PITMAN'S
AUDITING, ACCOUNTING AND BANKING

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A MANUAL FOR ACCOUNTANTS, ADVANCED BOOK-KEEPING STUDENTS, AND BUSINESS MEN

BY

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PREFACE

This work is a practical guide for the great and ever-increasing number of students of Auditing, Accounting, and Banking, and it will also prove of great utility to practising accountants and business men generally. In the first part of the book, attention is given to the important subject of Auditing, the principles of which are treated in a concise and practical manner.

In the section dealing with Accounting, the theoretical principles of Book-keeping have been dealt with from a practical standpoint, and great attention has been given to the adoption of double-entry methods to various undertakings. Departmental Accounts, Provisions and Reserves, Sinking Funds, Depreciation, Hire Purchase Accounts, Branch Accounts, Partnership Accounts, Limited Company Accounts, Stores and Stock Accounts, etc., have been dealt with in a lucid manner, the result of practical business experience.

In the section on Banking it will be found that the whole field is covered in chapters which deal with the Bank of England, Cheques and Bills of Exchange, Banker and Customer, Foreign Exchanges, Bankers' Charges, Bank Book-keeping, etc.

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Insets

AUDITING, ACCOUNTING, AND BANKING

CHAPTER I

AUDITING

THE objects of an audit are—

(1) The detection of errors of commission ;

(2) The detection of errors of principle ;

(3) The detection of fraud.

Before proceeding to indicate the auditor's duties in detail it may be useful to mention some of the advantages of an audit.

ADVANTAGES OF AN AUDIT

THE ADVANTAGES OF AN AUDIT vary according to the class of business, undertaking, or institution in respect of which the audit is conducted, and in the case of audits on behalf of an outsider, they vary according to the purposes for which the auditor is employed and the circumstances of the case.

(1) THUS, TO A MANUFACTURER the following benefits will result from an audit of his books—

(*a*) A supervision of the books of account, and the system of internal check generally, involving the correction of errors, and the prevention or quick discovery of fraud.

(*b*) The rendering of reliable and certified accounts as to manufacturing, trading, and profit and loss, facilitating comparisons of expenses and gross and net profits of different periods.

(*c*) The rendering of a reliable and certified Balance Sheet showing the position of the business at the date at which it is drawn.

(*d*) The ability to produce certified profit and loss accounts for Income-Tax purposes, which accounts will be accepted by the Inland Revenue authorities.

(*e*) The introduction of the newest methods of accounting, as advised by the auditor, such as a proper system of cost accounts.

(*f*) The ability to produce certified Profit and Loss Accounts and Balance Sheets of the business if the sale thereof is decided upon, either (1) to a private individual or individuals, or (2) to a limited company.

(*g*) The ability to produce certified Profit and Loss Accounts and Balance Sheets of the business for the purpose of obtaining facilities from the bankers in the shape of an overdraft.

(*h*) In case of death of the proprietor of the business, the assistance given to the Executors or Administrators by the certified Profit and Loss Accounts and Balance Sheets, in passing the Probate Affidavit.

(2) In the Case of Joint Stock Companies the following advantages accrue from an audit—

(*a*) The Profit and Loss Account and Balance Sheet as presented by the Directors are checked by a thorough examination of the books, accounts, etc., by the auditor as an independent person whose duty is to the shareholders, to whom he must make a report upon the Balance Sheet.

(*b*) The confidence with which the firm is regarded by the commercial community is increased when a good auditor is employed, as this tends to enhance the status of the firm in the eyes of the bankers of the company, the creditors thereof, present and possibly future shareholders, and others.

(*c*) To a large extent, the allaying of criticism as to the conduct of the financial affairs of the company.

(*d*) The advantages mentioned above under headings (*d*), (*e*) and (*f*).

(3) In the Case of an Audit on Behalf of a Projected Limited Company which is to Purchase a Business, additional confidence is inspired in the investing public as a result of a certificate of profits given by a good auditor ; or in case the investigation should disclose that the business is of an unprofitable nature, probable loss is averted by reason of the non-purchase of the same.

(4) In the Case of an Audit of a Business on Behalf of a

Prospective Purchaser, it is an advantage to the latter to act upon a certificate of profits or losses given by a good auditor.

(5) In the Case of an Audit of the Accounts of Executors or Trustees, criticism and suspicion are allayed and possibly litigation is prevented.

The advantages in other cases, such as audits on behalf of a dissatisfied partner or beneficiary, the audit of the accounts of local authorities, banks, building and friendly societies, insurance companies, charitable institutions, etc., vary slightly under the different circumstances but are obviously so great as to make a proper audit a practical necessity. Many of the classes of business mentioned are compelled by law to employ an auditor, and the Companies (Consolidation) Act, 1908, prescribes that every limited company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

The Attitude of the Auditor.—In the case of the *Kingston Cotton Mill Co., Ltd.*, it was said by Lord Justice Lopes that "It is the duty of an auditor to bring to bear on the work he has to perform that skill, care, and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watch-dog, but not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest and to rely upon their representations, provided he takes reasonable care. If there is anything calculated to excite suspicion he should probe it to the bottom, but in the absence of anything of that kind, he is only bound to be reasonably cautious and careful."

Although the above decision seems to lay down an excellent rule as regards the attitude of an auditor, yet, in order to render services which may be most useful to his employers, it is submitted that an auditor should constantly bear in mind that his duty includes the detection of fraud and misrepresentation, which would appear to involve the taking of such precautions as are necessary to ensure that figures in the books of account are not altered during the audit, that all income from investments has been received and duly accounted for, etc.

To a certain extent, the attitude of the auditor will vary according to the circumstances of the particular audit on which he is engaged. Thus, the auditor to a limited company or other incorporated body is appointed mainly in the interest of the shareholders, or in some cases the subscribers, and has a certain moral responsibility also to future shareholders and others. When an auditor is appointed by a sole trader or by a partnership firm, his duty is to his employers, though here again he has a moral responsibility in regard to a bank or possible lender of money before whom the Balance Sheet which he has prepared may be laid, and who may act on the faith of the position as shown by that document.

In the main, therefore, the attitude of the auditor should be an impartial one, and the limits which the law has placed upon his legal liability should not be allowed to define the scope of his examination so as to cramp his usefulness.

THE LIABILITY OF THE AUDITOR

The liability of an auditor will depend to a certain extent on the circumstances of his employment and the nature of the certificate given by him. Thus, under the Companies (Consolidation) Act, 1908, a form of Auditor's Report is prescribed which virtually compels an auditor to state all irregularities of moment which have come to his knowledge in the accounts presented by the directors. It has been established that an auditor is liable to make good dividends sanctioned by the shareholders on the faith of his unqualified report on the accounts presented by the directors, when such dividends are subsequently found to have been paid out of capital. This would be so whether the auditor knew of the irregularities in the accounts or not, provided that where he had no knowledge of the same, the exercise of reasonable care and skill would have made him aware of the facts.

In the case of the *Kingston Cotton Mill Co., Ltd.*, the auditors were held not to be liable for dividends paid out of capital consequent upon the inflation of the value of the stock of goods on hand, on the ground that they had relied on the word of a trusted officer of the company.

Generally speaking, an auditor will be liable for loss caused to his clients by carelessness, negligence, or lack of skill in the performance of his duties, as, for instance, where embezzlement has remained undiscovered when the exercise of such precautions and skill as ought reasonably to have been employed would have disclosed the facts.

Some auditors are in the habit of issuing reports or certificates which are so worded as to endeavour to cast off their responsibility for the accuracy of certain portions of the work. This procedure often serves a useful purpose in making the client or clients aware of the full extent of the examination which has been conducted by the auditor, but it should, as far as possible, be limited to such audits as investigations, and should be employed as little as possible in the regular auditing of the accounts of Joint Stock Companies, etc. It is extremely doubtful whether the possible liability of the auditor can be curtailed by the adoption of such carefully compiled reports or certificates, as the liability of an auditor depends upon the contract, express or implied, between himself and his client.

AUDITS

There are two classes of audits: (1) the completed audit, and (2) the continuous audit. In the first, the work of the book-keeper is complete before the auditor commences to examine the books; in the second, the work is checked up periodically to a trial balance extracted by the book-keeper without the books being closed. The latter class of audit is usually most convenient for large businesses when the stock is taken annually.

The Completed Audit possesses the advantage that, as all the figures are inked in and the balances extracted or transferred before the commencement of the audit, alterations by the book-keeper during the audit, deliberate or otherwise, are more easily discovered or altogether prevented.

The Continuous Audit has the following advantages—

(1) The book-keeper is constantly kept up to his work, as he is under the necessity of having his books in order up to the arranged date;

(2) The auditor is in a better position to go into matters of detail, as more time is at his disposal.

(3) Errors are rectified earlier;

(4) The drawing of the Profit and Loss Account and Balance Sheet is much facilitated at the conclusion of the period.

The "surprise" audit is a kind of continuous audit, the book-keeper or cashier being unaware of the date at which the auditor is to examine the books, the bank and cash balances being verified by the auditor at the date of his visit. By this means a safeguard is afforded against a cashier borrowing or embezzling money during a period and making good the amount before audit. This class of audit, however, is not conducive to a harmonious feeling between the principal and the book-keeper or cashier.

The methods of the auditor must necessarily vary according to the individual case. Thus, he should in all audits conduct such operations as will satisfy him (1) that the entries, adjustments, etc., in the books of account are accurate so far as shown by the books; (2) that the entries in the books of account are in accordance with facts, which will be ascertained by the production and examination of receipts for all payments made, invoices for all goods purchased, evidence of the ownership of stocks and shares by production of the certificates for them, and generally making full use of correspondence or any other source of information that may be available; (3) that the requirements of any Act of Parliament applying generally to the audit in question have been complied with as regards the form of the final accounts, and also as to the framing of the auditor's report, and that the provisions in regard to the accounts as contained in the Special Act of Parliament, Letters Patent, Royal Charter, Deed of Settlement, Articles of Partnership, Probate of the Will, Trust Instrument, Memorandum and Articles of Association, or other regulations have been carried into effect; (4) that the accounts reported upon or certified by him are clear and contain no concealment or misrepresentation, or in the alternative, that irregularities are mentioned in his report or certificate; and (5) that the particular interests of the person or persons appointing him are properly safeguarded.

Usually the auditors employ a distinctive tick to be placed against each amount as it is verified; receipts, invoices, etc., being marked prominently with a large tick or rubber stamp so that they may not be produced again. Each clerk engaged on the audit should have a distinctive tick, so that at any future time it is possible to ascertain who is responsible for the different portions of the audit. When a figure has been crossed out and another substituted a special tick should be used, and any such figure not bearing the special tick should be carefully traced to ascertain whether the alteration has taken place before or after the checking. Erasures in the books of account should be prohibited, and it is of assistance to the auditor to use different coloured inks at subsequent audits.

It is a practice with accountants to place an " audit note-book " in the hands of the clerk in charge of an audit. This is usually drawn up by one of the principals at the first audit, and specifically enumerates the work to be done, space being provided for the initials or signature of the clerk performing it. Again, some audit note-books do not contain any such directions to the clerks, but in any case a record should be made therein of all matters which are not of an ordinary nature, such as the explanation given by a manager or managing director regarding an increase in the value of the stock-in-trade, notes as to the dates up to which fixed expenses have been paid ; to be utilised in checking or making the reserves for expenses accrued or the adjustments for expenses paid in advance. On small audits it is usual for the auditors to work in pairs, so that in doing the detailed postings the one may call out from the subsidiary book and the other tick the amounts in the ledger, and in regard to the examination of receipts and invoices much time may be saved by such an arrangement. It is important that as far as possible the various operations of the auditor should be commenced and concluded before the books in question are handed back to the book-keeper. Where this is impossible, and it is impracticable for the auditor to obtain the custody of the books until the completion of his examination, he should take care to work up to a particular point in the books which he is checking, and should take such notes of the totals of the subsidiary book at that point as will enable him to determine, when he resumes the work, whether or not alterations have been made. It is always desirable in continuous audits that the trial balance extracted by the book-keeper should be handed to the auditor before he commences his work, and that it should not be returned to the book-keeper.

The Companies (Consolidation) Act, 1908, contains the following provisions in regard to the audit of the accounts of joint stock companies—

112. (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

(2) If an appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company,

appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.

(3) A director or officer of the company shall not be capable of being appointed auditor of the company.

(4) A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice of an intention to nominate that person to the office of auditor has been given by a shareholder to the company not less than fourteen days before the annual general meeting, and the company shall send a copy of any such notice to the retiring auditor, and shall give notice thereof to the shareholders, either by advertisement or in any other mode allowed by the articles, not less than seven days before the annual general meeting :

Provided that if after notice of the intention to nominate an auditor has been so given an annual general meeting is called for a date fourteen days or less after the notice has been given, the notice, though not given within the time required by this provision, shall be deemed to have been properly given for the purposes thereof, and the notice to be sent or given by the company may, instead of being sent or given within the time required by this provision, be sent or given at the same time as the notice of the annual general meeting.

(5) The first auditors of the company may be appointed by the directors before the statutory meeting, and if so appointed shall hold office until the first annual general meeting, unless previously removed by a resolution of the shareholders in general meeting, in which case the shareholders at that meeting may appoint auditors.

(6) The directors may fill any casual vacancy in the office of auditor, but while any such vacancy continues the surviving or continuing auditor or auditors, if any, may act.

(7) The remuneration of the auditors of a company shall be fixed by the company in general meeting, except that the remuneration of any auditors appointed before the statutory meeting, or to fill any casual vacancy, may be fixed by the directors.

113. (1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

(2) The auditors shall make a report to the shareholders on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state—

(*a*) whether or not they have obtained all the information and explanations they have required ; and

(*b*) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

(3) The balance sheet shall be signed on behalf of the board by two of the directors of the company or, if there is only one director, by that director, and the auditors' report shall be attached to the balance sheet, or there shall be inserted at the foot of the balance sheet a reference to the report, and the report shall be read before the company in general meeting, and shall be open to inspection by any shareholder.

Any shareholder shall be entitled to be furnished with a copy of the balance sheet and auditors' report at a charge not exceeding sixpence for every hundred words.

(4) If any copy of a balance sheet which has not been signed as required by this section is issued, circulated, or published, or if any copy of a balance sheet is issued, circulated, or published without either having a copy of the auditors' report attached thereto or containing such reference to that report

as is required by this section, the company, and every director, manager, secretary, or other officer of the company who is knowingly a party to the default, shall on conviction be liable to a fine not exceeding fifty pounds.

(5) In the case of a banking company registered after the fifteenth day of August eighteen hundred and seventy-nine—

(*a*) if the company has branch banks beyond the limits of Europe, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of any such branch as have been transmitted to the head office of the company in the United Kingdom ; and

(*b*) the balance sheet must be signed by the secretary or manager (if any), and where there are more than three directors of the company by at least three of those directors, and where there are not more than three directors by all the directors.

AUDIT PROGRAMME

Limited Company.—The detailed work of the auditor of the accounts of a limited company carrying on a manufacturing business may be outlined as follows—

1. Compare the balances in the Sales, Purchase, Nominal and Private Ledgers at the commencement of the period of audit with the schedules of the balances in the ledgers at the close of the previous period of audit, so as to discover alterations.

2. Read the Memorandum and Articles of Association of the company, carefully making notes of matters affecting the accounts, such as the form in which the accounts are to be rendered, the date at which they are to be drawn, the nominal capital and the shares into which it is divided, and any regulations as to a provision for the redemption of debentures by means of a sinking fund.

3. At the first audit, obtain a complete list of all books kept by the company, and read the Agreement of Purchase, making notes of special points.

4. At the first audit, and at subsequent audits for periods during which an issue of capital has taken place—

(*a*) Read the prospectus (if any).

(*b*) Check the cash received on account of shares, from the Bank Pass Book to the Cash Book, and from the Cash Book to the Application and Allotments Book and Share Register.

(*c*) Examine the forms of application for shares so as to ascertain that no bogus applications have been made, and compare the total applications with the minimum subscription requirements in the Articles of Association, and with the authorised capital as stated in the Memorandum of Association.

(*d*) See that the minutes of allotment as entered in the Minute

Book are in order and that each allottee has been notified by Allotment Letter of the number of shares allotted to him. Check the entries as regards the allotment of shares to the Application and Allotment Book and the Share Register.

(*e*) When shares are allotted as fully or partly paid otherwise than for cash, ascertain by reference to the acknowledgment given by the Registrar of Joint Stock Companies or by application to the solicitors to the company that a contract in writing, constituting the title of the allottee to such allotment, has been registered with the Registrar of Joint Stock Companies, together with any contract of sale or for services or other consideration in respect of which the allotment is made. Also see that the Journal entries for shares issued as fully or partly paid otherwise than for cash are correct.

(*f*) Check the totals of the Application and Allotment Book, see that the Journal entries in respect of the issue of capital are correctly made, and agree the total paid-up capital as appearing in the Share Register with the balances on the Share Capital Accounts in the Private Ledger. Ascertain from the counterfoils of the Share Certificate Book that Share Certificates have been issued for the total number of shares allotted.

(*g*) When a call has been made on shares, examine in the Minute Book the minute authorising the call and see that the call has been made in accordance with the Articles of Association. Check the entries in respect of the amount called up in the Call Book and the Share Register, verify the amounts received on account of the call as entered in the Cash Book by comparison with the Bank Pass Book, and check the cash to the Call Book and Share Register. See that the Journal entries in respect of the call are correct. Compare and agree the total of the balances paid up as appearing in the Share Register with the balances on the Share Capital Accounts in the Private Ledger.

(*h*) See that proper stamped transfers are produced for all transfers of shares, and check the Register of Transfers with the Share Register unless the transfers are very numerous, when a few selected haphazard should be taken.

(5) Examine the vouchers or receipts for the payments appearing on the credit side of the Cash Book. Each item should be ticked as vouched in the Cash Book, as the voucher relative to it is examined.

See that the receipt is in order as to the names of both the parties to the transaction, the date, the amount and the nature of the payment as shown in the Cash Book, after which the voucher should be stamped or ticked prominently. Enquire into the system under which the wages are compiled and paid, noting the weak points ; check the additions of the Wages Book ; and compare the employees' work books with the Wages Book for at least two weeks out of each year. Examine the Petty Cash vouchers in a similar manner, check the cash entered on the debit side of the Petty Cash Book with the Cash Book, check the additions and balances of the Petty Cash Book, and go through the unvouched payments with a responsible official, obtaining his signature for the same. Note the system on which the Petty Cash is worked. As regards the payments on the credit side of the Cash Book remaining unvouched, where a first premium on an Insurance Policy has been paid, vouch the payment by comparison with the acknowledgment in the Policy. Purchases of Stocks and Shares are to be vouched by the production and examination of the Broker's Contract Notes. Make a list of any missing vouchers and obtain the signature of the principal if copies cannot be secured.

Check the Bank Pass Book with the bank column in the Cash Book, and obtain from the bankers a certificate of the bank balance at the date of the conclusion of the period.

Call over the counterfoil receipt books to the debit side of the Cash Book. For Cash Sales compare the Check Till Sheets with the entries in the Cash Book.

Dividends received on account of bad debts should be verified by the production and verification of the dividend notices.

The cash in hand at the end of the period should be counted and agreed. If the auditor cannot attend to count the cash balance on the date at which the books are made up, he should count the cash in hand at the date he commences the audit, and should vouch both sides of the Cash Book up to that time, thereby proving the balance at the date of balancing the books. The same should be done with the Petty Cash balance if the amount was not counted until after the date of balancing.

(6) Check the postings of the Sales Day Book to the Sales Ledgers, and verify the additions of the Sales Day Book ; check the posting of the totals to the Nominal Ledger. Enquire into the system of

writing up the Sales Day Book, so as to guard against goods having been sent out uninvoiced, and also with a view to discovery of fraud.

(7) Check the postings of the Purchase Day Book to the Purchase Ledger, verify the additions of the Purchase Day Book, check the final cross-addition, and call over the postings of the totals of the analytical columns to the Nominal Ledger. Examine the invoices as to the date, name of purchaser, name of vendor, nature of goods supplied, noting particularly items of capital expenditure ; see that each invoice has been initialled as to quantities, prices, additions and extensions, and that the initials are regular. Tick each item in the Purchase Book as the invoice in respect of same is examined, and see that the amount is extended into the appropriate analytical column after stamping or ticking the invoice. No item of capital expenditure to be passed without production of the invoice. Make a list of missing invoices, obtain copies where possible, and lay the list before the principal for signature.

(8) Check the postings and additions of the Returns Inwards Book and the Returns Outwards Book. In the case of Returns Inwards, examine the debit notes and tick or stamp them. In the case of Returns Outwards, examine the credit notes, and tick or stamp them. In each case make a list of the missing debit or credit notes and obtain the principal's signature to such list.

(9) Check the postings, additions and cross entries in the Cash Book, and tick the balances brought down.

(10) Check the postings of the Journal to all Ledgers, and verify all the Journal entries by reference to correspondence, notices of final dividend paid by the estates of debtors, etc. Carefully enquire into the circumstances surrounding entries of an extraordinary nature.

(11) Check the additions and balances of the Sales Ledger, ticking the list of book debts extracted by the book-keeper. Observe and make note of any unticked items appearing in the Sales Ledger and see that the totals agree when accounts are ruled off. Scrutinise the Ledger accounts, marking on the list of book debts those that are overdue, or on which payments have been made by round sums on account. Examine the list of book debts in detail with a responsible official of the company who has knowledge of the financial standing of the customers, and make up or agree the reserve for bad and doubtful debts and for discounts.

(12) Check the additions, balances, etc., of the Purchase Ledger.

Observe and make note of any unticked items appearing in the Purchase Ledger, and see that the totals agree when accounts are ruled off. Tick the list of creditors and check the reserve for discounts.

(13) Check the additions and balances of the Nominal and Private Ledgers, observing and noting unticked items. Tick the Trial Balance from the Nominal and Private Ledgers, and also from the lists of debtors and creditors and the cash and bank balances. Cast and agree the Trial Balance.

(14) Ascertain that the stock of goods on hand has been accurately taken, checking the additions and extensions of the Stock Book and comparing with the invoices some of the prices at which the goods are extended. The basis of the valuation of the stock should be the lower of the cost or market price. The Stock Book should be signed by the officials who are responsible for the correctness of the quantities, prices, extensions and additions. If the business is one in which the percentage of gross profit is constant, an approximate check on the value of the stock may be applied by adding to the opening stock the purchases and the manufacturing wages during the period, and ascertaining the difference between that figure and the total sales during the period, after deducting from the latter the usual percentage of gross profit. If any material difference is shown, enquire into and ascertain the reason for such discrepancy, and see that all the invoices for goods received prior to the date of stocktaking have been charged through as purchases. If a reliable system of stock-keeping is in use, the detail of the stocktaking should be compared with the books of the stock-keeper. Where stock is in the custody of railway companies, dyers, bleachers, finishers, or other outside firm, a note should be obtained from each, stating the details and quantities of goods so held. Goods on sale or return should not be included in the stock if they have been debited to the customer in the Sales Ledger. All trade and cash discounts to be deducted from the stock value.

(15) Check the reserves for expenses accrued but unpaid, and also the adjustments in respect of expenses paid in advance. The information as regards the various items requiring such apportionment is best collected whilst examining the vouchers of the Cash Book. All notes made in the course of the audit to be dealt with and all queries settled.

(16) Examine or construct the Trading Account, Profit and Loss Account, and Balance Sheet in accordance with the regulations of the company. When advertising or a similar special expense of a large amount is carried forward as an asset, a minute of the directors authorising this course should be seen. No transfers to reserve fund should be passed by the auditor unless authorised by a resolution of the shareholders in general meeting, and dividends should be paid only after the sanction of the shareholders in general meeting has been obtained, except in the case of an interim dividend paid by the directors under a power in the Articles of Association. The Shareholders' and Directors' Minute Books should be read by the auditor. All contingent liabilities, such as the total possible liability on Bills of Exchange under discount, arrears of cumulative preference share dividend, etc., should be noted at the foot of the liabilities side of the Balance Sheet.

(17) Verify the assets appearing in the Balance Sheet in the following manner: Freehold and leasehold land, by production of the title-deeds, or leases. These are often placed in the hands of the bank for safe custody or by way of equitable security for an overdraft, in which case the bank should be requested to acknowledge them. If a mortgage has been raised on the land and buildings, the receipt of the mortgagee for the title deeds should be seen. Plant and machinery should, subject to depreciation, be in agreement with a detailed inventory which should be seen and the totals checked. Goodwill, subject to the amounts which have from time to time been written off, should be stated at the price originally paid for its acquisition, and patents should be verified with the accounts of the patent agent, accompanied by the receipts given by the Patent Office; or if the patents were originally acquired by purchase the agreement of purchase will show the price at which they were bought. The question of depreciation should be carefully gone into, care being taken to see that a proper provision is made under that head. The stock of goods on hand, cash at bank and in hand, and sundry debtors have been dealt with. The amount brought into the Balance Sheet under the heading of Bills Receivable should be represented by actual Bills of Exchange in hand totalling to the same value, and this fact should be verified. If the Bills Receivable have been deposited with the company's bankers either for safe custody or for collection at

maturity, a certificate from the bank to the effect that Bills of Exchange to the value mentioned are held by the bank on account of the company, should be produced. Securities held by the company should be verified by examination of the share certificates, or, in the case of inscribed stock, by the certificate of the bank at which they are inscribed. The Memorandum of Association should contain powers authorising the holding of investments, and in the Auditor's Report it is usual to state the total market value of the securities owned by the company at the date of the Balance Sheet. When Insurance Funds, Depreciation Funds, Reserve Funds, or Debenture Redemption Funds have been raised and are represented by specific investments, the auditor should see that the investments are shown in the Balance Sheet at a value equal to the figure of the particular fund on the liabilities side. Investments are generally shown in the books at cost, but where the value has depreciated, it will be advisable to raise a reserve in respect of the difference between the market value at the date of the Balance Sheet and the amount at which the securities are shown in the books. The correctness of such a reserve should be verified by the auditor. It is important that the auditor should ascertain that all dividends from the investments are brought into the books.

As regards the liabilities side of the Balance Sheet, the Nominal Capital as shown in the Memorandum of Association should be stated, followed by the Subscribed Capital as disclosed by the Share Capital Accounts in the Private Ledger. The total amount called up on shares subsequently forfeited should be deducted from the total paid-up capital, and the balance extended. All cash paid on account of shares forfeited should be shown as Forfeited Shares. The Directors' Minute Book should be seen as to the forfeiture of shares, and the Journal entries in respect of the same should be verified. The power of forfeiture of shares should be exercised only in strict accordance with the Articles of Association. The sundry creditors should be stated at the total of the detailed list extracted from the Purchase Ledger, the deduction therefrom in respect of the provision for discounts being carefully verified. Reserves and Reserve Funds have been dealt with. The balance of Profit and Loss Account will be shown last on the liabilities side if it is a profit, the amount brought forward from the last period being then added, whilst any interim dividends paid will be deducted before the amount of undivided profit is extended. When a loss has been incurred, the amount of the loss will be shown last on the assets side, added to the previous losses, or with any previous balance of undivided profit deducted. If the accounts are then in order, the auditor, after seeing that the Balance Sheet has been signed by two of the directors, should annex his report, stating any qualifications which he deems necessary so as properly to explain the accounts. The following specimen of an Auditor's Report as issued in practice will illustrate the form—

To the Shareholders of the Blank Manufacturing Company, Limited.

I have audited the above Balance Sheet and have obtained all the information and explanations I have required. Apart from the fact that I consider the amount set aside as depreciation on plant and machinery to be insufficient, the above Balance Sheet is, in my opinion, properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of my information and the explanations given to me, and as shown by the books of the Company.

I am,
Your obedient servant,
X. Y.,
Chartered Accountant,
Auditor.

Executorship and Trust Accounts.—The audit of Executorship and Trust Accounts presents many difficulties, and it is necessary that the auditor of this class of accounts should be well informed on matters of Executorship and Trustee Law. The following outline of the auditor's duties in relation to accounts of this class will show the marked difference between these and other audits—

(1) Examine the Probate of the Will or the Trust Instrument, and make permanent notes and extracts for use in present and future audits as to (*a*) the property in trust; (*b*) the manner in which the property is to be realised and invested; (*c*) the amounts and details of the legacies and devises; (*d*) the manner in which the income is to be distributed; and (*e*) the manner in which the residue of the trust property is to be dealt with at the conclusion of the executorship or trust.

(2) See that all the assets mentioned in the Probate Affidavit have been brought into the accounts; and, at the first audit, see that all papers, books, and private records of the deceased which may possibly throw light on the various properties of which he was possessed, are carefully preserved.

(3) Examine the Probate Affidavit and compare the amount of estate duty and interest paid, with the entry in the Cash Book. See that the interest paid from the date of the death to the date of payment of the estate duty on the personalty is charged against the income of the estate. Where, at the request of the donees liable therefor, estate duty on specifically devised realty or personal property in the nature of *donationes mortis causa* or *inter vivos* gifts has been paid by the executors, care must be exercised to ascertain that the persons liable have been debited with the amount paid on their behalf, and that they have subsequently refunded the money.

(4) Check all vouchers for payments appearing on the credit side of the Cash Book, and verify the bank balance with the Bank Pass Book; also obtain a certificate of the same from the bank. See brokers' bought notes for all securities purchased.

(5) Examine dividend warrant counterfoils, etc., in respect of dividends received, and check all apportionments of interest, dividends, etc., as between capital and income.

(6) Verify the proceeds of sale of investments by reference to brokers' sold notes; sales of property by the auctioneer's accounts; etc., rents received by reference to the rent roll; profits from a business carried on by the executors by reference to the audited accounts of the business.

(7) Check the Cash Book additions, postings, and cross entries.

(8) Ascertain by reference to the Investment Register that all the income earned by the investments of the estate has been brought into the accounts.

(9) Where a rent roll is kept, this should be exhaustively checked by reference to leases, agreements, etc.; or in the case of weekly property, incomings and outgoings should be checked with the quarterly account of the agent. Allowances to tenants in respect of income tax under Schedule A paid by them should be proved by production of the receipt for the tax. The authority for any allowance for repairs should be enquired into.

(10) If a Journal is in use, see that the opening entries are in

proper form and correctly made. It is advisable also to have a short "Epitome of the Will" written in the Journal for ease of reference, and it is usually also convenient to write an abbreviated copy of the Probate Affidavit in this book after the "Epitome of the Will."

(11) Except when legacies are expressed by the Will to have been left "free of legacy duty," ascertain that legacy duty at the appropriate rate has been deducted on payment of the legacies, and examine the Residuary Account.

(12) Enquire into the method of providing for or paying annuities, if any; see that the manner of provision or payment is not contrary to the terms of the Will or Trust Instrument; and also observe that income-tax is deducted on payment of the annuities. Check the Journal entries when an annuity is provided for or purchased.

(13) Where a business is carried on by the executors, see that they are so authorised in the Will.

(14) Where the deceased had an interest in a partnership firm at the date of his death, ascertain from the Articles of Partnership and the audited Balance Sheets the amount of his capital in the business at that date, or when no provisions are to be found in the Articles of Partnership relating to the valuation of the share of a deceased partner, examine the audited Balance Sheet drawn up as at the date of death, and compare same with the amount at which the interest in the partnership firm is stated in the Executorship Books.

(15) Verify the existence of the various investments, properties, etc., by production of the scrip, application to the bank at which stocks are inscribed, inspection of the title deeds, etc. Ascertain that all the investments are authorised either by the Will or by the Trustee Acts.

(16) Check the additions of the Journal and Ledger, and verify the Journal entries (if any). Check the Journal postings and tick the Ledger balances to the Trial Balance.

(17) Ascertain that the provisions of the Will have been carried out as to the payment of annuities and legacies and the distribution of the residue. In the case of a trust, see that the income has been dealt with in accordance with the terms of the Trust Instrument.

(18) Check or draw up the Income Account and the Balance Sheet. Income not yet received must not be brought into the accounts,

except upon the death of a life tenant of the estate. When investments are purchased or sold cum dividend, that is to say, at a price including the accrued dividend to the date of the purchase, no apportionment must be made in regard to the amount of such dividend included in the cost price or proceeds of sale respectively.

(19) Certify and report on the accounts, complying with Section 13 of the Public Trustee Act, 1906, if the appointment of auditor has been made thereunder.

Building Society.—The audit of a building society is again essentially different from other types of audits, being similar to a bank in the form of its transactions. A Building Society borrows money at interest from shareholders and depositors, and lends money on mortgage of freehold or leasehold property. The shareholders, depositors, and investors, as the persons are called who pay in money of small amount, have each an account in appropriate ledgers, and pass books are issued to them in which the cash transactions and interest are entered. The "advanced members," by which name the mortgagors of property to the Society are known, have each an account in ledgers of that name. So as to eliminate a great amount of detail from the Cash Book it is usual to keep Subscription Books in which the cash paid by the investors and the advanced members is recorded after being put through a Counter Cash Book, the amounts paid in by the members being credited to their ledger accounts monthly from the Subscription Books, the totals of the latter books being debited to the Cash Book monthly.

A Building Society must, under the Building Societies Acts, 1874 to 1894, render its accounts annually in the form of—

(*a*) A Receipts and Payments Account;
(*b*) A Statement showing the Operations of the year; and
(*c*) A Liabilities and Assets Account.

A specimen of the Receipts and Payments Account of a Building Society is shown on p. 103. Forms (*b*) and (*c*) will be found to continue the figures therein contained.

The auditor of a Building Society would therefore—

(1) Count the cash balance and agree the bank balance as per the Cash Book with that shown by the Bank Pass Book, and obtain a certificate of the balance from the bank.

(2) Examine the vouchers of the Cash Book payments as to current expenses paid, investments withdrawn, interest paid on

Statement showing the Operations of the Year.

