,000; 2

per cent, from \$50,000 to \$75,000; 3 per cent, from \$75,000 to \$150,000; 4 per cent, from \$150,000 to \$250,000: 5 per cent, from \$250,000 to \$500,000; 6 per cent, over \$500,000.

Taxable Income is net profit derived from investments and business operations, or it may be derived from personal or professional service, business, trade, commerce, dealings or lawful transactions, interest, rents, dividends, and other receipts not brought about by the conversion of other kinds of capital into money. The gross incomes, revenues, or earnings of an individual are subject, besides specific exemption, to the following named deductions before arriving at the amount returnable for normal income tax:

1. Necessary business expenses (living expenses not included).
2. Interest accrued and paid within the year on indebtedness.
3. Taxes, (except those assessed for local benefits).
4. Losses in business (by fire, storm or shipwreck not compensated by insurance).
5. Bad debts charged off.
6. Depreciation charged off in reasonable amount.
7. Interest on obligations of the United States or any political subdivisions thereof.
8. Dividends from companies that have already been taxed for income.
9. Other income that has been taxed at the source.

(Nos. 8 and 9 would be included for additional tax).

An individual is subject to normal income tax on his profits, after deduction of the specific exemption, and the above nine deductions, or to additional tax on the same in excess of \$20,000, except that Nos. 8 and 9 are not deducted in finding the additional tax.

Partnerships are recognized in law only through the individual members, who are subject to tax through their individual shares in the profits.

Corporations and Joint Stock Companies are subject to normal tax on all net profits. Additional tax does not apply to them because such tax is returnable personally by the individuals who receive dividends.

In arriving at the net profits of a corporation, not only dividends declared, but profits carried to surplus, or any sorts of secret reserves set up to obscure profits, would come under the head of taxable income. This should not be construed to include as taxable, any reasonable or ordinary surplus or reserve justified by the conditions of the business. The Treasury Department of the United States provides a form of profit and loss statement to be filled by corporations in making their returns. On this statement space is provided for the following allowable deductions from earnings for the purpose of arriving at taxable income:

1. Total ordinary expenses paid in maintenance and operation.
2. Rentals paid for use of property.
3. Losses sustained not compensated by insurance.
4. Reasonable depreciation in property.
5. Interest accrued and paid within the year on indebtedness to an amount not exceeding one-half the sum of the indebtedness and the paid up capital stock.
6. Taxes imposed under authority of the United States; and separately, taxes imposed by foreign governments.

Returns. The law provides that individuals shall make a true and accurate return of all net incomes of $3,000 or more to the collector of internal revenue in his district, on March 1, 1914, and on or before March 1 each year thereafter, but no return of income not exceeding $3,000 is required.

A suitable blank form for this purpose is provided by the collector of internal revenue for the district. They shall be notified by the collector of the amount taxed by June 1 following, and shall pay the same by June 30.

On income tax unpaid after June 30, and after ten days' demand by the collector, 5 per cent penalty shall be added, and interest at 1 per cent per month additional until paid.

Note that an individual is entitled to deduct from the amount of taxable income any income from which the tax has already been collected at the source as explained in the following:

Collection at the Source. Persons, firms and companies, including lessees, mortgagors, trustees, executors, employers, having control of the payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emolument, or other fixed or determinable annual or periodic gains, profits, or income of another person, exceeding $3,000 for any taxable year, are authorized and directed to deduct and withhold the normal tax thereon and to pay it to the United States official authorized to receive it.

It thus appears that the purpose of the law is to collect as much as possible of the income tax at the source, rather than from the individual's returns.

Accounts. A business ledger, kept as outlined in Prin. 72 B, or more fully in Prin. 51 to 60, will furnish all data for full returns within the requirements of the law. If such a ledger is not kept, an auditor will find some trouble in preparing the necessary returns. Care should be taken to make all allowable deductions in arriving at net income.

In addition to that, persons required to withhold income tax at the source, should keep an auxiliary record of the above enumerated payments passing through their hands to the persons liable for payment at the source.

69. Single Entry Bookkeeping is any system of bookkeeping which lacks the completeness of double entry in the matter of equal debits and credits. It is assumed that a single entry bookkeeper makes some records for all important transactions, and that these records are so kept as to show, in a general way, all cash receipts and payments, and the amount of the cash balance. The records must necessarily extend, also, to accounts showing collections to be made from customers, and accounts showing amounts owed to creditors. To keep accounts of cash on hand, cash to be collected, and cash to be paid, is all that is usually attempted in single entry bookkeeping.

It is easier to keep such single entry books than to keep books by double entry, because no posting is required for any cash receipts or payments, except those that pertain to customers' or creditors' accounts. Accounts of property and nominal accounts are ignored. There is no time spent in locating errors outside of the cash balance, because there is nothing in the system to disclose the presence of errors; no time is spent over a trial balance because, as there is no attempt at equality of debits and credits, there can be no trial balance.

There are single entry sets of books, however, in which accounts of property, sales, and various expenses are kept. Some large mercantile concerns keep, by single entry, approximately all the accounts found in some double entry sets of books. Various auditing proofs may give the same sense of accuracy in single entry books that a trial balance does in double entry. But when single entry books are so highly developed as to furnish proof of accuracy, or keep accounts of property and classified expenses, they entail more labor, with less complete adjustment of accounts, than would a double entry system, developed to the same extent.

It is plain, however, that the original entries in single entry books can be posted to whatever accounts the bookkeeper desires, until a complete double entry classification is reached.

69 B. The books ordinarily referred to as comprising a single entry system, consist of, (1) a day book, for charge or credit entries; (2) a cash book for cash receipts and payments; (3) a ledger containing personal accounts. Such entries as are not posted to the personal accounts, remain in the original books, as memoranda. Any auxiliary book may be added.

69 C. A common form of single entry used by shopkeepers, consists of a summary book, into which are transferred, daily, the total receipts and payments of cash, the total charge sales, and the payments thereon, and sundry payments, all taken from the record made in a cash register. These are recorded in the cash register automatically, in columns showing receipts from cash sales separate from receipts from customers on account, and payments from cash purchases, separate from payments on account. A fifth column shows the amount of sales on account. A separate bill and charge book is kept for each credit customer. This is a book containing a number of duplicate sale sheets, for the items sold. An original sheet is passed to the customer at each sale, and the duplicate retained in the book. The total of the customer's account is forwarded on the duplicates from page to page.

The bills owed by the shopkeeper are kept in a drawer, and taken out as paid.

Such a system answers the purpose of keeping a watch on cash and customers' accounts. The errors in the customers' accounts, however, which are likely to be numerous, are undiscovered unless reported by the customer.

69 D. When a single entry set of books is used, the net profit or loss for a fiscal period is usually found by comparison of the net worth at the beginning with that at the close of the period, as exhibited in financial statements.

It must be remembered, however, that there are ordinarily no accounts from which the financial statement is to be derived, except the cash and personal accounts; all other items are to be entered in the statement from inventory, or from such papers and documents as may be found. Such statements as Nos. 1 and 2 (Book of Forms) may be used.

69 E. Single entry bookkeeping always has been, and probably always will be, used by small retail concerns. It is defective in the kind of account analysis that enables a proprietor to know the operation and results of the business in detail, and judge the future by the record of the past. It is pre-eminently the system for persons whose entire business expansion is to come through their own personal efforts.

69 F. To Change Single Entry to Double Entry, is a simple process. After making a financial statement, journalize it. (Form No. 13 A affords a good model.) If it is desired to retain the old ledger, check such accounts in the journal entry as already appear in the ledger, open new ledger accounts for the remainder, and post them. After the opening entry is posted, a trial balance should be taken.

The books of original entry may be modified to suit the business.

70. The Auditor's Report. Large business houses regularly employ auditors to work continuously in verifying the accounts of the different departments of branch houses, of agencies, and of the officials. The reports of such auditors are entered in suitable printed blanks, and are made with a view to affording a collateral check on the books. The form of the reports is the outcome of the skill and insight of the one who devised it, and its value depends on its applicability to the business in which it is used.

Auditors are also regularly retained by business houses to review their books annually, or oftener, at regular intervals. When the books are regularly audited, the auditor's first report covers the entire matters under consideration much more exhaustively and minutely than subsequent reports. The latter are, in a measure, based upon the first.

The report of a complete audit includes the financial and business statements, divided with such minuteness as the case demands. The items in these statements are further explained by schedules and analysis sheets, attached to the statement. The report also includes the auditor's letter, which reviews the main points of inquiry, and specifies particularly, any entries in the books not supported by vouchers, any irregularities in the books, any defects in title to the property, or negligence in the care of property or claims, and any specific recommendations tending to improve the methods of the business or the bookkeeping system.

71. Original Entries are those made at the time of the transaction, and comprise the basis for the transferred entries, which later appear in the ledger accounts.

There are two important phases of the original entry: (1) the record of the facts about the transaction; (2) the record of the accounts affected by the transaction. The record of the facts is naturally first. It should be a complete record, giving the essentials in such a way as to make subsequent explanation unnecessary. When the facts are recorded, the next step is to determine and enter, for the purpose of posting, the titles of the accounts affected by the transaction.

In a business having numerous account subdivisions, the account to charge or to credit in a given transaction, may be in doubt, and often the matter cannot be decided at the moment. With a correct original record of the facts, the posting titles can be entered at any time before the posting is done.

For many years, the **Day Book** was used to contain all records of the facts about transactions, and the **Journal** was used to show the posting titles and amounts derived from these facts. These two books, in more recent bookkeeping, have been combined into one book, retaining the name **Journal**. Yet, this latter book is now used to contain all original entries of a business, only under exceptional business conditions. In the average office, it contains such entries as other books of original entry cannot properly explain and classify.

However, it is possible to make every entry in journal form, and the journal form of an entry is the one used in discussing the account analysis of any transaction.

71 B. At the present time, the great mass of book records are most economically made in a number of books, intermediate between journal and ledger, and containing some of the elements of both.

The first of these is the **Cash Book**, which contains original entries of cash receipts and payments, in more compact order than though they were spread upon a journal, while, at the same time, it is so arranged as to exhibit the cash balance without posting to the ledger.

The **Merchandise Sold Book** is probably next in importance among the books intermediate in function between journal and ledger. This book gives a consecutive record of selling transactions, while it may be totaled to find the entire merchandise sold without posting, item by item, to the credit of a Merchandise Sold account in the ledger.

The **Merchandise Bought Book**, the **Bill Book**, the **Inventory Book**, the **Voucher Register**, the **Draft Register**, the **Account Sales Register**, and many other books applying especially to certain lines of business, take the place of the journal, for original entries, while they relieve the ledger of a more or less complete classified record of results.

The original entry, then, is the first record of a transaction in the journal, or other book designed for first entries of a given class. The original entry should either give all essential facts of the transaction, or else refer to accessible vouchers giving the essential facts.

71 C. Reliable Original Entries. Bookkeeping records serve to explain the financial obligations between a given business concern and other persons or concerns, and between the members of the same concern, as well as to explain the business operations.

The adjustment of differences between a concern and outside people, or between its several members, may carry with it disputes that must be settled in a court of law. The amounts of such settlements depend largely on the records kept by the parties to the dispute. Account books submitted in court as evidence are, as a rule, accepted if they comply with certain established rules considered essential to a good record. If they do not comply with those rules, the books may be, and generally are, given no consideration.

A good set of books will be found to show evidence that the entries are **complete** (71 D), **systematic** (71 E), **reliable** (71 F), and **promptly recorded** (71 G).

71 D. Complete Entries. The books must exhibit evidence that they contain all the records of a given kind, entered according to a defined method and order. The accuracy of other records in the same books not bearing on the particular matter in dispute, has a bearing on the credibility of the records as a whole. The appearance of any slackness in making records in any part of the books, tends to destroy the entire record as evidence. Completeness should also extend to a statement of all the essential facts in every entry of every transaction. There should be no need to guess at the meaning of an entry.

71 E. Systematic Entries. There must be a well defined system for making entries. Varying styles of entry, or even variation in the style of writing, tends to cast doubt upon a set of books. These should show that all entries of the same kind follow the same general routine of entry.

Any kind of books, whether bound, or loose-leaf, or even cards, or other devices, are admissible, provided they show all reasonable safeguards against inaccuracy.

71 F. Reliable Entries. A set of books should show the straightforward, open record of one who is accustomed to write facts only, and to write them just as they are. Erasures and alterations show uncertainty. Any mistakes made in books are especially damaging, if they are either wholly or partially concealed.

The best kept books may show some errors, but when an error is discovered in an original entry, it should be plainly marked, "error," and the correction for it should be also plainly marked as a "correction."

71 G. Prompt Enteries. The books should show that all records of transactions were made while the facts were fresh in mind. It should be kept in view that the purpose of books is to carry a great mass of business facts, as a relief to the mind. To carry in memory, any longer than necessary, things that require entry in the books, is certainly a bad method.

71 H. Ruling in Books of Original Entry. Books of original entry are ruled in a variety of ways to suit different kinds of entries. The ruling should afford convenient spaces for the following elements of record, essential to every entry:

(1). Date of the transaction.

(2). Persons with whom the firm has transactions.

(3). Details of the transaction.

(4). The ledger accounts affected by the transaction.

(5). The amounts.

(6). Posting of the amounts to the accounts.

All of these points should appear in every original entry that may involve some future dispute.

A place for each of these points in a record is generally provided, in books of original entry, by vertical columns separated by vertically ruled lines. Thus we have the "date column," the "explanation column," the "title column," the "posting column," the "money columns," etc. The order and arrangement of these columns are open to the preference of the bookkeeper, and are determined by the following considerations:

(1). Convenience in making original entries.

(2). Convenience in posting.

(3). Convenience for future reference.

A change in arrangement of columns in books of original entry has often increased the efficiency of a bookkeeper. To reduce one's daily entry and posting time by one hour, should increase one's earning capacity as a bookkeeper something like fourteen per cent.

The arrangement of the books of original entry should be studied with the same care that one studies the arrangement of the ledger account classification.

71 I. Bear in mind that all bookkeeping entries of transactions are made to show the effects of the transactions upon the business organization for which the books are kept. It is idle for a bookkeeper to spend any time in considering the effect of transactions upon the persons with whom dealings are carried on, as the viewpoint of firms without the business has nothing to do with the results sought in his books.

As a starting point for the mastery of the **theory of charge and credit,** we will assume that the typical business involves the following greater processes: (1) the appropriation of cash for capital; (2) the expenditure of cash for business necessities with a view to producing a commodity or service; (3) the sale of the commodity or service, so produced, for cash.

In business, the processes of paying for business necessities and of receiving pay for product or service, are continuous, and are not expected to come to a full conclusion until the business winds up its affairs. The business manager, however, assumes that the business closes at the end of some definite period of time, called the **fiscal period,** usually covering one year. At this time he expects his books to show him, (1) the kind of property remaining in the business and its net value; (2) the excess of his sales over the cost of selling and conducting the business.

To make such a final showing, every transaction involving a change of values must be recorded when it occurs, and entries must be made to show the financial effect of the given transactions in the accounts.

From the viewpoint of the reason for charge and credit, we divide accounts into six kinds.

(1). Accounts of cash (71 J).
(2). Accounts of cash to be collected (71 K).
(3). Accounts of cash to be paid (71 L).
(4). Accounts of cost (71 M and 71 O).
(5). Accounts of yield (71 N and 71 O).
(6). Accounts of re-classification (71 P).

71 J. Rule for Accounts of Cash. Charge the Cash account to show amounts received; credit, to show amounts paid.

Note.—This account may be kept in a cash book, in a ledger account of cash, or in a bank checking account, in a memorandum book, or on a ticket. It may refer to floating cash or cash held in a special fund.

71 K. Rule for Accounts of Cash to be Collected. Charge such accounts to show amounts that others assume to pay into the business. Credit such accounts to show amounts we collect or the value we receive to apply on such charges.

Note.—Included in above, are the current accounts of customers and patrons, opened under the name of the debtor, or considered collectively under the title, Accounts Receivable; Customers' Accounts, or Trade Debtors; notes and acceptances payable to us under the title Bills Receivable or Notes Receivable; also such accounts as Bonds, Mortgage Loans, and other claims for a definite amount of money payable to us immediately or remotely.

71 L. Rule for Accounts of Cash to be Paid. Credit such accounts to show the amounts we assume to pay out of the business; charge such accounts to show the payments we make or amounts allowed, in settlement of such credits.

Note.—Such accounts are simply the reverse of those mentioned in 71 K, that is, we are to pay instead of collect. For open accounts payable, the title is the creditor's name and address, or collectively the titles, Accounts Payable, Creditors' Accounts, Trade Creditors, or Vouchers Payable; for notes and acceptances due others, Bills Payable or Notes Payable. Other accounts under this summary are Bonds, and Mortgage Loans Payable, John Smith, Capital, Capital Stock, etc.

71 M. Rule for Accounts of Cost. Charge such accounts to show the cost to us; credit such accounts to show returns or allowances that diminish the cost.

Note.—These accounts pertain to everything in the way of property, services, or uses secured for a consideration. Among them are, Furniture and Fixtures, Machinery, Real Estate, Chattels, Merchandise Bought, Materials Bought, Freight on merchandise or materials bought and Expenses.

71 N. Rule for Accounts of Yield. Credit such accounts to show the source of the value received; charge such accounts to show returns or allowances that diminish the receipts.

Note.—Among these accounts are the following titles: Merchandise sold, Wages Earned, Services Sold, Exchange, Collection, showing the revenue derived from services of the business, Interest Received, showing the income derived from loaning money.

71 O. Cost and Yield may be combined in one account when the cost and yield are limited to some designated part of the given business, and not to the business as a whole; for example, Shipments, charged for cost of goods sent on sale, and credited for proceeds of sale; Interest, charged for interest paid and credited for interest collected; Income and Expense (of property), charged for the expenses and credited for the incomes of a given property; Trading, charged for the costs entering into Merchandise Bought and credited for Merchandise Sold.

The present tendency of account analysis is to discontinue certain cost and yield accounts formerly quite common, especially where it is plain that the credits include elements not found in the debits; tor example, Merchandise account, in which the debit shows the cost of merchandise bought, whereas the credit shows the yield from not only the merchandise bought, but from the store service; also Interest account, wherein interest payments and receipts are often the results of entirely different operations. Such accounts are, as a rule, better divided; Merchandise, into Merchandise Bought and Merchandise Sold; Interest, into Interest Received and Interest Paid.

71 P. Rule for Accounts of Re-Classification. Charge such accounts to show cost resulting in loss; credit such accounts to show yield resulting in profit.

The entries in such accounts do not represent transactions, but merely a re-classification of primary accounts under other titles.

Note.—Of this nature, are accounts of Surplus, Reserve, Assessments, Dividends, or other accounts in the financial ledger taken from the Profit and Loss account. The latter account is a re-classification from the Trading account and various primary accounts. The Trading account is a re-classification from separate accounts of Merchandise Bought and Merchandise Sold.

71 Q. One **General Rule,** showing the reason for charge and credit, in all instances has often been attempted, and we may say successfully attempted, from a general economic viewpoint. But from the viewpoint of business management, we must make two rules for charge and credit—one for cash, the other for all accounts other than cash,—to show the real or supposed relation of the latter kind to the business concern in terms of cash. The following rules committed to memory will aid the bookkeeper in making entries.

1. **General Rule for Cash Account: Charge to show receipt; credit to show payment.**

2. **General Rule for Other Accounts: Charge to show cost; credit to show yield.**

71 R. Practical Journalizing. A bookkeeper should be able to arrange any entry in journal form, even though that is not the form for the given entry regularly used in his books. There are several reasons for this.

(1). Complicated transactions may arise wherein he may not see clearly the equality of several charges and credits, unless they are all arranged together in journal form. Placing the entry in journal form on a slip of paper will aid him in arriving at the analysis.

(2). The journal order is the accepted means of explaining to others orally the accounts to be charged and credited. While a bookkeeper may post charges and credits from all sorts of books, without direct reference to an equality of charges and credits, yet he should, at any time, be able to form a mental or written picture of the equilibrium of all the accounts involved, as shown in the journal entry.

(3). In large business concerns, the bookkeeping system may require that a separate voucher; or sheet, be used to describe each transaction. When this is the case, the charges and credits are written on the voucher, making a statement which is equivalent to a journal entry.

In referring orally to the accounts to be charged and credited, the debit title or titles are named first; afterward, the credit title or titles, with "to" between the charges and credits. Thus, if an entry requires that John Smith be charged $50, and Merchandise Sold be credited $50, we would say "John Smith to Merchandise Sold, 50." If a transaction should require several charges, as Merchandise Bought, $60, Expense $5.50; and several credits, as Cash $10 and Bills Payable $55.50, we would say, "Merchandise Bought $60, and Expense $5.50, to Cash $10, and Bills Payable $55.50." Whatever the number of charges or credits, the sum of the charges must equal the sum of the credits.

Bookkeepers are frequently at a loss to read amounts so as to be quickly and easily understood by the one to whom read. In offices where oral reading is required, a system for calling off the numbers is necessary in order to facilitate work. This system may be learned in five minutes, resulting in fully five minutes saved in every hour's reading.

To read amounts, divide dollars into parts of three figures each, beginning at the decimal point, and read the cents separately; thus $56947.83 would be divided 56-947-83 and read "fifty-six, nine forty-seven, eighty-three." The following amounts with the manner of reading them orally will probably answer as a suggestion for any combinations:

$ 129.58	One twenty-nine, fifty-eight.
12900.58	Twelve, nine hundred dollars, fifty-eight.
12958.00	Twelve, nine fifty-eight dollars.
.58	Cents, fifty-eight.
1.03	One-O-three. (The word "O" is more easily pronounced than nought or ought.)
700.20	Seven hundred dollars, twenty.
720.00	Seven hundred twenty.
7.20	Seven, twenty.
24.00	Twenty-four.
.24	Cents, twenty-four.
1308.07	One, three-O-eight, O-seven.
259546.03	Two fifty-nine, five forty-six, O-three.

When indicating on paper, either ruled or unruled, the titles affected by a journal entry, the titles and amounts charged are to be written first, and to the left; the titles credited and their amounts are written afterward, and to the right, thus:

John Smith	$50.00	
Merchandise Sold		$50.00
Merchandise Bought	$60.00	
Expense	5.50	
Cash		$10.00
Bills Payable		55.50

72. The Ledger In this division we discuss the ledger with reference to its use by the bookkeeper. The ledger is ordinarily ruled so as to divide the space vertically into two equal portions—the left for debits, the right for credits.

The ledger may contain all of the accounts of the business in one cover, or it may be divided into several ledgers each containing a certain section of the accounts. (Prin. 72 B and 72 C.)

The ledger may consist of a bound book, a loose-leaf book, or a case of cards. Each of these forms have advantages depending upon conditions. (Prin. 72 F, 72 G and 72 H.)

Whatever the form, a bookkeeper should carefully consider the makeup of his ledger with a view to:

1. The order of the accounts for convenience in posting, making trial balances, and statements. (Prin. 72 B.)

2. Sufficient space for all entries likely to be made. (Prin. 72 I.)

3. Indexing of accounts for prompt reference. (Prin. 72 E.)

4. Size and binding to suit the kind and number of accounts.

72 B. The Complete Ledger contains all of the accounts in one book, with the exception of the cash account when the latter is kept in a cash book.

In the ordinary arrangement, real accounts come first and the nominal accounts follow.

The part containing the real accounts is called the **financial ledger**, and the part containing the nominal accounts is called the **business ledger**. These two parts belong in one book, although occasions arise where they are kept under separate book covers. The dividing line between the two is of utmost importance to the auditor.

In the financial ledger, the asset accounts are placed first, these being followed by the liability accounts. Of the asset accounts, the quick assets are given first place, followed, in order, by the assets less easily convertible into cash; then come those most remotely convertible, and finally those that are not convertible at all. Following these are liability accounts, in like order, concluding with the accounts of capital. Following this arrangement, the financial ledger of an ordinary trading business might contain the following accounts in the order given: (1) Cash; (2) Accounts Receivable (see note); (3) Bills Receivable; (4) Inventory; (5) Furniture and Fixtures; (6) Equipment; (7) Real Estate; (8) Good Will; (9) Accounts Payable, (see note); (10) Bills Payable; (11) Mortgages and Bonds Payable; (12) Liability Inventories; (13) Reserves; (14) Capital Accounts.

In the business ledger, the order of accounts is not so easily outlined, owing to the great diversity in kinds of income, revenue and expense. The following is the general order sought in a trading business: (1) Merchandise Sold; (2) Merchandise Bought (or other accounts primary to Trading; (3) Trading; (4) Expense (often subdivided into primary accounts of Selling, Office and Capital Expense and other divisions discussed later); (5) Profit and Loss.

Note.—In a complete ledger, it is impossible to reserve space for the accounts payable and receivable in the order given above, although that is the order occupied by them in a financial statement, or by their controlling accounts in a general ledger (Prin. 72 C). For this reason, accounts payable and receivable are given the remainder of the ledger, following the Profit and Loss account, the accounts payable being given a number of pages that can ordinarly be determined, and the accounts receivable all of the remainder.

72 C. General and Subsidiary Ledgers. As a business increases in volume, it becomes more satisfactory to divide the complete ledger into one **general ledger** and one or more **subsidiary ledgers.**

A subsidiary ledger contains any group of accounts of the same class, when the accounts are too numerous to find place in a complete ledger. Thus, all the accounts receivable may be placed in a subsidiary ledger;

likewise, the accounts payable, the accounts of bills receivable, of bills payable, of shipments, of consignments, of mortgage loans, and other kinds of accounts, as they become numerous, may be taken from the complete ledger and placed in separate subsidiary ledgers.

When a subsidiary ledger is kept, this ledger is represented in the general ledger by a **controlling account.** This is an account that shows the aggregate of charges and credits posted to a subsidiary ledger. The aggregates of postings to subsidiary ledgers are usually computed and posted to the controlling accounts monthly. By including these aggregates found in the controlling accounts, a trial balance of the general ledger may be taken without reference to the subsidiary ledgers.

A separate list of the accounts open in any subsidiary ledger is verified by comparing the total balances of accounts, with the balance of the subsidiary ledger's controlling account, in the general ledger, and should equal it. The following paragraphs explain in detail the kinds of accounts that would be taken out of the complete ledger and placed in subsidiary ledgers or other books having the same relation as subsidiary ledgers. These accounts are considered in about the order that would probably be followed in taking them out of the complete ledger because of expanding business.

72 D. Cash entries are ordinarily entered in a cash book, instead of in the cash account of a ledger. Frequently a controlling account, entitled **Cash,** is kept in the general ledger. To this controlling account, the bookkeeper posts monthly, charging the total cash receipts and crediting the total payments. In taking a trial balance, the balance of the controlling account can conveniently be used, instead of referring to the cash book itself.

It is common, however, to regard the cash book as an account, under separate cover, yet belonging to the general ledger, and requiring no controlling account. When thus kept, a trial balance would require that the balance be taken from the cash book, along with the balances of the accounts found in the ledger.

Accounts Receivable may be kept in a subsidiary ledger called "Accounts Receivable Ledger," "Customers' Ledger," "Sales Ledger," or some similiar name, and the controlling account may be entitled, **Accounts Receivable, Trade Debtors,** or the title may be the name of the ledger itself.

The customers' charges are posted to the debit of customers' accounts in the subsidiary ledger, and the monthly totals of these charges are posted to the debit of the controlling account in the general ledger. The customers' credits for the month are posted to the credit of the customers' accounts in the subsidiary ledger, and the monthly totals of the credits are posted to the credit of the controlling account in the general ledger. (See 25 E.)

Accounts Payable, Bills Receivable, Bills Payable, Capital Stock, Consignments, Shipments, Agents' Accounts, Branch Store, are some of the controlling accounts that may be kept in general ledgers to represent the named classes of accounts in subsidiary ledgers, as explained in detail in foregoing paragraphs.

72 E. The Index. The page of a ledger account is promptly located by means of an index. The index may be one or more sheets bound in the ledger, on which the account titles, followed by the ledger page, are written in alphabetical order (Form 12 B); or it may be a whole book in itself with capacity for as many as 100,000 names. In large books the names are arranged according to the first two or three letters of the surname, as are the words in a dictionary.

The bookkeeper should make it a rule to index each account when it is opened.

Loose-leaf and card ledgers often do not require any index, because the sheets or cards can be arranged in alphabetical order, enabling one to locate an account from its place in the ledger without need of a special index.

Small indexes are generally bound in the first part of the ledger; larger ones under separate covers.

72 F. Bound Ledger. The bound ledger, under certain conditions, has advantages over the loose-leaf or card ledger. It is especially good as a general ledger, for this book contains, in the main, monthly summaries, which do not require much space in a year's time, but which are used for reference long after their date. A bound general ledger can be arranged to last through the entire general history of a business. If all the leaves remain in a bound book, we can easily assume that the records are intact. In a loose-leaf book, there is no assurance that some leaves have not been replaced by others that do not contain the entries as written at first.

A bound complete ledger of a small business is often better than the loose-leaf form, because it costs less, does not require any transfer apparatus, and can be carried around without fear of losing some of it. This is worth considering, especially in an office not well provided with conveniences for the safe-keeping of office books and papers.

72 G. The **Loose-Leaf Ledger** consists of a binder, and the sheets, the latter being securely fastened in, although removable at pleasure. The loose-leaf arrangement is ordinarily preferable to the bound book for subsidiary ledgers. Subsidiary ledgers usually contain many accounts which may either extend unexpectedly over several pages of space, or else may be closed at any time. A bookkeeper would not find it convenient to have a great many closed accounts filling the working ledger, nor can he, in the case of an account that has overrun the space provided for it, conveniently forward it to any odd page where he might happen to find room, as was done before loose-leaf ledgers were used. Also, it adds considerably to a bookkeeper's work to index numerous accounts and afterward have to locate them through the index. With a loose-leaf ledger, the bookkeeper can remove closed accounts entirely, thus keeping the whole ledger for active accounts. If an account runs over the leaf provided for it, another leaf can be inserted and the account continued. The bookkeeper can file all removed leaves in other binders called **Transfer Binders.** This is considered sufficient care to take of settled accounts that are kept merely for reference in the matter of future collections or payments. As the transferred accounts can be inserted where desired, they may be in alphabetical order by surnames, or towns, or in any other order that may be more convenient for self-indexing.

72 H. The **Card Ledger** consists of ledger accounts kept on cards of suitable size and arranged in drawers. The cards can be arranged on any plan possible with a loose-leaf system, and are more easily sorted from one division to another. When there are a great many accounts, and it is desired to make statements, or otherwise go over them in a very short time, the cards can be divided among many clerks, who can each do his share of the work, and thus complete the whole quickly. The card ledger is convenient for transient accounts, to be referred to by a number of persons at the same time, during the day's transactions. It is also convenient for accounts with customers who are moving about between territories for which separate sales ledgers are kept.

72 I. Space for Ledger Accounts. If a bound ledger is to be opened, consider the number of pages in the entire ledger, and divide that space among the accounts, giving each account the number of pages you think will be filled by the time the entire ledger is filled. If you have a former ledger to guide you, allow space as seems justified by past experience. In assigning account space in a general ledger, remember that controlling accounts, as a rule, are posted but once a month, so that from one to three lines per month will suffice. On a basis of three lines per month, 36 lines would be enough for a year, or 360 lines for 10 years. This can easily be reduced to pages. Other accounts may require more or less guessing.