Balances at beginning of Year, as shown by last Annual Statement.	£	s.	d.	Additions during the Year. Particulars.	Amount. £	s.	d.	Diminutions during the Year. Particulars.	Amount. £	s.	d.	Balances at end of Year, as shown by Liabilities and Assets Account.	£	s.	d.
Due to Shareholders	£255834	5	2	Subscriptions of Shareholders ..	£28647	5	8	Withdrawals of Shareholders ..	£36483	5	0	Due to Shareholders	£245212	7	6
				Interest added ..	7466	17	6	Interest paid ..	5661	1	8				
				Preference Shares	5140	0	0	Preference Shares	9660	0	0				
				Interest added ..	2021	4	4	Interest on ditto..	2092	18	6				
Due to Depositors and other Creditors	42174	8	2					Deposits withdrawn	2977	0	0	Due to Depositors and other Creditors	39148	6	8
								Interest paid ..	1434	14	6				
				Interest added on Deposits	1385	13	0	Other Diminutions viz.—							
								Bank Commission	60	0	0				
								Management Expenses	1556	1	4				
				Other additions, viz.—				Rent, Rates, and Taxes	583	10	0				
								Income Tax.. ..	257	0	2				
				Interest on Mortgages	12715	12	8	Room for Annual Meeting, etc. ..	2	7	0				
				Deductions on Advances	444	13	4	Interest on Investment Shares ..	7466	17	6				
								Do. Pref. Shares..	2021	4	4				
				Bank Interest ..	296	4	8	Do. Deposits ..	1385	13	0				
Undivided Profit, not including Prospective Interest	21757	4	2	Rules, etc.	1	3	8	Auditors	63	0	0	Undivided Profit, not including Prospective interest	21819	5	2
	£319765	17	6		58118	14	10		£71704	13	0		£306179	19	4

STATEMENT SHOWING THE OPERATIONS OF THE YEAR—(CONT.).

Balances at beginning of Year, as shown by last Annual Statement.	£	s.	d.	Additions during the Year. Particulars.	Amount. £	s.	d.	Diminutions during the Year. Particulars.	Amount. £	s.	d.	Balances at end of Year, as shown by Liabilities and Assets Account.	£	s.	d.
Due on Mortgage Securities not including Prospective interest	£308407	0	2	Advanced on Mortgage ..	£29513	10	0	Repayment of Advances	£36143	1	8	Due on Mortgage Securities, not including Prospective Interest	£301777	8	6
				Interest due from Borrowers ..	12715	12	8	Interest received from Borrowers	12715	12	8				
Other Assets.. ..	11358	17	4					Excess of Bank Payments over Receipts	6956	6	6	Other Assets ..	4402	10	10
	£319765	17	6		£42229	2	8		£55815	0	10		£306179	19	4

Total .. .. £361995 0s. 2d.

Total .. .. £361995 0s. 2d.

LIABILITIES AND

Dr.

	Principal.			Interest.					
To Liabilities to Holders of Shares, viz.—									
Paid-up Shares	£160371	4	4	£28050	10	10			
Preferential Shares	55810	0	0	980	12	4			
Total	£216181	4	4	29031	3	2	£245212	7	6
To Liabilities to Depositors and other Creditors, viz.—									
For Deposits payable upon various times of notice, viz. :	£38470	0	0	£678	6	8	39148	6	8
To Undivided Profit (including Reserve Funds, but not including Prospective Interest), viz. :							21819	5	2
							£306179	19	4

ASSETS ACCOUNT.

Cr.

	£	s.	d.	£	s.	d.
By Balance due or outstanding on Mortgage Securities, not including Prospective Interest, viz. :						
Mortgages from Members where the repayments are not upwards of twelve months in arrears, and the property has not been upwards of twelve months in possession of the Society—						
On 252 Mortgages where the debt does not exceed £500	£66636	17	8			
On 130 Mortgages where the debt exceeds £500 and does not exceed £1000.. ..	93949	10	2			
On 68 Mortgages where the debt exceeds £1000 and does not exceed £3000 ..	104591	9	10			
On 10 Mortgages where the debt exceeds £3000 and does not exceed £5000	35493	6	8			
On — Mortgage where the debt exceeds £5000, as shown by Part I. of the Schedule ..	Nil.					
Total of Mortgages available under s. 14 of the Act of 1894, 460				£300671	4	4
On 2 Mortgages on Property of which the Society has been upwards of twelve months in possession, as shown by Part II. of the Schedule..	1106	4	2	1106	4	2
On — Mortgages where the repayments are upwards of twelve months in arrear, and the Property has not been upwards of twelve months in possession of the Society, as shown by Part III. of the Schedule	Nil.					
Total number of Properties mortgaged to the Society = 462.						
				£301777	8	6
By other Assets—						
Office Furniture and Safes	100	0	0			
Cash in Bank and in hand	4302	10	10			
				4402	10	10
				£306179	19	4

investments, deposits withdrawn, interest paid on deposits, shares withdrawn, and interest paid on shares. When fresh advances are made on mortgage, see that these are entered in the Deed Book.

(3) Check the Counter Cash Book to the Subscription Books.

(4) Check the additions of the Subscription Books, see that the monthly totals of the same are correctly entered in the Cash Book, and call over the postings of the Subscription Books to the Ledgers.

(5) Check the postings of the Cash Book to all the Ledgers, and verify the additions of the Cash Book.

(6) Check the postings of the Interest Books to the Ledgers and the totals to the Nominal Ledger. Enquire into the method of calculating interest, and compare the totals with those of previous periods.

(7) Verify the additions and balances of the Ledgers, and check the lists of balances extracted by the book-keeper. Obtain as many pass books as are available, and compare them with the lists of balances.

(8) See that all the properties mortgaged to the society are covered by insurance against fire by examining renewal receipts, and new policies of insurance with the Deed Book, which contains details of each mortgage to the society.

(9) Inspect all title-deeds of properties mortgaged to the society; observe the names, principal sum, situation of property, etc.; compare the amount of present indebtedness with the original advance, and check the deeds with the Deed Book.

(10) Where default has been made by the mortgagor and possession has been taken, vouch the receipts and payments on account of the property.

(11) Check the final accounts, viz.: the Receipts and Payments Account, Statement showing the operations of the year, and the Liabilities and Assets Account, particularly as regards the differentiation of the mortgages to the Society.

(12) Draw up and sign the Auditor's Certificate, which must comply with the requirements of the Building Societies' Act, 1894.

(13) Compare the published accounts as issued, with the accounts as audited.

Form of Auditor's Certificate under the Building Societies' Act, 1894.

I, the undersigned, Arthur Harvey, being a person who publicly carries on the business of an Accountant, at No. 666 Market Street, Manchester, a member of the firm of Harvey and Company, Chartered Accountants, Manchester, the duly appointed Auditors of the above-mentioned Society, do hereby attest the foregoing Accounts and Statements, and certify that they are correct, duly vouched, and in accordance with law, and I certify that I have at this Audit actually inspected the Mortgage Deeds and other securities belonging to the Society, in respect of each of the four hundred and sixty-two properties in mortgage to the Society, referred to in the foregoing Accounts and Statements.

(Signed)
ARTHUR HARVEY, A.C.A.

(Countersigned)
BENJAMIN WILLIAMS,
Secretary.

Dated this 16th day of November, 19..

GENERAL.—In conducting very large audits, the procedure of the auditor may be modified considerably. Thus, in such cases, he need not wade through all the detail, and he should take advantage of any good system of internal check which may be instituted. Where there is a large mass of postings, the same moral effect may be produced in the mind of the book-keeper if a number are checked here and there, the book-keeper being, of course, unaware as to which of the entries are to be checked. The auditor may therefore make valuable use of sectional-balancing and self-balancing ledgers and such other devices as experience suggests, and sometimes it is worth while to raise on paper total accounts for debtors or creditors, as frequently much labour may thereby be saved. Methods of this kind are quite permissible, provided that all possible loopholes are watched. Thus, where total accounts have been raised in respect of book debts, the following precautions are obvious—

(1) Careful study of the methods of internal check, particularly as regards the dispatch of goods and their automatic record through the Day Book.

(2) Strict scrutiny of all debit notes passed and enquiry into such as are missing.

(3) Vouching of debts written off as bad by reference to the documents issued under Deeds of Arrangement, Bankruptcies, Liquidations, etc.

(4) Scrutiny of the Sales Ledgers, and the noting of overdue accounts and accounts where no definite settlement has taken place.

(5) Inquiry into excessive discounts.

(6) Careful tracing of all transfers.

In all cases, the auditor should make himself thoroughly familiar with the methods of internal check in vogue, which will assist him materially in arranging his plan of audit.

Many points come up for settlement in the course of audit. Thus, the auditor of a partnership firm which has amalgamated with another firm should carefully trace all discounts and bad debts incurred in respect of book debts taken over, so as to charge the person or persons who brought such debts into the firm, and similarly with regard to the discounts on the creditors' accounts, undisclosed liabilities and the like, which should be properly adjusted as between the partners. These difficulties will not arise where, by the terms of an amalgamation, the proprietors of each firm collect their own debts and pay their own liabilities.

Goods on Sale or Return, or on Consignment, require consideration. Items of this description should be so marked in the Sales Ledger, and as it is usual for goods on consignment to be sent out with a margin of profit added, care should be taken to see that a sufficient percentage is provided in the shape of a reserve for such profit. This reserve should be deducted from the figure shown in the Balance Sheet and the balance extended. In some businesses, where returns or allowances are common, as in the dyeing and finishing trades, special attention should be given thereto, and to the contingency of claims for damaged goods. Work in progress and goods sold for future delivery are frequent sources of difference of opinion between directors and auditors, as the former often desire to take credit in the Profit and Loss Account for a portion of the profit which it is expected will accrue when the transactions are complete. Although it has been said that an auditor is not a valuer, the auditor should strenuously resist when values of this nature are adopted and such assets ought only to be valued at the lower of cost or market price.

In the opinion of the writer, the question of secret reserves is one of circumstances. It is submitted that strong arguments are forthcoming in favour of the creation of secret reserves in the case of a bank, by means of the excessive writing down of values of buildings, etc., by reason of the fact that continued stability and maintained dividends are important, not merely to the shareholders, but in the interests of the commercial community. When the audit is that of a mercantile firm, which after a successful period of trading seeks to hold back a portion of its profits by means, say, of an undervaluation of stock, the position is rather different. In such cases, the auditor must consider the possible injustice done to present shareholders and the corresponding unlooked-for benefit to future shareholders, and having weighed all the circumstances of the particular case, he should decide accordingly.

The relative value of assets is a matter requiring discussion. Suppose that certain machinery is stated in the accounts of a firm at a value which, after deducting the depreciation already set apart, leaves the amount in excess of that at which similar machinery can be bought. Should the fact be mentioned in the auditor's report? In the writer's opinion the auditor in such circumstances should point out the necessity for an increase in the rate of depreciation, for it is understood that, in accounting, the cost of a fixed asset constitutes its value to the particular firm, subject to depreciation, which should cover all risk of obsolescence.

On a purchase of securities cum dividend, an apportionment is required when the dividend is received, the proportion accruing after the date of purchase being treated as profit, the other portion being credited to the investment account as a reduction of the cost price. The converse applies on the sale of investments cum dividend, the portion of the proceeds earned prior to the date of sale being treated as profit. This practice does not apply to the accounts of an executor or trustee.

Where a company has, in accordance with its regulations, provided for the repayment of debentures by creating a Debenture Redemption Fund out of profits, the question arises as to how the credit balance on the latter account is to be treated when the debentures have been repaid. The correct course is to transfer the amount to the credit of a Permanent Reserve Fund, which must not be drawn upon for the equalisation of dividends. Where debentures are issued at a lower figure than that at which they are to be redeemed, the best way is to credit the Debentures Account with the amount necessary to bring that balance up to the redemption figure, and to debit a like amount to a "Cost of issue of Debentures" Account, which should be written off in proportion to the number of years which are to elapse before redemption.

CHAPTER II

ACCOUNTING

The system of Double-Entry Book-keeping is founded upon the truth that every transaction affects at least two parties. This is expressed in the book-keeper's maxim, "Every debit requires a credit." Originally all transactions were first entered through a Journal, and at the present day, in some of the countries on the Continent of Europe, traders are compelled to record all their transactions through such a book. The use of the Ledger would be necessary to collect the transactions affecting particular persons.

The provision of a Cash Book to contain all entries of a cash nature must have been seen to be a great convenience early in the history of Double-Entry Book-keeping, as the Journal would thereby be freed of a large number of items which would naturally appear to require a separate and distinct record. Some firms still adhere to the Journal, Cash Book and Ledger as their sole books of account.

As business transactions became more numerous and more involved, the use of the Journal became cumbersome, and its further subdivision was necessitated. It was seen that business dealings naturally classified themselves into Sales, Purchases, and Returns of goods, and the giving and receiving of Bills of Exchange. Thus, the Sales Day Book, Purchase Day Book, Returns Book Inwards, Returns Book Outwards, Bills Receivable Book and Bills Payable Book were brought into use. An advantage of these innovations is that, as a clerk or clerks can be placed in charge of one or more of these books, the book-keeping may always be thoroughly up to date; greater efficiency and ease of reference is also gained. In short, the development of a business in these days of strenuous competition requires constant care, which will be considerably assisted and focussed by a proper system of Accounting.

It should be thoroughly understood that of whatever nature the transactions of a person or firm may be, some system of Double-Entry Book-keeping can be devised to meet the peculiarities of the particular business. The books must be made for the business, not the business for the books. This subject is fully dealt with in a later chapter.

The books necessary to record the accounts of a merchant would comprise the following—

Subsidiary Books.—Sales Day Book, Purchase Day Book, Returns Inwards Book, Returns Outwards Book, Bills Receivable Book, Bills Payable Book, Petty Cash Book, Wages and Salaries Book, Journal and Private Journal.

Principal Books.—Cash Book, Sales Ledger, Purchase Ledger, Nominal Ledger, and Private Ledger.

SALES DAY BOOK

The system of recording the dispatch of goods should be framed so as to guard against deliveries of goods not being charged for. Thus, a slip should be made out in the warehouse for each parcel of goods, the slip being then handed into the office. Invoices should be bound together in a book, with pages for retaining carbon copies. The invoice would be made out from the slip, and the Day Book would be written up from the carbon copies in the Invoice Book. The nature of the business should determine the form of Sales Day Book to be used; probably the best would be one giving details only as to Date, Name of Customer, Town, Number of Sale, Ledger Folio, and Amount of Sale. The Number of the Sale will assist reference when details of a particular item are desired, the carbon copies in the Invoice Book being similarly numbered. The Sales Day Book should be written up each morning from the Invoice Book, and in respect of Cash Sales, from the totals of the Check Till Sheets. The amount of each sale should be posted to the debit side of the customers' accounts in the Sales Ledger, and the total of the Sales Day Book should be posted at the end of the month to the credit side of the Sales Account in the Nominal Ledger.

PURCHASE DAY BOOK

Usually the most convenient form is the analytical one, in which columns are provided for Date, Name, Town, Number of Invoice, Ledger Folio, Amount of Invoice, following which are placed the columns with headings, such as Purchases, Boxes, Paper and String, Printing and Stationery, Electricity and Water, Rent and Rates, Furniture and Fittings, Sundries. As invoices are received for goods bought, they should be marked with a rubber stamp as follows—

QUANTITIES CHECKED BY
PRICES CHECKED BY
ADDITIONS AND EXTENSIONS CHECKED BY

the space being for the initials of the person who performs such checking. The invoices should then be entered in the Purchase Day Book, numbered consecutively and filed. The extension into the appropriate analytical column having been made, the postings to the credit of the various personal accounts should be done. The Purchase Day Book should be added to the end of each month, and the cross addition of the analytical columns agreed with the addition of the total column, when the totals of the analytical columns should be posted to the debit of the appropriate accounts in the Nominal Ledger.

THE RETURNS INWARDS BOOK

This should be entered up from slips passed into the office from the warehouse, all debit notes received being filed for reference and audit. The ruling most often used has columns for Date, Name, Town, Details, Number of Debit Note, Ledger Folio, and Amount. The postings to the credit of the customers who have returned the goods should be made to their respective accounts in the Sales Ledger daily, the monthly total of Returns Inwards being posted to the debit of Sales Account in the Nominal Ledger.

THE RETURNS OUTWARDS BOOK

This book is also written up from slips passed into the office from the warehouse, the credit notes being numbered and filed. The ruling shown in the example on p. 50 is usually convenient. The postings to the debit of the various firms' accounts in the Purchase Ledger should be made daily, the total of the Returns Outwards being posted to the credit of Purchases Account in the Nominal Ledger at the end of the month.

BILLS RECEIVABLE BOOK

The form of ruling suitable to the majority of businesses is as shown on p. 51. Under ordinary circumstances a bill is entered through the Bills Receivable Book when returned duly accepted by the customer. Where a large quantity of Bills of Exchange is dealt with, it is well to place a distinctive number on each document, a special column in the Bills Receivable Book being provided for the purpose of containing the number of the bill. The amount of each bill is posted to the credit of the customer's account in the Sales Ledger, while the monthly total of the Bills Receivable Book is debited to Bills Receivable Account in the Nominal Ledger. As the bills are discounted or met at maturity, the proceeds are entered on the debit side of the Cash Book. The amount is placed in the bank column if collected through that source, and the discount inserted in the discount column, the entry being worded: "To Bill Receivable." The amount will then be posted to the credit of Bills Receivable Account in the Nominal Ledger. The word discount as applied to Bills of Exchange is, strictly speaking, incorrect, as the charge under this head is, in fact, interest. Thus, it is preferable to make an analysis of the discount column on the debit side of the Cash Book at the end of the month, so as to separate discount on Bills of Exchange from ordinary trade discounts, and to post the former to a separate account under that name in the Nominal Ledger.

When a Bill Receivable is dishonoured after having been paid into or discounted with the bank, an entry will be made on the credit side of the Cash Book under the name of the person by whom the bill was given, and in the bank column will be placed the amount of the bill, together with charges and interest claimed by the bank in respect of the dishonouring of the bill. These amounts will then be posted to the debit of the customer's account in the Sales Ledger. Where a Bill Receivable is dishonoured after having been discounted or negotiated with a party other than the bank with which the firm has its ordinary dealings, a Journal entry will be made crediting the person or firm with whom the bill was discounted or negotiated and debiting the customer's account with the amount of the bill plus charges.

The debit balance on Bills Receivable Account in the Nominal

Ledger should agree with the total of Bills Receivable on hand, and this should be verified as frequently as possible.

An Accommodation Bill is a bill drawn, accepted, or endorsed without consideration. The ordinary form of bill is used, as obviously the desired end would be defeated if the lack of consideration was shown on the face of the bill. The entries in the books of account are the same as for an ordinary trade Bill of Exchange. Where two or more firms are parties to Accommodation Bills, and the proceeds of the discounting of the same are shared equally, it is to be implied that the discount must be borne similarly.

Shipping Business.—Most shippers obtain their remittances by Bills of Exchange. The usual procedure is as follows: Invoices for the goods sold are made out in triplicate, as also are the Policies of Marine Insurance and the Bills of Lading. The draft is made out in triplicate for the amount due, and is sent, together with the Invoices, Policies of Insurance, and Bills of Lading to the London office of the bank with which the shippers conduct their foreign operations. The London office of the bank then advance, according to arrangement, either a proportion or the whole of the amount of the draft, a small sum often being deducted for postages and expenses. When the purchaser has paid the amount to the branch office of the bank, he obtains possession of the goods, and the London office of the bank thereupon send to or receive from the shippers the balance due, after adjustment of interest.

To provide for such circumstances, and so as to give the maximum amount of information, it will be found convenient to have columns ruled in the Bills Receivable Book for the purpose of showing the amount advanced on the draft by the bank, and also the amount subsequently paid over, with details as to dates, interest, etc. The entries for transactions of this nature will therefore be—

On the drawing up of the triplicate drafts: In the Bills Receivable Book enter the details, and post the amount of the draft to the credit of the customer in the Sales Ledger.

On sending the drafts to the London office of the bank: Make an entry in the Journal debiting the bank's account and crediting Bills Receivable Account.

Receipt of a proportion of the amount of the draft from the London office of the bank: Enter the amount of the cheque on the debit side of the Cash Book, and post the amount to the credit of the bank's account.

Deduction for postages and expenses made by the London office of the bank: Make a Journal entry crediting the bank's account and debiting Postages and Expenses Account in the Nominal Ledger.

Note of amount of interest due to the London office of the bank received after collection of amount of bill by the branch bank: Make a Journal entry crediting the bank's account and debiting Interest Account with the amount of the interest.

Receipt from, or payment to, the London office of the bank of the amount of the balance due to or from the shippers in respect of the bill: Entry on debit side or credit side of the Cash Book, as the case may require, and post the amount to the credit or debit of the bank's account, which should then be ruled off as regards the figures relating to the bill under discussion.

It is advisable under the foregoing circumstances that about four lines be left blank between each debit to the bank's account in respect of the drafts sent, so that there may be sufficient room to post the different entries which will in course of time be recorded affecting the particular draft. This allows for the ruling off of each transaction when completed.

BILLS PAYABLE BOOK

The ordinary form of ruling for this book is shown on p. 51. Particular care is necessary in the writing up and close watching of the due dates of the bills, not overlooking the three days of grace. The entries should be made immediately a Bill of Exchange is accepted. Accommodation Bills will be entered in exactly the same manner as bills in the ordinary course of business. The amount of each bill will be posted to the debit of the personal account of the drawer in the Purchase Ledger, and the monthly total of Bills Payable will be posted to the credit of the Bills Payable Account in the Nominal Ledger. When bills are made payable at the bank, an advice slip will be made out and sent to the bank, the entry being made at the same time on the credit side of the Cash Book in the bank column, worded " By Bill Payable." If there are any charges made in respect of interest, noting fee, etc., by reason of the bill being met after the due date, the amount should be entered on the credit side of the Cash Book in the bank column and posted to the debit of Bank Charges Account in the Nominal Ledger. Again, if the Bill is payable at the firm's place of business, the amount will be handed over in cash and should be entered in the cash column. In either case, the amount on the credit side of the Cash Book will be posted to the debit of Bills Payable Account in the Nominal Ledger.

The credit balance on Bills Payable Account will represent the total liability under that head.

PETTY CASH BOOK

Probably the most convenient form is that with debit and credit sides, with the addition of analysis columns on the credit side. The petty cash should be kept entirely separate from the general cash, and the petty cashier should be made responsible for it. The petty cash should be kept on what is known as the Imprest System, by which the petty cashier is given a round sum sufficient for the month, the amount being entered through the Cash Book and debited to an account in the Nominal Ledger called Petty Cash Account. The petty cashier enters this amount on the debit side of his Petty Cash Book, his various payments are entered on the credit side, and at the end of the month he hands to the cashier a slip showing his total disbursements during the month, under the various headings of Carriage, Postage and Telegrams, Cleaning, etc. The cashier then hands to the petty cashier the amount of such disbursements, thereby restoring his balance of cash to the amount originally in hand. The amount expended is entered in detail in the Cash Book and posted to the debit of appropriate accounts in the Nominal Ledger. Under this system it will be noted that the Petty Cash Account in the Nominal Ledger is freed from detail, the amount to debit thereof being treated as an asset in the Balance Sheet. Where by reason of the large amount expended in petty cash it is not practicable to adopt this system, the petty cashier should not be allowed to receive odd sums, such as the proceeds of cash sales, etc. Also, wherever possible, the petty cashier should obtain vouchers for his payments, numbering them consecutively and stating such numbers in a co'umn in the Petty Cash Book.

WAGES AND SALARIES BOOK

This book should be compiled from the workers' books, as initialled by the foremen and priced out by the office staff. The total should be in agreement with the Cash Book entry, and the folio of the Cash Book should be placed beneath the total of the wages and salaries for convenience of reference.

JOURNAL

The form of this book is as shown on p. 53. Through the Journal are passed all transactions of a nature not provided for in the other subsidiary books, such as the writing off of bad debts, transfers from one ledger to another, etc. Beneath each Journal entry there should be placed in the details column a full description of the circumstances which make the entry necessary, so that persons other than the book-keeper may be made fully aware of the facts so recorded without the necessity for personal explanation. Such descriptions are called Narrations. Also for each Journal entry, the voucher, such as the notice of a final dividend where the balance of a debt is written off as bad, should be preserved, numbered and filed, so as to be available for reference and audit.

PRIVATE JOURNAL

This book is often kept with a lock attached, so as to keep private those Journal entries which are of a confidential nature. The form is the same as for the Journal. Through the Private Journal will be passed the opening entries relating to values of assets, amounts of liabilities, and capital at the date of the acquisition of a business, transfers to Profit and Loss Account in the case of a partnership, the raising of a Goodwill, entries necessary on a dissolution of partnership, etc. Full narrations should be appended, and any vouchers or documents referred to should be carefully preserved.

THE CASH BOOK

This book is classed amongst the principal books by reason of the fact that the form described provides in effect for the bank and cash columns to be treated as though they constituted Ledger Accounts for the bank and cash in hand. It will be seen that there are columns on each side for Discount, Bank and Cash respectively. Where it is not considered desirable to show the state of the banking account in the Cash Book, an account may be opened for the bank in the Private Ledger and the monthly totals of the bank column in the Cash Book posted thereto.

Debit Side. This should be entered from the counterfoil or carbon copy receipts, on each of which the Cash Book folio should be placed for purposes of reference. Where Cash Sales take place it is as well to have a Check Till, the totals of the Check Till Sheets being entered on the debit side of the Cash Book. When an open cheque is made out and cashed, the amount must be placed in the bank column on the credit side and in the cash column on the debit side, and where a portion of the cash in hand is paid into the bank, the converse will apply.

Bills Receivable discounted or met at maturity will also be entered on this side. Further capital introduced, money received on loan, etc., should be entered with sufficient detail appended.

Credit Side.—The bulk of the payments will be entered from the counterfoils of the cheque books, on which the Cash Book folio should be placed, discounts being inserted where such have been gained. Wages, salaries and petty cash will be entered as already described. When expenses are paid, it is always advisable to state in the Cash Book the date up to which the payment covers, thus " Rent for quarter ended 24th June, 19. ." This will be found very useful when the reserves and apportionments in respect of expenses accrued or paid in advance are calculated in preparation for the Balance Sheet. A column should be provided in the Cash Book for the number of the voucher obtained in respect of each payment, the voucher being similarly numbered and filed. It will always be found advisable to obtain the initials or signatures of partners for their travelling expenses, private drawings, etc., and separate note-books should be kept for this purpose. Bills Payable retired or met at maturity will be entered on the credit side as already described. Proprietor's capital withdrawn, money advanced on loan, loans repaid, and stocks or shares purchased should be entered with sufficient detail. The Bank Pass Book should be compared with the bank columns weekly, all items of Bank Interest, Bank Commission, and Cheque Books being passed through the Cash Book.

The balances on the Cash Book should be brought down monthly. The actual Cash Balance in hand should be frequently compared with that appearing in the Cash Book, the cashier to make good any default. At the end of each period of trading, a Reconciliation Statement should be drawn up and written in the Cash Book so as to show the agreement of the Bank Balance in the Cash Book with the amount as disclosed in the Bank Pass Book after taking into account cheques unpresented at the date of closing the books, etc. The totals of the discount columns may either be posted to the Discount Account in the Nominal Ledger direct, or the amount of discounts received may be entered in the column for discounts allowed and *vice versa*, as in the example between pp. 56 and 57, the postings to Discount Account being then made. The latter method has the advantage of allowing the discount column final totals to agree on each side.

Frequently a Private Cash Book is kept, fitted with a reliable lock, in which case items of a confidential nature would be entered in that book, and into it the totals of the General Cash Book would be brought monthly.

SALES LEDGER

Sometimes it is advantageous to have double money columns in the Sales Ledger, either on one or on both sides. Thus, in a business where goods are being sent or work is being done throughout the month and it is the custom to send monthly invoices, as in the dyeing trade, the rendering of the statements will be facilitated, and the general aspect of the Ledger account will be made clearer by the provision of double columns on the debit side.

A separate ledger to which Bad or Doubtful Debts can be transferred may also be a convenience, so that a proper supervision may be exercised over them. The postings from the Sales Day Book, Returns Inwards Book, Cash Book, Bills Receivable Book and Journal should be made daily, so as to facilitate the rendering of statements, etc.

PURCHASE LEDGER

Double money columns on one or on both sides of the Purchase Ledger may be found convenient. The postings from the Purchase Day Book, Returns Outwards Book, Cash Book, Bills Payable Book and Journal should be made daily, thus allowing of the prompt checking of the inward statements and the obtaining of maximum discounts.

NOMINAL (OR IMPERSONAL) LEDGER

In the Nominal Ledger are ordinarily kept those accounts which do not represent dealings with outside parties. Often, however, the Bills Receivable and Bills Payable Accounts are to be found here, although these are not really impersonal. This arises from the fact that the Private Ledger is kept separate, and it is therefore sometimes convenient to keep such accounts in the Nominal Ledger so as to avoid delay in posting or reference.

The manner of posting the totals of sales, purchases, returns, discounts and bills has already been described, also the postings of the totals of the analytical columns of the Purchase Day Book. The expenses having been posted to the debit of the Nominal Accounts from the credit side of the Cash Book, the question of the Reserves and Apportionments in respect of expenses accrued or paid in advance must be considered.

In the example on p. 43 it is assumed that the rent has been paid up to June 24th, being at the rate of £160 per annum. As the firm are closing the books at the 30th June, it follows that six days' rent is owing by the firm at the latter date. In practice the money equivalent would be arrived at as follows—

Number of days in quarter ending 29th September, =

June	6	days
July	31	,,
August.. ..	31	,,
September ..	29	,,
	97	days

Rent, £40 per quarter.

Amount owing is therefore $\frac{6}{97} \times \frac{40}{1} = \frac{240}{97} =$ £2 9s. 6d.

A Journal entry will therefore be made debiting Rent and Rates Account in the Nominal Ledger, and crediting an account called Reserve for Rent, which will figure in the Balance Sheet as a liability. On July 1st a Journal entry would be made transferring the Reserve back to the Rent and Rates Account, the amount of the Reserve thus diminishing the total rent and rates to be written off in the next period.

The rates, amounting to £50 a year, having been paid up to the 30th September, it is evident that an adjustment must be made in respect of the portion prepaid as at 30th June. Again, in practice this amount would be ascertained in strict proportion to the number of days, thus—

July	31	days	unexpired
August.. ..	31	,,	,,
September ..	30	,,	,,
Total ..	92	,,	,,

The proportion will thus be $\frac{92}{366} \times \frac{50}{1} = \frac{4600}{366} =$ £12 12s. 0d. approx.

This amount is therefore passed through the Journal, Rent and Rates Account being credited and an account called "Rates Paid in Advance" being debited. The latter will be brought into the Balance Sheet as an asset, and on 1st July will be transferred back to the debit of Rent and Rates Account. When working out these adjustments at an examination, the examiner frequently authorises working by months instead of days so as to allow the pupil the maximum time on the actual book-keeping work.

Great care must be exercised to make all necessary reserves and apportionments. Reserves may be required for Wages, Salaries, Rent, Discounts, Bad Debts, Income Tax, and so forth, whilst Rates, Insurance, Telephone, and Trade Subscriptions are usually unexpired.

The Reserve for Bad Debts should be carefully computed, the personal account of each customer being examined, and payments on account, debts overdue, etc., noticed.

It is the custom to provide for the probable discounts on the debtors and creditors before drawing the Balance Sheet. Where varying rates of discount are allowed, the detailed lists of debtors and creditors will be of assistance, the rates of discount being placed alongside each amount and a summary being made at the conclusion, when the actual working-out of the percentages will give the amount to be put through the Journal. The entries in the latter will be as follows: For estimated discount on book debts, debit Discount Account and credit an account called Reserve for discount on Debtors. On the Balance Sheet the amount of the debtors should be extended after deducting the Reserves for Bad Debts and Discounts. The amount of the Reserve for Bad Debts should, in some cases, be taken into account in ascertaining the Reserve for Discounts in the following manner—

Total Debtors	£4,000
Deduct $2\frac{1}{2}$ % for Reserve for Bad Debts	100
	3,900

$2\frac{1}{2}$ % for Reserve for Discounts = £97 10s. 0d.

This often appears in examination questions.

The amount of the estimated discounts on creditors' accounts will be passed through the Journal to the credit of Discount Account and to the debit of an account called "Reserve for Discount on Creditors." The amount should be deducted from the creditors in the Balance Sheet.

DEPRECIATION.—This is discussed thoroughly in another chapter. The amount which it is decided to write off under that heading should be passed through the Journal to the debit of Depreciation Account and to the credit of the accounts representing the assets in question.

PRIVATE LEDGER

This is usually a small ledger in the ordinary ruling, but fitted with a lock. In it are kept the proprietor's Capital Account, the Loan Accounts, Investment Accounts, Machinery and Plant, Furniture and Fittings, Stock of Goods and similar accounts of a private nature. At the end of a period of trading, after the adjustments in respect of Reserves, Depreciation, etc., have been made, a Trial Balance is taken out from the books. This is merely a list of the various debit and credit balances which appear in the Ledgers, the balances of the bank and cash columns in the Cash Book being also included. It has been seen that each transaction has been duly chronicled to the debit and credit of the appropriate accounts; it therefore follows that the totals of the Trial Balance, debit and credit, should be identical, which, in the absence of what are called "compensating errors," proves the accuracy of the book-keeping during the period covered by the Trial Balance. If the totals of the Trial Balance are not in agreement, the error or errors must be found before proceeding. The Stock of Goods on hand at the conclusion of the period having been accurately taken, priced, extended and added, the Trading Account may be drawn up in the

Private Ledger by transferring the value of the Stock of Goods on hand at the commencement of the period to the debit thereof, the balances of Purchases and Sales Accounts being transferred to the debit and credit of the Trading Account respectively, and the amount of Stock of Goods on hand at the end of the period being credited to the Trading Account and debited to the account for Stock of Goods on hand. These entries must all be passed through the Private Journal. The credit balance which now appears on the Trading Account will represent Gross Profit and must then be transferred to the credit of the Profit and Loss Account in the Private Ledger, thereby closing the Trading Account. The various balances on the Nominal Accounts will next be transferred to the debit of the Profit and Loss Account through the medium of the Private Journal.

The balance on the Profit and Loss Account will represent a profit if appearing on the credit side; a loss being shown if the balance is on the debit side. In either case the net profit or loss will next be transferred to the credit or debit of the proprietor's Capital Account, the balance of his private Drawings Account being also transferred to the Capital Account through the Private Journal. The balance on Capital Account should then be brought down.