If loose-leaf or card ledgers are used, allow, as a rule, one account for each leaf or card, inserting additional leaves or cards as needed.

72 J. Posting to Ledgers. Posting comprises a large part of the bookkeeper's work. Any plans that promise increased accuracy or certainty are worth considering, because they may save time. Bad methods of posting, or the absence of a method, may become a habit with a bookkeeper, causing the loss of hundreds of hours of his time in the course of a year, and greatly diminishing his earning power.

When a bookkeeper does not know, from location or from memory, the pages of his ledger accounts, the following method will save time and mental effort. Before beginning to post, write from the index, the account pages in the postmark columns of the posting books, opposite all amounts to be posted. Then post all debits, beginning with the first pages of the ledger and progressing to the last, so far as this can be done on a single page of the posting book. Indicate posting by a check mark. It is not a very good plan to write page figures in the posting books during the process of posting, because the page figures (relatively unimportant) would receive attention when the mind should be highly concentrated upon the smallest possible area of effort. Try to carry as little as possible in mind, except what you are actually writing in the ledger, and where you are writing it. The figures must be absolutely correct and placed in the right accounts. After you have posted all charges, glance back over all pages of the posting book, to see that no entry has been overlooked. If you always make the check mark immediately after posting the entry, you can know that the omission of a check mark means a failure to post the item not checked.

Post the credits in the same way. Remember that in posting, the habit of doing the same process in the same way is your best protection against errors. If you are not methodical, you may make, in a second, a slip in posting that will cause you hours to discover.

If you know the pages of the ledger accounts, or if you use a self-indexing ledger, it is a waste of time to place the ledger pages in the post mark column of the posting book. A check mark is sufficient.

72 K. Verifying the Posting. After all charges and credits are posted to the accounts in a double entry ledger, it is customary to verify the work monthly, or oftener if thought advisable. Since the sum of all charges is equal to the sum of all credits in the posting book, it follows that after the posting is completed, you must have posted an equal aggregate of charges and credits into the ledger accounts, that is, that you have not disturbed the equality of the total ledger debits and credits. The ordinary proofs of posting are given in Prin. 72 L and 72 M.

72 L. Taking a **Proof Sheet** is the easiest means of assurance that the ledger is in balance. This consists of a list of all the debit and credit account footings arranged in two columns. The equal footings of debit and credit columns tends to show that there was no oversight in posting the entries. (See Form 12 I.) The proof sheet is quickly taken on two-column paper, or, if an adding machine is at hand, by listing the debits first, then the credits.

72 M. The Trial Balance is a list of the open account titles, with the balance of each account placed in either the left or the right column accordingly as it is a debit or a credit balance. To make a trial balance requires more time than to make a proof sheet because it is necessary to compute the balances of the accounts, whereas, in the proof sheet only the totals are used. The trial balance is more useful for reference, as in any review of the business, the balances of the accounts would be of more interest than the totals. The equality of debit and credit totals in the trial balance, shows the ledger to be in balance.

Some account totals of a statistical nature, as well as such account balances, may be of interest to the one who examines a trial balance. Such totals may be placed in the explanatory space before the money columns, as illustrated in Form 12 J.

Note.—A great many accountants call a list of account titles with the debit and credit totals (instead of the debit or credit balances) a trial balance. As a matter of convenience in the discussions arising in this book, the term trial balance should be taken to mean a trial balance of account balances, while a trial balance of account totals is referred to as a proof sheet.

72 N. When the Trial Balance Does not Foot Equally. (See Prin. 63 D.)

72 O. Closing the Ledger involves three important processes: (1) the re-adjustment of the financial accounts so as to exhibit the assets and liabilities of the business at their revised valuation when the books are closed; (2) the transfer of the balances of the nominal accounts into Profit and Loss, which shows as a result a net profit or a net loss; (3) the distribution of net profits or losses from the business ledger to the financial ledger into such acounts as may be determined by the owners.

Below are given the various steps of ledger closing in paragraphs numbered 72 P, 72 Q, and 72 R, for financial ledger; and 72 S for business ledger.

72 P. The Inventory Account. When closing a ledger, if this account shows charges or credits from the beginning of the fiscal period, such amounts should be transferred from the Inventory account in the financial ledger to the nominal accounts to which they apply. For example, the charge of merchandise to Inventory account from the beginning of a fiscal period, is closed into Trading account at the close of the fiscal period.

The Inventory account should be charged for the inventory of merchandise taken at date of closing. This charge is balanced by a credit to Trading account. (Prin. 26.)

The Inventory account should be charged for any other asset inventories at date of closing. The charge is balanced by crediting the nominal account which is used to show the final disposition of the assets.

Liability Inventory account should be credited for current liability inventories taken at the time of closing. These credits are balanced by charges against such nominal accounts as show the final disposition of the inventories. (See Prin. 34.)

After the foregoing entries have been made, the Inventory account shows, as debits, all assets, and the Liability Inventory account shows, as credits, all resources and liabilities that are floating.

72 Q. Accounts of Fixed Assets. The accounts of fixed assets are examined at the time of closing to determine the amount of depreciation during the fiscal period then terminating. If it is decided that the values of any of the fixed assets have diminished below the cost as shown by the account, the amount of depreciation should be credited to Reserve for Depreciation, or to the account itself under circumstances explained in Prin. 29. (See 35 B.) This credit is balanced by a charge to the proper expense account in the business ledger.

72 R. Closing the Financial Ledger. After the **net profit for distribution** of a given fiscal period is determined and the amount rests in the Profit and Loss account, a final entry must be made, to transfer this amount to the financial ledger. Net profit may be credited to proprietors' Capital accounts, or to proprietors' Drawing accounts, in a non-stock company; in a stock company it should be credited to a Dividend account, a Surplus account, an Undivided Profits account, a general or special Reserve account or it may be divided among two or more of these, as decided by the owners. When so carried, the Profit and Loss account is charged, and, being in balance, is ruled.

A net loss may be charged to owners' Capital or to Drawing accounts, in a sole proprietorship or partnership. In the case of a stock company, it may be charged to Surplus or general Reserve accounts if there is sufficient credit to balance the loss, or to an Assessment account, if it is intended to collect the loss from the stockholders. The charge is balanced by a credit to Profit and Loss account. After posting, the Profit and Loss account, being in balance, should be ruled.

72 S. Closing the Business Ledger. In a trading business, after inventories have been posted to the nominal accounts involved, close the primary accounts of Merchandise Bought and Merchandise Sold into the Trading account. Close Trading account and all other nominal accounts into Profit and Loss; finally close Profit and Loss into the financial accounts as explained in 72 R.

73. The Journal is the only book designed to contain all original entries. Every business transaction may be correctly entered in the journal. In certain simple lines of business, a journal and a ledger are, all things considered, the only books needed. But commonly, the ordinary routine entries of a business are made in special books, leaving for the journal only such entries as are of an unusual nature or importance.

On account of the importance of such journal entries as are made for reference, and their relatively rare occurrence under ordinary working conditions, especial emphasis is placed on a full and complete explanation of the entries rather than on the matter of making them rapidly. Young bookkeepers often think they have done well enough, if they merely indicate the ledger accounts to be charged and credited in a journal entry, with a bare hint at the nature of the transaction in the explanatory portion. The experienced bookkeeper is more concerned about clear and complete memoranda, knowing that, in the journal, rather than in other books of original entry, are to be found records of transactions that may lead to misunderstanding and litigation, especially among the owners of the business, if full facts are not clearly stated.

73 B. Different Uses for Journal. A complete journal (73 C) contains all original entries, of whatever nature, that pertain to a given business. **A general journal** (73 D) contains such entries as the other special books do not provide for. **A special journal** (73 E) contains entries of a special nature, as may be indicated by such names as sales journal, purchase journal, shipment journal, credit journal, debit journal, and the like. **A columnar journal** (73 F) is one that, in addition to the two ordinary charge and credit money columns, has other columns in which are grouped entries of a special kind.

73 C. The Complete Journal contains all original entries, and is ruled so as to provide space for date, memoranda, ledger titles, postmark, and amounts. These different parts of the entry are arranged in somewhat different order by different bookkeepers or under varying conditions.

Form 12 A is recommended as good. To the left is placed the date, which is the first thing looked for in referring to an entry. The wide space in the center provides space for the considerable amount of memoranda usually required in a journal entry. Below the memoranda are placed the titles of the ledger accounts affected by the transaction. The charge title is placed one space to the left of the memoranda in order to make it clearly distinguishable, and above the credit title, which is placed slightly to the right of the charge title. Opposite these titles, in the money columns, are the amounts. These are placed in the charge and credit columns respectively and on the same writing lines with the titles. Immediately before the money columns is the postmark column. The postmark column should be close to the amounts for greater convenience in postmarking, as the posting proceeds, and to permit the bookkeeper to verify more quickly the posting of the amounts.

A journal may be footed, as in the model, to show equality of charges and credits before posting.

The complete journal is often a journal of several columns as described in 73 F.

73 D. The General Journal may be ruled in any form used for the complete journal. The term, general, implies that there are also special books kept for the entries of certain special kinds of transactions, and that the unclassified transactions, or those of a general significance, are to be recorded in the journal for entries of such general nature.

The complete journal and the general journal may be thus distinguished: The complete journal contains all transactions, whereas the general journal contains only such transactions as have not been entered in other special books. For example, assuming that in an ordinary trading business, the three most numerous classes of transactions will find record in special books, rather than in the journal, (i. e. cash received and paid in the cash book, merchandise bought in the bought book, merchandise sold in the sold book), there remain certain kinds of entries to be looked for in the general journal. Among them are: (1) entries affecting the Capital accounts; (2) entries showing the closing of the books; (3) entries of an unusual nature; (4) entries of correction or adjustment; (5) entries or memoranda of contracts, agreements, etc.; (6) entries that appear in part in some other book of original entry, but cannot appear wholly in the special book. When such occur, the journal entries are regarded as entries to be posted, and the entries in the special books, as entries already posted. An entry in a special book is to be checked out, not posted to the ledger when it is covered by an entry in the general journal.

73 E. A Special Journal contains a certain kind of entries that, for convenience, are separated from the general journal. In a sense, all books of original entry are journals, and entries in them may be properly referred to as journal entries. A so-called "special journal" is rather in the nature of an abstract of certain entries that have been arranged and put in balance before posting. Thus, a sales journal contains the dates, titles, terms and amounts of sales, that is to say, an abstract of sales, gathered from bills, and balanced ready for posting; a purchase journal contains a similar abstract of invoices; a shipment journal contains an abstract of shipments, similarly arranged. Debit journals are frequently used in banks and wholesale houses, and contain no entries but the charges; credit journals, on the other hand, contain no entries but the credits.

A "sales journal" differs from a "sales book" in that the sales journal contains merely posting data, while the sales book contains a full record; the same difference applies to other "journals" and "books" of like relation.

In old style bookkeeping, the memoranda of transactions were entered in a "day book," from which the facts necessary for posting were transferred to a "journal." The journal in this relation, therefore, was a mere intermediate book between day book and ledger, and contained posting data only.

While the old time day book and skeleton journal are no longer in use, but are now combined in one book retaining the title, journal, we yet have certain special "journals" that are used as abstract posting mediums, having in this respect the same characteristics as the old fashioned skeleton journal.

73 F. A Columnar Journal has one or more special money columns, in addition to the two general money columns. The special columns are used to separate items of a given kind from the general miscellany of items, so that those thus separated may be added and their sum treated as one amount for posting to a controlling account or for reference. If these were left in the general column, they would have to be posted or collected for reference one at a time. The special column principle, when properly applied, has saved an immense amount of time in bookkeeping, but, on the other hand, when its application was faulty, it has caused a great deal of extra labor.

A special column can be used advantageously only for frequently repeated entries that are recorded consecutively with the other entries by one bookkeeper. Where several persons are working on the same set of books, it is generally more economical of time and effort to substitute special books of entry instead of adding special columns to a journal. There may be instances where a special sales column in a journal, allowing the sales to be entered in the journal along with other items, would work out to better advantage than to separate the sales entries from the journal into a sales book. But this would seldom be advisable.

The advantage of a special column in a journal must, in each instance, be compared with the alternative advantage of suppyling a special book to contain the entries which the special column is planned for, or with the extra work of posting singly from a general column the items assignable to the special column.

A special column should not be added to a journal unless it is clear that the extra labor of making entries in this column, of carrying the footings of the column forward from page to page, and finally of proving the total at the end of the posting period, would be less than the labor of posting the given entries from a general column. This will depend on the circumstances.

73 G. A Cash Journal may be used to great advantage under certain conditions. A form of this journal contains four money columns—two for charges and credits that require posting to ledger accounts—and two for deposits in the bank and checks drawn against the deposits. This journal is particularly well suited for private individuals who wish to keep concise, accurate accounts of their property and obligations, together with their incomes and expenses. It contains a complete record of all transactions that involve property, claims receivable, and obligations payable, and may contain any other memoranda for journal record. A detailed description follows:

Form 12 W. Referring to this form, there are shown five descriptive columns, followed by four money columns. The first column is for the date, the second for explanatory matter, the third for titles of ledger accounts, the fourth for the check number, (used when the transaction involves the issuance of a check), the fifth for the postmark of amounts in the general columns posted to the ledger. The first money column is for amounts to be posted as ledger debits (except the charges to expense, which are to be posted to the expense book. (See Prin. 74 F, Illustration No. 1.) This expense book is conveniently bound in the same cover with the ledger.) The second money column is for amounts to be posted to the credit of ledger accounts. The third and fourth money columns are really the bank checking account—the deposits and checks being carried directly to these columns instead of being posted to them from the journal, thus saving the time required for this extra posting. At the end of the month, the totals of deposits and checks are carried to the general debit and credit columns, respectively, thus completing the equality of the two general columns.

When such a book is used, it is more convenient to balance the bank columns and carry the balance down in the journal to the following month, as shown in the form, rather than to post the totals of these two columns to a bank acount in the ledger, as could be done. When carrying the totals of these two columns to the general column at the close of the following month, care must be taken to exclude the balance carried down from the preceding month, that is, to carry only the receipts and payments of the current month to the general column.

Note.—Additional comment, not strictly pertaining to the journal, may be inserted here in order to complete the outline of the entire procedure of household accounting, which if properly carried on, is very valuable in results as well as simple in execution.

Following the best usage of business generally, all family moneys should be deposited in a bank under a checking account. Progressive savings banks and the ordinary commercial banks welcome individual checking accounts, because a bank checking account is a step toward thrift. Having placed the funds in a checking account, the cash disbursements, being by check, are a matter of record. Those who desire to classifiy the family expenses, sometimes experience difficulty in securing a convenient record for the large aggregate of payments constantly made, a few coins at a time. If each person who spends the household money will supply himself with cash by means of checks, and carry with him a ticket on which to jot down the expenditures as they occur, this ticket (returned to the household bookkeeper when the proceeds of the check is exhausted) will provide the memoranda from which the expenditures may be classified in the expense book.

74. The Cash Book contains the daily record of cash receipts and payments. It thus takes the place of the journal, as a record of cash transactions. The cash book also provides for the entries of receipts in a column separate from the entries of payments, making it equivalent to a ledger account of Cash.

Besides the general receipt and payment columns used in all cash books, one or more special columns may be added for classifying special kinds of receipts and payments, thus making a columnar cash book.

The cash book should contain a satisfactory explanation of all receipts and payments. Every entry should be fully explained, if there is no voucher to support it, or, if there is, this voucher should be described in the entry in such a way as to make it easy to find. This book is to be kept with care; entries are to be made promptly, for it contains the explanation as to all receipts and payments of cash. If business is at all active, cash book balances resulting from these receipts and payments should be compared with the cash on hand at the close of the day. Any discrepancy should be accounted for at that time. There is the possibility that certain cash has been received, which the cash book does not account for, thus making cash "over;" or cash may have been paid which was not entered and cannot be remembered, thus making cash "short." In either case, if the bookkeeper cannot find the missing entry, he should enter a cash debit for the cash "over," or a cash credit for the cash "short," and post this entry to an account entitled, Cash Short and Over in the business ledger.

Cash receipts are posted to the credit of such ledger accounts as explain the yield to the business; cash payments are posted to the debit of such ledger accounts as explain the cost to the business.

There may occur certain cash book entries which should not be posted to the ledger; for example, a combined journal and cash book entry like this: Machinery $500 to Bills Payable $400 and Cash $100. In this case, the complete entry would be made in the journal, and the payment of $100, after it is entered in the cash book, would be postmarked "J" to show that the corresponding charge for the cash credit of $100 is included in the charge to Machinery of $500, which is to be posted from the journal, and checked out of the cash book. Likewise, any entries in both cash book and journal are checked out of the cash book to the journal, while the posting is done from the journal.

The cash book may be balanced and ruled daily, monthly, or at any other period suited to the requirements of the business.

74 B. The One Page Cash Book (see Form 10 B or 11 A) has a column for date at the left, followed by explanatory space, as wide as possible, with money columns for receipts and payments at the right. Just following the explanation, and preceding the money columns, are two columns—one for the names of the ledger accounts to which the amounts in the following money columns are to be posted, the other for the postmarks, which consist of the ledger page, showing where to post, and a check mark, showing posting done. Cash receipts are posted to the credit of ledger accounts; cash payments to the debit. In the illustrated cash book, no distinction is made between currency and check payments. If a bank checking account is kept, a record of deposits, checks and bank balance should appear in the check stubs.

74 C. In the **Two Page Cash Book** (see Form 13 B) the cash receipts are entered on the left-hand, or debit page, and the cash payments on the right-hand, or credit page. On the debit side, the first money column is reserved for current receipts, which are extended by totals into the second column, when deposits are made; the amounts extended should agree with the deposit tickets. It is usually possible to deposit all cash receipts in a bank, and this should be done except under unusual conditions.

At the end of the month, any cash left over after banking hours, should be entered on a deposit ticket, and deposited separately from the receipts of the following day, thus enabling the bookkeeper to extend all receipts of the month into the second, or deposits, column.

On the right, the payments, which are all by check, are entered in the first column and extended into the second column from time to time to compare with the deposits. The balance is the difference between the second columns of the two pages.

Entries in the cash book should show from whom cash is received and to whom cash is paid. This is the most natural thing to write when paying or receiving cash, and definitely locates the persons dealt with. There should also be a sufficient explanation to show the purpose of the receipt or payment. After this explanation, the ledger title to be credited from cash received, or charged from cash paid, can be written or indicated in the space before the postmark column, at the convenience of the bookkeeper. Then the posting can be done.

Petty payments of coin or bills have no place in the main cash book. If placed in it, they confuse the bank account. Petty entries also require time to be spent unnecessarily in posting. Although such payments cannot be avoided, they should be provided for by the issuance of a check to the cashier (see entry Nov. 1) for a Cashier's fund to meet petty disbursements, which he accounts for in the petty expense book. (Prin. 74 E.)

Care should be taken, when the main cash book is balanced, to rule up both sides on the same writing line. Enter the balance in red, and carry it down in black ink, as the balance is in the bank, the amount is carried down to the second column of the debit side.

74 D. The Check Stub contains a record of cash payments by check, (further record on the stub being unnecessary if kept with a cash book) as explained in Prin. 74 C. As a check is not likely to be issued out of the check book without the stub being left, record for every payment is practically assured. In addition to that record, the check, passing through the payee's hands, with his endorsement, is returned to the maker from the bank as a receipt. These advantages of paying by check make it advisable that all disbursements except from the Cashier's fund be made in that way. The entries on the credit side of the cash book are taken from the stubs.

Note.—When a check book is carried about, instead of being used in the office, it is generally advisable that the stub contain the record of deposits as well as checks, so that the balance can be forwarded on the stub for immediate reference. Forwarding balances on the stubs involves extra work and often gives rise to errors, unless very carefully attended to, so that the check book used in the office often does not contain any other stub record than that of the checks issued.

74 E. The Petty Expense Book, also called **Petty Cash Book,** as commonly used in a business office, is a two column scratch book containing a record in the debit column of checks issued to the cashier for petty payments, and in the credit column, entries of the payments made. The form is similar to Form 10 A. This record shows the disposition of the money, which is all that is desired. The account of the Cashier's Fund in the ledger is charged for the expense checks as issued. From time to time, as the Cashier's Fund runs low, the cashier makes a voucher for the amount expended, and receives a check, which restores the petty expense fund to the original amount. The entry in the general cash book for this voucher is charged to Expense.

74 F. The Complete Expense Book may be used to great advantage, where it is desired to classify expenses under a number of special headings. Such a book contains one general column at the left, to which are posted from the cash book, and from the journal when the journal contains expense entries, all charges that are included in the general term expense. To the right of this column, are placed a number of columns, each headed to show a particular kind of expense. The entries that were posted to the first general column of this book, are, at the convenience of the bookkeeper, or when he secures the necessary information, distributed among the several columns. The sums of the special columns should equal the sum of the first general column. The totals of the special columns may be posted to the special expense accounts in the ledger, which are named to correspond with the headings of the columns, once a month or once a year. When it is not thought necessary to post the sums of the expense columns at all, the total expense should be included in the trial balance as one item which is explained in detail by the distribution shown in the separate columns of the expense book.

Illustrations: (1) In household bookkeeping, a check for $20 (see Form 12 W, check No. 6) may be issued to a member of the family for family expenses. This amount would be posted from the original entry to the general column in the complete expense book. Later on, the member of the family may return a ticket or memorandum showing that the $20 had been disbursed: for clothing, $10.80; for groceries, $6.59; for car fare, 25 cts.; for literature, $1.10; for a frying pan, 25 cts.; unaccounted for or personal expenditure, $1.01 (see Form 12 X). These amounts can be distributed from the report to the various columns headed to correspond with the various classes of expense mentioned in the memorandum. The last item is best entered in a column headed Personal Expense (with the name of the member of the family who is spending the money). Separate columns of personal expenditure for each member of the family will tend to locate any disproportion in the personal expenditures of the various persons in the family which would otherwise be overlooked. The totals of these special columns in the expense book, should equal the total of the general column. Any ordinary business house may distribute the expenses in a similar book.

(2). In a department store, (especially in a retail store whose departments are in the hands of managers responsible for department profits) it is advantageous to distribute the expenses through a complete expense book, to the departments as well as to the general Office and Capital Expense accounts. Thus, weekly salaries amounting to $321.40 should be distributed: to Office, $105.40; to Department No. 1, $31.25; to Department No. 2, $45.60; and so on until the entire amount is distributed. Rent, light, and heat are distributed according to floor-space occupied ; advertising according to newspaper space—all expenses according to the department benefitted thereby.

The totals of the respective special columns are charged monthly to the corresponding ledger accounts.

74 G. All cash receipts, large and small, should be entered in the main cash book on the day of their receipt. However, some discrimination must be used in deciding whether to enter them directly into the cash book when the cash is taken in, or to make some primary record first. Retail stores usually record small cash sales in cash registers, and transfer the totals to the cash book at the close of the day. If a cash register is not used, a cash sales sheet will effect the same result. The device to record the cash sales depends on their number, and the precautions thought necessary to insure a complete record.

74 H. The Columnar Cash Book, also called **Special Column Cash Book,** is a cash book containing special columns, in addition to the columns for the cash account.

(1). A special column is used to segregate frequently repeated items that are to be posted to the same ledger account. Such items, standing alone, can be added and their sum posted with less labor than would be required to post the items separately from a miscellaneous column. Thus, if there were a hundred entries on the credit side of the cash book, all charging Merchandise Bought, the bookkeeper would be obliged to post them one at a time from a miscellaneous column, making one hundred operations. But if the amounts were carried to a special column for Merchandise Bought, the total of that column could be posted in one operation.

A special column on the receiving side of cash is frequently advisable for Merchandise Sold. Columns for accounts receivable, accounts payable, discounts, and expenses are often advisable.

(2). When the complete ledger is divided into one general and one or more subsidiary ledgers, special columns are necessary for the items that are to be posted to the subsidiary ledgers. The items in such special columns are posted separately to the several accounts in the subsidiary ledger, and their total to the controlling account of that ledger, in the general ledger.

Thus, when the sales ledger is a subsidiary book, a column headed Accounts Receivable in the cash book (receiving side) will contain the amounts of all cash receipts, on book account, from customers. These entries are to be posted severally to the sales ledger, and their total to Accounts Receivable, (the controlling account) in the general ledger.

Likewise, when the purchase accounts are kept in a subsidiary purchase ledger, a similarly used special column in the cash book (paying side) would be headed Accounts Payable.

In the commission business, a similar column headed Consignors, segregates the payments chargeable to accounts in a subsidiary consignors' ledger.

(3). Whatever special columns are included in a columnar cash book, there must be a general and a net cash column on the receiving side and a general and a net cash column on the paying side, in order to make the book easily handled, and readily audited: (a) the receiving and the paying sides should have a general column in each, to show all amounts to be posted to the general ledger. Such general columns are headed, "general," "sundries," "general ledger," or "main ledger" by different bookkeepers, all meaning the same thing; (b) net cash columns are necessary in order promptly to determine the cash balance at any time. The net cash column on the debit side is headed, "net cash," "receipts," or "net receipts;" on the credit the headings may be "net cash," "checks," or "net payments," etc. Different bookkeepers use different headings. Both the net receipt and the net payment columns are footed in pencil or red ink from time to time, when it is desired to determine the cash balance without balancing the cash book.

Other columns may be placed between the general and the net columns of either side, the number of special columns depending on the number of kinds of items the bookkeeper wishes to segregate from the general posting column for the purpose of posting by totals. For a fuller description and illustration of a columnar cash book, study the following paragraphs:

(4). (Form 16 I). The form given illustrates a columnar cash book adaptable to a wholesale or a wholesale and retail business, either departmentized or not. A change in one or two headings will adapt it to a voucher system, to manufacturing, or to a commission business.

On the Receiving Side, beginning with column No. 1, is the date. Column No. 2 contains the name of the person from whom cash is received and any other explanatory matter. Column No. 3 shows the titles of such acounts as are posted to the general ledger, direct from the entry. Column No. 4 contains the post marks. Column No. 5 shows the amounts to be posted direct to the general ledger. These amounts consist of a number of first entries, and, at the close of the month, the totals from columns 6, 7, and 8. Columns Nos. 6 and 7 are considered together. No. 6 shows the credits to customers who have remitted on book account, No. 7, the amounts of cash discount allowed them. For example, on Nov. 2, James Lee receives credit, $108.62, for payment of his invoice of Nov. 1, (11-1). He was allowed $1.09, cash discount, having actually paid $107.53, as shown in the net cash column, No. 9, in settlement of that item. Column No. 8 shows the total of the miscellaneous cash sales made during the day. This total may be taken from cash registers, a list of cash sales tickets on sales sheets, or otherwise totaled on primary records before transfer to the cash book. Column No. 9 shows cash actually received, which has previously been entered for posting in one or several of the columns Nos. 4, 5, 6, 7 and 8. Column No. 10 shows the extensions from column No. 9, agreeing with the deposits as made. On the last day of the month, any cash received after banking hours is entered on a deposit ticket, and deposited the next day separately from the receipts of the next day. By this means, the entire receipts of the month may be extended to the deposit column. The footing of the deposits column is the total cash debit.

When the cash book is balanced, the entries of the receiving side are proved correct by comparing the total of columns Nos. 5, 6, and 8, diminished by the total of column No. 7, with the total of the net cash column. When found correct, the totals of columns Nos. 6 and 8 are carried down to the general column, to be posted as credits in the general ledger, and the total of column No. 7 is carried to the general column to be posted as a debit in the general ledger.

On the paying side, columns Nos. 11, 13, 14, 15, and 16 are used for cash credits similarly to columns Nos. 1, 2, 3, 4 and 5 for cash debits. Column No. 12 is inserted to give the check numbers for reference. Columns Nos. 17 and 18 show charges to creditors on book account, and cash discounts allowed, the net remittance being entered in column No. 21. All payments are made by check, so that the column headed Checks is the net cash column. Items too small for a check are paid by the cashier out of a fund which is charged to an account in the ledger. (See check No. 589.) When the cashier needs more money for small payments, he turns in the voucher for the currency payments he has made, and takes a check for their amount, which leaves him with the original expense fund of $50. (See check No. 615.) Column No. 19 shows payments which will be added, and charged to Merchandise Bought at the end of the month. Column No. 20 shows all items chargeable to Expense. In a business sufficiently well organized to use this form of cash book, there would unquestionably be several subdivisions of the expense account. It is impracticable to insert, in a compact cash book, columns for such subdivisions. To distribute the items in this column, post them to the expense book, (see Prin. 74 F) where they can be distributed to the extent desired, either in unit or department organization.

Before balancing the cash book, the disbursements are proved by adding the sums of columns Nos. 16, 17, 19, 20 and subtracting from the total the sum of column No. 18. The result should equal the sum of column No. 21. Columns Nos. 17 to 20 are carried to the general column for posting as on the side of the cash book for receipts. The balance is then entered in the column No. 21, (red ink) and after ruling and balancing, is carried below the ruling to column No. 10.

75. A large share of the bookkeeping work in most concerns is given to **Records of Merchandise Sold.** Hence, any means of arranging and abbreviating selling records, so as to reduce the clerical labor involved, results in an appreciable saving of labor. The matter of saving time and labor in connection with sales records is deemed so important, that a number of distinct systems have been devised. A suitable one for a given business may be selected from these. For example, a system suitable for recording the sales of a retail grocery, or meat market would be entirely inadequate for recording the sales of a retail lumber yard. Neither of these would be suitable for a wholesale grocery, dry goods or drug house. In this chapter, systems of sales records for typical conditions are discussed.

75 B. The ordinary **Merchandise Sold Book** (see Form 13 C)—commonly called, in the office, the sold book, sales book or order book—is ruled much like a journal. Journal ruling will do very well for the purpose, although some of the vertical lines of the journal are not needed in a merchandise sold book. In the form, the date of the sale is at the left, the name of the buyer and the terms following on the same line. Below, in the explanatory space, are the items extended into the first money column. The total is carried to the second column. Discounts allowed at time of sale should be deducted, before carrying the charge to the second column. If the sale is for cash, the amount is charged to the cash account (see cash sale Nov. 2 or Nov. 24, charged to Cash on Form 13 B). If the merchandise is sold on book account, the amount is posted to the debit of the customer's ledger account. (See charge sale Nov. 7 posted to 13 I.) If the merchandise is sold for a note, the amount is charged to Bills Receivable account, in the same manner as a charge sale is to an individual account.

The merchandise sold book is footed and the total, at the end of the month, is posted to the credit of Merchandise Sold accounts. (See total, Nov. 30, posted to Form 13 F.)

Thus, if the sold book has the correct total before final posting, there will be entered in the cash book and posted to the ledger an aggregate of charges equal to the credit posted to the Merchandise Sold account.

75 C. The Duplicate Merchandise Sold Book contains a number of bills to customers, printed on one page, perforated at the margins, so that the bills may be removed and delivered to the customers. The sheet under the bill to be delivered, is a duplicate without perforation, to be retained and posted from, as from an ordinary sold book. The copy of the bill delivered is made on the duplicate sheet by means of carbon paper inserted between the sheets. This enables the billing clerk to make the bill and the office record at one writing. The duplicate sheet is often on paper of a different tint from the bill sheet, so that the two may be readily distinguished.