BALANCE SHEET

The various balances remaining in the Ledgers and Cash Book will consist of assets, if on the debit side, and liabilities, if on the credit side. The Capital Account of the proprietor is looked upon as a liability of the business to him. In drawing up the Balance Sheet it is customary to show the liabilities on the left-hand side, and the assets on the right-hand side. A certain order should be preserved in stating the assets and liabilities; often the former are placed in the order of their realisability; or with the more unrealisable assets first, concluding with the liquid assets. The Balance Sheet is more fully dealt with later.

OPENING THE BOOKS

The books and accounts of Mr. Charles Perkins, wholesale merchant of cotton cloths, etc., having been in an unsatisfactory state for some time, he resolves to institute a proper double entry system of book-keeping as from the 1st January, 19..

The values of the various Assets must be obtained at 1st January, 19..

AN INVENTORY OF THE FURNITURE AND FITTINGS must be taken, the prices being based on the original cost less a fair rate of depreciation.

The value thus ascertained is	£150	0	0
THE STOCK OF GOODS ON HAND must be ascertained by detailed inventory, the value being	1,630	0	0
THE SUNDRY DEBTORS must be extracted from the books, or from the best information available, it being found that they amount to..	590	0	0
THE BANK BALANCE at 1st January, 19.., must be taken from the Bank Pass Book subject to any cheques unpresented at that date, the cash at the Bank being	263	0	0
THE CASH AND CHEQUES IN HAND amount to ..	15	0	0
THE EXPENSES PAID IN ADVANCE and unexpired at 1st January, 19.., as ascertained from the receipts, etc., are .. .. Insurance £4; Telephone 6	10	0	0
Total Assets	£2,658	0	0

The amounts of the Liabilities at 1st January, 19.., will next be required—

SUNDRY CREDITORS are extracted from the books or from the best information available, and total	£269	0	0
EXPENSES ACCRUED AND UNPAID ARE— Rent, 6 days £2 13 4; Rates, 92 ,, 12 12 0	15	5	4
Total Liabilities ..	£284	5	4

The possibility of the existence of business loans should not be lost sight of, and the amount of interest accrued and unpaid at 1st

Jan., 19.., would be added. In the example it is assumed that this possible liability or asset is absent.

The books already described being suitable, these are obtained. The opening Journal entries in respect of the foregoing assets and liabilities will then be made in the Private Journal in the form shown on p. 55, the excess of assets over liabilities representing the capital of Mr. Perkins in the business at the 1st January, 19... This amount is therefore passed to the credit side of his Capital Account as being due by the business to him. The accounts for Furniture and Fittings, Stock of Goods on hand, and Capital will be opened in the Private Ledger. Accounts for the various debtors will be opened in the Sales Ledger, the indebtedness of each being posted thereto. The cash and bank balances will be posted to the debit side of the Cash Book in the appropriate column. An account will be opened in the Nominal Ledger under the heading of Insurance and Telephone, to which the amount paid in advance in respect of such expenses will be debited.

Accounts will be opened in the Purchase Ledger for the various creditors, the sums due being posted to the credit of the respective accounts. An account called Rent and Rates must also be opened in the Nominal Ledger, to which the liability accrued under that name will be credited.

KEEPING THE BOOKS

The Books of Account of Mr. Perkins being now placed on the Double-Entry System, the book-keeper is instructed to write up the same in accordance with the methods already explained. The following transactions occurred during the ensuing half-year—

			£	s.	d.
Jan.	1	Paid to Petty Cashier	5	0	0
,,	2	Received cheque from Edwards & Co.	173	5	0
		Discount	6	15	0
,,	3	Sold to Henry James, Cloth value	186	10	0
,,	5	Drew on Henry James at three months for ..	184	2	2
		Discount allowed	4	13	3
		Interest charged	2	5	5
,,	8	Bought from Blair & Co., Cloth	288	0	0
,,	14	Paid to Blair & Co., Cheque	142	7	0
		Discount	3	13	0
,,	18	Received from H. Collins on a/c, Cheque.. ..	100	0	0
,,	24	Paid to Blair & Co., Cheque	277	4	0
		Discount	10	16	0
,,	30	Sold to Edwards & Co., Cloth	285	0	0

			£	s.	d.
Jan.	31	Paid to Petty Cashier, disbursed during month	3	6	6
,,	,,	Drew open cheque and paid Salaries for month	20	0	0
Feb.	6	Received Demand Note for Rates in respect of year ending 30th September next.	50	0	0
,,	,,	Paid Rates by cheque	50	0	0
,,	10	Bought safe for office from United Safe Company	15	0	0
,,	,,	Paid for same by cheque	15	0	0
,,	15	Bought of Fildes & Sons, Cloth	162	0	0
,,	,,	Paid to Fildes & Sons, Cheque	272	0	6
		Discount	6	19	6
,,	,,	Returned Goods to Fildes & Sons..	6	0	0
,,	,,	Drew from Bank	20	0	0
,,	22	Sold to Henry James, Goods	280	0	0
,,	26	Received from Henry James, Cheque	269	10	0
		Discount	10	10	0
,,	29	Paid to Petty Cashier, disbursed during month	2	19	0
,,	,,	Drew open cheque and paid Salaries for month..	20	0	0
Mar.	4	Received from Edwards & Co., Cheque.. ..	453	7	6
		Discount	11	12	6
,,	7	Sold to Edwards & Co., Goods	244	0	0
,,	,,	Drew on Edwards & Co. at two months for ..	239	17	8
		Discount allowed	6	2	0
		Interest charged	1	19	8
,,	,,	Discounted Bill on Edwards & Co. with Bank..			
		Discount charged	2	17	8
		Proceeds	237	0	0
,,	11	Bought from Blair & Co., Goods	425	0	0
,,	14	Paid to Blair & Co., Cheque	409	1	3
		Discount	15	18	9
,,	16	Sold to H. Collins Goods	116	0	0
,,	,,	Received from H. Collins, Cheque..	130	0	0
,,	23	Bought of Fildes & Sons, Cloth	367	0	0
,,	31	Paid to Petty Cashier, disbursed during March..	4	3	6
,,	,,	Drew open cheque and paid Salaries for month..	20	0	0
,,	,,	Paid Rent for quarter ended 25th inst. ..	40	0	0
April	8	Bought from Addison & Co., Cloth	460	0	0
,,	,,	Bill Receivable on Henry James paid into Bank	184	2	2
,,	11	Sold to Edwards & Co.	542	0	0
,,	12	Paid to Addison & Co., Cheque	442	15	0
		Discount	17	5	0
,,	18	Received from Edwards & Co., Cheque.. ..	521	13	6
		Discount	20	6	6
,,	24	Bought from Fildes & Sons, Cloth	486	0	0
,,	,,	Paid to Fildes & Sons, Cheque	357	16	6
		Discount	9	3	6
,,	26	Accepted Bill payable to Fildes & Sons at 2 months	473	17	0
		Discount	12	3	0
,,	27	Sold to Henry Jámes, Cloth	445	0	0
,,	30	Paid to Petty Cashier, disbursed during month	3	8	5
,,	,,	Drew open cheque and paid Salaries for month	20	0	0
May	6	Bought from Stringer & Co., Paper and Twine..	3	10	0
,,	8	Paid Stringer & Co., Cheque	3	6	6
		Discount		3	6
,,	11	Sold to Edwards & Co., Cloth	636	0	0
,,	,,	Bought from Blair & Co., Cloth	563	0	0
,,	14	Paid to Blair & Co., Cheque	541	17	9
		Discount	21	2	3

			£	s.	d.
May	17	Received from H. Collins, Cheque	113	2	0
		Discount	2	18	0
,,	18	Sold to Henry James, Cloth	396	0	0
,,	,,	Received from Henry James, Cheque	433	17	6
		Discount	11	2	6
,,	,,	Received from Edwards & Co., Cheque	612	3	0
		Discount	23	17	0
,,	24	Bought from Fildes & Sons, Goods	548	0	0
,,	26	Paid to Fildes & Sons, Cheque	527	9	0
		Discount	20	11	0
,,	31	Paid to Petty Cashier, disbursed during month.	3	8	10
,,	,,	Drew open cheque and paid Salaries for month	20	0	0
June	6	Sold to Henry James, Cloth	568	0	0
,,	,,	Drew on Henry James at three months	568	0	0
,,	10	Sold to Edwards & Co., Cloth	486	0	0
,,	17	Received from Edwards & Co., Cheque.. ..	467	15	6
		Discount	18	4	6
,,	18	Henry James returned goods value	85	0	0
,,	19	Received from Henry James, Cheque	303	4	6
		Discount	7	15	6
,,	20	Sold to Edwards & Co., Goods	669	0	0
,,	26	Bought from Fildes & Sons, Goods	480	0	0
,,	27	Paid Rent for quarter ended 24th inst.	40	0	0
,,	29	Met Bill Payable (Fildes & Sons)	473	17	0
,,	30	Paid to Petty Cashier, disbursed during month	4	2	6
,,	,,	Drew from Bank	160	0	0
,,	,,	Paid Salaries for month	20	0	0
,,	,,	Paid to Charles Perkins, Private Drawings ..	140	0	0
,,	,,	Interest credited by the Bank during the half-year is	5	10	0
,,	,,	Commission debited .. do.	2	14	0
,,	,,	Cheque Book do. .. do.		5	0

The above transactions having been recorded in the appropriate books and duly posted as already described, the Trial Balance must be extracted as at 30th June, 19... The additions of the Trial Balance having agreed, the correctness of the book-keeping for the half-year is thereby proved, excepting the possibility of mistakes on both debit and credit sides which are equal in amount, commonly known as " compensating errors," which occur very rarely indeed ; and also mistakes arising from an incomplete knowledge of book-keeping, known as " errors of principle," such as the treatment of expenditure on the acquisition of an asset as though made on account of the expenses of the business.

Next, the Stock of Goods on hand at 30th June, 19.., having been taken and priced out, the value is found to be £1,427 6s. 6d., after deducting the percentages of discount which have been allowed by the firms from whom the goods have been purchased. The basis of pricing the stock should be the lower of cost or market price.

The amount of the stock should be credited to the Trading Account and debited to Stock of Goods on hand Account through the Private Journal. The rent having been paid to 24th June only, the balance must be reserved, an apportionment of the rates paid in advance being also made, and the entries passed through the Journal. The method of calculation has been already described. It is also considered necessary that in order to arrive at the correct amount of profit made during the half-year, and to show the correct position of the business, an allowance must be made from the value of the furniture and fittings as stated in the Private Ledger, by reason of their use and consequent wear and tear. This allowance is called Depreciation and a fair rate under the circumstances is fixed at 10 per cent. per annum. The amount is therefore £16 10s. per annum, that is, £8 5s. for the half-year. Furniture and Fittings Account will be credited with £8 5s. and Depreciation Account debited with that sum through the Private Journal. It will be noted that full depreciation is thus being provided on the purchase of the safe on Feb. 10th, 19.., as it is considered better to avoid odd figures. The term Depreciation is also used to include losses in value other than those occasioned by wear and tear, as to which see the article on Depreciation (page 141).

As Edwards & Co. will deduct a discount of $3\frac{3}{4}$ per cent. on payment of their debt of £669, a provision must be made, a sum of £25 1s. 9d. being debited to Discount Account and credited to an account called Provision for Discount on Debtors through the Journal, the balance on the latter account being deducted from the amount of Edwards & Co.'s debt in the Balance Sheet later. Similarly a sum of £18 will be credited to Discount Account and debited to a Provision for Discount on Creditors' Account in respect of the $3\frac{3}{4}$ per cent. discount which will be deducted from Fildes & Sons' account of £480 on payment. This entry will also be put through the Journal, the amount being deducted from Sundry Creditors in the Balance Sheet.

CLOSING THE BOOKS

By the above term is implied the transferring of the various Nominal Ledger Balances to the Trading and Profit and Loss Accounts. This will be accomplished through the medium of the

Private Journal. The value of the Stock of Goods on hand at the 1st January, 19.., must first be written off and debited to Trading Account, the balances on Purchases and Sales Accounts being then written off and debited and credited respectively to the Trading Account. The closing stock being already entered, the credit balance on Trading Account, representing gross profit, must next be transferred to the Profit and Loss Account. Then the balances in the Nominal Ledger representing expenses, or accretions to profit, must be transferred to Profit and Loss Account in like manner. The credit balance on Profit and Loss Account, representing net profit, should be transferred to the credit of Mr. Perkins' Capital Account, to the debit of which should be passed the amount of his private drawings during the half-year, as shown by the Drawings Account. The balance on Capital Account should then be brought down.

The balances remaining in the Ledgers should now be collected on the Balance Sheet in the form shown on p. 70. In practice the Balance Sheet is often written in the Private Ledger for convenience, a copy of the Trading and Profit and Loss Accounts and Balance Sheet being supplied to each partner.

Sales Day Book

Date, 19...		Name of Customer.	Town.	No. of Sale.	Ledger Folio.	Amount.		
					S.L.			
Jan.	3	Henry James	Bradford	1	3	186	10	0
,,	30	Edwards & Co.	Manchester	2	1	285	0	0
Feb.	22	Henry James	Bradford	3	3	280	0	0
Mar.	7	Edwards & Co.	Manchester	4	1	244	0	0
,,	16	H. Collins	do.	5	2	116	0	0
April	11	Edwards & Co.	do.	6	1	542	0	0
,,	27	Henry James	Bradford	7	3	445	0	0
May	11	Edwards & Co.	Manchester	8	1	636	0	0
,,	18	Henry James	Bradford	9	3	396	0	0
June	6	do.	do.	10	,,	568	0	0
,,	10	Edwards & Co.	Manchester	11	1	486	0	0
,,	20	do.	do.	12	,,	669	0	0
						£4853	10	0

Nominal Ledger, 6

Purchase Day Book

Date.		Name.	Town.	No. of Invoice.	Ledger Folio.	Amount of Invoice.	Purchases.	Boxes.	Paper & String.	Printing & Stationery.	Electricity & Water.	Rent & Rates.	Furniture & Fittings.	Sundries.
19...					Pur. L.									
Jan.	8	Blair & Co.	Manchester	1	1	£288 0 0	£288 0 0							
Feb.	6	Overseers of the Poor	do.	2	3	50 0 0						£50 0 0		
,,	10	United Safe Co. ..	do.	3	4	15 0 0							£15 0 0	
,,	15	Fildes & Sons ..	Oldham	4	2	162 0 0	162 0 0							
Mar.	11	Blair & Co. ..	Manchester	5	1	425 0 0	425 0 0							
,,	23	Fildes & Sons ..	Oldham	6	2	367 0 0	367 0 0							
April	8	Addison & Co. ..	Rochdale	7	5	460 0 0	460 0 0							
,,	24	Fildes & Sons ..	Oldham	8	2	486 0 0	486 0 0							
May	6	Stringer & Co. ..	Manchester	9	6	3 10 0			£3 10 0					
,,	11	Blair & Co. ..	do.	10	1	563 0 0	563 0 0							
,,	24	Fildes & Sons ..	Oldham	11	2	548 0 0	548 0 0							
June	26	do. ..	do.	12	,,	480 0 0	480 0 0							
						3847 10 0	3779 0 0		3 10 0			50 0 0	15 0 0	
							Nom. Led. 7		Nom. Led. 5			Nom. Led. 2	P.L. 1	

Returns Book (Inwards)

Date.		Name.	Town.	Details.	No. of Debit Note.	Ledger Folio.	Amount.		
19... June	18	Henry James	Bradford	68 pieces 1024 s. @ £1 5s.	1	S.L. 3	£85	0	0
							Nominal Ledger 6		

Returns Book (Outwards)

Date.		Name.	Town.	Details.	No. of Credit Note.	Ledger Folio.	Amount.		
19... Feb.	15	Fildes & Sons	Oldham	5 pieces 1060 s. @ £1 4s.	1	Pur. L. 2	£6	0	0
							Nominal Ledger 7		

Bills Receivable Book

Date.		Name of Customer.	Town.	On whom Drawn.	Date of Bill.		Term.	Due date.												Ledger Folio.	Amount.			How disposed of.
								Jan.	Feb.	March	April	May	June	July	August	Sept.	October	Nov.	Dec.					
19.. Jan.	5	Henry James	Bradford	Henry James	Jan.	5	3 mos.				8									Sales Led. 3	£184	2	2	Met at maturity
Mar.	7	Edwards & Co.	Manchester	Edwards & Co.	Mar.	7	2 ,,					10								1	239	17	8	Discounted. Discount, £2 17s. 8d.
June	6	Henry James	Bradford	Henry James	June	6	3 ,,									9				3	568	0	0	
																					Nominal Led., 8			

Bills Payable Book

Date.		Name of Drawer.	Town.	Date of Bill.		Term.	Due date.												Ledger Folio.	Amount.			Remarks
							Jan.	Feb.	March	April	May	June	July	August	Sept.	October	Nov.	Dec.					
19... April	26	Fildes & Sons	Oldham	19... April	26	2 mos.						29							Pur. Led. 2	£473	17	0	Met
																				Nominal Led., 9			

Petty Cash Book

Dr. *Cr.*

Date.	Details.	Cash Book Folio.	Amount.	Date.	Details.	No. of v'ch'r.	Total.	Carriage.	Postage and Telegrams.	Cleaning.	Sundries.

Wages and Salaries Book

Date.	Name.	Description of Employment.	No.	Rate of Pay.	Number of Hours.	Total.	Fines.	Other Deductions.	Amount due.

Journal

Date.		Details.	Ledger Folio.	Dr.			Cr.		
19...									
Jan.	5	*Discount Account, Dr.*	N.L. 11	£4	13	3			
		To *Henry James* 2½ % Discount on £186 10s. 0d.	S.L. 3				£4	13	3
,,	,,	*Henry James, Dr.*	S.L. 3	2	5	5			
		To *Interest Account* 3 months' interest on £181 16s. 9d. @ 5 % per annum.	N.L. 10				2	5	5
Mar.	7	*Discount Account, Dr.*	N.L. 11	6	2	0			
		To *Edwards & Co.* 2½ % Discount on £244.	S.L. 1				6	2	0
,,	,,	*Edwards & Co., Dr.*	S.L. 1	1	19	8			
		To *Interest Account* 2 months' interest on £237 18s. 0d. @ 5 % per annum.	N.L. 10				1	19	8
April	26	*Fildes & Sons, Dr.*	Pur. Led. 2	12	3	0			
		To *Discount Account* 2½ % Discount on invoice, £486 0s. 0d.	N.L. 11				12	3	0
June	30	*Rent and Rates Account, Dr.*	N.L. 2	2	9	6			
		To *Reserve for Rent* 6 days' rent owing, June 25th–30th.	N.L. 3				2	9	6
,,	,,	*Rates paid in advance, Dr.*	N.L. 4	12	12	0			
		To *Rent and Rates Account* 3 months' rates paid and unexpired, July, August, and September.	N.L. 2				12	12	0
				£42	4	10	£42	4	10

JOURNAL

				Dr.			Cr.		
19...			N.L.						
June	30	*Discount Account, Dr.*	11	£25	1	9			
		To *Provision for Discount on Debtors*	N.L. 12				£25	1	9
		3¾ % set apart for discount on Edwards & Co.'s debt, £669.							
,,	,,	*Provision for Discount on Creditors, Dr.*	N.L. 12	18	0	0			
		To *Discount Account*	N.L. 11				18	0	0
		3¾ % set apart for discounts on liability to Fildes & Sons, £480.							
				£43	1	9	£43	1	9

Date.		Details.	Ledger Folio.	*Dr.*			*Cr.*		
19...									
Jan.	1	*Sundry Assets, Dr.* To *Sundry Liabilities,* viz.—							
		Furniture and Fittings	P.L. 1	£150	0	0			
		Stock of Goods on hand	P.L. 2	1630	0	0			
		Sundry Debtors, viz.— Edwards & Co.	S.L. 1	360	0	0			
		H. Collins	S.L. 2	230	0	0			
		Cash in Bank	C.B. 1	263	0	0			
		Cash in hand	C.B. 1	15	0	0			
		Insurance and Telephone paid in advance	N.L. 1	10	0	0			
		Sundry Creditors, viz. Blair & Co.	Pur. L. 1				£146	0	0
		Fildes & Sons	Pur. L. 2				123	0	0
		Rent and Rates accrued due	N.L. 2				15	5	4
		Charles Perkins, Capital Account	P.L. 3				2373	14	8
		Being the Assets and Liabilities at this date, as per inventories, etc.							
June	30	*Stock of Goods on hand, Dr.*	P.L. 2	1427	6	6			
		To *Trading Account*	P.L. 4				1427	6	6
		Value of stock after deducting cash discounts.							
Jan.	1	*Trading Account, Dr.*	P.L. 4	1630	0	0			
		To *Stock of Goods on hand*	P.L. 2				1630	0	0
		For opening stock now written off.							
				£5715	6	6	£5715	6	6

19...				Dr.			Cr.		
June	30	*Depreciation Account, Dr.*	N.L. 19	£8	5	0			
		To *Furniture and Fittings Account*	P.L. 1				£8	5	0
		Provision for Depreciation @ 10 % per annum.							
,,	,,	*Sales Account, Dr.*	N.L. 6	4768	10	0			
		To *Trading Account*	P.L. 4				4768	10	0
		Sales transferred to Trading Account.							
,,	,,	*Trading Account, Dr.*	P.L. 4	3773	0	0			
		To *Purchases Account*	P.L. 7				3773	0	0
		Purchases transferred to Trading Account.							
,,	,,	*Trading Account, Dr.*	P.L. 4	792	16	6			
		To *Profit and Loss Account*	P.L. 5				792	16	6
		Gross profit transferred to Profit and Loss Account.							
,,	,,	*Interest, Bank Interest, and Charges Account, Dr.*	N.L. 10	3	18	5			
		To *Profit and Loss Account*	P.L. 5				3	18	5
		Profit and Loss Account, Dr.	P.L. 5	280	18	11			
		To *Sundries*, viz.—	N.L.						
		Salaries Account	17				120	0	0
		Rent and Rates Account	2				104	12	2
		Insurance and Telephone Account	1				10	0	0
		Discount Account	11				13	3	0
		Carriage ,,	14				8	6	5
		Postage ,,	15				6	2	4
		Cleaning ,,	16				7	0	0
		Paper and String Account	5				3	10	0
		Depreciation Acct.	19				8	5	0
		Nominal Ledger balances transferred							
		Profit and Loss Account, Dr.	P.L. 5	515	16	0			
		To *Chas. Perkins, Capital Account*	P.L. 3				515	16	0
		For net profit transferred	£	10143	4	10	10143	4	10

Cr.

				Fo.	Discount.			Bank.			Cash.		
.. ..				N.L. 13							£5	0	0
.. ..				P.L. 1	£3	13	0	£142	7	0			
.. ..				,,	10	16	0	277	4	0			
	£1	6	6	N.L. 14									
		15	0	N.L. 15									
	1	5	0	N.L. 16							3	6	6
.. contra				√				20	0	0			
.. ..				N.L. 17							20	0	0
Sept., ..				P.L. 3				50	0	0			
.. ..				P.L. 4				15	0	0			
.. ..				P.L. 2	6	19	6	272	0	6			
.. contra				√				20	0	0			
	£1	5	0	N.L. 14									
		14	0	N.L. 15									
				N.L.									

Cash Book

Dr. CASH.

Date		Details	Fo.	Discount £	s.	d.	Bank £	s.	d.	Cash £	s.	d.
19... Jan.	1	To Balances in hand	P.J. 1				£263	0	0	£15	0	0
"	2	" Edwards & Co.	S.L. 1	£8	15	0	173	5	0			
"	18	" H. Collins on account	S.L. 2				100	0	0			
"	31	" Bank .. .. contra	√							20	0	0
Feb.	15	" " .. .. "	√							20	0	0
"	26	" Henry James	S.L. 3	10	10	0	269	10	0			
"	28	" Bank .. .. contra	√							20	0	0
Mar.	4	" Edwards & Co.	S.L. 1	11	12	6	453	7	6			
"	7	" Bills Receivable discounted	N.L. 8	2	17	8	237	0	0			
"	16	" H. Collins	S.L. 2				130	0	0			
"	31	" Bank .. .. contra	√							20	0	0
April	8	" Bill Receivable	N.L. 8				184	2	2			
"	18	" Edwards & Co.	S.L. 1	20	6	6	521	13	6			
"	30	" Bank .. .. contra	√							20	0	0
May	17	" H. Collins	S.L. 2	2	18	0	113	2	0			
"	18	" Henry James	S.L. 3	11	2	6	433	17	6			
"	"	" Edwards & Co.	S.L. 1	23	17	0	812	3	0			
"	31	" Bank .. .. contra	√							20	0	0
June	17	" Edwards & Co.	S.L. 1	18	4	6	467	15	6			
"	19	" Henry James	S.L. 3	7	15	6	303	4	6			
"	30	" Bank .. .. contra	√							160	0	0
"	"	" Bank Interest	N.L. 10				5	10	0			
"	"	" Discounts received per contra	N.L 11	105	12	6						
				£221	11	8	£4267	10	8	£295	0	0
19... July	1	To Balance brought down	√				391	17	2	8	11	3

CONTRA. **Cr.**

Date		Details		Fo.	Discount £	s.	d.	Bank £	s.	d.	Cash £	s.	d.
19... Jan.	1	By Petty Cash		N.L. 13							£5	0	0
"	14	" Blair & Co.		P.L. 1	£3	13	0	£142	7	0			
"	24	" Do.		"	10	16	0	277	4	0			
"	31	" Carriage for January ..	£1 6 6	N.L. 14									
"	"	" Postage " "	15 0	N.L. 15									
"	"	" Cleaning " "	1 5 0	N.L. 16							3	6	6
"	"	" Cash .. .. contra		√				20	0	0			
"	"	" Salaries for January		N.L. 17							20	0	0
Feb.	6	" Rates for year ending 30th Sept., ..		P.L. 3				50	0	0			
"	10	" United Safe Company		P.L. 4				15	0	0			
"	15	" Fildes & Sons		P.L. 2	6	19	6	272	0	6			
"	"	" Cash .. .. contra		√				20	0	0			
"	28	" Carriage for February ..	£1 5 0	N.L. 14									
"	"	" Postage " "	14 0	N.L. 15									
"	"	" Cleaning " "	1 0 0	N.L. 16							2	19	0
"	"	" Cash .. .. contra		√				20	0	0			
"	"	" Salaries for February		N.L. 17							20	0	0
Mar.	14	" Blair & Co.		P.L. 1	15	18	9	409	1	3			
"	31	" Carriage for March	£1 11 0	N.L. 14									
"	"	" Postage " "	1 7 6	N.L. 15									
"	"	" Cleaning " "	1 5 0	N.L. 16							4	3	6
"	"	" Cash .. .. contra		√				20	0	0			
"	"	" Salaries for March		N.L. 17							20	0	0
"	"	" Rent for quarter ended 25th March,		N.L. 2				40	0	0			
April	12	" Addison & Co.		P.L. 5	17	5	0	442	15	0			
"	24	" Fildes & Sons		2	9	3	6	357	16	6			
"	30	" Carriage for April	£1 6 5	N.L. 14									
"	"	" Postage " "	1 2 0	N.L. 15									
"	"	" Cleaning " "	1 0 0	N.L. 16							3	8	5
"	"	" Cash .. .. contra		√				20	0	0			
"	"	" Salaries for April		N.L. 17							20	0	0
May	8	" Stringer & Co.		P.L. 6		3	6	3	6	6			
"	14	" Blair & Co.		P.L. 1	21	2	3	541	17	9			
"	26	" Fildes & Sons		P.L. 2	20	11	0	527	9	0			
"	31	" Carriage for May	£1 9 6	N.L. 14									
"	"	" Postage " "	14 4	N.L. 15									
"	"	" Cleaning " "	1 5 0	N.L. 16							3	8	10
"	"	" Cash .. .. contra		√				20	0	0			
"	"	" Salaries for May		N.L. 17							20	0	0
June	27	" Rent for quarter ended 24th June,		N.L. 2				40	0	0			
"	29	" Bill Payable..		N.L. 9				473	17	0			
"	30	" Carriage for June	£1 8 0	N.L. 14									
"	"	" Postage " "	1 9 6	N.L. 15									
"	"	" Cleaning " "	1 5 0	N.L. 16							4	2	6
"	"	" Cash .. .. contra		√				160	0	0			
"	"	" Salaries for June		N.L. 17							20	0	0
"	"	" Charles Perkins, Private Drawings ..		N.L. 18							140	0	0
"	"	" Bank Commission		N.L. 10				2	14	0			
"	"	" Cheque Book		"					5	0			
"	"	" Discount on Bill per contra		"	2	17	8						
"	"	" " allowed " "		N.L 11	113	1	6						
"	"	" Balances down						391	17	2	8	11	3
					£221	11	8	£4267	10	8	£295	0	0

				Dr.			Cr.		
19...									
June	30	*Chas. Perkins, Capital Account, Dr.*	P.L. 3	£140	0	0			
		To *Chas. Perkins, Drawings Account*	N.L. 18				£140	0	0
		Transfer of Drawings to Capital Acct.							
				£140	0	0	£140	0	0

Sales Ledger

Edwards & Co., Manchester

Dr. | *Cr.*

Date.		Nature of debit.	Fo.	Amount.			Date.		Nature of credit.	Fo.	Amount.		
19...							19...						
Jan.	1	To Balance owing at this date	P.J. 1	£360	0	0	Jan.	2	By Cash and Discount, £6 15s. 0d.	C.B. 1	£180	0	0
,,	30	,, Goods..	S.D.B. 1	285	0	0	Mar.	4	,, Cash and Discount, £11 12s. 6d.	,,	465	0	0
Mar.	7	,, ,, ...	,,	244	0	0							
,,	,,	,, Interest	J/1	1	19	8	Mar.	7	,, Bill Receivable ..	B.R.B. 1	239	17	8
April	11	,, Goods..	S.D.B.	542	0	0	,,	,,	,, Discount	J/1	6	2	0
May	,,	,, ,, ...	1	636	0	0	April	18	,, Cash and Discount, £20 6s. 6d.	C.B. 1	542	0	0
June	10	,, ,, ...	,,	486	0	0	May	,,	,, Cash and Discount, £23 17s. 0d.	,,	636	0	0
,,	20	,, ,, ...	,,	669	0	0	June	17	,, Cash and Discount, £18 4s. 6d.	,,	486	0	0
							,,	30	,, Balance	✓	669	0	0
				£3223	19	8					£3223	19	8
19... July	1	To Balance	✓	£669	0	0							

Harold Collins, Manchester

Dr. | *Cr.*

Date.		Nature of debit.	Fo.	Amount.			Date.		Nature of credit.	Fo.	Amount.		
19...							19...						
Jan.	1	To Balance owing at this date	P.J. 1	£230	0	0	Jan.	18	By Cash on account ..	C.B. 1	£100	0	0
							Mar.	16	,, ,, ...	,,	130	0	0
Mar.	16	,, Goods..	S.D.B. 1	116	0	0	May	18	,, ,, and Discount, £2 18s. 0d.	,,	116	0	0
				£346	0	0					£346	0	0

SALES LEDGER

HENRY JAMES, BRADFORD

Dr. | *Cr.*

Date			Folio	£	s.	d.	Date			Folio	£	s.	d.
19... Jan.	3	To Goods..	S.D.B. 1	186	10	0	19... Jan.	5	By Bill Receivable ..	B.R.B. 1	£184	2	2
,,	5	,, Interest	Journ. 1	2	5	5	,,	,,	,, Discount	Journ. 1	4	13	3
Feb.	22	,, Goods..	S.D.B. 1	280	0	0	Feb.	26	,, Cash and Discount, £10 10s. 0d.	C.B. 1	280	0	0
April	27	,, ,, ...	,,	445	0	0	May	18	,, Cash and Discount, £11 2s. 6d.	,,	445	0	0
May	18	,, ,, ...	,,	396	0	0	June	6	,, Bill Receivable ..	B.R.B. 1	568	0	0
June	6	,, ,, ...	,,	568	0	0	,,	18	,, Returns	R.B. 1	85	0	0
							,,	19	,, Cash and Discount, £7 15s. 6d.	C.B. 1	311	0	0
				£1877	15	5					£1877	15	5

PURCHASE LEDGER

BLAIR & CO., MANCHESTER

Dr. Date.		Nature of debit.	Ledger Fo.	Amount.			Date.		Nature of credit.	Ledger Fo.	Amount.		Cr.
19...							19...						
Jan.	14	To Cash and Discount, £3 13s. 0d.	C.B. 1	£146	0	0	Jan.	1	By Amount owing at this date	P.J. 1	£146	0	0
,,	24	,, Cash and Discount, £10 16s. 0d.	,,	288	0	0	,,	8	,, Goods..	P.D.B. 1	288	0	0
Mar.	14	,, Cash and Discount, £15 18s. 9d.	,,	425	0	0	Mar.	11	,, ,, ...	,,	425	0	0
May	14	,, Cash and Discount, £21 2s. 3d.	,,	563	0	0	May	,,	,, ,, ...	,,	563	0	0
				£1422	0	0					£1422	0	0

FILDES & SONS, OLDHAM

Dr. Date.		Nature of debit.	Ledger Fo.	Amount.			Date.		Nature of credit.	Ledger Fo.	Amount.		Cr.
19...							19...						
Feb.	15	To Returns	R.B. 1	6	0	0	Jan.	1	By Amount owing at this date	P.J. 1	£123	0	0
,,	,,	,, Cash and Discount, £6 19s. 6d.	C.B. 1	279	0	0	Feb.	15	,, Goods..	P.D.B. 1	162	0	0
April	24	,, Cash and Discount, £9 3s. 6d.	,,	367	0	0	Mar.	23	,, ,, ...	,,	367	0	0
,,	26	,, Bill Payable	B.P.B. 1	473	17	0	April	24	,, ,, ...	,,	486	0	0
,,	,,	,, Discount	J/1	12	3	0	May	,,	,, ,, ...	,,	548	0	0
May	,,	,, Cash and Discount, £20 11s. 0d.	C.B. 1	548	0	0	June	26	,, ,, ...	,,	480	0	0
June	30	,, Balance	√	480	0	0							
				£2166	0	0					£2166	0	0
							July	1	By Balance	√	£480	0	0

Purchase Ledger

Overseers of the Poor, Manchester

Dr.													*Cr.*
19... Feb.	6	To Cash	C.B. 1	£50	0	0	19... Feb.	6	By Rates for the year ending 30th Sept., 1912	P.D.B. 1	£50	0	0