A number of these duplicate sheets may be bound in a book, or they may be kept loose, to be transferred into a loose-leaf binder. The loose-leaf binder is better where great numbers of sales are made, as one binder may hold a thousand or more duplicate sheets.

Other systems of duplicate billing are described later. This system is good in any bulk merchandising or service business, where the items billed are comparatively uniform in number.

75 D. Shopkeepers' Bill and Charge System. Grocers, butchers, and other shopkeepers frequently have regular customers to whom they sell daily on account. In order to avoid the labor of posting the daily charges to customers' accounts, it is quite common to keep a separate bill and charge book for each customer. Such a book contains a number of sales tickets alternating with other tickets for carbon duplication. When an order is filled the sale ticket shows the items, and these, as entered, are copied on the duplicate by means of a carbon paper device. At the top of the money column of the charge tickets and duplicates, the balance due has been carried from the previous ticket. This amount is added in with the extensions of the present ticket, and the total carried forward to the following ticket and duplicate. Thus the amount owed by the customer is always apparent both on the bill and the duplicate, whenever an order is filled. If the customer makes a payment on account, the amount is entered on the following ticket and subtracted from the balance carried forward.

The bill and charge books for the several customers are arranged on a rack in the order of the customers' names taken alphabetically.

The total of accounts receivable may be found at any time by adding the balances shown in these books.

75 E. In the wholesale business, where orders are taken largely by traveling salesmen, or from the mail, and where the great volume of business demands close daily attention to profits and expenses, the following described system of records for merchandise sold is in use in many of the best houses:

The orders for goods, whether coming from traveling salesmen, from the mail, or by telephone, or from a customer at the counter, are placed on uniform order blanks, (see Form 16 A) showing buyer, quantity of each item, prices, *routing, and terms. The order blanks also have memoranda spaces to designate the salesman who took the order, the credit man who passed it, the shipping clerk who filled it, the bill clerk who billed it, the carrier by which it was forwarded, and the department from which the goods were taken, if a departmentized business. These spaces are filled by the initials of the responsible persons through whose hands the order passes while being disposed of.

After the order is approved by the credit man, it is entered in an order register (see Form 16 B) from which it receives its number. This order register is to keep the order in mind at the office, while the order itself is going the route in being filled.

When filled, the shipping clerk places his initial in the blank space of the sheet, provided for that purpose, and returns it to the office where it is marked off the shipping register. The order sheet is then passed to the bill clerk who makes out the bill for it, which is mailed to the customer.

After the bill clerk has finished the billing, the order sheet is passed to the bookkeeper, who posts the charge to the debit of the customer's ledger account.

After posting to customers' accounts the loose order sheets are assembled, placed in numerical order, to make sure that none are missing, and bound in a loose-leaf binder. (See Form 16 C.)

At the close of the month, the sheets in the loose-leaf binder are totaled, (an adding machine should be used where possible) and the total posted to the credit of the Merchandise Sold account; or if the store is departmentized, the credits would be divided among the various **Department Sales** accounts, through sales distribution sheets. (See Form 16 D.) The debit amounts to balance these credits, have already been posted to the customer's accounts in a complete ledger, or, if the customer's accounts are kept in a subsidiary ledger, the total sales would be posted to the debit of **Accounts Receivable** (the controlling account) in the general ledger.

Note.—Before placing these order sheets in a binder, if daily profits are to be computed, the sheets will be passed to the profit clerk, who, from the cost of each article shown on a cost sheet, will compute the profit on each item sold, and show from their total, the daily gross profit on sales.

When the orders are sent in by different salesmen, the sales manager can satisfy himself as to the amount of sales each salesman makes, by assorting the sales sheets by salesmen's names and entering the amounts in columns headed for the several salesmen. (See Form 16 E.)

76. Merchandise Bought Records. The records of merchandise bought are kept in different ways, depending on the volume, terms of purchase, and other circumstances, as well as on the requirements of the general accounts affected. For example, the records of merchandise bought in a department store must be kept in different form from those of a store not departmentized. Some kinds of business require constant ready reference to past itemized invoices, when future orders are placed; some do not. Some require a method for determining maturity dates of invoices, in order to take discounts; some do not. The following described systems for records of merchandise bought are suitable for most conditions:

76 B. The ordinary **Merchandise Bought Book** (see Form 13 D), called in the office the "Bot. Book"—also called the purchase book, purchases book, or invoice book—contains the buying records entered in form similar to the records in an ordinary sold book, showing date, from whom bought, terms, items extended to the first column, and the total amount in second column.

The amount of an invoice bought on account is posted to the credit of the firm bought from (see entry Nov. 2, posted to Form 13 H); the amounts of merchandise bought for cash are balanced by entries on the credit side of the cash book (see entry Nov. 6, balanced by cash payment in Form 13 B); the amounts of merchandise bought for notes or acceptances are posted to the credit of Bills Payable.

The bought book is footed at the end of the month, and the total is charged to Merchandise Bought account in the ledger. (See total Nov. 30, posted to Form 13 G.) Thus, if the bought book is footed correctly before final posting, there will be carried to the cash book and ledger, credits that, in the aggregate, will equal the total carried to the debit of Merchandise Bought account.

76 C. Buying Records Suitable for Extensive Business. In most concerns, merchandise is bought mainly on account, and in many lines, is subject to discount for early payment. Points in the record to keep in mind are (1) to give credit to the firm from whom bought on account (if not on account, credit Cash or Bills Payable); (2) to make a monthly charge to the Merchandise Bought account for the total.

In order to insure payments without loss of discount or credit, a record should also be kept of the maturities and discount dates of the invoices payable. Also, the invoices themselves should be kept where they are readily accesible for reference.

When the invoice is received, the following steps are taken for its disposal:

(1). Compare the items in the invoice with the actual goods received, checking off the items that agree. Place the pencil check marks before the items. (See Form 16 F.) The check marks show that the goods were actually received as billed, that there were no shortages or omissions.

(2). Verify the extensions, that is, see that the multiplications and additions on the bill are correct. Indicate these verifications by check marks also.

(3). See that the goods received agree with your order as to terms, items, prices and samples.

(4). If any errors are found in the invoice, report such errors at once to the firm bought from, sending the original invoice and asking for a corrected invoice, or other adjustment as the case may require. Do not make any entry until the adjustment is completed.

(5). If the invoice is found correct, indicate its verification by writing "O. K." or other words signifying that it is ready for entry. In the model, the invoice has been passed by a person whose initials are "R. L. D."

(6). The verified invoice should be given a one-line entry in the invoice register (see Form 16 H) from which it is posted to the creditor's account, if it was a credit purchase. When conditions are such that the invoices are to be paid, regardless of any discount period, only the left page of the invoice register will be needed, and the right page, as shown in the form, may be disregarded. Where a strict watch is kept, to pay bills within a discount period, the date set for payment should be entered in the given month column of the date payable section.

When the invoices are charged to departments, instead of to the general Merchandise Bought account, the amount of the invoice is carried to the proper department column.

A check mark placed over the date, in the date payable column, will indicate that the payment of the invoice has been attended to.

Note.—In department bookkeeping, it is customary for wholesalers to enter the full amount of the invoice in the invoice register, allowing the discount, when paid, to go to a Discount from Creditor's account. In a retail department store, the discounts are usually deducted and the bills entered at the net amount. The reason for this is, that the manager of each department (also called the buyer) is considered entitled to show profits for his department, based on the best price (including discount) that he is able to secure on his purchases. In the latter case, if the management of the store should fail to take advantage of discounts— an unusual occurrence—this discount would be chargeable to Office Expense, and not to the cost of Merchandise Bought for the given department.

(7). After the invoice is entered and numbered, it is placed in a file with other invoices from the same firm.

A vertical file, with separate compartments for each customer (see Form 16 J) is used where there are many invoices.

Note.—Invoices are sometimes pasted into invoice books, from which they are posted to the accounts. This kind of invoice book is going out of use, because it is necessarily bulky, inconvenient, and difficult to post from; besides, the books that have been filled occupy much storage space.

(8). When an invoice is paid, it is taken from the file and sent to the creditor to be receipted and returned. When a receipted bill is returned, it is again placed in the file.

Remittances may be made without sending the invoices with the remittance; in that case, a receipt should be returned, which is filed.

(9). At the close of the month, the footings of the invoice register are charged to Merchandise Bought account (or to department accounts if these are carried). The credits have already been posted to the various accounts payable, if in a complete ledger; but if the accounts payable ledger is subsidiary, the total is posted to the proper controlling account in the general ledger.

76 D. The Voucher System for accounts payable is a method in which original invoices, or special abstracts of the invoices are used, in place of the ledger accounts. The following paragraphs outline the voucher system as ordinarily used.

When an invoice payable is allowed, a blank form called a voucher form, or a voucher jacket, is filled in with whatever written memoranda necessary to describe the invoice, and to show the account or accounts to be charged for the purchase. The form is given a one-line record in a vouchers payable register. This is a columnar special journal, having debit columns headed to show the different ledger accounts charged for the several purchases which may include merchandise, material for manufacture, expense material, services or other items.

A credit column, headed Vouchers Payable, shows the amounts of all vouchers.

The lines in the voucher register are numbered, and the numbers are transferred to the vouchers, as the latter are recorded. After record, the invoices are folded in the voucher jackets, and placed in a clip or file, in the order of their maturity—those maturing first being at the top.

When an invoice is to be paid, the voucher jacket is taken out of the clip and sent, with the check or draft, to the payee. The latter is expected to fill in a blank receipt printed on the voucher jacket, and return it. On the return of the voucher jacket, it is placed in a file in numerical order with the other receipted vouchers. The invoice is placed in a separate file, that contains all the invoices from the given firm.

By this means, the unpaid invoices are always before the bookkeeper in the order of their maturity, and receipts for paid invoices can be referred to by number. There is a separate file for each trade creditor, where the invoices themselves are kept, and where they are easily accessible.

When the invoices are not numerous, the same practical result may be secured by stamping on the invoice itself, the form for the voucher description required, and handling the invoice in like manner as a voucher jacket is handled.

The vouchers payable register is footed, ruled and posted monthly. The several totals of the charge columns are posted to the debit of the ledger accounts, and the credit column total to the credit of Vouchers Payable. The Vouchers Payable account is equivalent to Accounts Payable, as the latter is kept when the voucher system is not used. When a voucher system is used, the cash book requires a column on the paying side for Vouchers Payable. Thus, in Form 16 I, the heading of column No. 17, Accounts Payable, would be changed to Vouchers Payable.

77. The Inventory Book presents a record of all floating assets and liabilities under the dates when taken. In a small business, inventories may be listed in the journal, but in an extensive business, a separate book is necessary, because of the page space required to list a large stock of merchandise, also because if kept in a separate book, inventories for different fiscal periods are easily accessible for comparison.

In making the inventories, both assets (Prin. 77 B) and liabilities (Prin. 77 C) are considered.

77 B. Among asset inventories, the most important is that of merchandise in stock, which is entered, as shown in Form 4 H, to show the quantity and value.

In a manufacturing business, a list of materials in stock, to be used in manufacturing, is likewise entered in the inventory book, to show quantity on hand, and value.

It frequently happens that material or labor not consumed, that has been bought and charged to expense, is carried over from one fiscal period to the next. This, if of considerable value, should be entered as an expense inventory.

Interest earned by the business, but not yet paid, should also be entered in the inventory book, to show the amount accrued, which is a part of the earnings for the period.

Any other accrued earnings of the business, which have not been entered, but which have an asset value, should be listed in the inventory book.

The total asset inventories are shown in a journal entry (see Form 14 D) charging Inventory account, by items, for the entire amount, and crediting Trading account for merchandise; Materials account, for materials; Expense account, for value remaining that had been previously charged to expense; and Interest account, for interest earned and included in the inventory.

77 C. Liability Inventories consist of unrecorded amounts to be paid, accrued at the close of the fiscal period. These should likewise be entered in the inventory book. Among them, are interest accrued on bills payable, and wages earned by employes but not paid. The purpose of entering these in the liability inventory is to keep an account of the losses assignable to the given fiscal period, even though they have not been paid.

The total liability inventories are shown by a journal entry charging Interest, Expense, or whatever titles would be charged had the items owed been paid, and crediting Liability Inventory account, by items. (See Form 14 N, transferred to 14 D.)

77 D. Depreciation is taken into account at the time the inventories are entered. A record of the amount and percentage of depreciation may appear with the other items, in the inventory book.

The amounts of depreciation are shown by a journal entry charging the proper business account, and crediting Reserve for Depreciation. (See Form 14 N transferred to 14 D.)

78. Primary Books and Records. When several persons are doing the bookkeeping work in a single office, it is generally necessary to divide the work of making primary entries among assistants, each one recording a certain variety of transactions belonging to his division of the work. These divisional records are made in primary books, so arranged that the aggregate results of the transactions recorded in any one book may be summarized on tickets for the head bookkeeper, who transfers the entries from the tickets to the posting books.

Primary records should be distinguished from auxiliary records. The former contain records, the totals of which are carried to the posting books; the latter, certain information, records, etc., that are not posted.

The primary books are, to a large extent, ruled and printed to suit the business where used, new forms being made as needed. They are necessary in every large office. In a bank, the following primary books are needed:

(1). Individual ledger, in which the individual bookkeeper enters the deposits and checks and extends customers' totals. At the close of the day he passes to the head bookkeeper tickets crediting Deposits for the total of the day's deposit slips, and charging Deposits for the total of the day's checks. (2). Loan and discount register, in which the discount clerk records all paper discounted by the bank. At the close of the day, he passes to the head bookkeeper, tickets charging Loans, Discounts, and Accrued Interest, and crediting Discount. (3). Draft register, in which the draft clerk enters the record of drafts sold. Tickets are made crediting the drawee banks for the totals of drafts sold; and Exchange for the total of exchange collected from sale of drafts. (4). Remittance register, in which the remittance clerk enters all drafts and checks cashed during the day, which are sent to correspondent banks for credit. He passes to the head bookkeeper tickets charging the banks to which remittance is made. (5). Collection register, in which the collection clerk enters the paper left for the bank to collect. As he collects the items, he makes separate tickets crediting the persons for whom collected, (if a depositor, through the individual ledger, if an out-of-town person, through the draft register) also a ticket crediting Collection.

A local agent of a railroad company makes the records pertaining to his office in primary books and forms, among them, the local cash book, freight forwarded book, freight received book, ticket summary book, etc. Reports or abstracts from these books are forwarded to the general offices of the company, and from these the general books are compiled.

In the manufacturing business, the various elements of cost entering into the product as a whole, or by the piece, are collected on various primary forms, and books, as the work progresses. The final results or general totals, of these daily records are to be transferred to and charged in the posting books.

In a retail store, the cash sales are given a primary record in cash registers and sales sheets, from which the aggregates are carried to the cash book.

A traveling salesman makes primary records of his expenses in a pocket expense book, from the total of which a ticket is made for entry in the office cash book or journal.

From the above samples, it is readily seen that all primary books should be preserved as a part of the records of the office, accessible to the auditor.

79. Auxiliary Books are books containing records and reminders to aid in the conduct of the business, but nothing that is to be posted. They thus have no articulation with the posting books, and can be added to or dropped from an office system when desired. Some common auxiliary books are mentioned:

The bills receivable book contains a description of notes and accepted bills of exchange received. Each item is given a writing line in this book. Vertical columns allow for description, usually consisting of the date received, number, maker's name, payer's name, date of note, time of note, date due, amount, interest rate, and a final column in which to enter disposition. The number in the bill book is written on the note, and the note is thereafter referred to by number. This book exhibits, in compact form, the information about all notes held by the concern. Where notes are received only at intervals, there is no very good reason for connecting this book with the posting books, as the posting entries can be made direct from the transactions, and the bill book record made at convenience. But when notes are received actively, it is better to make this a primary rather than an auxiliary book and transfer the charge to Bills Receivable from it by daily totals, as in the case of the loan and discount register. (See Prin. 78.) When the collections from payment of notes are very active, the credits of Bills Receivable may be posted to the bill book from the cash book, thus making the bills receivable book a subsidiary ledger, called the note ledger. Thus the relation of the bills receivable book to the entire bookkeeping system is that of an auxiliary book, a primary book, or a subsidiary ledger, depending upon the conditions.

The bills payable book is similar to the bills receivable book and is governed by the same considerations.

A tickler is a book subdivided into spaces, each space to contain memoranda of the maturities payable or receivable on a given date. The spaces are dated, beginning with January 1, January 2, etc., and extend through the entire year. A memorandum of a note or other obligation due in a future date, is placed in the space reserved for that date. Maturities receivable may be written in black ink and maturities payable in red ink, to distinguish them. This book is merely a reminder to refer to, once a day, in order that no collection or payment may be overlooked. When the items are attended to, they may be checked off.

A very practical form of tickler for use when the items of any one day are not very numerous, consists of a chart, ruled in twelve vertical columns, and thirty-one horizontal lines. The vertical columns should be headed by the months beginning with January, ending with December. The lines should be numbered 1, 2, 3, etc., to 31, to allow one line on the page for each day of the month. Reminders for given dates during the year can be written in at the intersection of the lines and the vertical columns; thus a reminder for April 10, would be written where fourth vertical column crosses the tenth horizontal line.

The Advertising list is a book containing addresses of prospective or regular customers, with information about them, to whom advertising matter is sent. The addresses are arranged in such a book, on the scheme of classification, either by surnames or towns, alphabetically arranged throughout the entire list, or arranged by states, or by other geographical sections. Such lists must be constantly revised, by adding new addresses, and by dropping off addresses of undesirable firms. Care in keeping this list correct and reliable is usually appreciated by any business manager.

The customers' liability ledger is an auxiliary book in which a credit man enters such information as comes to him concerning the debts already contracted by customers. The facts therein recorded are of value to him in determining the amount of credit to be allowed in future dealings.

There are many kinds of auxiliary books. Their scope and general purpose may be gathered from the foregoing examples.

80. Business Forms are the papers, partly printed and partly written, that pass among business men, in the course of their transactions. When these papers supply the evidence of the transactions, they are called vouchers. Entries in the books are mostly based on these forms. Whenever possible, vouchers should be filed for future reference.

80 B. Bank Depositor's Forms. Form 15 A. When a depositor opens an account with a bank, he is required to write his signature in a book provided for the purpose, called a **Signature Book. Signature Cards** are also used by banks for the same purpose. Depositor's signatures are kept where the paying teller may quickly refer to them for comparison with the signatures on the depositor's checks, when the checks are presented for payment. A depositor should write his name in his ordinary, plain hand writing without attempt at peculiarity in style. In signing his checks he should make no variation in the form of his signature. While a teller is responsible to the depositor for the genuineness of the signature on the checks which he pays, the depositor is responsible for delays or losses occasioned by signing checks in an unusual form or handwriting. A teller is justified in refusing a check, even though genuine, when the signature shows any material variation from the signature as filed with the bank. A model form of signature card is given in Form 15 A.

Form 15 B. Deposit Tickets are provided by the banker. On these the depositor enters the amount to be deposited. On making a deposit, the bills should be face side up, all bills of the same denomination being placed together. Coin in any quantity should be brought in a sack. The deposit ticket and the currency are passed to the teller. The form shows the deposit made up of currency, coin, and other cash items. When a great many items are included in a deposit, bankers prefer, and sometimes insist, that they be entered on the ticket in considerable detail.

Form 15 C. On receipt of the first deposit, the teller opens a **Depositor's Pass Book,** which he delivers to the depositor. This is a book to be carried by the depositor, and presented by him to the bank teller with his deposits. The teller enters each deposit in this book, when made, in the proper columns to show the date, explanation and amount. This book serves the depositor as receipts, from the bank, for the amounts deposited.

Formerly, it was the custom among banks to enter the deposits on the left page of the pass book, as above explained, reserving the right page for the entries of paid checks, written in the pass book by the bank bookkeeper, when the pass book was left at the bank to be balanced, usually at the end of the month. After entering the checks, the bank bookkeeper balanced the pass book, ruled it, and carried the balance down; then returned the book with the cancelled checks to the depositor. This custom yet prevails in many banks.

At present, commercial banks find it more satisfactory to render monthly statements (see Form 15 G) to depositors, without any reference to the bank pass book, so that it is not necessary for the depositor to leave his book at the bank to be "written up," as formerly. When the statement method is in use, the bank pass book is merely the teller's memoranda of deposits to be carried by the depositor.

Forms 15 D and 15 E. Check Books are usually supplied to the depositor by the bank. They may contain from twenty to several hundred checks, with one or several checks to the page. At the left of each check is the stub, which is separated from the check at a perforated line, and remains in the book after the check is detached. A very good form of check stub is illustrated in Form 15 D, in which the first deposit, $1000, is entered by the depositor in the space provided for that purpose. The record of the first check drawn is written on the stub, and the amount deducted from the deposit shows a balance of $970, carried forward.

Stub No. 2 (Form 15 E) shows the balance carried from Stub No. 1, and a second deposit of $50.25, making a total of $1020.25. From this amount, check No. 2 is deducted, leaving a balance of $856.05 to be carried forward to the third stub, so continuing. Thus, when a check is to be written, the balance remaining in the bank is always shown on the last stub.

In some check books, the stubs are interleaved alternately with the checks. In check books of this form, there is more space on the stubs for figuring.

Form 15 F. Checks or drafts when taken to the bank for deposit, or when transferred to other holders, must be **endorsed.** For endorsements transferring title, five different forms are given. Of the transfer endorsements, No. 1 is called an "endorsement in blank;" No. 2, an "endorsement in full;" No. 3, an "endorsement without recourse;" No. 4, a "restrictive endorsement;" No. 5, an "endorsement for deposit." The last named form would be used in endorsing the checks included in a deposit, although the first form is frequently used.

Note.—The two endorsements to the right of the form apply to notes.

Form 15 G. At the close of the month, the bank bookkeeper renders to the depositor a statement of his checking account, and returns with the statement the depositor's paid and cancelled checks. In the form referred to, two columns are reserved for the entry of checks, and one column for deposits. The check columns show the date paid and the amounts of the checks. The checks are entered in numbered lines, so that the statement readily shows how many checks are paid during the month. The model shows forty-five checks charged; hence the bank bookkeeper must return that number of vouchers (cancelled checks).

The deposits are entered in a column to the right. These entries should agree with the entries made by the teller in the depositor's pass book. (See Form 15 C.)

After entering all checks and deposits on the statement, the bank bookkeeper enters the total of deposits at the foot of the statement, and the total of checks below. The difference between these amounts is the balance remaining to the depositor's credit.

Form 15 H. Persons, in transferring funds from one city to another, find it convenient to do so by remitting **bank drafts.** Any local bank will sell a draft drawn on its correspondent, payable at par in any part of the country.

The form illustrates a draft drawn by a bank in North Platte, Nebr., on a bank in New York City. This draft, under ordinary conditions, may be cashed in any city in the United States at par. The bank cashing it will remit it to New York for credit. Local banks sell drafts on banks in the different large cities. It is customary to purchase drafts payable in the large city nearest the point remitted to.

Persons buying bank drafts may instruct the banker to make the draft payable to their own order or to the order of the person to whom they make remittance. It is a very good plan to have the draft made payable to the purchaser's order. In that case, before sending it, the purchaser must endorse it. The form of endorsement to use is shown on Form 15 F, second endorsement.

Banks charge exchange on the drafts sold. Rates differ, but are based on the amount of the draft. Many banks charge ten cents exchange on every hundred dollars.

Note.—Post office money orders and express orders serve the same purpose as bank drafts, for limited amounts.

Form 15 I. Business men, when temporarily in need of funds, regularly apply to their banker for loans or discounts. It is a principal service of a bank to loan money to those whose credit is good. When taking a loan or discount the borrower delivers a **note** payable to the bank.

The form illustrates a note given to a certain bank. The note does not draw interest until after maturity, the form indicating that the payment for the use of the money from date of maturity is in the form of a discount deducted from the amount that the banker passes to the borrower. Assuming that the interest for sixty days is $20, the banker would discount the note by deducting $20 from the face, and pass $1980 to the customer. At the end of sixty days the customer would pay $2000 in settlement.

If the interest clause in the note read "with interest from date," instead of "with interest from maturity," the form of the note would indicate a loan. In that case, the customer would receive full face when the note was delivered, and pay face, plus interest, at maturity.

Form 15 J. Occasions arise when it is desirable to leave a certain amount of money on deposit, not subject to check, but withdrawable in one amount by the depositor, or on his order. When money is left in this way, it is customary for the banker to issue to the depositor a **Certificate of Deposit.**

The form illustrates a certificate of deposit issued by a certain bank to Henry S. Miller, who may return it with endorsement, and receive the amount stated, or he may endorse the certificate to another person, who can cash it.

Form 15 K. The payee of a check sometimes demands special assurance that the check will be paid when presented to the bank. This assurance may be given by having the check certified by the banker. The form illustrates a **Certified Check.** This check has been presented to the bank teller who has written across the face a certification obligating the bank to pay the check whenever properly presented.

Form 15 L. When depositors discount their customers' notes and acceptances at a bank, a **discount ticket** is used. The items should be entered so as to show amounts and net proceeds, as illustrated in the form.

80 C. Miscellaneous Business Forms. Following are described a number of business forms that are in general use:

Form 15 N. The Order Blank is a form used by dealers in ordering goods. A book of order blanks should contain duplicates as well as original orders. When the original is sent, the duplicate is kept for reference, as a reminder in case the order is not filled promptly; and later, to be compared with the goods received. Order blanks should be numbered consecutively as a means of ready reference in correspondence.

Form 15 O. The Invoice or Bill is sent by the seller to the buyer at the time an order for merchandise is filled. On it are listed the items sold, the prices and the amount. On the form are written the customers' ledger page (for the convenience of the seller), the route by which the shipment was made, and the terms. The buyer, on receiving an invoice, should check the items carefully with the merhandise received, and with his order to note discrepancies in articles, quantity, or errors in prices or extensions.

Form 15 P. A Statement of Account is usually rendered to the customer on the first of the month, from the ledger account. The form, a statement for December, shows a balance of $250.19 carried over from November. To this are added the sales made to the customer during the month closed, the total debit being carried to the second column. Below are entered the customer's credits as they appear in the account, the total credits being also carried to the second column, where they are subtracted from the debit total, showing $493.14, the amount due.

The receipt at the bottom of the statement, written on a subsequent date, shows that the customer made full payment on Jan. 9.

Form 15 Q. This is a form of **account sales,** which is a statement or report sent by the commission firm (Conrad Schopp & Co.) to the consignor (A. A. Kuhl & Co.) of merchandise sent for sale on the market.

The commission firm undertakes to sell at market prices goods consigned to it, and to remit to the consignor the proceeds from the sales after taking out different charges for services in effecting the sales.

The form shows that forty-nine barrels of cranberries have been sold for the consignor in four lots amounting in all to $278.40. The commission merchants' charges are entered in detail, amounting to $24.89, leaving $253.51, net proceeds, due the consignor.

Form 15 R is a common form of **receipt.** It shows that Henry T. Miller, being indebted to C. M. Hunter, has paid $10.65 of the debt, and that Mr. Hunter acknowledges this payment. The form shows the receipt, with the accompanying stub, before the receipt is removed from Mr. Hunter's receipt book.

That portion of the form to the left of the receipt is called the "stub." It supplies the maker of the receipt with a record of the date, amount, to whom given, and purpose of the receipt.

At the time of writing a receipt, always fill out the stub before removing the receipt from the book.

A receipt is a written acknowledgement that the maker has received into his possession money or other property from the person to whom the receipt is given.

A receipt should always be required when money is paid on account, and the receipt should state clearly the purpose of the payment. Receipts should be carefully filed and never destroyed until there is no longer any possibility that they may be wanted.

Note.—A receipt form like the one illustrated is frequently not necessary. In Form 15 P, the payment of the account is receipted on the statement. Invoices (see Form 15 O) are often receipted in like manner. A check returned from the bank with the endorsement of the payee is a receipt for the amount of the check, although not a receipt for the payment of a specified obligation.

Form 15 S. A promissory note is a written promise to pay a stated sum of money at a specified time.

The original parties to a note are the Maker, or party who, by the act of signing the note, makes the promise; and the Payee, or the party to whom the note is made payable.

The form illustrates a standard promissory note and its stub properly filled out. In entering the amount on a note the same care should be observed to prevent "raising" or other alteration as in the case of a check.

In business, notes are usually made payable at a bank which is specified in the note. In the absence of such specification, the law makes a note payable at the legal residence of the maker.

Form 15 T and 15 U. Drafts are used to adjust accounts without the transmission of money. If J. C. Rogers owes the student $75, and H. C. Preston owes J. C. Rogers, the latter firm can draw on Preston payable to the Student, and the payment of this draft will adjust the several accounts. When the draft is made payable at sight or on demand, the drawee is expected to pay the draft when first presented.

Form 15 T is a draft drawn at thirty days sight, meaning thirty days after sight, and it should be presented to Preston as soon as possible, for acceptance. To accept this draft, Preston should write across the face of the draft the word "Accepted," the current date, and his signature. The draft, after Preston has accepted it, is called an acceptance. (See Form 15 U.)

Commercial drafts are commonly used as a means of making collections from distant firms through the agency of a bank. In this case, the drawer makes out the draft payable to the order of "Myself," or "Ourselves," and endorses the draft in favor of the bank "for collection," or he makes the draft payable directly to the collecting bank, who forwards it for payment or acceptance.

Goods are often paid for with the buyer's acceptance at the time of purchase, the acceptance in such case being used in place of a promissory note.

If, upon the presentation of a draft, the drawee declines either to pay it or accept it, the draft is said to be dishonored. In the case of a refusal to pay an acceptance it should at once be protested, as in the case of a refusal to pay a promissory note.

Form 15 V. When a shipper delivers merchandise to a transportation company for shipment, he usually brings a shipping book, or a set of loose sheets, describing the shipment in triplicate. The printed matter is different on each of the three sheets, but the blank spaces to be filled in by the shipper are the same in each form, so that the set may be completed in one writing by using carbon sheets.

The interstate commerce commission has prescribed a form, to be used by all common carriers, called a **Bill of Lading.** The original copy is a shipping order that is kept by the transportation company. The two duplicates are signed by the agent of the transportation company, the first being a bill of lading which is sent to the consignee, and the second being a memorandum of the bill of lading which is kept by the shipper.

The form represents a set of shipping bills filled out by Cyrus Martin, the signature of the transportation agent, A. H. Hooper, being written on the bill of lading and memorandum.

Form 15 W illustrates a **stock certificate** issued to Martin Goldman by the American Steel Corporation, as evidence that Mr. Goldman owns fifty shares of the capital stock of that company. To the left is the stub, on which are recorded the essential facts about its issuance, and at the bottom Mr. Goldman's receipt for the certificate. In this instance, the shares, now in possession of Mr. Goldman, were owned by H. B. Rogers, who sold the stock to Mr. Goldman. When one shareholder transfers his shares to another, it is generally necessary for the seller of the shares to surrender his certificate to the company. The company then issues a new certificate to the buyer of the shares. This is called a transfer "on the books" of the corporation.

81. A Filing System should be adopted with a view to several considerations, some of which are frequently overlooked. It should be such that (1) papers may be quickly and easily filed; (2) that they may be quickly and easily located and found; (3) the whole scheme should be on a plan to permit of expansion for future needs, without disarrangement of present methods.