United Safe Company, Manchester

Dr.													*Cr.*
19... Feb.	10	To Cash	C.B. 1	£15	0	0	19... Feb.	10	By safe	P.D.B. 1	£15	0	0

Addison & Co., Rochdale

Dr.													*Cr.*
19... April	12	To Cash and Discount, £17 5s. 0d.	C.B. 1	£460	0	0	19... April	8	By Goods	P.D.B. 1	£460	0	0

Stringer & Co., Manchester

Dr.													*Cr.*
19... May	8	To Cash and Discount, 3s. 6d.	C.B. 1	£3	10	0	19... May	6	By Goods	P.D.B. 1	£3	10	0

INSURANCE AND TELEPHONE ACCOUNT

Dr.				£	s.	d.					£	s.	d. Cr.
19... Jan.	1	To amount paid in advance and unexpired	P.J. 1	£10	0	0	19... June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£10	0	0

RENT AND RATES ACCOUNT

Dr.				£	s.	d.					£	s.	d. Cr.
19... Mar.	31	To Rent for quarter ended 25th March, 19.. ..	C.B. 1	£40	0	0	19... Jan.	1	By Amount owing and unpaid.. ..	P.J. 1	£15	5	4
June	27	,, Rent for quarter ended 24th June, 19.. ..	,,	40	0	0	June	30	,, Rates paid in advance	J/1	12	12	0
,,	30	,, Rates for year ending 30th Sept., 19.. ..	P.D.B. 1	50	0	0	,,	,,	,, Transfer to Profit and Loss Account ..	P.J. 2	104	12	2
,,	,,	,, Reserve for Rent ..	J/1	2	9	6							
				£132	9	6					£132	9	6

RESERVE FOR RENT

Dr.				£	s.	d.					£	s.	d. Cr.
							19... June	30	By Rent and Rates Account	J/1	£2	9	6

RATES PAID IN ADVANCE

Dr.				£	s.	d.					£	s.	d. Cr.
19... June	30	To Rent and Rates Account	J/1	£12	12	0							

Nominal Ledger

Paper and String Account

Dr. | *Cr.*

Date		Particulars	Fol.	£	s.	d.	Date		Particulars	Fol.	£	s.	d.
19... June	30	To Purchases	P.D.B. 1	£3	10	0	19... June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£3	10	0

Sales Account

Dr. | *Cr.*

Date		Particulars	Fol.	£	s.	d.	Date		Particulars	Fol.	£	s.	d.
19... June	30	To Returns Inwards ..	R.B. 1	£85	0	0	19... June	30	By Sales as per Sales Day Book	S.D.B. 1	£4853	10	0
,,	,,	,, Trading Account ..	P.J. 2	4768	10	0							
				£4853	10	0					£4853	10	0

Purchases Account

Dr. | *Cr.*

Date		Particulars	Fol.	£	s.	d.	Date		Particulars	Fol.	£	s.	d.
19... June	30	To Purchases as per Purchase Day Book ..	P.D.B. 1	£3779	0	0	19... June	30	By Returns Outwards ..	R.B. 1	6	0	0
							,,	,,	,, Trading Account ..	P.J. 2	3773	0	0
				£3779	0	0					£3779	0	0

Bills Receivable Account

Dr. | *Cr.*

Date		Particulars	Fol.	£	s.	d.	Date		Particulars	Fol.	£	s.	d.
19... Jan.	5	To Bills Receivable Book total	B.R.B. 1	£184	2	2	19... April	8	By Cash	C.B. 1	£184	2	2
Mar.	7	,, ,, ,, ,, ,,	,,	£239	17	8	Mar.	7	,, Cash and Discount, £2 17s. 8d.	C.B. 1	£239	17	8
June	6	,, ,, ,, ,, ,,	,,	£568	0	0							

Nominal Ledger

Bills Payable Account

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... June	29	To Cash	C.B. 1	£473	17	0	19... April	26	By Bills Payable Book total	B.P.B. 1	£473	17	0

Interest, Bank Interest, and Bank Charges Account

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... June	30	To Discounting Charges	C.B. 1	£2	17	8	19... Jan.	5	By Henry James ..	J/1	£2	5	5
,,	,,	,, Bank Commission ..	,,	2	14	0	Mar.	7	,, Edwards & Co. ..	,,	1	19	8
,,	,,	,, Cheque Book ..	,,		5	0	June	30	,, Bank Interest ..	C.B. 1	5	10	0
,,	,,	,, Transfer to Profit and Loss Account ..	P.J. 2	3	18	5							
				£9	15	1					£9	15	1

Discount Account

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... Jan.	5	To Henry James ..	J/1	£4	13	3	19... April	26	By Fildes & Sons ..	J/1	£12	3	0
Mar.	7	,, Edwards & Co. ..	,,	6	2	0	June	30	,, Discounts received ..	C.B. 1	105	12	6
June	30	,, Discounts allowed ..	C.B. 1	113	1	6	,,	,,	,, Provision for Discounts on Creditors ..	J/2	18	0	0
,,	,,	,, Provision for Discounts on Debtors	J/2	25	1	9	,,	,,	,, Transfer to Profit and Loss Account ..	P.J. 2	13	3	0
				£148	18	6					£148	18	6

Nominal Ledger

Provision for Discounts on Debtors and Creditors

Dr.											Cr.			
19...							19...							
June	30	To Provision for Discounts on Creditors ..	J/2	£18	0	0	June	30	By Provision for Discounts on Debtors	J/2	£25	1	9

Petty Cash in Hand

Dr.											Cr.		
19...			C.B.										
Jan.	1	To Cash	1	£5	0	0							

Carriage Account

Dr.											Cr.		
19...			C.B.				19...						
Jan.	31	To Cash	1	£1	6	6							
Feb.	28	,, ,, ...	,,	1	5	0							
Mar.	31	,, ,, ...	,,	1	11	0							
April	30	,, ,, ...	,,	1	6	5							
May	31	,, ,, ...	,,	1	9	6							
June	30	,, ,, ...	,,	1	8	0	June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£8	6	5
				£8	6	5							

Postage Account

Dr.											Cr.		
19...			C.B.				19...						
Jan.	31	To Cash	1		15	0							
Feb.	28	,, ,, ...	,,		14	0							
Mar.	31	,, ,, ...	,,	£1	7	6							
April	30	,, ,, ...	,,	1	2	0							
May	31	,, ,, ...	,,		14	4							
June	30	,, ,, ...	,,	1	9	6	June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£6	2	4
				£6	2	4							

Nominal Ledger

Cleaning Account

Dr.				£	s.	d.					£	s.	d. Cr.
19...			C.B.				19...						
Jan.	31	To Cash	1	£1	5	0							
Feb.	28	,, ,, ...	,,	1	0	0							
Mar.	31	,, ,, ...	,,	1	5	0							
April	30	,, ,, ...	,,	1	0	0							
May	31	,, ,, ...	,,	1	5	0							
June	30	,, ,, ...	,,	1	5	0	June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£7	0	0
				£7	0	0							

Salaries Account

Dr.				£	s.	d.					£	s.	d. Cr.
19...			C.B.				19...						
Jan.	31	To Cash	1	£20	0	0							
Feb.	28	,, ,, ...	,,	20	0	0							
Mar.	31	,, ,, ...	,,	20	0	0							
April	30	,, ,, ...	,,	20	0	0							
May	31	,, ,, ...	,,	20	0	0							
June	30	,, ,, ...	,,	20	0	0	June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£120	0	0
				£120	0	0							

Charles Perkins, Drawings Account

Dr.				£	s.	d.					£	s.	d. Cr.
19...			C.B.				19...						
June	30	To Cash	1	£140	0	0	June	30	By Chas. Perkins, Capital Account	P.J. 3	£140	0	0

Depreciation Account

Dr.				£	s.	d.					£	s.	d. Cr.
19...							19...						
June	30	To Furniture and Fittings Account	P.J. 2	£8	5	0	June	30	By Transfer to Profit and Loss Account ..	P.J. 2	£8	5	0

Private Ledger

Furniture and Fittings Account

Dr. Cr.

				£	s.	d.					£	s.	d.
19... Jan.	1	To value as per Inventory	P.J. 1	£150	0	0	19... June	30	By Depreciation at 10 % per annum.. ..	P.J. 2	£8	5	0
June	30	,, Office safe	P.D.B. 1	15	0	0	,,	,,	,, Balance	√	156	15	0
				£165	0	0					£165	0	0
19... July	1	To Balance	√	£156	15	0							

Stock of Goods on Hand

Dr. Cr.

				£	s.	d.					£	s.	d.
19... Jan.	1	To value as per Inventory	P.J. 1	£1630	0	0	19... Jan.	1	By Trading Account ..	P.J. 1	£1630	0	0
19... June	30	To value as per Inventory	P.J. 1	£1427	6	6							

Charles Perkins, Capital Account

Dr. Cr.

				£	s.	d.					£	s.	d.
19... June	30	To Drawings Account ..	P.J. 3	£140	0	0	19... Jan.	1	By Balance	P.J. 1	£2373	14	8
,,	,,	,, Balance	√	2749	10	8	June	30	,, Net profit transferred from Profit and Loss Account	P.J. 2	515	16	0
				£2889	10	8					£2889	10	8
							July	1	By Balance	√	£2749	10	8

Private Ledger

Trading Account

Dr.													Cr.
19...							19...						
Jan.	1	To Stock of Goods on hand	P.J. 1	£1630	0	0	June	30	By Sales less Returns ..	P.J. 2	£4768	10	0
							,,	,,	,, Stock of Goods on hand	P.J. 1	1427	6	6
June	30	,, Purchases less Returns	P.J. 2	3773	0	0							
,,	,,	,, Gross Profit to Profit and Loss Account ..	,,	792	16	6							
				£6195	16	6					£6195	16	6

Profit and Loss Account for the Half-year ending 30th June, 19..

Dr.													Cr.
19...							19...						
June	30	To Salaries	P.J. 2	£120	0	0	June	30	By Gross Profit from Trading Account ..	P.J. 2	£792	16	6
,,	,,	,, Rent and Rates ..	,,	104	12	2	,,	,,	,, Interest and Bank Interest less Bank Charges	,,	3	18	5
,,	,,	,, Insurance and Telephone..	,,	10	0	0							
,,	,,	,, Discount	,,	13	3	0							
,,	,,	,, Carriage	,,	8	6	5							
,,	,,	,, Postage	,,	6	2	4							
,,	,,	,, Cleaning	,,	7	0	0							
,,	,,	,, Paper and String ..	,,	3	10	0							
,,	,,	,, Depreciation on Furniture and Fittings at 10 % per annum..	,,	8	5	0							
				280	18	11							
,,	,,	,, Net Profit carried down	✓	515	16	0							
				£796	14	11					£796	14	11
June	30	To Transfer to Capital Account	P.J. 2	515	16	0	June	30	By Net Profit brought down	✓	515	16	0

CHARLES PERKINS

TRIAL BALANCE AT 30TH JUNE, 19..

			Dr.			*Cr.*		
Sales Led.	1	Edwards & Co.	£669	0	0			
Purchase ,,	2	Fildes & Sons				£480	0	0
Nominal ,,	1	Insurance and Telephone Account	10	0	0			
,, ,,	2	Rent and Rates Acct.	114	14	8			
,, ,,	5	Paper & String ,,	3	10	0			
,, ,,	6	Sales ,,				4768	10	0
,, ,,	7	Purchases ,,	3773	0	0			
,, ,,	8	Bills Receivable ,,	568	0	0			
,, ,,	10	Interest, Bank Interest and Bank Charges Account				3	18	5
,, ,,	11	Discount Account	6	1	3			
,, ,,	13	Petty Cash in hand	5	0	0			
,, ,,	14	Carriage Account	8	6	5			
,, ,,	15	Postage ,,	6	2	4			
,, ,,	16	Cleaning ,,	7	0	0			
,, ,,	17	Salaries ,,	120	0	0			
,, ,,	18	Chas. Perkins, Drawings Account	140	0	0			
Private Led.	1	Furniture and Fittings Account	165	0	0			
,, ,,	2	Stock of Goods on hand at 1st January, 19..	1630	0	0			
,, ,,	3	Charles Perkins, Capital Account				2373	14	8
Cash Book	1	Cash in Bank	391	17	2			
,, ,,	,,	,, ,, hand	8	11	3			
			£7626	3	1	£7626	3	1

Charles Perkins, Portland Street, Manchester

Balance Sheet at 30th June, 19..

Liabilities.	£	s.	d.	£	s.	d.
Sundry Creditors	£480	0	0			
Deduct Provision for Discount @ 3¾ %.. ..	18	0	0	£462	0	0
Reserve for Rent				2	9	6
Charles Perkins, Capital Account—						
As at 1st January, 19..	2373	14	8			
Add Net Profit as per Profit and Loss Account	515	16	0			
	2889	10	8			
Deduct Drawings.. ..	140	0	0	2749	10	8
				£3214	0	2

Assets.	£	s.	d.	£	s.	d.
Furniture and Fittings, as at 1st Jan., 19.. ..	£150	0	0			
Additions	15	0	0			
	165	0	0			
Deduct Depreciation at 10 % per annum.. ..	8	5	0	£156	15	0
Stock of Goods on hand ..				1427	6	6
Rates paid in advance ..				12	12	0
Sundry Debtors	669	0	0			
Deduct Provision for Discount @ 3¾ %.. ..	25	1	9	643	18	3
Bill Receivable				568	0	0
Cash at Bank				391	17	2
Cash in hand				13	11	3
				£3214	0	2

CHAPTER III

SINGLE ENTRY BOOK-KEEPING

It has been shown that under the Double Entry system of book-keeping every transaction is recorded in detail or in total to the debit and credit of the appropriate accounts. The name Single Entry is given to all methods of book-keeping which do not recognise the necessity for a debit and credit entry for each transaction. Under some Single Entry systems nominal accounts are raised in respect of expenses and accretions to profit, but ordinarily this is not so, nor are such nominal accounts reliable under these circumstances. The disadvantages of Single Entry as compared with Double-Entry Book-keeping are therefore—

(1) The absence of an automatic check on the accuracy of the book-keeping, with the consequent element of unreliability attaching to all the figures in the books of account.

(2) The lack of detailed information as to the amounts of the various expenses and sources of income which have resulted in the ascertained profit or loss for a particular period of trading.

When the books of a business are kept on the Single Entry system the net profit or loss is ascertained in the following manner: The values of the assets and totals of the liabilities must be obtained by inventory, schedule, etc., both at the beginning and end of the trading period. Then the private withdrawals of the partners or proprietor must be taken into account, along with the consideration of further capital introduced during the period. Further, any asset brought into the business or withdrawn in specie during the period must be taken into consideration, as also any liability which through inadvertence or otherwise was not included in the schedule of same at the commencement of the period. These figures must be utilised as in the following example—

Example.—A. B., who keeps only such books as will record his debtors, creditors, and cash and bank balances wishes to ascertain his net profit in respect of the year 1919. The assets and liabilities at 1st January, 1919, were—

Assets—		
Plant and Machinery	£1260 0 0	
Furniture and Fittings	225 0 0	
Stock of Goods on hand..	1880 0 0	
Expenses paid in advance	15 0 0	
Sundry Debtors (net)	2340 0 0	
Cash at Bank	186 0 0	
Cash in hand	4 10 0	
		£5910 10 0
Liabilities—		
Sundry Creditors (net)	430 0 0	
Expenses accrued..	18 0 0	
		£448 0 0
Excess of assets over liabilities at 1st Jan., 1919 ..		£5462 10 0

The assets and liabilities at 31st December, 1919, were—

Assets—		
Plant and Machinery	£1134 0 0	
Furniture and Fittings	202 10 0	
Motor Car	100 0 0	
Stock of Goods on hand	2116 0 0	
Expenses paid in advance	15 0 0	
Sundry Debtors (net)	2870 0 0	
Cash at Bank	217 0 0	
Cash in hand	8 0 0	
		£6662 10 0
Liabilities—		
Sundry Creditors (net)	£360 0 0	
Expenses accrued..	9 0 0	
		£369 0 0
Excess of assets over liabilities at 31st Dec., 1919		£6293 10 0

A. B.'s private withdrawals during the year amount to.. ..	£600 0 0
On June 30th, 1919, A. B. introduced as further capital.. ..	500 0 0
Early in the year A. B. arranged to use his motor car, then valued at £140, solely for the purposes of his business ..	140 0 0
Included in the liabilities at 31st December, 1919, amongst the Sundry Creditors is a loan of £100 for business purposes which was omitted from the liabilities at 1st January, 1919, though incurred before that date	100 0 0

Excess of assets over liabilities (i.e., Capital) at 1st January, 1919, *as per statement*..	5462 10 0
Deduct liability not taken into account at 1st January, 1919, viz.—	
Business Loan	100 0 0
Actual Capital at 1st January, 1919	£5362 10 0

Brought forward		£5362 10 0
Add further capital introduced during 1919, viz.—		
Cash	£500	
Motor car brought into business	140	
		640 0 0
		£6002 10 0
Deduct Private withdrawals during 1919		600 0 0
Capital at 31*st December*, 1919, *subject to net profit made during* 1919		£5402 10 0
Excess of assets over liabilities (*i.e.*, *Capital*) *at* 31*st December*, 1919, *as per statement*		£6293 10 0
Deduct—		
Capital at 31*st December*, 1919, *subject to net profit made during* 1919		5402 10 0
Net profit for year ended 31*st December*, 1919..		£891 0 0

Theoretically the net profit or loss can be ascertained accurately under Single Entry, but in practice the method is very unsatisfactory, as errors in scheduling the assets and liabilities at the commencement or close of the period may be made under such loose methods, without being subsequently discovered. Such errors will in many cases be automatically set right in future periods when fresh inventories and schedules are made, but the unreliable nature of the figures is obvious.

It should be further noted, as already mentioned, that no detail is forthcoming as to the *manner* in which the net profit or loss has been brought about, which information is almost as valuable to a business man as the knowledge of the actual result of the trading.

The term Single Entry embraces any number of methods, from the one book used by the small shopkeeper in which he records his sales on credit, to the system of accounts of the merchant where a few additions and postings would possibly suffice to inaugurate the automatic check.

The conversion of a system of Single Entry into Double Entry necessitates the obtaining of values of all the assets and the amounts of all the liabilities as at the date of conversion. Journal entries will then be made and ledger accounts opened for each asset and liability, the difference between total assets and total liabilities being placed to Capital Account. Thereafter all transactions will be recorded on the Double Entry principle in a set of books appropriate to the business. The conversion of Single Entry into Double Entry has been illustrated in the opening of the books and accounts shown in Chapter II.

CHAPTER IV

MUNICIPAL CORPORATIONS—CHARITABLE INSTITUTIONS

In order to obtain a maximum of efficiency with a minimum expenditure of time and trouble, it is necessary to use such forms of books of account as will meet the requirements of the particular case. Hence, in devising a scheme of accounting the distinctive features of the business or undertaking for which it is intended must receive attention. Thus, where a business house deals in goods of several classes, the sub-division of the business into departments and the provision of the system of book-keeping known as " Departmental Accounts " would be advantageous, so that the results of the trading in the different commodities could be ascertained. Again, where the business of manufacturing is carried on, the keeping of Stores and Stock Books, so as to have a check on the values of the raw materials used and the finished articles produced, would be dictated, as well as the provision of sound methods of ascertaining the amount of wages due to each employee, in addition to which the necessity for information as to the cost of the finished article would involve the use of Cost Accounts. As the subjects of Stores, Stock and Cost Accounts, and Departmental Accounts are considered separately later, a discussion of certain other matters can be proceeded with.

MUNICIPAL CORPORATIONS

Municipal Corporations carrying on trading departments, *e.g.*, those for the supply of electricity, gas, and water, usually keep a separate set of Double Entry books for each of such undertakings. This allows of the balancing of the books of each trading department and the drawing up of separate Profit and Loss Accounts, and also the correct allocation of the burden of Sinking Fund charges for the repayment of the loans on the undertaking, as well as interest on them. Contributions by the trading departments towards the relief of the rates will be credited to their cash account and debited to the net profit, which latter amount is brought forward from year to year, less any such contributions or trading losses, and represents, therefore, the amount of net profit still undivided. When losses are made so as to necessitate an additional burden on the rates to maintain the trading department, the amount of the contribution from the Rating Account should be debited to the cash account of the trading department and credited to an account for Contributions from Rates. The loans, sinking funds, and sinking fund investments, should be recorded in the General Ledger of the trading department. In addition to the sets of books above described, the main set of Double Entry books must be kept to record the rating in respect of non-trading departments, the

TABULAR

DEBITS.

Date.	Name.	Address.	Meter reading.		Number of units consumed.	Rate.	Amount of Account.	Brought Forward from Mar. 31st.
			Mar. 31	June 30				

expenditure of same, and the general state of the accounts of the Municipality, such as the assets of non-trading departments, liabilities, loans, and sinking funds. The published accounts are usually on a Receipts and Payments basis as regard the rating and working of the non-trading departments; detailed accounts showing the net profit or loss are given for the trading departments, together with a Balance Sheet for each trading department, a Balance Sheet for the Rating Account, including the non-trading departments, and an aggregate Balance Sheet incorporating the whole of the assets and liabilities of the Corporation.

The number of books to be kept under such circumstances is necessarily very large. As regards the trading departments, the books will not differ materially from those kept by a mercantile firm, except that often much labour can be saved by the adoption of what are known as *Tabular Ledgers*, which are so ruled as to combine the use of a subsidiary book with that of a ledger, the writing up of the left-hand portion with the quarterly charge for (say) electricity supplied constituting at the same time the debit to the customer's account. This form of ledger is only of use where customers are expected to pay for each account before another is due, the amounts owing by the relatively small number of defaulters being carried forward when the accounts for the next quarter are rendered. The credit side is posted as regards cash, discount and bad debts from the subsidiary books kept for recording those transactions. This form of Tabular Ledger can be

LEDGER

	Credits.							
Total.	Date.	Details.	Folio.	Cash.	Discount.	Bad Debts.	Carried Forward.	Total.

adopted, with necessary modifications, by rating, and other local authorities, and in a different form is also used by hotel proprietors.

Much labour can also be saved by the adoption of Cash Books with analysis columns for the purpose of facilitating the rendering of the annual accounts as to the detail of receipts and payments on the rating and non-trading departments. The rulings for these will necessarily vary according to the circumstances of each Corporation and the detail which it is desired to show.

The loans, sinking funds, and sinking fund investments in respect of the Rating Fund should be recorded in the General Ledger in complete detail, so as to facilitate the ascertainment of information regarding date of redemption of loans, cost of investments, rates of interest, etc.

CHARITABLE INSTITUTIONS

Charitable Institutions may, for accounting purposes, be divided into the following classes—

(*a*) Those in which the revenue is derived from subscriptions, donations, etc., and is expended on a basis of cash payments only, so that there are no liabilities; and the assets, other than the Cash or Bank balance, are also of negligible quantity.

(*b*) Those where the revenue is derived from subscriptions, donations, etc., but by reason of the nature of the institution the working thereof renders it necessary to hold substantial assets and to incur liabilities.

(*c*) Those which, in addition to deriving revenue from subscriptions, donations, etc., carry on a business for the purpose of providing work for inmates of the institution so as to earn a portion of the cost of upkeep. This factor will also render necessary the possession of assets and the incurring of liabilities.

In considering the accounts to be kept under these varying circumstances, the objects should be borne in mind, and these are somewhat different from those of mercantile firms. A necessary feature is obviously the correct recording of the transactions in appropriate books of account, but the main essential is that the books should be so ruled as to facilitate the rendering to subscribers and others of accounts which shall disclose the most minute information of the sources of income and particulars of various classes of expenditure. The books and accounts of such institutions as come under the heading (*a*) need consist only of a Cash Book with analytical columns on each side so as to show the different divisions of the receipts and payments; together with a Subscribers' Book and, if necessary, a Donors' Book. The published accounts would consist of a summarised copy of the Cash Book, known as a Receipts and Payments Account, showing on the debit side the balance of cash at the bank at the commencement of the year, following which would be shown the various receipts, such as subscriptions, donations, legacies, proceeds of collections, and bank interest, whilst on the credit side would be shown the expenditure under the various headings, concluding with the balance of cash at the bank at the end of the year. Separate lists of subscribers, donors, and collectors should also be shown, together with details of legacies received during the year, these being published along with the Receipts and Payments Account. As regards class (*b*) it will be necessary to keep a Journal and a Ledger, in addition to an analytical Cash Book, Subscribers' Book, Donors' Book, Investment Register, etc. In the Ledger will be kept the accounts for investments, real or leasehold property, furniture and fittings, cash at bank on Deposit Account, subscriptions in arrear at date of published accounts, etc., while the liabilities to founders in respect of Trust Property will also be shown. Other accounts will be raised for the various sources of income and expenditure, as posted from the Cash Book and Journal. At the end of each year, it will probably be found necessary to apportion the expenses accrued and those paid in advance, after which the different amounts of income and expenditure for the year will be passed by transfer through the Journal to the credit or debit of an Income and Expenditure Account. The balance of this account will then be transferred to the Surplus Account, so as to close the Income and Expenditure Account, the surplus being thereby increased or diminished. The balance on the Surplus Account should therefore represent the excess of assets over liabilities, corresponding to the Capital Account of a private firm. The Balance Sheet should then be taken out.

The published accounts of the institution should therefore comprise an Income and Expenditure Account for the year, giving complete detail of all sources of income and avenues of expenditure, and showing the net result ; a Balance Sheet showing the various investments and other assets, also the liabilities and surplus, separate accounts being also rendered to show amounts left in trust, with their corresponding investments, together with lists of legacies, subscribers, donors, and collectors.

The institutions classed under heading (*c*) will make use of books and accounts similar to those already described under heading (*b*), with the addition of such books as are necessary to record correctly the transactions in the handiwork of the inmates. The latter will necessitate the provision of analytical Purchase Day Books and Sales Day Books, with the necessary Returns Books, Inwards and Outwards, and in some cases it may even be found advisable to have a separate set of books in respect of the business, profits or losses being ascertained and paid over or received by the business. Where this is not considered necessary, Sales and Purchase Ledgers will still be required, in addition to the books already mentioned, so as to keep the Journal and General Ledger as free as possible from the entries regarding the business. A separate column should be placed on each side of the Cash Book for recording the cash transactions of the business, and also discount columns where needed. If all purchases and sales are made for cash the necessity for the use of some of the books will disappear. At the end of the year stock should be taken and the various balances on the nominal accounts transferred to a Profit and Loss Account, the balance of which is then transferred to the Surplus Account. This applies only to the business portion, the various sources of income and classes of expenditure on the general upkeep of the institution being recorded in an Income and Expenditure Account, the balance on which is also transferred to the Surplus Account. The Balance Sheet should also be prepared. The published accounts for an institution of this class should therefore comprise—

A Profit and Loss Account to show the results of the working of the business portion of the institution during the year :

An Income and Expenditure Account to give information as to the general income and expenditure of the institution during the year :

A Balance Sheet to show the exact position as to assets, liabilities, surplus, and trust funds, if any, at the end of the year :

Separate accounts for each trust fund, showing the investments held :

Lists of legacies, subscribers, donors, and collectors.

Where a separate set of Double-Entry books is kept for the business portion, a Balance Sheet for this should also be given, and also an aggregate Balance Sheet showing the position of the whole institution. It may also be noted that as charitable institutions are by law exempt from charge for Income Tax, the amounts of Income Tax deducted from dividends received on investments may be recovered on proper application being made to the authorities.

The Blind Institution, Preston

Income and Expenditure Account, Year Ending 31st December, 19..

Expenditure.	£	s.	d.
To Provisions as per Analysis	£1779	0	3
,, Repairs, Alterations, and Renewals..	431	9	8
,, Salaries, including Master, Matron, Schoolmaster and School Mistress, Assistants, Secretary, Nurse, and Surgeon	2175	13	11
,, Servants' Wages	623	11	8
,, General Charges, as per Analysis ..	436	11	9
£	10924	15	7
To *Deficiency for Year brought down*.. ..	£1761	7	0
,, *Extraordinary Expenditure*—			
Expenditure in connection with proposed New School	879	5	4
,, *Expenditure at the Workshops*—			
Alterations £432 4 6			
Hoist 405 2 0			
Grants 60 10 0	897	16	6
	£3538	8	10

Income.	£	s.	d.
By Dividend and Interest—			
£5000 0 0 2½ % Consols ..1 Year	£125	0	0
695 13 8 Do. .. do.	17	7	10
68 10 8 Do. .. do.	1	14	3
8387 3 10 Do. .. do.	209	13	6
3315 13 6 Do. .. do.	82	17	9
9653 0 0 2½ % Midland Railway Debentures do.	241	6	6
,, Income from Freehold Property £113 0 0			
Less Chief Rent, Rates, Insurance and Repairs.. 81 8 2	31	11	10
,, *Deficiency for Year carried down*.. ..	1761	7	0
£	10924	15	7
By Repayment of Balance of Loans.. ..	5	0	0
,, Net Balance transferred to Capital Acct.	3533	8	10
	£3538	8	10

The Blind Institution, Preston

Income and Expenditure Account, Year Ending 31st December, 19..

Expenditure.	£	s.	d.
To Provisions as per Analysis	£1779	0	3
,, Repairs, Alterations, and Renewals..	431	9	8
,, Salaries, including Master, Matron, Schoolmaster and School Mistress, Assistants, Secretary, Nurse, and Surgeon	2175	13	11
,, Servants' Wages	623	11	8
,, General Charges, as per Analysis ..	436	11	9
,, Auditing	32	0	0
,, Household Appliances	135	4	5
,, School Expenses	120	3	7
,, Coal	328	2	2
,, Gas	201	11	7
,, Water	60	6	9
,, Clothing	455	11	3
,, Printing, Stationery, and Advertising ..	133	17	6
,, Soap, Starch, etc...	73	9	4
,, Rates, Taxes, and Insurance	182	17	5
,, Postage, Garden, and Petty Cash ..	101	12	10
,, Bank Charges	8	8	1
,, Law Costs	6	4	2
	7285	16	4
,, Grants to Ex-pupils and Outside Blind	686	15	8
,, Grants towards Chapel Deficiency ..	184	0	6
,, Trading Deficiency for the Year on Outdoor Workshops as per accounts ..	1207	18	7
,, *School*— Expenditure as per Analysis.. ..	1475	19	6
,, *Loss on Manufacturing and Trading Accounts*—			
Cartage, including Provender for Horses, Wages, etc. £147 17 6			
Departmental Losses—			
Swedish Weaving £5 1 7			
Baskets 14 16 4			
Brushes 7 13 1			
27 12 0			
£175 9 6			
Less Departmental Profits—			
Mats .. £43 17 6			
Workroom 40 8 1			
Upholstery 73 16 5			
Bootmaking 9 16 11			
167 18 11	7	10	7
,, Blind Collector's Salary and Expenses..	76	14	5
	£10924	15	7
To *Deficiency for Year brought down*.. ..	£1781	7	0
,, *Extraordinary Expenditure*— Expenditure in connection with proposed New School	879	5	4
,, *Expenditure at the Workshops*—			
Alterations £432 4 6			
Hoist 405 2 0			
Grants 60 10 0	897	16	6
	£3538	6	10

Income.	£	s.	d.
By Dividend and Interest—			
£5000 0 0 2½ % Consols ..1 Year	£125	0	0
695 13 8 Do. .. do.	17	7	10
68 10 8 Do. .. do.	1	14	3
8387 3 10 Do. .. do.	209	13	6
3315 13 6 Do. .. do.	82	17	9
9653 0 0 2½ % Midland Railway Debentures do.	241	6	6
2400 0 0 2½ % Midland Preference Stock do.	60	0	0
4320 0 0 2½ % Do. do. do. do.	108	0	0
6025 0 0 4 % Great Western Rly. Debentures do.	241	0	0
8137 0 0 3 % North Eastern Rly. Debentures do.	244	2	2
8033 0 0 3 % L. & N.W. Rly. Debentures .. do.	240	19	10
2000 0 0 4 % L. & N.W. Rly. Preference .. do.	80	0	0
8257 0 0 3 % L. & Y. Railway Debentures .. do.	247	14	2
23320 0 0 3 % L. & Y. Railway Preference .. do.	699	12	0
100 0 0 3 % Manchester Corporation Stock do.	3	0	0
487 0 0 3 % Do. do. do. do.	14	12	2
2000 0 0 4 % Do. do. do. do.	80	0	0
2000 0 0 3½ % Do. do. Loan do.	68	1	10
1000 0 0 3½ % Salford Corporation Loan .. do.	33	5	9
2000 0 0 3½ % Bury Water Board Loan .. do.	70	0	0
1500 0 0 3½ % Halifax Corporation Loan .. do.	53	2	8
200 0 0 3½ % Manchester Corporation Loan.. do. } 200 0 0 3¾ % Do. do. do. do. }	13	15	0
1700 1 10 4½ % North British Railway Stock.. do.	76	10	0
	£3011	15	5
,, Bank Interest	66	2	7
,, Education Department Grants.. ..	420	17	6
,, "Charles Fox, of Oldham" Endowment Income £350 5 5			
Less Grants to Oldham cases 158 2 6	192	2	11
,, General Donations	60	11	2
,, Subscriptions	308	9	0
,, Inmates' Payments	4933	12	2
,, Discounts	37	11	7
,, Concerts, etc.	29	10	1
,, Collections per Blind Collector	71	4	4
,, Income from Freehold Property £113 0 0			
Less Chief Rent, Rates, Insurance and Repairs.. 81 8 2	31	11	10
,, *Deficiency for Year carried down*.. ..	1761	7	0
	£10924	15	7
By Repayment of Balance of Loans.. ..	5	0	0
,, Net Balance transferred to Capital Acct.	3533	8	10
	£3538	8	10

The Blind Institution, Preston

The Charles Fox, of Oldham, Endowment

Capital Account

			£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.
19... June	21	Donation from the Trustees of the late Charles Fox, Esq., of Oldham, given to the Institution to be invested in Trust, the Income thereof to be applied first to the relief of blind cases resident in Oldham up to one half of the Income, and the balance together with the other half for the benefit of the Institution ..				£10000	0	0	19... July	17	Investments— £2,000 3½ % Indian Inscribed Stock—Cost ..	£2114	1	0			
									,,	29	£1,756 18s. 5d. 4 % Victorian Inscribed Stock —Cost	1803	4	0			
									,,	29	£3,000 3½ % Bristol Corporation Stock—Cost ..	3041	7	6			
									,,	29	£3,000 3½ % Newcastle-on-Tyne Stock—Cost ..	3041	7	6	£10000	0	0
						£10000	0	0							£10000	0	0

Income Account, Year Ended 31st December, 19..