The easiest way to take care of vouchers is to number them serially from the record books, and file them by number. However, there is a very good reason for not filing invoices by number. Most business men find it better to have all invoices from a given firm in one binder or folded, so that comparison of past prices, terms, etc., can be made. If the invoices are thus filed, there remain the expense vouchers and the cancelled checks to file.

All entries to Expense should be supported by some bill, receipt, or ticket. These can very well be given expense voucher numbers from the books of entry, and filed in numerical order. A box of the proper dimensions to allow them to stand side by side, will hold hundreds of them and not take much room, while it will permit any one of them to be located readily.

Cancelled checks may be called for, months, or even years, after they have been returned by the bank. It is advisable to assort them also by number, when they are returned by the bank, and file them away in this order.

It is a good practice to file all vouchers in their places at the close of the day.

INDEX-COMMENTARY.

1. An index to topics in the text.
2. An index to models of books and blanks in the Form Book.
3. A vocabulary of business words and terms, with definitions or comments.
4. Standard abbreviations and signs commonly used.
5. The rules for computing Interest, Discount, Fractional Remainders, etc., as used in the sets in the American Bookkeeping Series.

Abatement. An amount deducted for overcharge, damage, or discount, from a sum payable.

Abstract of Accounts. Prin. 63 D.

Abstract of Title. Prin. 68 D.

Acceptance. (1) The act of promising payment of a draft by the payee, usually effected by his writing the word "Accepted," followed by his signature, across the face of the draft. (2) The name given to an accepted paper.

Account. (Acct. or a/c). Prin. 8.

Acknowledgment. An officially certified statement made to a notary public or other public officer with seal, affirming the voluntary nature of some act by the acknowledger, which act is specified in the instrument.

Accommodation Paper. Commercial paper issued or indorsed by one person for the support of another person's credit, and without benefit to the accommodating party. Prin. 35 C.

Accounting. Prin. 1.

Accountant. A person who is proficient in the rules and practice governing the analysis of business transactions. A public accountant offers his services to public patronage for a fee. A certified public accountant is one who has passed certain prescribed examinations, and has received a training entitling him to a certificate of proficiency issued by state authority, which certificate authorizes him to practice his profession in the state where it is issued.

Account Purchase. A detailed record of the cost of purchases made by a purchasing agent.

Account Sales. An itemized statement issued by a commission firm to a consignor, showing the amounts realized from sales, the expenses and the proceeds.

Accounts Payable. Prin. 31 to 31 C; Form 12 H.

Accounts Payable Account. Prin. 31 D; Form 12 G.

Accounts Receivable. Prin. 25 B-25 E; Form 11 B.

Accrued. Added by gradual increase, as the interest on a note.

Adjustment Entry. An entry made to correct an error in an account.

Adjustment Account. An English equivalent of the American term, "controlling account."

Administrator. A person appointed by a court to have in charge the estate of a deceased person. Prin. 68 J.

Administrative Expense. Prin. 57.

Adventure. (Adv.) A shipment by a merchant on his own business risk, or jointly with others; a speculation.

Affidavit. A written statement under oath and acknowledged before a proper officer. (See Acknowledgment.)

Agent. (Agt.) One who represents another in a business transaction. The person represented is called the **principal**. Prin. 68 F.

Allowance. A deduction from a debt allowed to a debtor for some reason not considered when the debt was made; an abatement.

Amount. (Amt.)

Amortization. The clearing off or extinguishment of a debt, usually by means of a sinking fund.

Annuity. A sum of money payable yearly for a given number of years, or during life.

Appraisement. An estimation of the value of property by a properly authorized person.

Appreciation. Prin. 28 B.

Appurtenance. Any minor property or other thing of value, pertaining to or dependent upon a property or a business, as the small buildings or other improvements belonging to a lot or farm.

Arbitration. The adjustment of differences or disagreements by a disinterested person or persons chosen by the disagreeing parties.

Article. (Art.)

Articles of Co-Partnership. The written agreement, or contract, governing the relations and mutual obligations of partners.

Assistant. (Asst.)

Assessment. An amount collected from stock holders by a stock company to make good a deficit; an apportionment of taxes.

Assessment Account. An account to which are carried from Profit and Loss as debits, the amounts assessed against the different stock holders.

Assets. Prin. 13; consist of, Prin. 22; Asset accounts, Prin. 21-30.

Assignment. A term commercially applied to a transfer of property in writing. Bank accounts, mortgage loans, and claims of various kinds, accruing, as, salary, growing crops, etc., are assignable, and if assigned for value, the assignee may collect or possess them for his own benefit.

Assignment in Bankruptcy. The transfer of property of a bankrupt assignor to the assignee, or person in whom it is vested, for the benefit of creditors.

At. (@).

Attachment. A legal seizure of property to satisfy debt.

Audit. An examination of records of account with a view to ascertaining their correctness. Prin. 61-70.

Auditing. Prin. 3. Prin. 61-70.

Auditor. A person appointed to examine and verify records and accounts. Prin. 61 B.

Auxiliary Books. Books containing records additional to those made in the posting books. Prin. 79.

Balance. (Bal.) The excess of one side of an account over the other. Prin. 8.

Balance Sheet. A schedule showing the equality of assets and liabilities. Financial statements, trial balances after closing, or whenever the trial balance shows actual assets and liabilities, are balance sheets.

Balancing an Account. An account is balanced by entering the difference on the lesser side, ruling and footing the two columns, and carrying the difference below the ruling to the side which is greater.

Balance of Trade. The difference between the value of exports and imports for a given country and period.

Bales. (bl.)

Bank. (bk.) A financial business that offers the following principal services to the public: (1) Safe keeping of money; (2) Checking accounts; (3) Loans; (4) Collections; (5) Exchange or the transmission of funds.

Bank Check. Prin. 68 E.

Bank Book. The book carried by a depositor to contain the banker's entries of deposits when made, and of the depositor's checks paid, when such book is balanced periodically.

Bank Discount. A certain per cent deducted from the amount of future due paper by a bank, for carrying the paper to maturity. In the sets of the American Bookkeeping Series, the bank discount is computed on the amount at the given rate, for the exact days from date of discount to maturity, and each day computed as 1/360 of a year.

Bankruptcy. Prin. 68 I.

Barrels. (brl.)

Barter. To traffic or trade one commodity for another without using money. This is a crude method of exchange which is now seldom practiced by civilized people.

Betterment. (1) An addition to property already owned. Betterments increase the value of an investment, and are not mere replacements of anything already installed. (2) Improvements for the personal or social welfare of employees, as recreation or lecture rooms, baths, etc.

Bill Book. (B. B.)

Bill of Exchange. A foreign draft. Prin. 68 E.

Bill of Goods or Services. An itemized statement of goods sold or services rendered, showing the amount payable for same.

Bill of Lading. (B. L.) An itemized acknowledgment, by a transportation company, showing list of goods to be transported, with shipping directions, transportation charges, and other agreements as to shipment and delivery.

Bill of Sale. A document formally transferring ownership in personal property from one person to another.

Bills Payable. (B. Pay.) Prin. 32-32 B; Form 13 H.

Bills Receivable. (B. Rec.) Prin. 25 F-25 H; Form 11 C, 12 D.

Bills Receivable Discounted. (B. Rec. Dis.) Prin. 35 B.

Board of Trade. An organization of business men for the advancement of commerce.

Bona Fide. In good faith; without deceit or fraud.

Bond. A document or agreement under seal. The ordinary commercial bonds are issued by the Government, the State, a private corporation or an individual. All promise the payment of money, together with interest payments on the same. A coupon bond has interest coupons attached which are cut off and collected as they mature. Prin. 25 J.

Bonded Goods. Merchandise stored in a bonded warehouse, or in bonded cars, the owner having given bonds securing the payment of import duties or of internal revenues, upon their removal or their arrival at some inland city of entry, and before a specified time.

Bonus. A gift or extra allowance for a business favor or service, as the placing of a loan, the making of an investment. Cities and Chambers of Commerce often grant bonuses to those who establish new industries in a city.

Bookkeeping. Prin. 2.

Book Account. The account kept in the ledger with a person to whom credit sales, or from whom credit purchases, are made.

Books of Original Entry. Such books as contain the first entries of transactions, as opposed to ledgers, which contain the posted entries.

Bought. (Bot.)

Bought Book. Prin. 76.

Bound Ledger. Prin. 72 F.

Boxes. (Bx.)

Broker. One whose business is to act as agent in buying and selling financial paper, stocks or other property for others. His charge for the service is called brokerage.

Bundles. (bdl.)

Bushels. (bu.)

Business. Prin. 4.

Business Forms. Prin. 80; For depositor, Prin. 80 B; Miscellaneous, Prin. 80 C.

Business Ledger. The part of a complete ledger containing the nominal, or profit and loss, accounts. Prin. 51-60.

Business Organization. A business organization is a combination of directing intelligence, labor, capital and equipment, working together to produce some utility, and to sell it.

Business Statement. A list of the profits and losses covering a fiscal period, entered with more or less detail, as the case demands. Also called a profit and loss statement.

Buyer. (1) The one who makes the purchases for a concern. (2) The manager of a department in a department store, who is responsible for the purchases and sales in his department.

Capital. (Cap.) The amount of money or property set aside for the use of the business. Where no definite amount is formally set aside for this purpose, the net worth is the capital.

Capital Account. Prin. 37 to 39 H; Form 10 E-F, 10 L, 12 P.

Capital Expense and Income. Prin. 48; Account of, Prin. 58.

Card Ledger. Prin. 72 H.

Care of. (c/o)

Cartage. (ctg.)

Cases. (cs.)

Cash Account. Prin. 24, 24 B, 24 C, 24 D; Forms of, Prin. 24 B-24 F.

Cash Book. (C. B.) Prin. 74 to 74 H; Forms 10 A, 10 B, 11 A, 13 B, 16 I.

Cashier's Account. (C. A.)

Cashier. (1) One who has charge of money; (2) the executive officer of a bank.

Cash Journal. Prin. 73 G.

Cents. (ct. or ¢.)

Certificate. A written voucher attesting to some fact: as a certificate of deposit, (which is a voucher that money has been deposited in a bank); a certificate of stock, vouching the ownership of stock in a company.

Certified Check. A check that has been certified, or accepted, by the bank on which it is drawn, making the bank responsible for its payment.

Changing Single to Double Entry. Prin. 69 F.

Charge. To charge an account means to make an entry to be posted as a debit.

Charge and Credit, Theory of. Prin. 71 I to 71 R.

Charter. (1) A document issued by authority of the nation or a state defining the rights and privileges of corporations. (2) To hire or let a conveyance of transportation; as a ship, a railway car.

Chattel. Any kind of property except real estate. Examples: merchandise, notes and accounts, animals, leases of real estate, etc.

Checking-Account. The account of money deposited in a bank subject to check.

Check Book. Prin. 74 D.

Check Mark. (√) A mark placed opposite amounts to show that they have been verified or posted. Frequently the same amounts are checked over more than once. Different colored inks should be used in subsequent checkings.

Check Stub. Prin. 74 D.

Chose (pronounced shos). A thing recoverable by an action at law. A "chose-in-action," is something to which one has the right but not the possession. Examples: A right to damages for breach of contract or for injury. Notes, bonds and other promises not negotiable, are commonly called choses in action, as they evidence the right to collect.

Claims Against Others. Prin. 25-25 K.

Clearing House. An association of banks in a city for the purpose of daily adjustment of their claims against one another to be effected at one time and place.

Closing an Account. An account is closed, by ruling closing lines, when it ceases to represent an element in the business. This may be when both debit and credit totals are equal, or when the difference between debit and credit sides are carrid to some other account, as when an account is closed into Profit and Loss.

Closing the Ledger. Prin. 72 O; closing financial ledger, Prin. 72 R; closing business ledger, Prin. 72 S.

Closing Entries in Journal. Form 14 D-14 F.

C. O. D. Account. Prin. 25 C; Form 14 M.

Coin. Metal impressed with the government stamp, and used as money.

Collateral Security. Papers owned by a debtor and passed to a creditor as security for an obligation.

Collection of Accounts and Notes. Prin. 68 C.

Collection Charges. The charges made by a bank or collector for collecting claims. In the sets accompanying this text, bank collection charges are computed at 15¢ per $100, or part thereof.

Columnar Cash Book. Prin. 74 H.

Columnar Journal. Prin. 73 F.

Commercial Paper. Bills of exchange, drafts and notes given in the course of trade. Prin. 68 E.

Commission. (Com.) A percentage given for the sale or purchase of goods, or the transaction of other business.

Commodity. A term relating to everything movable that is bought and sold. Examples: goods, wares, merchandise, the products of lands and manufactures.

Common Carrier. One who, for pay, engages to transport goods or persons for anyone who chooses to employ him.

Common Law. Law based upon the precedent of usage, rather than that contained in the statutes enacted by legislative bodies.

Compact. An agreement or contract between parties.

Company. (1) A corporation or an association. (2) A term used in a firm name to designate other partners whose names are not given.

Compound Entry. An entry consisting of more than one debit or credit.

Complete Expense Account. Prin. 55.

Complete Expense Book. Prin. 74 F.

Complete Journal. Prin. 73 C.

Complete Ledger. Prin. 72 B.

Compromise. An agreement to settle a claim by paying or receiving only a part of the amount. To adjust any kind of business differences by an agreement based upon mutual concessions.

Concern. A general term referring to a business and its owners, in the sense of an organization to accomplish some undertaking.

Condition of Business. The result shown by a financial statement. The condition depends on the amounts and kinds of assets and liabilities.

Consideration. The material cause of a contract. The thing promised, or the reason for the promise.

Consignee. One to whom goods are sent.

Consignment. (Const.) Merchandise consigned to an agent to be sold.

Consignor. One who sends or consigns the merchandise.

Consumer. The person that uses up, appropriates to himself, or changes the character of a utility received.

Contingent. Not certain. Contingent liability, Prin. 35; Contingent fund, Prin. 25.

Contract. An agreement between parties specifying what each, with the consent of the others, promises to do.

Controlling Account. Prin. 25 E; also 72 C, 72 D.

Convertible. Capable of being turned into money, or other equivalent, as a convertible bond or other security.

Co-Partnership. The condition effected through the joining of two or more persons into one firm for the purpose of carrying on any enterprise, a partnership.

Copyright Account. Prin. 29 F.

Corporation. A number of persons associated together in conformity with laws which give them certain powers to act as an artificial person for conducting any enterprise specified in their charter. Prin. 68 H.

Correspondence. An interchange of letters.

Correspondents. (1) Banking firms and collection agencies with whom a bank has accounts are called its correspondents. (2) Any one with whom business is carried on by means of letters.

Coupon. An interest note, or certificate, attached to a bond, which is cut off from the bond and collected when due.

Coupon Bonds. Bonds with interest coupons attached.

Covenant. A mutual agreement under seal.

Credentials. Testimonials giving authority.

Credit. (1) Trust given to a debtor. (2) Mercantile reputation entitling one to be trusted. (3) (Cr.) The side of an account on which we enter all values yielded from the source represented by the title. (4) Business credit, Prin. 15.

Creditor. (Cr.) One giving credit; one whom we owe.

Currency. Paper money as distinguished from coin. In a broader sense .the entire circulating medium of exchange.

Custom House. The place where government duties are collected.

Customers. The persons to whom the business regularly sells its goods or services.

Day Book. (D. B.)

Days. (ds.)

Debenture. A document under seal, acknowledging indebtedness; commonly seen in the form of debenture bonds or certificates issued by corporations, for loans drawing interest, and easily transferable from one investor to another.

Debit. An entry to indicate the receipt of cash, or the cost to the business of some business utility other than cash. Debits are entered in the left of the two money columns of account.

Debit and Credit, Theory of. Prin. 71 I to 71 R.