Dr. *Cr.*

			£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.
19... Dec.	31	To Grants paid to Oldham Cases	£158	2	6				19... Dec.	31	By Cash—						
		,, Transfer to Income and Expenditure Acct.	192	2	11	350	5	5	,,	,,	1 year's dividend on £2,000 Indian 3½ % ..	£70	0	0			
									,,	,,	1 year's dividend on £1,756 18s. 5d. Victorian 4 %	70	5	5			
									,,	,,	1 year's dividend on £3,000 Bristol Corporation 3½ %	105	0	0			
									,,	,,	1 year's dividend on £3,000 Newcastle 3½ %	105	0	0	350	5	5
						£350	5	5							£350	5	5

The Blind Institution, Preston

Balance Sheet, 31st December, 19..

Liabilities and Capital.	£	s.	d.	£	s.	d.
Sundry Creditors, per list				£783	2	4
Subscription for 19.. paid in advance ..				1	1	0
Lancashire and Yorkshire Bank, Ltd., Overdrawn on Current Account ..				6814	14	5
Special Funds—						
Mr. W. Merchant's Fund.						
Balance from last year	£178	2	7			
Add: Interest on Investment ..	7	14	0			
	185	16	7			
Less Cost of treats given this year ..	8	8	1			
				177	8	6
Trustees of the late Charles Fox, Esq., of Oldham, Fund invested per contra. Income therefrom applied first to relief of blind cases resident in Oldham, up to one half of the Income, and the balance for the general benefit of this Institution				10000	0	0
Capital Account—						
Balance at 31st December, 19.. ..	104316	13	4			
Add: Unexpended portion of amount reserved last year for Legal Expenses	25	0	0			
Add: Legacies received during 19..	1508	0	4			
	105849	13	8			
Less Balance from Income and Expenditure Account	3533	8	10			
				102316	4	10

£	s.	d.	Assets.	£	s.	d.	£	s.	d.
£5000	0	0	2½ % Consols, cost	£4912	10	0			
554	3	1	Do. ,, ...	544	9	1			
141	10	7	Do. ,, ...	139	1	0			
68	10	8	Do. ,, ...	74	8	11			
8387	3	10	Do. ,, ...	8204	14	7			
3315	13	6	Do. ,, ...	3315	13	6			
17467	1	8					£17190	17	1
9653	1	1	2½ % Midland Railway Debentures, cost ..	8429	10	6			
6025	0	0	4 % Great Western Ry. Debentures, cost ..	8429	5	7			
8137	0	0	3 % North Eastern Ry. Debentures, cost ..	8429	2	6			
8033	0	0	3 % L. & N. Western Ry. Debentures, cost ..	8428	18	8			
8257	0	0	3 % Lancs. & Yorks. Ry. Debentures, cost ..	8428	10	2			
40105	1	1					42145	7	5
23320	0	0	3 % Lancs. & Yorks. Ry. Preference, cost ..	17896	17	9			
2000	0	0	4 % L. & N. Western Ry. Preference, cost ..	3095	16	0			
2400	0	0	2½ % Midland Ry. Perpl. Preference, cost ..	2244	1	0			
4320	0	0	2½ % Do. do. do.	4009	11	0			
1700	1	11	4½ % North British Perpl. Preference, cost ..	2000	0	0			
33740	1	11					29246	5	9
100	0	0	3 % Manchester Corporation Stock, cost	100	0	0			
2000	0	0	4 % Do. do. do.	3136	1	0			
2000	0	0	3½ % Manchester Corporation Loan, cost ..	2000	0	0			
200	0	0	3½ % Do. do. do.	200	0	0			

£	s.	d.		£	s.	d.	£	s.	d.
			200 0 0 3½ % Do. do. do.	200	0	0			
			200 0 0 3½ % Do. do. do.	200	0	0			
			487 0 0 3 % Manchester Corporation Stock, cost ..	447	18	0			
			1000 0 0 3½ % Salford Corporation Loan	1000	0	0			
			2000 0 0 3½ % Bury and District Joint Water Board Loan, cost	2000	0	0			
			1500 0 0 3½ % Halifax Corporation Loan, cost ..	1500	0	0			
							10783	19	0
			9687 0 0						
			Fox Endowment Investments—						
			£2000 0 0 3½ % Indian Inscribed Stock, cost	2114	1	0			
			1756 18 5 4 % Victoria, 1911-26 Stock, cost	1803	4	0			
			3000 0 0 3½ % Bristol Corporation Stock, cost.. ..	3041	7	6			
			3000 0 0 3½ % Newcastle-on-Tyne Stock, cost	3041	7	6			
							£10000	0	0
			9756 18 5						
			Lancashire & Yorkshire Bank, Ltd., No. 2 Account				6509	11	11
			Accrued Interest on Investments.. ..				1434	9	4
			Sundry Debtors, Maintenance Accounts ..	1302	1	2			
			Do. Trading do.	226	12	7			
							1528	13	9
			Cash in hand—Superintendent				39	15	10
			Rents due—Freehold Property				24	6	8
			Rates and Insurance in advance				105	11	5
			Stock on hand—						
			Baskets	434	18	5			
			Mats	152	6	1			
			Workroom (Knitting, etc.)	70	1	5			
			Clothing	151	13	6			
			Household Linen	54	0	10			
			Upholstery	42	0	2			
			Swedish Weaving	61	15	6			
			Bootmaking and Repairing	8	6	8			
			Brushmaking	108	10	4			
							1083	12	11
£120092	11	1					£120092	11	1

THE BLIND INSTITUTION, PRESTON.—OUTDOOR WORKSHOPS

PROFIT AND LOSS ACCOUNT, YEAR ENDING 31ST DECEMBER, 19..

19...			£	s.	d.
Dec.	31	To Salaries	£366	13	4
,,	,,	,, Rates, Taxes, and Insurance	118	5	9
,,	,,	,, Coals, Gas, and Water ..	63	1	0
,,	,,	,, Repairs	14	14	8
,,	,,	,, General Charges	68	14	4
,,	,,	,, Printing, Stationery, and Advertising	62	2	0
,,	,,	,, Petty Cash and Postages ..	23	3	8
,,	,,	,, Auditors' Fee	18	0	0
,,	,,	,, Bad Debts	13	2	0
,,	,,	,, Bank Int. and Cheque Books	19	8	10
			767	5	7
,,	,,	,, *Manufacturing Departments*—			
		Loss on Workshops .. £820 13 8			
		Loss on Upholstery.. 1 12 0			
		Loss on Woolwork .. 2 14 8			
		£825 0 4			
		Less Profit on—			
		Baskets £294 12 0			
		Brushes 57 6 0			
		Mats 10 8 3			
		£362 6 3			
			462	14	1
		To *Extraordinary Expenditure*, viz.			
		Alterations .. £432 4 6			
		Hoist 405 2 0			
		Grants.. .. 60 10 0			
			897	16	6
			£2127	16	2

19..			£	s.	d.
Dec.	31	By Discounts	£17	1	1
,,	,,	,, Sale of Furniture	5	0	0
,,	,,	,, *Balance, Surplus Expenditure transferred to Income and Expenditure Account*—			
		Deficiency on Trading .. £1207 18 7			
		Extraordinary Expenditure 897 16 6			
			2105	15	1
			£2127	16	2

The Blind Institution, Preston.—Outdoor Workshops

Balance Sheet, 31st December, 19..

Liabilities.						
Creditors				£370	3	5
Capital—						
Balance, January 1st, 19..	£1878	1	10			
Less Surplus Expenditure, from Profit and Loss Acct. :— Deficiency on Trading .. £1207 18 7						
Extraordinary Expenditure 897 16 6						
	2105	15	1			
Dr.	227	13	3			
Add Transfer from Income and Expenditure Account	2105	15	1			
				1878	1	10
				£2248	5	3

Assets.						
Sundry Debtors				£487	2	4
Lancashire and Yorkshire Bank				304	13	11
Rates, Insurance, etc., Paid in Advance				60	0	6
Stock on Hand—						
Workshops	£894	13	2			
Baskets	243	16	11			
Brushes	138	5	11			
Mats	21	10	8			
Upholstery		7	6			
Woolwork	16	5	3			
				1314	19	5
Cash in Hand				81	9	1
				£2248	5	3

CHAPTER V

METHODS OF BALANCING

The automatic check on the accuracy of accounts kept on the Double Entry system, by means of the Trial Balance, has been described. The disagreement of the totals of the Trial Balance indicates the existence of an error or errors in the books of account; and these must therefore be found and rectified. Some of the methods which may be adopted to find such mistakes are indicated. For instance, a competent book-keeper would first have regard to the amount by which the Trial Balance disagreed, and to the side of the accounts on which the excess appeared, debit or credit. Mistakes of 1d., 10d., 1s., 10s., and the like will most probably be found to have been made in an addition, so that a difference of this description should be looked for accordingly. It is, perhaps, unnecessary to point out that where the difference consists of pence or shillings, which is likely to have been made in addition, there is no necessity to continue the checking of the various totals beyond the column, pence or shillings, indicated by the amount of the difference. Again, differences of 9d., 9s., etc., may be searched for in the additions, as the possibilities in such cases would point to the existence of two errors, such as 1d. and 10d., operating in different directions, and producing a difference of 9d., as, if made on the same side in each case, a difference of 11d. would result. A difference of 19s. 11d. on the Trial Balance would point to two errors, one of one pound, and the other of one penny, these being on opposite sides. These or similar differences will, therefore, indicate to the experienced book-keeper the most likely places to locate the errors, and further combinations on the lines laid down are also possible.

On the other hand, the probability would be that a mistake of 3s. 8d. or 4s. 7d. would consist of an amount of 4d. or 5d., which had been entered in the shillings column by mistake, or possibly an amount of 4s. or 5s. wrongly entered in the pence column. Similarly, a difference of £3 16s. 0d. would appear to indicate that an amount of 4s. had been entered in the pounds column, or that an amount of £4 had been entered in the shillings column. Here again combinations of errors may occur, and this possibility must be borne in mind.

Where the difference sought is a mixed one of pounds, shillings, or pence, the possibility of an unextracted Ledger Balance being the cause should be enquired into, failing which the postings of the totals of the subsidiary books to the Nominal Accounts should be looked into so as to observe any amount which has not been posted.

A frequent source of trouble in balancing occurs when an amount is entered in a subsidiary book, such as the Day Book, and is altered after the book has been posted and added, the entry in the subsidiary book and the posting in the Ledger being also amended, but the addition being left as before. It should be a rule to allow no persons to make entries in the books of account other than those habitually performing those duties. Erasures of all kinds should be forbidden, mistakes being rectified by ruling out.

Where the amount of the difference on the Trial Balance affords no guide as to the locality of the error, the best plan is to consider which portion of the books of account is most likely to be inaccurate. Thus, in many businesses the Purchase Ledgers are so thoroughly checked by means of comparison with the statements of account rendered for goods supplied to the firm, that their examination may be deferred until the more likely ground has been covered. Again, the Cash Book is often kept and posted by an experienced official, the subsidiary books being, let us say, in the hands of younger and less accurate clerks. In such a case it would be wise to examine the more probable sources of error first, failing which the more reliable portions of the books should be dealt with.

Assuming that the difference still remains unlocated after the foregoing methods have been exhausted, there will be no alternative to a detailed checking of the postings, additions, etc., in the books of account. A tick may be employed, but it should be placed so as not to disturb the work of the auditors; thus, the amounts may be ticked after the pence column, instead of at the front of the pounds column. The portions of the postings which are most likely to contain an error should first be looked into, the same remark applying to the other checking. The ledgers should be gone through so as to check the amounts brought down as balances, agreement of totals, debit and credit, and items unticked, if any. The balances standing in the ledgers at the commencement of the period should also be checked with the Schedules of Debtors and Creditors and Balance Sheet. The additions of all books should be made, the Schedules of Debtors and Creditors at the end of the period being compared with the Sales and Purchase Ledgers, the totals checked and the Trial Balance extractions compared and additions checked. The conscientious performance of these operations cannot fail to disclose the errors, which should then be rectified. The book-keeper should not leave the detection and rectification of errors to the auditors.

A method of checking which is suitable for the books and accounts of small concerns consists of the analysis of the Ledger Accounts under the headings of Sales, Purchases, Cash Received, Cash Paid, Returns Inwards, Returns Outwards, Discounts Allowed and Received, Bills Receivable, Bills Payable, Journal Entries to Debit, Journal Entries to Credit, Balances at commencement and end of period. This is best done on paper ruled with the necessary number of analysis columns, with the addition of total columns on each side, debit and credit. The total debits should equal the total credits as each Ledger Account is analysed.

When all the Ledger Accounts have been analysed, the totals of the various columns should be compared with the totals appearing in the Nominal Account relating to that class of transaction, and the careful application of this principle should not fail to indicate the book or books which contain the inaccuracies; such books should then be checked in detail. It will also be seen that this method provides a check on the extraction of the Ledger balances at the end of the period, besides saving the process of comparing the various balances brought down in the Ledgers at the commencement of the period with the amounts as shown in the Schedules of Debtors and Creditors at that date. The example given on p. 89 is based upon the figures in the Sales Ledger in the example in Chapter II, with which it should be compared, the agreement of the analysis columns with the totals of the respective subsidiary books being noted.

SELF-BALANCING LEDGERS

It will be obvious, after a perusal of the foregoing pages, that in the case of a business of any magnitude the employment of devices

Analysis for the Purpose of Locating Errors

Form for Sales Ledger

Dr. | *Cr.*

Balances at commencement of period.	Sales.	Journal Entries (Debit.)	Cash Book Debits.	Totals.	Name and Remarks.	Led. Fo.	Cash Paid.	Discounts allowed.	Returns Inwards.	Bills Receivable.	Journal Entries (Credit).	Balances at end of period.	Totals.
£360 0 0	£285 0 0	£1 19 8			Edwards & Co.	1	£173 5 0	£6 15 0					
	244 0 0						453 7 6	11 12 6		£239 17 8	£6 2 0		
	542 0 0						521 13 6	20 6 6					
	636 0 0						612 3 0	23 17 0					
	486 0 0						467 15 6	18 4 6					
	669 0 0			3223 19 8								£669 0 0	3223 19 8
230 0 0	116 0 0			346 0 0	H. Collins	2	100 0 0						
							130 0 0						
							113 2 0	2 18 0					346 0 0
	186 10 0	2 5 5			Henry James	3	269 10 0	10 10 0		184 2 2	4 13 3		
	280 0 0						433 17 6	11 2 6					
	445 0 0						303 4 6	7 15 6	85 0 0	568 0 0			1877 15 5
	396 0 0												
	568 0 0			1877 15 5									
£590 0 0	4853 10 0	£4 5 1		5447 15 1			3577 18 6	£113 1 6	£85 0 0	£991 19 10	£10 15 3	£669 0 0	5447 15 1

The above figures are as appearing in the Sales Ledger in the example contained in Chapter II.

for the location of errors will prove useful in addition to the indication of the accuracy or otherwise of the books of account as supplied by the Trial Balance. In fact, when the accounts of a firm are very voluminous, the inauguration of a further system of automatic check is an absolute necessity so as to guard against the possibility of a thorough examination of the whole of the books of account by the office staff being required before the books can be balanced. This would entail considerable waste of labour and consequent delay in rendering the Profit and Loss Account and Balance Sheet. The safeguards to employ in the case of an extensive system of books would necessitate arrangements such as the following, which are summed up in the term Self-Balancing Ledgers. Each of the Sales and Purchase Ledgers would be placed in the charge of one clerk, who would be made responsible for the accuracy thereof. Separate subsidiary books kept by other clerks would be in use for each Ledger; thus each Sales Ledger would have its own Sales Day Book, Returns Inwards Book, Bills Receivable Book, Journal, and Cash Book, the totals of which would work into a General Sales Day Book, General Returns Inwards Book, General Bills Receivable Book, Analysis Journal, and General Cash Book at the end of the month.

Similarly each Purchase Ledger would be kept separate and would have its own Purchase Day Book, Returns Outwards Book, Bills Payable Book, Journal, and Cash Book, the totals of which would be passed monthly into a General Purchase Day Book, General Returns Outwards Book, General Bills Payable Book, Analysis Journal, and General Cash Book.

Taking one of the Sales Ledgers as an example, the total amount of the indebtedness of the various customers in that Ledger at the commencement of the month should first be ascertained from the schedules extracted at that date. An account called Adjustment Account should be opened at the end of the Ledger, to the credit of which the total of debtors so arrived at will be placed. To the credit of the Adjustment Account will also be placed the total sales for the month as shown in the Sales Day Book of the particular Ledger, Journal Entries which have been posted to the debit of the individual accounts in that Ledger during the month being also credited to Adjustment Account. On the debit side of the Adjustment Account will be placed the totals of the Returns

Inwards, Bills Receivable, Credit Journal Entries, and Cash paid and Discounts allowed during the month as shown in the subsidiary books appertaining to that Ledger. The balance brought down to credit on the Adjustment Account should therefore show the total amount of debtors in the Ledger at the end of the month, the addition of the schedule, as extracted from the Ledger in detail, being then compared with that amount. If the two are in agreement the accuracy of the Subsidiary Books and Ledger is proved. If not in agreement, the error or errors must be searched for on the lines previously indicated as regards the probability of their being in addition, wrong extension, posting, etc. It is to be noted that under the Self-Balancing Ledger system the error is not found, it is located to the Ledger and Subsidiary Books working into it in which the disagreement is manifest. In this manner the difficulties of balancing a set of books are much diminished and the work of checking is considerably reduced, attention being focussed on those Ledgers which are not in agreement. A further extension of the Self-Balancing Ledger principle is of use to the officials of large companies, combines, etc. This is the building up in the Private Ledger or Ledgers of a total account in respect of each Sales or Purchase Ledger. Thus, to continue the illustration already given, under this method an account would be opened in the Private Ledger for the Sales Ledger in question, under the heading of Sales Ledger No. 1, the total amount of Debtors in that Ledger at the commencement of the month being entered to the debit of this account, the total Sales and Debit Journal Entries for the month being also placed on that side, whilst on the credit side will be put the monthly totals of Returns Inwards, Bills Receivable, Credit Journal Entries, Cash paid and Discounts allowed. The balance brought down to debit should be in agreement with the total debtors in Sales Ledger No. 1 as per the detailed extractions and Schedules of Debtors taken out at the end of the month. If this principle is carried through with regard to all the Sales and Purchase Ledgers, it will be seen that as soon as the totals of the various subsidiary books are to hand the total accounts may be raised in the Private Ledger, and the preparation of the Profit and Loss Account and Balance Sheet in draft may be accomplished, subject to possible later corrections of the subsidiary totals and also to the lack of material for the ascertainment of the amount

"ADJUSTMENT ACCOUNT" IN SALES LEDGER No. 1

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... Jan.	31	To total Returns Inwards for month		£145	8	9	19... Jan.	1	By total Debtors as per Schedules		£966	0	0
,,	,,	,, total Bills Receivable for month		416	0	0	,,	31	,, total Sales for month ..		6429	5	1
,,	,,	,, total Credit Journal Entries for month		5	16	0	,,	,,	,, total Debit Journal Entries for month		2	8	4
,,	,,	,, total Cash paid for month		5356	0	0							
,,	,,	,, total Discounts allowed for month		148	0	0							
,,	,,	,, total Debtors in Ledger as per Schedules at 31st January, 19..	√	1326	8	8							
				£7397	13	5					£7397	13	5
							19... Feb.	1	By total Debtors as per Schedules	√	1326	8	8

"Sales Ledger No. 1 Account" in Private Ledger

Dr.													*Cr.*
19... Jan.	1	To total Debtors in Sales Ledger No. 1 as per Schedules		£966	0	0	19... Jan.	31	By total Returns Inwards for month		£145	8	9
,,	31	,, total Sales for month ..		6429	5	1	,,	,,	,, total Bills Receivable for month		416	0	0
,,	,,	,, total Debit Journal Entries		2	8	4	,,	,,	,, total Credit Journal Entries for month		5	16	0
							,,	,,	,, total Cash paid for month		5356	0	0
							,,	,,	,, total Discounts allowed for month		148	0	0
							,,	,,	,, total Debtors in Sales Ledger No. 1 as per Schedule at 31st Jan. 19..	√	1326	8	8
				£7397	13	5					£7397	13	5
19... Feb.	1	To total Debtors in Sales Ledger No. 1 as per Schedules	√	1326	8	8							

necessary to be reserved for Bad and Doubtful Debts, for which the detailed Schedules of Debtors are usually utilised. Thus, it may be said that under a system of Self-Balancing Ledgers the draft Final Accounts (Profit and Loss Account and Balance Sheet) may be prepared without waiting for the detailed posting of the Trade Ledgers to be completed, which is of great advantage to principals of large business houses.

The term *Sectional Balancing* is applied to the Self-Balancing principle as adopted by firms which for reasons of convenience find it advantageous to balance their Trade Ledgers in groups as distinct from the separate balancing of each Ledger. Such firms are usually found to be of medium size, and it is the exception for separate subsidiary books to be kept for each group of Ledgers under such circumstances. This system will necessitate the provision of analysis columns in the subsidiary books, so as to separate the amounts which are posted to the different sections of Ledgers. Thus, a concern having four Sales Ledgers, two Purchase Ledgers, one Private Ledger, one Nominal Ledger, Sales Day Book, Purchase Day Book, Returns Inwards Book, Returns Outwards Book, Bills Receivable and Bills Payable Books, Cash Book and Journal, and desiring to divide its Trade Ledgers for Sectional Balancing purposes into two sections for the Sales Ledgers and one section for the Purchase Ledgers, would arrange as follows. As it is not desired to keep separate Sales Day Books for each section of the Sales Ledgers, the Sales Day Book would be provided with two additional money columns to record the amounts posted to each section. The Returns Inwards Book would require two additional money columns also, and similarly with the Bills Receivable Book. The Purchase Day Book, Returns Outwards Book, and Bills Payable Book will not require alteration, there being one section only for the Purchase Ledgers. The Journal and Cash Book must be provided on each side with such columns as are necessary to separate the figures which are posted to the different sections of the Ledgers. The rulings would be in the form shown. The arrangements which have been outlined above will vary according to circumstances; in some cases the use of a Day Book for each Sales Ledger Section may be thought advisable, or the Bills Receivable and other subsidiary books may be analysed on paper when necessary, so as to obviate the necessity for the provision of separate money columns for each section. It should be noted, however, that the risks attendant upon a paper analysis are considerable, rendering the method somewhat unreliable.

The subsidiary books having been duly analysed between the different Sections of Ledgers, an Adjustment Account will be opened in each section, to which the various totals will be passed as outlined under the heading of Self-Balancing Ledgers. If the detailed Schedules of Debtors or Creditors, as the case may be, do not agree in total with the balance brought down on the appropriate Adjustment Account, the difference is to be sought in the subsidiary books and ledgers of that section, the possibility of an incorrect analysis in the columns of the subsidiary books being borne in mind.

It is to be observed that under the Self-Balancing and Sectional Balancing Ledger systems it is not usually necessary to make arrangements for the separate balancing of the Nominal and Private Ledgers, as after the proof of accuracy obtained in respect of the Sales and Purchase Ledgers by means of the Adjustment Accounts it will follow that any difference appearing on the Trial Balance then extracted has arisen in the Nominal or Private Ledger, or in the subsidiary books working into them, and such difference would be sought in those directions accordingly. An instance in which it might be necessary to arrange for the separate balancing of the Nominal and Private Ledgers would be the case of a large combine or trust, where the Nominal and Private Ledgers employed were numerous.

Sectional Balancing System

Analytical Journal

Date.	Details.	Folio.	Amount of Debit.	Amount of Credit.	Analysis of Debits.				Analysis of Credits.			
					Sales Ledgers 1 and 2.	Sales Ledgers 3 and 4.	Purchase Ledgers.	Nominal and Private.	Sales Ledgers 1 and 2.	Sales Ledgers 3 and 4.	Purchase Ledgers.	Nominal and Private.

Sectional Balancing System

Analytical Cash Book

Dr. *Cr.*

Date.	Details.	Folio.	Nominal and Private Ledgers.	Sales Ledgers 1 and 2.	Sales Ledgers 3 and 4.	Discount.	Bank.	Cash.	Date.	Details.	Folio.	Nominal and Private Ledgers.	Purchase Ledgers.	Discount.	Bank.	Cash.

CHAPTER VI

THE ORGANISATION OF ACCOUNTS

HAVING already appreciated the necessity for suitable Double Entry Books of Account in the modern business world, it is well to notice the fact that it is essential that the writing-up of these books should be performed evenly, naturally, and with despatch. This will necessitate a wise distribution of the duties between the members of the staff, as well as suitable arrangements for the checking of the work of the employees from time to time, and the institution of such systems of automatic check as are available. The following outline of duties in relation to the writing-up of the Books of Account of a Manufacturer and the methods of Internal Check employed may be useful.

1. The Cashier to have no part in the writing-up of the Ledgers, and the Ledger Clerks to be occasionally changed about from one Ledger to another.

2. The debit side of the Cash Book to be written up from the counterfoil or carbon copy receipt books, Cash Till totals or other information, and posted to appropriate ledgers at once. Receipts to be banked daily. All payments other than those for Petty Cash to be made by crossed cheque, the credit side of the Cash Book being written up from cheque book counterfoils, advice slips for bills, etc. A number column to be placed on credit side of Cash Book, in which to record the number in red ink of the vouchers received in respect of all payments. The Petty Cash to be on the Imprest System. Wages and Salaries to be recorded in books kept for the purpose. The system of paying wages to be a good one, so as to leave little or no opportunity for fraud, as, for instance, the Employees' Work Books, initialled by the foreman, to be passed into the office, priced, and extended and then entered in the Wages Book. A cheque to be drawn weekly for the exact amount of the wages. Partners' Drawings (if any) to be initialled for in a book kept for that purpose.

The Bank Pass Book should be checked with the Bank column of the Cash Book weekly and the balance agreed, after insertion of items of bank interest, commission or stamps on cheque books.

Cash balance according to Cash Book to be verified daily by comparison with cash in hand. Balances to be brought down and discount totals to be posted monthly.

3. Bills of Exchange (Receivable and Payable) to be recorded in separate books and posted to Ledgers.

4. Orders issued by the buyer for the purchase of goods to be passed through an Order Book, carbon copies being retained.

5. Orders from customers or travellers to be copied in duplicate book. The loose copy to be passed into the warehouse, the original order to be filed.

6. Invoices for goods purchased to be marked with a rubber stamp when received, which should have spaces for the initials of the persons who are responsible for the checking of (*a*) the quantities, (*b*) the prices, (*c*) the extensions and additions. Invoices when checked to be entered in Purchase Book with analysis columns and posted to Purchase Ledger. Invoices to be numbered consecutively, the number inserted in the column provided for that purpose in the Purchase Book, and filed. Additions of Purchase Book to be posted to Nominal Ledger monthly.

7. A Check Till to be used for recording Cash Sales, if any. Total Cash Sales to be entered in Day Book and Cash Book daily or weekly, according to the amount.

8. Slips to be passed from departments to office for all goods sent out on credit. Carbon copies of invoices to be retained in Rough Day Book, from which the Day Book must be entered. The number of each invoice should be stated in the Day Book, and the amount should be placed in the column for sales for the particular department, and posted to the Sales Ledger. Totals of sales for the respective departments to be posted to Nominal Ledger monthly.

9. Slips to be passed into the office from the departments in respect of goods returned by customers, and entered in Returns Inwards Book with analytical columns for departments, the amounts being posted to the Sales Ledger. The Debit Notes received from customers to be numbered consecutively and filed. Totals of analytical columns to be posted to Nominal Ledger monthly.

10. Slips to be passed into the office from the departments for goods returned to the firms which originally supplied them, and to be entered in Returns Outwards Book with analytical columns

for departments, the amounts being posted to the Purchase Ledger. Credit Notes to be numbered consecutively and filed, and totals of analytical columns to be posted to Nominal Ledger monthly.

11. A system of Sectional or Self-Balancing Ledgers to be instituted, so as to localise and facilitate the discovery of errors. Where possible, the subsidiary books should not be kept by the ledger clerks. Total accounts for each trade ledger to be raised in the Private Ledger.

12. The monthly statements to be made out and sent to customers promptly, after being entered in a Statement Book ruled so as to facilitate the collection of accounts.

13. Statements received in respect of goods purchased to be checked with Purchase Ledger, passed for payment, and paid so as to obtain maximum discounts.

14. An Overdue and Doubtful Debts Ledger to be kept, to which should be transferred all debts of that nature, to which particular attention should be given. No debt to be written off as bad until after notice that no dividend or no further dividend is to be expected, all such notices being filed and kept for the auditors.

15. Transfers of goods from one department to another to be recorded in separate books, which should be entered from the Requisition Note signed by the head of the department requiring the goods. Requisition Notes to be numbered and filed, and goods priced as agreed by the principals.

16. Stores and Stock Books to be kept appropriate to the business, so that the quantity of goods on hand under the respective headings may be ascertained at any time. Stores to be issued by storekeeper on production of Requisition Note signed by a foreman. The accuracy of the Stores and Stock Books should be verified by actual stocktaking at fixed intervals.

17. Definite instructions to be issued as regards the method of stocktaking. The basis of valuation to be the lower of cost or market price. The detailed inventory of Stores and Stock on hand to be written in a Stocktaking Book, the prices inserted by competent persons, and extensions and additions made. Prices, extensions, and additions to be checked and the signatures of the persons who have performed the various duties in relation to Stocktaking to be placed in the Stocktaking Book. Cash discounts to

be deducted or taken into account in valuing the Stores and Stocks on hand.

18. A system of cost accounts to be instituted, framed on the circumstances of the business, so as to ascertain the cost of production of the different articles manufactured. The necessary steps to attain this end will be (*a*) the accurate allocation of all materials used in the manufacture of the article or number of articles of which it is desired to ascertain the cost; (*b*) the proper apportionment of the manufacturing wages paid as between the different articles; and (*c*) the addition to each costing, by way of a percentage or otherwise, of such an amount as will cover the fixed and unproductive expenses of the firm.

19. All books to be completed, Schedules of Debtors and Creditors extracted and proved, invoices, vouchers, debit and credit notes to be in numerical order, all apportionments of expenses accrued due or paid in advance entered in Journal and posted to Nominal Ledger, and Trial Balance to be ready for the auditors, along with draft Trading and Profit and Loss Account and Balance Sheet.

THE TRADING ACCOUNT

This should be drawn up to give complete information as regards the working of the merchanting portion of a business. Thus to it will be debited, by transfer, the value of goods on hand at the commencement of the period, followed by the total of goods purchased (from which will be deducted goods returned), warehouse wages and warehouse expenses, whilst the total of sales (less returns) should be credited to the Trading Account, the value of goods on hand at the end of the period being also placed to credit. The balance of the Trading Account, if a credit, will be the gross profit on merchanting for the period. This is then transferred to the credit of Profit and Loss Account. Where a manufacturing business is carried on in addition to merchanting it is the custom to credit a Manufacturing Account, which represents the results of the manufacturing, with the value of the manufactured articles supplied to the warehouse during the period of trading, the same being debited to the Trading Account. These entries are usually made in total at the end of each trading period, a proper system of recording the goods supplied by the works to the warehouse being instituted, at prices arranged by the principals. In this manner the profit in respect of manufacturing is separated from the gross profit earned by merchanting the articles. All expenses incurred directly on account of the warehouse such as carriage inwards, making up of goods ready for sale, cost of preparing patterns, etc., should be charged to the Trading Account. In most cases, however, the Trading Account should be framed in such a manner as will be in line with the principals' methods of basing prices, etc., as there is little to be gained by charging the Trade Account with items which, though strictly incurred on behalf of the warehouse, are excluded by the principals in their calculations of gross profit, whereas the exclusion of such items from the Trading Account may facilitate a very useful comparison of the actual gross profit for the period with the percentage which the principals have been in the habit of adding to the cost prices when fixing selling rates.

For examination purposes it is well to note that when a question requires the preparation of a Trading Account and Profit and Loss Account, all expenses which are apparently incurred on behalf of the warehouse are to be charged to the Trading Account, the remainder being debited to Profit and Loss Account. There is usually little or nothing to be gained, either in practice or theory, by the apportionment of expenses such as Rent, Rates, or Lighting between the Trading Account and the Profit and Loss Account, as this operation, even if equitably performed, usually distorts the gross profit so as to make it of little value for comparative purposes.

The Trading Account should ordinarily be opened in the Private Ledger.

RECEIPTS AND PAYMENTS ACCOUNT

As the name implies, this is an account showing cash transactions only. This form of account should therefore be adopted only in the case of institutions or undertakings which pay their liabilities as and when incurred, and which are possessed of assets of negligible value other than the amount due by or to the bank, or in the hands of officials. It is possible to raise accounts on a cash basis and to create values in the books in the case of institutions, etc., possessed of assets, but this is rarely met with in practice other than in the books of an Executorship or Trust. A Receipts and Payments

Account is usually prepared from the Cash Book, the entries in the latter being analysed so as to present the total income and expenditure under the various headings. There are exceptions to the latter general rule, as in some few instances it is considered advisable to state the transactions in date order, as for instance in the case of a Receipts and Payments Account for a Building Syndicate. It is usual to have one money column on each side of the account, the left-hand or debit side being headed "Receipts," and the right-hand or credit side "Payments." The account should commence with the balances of Cash in hands of Treasurer or at Bank, which will be placed on the debit side, or, in the case of the Treasurer being overpaid or the Bank balance overdrawn at the commencement of the period, the amounts will be put on the credit side. On the debit side the receipts should then be shown, and unless the amounts are to be stated in date order and full detail, it is well to place them in priority according to their magnitude. This procedure should be adopted for the credit or Payments side also. Where it is deemed best to show the Receipts and Payments under the various headings thereof, it is necessary to be extremely careful in analysing the Cash Book, as mistakes of analysis will not necessarily show themselves. The best method is to use a form of Cash Book with columns on each side so as to allow of a continual analysis throughout each period. Also it is essential that abnormal items should be shown separately with full information attached so as to explain sufficiently the nature thereof. The Receipts and Payments Account is concluded by the insertion on the credit side of the balances in the hands of the Treasurer or the Bank, after which the account should be totalled, balanced, and ruled off, the amounts of the Cash and Bank balances being brought down to the debit side. In the case of cash being due to the Treasurer or the Bank at the end of the period, the opposite procedure will apply.

It is unfortunately the case that in some instances accounts are rendered in Receipts and Payments form when the existence of Assets or Liabilities makes such statements of little practical value. The correct form to use in such cases is that known as an Income and Expenditure Account or, where a business is carried on, a Profit and Loss Account should be given, and a Balance Sheet should also be rendered in each instance.

The Onward Building Society.

Receipts and Payments Account for the Year ended 31st December, 19...

19...		Receipts.	£	s.	d.
Jan.	1	To *Cash in hand* £542 0 0			
,,	,,	,, *Cash at Bankers* 10716 17 4	£11258	17	4
Dec.	31	,, *Cash received during the year*, viz.:			
		Subscriptions of Investors ..	29033	19	6
		,, ,, Advanced Members	35026	5	8
		Fees paid for copies of Society's Rules..	1	3	0
		Advanced Shares repaid ..	13445	15	6
		Preference Shares received ..	5140	0	0
		Deductions on Advances ..	444	13	4
		Insurance Premiums Received	440	19	0
		Bank Interest	296	4	8
			£95087	18	0
19...					
Jan.	1	To *Cash in hand* .. £366 5 4			
,,	,,	,, *Cash at Bankers* .. 3936 5 6	£4302	10	10

19...		Payments.	£	s.	d.
Dec.	31	By *Cash paid during the year*, viz.:			
		Cash advanced on Mortgage ..	£29513	10	0
		Investors repaid	36483	5	0
		Interest on Investors' Shares..	5661	1	8
		Preference Shares repaid ..	9660	0	0
		Interest on Preference Shares	2092	18	6
		Loans withdrawn	2977	0	0
		Interest on Loans	1434	14	6
		Insurance Premiums paid ..	440	19	0
		Books, Printing, and Stationery	52	1	6
		Advertising	74	18	0
		Bank Commission	60	0	0
		Office Rent, Rates, and Taxes	583	10	0
		Postage and Receipt Stamps	13	6	8
		Insurance Premium on Office Furniture	1	10	0
		Room for Annual Meeting ..	2	7	0
		Sundry Expenses	6	5	0
		Cleaning Offices	17	12	0
		Coal and Firewood	2	7	4
		Repairs..		6	0
		Income Tax	257	0	2
		Salaries—			
		Secretary and Assistants ..	802	10	0
		Trustees and Directors ..	383	16	0
		Treasurer	191	18	0
		Auditors	42	0	0
		Trustees' Fees	25	0	0
		Overtime, etc.	5	10	10
,,	,,	,, *Cash in hand* .. £366 5 4			
,,	,,	,, *Cash at Bankers* .. 3936 5 6	4302	10	10
			£95087	18	0

It may be noted that all Building Societies are, by the Building Societies Act, 1894, compelled to file an Account of Receipts and Payments annually in the above form, together with a "Liabilities and Assets" Account, and a "Statement showing the Operations of the Year."

INCOME AND EXPENDITURE ACCOUNT

Such an account is used to show the various sources and amounts of income of an institution or society, and to explain the manner in which such income has been expended, the difference on the account representing the excess of Income over Expenditure or *vice versâ*. The account includes all income due for the period to which it relates, whether received or not, and similarly all amounts of expenditure incurred during the period must be charged, whether paid at the end of the period or not. The Expenditure is shown on the left-hand or debit side, the Income on the right-hand or credit side. An example of an Income and Expenditure Account has been given under the heading of Charitable Institutions, where the correct treatment of the balance of the Income and Expenditure Account may be seen. As has been already stated, accounts are frequently rendered on a basis of Receipts and Payments which should properly be shown by means of an Income and Expenditure Account. For purposes of comparison it may be useful to state some of the items which appear in a Receipts and Payments Account, but are absent from an Income and Expenditure Account.

The balances of cash in hand or at Bank at the beginning and end of the period, Cash received in respect of subscriptions, donations, or other form of income which relates to a previous period.

Cash paid in respect of expenses, etc., incurred during a previous period.

Cash received on account of the sale of a fixed asset.

Cash paid for the acquisition of a fixed asset.

Amounts received or paid on account of Capital or Loans (if any).

On the other hand, the following items would be shown in an Income and Expenditure Account, but not in a Receipts and Payments Account.

The excess of Income over Expenditure or *vice versâ* during the period in question.

Subscriptions or other forms of income due in respect of the period under review, but not received during that time.

Expenses, etc., incurred during the period but not paid.

Depreciations and amounts written off the book values of assets.

Subscriptions or other items of income previously treated as good, but written off as bad during the period.

REVENUE ACCOUNT

A Revenue Account is similar both in form and principle to an Income and Expenditure Account, and is used by non-trading concerns, such as Railway Companies. The headings on the debit and credit sides are respectively " Expenditure " and " Income." All items of revenue or expenditure must be brought into the account, provided they relate to the period covered by the account, whether paid or unpaid at the conclusion of the period, and, where necessary, apportionments must be made. In the case of Railways and other Parliamentary Companies, the use of prescribed forms of account is compulsory, a Revenue Account and Net Revenue Account being included. The balance of the Revenue Account is in these instances transferred to a Net Revenue Account, to which is charged the Interest paid on Loans, Mortgages, and Debentures, and the Dividends paid on the Stocks and Shares of the Company, The amounts passed to the credit of Reserve Fund are debited to this account.

THE PROFIT AND LOSS ACCOUNT

This is drawn up for the purpose of collecting and exhibiting the different accretions to profit and items of expense so as to show the net profit or loss for a particular period. The Profit and Loss Account should, properly speaking, be used only in the accounts of trading concerns. Like the Income and Expenditure Account of an Institution or Society, and the Revenue Account of a non-trading company, the Profit and Loss Account is an actual account in the ledger, to which the balances on the nominal accounts are transferred after all necessary provisions and apportionments have been made. The Profit and Loss Account is then balanced and the profit (or loss) is dealt with as the circumstances require. In the case of a sole trader, the net profit or loss is customarily transferred to the credit of the proprietor's Capital Account, as shown in Chapter II; in the case of partnership firms it is usual to transfer the net profit or loss to the credit or debit of the partners' capital accounts in the proportions in which profits are shared by them, whilst the correct method in the accounts of a joint stock company is to transfer the amount to a *Profit and Loss Appropriation Account.* Then after the Shareholders in General Meeting have approved the

Directors' recommendations as to the manner in which the disposable balance is to be treated, Journal entries will be made debiting the Profit and Loss Appropriation Account with the total amount dealt with and crediting the necessary amounts to Reserve Fund, Preference Share Dividend Account, and Ordinary Share Dividend Account, according to the terms of the Shareholders' Resolution. Next, in the case of all shares carrying a fixed rate of dividend, and also in all other cases, excepting when the Resolution expresses the dividend to be payable "Free of Income Tax," Journal entries should be made debiting each Dividend Account with the amount of income tax in force for unearned incomes during the period in question, reckoned on the total dividend payable, the amount being credited to Income Tax Account. The cash paid in respect of dividends is then posted to the debit of the Dividend Accounts, and the latter may be ruled off.

Example.—The Profit and Loss Appropriation Account of the Western Electric Co., Limited, for the year ended 31st March, 19.., showed a credit balance of £12,325 4s. 2d. At the Annual General Meeting held 14th May, 19.., it is resolved to—

(1) Declare a dividend of 6 per cent. (less income tax at 1s. 2d. in the pound) for the year ended 31st March, 19.., on 50,000 Preference Shares of £1 each.

(2) Declare a dividend of 10 per cent. (free of income tax) for the year ended 31st March, 19.., on 60,000 Ordinary Shares of £1 each.

(3) Transfer £3,000 to Reserve Fund.

(4) Carry forward the balance.

The Journal Entries to be made in accordance with the terms of the Resolution at the Annual General Meeting are shown on the next page.

The example given later will illustrate the correct form of the Profit and Loss Account, which in different cases will vary only in matters of detail.

BALANCE SHEET

The Balance Sheet is a classified summary of the balances remaining in a set of double entry books after the Profit and Loss Account has been completed. It is usual to state the liabilities on the left-hand and the assets on the right-hand side of the Balance Sheet. It should be observed that as the Balance Sheet is made up

ENTRIES IN THE PRIVATE JOURNAL OF THE WESTERN ELECTRIC COMPANY, LIMITED.

Date		Particulars	Dr. £	s.	d.	Cr. £	s.	d.
19... May	14	*Profit and Loss Appropriation Account, Dr.*	£12000	0	0			
		To *Sundries*, viz.—						
		Preference Share Dividend Account				£3000	0	0
		Ordinary Share Dividend Account				6000	0	0
		Reserve Fund				3000	0	0
		In accordance with resolution at Annual Meeting this day, viz.: Dividend of 6 per cent. per annum declared on 50,000 Preference Shares of £1 each for the year ended 31st March, 19.., also Dividend of 10 % per annum declared on 60,000 Ordinary Shares of £1 each for the year ended 31st March, 19.., and £3,000 to be transferred to Reserve Fund.						
May	14	*Preference Share Dividend Account, Dr.*	175	0	0			
		To *Income Tax Acct.*				175	0	0
		Income Tax at 1s. 2d. in the £ to be deducted from total Preference Share Dividends of £3,000.						
May	14	*Profit and Loss Appropriation Account (Old), Dr.*	325	4	2			
		To *Profit and Loss Appropriation Account (New)*				325	4	2
		Balance of undivided profit carried forward	£12500	4	2	12500	4	2

of the various balances in the books it will not necessarily follow that only assets and liabilities in the strict sense are shown therein. Thus, on the liabilities side may often be found items which are in reality amounts of undivided profit which have been set aside for the purpose of providing for unknown contingencies; or for the repayment of liabilities which it is considered would be to the detriment of the undertaking unless accompanied by the detention of a similar amount out of the divisible profits. Instances of these are (*a*) a Reserve Fund, by which is usually implied an amount set aside out of divisible profits to meet unknown contingencies, and (*b*) a Debenture Redemption Fund, which is created by debiting Profit and Loss Account and crediting Debenture Redemption Fund each year with a fixed amount so as to obviate the necessity for future borrowings after the Debentures have been repaid, the annual provision being based on the total amount at which the Debentures are to be redeemed divided by the number of years' term of the Debentures. It may be noted in passing that after repayment of the Debentures and the debiting of the sums repaid to the Debentures Account, the credit balance on Debenture Redemption Fund is a surplus and should be transferred to the credit of a Permanent Reserve Fund which should not be utilised for the equalisation of dividends.

Again, on the liabilities side of the Balance Sheet are shown the amounts of the paid-up capital or partners' capitals, Suspense Accounts for possible liabilities, and, in the case of a Limited Company, the amount of divisible profit. None of these is in the strict sense of the word a liability. Further, items of capital profit, such as Premiums on the issue of Shares or Debentures are often met with.

Often items are shown on the assets side of the Balance Sheet which are really extraordinary expenses of which it is considered expedient to write off to the Profit and Loss Account a portion only of the total amount. Instances of this occur in cases of Preliminary Expenses, Special Advertising, Cost of Issue of Debentures, etc. Apart from the question of Depreciation and the writing-down of Goodwill, which are dealt with elsewhere, it should be noted that the basis of values of assets as stated in a Balance Sheet should be that known as "the price as a going concern," although it is all the better if the assets are shown at values which they would bring if sold in the open market. The value "as a going concern" is usually expressed to be the cost, less such a percentage of depreciation per annum as will reduce the figure of cost to nil or residual value at the end of the life of the asset.

The questions of Provision and Reserve Accounts and Secret Reserves are dealt with elsewhere.

It is customary to adhere to a fixed order in stating the items in a Balance Sheet. Thus, in the case of the Balance Sheet of a Limited Company, it is usual to state on the liabilities side first the Nominal Capital, which is the amount fixed in the Memorandum of Association as the registered capital on which stamp duty has been paid. Next follow details of the Subscribed Capital, viz.: the total amount paid, or agreed to be considered as paid, on shares issued. From the information given may be obtained the total Issued Capital, viz., the amount of the shares which have been allotted to applicants. The amount of Subscribed Capital is extended into the money column, that being the figure which has been brought into the books, the Nominal Capital being shown merely for the purpose of illustrating how much further capital is available for issue if required, whilst the difference between the Issued Capital and the Subscribed Capital shows the total amount uncalled on the shares issued, but which may be called up if necessary. Where there are various classes of shares it is usual to show each separately, the total Nominal Capital and Subscribed Capital being thereby shown.

Next usually follow amounts paid on Forfeited Shares, if any, Debentures or Mortgages with accrued interest following, after which should be shown Premiums on the issue of Shares or Debentures, and permanent reserve funds, that is, of a capital nature. Next are stated the Sundry Creditors for goods supplied, with discounts deducted, after which come the Bank Overdraft and necessary Reserves and Provisions for expenses accrued and unpaid. These items should be followed by any Suspense Account; Dividends Unclaimed; the amount of the Insurance Fund, Pension Fund, and Reserve Fund; and, finally, the balance of Profit and Loss Account, showing details as to amount brought forward from previous period, interim dividend paid, etc., the total available for distribution being then extended.

The order of stating the liabilities in the case of a private firm or partnership is different. The Sundry Creditors for goods supplied are shown first, and then Bank Overdraft, Mortgages, and Reserves and Provisions for unpaid expenses, following which will be any Suspense Account. Then will be shown any Reserve Fund, occasionally met with in partnership accounts, concluding with the Partners' Capital Accounts in full detail as to balance brought forward, Interest on Capital, Share of Profit, Partners' Salary, and total, less Private Drawings and Interest on same, where such adjustments are necessary under the Partnership Articles.

The order in which the assets are stated in the Balance Sheet is, broadly speaking, that of realisability, those assets which are most difficult of realisation being placed first. This procedure applies equally to a private firm or partnership. Thus, the item Land and Buildings is usually placed first, following which come Plant and Machinery, then Furniture and Fittings, Goodwill, Patents, Patterns, and Drawings (in the engineering trade), Stock of Goods on hand, Expenses paid in advance, Sundry Debtors, Bills Receivable, Shares, Stocks or other Investments, Cash at Bank and in hand, after which may be shown such items as Preliminary Expenses, Special Advertising, etc., and, lastly, any accumulated debit on Profit and Loss Account in the case of a Limited Company. The last item represents the total deficiency to meet capital and liabilities, if the other amounts in the Balance Sheet are correctly stated. In the case of a private trader, the debit balance on Capital Account, where such is the case, will conclude the Assets side, in the absence of sufficient private assets this would imply insolvency. Similarly with a partnership firm, the debit balance on any partner's Capital Account will be shown last, representing overdrawn Capital.

It should be a practice to state and explain clearly each item in a Balance Sheet by means of any necessary wording, etc. Specific Reserves for Discounts, Bad Debts, etc., should be deducted from the amount of the asset against which they have been created, and Depreciations should be clearly shown as to rate per cent. and deduction from the particular asset on which the amount has been provided. Further, the grouping of assets should be avoided, unless they are all of a precisely similar character. Again, assets purchased during the previous period of trading should be shown, as also sales of fixed assets, in which case any loss on sale price as

Trial Balance of X. Y., Limited

for the Year Ended and as at 31st December, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital Account.. .. .. (30,000 shares of £1 each, fully paid)				£30000	0	0
Nominal Capital (50,000 shares of £1 each)						
Freehold Land and Buildings.. ..	6000	0	0			
Furniture and Fittings..	1800	0	0			
Stock of Goods on hand at 1st January, 19..	15500	0	0			
Preliminary Expenses	250	0	0			
5 % Mortgage Debentures				4000	0	0
Reserve Fund				2000	0	0
Balance of Profit and Loss Account brought forward at 1st Jan., 19..				650	0	0
Interim Dividend at the rate of 10 % per annum paid for the half-year ended 30th June, 19.. (free of income tax)	1500	0	0			
Investments on account of Reserve Fund	2000	0	0			
Purchases	53600	0	0			
Returns Outwards				380	0	0
Sales				60240	0	0
Returns Inwards	1065	0	0			
Carriage Inwards	86	0	0			
Carriage Outwards	330	0	0			
Packing Materials	215	0	0			
Boxes, Paper, and Twine	142	0	0			
Wages and Salaries of Warehouse Staff	1460	0	0			
Office Salaries	1230	0	0			
Managing Director's Salary	800	0	0			
Directors' Fees	240	0	0			
Rates	900	0	0			
Income Tax	415	0	0			
Debenture Interest	200	0	0			
Carried Forward	£87733	0	0	£97270	0	0

	Dr. £	s.	d.	Cr. £	s.	d.
Brought Forward	£87733	0	0	£97270	0	0
Debenture Interest accrued				50	0	0
Bad Debts	532	0	0			
Discounts allowed	1580	0	0			
Discounts received				2130	0	0
Printing and Stationery	130	0	0			
Audit Fee	63	0	0			
Legal Charges	32	0	0			
General Expenses	215	0	0			
Repairs and Decorating of Premises..	74	0	0			
Insurance	48	0	0			
Bank Interest less Commission ..				15	0	0
Travelling Expenses	572	0	0			
Postages and Telegrams	216	0	0			
Gas, Water, and Electricity	138	0	0			
Telephone	26	0	0			
Sundry Debtors..	12184	0	0			
Sundry Creditors				4560	0	0
Cash in hand	17	0	0			
,, at Bank	465	0	0			
	£104025	0	0	104025	0	0

The Stock of Goods on hand at 31st December, 19.., was £21,860.

Provide £500 as a Reserve for Bad Debts.

,, $2\frac{1}{2}$ % on Debtors for Discounts.

,, $2\frac{1}{2}$ % on Creditors for Discounts.

Write off Depreciation on Furniture and Fittings at 10 % per annum.

Write off Preliminary Expenses, £125.

X. Y., Limited

Trading Account for the Year Ended 31st December, 19..

19...					19...				
Jan. 1	To Stock of Goods on hand ..	£15500	0	0	Dec. 31	By Sales .. £60240 0 0			
Dec. 31	,, Purchases £53600 0 0					*Deduct* Returns			
	Deduct Returns 380 0 0					1065 0 0			
		£53220	0	0			£59175	0	0
,, ,,	,, Wages and Salaries of Warehouse Staff	1460	0	0	,, ,,	,, Stock of Goods on hand ..	21860	0	0
,, ,,	,, Carriage Inwards	86	0	0					
,, ,,	,, Packing Materials	215	0	0					
,, ,,	,, Boxes, Paper, and Twine ..	142	0	0					
,, ,,	,, Gross Profit, carried to Profit and Loss Account ..	10412	0	0					
		£81035	0	0			£81035	0	0

Profit and Loss Account for the Year Ended 31st December, 19..

Date	Particulars	£	s.	d.	Date	Particulars	£	s.	d.
19.. Dec. 31	To Discounts allowed	£1872	2	0	19.. Dec. 31	By Gross Profit from Trading Account	£10412	0	0
,, ,,	,, Salaries of Office Staff ..	1230	0	0	,, ,,	,, Discounts Received.. ..	2244	0	0
,, ,,	,, Managing Director's Salary	800	0	0	,, ,,	,, Bank Interest less Commission	15	0	0
,, ,,	,, Bad Debts	1032	0	0					
,, ,,	,, Travelling Expenses ..	572	0	0					
,, ,,	,, Carriage Outwards	330	0	0					
,, ,,	,, Rates	900	0	0					
,, ,,	,, Income Tax..	415	0	0					
,, ,,	,, Directors' Fees	240	0	0					
,, ,,	,, Debenture Interest.. ..	200	0	0					
,, ,,	,, General Expenses	215	0	0					
,, ,,	,, Postages and Telegrams ..	216	0	0					
,, ,,	,, Gas, Water, and Electricity	138	0	0					
,, ,,	,, Printing and Stationery ..	130	0	0					
,, ,,	,, Audit Fee	63	0	0					
,, ,,	,, Legal Charges	32	0	0					
,, ,,	,, Repairs and Decorating of Premises	74	0	0					
,, ,,	,, Insurance	48	0	0					
,, ,,	,, Telephone	26	0	0					
,, ,,	,, Amount written off Preliminary Expenses	125	0	0					
,, ,,	,, Depreciation on Furniture and Fittings at 10 % p.a.	180	0	0					
,, ,,	,, *Net Profit*	3832	18	0					
		£12671	0	0			£12671	0	0

X. Y., Limited

Balance Sheet at 31st December, 19..

Liabilities.		£	s.	d.
Nominal Capital—				
50,000 shares of one pound each	£50000			
Subscribed Capital—				
30,000 shares of one pound each, fully paid		30000	0	0
5 % *Mortgage Debentures*	£4000 0 0			
Add Interest accrued to date	50 0 0			
		4050	0	0
Sundry Creditors	£4560 0 0			
Deduct Reserve for Discount	114 0 0			
		4446	0	0
Reserve Fund—				
As at 1st January, 19..		2000	0	0
Balance of Profit and Loss Account, viz.—				
Amount brought forward at 1st January, 19.. ..	£650 0 0			
Add Net Profit for year ended 31st December, 19.., as per Profit and Loss Account	3832 18 0			
	4482 18 0			
Deduct Interim Dividend paid	1500 0 0			
		2982	18	0
		£43478	18	0

Assets.		£	s.	d.
Freehold Land and Buildings, as at 1st January, 19..		£6000	0	0
Furniture and Fittings—				
as at 1st January, 19....	£1800 0 0			
Deduct Depreciation at 10 % per annum	180 0 0			
		1620	0	0
Stock of Goods on hand		21860	0	0
Sundry Debtors	12184 0 0			
Deduct Reserve for Bad Debts	500 0 0			
	11684 0 0			
Deduct Reserve for Discounts	292 2 0			
		11391	18	0
Investments on account of Reserve Fund ..		2000	0	0
Cash at Bank		465	0	0
Cash in hand		17	0	0
Preliminary Expenses—				
as at 1st January, 19....	£250 0 0			
Deduct Amount written off	125 0 0			
		125	0	0
		£43478	18	0

compared with book value should be clearly shown written off to Profit and Loss Account. Where a firm has branch offices, the Balance Sheet should display the assets and liabilities thereof added to those of a similar nature pertaining to the Head Office, so as to give a correct statement of the position of the whole business. Contingent liabilities such as Cumulative Preference Dividends in arrear, possible liability as endorsers on Bills under Discount, etc., are best provided for by a note at the foot of the liabilities side of the Balance Sheet.

In the writer's opinion, the use of the words "To" and "By" is unnecessary and incorrect in relation to the Balance Sheet, but the point is one not worthy of extended argument. It should be noted that the Balance Sheet is drawn at a certain date; it is therefore incorrect to head it as "Balance Sheet for the year ended——" as is frequently seen.

It should be remembered that the Balance Sheet of a Limited Company must not be issued without the signatures of two of the Company's Directors, and the Auditor's Report or a reference to it must also be attached to the Balance Sheet. (Company's (Consolidation) Act, 1908, Section 113.)

CHAPTER VII

DEPARTMENTAL ACCOUNTS

When a firm deals in goods of different classes it is advisable to institute a system of Departmental Accounts. Usually the various kinds of goods will determine the number of departments, which should as far as possible in each case be treated as separate from the other departments of the business. The use of this form of accounting is to show the results of the working of the different departments by raising a separate Trading Account for each. This system necessitates a careful subdivision of the purchases, sales, and returns of goods, together with an allocation of the various expenses as between the departments. It is usually unsatisfactory to attempt to show the net profit of each department, as certain expenses of the business will present great difficulty of apportionment, and except where by Articles of Partnership or Commission Agreements, partners or managers are remunerated according to the net profit earned by their department, it is well to show merely the gross profit after debiting such expenses as are directly apportionable, such as Boxes, Paper, and String. However, so as to illustrate as many methods of apportionment as possible, the writer has assumed that the net profits of each department are to be ascertained.

The information derived from Departmental Accounts is highly important to the principals of a business, as it enables them to compare ratios of gross profits and expenses, and should serve the purpose of pointing out necessary changes of methods of management and in some cases may lead to the discontinuance of an unprofitable department.

Stocks of Goods on Hand.—It is necessary to have the stock of each department taken and valued separately, and, where possible, separate warehousing accommodation should be provided throughout the year. Goods sold by one department to another should be evidenced by an order from the buyer of the department requiring them, and such inter-departmental transactions should be recorded in appropriate books at the agreed price, the orders being carefully filed. The totals of such books should be brought into the financial books at the close of each period of trading, by crediting the one department's trading account and debiting the other.

PURCHASES.—If the business is not sufficiently large to warrant the use of separate purchase books, invoices for goods bought should, on receipt, be checked and marked with the department to be charged, and then entered in a Purchase Book with total columns and a column for each department. Columns should also be provided for the various classes of expenses, and all invoices or demand notes for expenses should be passed through the Purchase Book. Certain of the expenses may be allocated to the departments at once, and columns should be provided in the Purchase Book for that purpose. Thus, cotton goods shippers are usually in a position to charge packing and making up done by outsiders, to the departments on whose behalf the work has been done, as the packers will by arrangement keep separate accounts in respect thereof.

SALES.—As goods are made ready for forwarding to customers, slips should be made out for each lot, specifying quantities, prices and total, a carbon copy being retained. Such slips should be bound in book form, perforated, and of different colours. The slips should then be handed into the counting-house, sorted so as to collect those for each firm together, and the invoices made out in a carbon copy-book. The latter after being checked should be entered without detail in a Sales Day Book having separate columns for departments and a total column; unless the magnitude of the business allows of separate books being used.

PURCHASE AND SALES LEDGERS.—There is usually no advantage in making use of separate ledgers for each department, as this would multiply the amount of ledger work, but of course the Purchase Ledgers should be kept separate from the Sales Ledgers.

RETURNS INWARDS AND OUTWARDS will be recorded in separate books having columns for the different departments. Slips for Returns Inwards and Outwards should be made out from differently coloured carbon-copy books, and handed into the counting-house by the departments, the slips being checked with Debit and Credit Notes received.

CASH BOOK.—A Discount Analysis Book may be used so as to divide the discounts allowed and received as between departments. Where this is unnecessary by reason of discounts being directly apportionable, separate columns may be provided in the Cash Book where the departments are few, as in the specimen rulings on p. 121.

Nominal Ledger.—The various expenses shown on the nominal accounts will require careful apportionment, which, except for expenses directly chargeable, is best done at the end of each period of trading. The following instances will show the methods to be employed. Rent and Rates are best apportioned according to the floor space used by each department. Boxing, packing materials, and the like should, if practicable, be apportioned as used by the different departments ; and, if necessary, a stock-keeper should be placed in charge of the stock so as to keep books to record the issue thereof. The total petty cash expended in respect of each department is best ascertained by providing separate columns for the departments in the Petty Cash Book, those items not directly apportionable being entered in a column headed "general." Wages and Salaries should be analysed, or, where it is advantageous, the Wages and Salaries Books may be ruled with analytical columns. Fire and Burglary Insurance Premiums should be split up according to the basis on which each department's stock is insured, and Workmen's Compensation Insurances in the proportions shown by the analysis of Wages and Salaries.

Printing and Stationery can, as far as regards items ordered for the use of different departments, be charged direct, or, if necessary, the stock should be in the hands of a stock-keeper. That used in the office will be apportioned with Counting-House Expenses. Carriage, Postage and Repairs may be analysed and charged accordingly. Travelling Expenses may often be fairly accurately divided, but this depends upon circumstances, such as the number of departments represented by each traveller. Bank Commission and Counting-House Expenses generally should be divided according to a ratio agreed upon by the principals. The apportionment of Depreciation will depend on circumstances, and should give no difficulty if the amount of the fixed assets used by each department is borne in mind.

An interesting point arises when it is necessary to apportion interest on capital and loans as between departments. The following method is suggested : ascertain the total interest on capital and loans chargeable for the period, and also the amount of the average rate of interest, where the rates vary. Then calculate the amount of interest on the fixed assets. Proceed as follows—

From *Total* Interest on Capital and Loans,

Deduct Interest at average rate on fixed assets.

Balance to be divided between departments in proportion to turnover.

The share of each department will then be increased by the interest at the average rate on the fixed assets, if any, used by that department.

As previously stated, many of the foregoing apportionments will not be necessary under ordinary circumstances, separate Trading Accounts for the departments being usually sufficient without ascertaining net profits.

Departmental Accounts

Sales Day Book

Date.	Name, etc.	No.	Ledger Folio.	Total.	Velvet Department Sales.	Silk Department Sales.	Ribbon Department Sales.

Purchase Day Book

Date.	Name.	Invoice No.	Ledger Folio.	Total.	Velvet Department.	Silk Department.	Ribbon Department.	Boxes.	Paper and String.	Electricity and Water.	Rent and Rates.	Sundries.	Etc.
												Note.—This column to be analysed at end of period.	

Departmental Accounts, form of Cash Book

Cash

Dr.

Date.	Name.	Town.	No. of Receipt.	Ledger Folio.	Velvet Department Discount.	Silk Department Discount.	Ribbon Department Discount.	Bank.	Cash.

Contra

Cr.

Date.	Name.	Town (or description of payment).	No. of Receipt.	Ledger Folio.	Velvet Department Discount.	Silk Department Discount.	Ribbon Department Discount.	Bank.	Cash.

EXAMPLE

THE HOME TRADE COMPANY, LIMITED

TRIAL BALANCE AT 31ST DECEMBER, 19..

	Dr.			Cr.		
Share Capital Account (30,000 shares of £1 each, fully paid)				£30000	0	0
(Nominal Capital, 50,000 shares of £1 each)						
Furniture and Fittings..	£1200	0	0			
Stocks on hand at 1st January, 19..—						
Department A	6420	0	0			
,, B	4866	0	0			
,, C	5135	0	0			
Purchases—Department A	26361	0	0			
,, B	19025	0	0			
,, C	20043	0	0			
Sales—Department A				30016	0	0
,, B				22309	0	0
,, C				24004	0	0
Wages and Salaries—Department A	1232	0	0			
,, B	986	0	0			
,, C	1023	0	0			
Returns Outwards—Department A ..				316	0	0
,, B ..				298	0	0
,, C ..				255	0	0
Returns Inwards—Department A ..	228	0	0			
,, B ..	309	0	0			
,, C ..	196	0	0			
Discounts allowed	2003	0	0			
,, received				1982	0	0
Carriage—Department A	207	0	0			
,, B	183	0	0			
,, C	179	0	0			
Boxing, Making-up, and Packing—						
Department A	255	0	0			
,, B	96	0	0			
,, C	149	0	0			
Carried Forward	£90096	0	0	109180	0	0

	Dr.			Cr.		
Brought Forward	£90096	0	0	109180	0	0
Paper and String—Department A ..	66	0	0			
,, B ..	59	0	0			
,, C ..	53	0	0			
Travelling Expenses—Department A	367	0	0			
,, B	283	0	0			
,, C	261	0	0			
Printing and Stationery—Department A	39	0	0			
,, B	42	0	0			
,, C	26	0	0			
Postages and Telegrams—Department A	61	0	0			
,, B	47	0	0			
,, C	38	0	0			
Office Salaries	982	0	0			
Directors' Fees	200	0	0			
Rent and Rates..	820	0	0			
Income Tax	132	0	0			
Bad Debts—Department A	193	0	0			
,, B	42	0	0			
,, C	116	0	0			
Audit Fee	42	0	0			
Legal Charges	18	0	0			
Insurance	77	0	0			
Bank Interest less Commission ..				9	0	0
Gas, Water, and Electricity	193	0	0			
Telephone Charges	24	0	0			
General Office Expenses	113	0	0			
Balance of Profit and Loss Account at 1st January, 19....				385	0	0
Sundry Debtors..	22061	0	0			
Sundry Creditors				4235	0	0
Cash in hand	47	0	0			
Cash at Bank	311	0	0			
Reserve Fund				3000	0	0
	£116809	0	0	116809	0	0

The value of the Stocks on hand at 31st December, 19.., is found to be—

Department A	..	£7,093
,, B	..	5,317
,, C	..	4,988
Total ..	..	£17,398

A Reserve for Bad Debts is to be provided of the amount of £183, made up as follows—

Department A	..	£112
,, B	..	23
,, C	..	48
		£183

Also a provision of $2\frac{1}{2}$ per cent. for discount on Debtors' and Creditors' accounts is to be made, after which the discounts allowed and received are to be allocated between the three departments in proportion to the sales and purchases to and from outsiders during the year. It is not considered necessary to apportion the other expenses between the departments, as under the circumstances no useful purpose could be served by that course. Inter-departmental transactions during the period are as follows—

Sales by A Department to B Department	..	£219
,, ,, ,, ,, ,, C ,,	..	136
,, ,, B ,, ,, A ,,	..	302
,, ,, ,, ,, ,, C ,,	..	143
,, ,, C ,, ,, A ,,	..	247
,, ,, ,, ,, ,, B ,,	..	185

Depreciation is to be written off Furniture and Fittings at the rate of 10 per cent. per annum.

NOTE.—The allocation of the Discounts allowed and received is as follows—

Discounts allowed during the year	£2003 0 0
Add Reserve for discounts on Debtors at end of year	546 19 0
Total	£2549 19 0

Departmental Sales for the year.

A	£30,016	proportion equals	£1002 15 1
B	22,309	,, ,, ...	745 5 9
C	24,004	,, ,, ...	801 18 2
Total	£76,329	Total	£2549 19 0

Discounts received during the year	£1982 0 0
Add Provision for discounts on Creditors at end of year	105 17 6
Total	£2087 17 6

Departmental Purchases for the year.

A	£26,361	proportion equals	£841 3 10
B	19,025	,, ,, ...	607 2 0
C	20,043	,, ,, ...	639 11 8
Total	£65,429	Total	£2087 17 6

The Home Trade Company, Limited

Trading Account, Department A, for the Year Ended 31st December, 19..