Debt. The amount owed by one to another.

Debtor. (Dr.) The one who owes an amount.

Deed. A written contract under seal, transferring title to real property.

Defalcation. (1) An abatement or discount; (2) also, an embezzlement.

Defaulter. A person who fails to account for money or property intrusted to him, usually applied to custodians of public funds.

Deferred Charges. Expenses paid during one fiscal period for the benefit of a following fiscal period, or a following long period of time. Thus, a large payment for advertising made just before closing the books would be a deferred charge. Expenses of organizing a concern are often deferred charges.

Delivery. The transfer of money or property to another.

Demand. A formal presentation of a claim.

Department. (Dept.) Dept. Expense, Prin. 55 B.

Deposit. (Dep.) The funds left in a bank for safe keeping, or on checking account.

Deputy. A person appointed to act in the place of a public official.

are typical kinds of fixed property. An itemized list of all fixed property should appear in the ledger accounts.

Fixtures. The attachments to real property in the nature of furnishings, as shelves, counters, gas and electric apparatus, etc.

Flat. A term referring to a price of commercial paper that does not take into account accrued dividends or interest, sometimes called a "lump price."

Floating Debt. Miscellaneous obligations for the payment of which no special provision or fund has been made. The floating debts are to be paid out of the current revenue or income.

Floating Property. The commodities or material owned by the business for consumption, manufacture or sale. The items making up such property, since they are constantly undergoing change, are not itemized in ledger accounts, but are ascertained from time to time, by inventory.

Fluctuation. The rise and fall in values incident to the conditions of commerce. Fluctuation downward is sometimes confused with depreciation, which is a very different matter.

Folio. (fol.)

Foot or Feet. (ft.)

Footing. The sum of a column of figures.

Foreclosure. The act of taking legal possession of property under the terms of a mortgage.

Forgery. Any unauthorized alteration of a commercial paper or document which affects its value or the interests of those who hold it.

Forward. (Fwd.)

Fractions of a Cent. In the sets of the American Bookkeeping Series, when a final result of computations on bills, notes, etc., involves a fraction of a cent, one-half or greater than one-half, the fraction is counted as an additional cent. When discount involves a similar fraction, it is counted an additional cent of discount. Fractions less than one-half cent are disregarded in extended amounts and final results.

Franchise. A valuable privilege granted by municipal authority to a person, firm or company, to be used in carrying on a business. The right of street car, telephone, light, and other public service corporation to use the streets for tracks, poles, wires, etc., is secured by franchise granted by municipal or state authority.

Franchise Account. Prin. 29 C; How written off, Prin. 58 C.

Free on Board. (f. o. b.) Merchandise sold "f. o. b." is delivered to the transportation company at the point named in the terms of sale, without expense to the buyer.

Freight. (frt.) (1) The compensation to railroads or other carriers for transportation of goods. (2) The goods transported are termed freight.

Freight on Merchandise Bought. Prin. 53 D; Form 14 I.

Freight on Merchandise Sold. Prin. 53 E.

Funds. (1) Money or capital set aside for a special purpose. (2) The term "funds" often means ready money. Prin. 24 E.

Furniture and Fixtures Account. Prin. 27 D.

Furniture. The movable general equipment of a building for the use of the persons occupying, e. g., chairs, desks, carpets, filing cabinets, etc.

Gallons. (gal.)

General Accounts. The accounts kept in the general ledger together with the cash account.

General Cash Book. Prin. 74 F.

General Expense. Account of, Prin. 57.

General Journal. Prin. 73 D.

General Ledger. Prin. 72 C.

Goods. Merchandise or commodities.

Good Will Account. Prin. 29 B; How written off, Prin. 58 C.

Gross. (gr.) The entire amount or bulk before deductions are made. Gross earnings are earnings before expenses are taken out. Gross weight is weight before the weight of case or container is deducted.

Gross Trading Profit. Prin. 42.

Guaranty. (guar.) (1) A surety for the performance of a contract in case of failure by the contracting party. (2) A security against loss.

Half. (hf.)

Handkerchief. (hdkf.)

Hogshead. (hhd.)

Honor. To accept or to pay a written obligation according to its terms.

Hundred. (C.)

Hundred Weight. (Cwt.)

Hypothecate. To subject securities to legal liability for the payment of a debt without delivery or transfer of title. See Collateral.

Imprest Fund. Prin. 24 E.

Income. Prin. 41 B and 42. Accounts of, Prin. 54.

Income Tax. Prin. 68 K.

Income and Expense Accounts. Prin. 49, 54 and 59; Form 11 E.

Indenture. A mutual agreement in writing.

Index. Prin. 72 E; Form 12 B.

Indorsement. See Endorsement.

Insolvency. Inability to meet indebtedness. A business is insolvent when its liabilities exceed its assets.

Instant. (inst.) In the current or present month.

Insurance Account. Prin. 29 D.

Insurance Policy. (Ins. Pol.) The certificate given by the insurance company to the assured, obligating the company to reimburse either wholly or in part for any losses occasioned by fire, water, storm, etc., as specified in the policy.

Installment. One of the parts of a debt payable at intervals. The installment system of selling property useful to families, such as books, furniture, homes, etc., whereby payment is made weekly or monthly, is common.

Intangible Asset Accounts. Prin. 29.

Interest. (Int.) A percentage allowance for the use of money or its equivalent for a given time, usually one year.

In the American Bookkeeping Series, interest computations, except bank discount, are made by the ordinary interest method; that is, the time is computed in months (1/12 of year) and days (1/30 of month), found by subtracting the earlier from the later date, unless otherwise specified in the transactions.

Interest Account. Prin. 59 B; Form 14 K.

Intestate. Having died without leaving a will.

Inventory. (Invt.) An itemized schedule showing the values of property or claims owned, or liabilities owed on a certain date. Floating property comprises the principal values found in the regular inventory taken at the close of a fiscal period. Form 4 H.

Inventory Account. Prin. 60; of property, Prin. 26, 26 B; of claims receivable, Prin. 26 C; of claims payable, Prin. 34. Closing and opening, Prin. 72 P; Form 13 G.

Inventory Book. Prin. 77 to 77 D; Form 4 H and 14 N.

Investment. (1) The appropriation of money or capital for carrying on business, with a view to profit and with a risk of loss. (2) The purchase of securities with a view to profit from their income.

Invoice. (Inv.) An itemized statement of goods sold showing prices, terms and amounts. The invoice is delivered to the buyer by the seller.

Invoice Book. (I. B.) See Prin. 76 B.

Jobber. A merchant who buys goods from importers and manufacturers, and sells in quantity to wholesale and retail merchants.

Joint Stock Company. A partnership with the capital divided into shares held by the partners. The powers and privileges of a joint stock company are defined by laws differing in detail in various states.

Journal. (J.) Prin. 7; journal in detail, Prin. 73 to 73 G; Form 12 A.

Journalizing. A systematic classification of the debits and credits of business transactions. Readjustment entries, Form 14 D; entries to close nominal accounts, Form 14 E; entries to close P. & L. acct., Form 14 F; compound opening entrying, Form 13 A; practical journalizing, Prin. 71 R.

Journalizing Orally. Prin. 71 R.

Journalizing Rules. Prin. 71 I to 71 R.

Judgment. The decision of a court supporting a claim against a debtor.

Judgment Note. A promissory note containing a special agreement giving the payee power of attorney to confess judgment in behalf of the maker. This dispenses with necessity of suit for collection, and permits prompt attachment of property to satisfy the note in case of its dishonor.

Junior. (Jr.)

Landlord. The owner of real estate which is leased to tenants.

Land Buying. Prin. 68 D.

Lease. A contract, in writing, granting the occupancy of property for a given period at a stated compensation.

Ledger. (L.) Prin. 8; ledger in detail, Prin. 72 to 72 S; financial ledger, Prin. 21-40; business ledger, Prin. 51-60.

Legal Aspects of Auditing. Prin. 68-68 K.

Legal Tender Money. Any money which, by law, a debtor may require his creditor to receive in payment unless there is a contrary stipulation in the contract or obligation itself.

The following classes of United States money are a legal tender to the extent specified:

Gold coins for all debts public and private to any amount.

Standard silver dollars, for all debts public and private unless otherwise stipulated in the contract.

Subsidiary silver coins (coins less than one dollar), for all dues public or private in sums not exceeding ten dollars.

Minor coins (copper, bronze, or nickel), for any amount not exceeding twenty-five cents in one payment.

United States notes or "greenbacks," for all debts public and private, except duties on imports (payable to the government) and interest on the public debt (payable by the government).

Treasury notes of 1862 and of 1890 are also legal tender to the same extent as greenbacks, and those of 1890 are receivable for customs and other public dues.

Letter Book. (L. B.)

Letter of Credit. A letter issued to travelers by a bank, addressed to banks in foreign cities, directing payment of funds to the holder.

Liabilities. Prin. 14; consist of, Prin. 17.

Liability Inventory Account. Prin. 34; Prin. 77 C.

Lien. A preferred right in property allowed by law and which right arises from some service in connection with the property. A mechanic's lien is the right of a mechanic in the building he has helped construct, but has not been paid for.

Limited. A term appearing in the firm title indicating that the liability of stockholders is, by agreement, limited to a certain amount, usually the amount of their investment.

Liquidation. The act of determining the persons and amounts owed, and of applying assets to settlement.

List. Prin. 18; inventory lists, Prin. 19.

Locating Errors. Prin. 63 C, 63 D.

Loose-Leaf Ledger. Prin. 72 G.

Losses. Prin. 41 C.

Maker of a Note. The one who signs it.

Manager. (Mgr.)

Manufacturing Account. (Mfg. a/c). The account which shows the cost of manufacturing the product.

Manufacturing Business. The business of changing raw material into merchandise, or commodities for sale.

Manufacturing Profit. Prin. 43.

Maturity. (1) The date on which a debt is legally collectible.

Memorandum. (Mem.)

Mercantile Agency. An organization to gather financial information about business houses or individuals, and sell reports of information thus gathered to interested persons, as a basis for credit.

Merchandise. (Mdse.) Goods or commodities in salable condition.

Money. Money consists of (1) pieces of gold, silver, copper, etc., coined and issued by governmental authority; (2) paper, so issued, which may be legal tender instead of coin; (3) other paper, lawfully employed in payment of business obligations.

Mortgage. (Mtg.) A document of conditional transfer of the title to real or personal property, as security for the payment of a debt. The debtor is called the mortgagor; the creditor, the mortgagee.

Mortgage Loan Account. Prin. 25 I, 33.

Negotiable Paper. A check, note, draft, or other paper transferable from one holder to another who may enforce payment without reference to equities existing between the first parties.

Net. Not subject to further deduction, as net price, net profit.

Net Invoice. The sum of the invoice after discounts are deducted. In the American Bookkeeping Series, one-half or major fraction of a cent belonging to a discount is considered an additional cent discount.

Net Profit for Distribution. Prin. 50.

Net Trading Profit. Prin. 46 C.

Net Worth. The excess of assets over liabilities of a given business or person. Prin. 67 B.

Nominal Accounts. Accounts that explain the sources of profits and losses. Prin. 51-60.

Nominal Assets. Assets carried on the books at the last recorded value but which, in the meantime, may have increased or diminished, as the goods or property listed in an inventory.

Normal Tax. Prin. 68 K.

Notary Public. (N. P.) A state officer, generally appointed by the governor for a term of years, principally to take acknowledgment of instruments, to make demand for payment of commercial paper, and to protest for non-payment, and to administer oaths. See Acknowledgment.

Note Book. (N. B.)

Notes Receivable Account. Prin. 25-25 H.

Notes Payable. Prin. 32, 32 B.

Number. (No.), also (#), when placed before the figures.

Office Expense. Prin. 47; account of, Prin. 57.

Operations. Prin. 4.

Open Account. (1) The ledger account with a creditor or debtor in which the current charges and credits are entered. (2) Any account not periodically balanced.

Open Policy. A policy of insurance covering risks that are undetermined at the time of issue, but that may be entered on the policy later.

Order of Accounts in a Ledger. Prin. 72 B.

Order Book. Form 14 C.

Order Sheet. Form 14 B.

Ordinary Business Profit. Prin. 48.

Subscriber. One who signs his name to an agreement. The subscriber to capital stock of a corporation agrees in writing to invest a given amount toward the capital of the company.

Subsidiary Ledger. Prin. 25 E; 72 C.

Subsidy. A grant or bonus by government or a municipality to a person to assist him in the establishment of an enterprise deemed advantageous to the public.

Sundry. (Sund.) More than one or two. Various. Very frequently used in bookkeeping referring to a number of accounts later enumerated as "Sundry Accounts;" also referring to a number of items not necessary to enumerate as "Sundry Expenses." Used as a heading for miscellaneous items, as a "Sundry Column."

Sundry Accounts Receivable. Prin. 25 C.

Superintendent. (Supt.)

Surplus Account. Prin. 36 E.

Suspense Account. An account in which items, whose final disposition is doubtful, may be charged or credited while awaiting final disposition.

Syndicate. An association of capitalists formed to supply capital for some financial undertaking.

Tare. A deduction of the weight of containers from the gross weight.

Taxable Income. Prin. 68 K.

Teller. (Tel.) A bank clerk who counts money paid to or received from customers.

Tender. The offer of payment or satisfaction of a demand, usually the offer of legal money, called a legal tender, for the payment of a debt.

Terms of Sale. The conditions governing the settlement for property sold.

Theory of Charge and Credit. Prin. 71 I-71 R.

Tickler. A book arranged to show future due paper or other important data in the order of the dates when attention should be given to them.

Title. The heading of an account. Prin. 8.

Ton or Tons. (T.)

Tools Account. How written off, Prin. 58 C.

Trade Discount. A discount from certain list prices, or from the amount of purchases, made to a dealer on account of a change in the price, or to regulate the dealer's profit.

Trade Mark. A device placed upon manufactured goods to distinguish them from imitations. Trade marks are copyrighted to insure their exclusive use by the owner.

Trade Creditors Account. Prin. 31 D.

Trading Account. Prin. 53; Form 12 S, 14 J.

Trading Business. The business of buying and selling commodities. A mercantile business.

Trading Revenues. Prin. 42.

Trading Statement. Prin. 42; Form 12 N, 13 E.

Transactions. Prin. 3.

Transit. Checks or drafts are said to be "in transit" when they are held by parties between drawer and drawee.

Treasurer. (Treas.)

Treasury Stock. The stock of a corporation which is received, bought or donated back after having once been issued. Such stock is carried in a special account, entitled "Treasury Stock."

Trial Balance. Prin. 72 M; Form 10 G, 10 P, 12 J, 12 K.

Trust Company. A financial institution that takes charge of the financial investments of persons or estates, and carries on a banking business in greater or less degree, depending on state laws.

Trustee. A person who holds legal title to property for the benefit of others.

Two-Page Cash Book. Prin. 74 C.

Ultimo. (ult.) In the month just preceding the present month.

Unclassified Profits and Losses. Prin. 58.

Undivided Profits Account. Prin. 36 F.

Unsubscribed Stock Account. The account charged for the portion of the capital stock account of a corporation which has not been apportioned to any subscriber or stockholder.

Utility. A salable property or benefit; as, commodities, services, uses, or conditions of time or place that may be given for a price. The utility sold by a grocer consists of groceries; that of a railroad, transportation; that of an electric light company, light or power; that of a teacher, instruction; that of a lawyer, advice or service.

Verifying the Posting. Prin. 72 K.

Vouchers. The written evidence of business transactions. The most usual are receipts for money paid or orders for goods sent.

Vouchers Payable. Prin. 31 D.

Voucher System. Prin. 76 D.

Way Bill. A form accompanying freight shipments to show the routing and disposition.

Wholesale. Sale in quantity suitable for division by retailers.

Yards. (yd.)