19...		£	s.	d.	19...		£	s.	d.
Jan. 1	To Stock of Goods on hand	£6420	0	0	Dec. 31	By Sales .. £30016 0 0			
Dec. 31	,, Purchases .. £26361 0 0					*Deduct* Returns.. 228 0 0			
	Deduct Returns.. 316 0 0						£29788	0	0
		26045	0	0	,, ,,	,, Goods transferred to Depart. B	219	0	0
,, ,,	,, Goods transferred from Depart. B	302	0	0	,, ,,	,, ,, ,, ,, ,, C	136	0	0
,, ,,	,, ,, ,, ,, ,, ,, C	247	0	0	,, ,,	,, Proportion of Discounts received	841	3	10
,, ,,	,, Wages and Salaries	1232	0	0	,, ,,	,, Stock of Goods on hand	7093	0	0
,, ,,	,, Proportion of Discounts allowed	1002	15	1					
,, ,,	,, Carriage	207	0	0					
,, ,,	,, Boxing, Making-up, and Packing	255	0	0					
,, ,,	,, Paper and String..	66	0	0					
,, ,,	,, Travelling Expenses	367	0	0					
,, ,,	,, Printing and Stationery	39	0	0					
,, ,,	,, Postages and Telegrams	61	0	0					
,, ,,	,, Bad Debts..	305	0	0					
,, ,,	,, *Gross Profit carried to Profit and Loss Account..*	1528	8	9					
		£38077	3	10			£38077	3	10

Trading Account, Department B, for the Year Ended 31st December, 19..

19...		£	s.	d.	19...		£	s.	d.
Jan. 1	To Stock of Goods on hand	£4866	0	0	Dec. 31	By Sales .. £22309 0 0			
Dec. 31	,, Purchases .. £19025 0 0					*Deduct* Returns.. 309 0 0			
	Deduct Returns.. 298 0 0						£22000	0	0
		18727	0	0	,, ,,	,, Goods transferred to Depart. A	302	0	0
,, ,,	,, Goods transferred from Depart. A	219	0	0	,, ,,	,, ,, ,, ,, ,, C	143	0	0
,, ,,	,, ,, ,, ,, ,, ,, C	185	0	0	,, ,,	,, Proportion of Discounts received	607	2	0
,, ,,	,, Wages and Salaries	986	0	0	,, ,,	,, Stock of Goods on hand	5317	0	0
,, ,,	,, Proportion of Discounts allowed	745	5	9					
,, ,,	,, Carriage	183	0	0					
,, ,,	,, Boxing, Making-up, and Packing	96	0	0					
,, ,,	,, Paper and String	59	0	0					
,, ,,	,, Travelling Expenses	283	0	0					
,, ,,	,, Printing and Stationery	42	0	0					
,, ,,	,, Postages and Telegrams	47	0	0					
,, ,,	,, Bad Debts..	65	0	0					
,, ,,	,, *Gross Profit carried to Profit and Loss Account..*	1865	16	3					
		£28369	2	0			£28369	2	0

The Home Trade Company, Limited

Trading Account, Department C, for the Year Ended 31st December, 19..

Date	Particulars	£	s.	d.
19... Jan. 1	To Stock of Goods on hand	£5135	0	0
Dec. 31	,, Purchases £20043 0 0; *Deduct* Returns.. 255 0 0	19788	0	0
,, ,,	,, Goods transferred from Department A	136	0	0
,, ,,	,, Goods transferred from Department B	143	0	0
,, ,,	,, Wages and Salaries	1023	0	0
,, ,,	,, Proportion of Discounts allowed	801	18	2
,, ,,	,, Carriage	179	0	0
,, ,,	,, Boxing, Making up, and Packing	149	0	0
,, ,,	,, Paper and String	53	0	0
,, ,,	,, Travelling Expenses	261	0	0
,, ,,	,, Printing and Stationery	26	0	0
,, ,,	,, Postages and Telegrams	38	0	0
,, ,,	,, Bad Debts	164	0	0
,, ,,	,, *Gross Profit carried to Profit and Loss Account*	1970	13	6
		£29867	11	8

Date	Particulars	£	s.	d.
19... Dec. 31	By Sales .. £24004 0 0; *Deduct* Returns 196 0 0	£23808	0	0
,, ,,	,, Goods transferred to Department A	247	0	0
,, ,,	,, Goods transferred to Department B	185	0	0
,, ,,	,, Proportion of Discounts received	639	11	8
,, ,,	,, Stock of Goods on hand	4988	0	0
		£29867	11	8

Profit and Loss Account for the Year Ended 31st December, 1912

Date	Particulars	£	s.	d.
19... Dec. 31	To Office Salaries	£982	0	0
,, ,,	,, Directors' Fees	200	0	0
,, ,,	,, Rent and Rates	820	0	0
,, ,,	,, Income Tax	132	0	0
,, ,,	,, Gas, Water, and Electricity ..	193	0	0
,, ,,	,, General Expenses..	113	0	0
,, ,,	,, Insurance	77	0	0
,, ,,	,, Audit Fee	42	0	0
,, ,,	,, Legal Charges	18	0	0
,, ,,	,, Telephone Charges	24	0	0
,, ,,	,, Depreciation on Furniture and Fittings at 10 %	120	0	0
,, ,,	,, *Net Profit for the year ended 31st December*, 1912	2652	18	6
		£5373	18	6

Date	Particulars	£	s.	d.
19... Dec. 31	By Gross Profit, Department A ..	£1528	8	9
,, ,,	,, ,, ,, ,, B ..	1865	16	3
,, ,,	,, ,, ,, ,, C ..	1970	13	6
,, ,,	,, Bank Interest less Commission..	9	0	0
		£5373	18	6

The Home Trade Company, Limited

Balance Sheet at 31st December, 19..

Liabilities.						
Nominal Capital—						
50,000 shares of £1 each.. ..	£50000					
Subscribed Capital—						
30,000 shares of £1 each, fully paid ..				£30000	0	0
Sundry Creditors	£4235	0	0			
Deduct provision for Discount	105	17	6			
				4129	2	6
Reserve Fund				3000	0	0
Balance of Profit and Loss Account—						
Brought forward at 1st January, 19.... ..	£385	0	0			
Add Net Profit for the year ended 31st December, 19.., as per Profit and Loss Account	2652	18	6			
				3037	18	6
				£40167	1	0

Assets.						
Furniture and Fittings ..	£1200	0	0			
Deduct Depreciation at 10 % per annum	120	0	0			
				£1080	0	0
Stock of Goods on hand, viz.—						
Department A	£7093	0	0			
,, B	5317	0	0			
,, C	4988	0	0			
				17398	0	0
Sundry Debtors	£22061	0	0			
Deduct Reserve for Bad Debts	183	0	0			
	21878	0	0			
Deduct Reserve for Discount	546	19	0			
				21331	1	0
Cash at Bank				311	0	0
Cash in hand				47	0	0
				£40167	1	0

CHAPTER VIII

CAPITAL ACCOUNTS

THE CAPITAL OF A PRIVATE TRADER is, as has already been stated, the excess of his assets over his liabilities at a particular date. The amount of such excess of assets over liabilities is therefore placed to the credit of the proprietor's Capital Account. A debit on Capital Account in such a case would therefore show an excess of liabilities over assets, but would not necessarily imply insolvency. It is the custom with many accountants to transfer the net profit for each period of trading from the Profit and Loss Account to the Capital Account, and where amounts are debited to the Profit and Loss Account for Principal's Salary, Interest on Capital, etc., it is usual to credit the Capital Account with them, all private drawings of the principal being debited to his Capital Account by transfer from the Drawings Account at the end of the period. It will therefore be seen that the Capital of a private firm or partnership is a constantly changing amount, varying according to the profitableness or otherwise of the business, coupled with the depletion of the assets by the withdrawals of the principal or partners. Thus, under these circumstances, it would be usual to take the balance of Capital as it stood in the Balance Sheet last prepared, as the Capital of the business, for purposes of convenience.

In the case of a partnership the above remarks apply, with the further distinction that as between the partners the amount of the Capital of each must be kept strictly separate, a Capital Account being opened for each, to which that partner's Interest on Capital (if any), Salary (if any), and share in the net profit of the firm are passed. Similarly, each partner's private withdrawals will be passed to the debit of his Capital Account by transfer from his Drawings Account, to which his withdrawals will have been posted.

Recent decisions in legal cases have made it somewhat doubtful as to the wisdom of allowing the Capital Accounts of partners to be altered by the inclusion of net profits, drawings, etc., as the Judges have appeared to imply by their remarks in these cases that it would be more correct to keep (say) a Current Account for each partner, to which all shares of net profits, interest on Capital, drawings, etc., would be passed, leaving the partners' Capital Accounts to show the amount of Capital as originally subscribed. However, as the point is debatable the original practice is still usually adhered to. Occasionally, in a partnership firm, one of the partners is found to have a debit on his Capital Account representing his indebtedness to the firm, and this should be clearly shown on the Assets side of the Balance Sheet.

THE CAPITAL OF A LIMITED COMPANY is a fixed amount, not dependent upon the amount by which the assets exceed the liabilities at a given date. The terms Nominal Capital and Subscribed Capital have been already defined. In the accounts of a Joint Stock Company it is usual to raise an account for each class of shares, to the credit of which are passed the amounts paid on the shares of that class; or, in the event of shares issued for a consideration other than cash, the amount agreed to be considered as paid on such shares. Thus, a credit balance on an account headed "Ordinary Share Capital Account" or "Preference Share Capital Account" would imply that the total amount paid or agreed to be considered as paid on the shares of that class was as stated. Accounts are kept in the Register of Members or Share Ledger, of the number of shares held and the amount paid on them by the individual members.

It has been stated that the Capital of a Limited Company is fixed. This is, of course, subject to the proviso that a further call or calls on shares will increase the Subscribed Capital by that amount. The entries in the books under these circumstances are illustrated under the heading of Joint Stock Companies' Accounts.

COMPANIES FORMED BY SPECIAL ACT OF PARLIAMENT.—Companies formed for the purpose of supplying electricity, gas, water, etc., require special powers so as to enable them to break road surfaces for the laying of pipes, etc., or to perform any similar operation necessitating interference with the convenience of the general public. These companies are, therefore, usually formed by Special Act of Parliament. Companies of this nature are compelled by law to draw and publish their accounts in prescribed form, which has become known as the Double Account system. The Statutory Forms differ slightly in some unimportant particulars; thus the prescribed form for Electric Lighting Companies should be compared with that for Railway Companies, and so on. In all cases, however, the principle of the Double Account system is to show in the form of a Capital Account details of the various classes of Stocks and Shares of the Company, distinguishing the amounts received in respect thereof as at the date of the last rendering of accounts, and the amounts received in respect thereof during the period in question, whilst on the left-hand side of the Capital Account is shown the expenditure on assets of a more or less permanent nature, distinguishing the amounts expended under each heading at the date of the last rendering of accounts, and the amounts expended during the period in question. The balance of the Capital Account, which will usually be a credit, is then brought down into a Balance Sheet which contains the floating assets and liabilities of the Company, *i.e.*, assets and liabilities which are changing from day to day, such as Sundry Debtors, Stocks of Material on hand, Cash and Bank Balances, Sundry Creditors, etc.

The reason for the adoption of the Double Account system in these cases is as follows: Parliamentary Companies expend by far the greater amount of their capital in the acquisition of assets of a practically permanent nature, so that the Capital Account already described is well calculated to show with clearness all necessary detail as to capital raised, capital expended on fixed assets, and capital available for ordinary working purposes. It is to be remembered that under the Double Account system the renewal and replacement of fixed assets out of Revenue should be the rule, though it is possible to raise a Depreciation Fund as a liability on the Balance Sheet. Thus, in the case of a railway company, locomotives, rolling stock, and other assets should be kept in running order out of Revenue, and when scrapped the cost of the new engine or other replacement should be borne by Revenue.

The Double Account system of rendering accounts in the cases mentioned is, therefore, eminently suited to the circumstances. The assets owned by Parliamentary Companies are of such a nature that any method of treatment other than the one described would be inaccurate and unsatisfactory, and likely to lead to disquiet amongst the shareholders. Moreover, the difficulty of judging in advance a rate of depreciation suited to the assets of these Companies must have precluded the use of other methods of accounting from the outset. However, it may be useful to show by contrast the advantages which are possessed by the usual method of ascertaining the position of ordinary mercantile firms under the principle which we may call the Single Account system. By this is implied the practice of drawing up a Balance Sheet so as to show the position of a business, such Balance Sheet being prepared from a system of Double Entry Book-keeping. (The terms " Double Account " and " Single Account " must not be confused with the terms " Double Entry " and " Single Entry.") The Balance Sheet under these circumstances is designed to show the values of the assets at the date thereof, their original cost being of little moment. Moreover, contrary to the position in the case of Parliamentary Companies, the amount of capital expended in the purchase of fixed assets by a mercantile firm is usually a very small proportion of the whole, and even so, the bulk of the fixed assets will usually be in the nature of machinery, etc., depreciating at a comparatively rapid rate.

Schedule B

Form of Annual Accounts

The ———— Gas Company

A. Statement of Share Capital on the 31st December, 19..

1. Description of Capital.	2. Maximum Dividend authorised.	3. Number of Shares issued.	4. Nominal Amount of Share.	5. Called up per Share.	6. Total paid up.	7. Amount issued but not paid up.	8. Remaining to be issued.	9. Total Amounts authorised.
	£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

B. Statement of Loan Capital on the 31st December, 19..

1. Description of Loan (Mortgage, Bond, Debenture Stock, etc.)	2. Rate per cent. of Interest.	3. Total amounts borrowed at December 31st, 19..	4. Remaining to be Borrowed.	5. Total Amounts authorised.
		£ s. d.	£ s. d.	£ s. d.

Total Share Capital paid up (see A).. .. .. £ : :
,, Loan Capital borrowed (see B) .. .. £ : :

Total Capital received.. .. .. £ : :

C. Capital Account for the Year Ended 31st December, 19..

	Expenditure to 31st Dec., 19..	Expended this year.	Total to 31st Dec., 19..		Certified Receipts, 31st Dec., 19..	Received during Year.	Total Receipts to 31st Dec., 19..
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Expenditure to 31st December, 19..				1. By Ordinary Shares of £ each			
Since that date.				2. ,, Do. of £ each			
2. To Lands acquired, including Law Charges				3. ,, Preference Shares of £ each			
3. ,, New Buildings, Manufacturing Plant, Machines, Storage Works, and other structures connected with manufacture				4. ,, Debenture Stock			
4. ,, New Mains and Service Pipes (not being in the place of old ones), including laying same, paving, and other works connected with distribution				5. ,, Mortgages and Bonds ..			
5. ,, New Meters (not in place of old ones), including fixings				6. ,, Amounts received in anticipation of Calls.. ..			
6. ,, Cost of promoting special Act							
7. ,, Special Items (if any) ..							
Total Expenditure ..							
To Balance of Capital Account							
			£	Total			£

D. Revenue Account for the Year Ended 31st December, 19..

	£ s. d.	£ s. d.
To Manufacture of Gas—		
1. Coals, including Dues, Carriage, Unloading, and all expenses of depositing same on Works		
2. Purifying Materials, Oil, Water, and Sundries at Works		
3. Salaries of Engineers, including Chief Engineer (if any), Superintendents, and Officers at Works		
4. Wages and Gratuities at Works		
5. Repairs and Maintenance of Works and Plant (including renewal of retorts), Machines, Apparatus, Tools, Materials, and Labour		
Less Old Materials sold..		
To Distribution of Gas—		
6. Salaries of Surveyor, Chief Inspector, Inspectors, Assistant Inspectors, and Clerks in Light Office ..		
7. Repair, Maintenance, and Renewal of Mains and of service pipes, including Materials, Laying and Paving, and Labour		
8. Repairing, Renewing, and Refixing Meters		
To Public Lamps—		
9. Lighting and Repairing		
To Rents, Rates, and Taxes—		
10. Rents		
11. Rates and Taxes		
To Management—		
12. Directors' Allowances		
13. Salaries of Secretary, Accountant and Clerks, Office Keepers and Messengers		
14. Collectors' Commission or Salaries		
15. Stationery and Printing		
16. General Establishment Charges and Incidentals ..		
17. Auditor		
To Law and Parliamentary Charges—		
18. Law		
19. Parliamentary (Oppositions)		
20. To Depreciation Fund for Works on Leasehold Lands (if any)		
21. To Bad Debts		
To other items (if any)		
Total Expenditure		£
Balance carried to Profit and Loss Account.. ..		

	£ s. d.	£ s. d.
By Sale of Gas—		
1. Common Gas (.... cubic feet) at -/- per 1,000 cubic feet		
2. Cannel Gas (.... cubic feet) at -/- per 1,000 cubic feet		
3. Public Lighting and under Contracts		
4. Rental of Meters		
By Residual Products—		
5. Coke, Less Labour and Cartage..		
6. Breeze		
7. Tar		
8. Ammoniacal Liquor		
9. By Rents..		
10. By Transfer Fees		
By Other Items (if any)		
Total Receipts		£

E. Profit and Loss Account (Net Revenue) for the Year Ended 31st December, 19..

Dr.	£ s. d.		Cr.	£ s. d.
1. To Amount carried to Reserve Fund F (if any) from profits of 19..			1. By Balance of Net Profit brought from last account (31st Dec., 19..) ..	
2. ,, Interest on temporary Loans and Moneys received in anticipation of Calls			2. ,, Amount drawn from Reserve Fund (if any)	
3. ,, Interest on Mortgages and Bonds accrued to 31st Dec., 19..			Less Dividend paid for the half-year ended 31st Dec., 19.. ..	
4. ,, Interest on Debenture Stock to 31st Dec., 19..			3. ,, Balance brought from Revenue Account D, being profit for year to Dec. 19..	
5. ,, Half-year's Dividend on 1st Preferential to 30th June, 19.. ..			4. ,, Interest on Moneys deposited	
6. ,, Do. do. do. 2nd Preferential to do.				
7. ,, Do. do. do. Ordinary Shares at per cent.				
,, Balance of Net Profit to be carried to next Account subject to half-year's Dividends to 31st Dec., 19..				
	£			£

F. Reserved Fund Account for the Year Ended 31st December, 19..

	£ s. d.			£ s. d.
1. Amount (if any) carried to Profit and Loss Account E to make up deficiencies of Dividends to 31st Dec., 19..			1. By Balance brought from last Account..	
2. Amount paid for extraordinary Claim or Demand (if any)			2. ,, Balance brought from Profit and Loss Account E	
3. Amount of Balance to be carried to next account ..			3. ,, Interest on Amount invested	
	£			£

G. Statement of Coals during the Year Ended 31st December, 19..

Description of Coal.	In Store, 31st December, 19..	Received during year.	Carbonised or used during year.	In Store, 31st December, 19..
	Tons.	Tons.	Tons.	Tons.
Common				
Cannel				

H. Statement of Residual Products for the Year Ended 31st December, 19..

Description of Residual.	In Store, 31st December, 19.. Estimated.	Made during year. Estimated.	Used in manufacture during year. Estimated.	Sold during year.	In Store, 31st December, 19.. Estimated.
Coke—Common, chaldrons of 36 bushels					
,, Cannel, ,, ,, ,, ,, ..					
Breeze, ,, ,, ,, ,, ..					
Tar, gallons					
Ammoniacal Liquor, butts of 108 gallons					

I. General Balance Sheet on 31st December, 19..

Dr.	£	s.	d.	*Cr.*	£	s.	d.
1. To Capital Account				1. By Cash at Bankers			
Balance at Credit thereof (Account C)				2. ,, ,, on Deposit or at Interest			
2. ,, Profit and Loss Account				3. ,, Coals for Stock on hand, 31st December, 19..			
Balance at credit thereof (Account E)				4. ,, Coke and Breeze, 31st Dec., 19..			
3. ,, Reserved Fund				5. ,, Tar and other products, 31st Dec., 19..			
Balance at credit thereof (Account F)				6. ,, Sundry Stores, 31st Dec., 19..			
4. ,, Depreciation Fund (for Works on Leasehold Land)				7. ,, Gas Meter Rental; balance of this account due to the Company on 31st December, 19.., less Deposits and Prepayments			
Balance at credit thereof (Account)				8. ,, Coke and other residuals, 31st December, 19.. ..			
5. ,, Unpaid Dividends				9. ,, Sundry Accounts, 31st Dec., 19..			
6. ,, Interest accrued and unpaid on Mortgages, Bonds, and Debenture Stock, and other Loans, to 31st Dec., 19..				,, Special Items (if any), including Investments			
7. ,, Sundry Tradesmen and others, for amount due for Coals, Stores, etc., to 31st December, 19..							
8. ,, Wages and Contingencies							
Amount due to 31st December, 19..							
,, Other Items (if any)							
	£				£		

CHAPTER IX

PROVISION AND RESERVE ACCOUNTS

This subject has been already touched upon in Chapter II. The necessity for taking into account all expenses unpaid at the date of balancing the books of a business, is apparent, as otherwise the net profit for the period in question cannot be correctly ascertained. A careful scrutiny of the various Nominal Accounts should therefore be made so as to ensure that all accrued liabilities of this nature shall be taken into account, and also the prepayment of such items as Insurance, Telephone, etc., should be noted and allowed for. The amount of the Reserve should be calculated according to the number of days covered by it, in ratio with the whole period, and where this is not possible and there are no facts on which to base a calculation, the amount should be estimated. In any case, the journal entries raising a Reserve will be as previously described. Some diversity of opinion seems to exist amongst accountants as to the use of the word " Reserve," but in the opinion of many, the best definition is that " a Reserve is an amount set aside before the ascertainment of profits for some known loss or liability," as distinguished from a Reserve Fund, which is " an amount set aside out of divisible profits to meet unknown contingencies." Thus, before the setting aside of necessary Reserves, such as for Bad Debts, Rent owing, etc., net profits are not ascertained, whereas the transfer of an amount to a Reserve Fund is optional and a matter of policy, and where that course is followed the net result is that profits which would otherwise have been distributed amongst the shareholders by way of dividend are retained by the firm. Another very debatable point is as to the necessity or otherwise of the investment of money to correspond with the amount of the Reserve Fund. It is to be observed that the existence of a Reserve Fund depends, not on the investment of a similar amount of cash in gilt-edged securities, but in the correct stating of the figures of the other liabilities and assets in the Balance Sheet. If the assets are overstated in the Balance Sheet, the Reserve Fund is really diminished by the amount of such over-statement, or if the over-statement of values exceeds the amount of the Reserve Fund, the Reserve Fund is in fact non-existent, even though cash has been invested to represent the Reserve Fund. Other arguments against the specific investment of money on account of Reserve Fund are : The possible alarm of shareholders and of the outside public when the investments, or a portion thereof, are realised, and the fact that in practice it is found that Reserve Funds are most frequently built up for the purpose of giving the business additional funds for use as working capital, clearly implying that specific investment shall not take place. Again, at a time when securities are depreciated in price, the Reserve Fund of a company which has made specific investments on that account may be seriously impaired in amount as a consequence of such diminished value. However, in the absence of such conditions as are detailed above, the transfer of amounts to a Reserve Fund should be accompanied by the investment of a corresponding amount of cash in securities which are available for quick realisation on the happening of some contingency necessitating that course.

The entries on the creation of or addition to a Reserve Fund have been already shown and are illustrated below, and it is necessary to remember that transfers may be made only after the resolution of shareholders in general meeting has authorised them. In the Private Journal the entry would be as follows—

PRIVATE JOURNAL

				Dr.			*Cr.*		
19...									
Mar.	9	*Profit and Loss Appropriation Account, Dr.*		1000	0	0			
		To *Reserve Fund*					1000	0	0
		Amount transferred to Reserve Fund as per resolution at Annual General Meeting held this day.							

For the investment of cash in securities to be held on account of the Reserve Fund, the entry will be on the credit side of the Cash Book " By Investment on account of Reserve Fund." The amount of the Reserve Fund in such a case should always be represented by the same amount to the debit of the account for " Investment on account of Reserve Fund."

SINKING FUNDS

The provision of Sinking Funds for the repayment of loans is imposed by law on local authorities using borrowed money, and this method of procedure has been adopted to a large extent in the commercial world, *e.g.*, a Fund for Redemption of Debentures raised by a Limited Company, the Sinking Fund method of providing for Depreciation, etc.

A Sinking Fund may be defined as " an amount set aside out of profits to provide for a known liability." Unlike a Reserve Fund, there should always be a specific investment made on account of the Sinking Fund. Further, the instalments passed from time to time to the credit of Sinking Fund Account should be equal and of such amount as will, together with the interest or dividend on the investments, equal the principal sum at the end of the term of years during which that amount is to be provided.

The amount of the Sinking Fund instalment is in practice ascertained from arithmetical tables, but the student is recommended to work out one or two examples. The Sinking Fund instalment is then debited to the Profit and Loss Account of the Trading Department or Rating Account of the Local Authority, and credited to Sinking Fund Account. On making an investment an Investment on Sinking Fund Account will be debited and Bank credited. When interest or dividend is received from the investment the amount of the same should be at once reinvested, necessitating a debit to Investment on Sinking Fund Account and a credit to Sinking Fund Account. At the end of the term of years for which the calculations have been based, the investments should be realised and the loans then due for repayment discharged. The entries, therefore, will be Bank or Cash, debit, and Investments on Sinking Fund Account, credit, any debit or credit balance on the latter account, representing loss or profit on the sale of the investments, being then transferred to the Sinking Fund Account. It will be observed that after the loan or other liability in respect of which the Sinking Fund was inaugurated has been discharged, the Sinking Fund Account may be regarded as an accumulated surplus, and should be transferred to the credit of a Permanent Reserve Fund, which in the case of a Limited Company should not be utilised for the equalisation of dividends.

The entries relating to a Sinking Fund are illustrated under the heading of the "Sinking Fund method" of providing for Depreciation.

DEPRECIATION

DEPRECIATION may be said to be the diminution in value of an asset consequent upon wear and tear, obsolescence, effluxion of time, permanent fall in market value, etc.

The loss by reason of wear and tear is obviously inherent in all assets which are more or less constantly in use. It has been said that where, for instance, machinery is kept running night and day by a system of double shifts, the life of such machinery is considerably less than half that of similar machinery employed for one shift only.

The risk of obsolescence to machinery in some businesses is very considerable, as, for instance, certain branches of the cotton and leather trades.

An instance of assets on which the depreciation is governed by effluxion of time, occurs in the case of Leasehold Property. In this case, if the life of the buildings erected upon the land is estimated to be shorter than the term of the lease, the buildings should be depreciated at a proportionately higher rate, but if the buildings are expected to last for a longer period than the term of the lease, the value of both should be depreciated according to the number of years unexpired, as the lessor will claim the buildings as well as the land on expiry of the term of the lease. Under most leases the clause making the lessee liable for dilapidations will also affect the rate of depreciation, and the probable cost of these should be calculated.

The contingency of a permanent fall in the market value of assets of a particular class is difficult to foresee, and is therefore the factor most likely to be wrongly estimated.

Other assets presenting great difficulty are Patents and Patterns (in the engineering trade). Where a patent is brought out by a firm, as distinct from the purchase of a patent, the consequences of the use of too low a rate of depreciation are not so serious, as the book value of the patent under such circumstances will usually be low, consisting only of the cost of Experiments, Patent Fees, Patent Researches, and the like. Where, however, a patent is purchased at a relatively high figure, liberal depreciation should be provided, especially if the patent has not been worked previously. In any case, the difficulty is to foresee the length of time during which the patented article is likely to hold the market, and as the bulk of patents do not prove even an initial success, the legal term of fourteen years, with possible renewal for a further seven years, has a bearing on the question only when the article has a permanent sale. One can only conclude, therefore, that it is safer to write off as high a percentage as the board of directors or other authority will approve. Some small assistance may be drawn from the proofs of reliability and originality which the purchasing firm would naturally require before buying the Patent Rights.

Patterns (of wood or metal) are in some respects similar to Patents as regards Depreciation, as they depend on the continued sale of the particular article. A very high rate of depreciation, from 20 per cent. to 33⅓ per cent. per annum, or more, should therefore be employed.

Freehold Land ordinarily does not depreciate, but in certain localities has been known to fluctuate in value. Buildings, Fencing, etc., erected thereon should be depreciated at a low rate.

Goodwill cannot be said to depreciate. It is an intangible asset, and its value in the books of a firm should represent the price paid for it, subject to any amount written off. An amount passed through in reduction of the book value of Goodwill should never be styled Depreciation, but should be shown as "Amount written off Goodwill."

The methods of treating Depreciation in the books of a mercantile firm are—

1. By writing a percentage or a fixed sum off the original cost of the asset at the end of each period of trading, which sum is written off to the debit of Profit and Loss Account.

2. By writing a percentage off the diminishing value of the asset at the end of each period, which sum is written off to the debit of Profit and Loss Account.

In this case the value of the asset as brought down in the books from the last period of trading is the basis on which the percentage is taken. As such value is, subject to additions in the way of purchases, a constantly decreasing one, this method is stated to be advantageous in that the burden on the Profit and Loss Account

Example of Method 1—

OFFICE FURNITURE, FITTINGS, ETC.

Dr. | *Cr.*

19... Jan.	1	To Cash	£48	10	0	19... Dec.	31	By Depreciation at the rate of 5 % per annum on cost	£2	8	6
						,,	,,	,, Balance ..	46	1	6
			£48	10	0				£48	10	0
19... Jan.	1	To Balance ..	£46	1	6	19... Dec.	31	By Depreciation at the rate of 5 % per annum on cost ..	£2	8	6
						,,	,,	,, Balance ..	43	13	0
			£46	1	6				£46	1	6
19... Jan.	1	To Balance ..	43	13	0						

Example of Method 2—

OFFICE FURNITURE, FITTINGS, ETC.

Dr. | *Cr.*

19... Jan.	1	To Cash	£48	10	0	19... Dec.	31	By Depreciation at the rate of 5 % per annum on £48 10s.	£2	8	6
						,,	,,	,, Balance ..	46	1	6
			£48	10	0				£48	10	0
19... Jan.	1	To Balance ..	£46	1	6	19... Dec.	31	By Depreciation at the rate of 5 % per annum on £46 1s. 6d.	£2	6	1
						,,	,,	,, Balance ..	43	15	5
			£46	1	6				£46	1	6
19... Jan.	1	To Balance ..	43	15	5						

is heavier during the early years of the life of the asset, when the cost of repairs is comparatively light.

3. By revaluing the asset at the end of each period or term of periods by means of an inventory, and writing off the diminution in value thus shown. This method is usually adopted with such assets as Loose Tools (in the engineering and other trades). In theory, the employment of a professional valuer to ascertain the

correctness or otherwise of the depreciation written off the various assets is sound, and in practice this is very useful in regard to Plant and Machinery, provided that the previous policy of the firm in regard to the capitalisation or otherwise of the various renewals is borne in mind, as also the cheapness or dearness, as shown by experience, of the original purchases of Plant and Machinery. In fact, it is necessary to have a well-defined plan for the treatment of renewals if the rates of Depreciation are to be accurate, and these rates should not be departed from except under extraordinary circumstances.

4. By the annuity method, suitable for leases, by which the asset is debited each period with interest, calculated at a fair rate on the balance brought forward on the account from the last period, such interest being credited to Profit and Loss Account. At the same time the amount of Depreciation is credited to the asset and debited to Profit and Loss Account. The amount of depreciation should be constant and arranged so as to reduce the value of the asset to nil at the end of the term or life thereof.

Example of Ledger Account of a Lease, showing the treatment during the last three years of term

LEASE ACCOUNT

Dr. *Cr.*

19...						19...					
Jan.	1	To Balance ..	£1000	0	0	Dec.	31	By Depreciation	£367	4	2
Dec.	31	,, Interest at 5 % per annum	50	0	0	,,	,,	,, Balance ..	682	15	10
			£1050	0	0				£1050	0	0
19...						19...					
Jan.	1	To Balance ..	£682	15	10	Dec.	31	By Depreciation	£367	4	2
Dec.	31	,, Interest at 5 % per ann.	34	2	9	,,	,,	,, Balance ..	349	14	5
			£716	18	7				£716	18	7
19...											
Jan.	1	To Balance ..	£349	14	5						
Dec.	31	,, Interest at 5 % per ann.	17	9	9	19...					
			£367	4	2	Dec.	31	By Depreciation . .	£367	4	2

This method is designed to bring to the notice of the principals of a business the loss of interest consequent upon the acquisition of a fixed asset, and is therefore best employed when the asset might have been acquired on other terms, such as in the case of a lease, by a yearly rental. The principals are then in a position to judge the actual annual cost, both in original expenditure and loss of interest. A disadvantage of this method is that as the amount of interest is constantly diminishing during the life of the asset, and the amount of depreciation remains the same, the net burden on the Profit and Loss Account becomes larger each year.

5. By the sinking fund method, so called by reason of its being similar to the procedure adopted by Municipal Corporations and Local Authorities to provide for the repayment of loans.

Under this method an amount is debited to the Profit and Loss Account at the end of each trading period and credited to Depreciation Account. At the same time an equivalent amount is invested in good securities, this amount being credited to the Bank and debited to an account for "Investments on Depreciation Account." As interest or dividend on the investment is received, it is invested and credited to Depreciation Account, so that the credit balance on the latter account is always equal in amount to the debit balance on the "Investments on Depreciation Account." The instalment for depreciation is constant and schemed so that at the end of the life of the asset sufficient funds are available, together with the residual value, to purchase afresh.

Example.—A manufacturer buys machinery for £10,000. He estimates the life of the same to be four years and the residual value £1,000. Dividend earned by the Investment at $2\frac{1}{2}$ per cent. per annum.

DEPRECIATION ACCOUNT

Dr. *Cr.*

						19... Dec.	31	By Profit and Loss A/c ..	£2167	7	3
						19... Dec.	,,	,, Interest ..	54	3	8
						,,	,,	,, Profit and Loss A/c ..	2167	7	3
						19... Dec.	,,	,, Interest ..	109	14	5
						,,	,,	,, Profit and Loss A/c ..	2167	7	3
						19... Dec.	,,	,, Interest ..	166	12	11
19... Dec.	31	To Transfer to Machinery A/c				,,	,,	,, Profit and Loss A/c ..	2167	7	3
			£9000	0	0				£9000	0	0

Investment Account

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec.	31	To Cash	2167	7	3						
19... Dec.	,,	,, Interest invested ..	54	3	8						
,,	,,	,, Cash	2167	7	3						
			£4388	18	2						
19... Dec.	31	To Interest invested ..	109	14	5						
,,	,,	,, Cash	2167	7	3						
			£6665	19	10						
19... Dec.	31	To Interest invested ..	166	12	11						
,,	,,	,, Cash	2167	7	3						
			£9000	0	0	1908. Dec.	31	By Cash	£9000	0	0

Machinery Account

Dr.			£	s.	d.				£	s.	d. Cr.
19... Dec.	31	To Cash	10000	0	0	19... Dec.	31	By Transfer from Depreciation A/c	£9000	0	0
						,,	,,	,, Cash (for residual value of machinery now sold) ..	1000	0	0
			£ 10000	0	0				£ 10000	0	0

NOTE.—The above figures are, for the purpose of illustrating first principles, based on the assumption that the Investment realises exactly at book figures, and that the last item of interest is actually reinvested, which would not occur in practice. Income tax has been omitted from the calculations.

It is in the option of the book-keeper, except under the Annuity and Sinking Fund methods, either to write the amount of depreciation each period off the asset account, or to raise a credit balance on a Depreciation Account. When the latter course is adopted, and for financial reasons securities are purchased to represent the amount, it is usual to add the word " Fund," so as to show in the Private Ledger and the Balance Sheet as " Depreciation Fund."

MARINE INSURANCE FUND

In the case of large shipping companies a Marine Insurance Fund is often opened, to which is debited any loss consequent upon total or partial disablement of vessels, etc. This course is adopted where it is thought that a saving can be effected by this means as an alternative to the payment of heavy insurance rates. Thus, the institution of a Marine Insurance Fund will suit the circumstances of a large and well-managed shipping company owning a considerable number of vessels, small companies not being in so good a position to ascertain the average risk.

Although the provision of a Marine Insurance Fund is made on grounds of economy, yet it is advisable that the amounts credited to that account should be liberal and in excess of the cost of outside insurance. When a sufficient fund has been established this need not apply. Again, the amounts provided should always be represented by marketable securities, as in the case of a Sinking Fund, so that when a loss occurs and is debited to the Marine Insurance Fund account, a similar portion of the investments may be realised to provide the necessary funds for replacement. The Marine Insurance Fund is raised by crediting to it the amount arranged to be set apart for that purpose, Profit and Loss Account being debited. The purchase of investments on account of the Marine Insurance Fund is recorded by debiting "Investments on Marine Insurance Fund" Account and crediting the bank. The interest or dividend earned by the investment is passed to the credit of the Profit and Loss Account.

SECRET RESERVES

A Secret Reserve is created by the under-statement of the value of an asset or assets. An instance of this may be observed in the published accounts of many of the Joint Stock Banks, which, following the example of the Bank of England, write large sums off the cost of land, buildings, etc., acquired by them. The Bank of England has eliminated all the original cost of its premises from the books. The practice is, to a certain extent, permissible in the case of a bank, which requires a strong financial position so as to retain the confidence of the public. Often, however, Secret Reserves are utilised for the equalisation of dividends; thus in times of good trade it is found that in some businesses the stock of goods is purposely undervalued. It is difficult to lay down any rule as regards Secret Reserves, but it has been said that where a Secret

Reserve exists, the Balance Sheet of the firm in question can hardly be properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, as the Auditor's Report is required to state by the Companies (Consolidation) Act, 1908. Further, the creation of a Secret Reserve may operate unjustly by reason of shareholders not receiving the full amount of dividend to which they would have been entitled but for the provision of the Secret Reserve; and, by transferring their shares before matters are equalised, subsequent shareholders are consequently benefited. However, each case must be decided on its merits and the arguments for and against the provision of a Secret Reserve should be properly weighed.

GOODWILL

The term goodwill as used in accountancy means the value attaching to a person's or firm's trade, business, occupation, or profession in respect of reputation and connection. Lord Eldon defined goodwill as "nothing more than the probability of the old customers resorting to the old place."

The value of goodwill as shown in the books of a limited company should be the amount originally paid for it, subject to such amounts as have been written off. The creation of a value for goodwill in the books of a limited company other than by purchase would be irregular under ordinary circumstances. An instance in which it would be permissible would arise when the business and undertaking of the company are sold at an enhanced price to another company. In this case it is necessary to bring into the accounts any additional amount which is to be paid by the purchasing company in respect of goodwill.

Goodwill being an intangible asset, does not depreciate, but may be written down.

On the other hand, the creation of a Goodwill Account is frequently necessitated in the books of a partnership firm, or private trader, by the admission or retirement of a partner. In such cases it is usually well to eliminate the Goodwill Account as soon as possible, charging the amount to the debit of the partners' Capital Accounts in the proportions in which profits are shared, and crediting Goodwill Account. In the case of a sole trader who is retiring or admitting a partner, the necessary entry for raising a goodwill consists of a credit to his Capital Account and a debit to the Goodwill Account. In the case of a partnership the entries are a little more complicated. To illustrate the creation and writing off of goodwill in such cases, let us assume that A and B are partners whose capitals stand at £5,000 and £2,000 respectively, and that they share profits in the proportions of A $\frac{2}{3}$, and B $\frac{1}{3}$. They decide to admit a third partner C, who is to pay £500 to qualify him for a $\frac{1}{5}$ share of the profits, and £2,000 as capital.

1ST METHOD.—A, B, and C can treat the matter of goodwill privately without affecting the books, C handing to A a cheque for £333 6s. 8d., and to B a cheque for £166 13s. 4d. C's Capital Account will be credited with £2,000.

2ND METHOD.—The £500 paid by C for a $\frac{1}{5}$ share of the profits may be brought into the books of the firm, A's Capital Account being credited with £333 6s. 8d. and B's Capital Account with £166 13s. 4d.

3RD METHOD.—As C is paying £500 as a qualification for a one-fifth share of profits, the goodwill value is clearly £2,500, and as this is the property of A and B until C is admitted as a partner, that amount should be debited to Goodwill Account and £1,666 13s. 4d. credited to A's Capital Account, and £833 6s. 8d. credited to B's Capital Account. A and B are thus placed in a position to receive C, whose Capital Account should therefore be credited with the whole amount introduced by him, viz. : £2,500.

A'S CAPITAL ACCOUNT

Dr. *Cr.*

							19... Jan.	1	By Balance ..		£5000	0	0
							,,	,,	,, $\frac{2}{3}$ share of Goodwill ..		1666	13	4
19... Jan.	1	To Balance ..		£6666	13	4					£6666	13	4
							19... Jan.	1	By Balance ..	√	6666	13	4

B'S CAPITAL ACCOUNT

Dr. *Cr.*

							19... Jan.	1	By Balance ..		£2000	0	0
							,,	,,	,, $\frac{1}{3}$ share of Goodwill ..		833	6	8
19... Jan.	1	To Balance ..	√	£2833	6	8					£2833	6	8
							19... Jan.	1	By Balance ..	√	2833	6	8

C's Capital Account

Dr.							19...						Cr.
							Jan.	1	By Cash ..	..	£2500	0	0

Goodwill Account

Dr.													Cr.
19... Jan.	1	To A's and B's Capital A/cs		£2500	0	0							

It should be observed that if the Goodwill Account be now written off, the proportions in which profits are shared being A $\frac{8}{15}$, B $\frac{4}{15}$, C $\frac{1}{5}$—

A's Capital Account will be debited with	£1333	6	8
B's ,, ,, ,, ,, ,, ,,	£ 666	13	4
C's ,, ,, ,, ,, ,, ,,	£ 500	0	0
Total	£2500	0	0

Thus the net result of this method is the same as in (1) and (2).

SUSPENSE ACCOUNTS

It is sometimes the case that transactions occur under such circumstances that, by reason of dispute and the like, they cannot be immediately posted to the personal account of the firm with whom they have been entered into. To avoid leaving them unposted it is usually convenient to pass such items to the debit or credit, as the case may be, of a Suspense Account. This course should always be adopted when a Balance Sheet is to be prepared before the final destination of the items is settled. In such a case the Suspense Account should be shown separately in the Balance Sheet. Immediately the transactions are settled, the items should be transferred through the Journal to the debit or credit of the appropriate account, closing the Suspense Account.

ADJUSTMENTS AS BETWEEN CAPITAL AND REVENUE

The necessity for the observance of the distinction between Capital and Revenue Expenditure is obvious. Capital Expenditure has been defined as " Expenditure which improves the earning power of the undertaking." This idea is based on the truth that in the case of a joint stock company the capitalisation of expenditure other than as defined above will ultimately have a tendency to diminish the rate of dividend paid. The main difficulty will therefore arise when money is expended on some object of a permanent nature without productive value, such as a wall erected around the yard of a works, or a concrete bed for an engine. Such expenditure would be treated by most accountants as being in the nature of Capital, but in the accounts of a joint stock company making good profits but restricted in regard to working capital, the strict rule might be applied with advantage. As regards the capitalisation or otherwise of money spent on machinery it is always necessary to have a well-defined plan of treatment for renewals. This being settled, and the rate of depreciation fixed, the capitalisation or otherwise of additions may then be decided upon. When an asset is renewed at a greater cost than was originally incurred, the balance standing in the books representing the value of the original asset should be written off, after deducting the depreciation provided thereon, and the whole cost of renewal treated as Capital Expenditure. In the accounts of joint stock companies the responsibility for the capitalisation of expenditure rests with the directors, who are usually guided by the advice of the secretary or auditor. It is therefore advisable that a resolution of the directors be passed authorising such procedure in all cases other than those in which the position is clear.

When investments are purchased or sold cum dividend (that is, with accruing dividend) an apportionment should be made between Capital and Income. Thus, in the case of the purchase of stocks or shares cum dividend, when the subsequent dividend is received, only the portion which has accrued since the date of purchase should be treated as profit, the balance of the dividend being credited to the investment account in reduction of the purchase price. When stocks or shares are sold cum dividend, a calculation should be made of the amount of dividend accrued to the date of sale. This may be treated as profit, the balance of the proceeds of sale being credited to the investment account.

CHAPTER X

CONSIGNMENT AND JOINT ACCOUNTS

FREQUENTLY in the shipping business, goods are sent abroad to be sold by the foreign agent at the best prices obtainable, the foreign agent accounting for the proceeds to the shipper of the goods, and being remunerated by means of a commission on the selling price. This method of sending out goods is known as " on consignment," the account forwarded by the foreign agent showing the amount realised, less commission, expenses, etc., being called the " Account Sales." It is sometimes the case that the principal draws a bill on the foreign agent for an agreed percentage of the value of the consignment when by reason of distance or other circumstances the realisation of the goods is likely to take a considerable time to accomplish. Usually the foreign agent remits the balance due to the shipper of the goods by means of a bill of exchange along with the Account Sales.

A Consignment Account is opened in the Sales Ledger, and also an account for the foreign agent. To the Consignment Account is debited the cost of the goods sent, Goods Account being credited, and any expenses, such as freight and marine insurance, incurred on behalf of the consignment, are also debited to Consignment Account.

Any bill or other advance made by the foreign agent should be credited to his account and debited to Bills Receivable Account or Bank. When the foreign agent forwards the Account Sales, the gross proceeds shown thereby should be credited to the Consignment Account and debited to the foreign agent's account. The expenses paid and commission charged by the foreign agent should be credited to his account and debited to the Consignment Account, which will now show the net profit or loss on the consignment. This should be transferred to the credit or debit of a Profit or Loss on Consignment Account. Any bill of exchange sent by the foreign agent in settlement should be credited to his account and debited to Bills Receivable Account. The foreign agent's account should now balance as regards the transactions on Consignment Account. The balance of the Profit or Loss on Consignments

Account should be transferred to the General Profit and Loss Account at the end of each period.

Goods on Consignment and unsold should be brought into the Balance Sheet at cost, unless they are expected to realise at a loss; or when they have been invoiced with profit added, or a loss is anticipated, a "Reserve on account of Consignments" should be raised, to which the total amount of gross profit added or loss anticipated should be credited, Goods Account being debited.

EXAMPLE.—W. Thompson, of Manchester, consigned coloured goods costing £500 to J. Pilkington, of Calcutta. Carriage, freight, and insurance paid by Thompson on account of the consignment amounted to £40. Thompson draws on Pilkington for 75 % of the value of the consignment by way of advance. Later, Pilkington's Account Sales show gross proceeds £620, expenses (including commission and interest on the advance), £50. With the Account Sales Pilkington forwards a Bill of Exchange for the balance of account.

The Ledger Accounts will appear as follows in W. Thompson's books—

CONSIGNMENT TO J. PILKINGTON, CALCUTTA

Dr. *Cr.*

	To Goods.. ..		£500	0	0		By Gross Proceeds.. ..		£620	0	0
	,, Carriage, Freight and Insurance..		40	0	0						
	,, Expenses (including commission & interest)		50	0	0						
	,, Transfer to Profit or Loss on Consignments A/c, being net profit.. ..		30	0	0						
			£620	0	0				£620	0	0

J. PILKINGTON, CALCUTTA

Dr. *Cr.*

	To Gross Proceeds of Consignment.. ..		£620	0	0		By Bill Receivable		£375	0	0
							,, Expenses (including commission and interest)		50	0	0
							,, Bill Receivable		195	0	0
			£620	0	0				£620	0	0

As regards the books of the consignee, it has been stated by some authors that on receipt of the goods no entry need be made. In the writer's opinion this is a departure from the fundamental principles of book-keeping, as, though the goods are in no sense the property of the consignee, yet he is the custodian of the goods until sale. Thus, the best form of treatment would be to debit a Goods on Consignment Account and credit an account headed W. Thompson, Consignment Account. Expenses paid and interest and commission charged should be debited to the Goods on Consignment Account, to which will be credited the gross proceeds of sale, cash, bank, or sundry debtors being debited. The balance of the Goods on Consignment Account will then be transferred to the credit of W. Thompson, Consignment Account, to which the two bills will be debited, both accounts being then balanced.

The Ledger accounts will therefore appear as follows in J. Pilkington's books.

GOODS ON CONSIGNMENT ACCOUNT

Dr.		£	s.	d.			*Cr.*	£	s.	d.
	To W. Thompson, Consignment A/c	£500	0	0			By Cash (proceeds of sale)	£620	0	0
	,, Expenses (including interest and commission)	50	0	0						
	,, Transfer to W. Thompson, Consignment Account ..	70	0	0						
		£620	0	0				£620	0	0

W. THOMPSON, CONSIGNMENT ACCOUNT

Dr.		£	s.	d.			*Cr.*	£	s.	d.
	To Bill Payable	£375	0	0			By Goods on Consignment A/c..	£500	0	0
	,, ,, ,,	195	0	0			,, Transfer from Goods on Consignment A/c..	70	0	0
		£570	0	0				£570	0	0

JOINT ACCOUNTS

JOINT ACCOUNTS are similar in some respects to Consignment Accounts, the main difference being that the parties usually share the net profit or loss, thereby necessitating full entries in the books of each to record the manner in which the profit or loss has arisen. The parties will advise each other of transactions on the Joint Account, entries being made in accordance with such advices.

To show a maximum of complication, an example has been taken in which three parties are concerned.

Example.—A, B, and C agree to enter into a joint venture on equal terms. A, in England, buys goods to the net value of £1,400, for which B, also in England, pays by cheque. B also pays carriage, freight, and insurance on the goods, amounting to £68, incurred by their being sent to C, in South America, for sale. There C pays further expenses amounting to £23, and eventually sells the goods for a sum of £1,800; and after deducting his disbursements and share of the net profit he forwards the balance by means of a Bill of Exchange on London to B, who hands to A his share of the net profit.

The Ledger accounts will appear as follows—

In the books of A—

B's Account

Dr.						Cr.					
	To Bill from C	£1674	0	0			By Cash, *Joint Account* ..	£1400	0	0
							,, Cash, Carriage, Freight and Insurance..	68	0	0
							,, *Joint a/c*, ⅓rd share of profit.. ..	£103	0	0
							,, Cash	103	0	0
		£1674	0	0				£1674	0	0

C's Account

Dr.						Cr.				
	To *Joint A/c*, proceeds of sale	£1800	0	0			By Cash, expenses on Joint A/c..	£23	0	0
							,, *Joint A/c*, ⅓rd share of profit.. ..	103	0	0
							,, Bill remitted to B	1674	0	0
		£1800	0	0				£1800	0	0

Joint Account with B and C

Dr.				Cr.			
To B, Cost price of Goods ..	£1400	0	0	By Proceeds of Sale of Goods	£1800	0	0
,, B, Carriage, freight, and insurance ..	68	0	0				
,, C, expenses paid	23	0	0				
	1491	0	0				
To B, ⅓rd share of net profit	103	0	0				
,, C, ⅓rd share of net profit	103	0	0				
,, *Profit and Loss A/c*, ⅓rd share of net profit ..	103	0	0				
	£1800	0	0		£1800	0	0

In the books of B—

A's Account

Dr.				Cr.			
To Cash	£103	0	0	By *Joint A/c*, ⅓rd share of profit	£103	0	0

C's Account

Dr.				Cr.			
To Joint Account, proceeds of sale	£1800	0	0	By *Joint Account*, expenses paid	£23	0	0
				,, *Joint Account*, ⅓rd share of profit	103	0	0
				,, Bill Receivable	1674	0	0
	£1800	0	0		£1800	0	0

Joint Account with A and C

Dr.				Cr.			
To Cash paid for Goods ..	£1400	0	0	By Proceeds of Sale of Goods ..	£1800	0	0
,, Carriage, freight, and insurance ..	68	0	0				
,, C, expenses paid	23	0	0				
	1491	0	0				
To A ⅓rd share of net profit	103	0	0				
,, C, ⅓rd share of net profit	103	0	0				
,, *Profit and Loss Account*, ⅓rd share of net profit	103	0	0				
	£1800	0	0		£1800	0	0

In the books of C—

A's Account

Dr. | *Cr.*

		To Cash from B	£103	0	0		By *Joint Account*, ⅓rd share of profit	£103	0	0

B's Account

Dr. | *Cr.*

		To Bill	£1674	0	0		By Cash, Joint Account ..	£1400	0	0
							,, Cash, carriage, freight, and insurance	68	0	0
							,, *Joint Account*, ⅓rd share of profit.. ..	103	0	0
							,, Cash paid to A	103	0	0
			£1674	0	0			£1674	0	0

Joint Account with A and B

Dr. | *Cr.*

		To B, cost price of Goods ..	£1400	0	0		By Cash, Proceeds of Sale of Goods ..	£1800	0	0
		,, B, carriage, freight, and insurance ..	68	0	0					
		,, Cash, expenses ..	23	0	0					
			1491	0	0					
		,, A, ⅓rd share of net profit	103	0	0					
		,, B, ⅓rd share of net profit	103	0	0					
		,, *Profit and Loss Account*, ⅓rd share of net profit.. ..	103	0	0					
			£1800	0	0			£1800	0	0

CHAPTER XI

MINIMUM RENTS, ROYALTIES, AND SHORTWORKING ACCOUNTS; HIRE PURCHASE ACCOUNTS

Mineral leases, in addition to stating the amount of royalty per ton payable to the landlord, usually contain a stipulation to the effect that a fixed minimum rent shall be paid to the landlord in the early years of the lease, when the royalties are of a smaller amount than such minimum rent. The lease generally gives a power to the lessee, under such circumstances, to deduct from subsequent royalties in excess of the minimum rent, the amount by which the minimum rent paid has exceeded the total amount of royalties on mineral raised. A time limit is frequently fixed, preventing deduction of such shortworkings when they are of older date than the period stated.

As regards the entries in the books of account, it is necessary to pass through the Journal—

(*a*) The total amount of royalties for the period in question, to the debit of Royalties Account.

(*b*) The amount to be debited or credited, as the case may be, to the Shortworking Account.

(*c*) The amount to be credited to the landlord.

Example.—A colliery company enters into a mineral lease of a coalfield for a term of years at a minimum rent of £600 per annum, merging into a royalty of one shilling per ton, any excess of minimum rent over royalties during the first five years of the lease to be deducted from future royalties in excess of the minimum. The output in the first year was 1,100 tons, in the second year 9,000 tons, and in the third year 52,000 tons.

The cash paid to the landlord would be passed through the Cash Book and debited to his account. At the end of each year the amount charged to Royalties Account should be transferred to the debit of the Revenue Account. It is particularly to be noted that the amount standing to the debit of Shortworkings Account will be treated as an asset when the final accounts are drawn up, *i.e.*, £545 will be shown under that heading on the assets side of the Balance Sheet at the end of the first year, and £695 in the Balance Sheet at the end of the second year.

The entries in the Journal of the Colliery Company will appear as follows—

JOURNAL

		Dr.			Cr.		
19.. Dec. 31	*Royalties Account, Dr.*	£55	0	0			
	Shortworkings Acct., Dr.	545	0	0			
	To *Landlord*				600	0	0
	Royalty of 1s. per ton on output of 1,100 tons, minimum rent £600.						
19.. Dec. 31	*Royalties Account, Dr.*	450	0	0			
	Shortworkings Acct., Dr.	150	0	0			
	To *Landlord*				600	0	0
	Royalty of 1s. per ton on output of 9,000 tons, minimum rent £600.						
19.. Dec. 31	*Royalties Account, Dr.*	2600	0	0			
	To *Shortworkings Acct.*				695	0	0
	,, *Landlord*				1905	0	0
	Royalty of 1s. per ton on output of 52,000 tons, shortworkings being deducted.						
		£3800	0	0	£3800	0	0

When, after several periods of shortworkings, there occurs one during which the royalties on mineral raised exceed the minimum rent, but are not sufficiently large to allow the total debit on Shortworkings Account to be deducted, there will be credited to the latter account such a sum only as will bring the amount due to the landlord down to the figure of minimum rent.

HIRE PURCHASE ACCOUNTS

The purchase of assets under the hire purchase system is occasionally met with in business, the most common being the acquisition of wagons by colliery companies. The principles of the agreement in such a case are that on payment of a periodical sum for a term of years for the hire of the wagons, they become the property of the colliery company at the expiration of that time, the vendors of the wagons, on the other hand, being entitled to demand the return of the same on default in payment being made at any time during the term of the agreement.

TREATMENT IN THE BOOKS OF THE COLLIERY COMPANY.—Any method of treatment in the books of account which does not take cognizance of the possibility of forfeiture is therefore questionable in theory; nevertheless it is submitted that under the circumstances the best plan is to regard each instalment as representing partly interest and partly a portion of the cash value of the wagons. The quotation of the vendors for the supply of the wagons on cash terms should be obtained, and in the writer's opinion the instalments should be split up between Wagon Account and Interest Account, so that at the end of the term of the hire purchase agreement, the Wagon Account stands debited with the amount for which the wagons could have been purchased for cash. Proper depreciation should be provided and credited to a Depreciation Account.

The rate of interest charged by the vendors for the accommodation afforded by the hire purchase agreement should be ascertained by means of arithmetical tables or otherwise.

An alternative to splitting up the instalments paid consists of crediting the vendors with the full cash value of the wagons and debiting Wagons Account. The interest should then be calculated at the end of each period and credited to the vendors, Interest Account being debited. The full amount of the instalments paid should under this method be debited to the vendors' account. As this course is more open to objection than the method of splitting-up the instalments, in that it treats the transaction as if it were a sale on credit, the former method is shown in the example, which has been made for a short term so as to illustrate the principles.

Example.—A colliery company buys, for three yearly instalments of £367 4s. 2d., wagons of which the cash price is £1,000. The rate of interest charged by the vendor company is 5 per cent. per annum.

The Ledger accounts affected by the foregoing transactions will appear as follows in the books of the colliery company—

Wagons Account

Dr.												Cr.
19... Dec.	31	To Vendor Company		£317	4	2						
19... Dec.	,,	,, Do. do.		333	1	5						
19... Dec.	,,	,, Do. do.		349	14	5						
				£1000	0	0						

Interest Account

Dr.												Cr.
19... Dec.	31	To Vendor Company	£50	0	0	19... Dec.	31	By Revenue Account	£50	0	0
19... Dec.	,,	,, Do. do.	34	2	9	19... Dec.	,,	,, Do. do.	34	2	9
19... Dec.	,,	,, Do. do.	17	9	9	19... Dec.	,,	,, Do. do.	17	9	9

Vendor Company's Account

Dr.											Cr.
19... Jan.	—	To Cash	£367	4	2	19... Dec.	31	By first instalment ..	£367	4	2
19... Jan.	—	,, ,, ...	367	4	2	19... Dec.	,,	,, second instalment ..	367	4	2
19... Jan.	—	,, ,, ...	367	4	2	19... Dec.	,,	,, third instalment ..	367	4	2

It will be found best to work the transactions out on paper before making the entries in the Journal, thus—

Cash value	£1000	0	0
Add Interest at 5 %.. ..	50	0	0
	1050	0	0
Deduct Instalment	367	4	2
Amount at end of 1st year ..	682	15	10
Add Interest at 5 % ..	34	2	9
	716	18	7
Deduct Instalment	367	4	2
Amount at end of 2nd year..	349	14	5
Add Interest at 5 % ..	17	9	9
	367	4	2
Deduct Instalment	367	4	2

By deducting the interest from the instalment each year the amount of the debit to Wagons Account is obtained thus: 1st year, £367 4s. 2d. less £50 = £317 4s. 2d.; 2nd year, £367 4s. 2d. less £34 2s. 9d. = £333 1s. 5d.; 3rd year, £367 4s. 2d. less £17 9s. 9d. = £349 14s. 5d.

The cost of repairs to the wagons as well as a proper depreciation should also be written off.

In the Books of the Vendor Company it is usually most convenient to debit the colliery company with the cash value of the wagons at the date of entering into the hire purchase agreement, interest being debited at the end of each period to the colliery company's account and credited to Interest Account. A reserve may be made at the end of each period in respect of the gross profit contained in the cash value of the wagons, the object of this being to apportion such gross profit over the years covered by the hire purchase agreement. Thus, in the example given two-thirds of the difference between the actual cost of the wagons and the cash price of £1,000 should be placed to the credit of the Reserve, Sales Account being debited, and at the end of the second year one-third of the gross profit only need be placed to the credit of the Reserve. In practice, a firm doing business on the hire purchase system would provide one Reserve in respect of the various hire purchase agreements, the amount of the Reserve being computed by ascertaining the necessary provision on each individual account. Usually when articles of a comparatively small value are dealt in, the principle of average is relied upon, but even in such a case a reserve should be raised in respect of possible default and consequent loss of gross profit.

If we take the example already given, the Ledger accounts affected in the books of the vendor company would appear as follows—

Sales Account

Dr. *Cr.*

19... Dec.	31	To Reserve for Gross Profit on Hire Purchase Account ..	£133	6	8	19... Dec.	31	By Colliery Company..	£1000	0	0
"	"	" Transfer to Trading Account ..	866	13	4						
			£1000	0	0				£1000	0	0
19... Dec.	31	To Reserve for Gross Profit on Hire Purchase A/c ..	66	13	4	19... Jan.	1	By Transfer from Reserve A/c..	133	6	8

INTEREST ACCOUNT

Dr. *Cr.*

19... Dec.	31	To Transfer to Profit and Loss A/c ..	£50	0	0	19... Dec.	31	By Colliery Company	£50	0	0
19... Dec.	,,	,, Do. do. do.	34	2	9	19... Dec.	,,	,, Do. do.	34	2	9
19... Dec.	,,	,, Do. do. do.	17	9	9	19... Dec.	,,	,, Do. do.	17	9	9

COLLIERY COMPANY'S ACCOUNT

Dr. *Cr.*

19... Dec.	31	To Wagons ..	£1000	0	0	19... Jan.	—	By Cash ..	£307	4	2
19... Dec.	,,	,, Interest ..	50	0	0	19... Jan.	—	,, ,, ..	367	4	2
19... Dec.	,,	,, ,, ..	34	2	9	19... Jan.	—	,, ,, ..	367	4	2
19.. Dec.	,,	,, ,, ..	17	9	9						
			£1101	12	6				£1101	12	6

RESERVE FOR GROSS PROFIT ON HIRE-PURCHASE ACCOUNT

Dr. *Cr.*

19... Jan.	1	To Transfer to Sales A/c	£133	6	8	19... Dec.	31	By Sales Account, ⅔rds of £200 ..	£133	6	8
						19... Dec.	31	By Sales Account, ⅓rd of £200 ..	66	13	4

The amount of the Reserve for Gross Profit on Hire Purchase Account is based on the supposition that the actual cost of manufacture of the wagons is £800. After the Sales Account has been closed by transfer to the Trading Account at the end of the term of years, the credit balance of the Reserve Account, £66 13s. 4d. will be transferred to the Sales Account. The result of this is to spread the gross profit on the transaction over the period of three years, instead of taking credit for it during the period in which the sale was made.

CHAPTER XII

BRANCH ACCOUNTS

The accounts of branch establishments should be kept in one of two ways, dependent upon circumstances.

(1) By the first method all the financial books are kept at the head office and are written up from advices, etc., sent in by the branch. When this method is adopted the branch will keep only such books as a Petty Cash Book, Sales Day Book (to retain carbon copies), Wages Book, etc. It is to be implied that under this system the head office will either buy for the branch or will pay for the accounts incurred by the branch, also that the head office will remit cheques weekly to cover the various current expenses of the branch. The total cash receipts at the branch will be banked daily to the credit of the head office.

Under this system separate accounts, and possibly separate ledgers, will be kept in the head office system of accounts for the transactions of the branch, so that the profit or loss arising from the trading thereof may be ascertained. It will be necessary to keep a copy of the branch Sales Day Book in order to have the system complete, in which book the amount of each sale, with the customer's name, may be entered from the advices received from the branch. Usually a separate Purchase Book and Cash Book will be found necessary, and also separate Inwards and Outwards Returns Books. The head office will collect the accounts of the branch's customers, other than those who pay to the branch.

This method practically amounts to treating the branch as a department of the head office. (See Departmental Accounts.) It is sometimes advisable to keep a check on the administration of retail branches by invoicing all goods sent to the branch by the head office at retail price, the stocks being taken at both cost and retail price. This enables the principals to detect any leakage at the branch.

(2) The second method is to treat the branch as an entirely separate concern except as regards transactions between the branch and the head office. Under this method, the branch will

keep a complete set of double-entry books, accounts being opened in the branch Private Ledger under the following headings—

(*a*) Head Office Account, the entries on which will record the indebtedness of the branch to the head office. This account should be amended only when the books are balanced at the end of each period of trading, in the manner in which the Capital Account of a private trader is treated. The balance on this account may also be said to represent the capital of the branch.

(*b*) Head Office Remittance Account, for the record of cash transactions between head office and branch, and

(*c*) Head Office Goods Account, showing the transactions in goods between head office and branch.

The two latter accounts are kept for the purpose of a proper classification of the dealings between the head office and the branch, thereby freeing the Head Office Account of much detail.

In other respects the accounts of the branch under this system will proceed as in an ordinary set of double-entry books. At the end of each period of trading the stock at the branch will be taken and valued, the Profit and Loss Account made up, and the various nominal accounts closed in the usual way. The balances on Head Office Remittance Account and Head Office Goods Account will then be transferred to the Head Office Account and the balance of the Profit and Loss Account will also be transferred to the Head Office Account. The balance on the Head Office Account will next be brought down, representing the amount owing by the branch to the head office, and therefore also the excess of assets over liabilities at the branch. Thus the branch is regarded as being indebted to the head office for all money or goods sent therefrom, and all profit made, and is given credit for all money or goods sent to the head office.

The accounts would appear as follows in the Branch Ledgers—

Head Office Goods Account

Dr.											*Cr.*
						Jan.	10	By Goods ..	£252	10	4
						Feb.	6	,, ,, ..	276	12	6
						Mar.	9	,, ,, ..	300	16	0
						Apr.	13	,, ,, ..	332	8	10
						May	17	,, ,, ..	179	0	0
June	30	To Transfer to Head Office Account ..				June	21	,, ,, ..	370	5	0
			£1711	12	8				£1711	12	8

Head Office Remittance Account

Dr.			£	s.	d.				£	s.	d. Cr.
Jan.	29	To Cash ..	£200	0	0						
Mar.	4	,, ,, ..	300	0	0						
Apr.	8	,, ,, ..	400	0	0						
June	26	,, ,, ..	640	0	0	June	30	By Transfer to Head Office A/c			
			£1540	0	0				£1540	0	0

Head Office Account

Dr.			£	s.	d.				£	s.	d. Cr.
June	30	To Transfer from Head Office Remittance Account ..	£1540	0	0	Jan.	1	By Balance ..	£4920	16	4
,,	,,	,, Balance ..	6025	0	4	June	30	,, Transfer from Head Office Goods A/c	1711	12	8
						,,	,,	,, Net Profit transferred from Profit and Loss Account ..	932	11	4
			£7565	0	4				£7565	0	4
						July	1	By Balance ..	6025	0	4

Trading and Profit and Loss Account for the Six Months ended 30th June, 19..

Dr.			£	s.	d.				£	s.	d. Cr.
Jan.	1	To Stock of Goods on hand ..	£2845	0	0	June	30	By Sales ..	£4232	10	0
June	30	,, Purchases (including purchases from Head Office) ..	2645	2	0	,,	,,	,, Stock of Goods on hand ..	4538	10	2
,,	,,	,, Gross Profit carried down ..	3280	18	2						
			£8771	0	2				£8771	0	2
June	30	To Discounts allowed ..	£100	4	6	June	30	By Gross Profit brought down ..	£3280	18	2
,,	,,	,, Salaries and Wages ..	1240	0	0	,,	,,	,, Discounts earned ..	50	0	0
,,	,,	,, Rent and Rates ..	312	0	0						
,,	,,	,, Sundry Expenses ..	644	10	4						
,,	,,	,, *Depreciation at* 10 % *per annum* On Plant and Machinery	80	12	0						
		On Furniture and Fittings ..	21	0	0						
,,	,,	,, Net Profit carried down .. √	932	11	4						
			£3330	18	2				£3330	18	2
June	30	To Transfer to Head Office Account ..	932	11	4	June	30	By Net Profit brought down .. √	932	11	4

BRANCH BOOKS

TRIAL BALANCE AT 30TH JUNE, 19..

	Dr.			Cr.		
Head Office Account ..				£4920	16	4
,, ,, Goods Account..				1711	12	8
,, ,, Remittance Acct.	1540	0	0			
Stock of Goods on hand at 1st January, 19..	2845	0	0			
Plant and Machinery.. ..	1531	8	0			
Furniture and Fittings ..	399	0	0			
Sundry Debtors	1770	0	0			
Sundry Creditors				1084	5	4
Bank Overdraft				1141	2	6
Purchases (including purchases from Head Office)	2645	2	0			
Sales				4232	10	0
Discounts earned				50	0	0
,, allowed	100	4	6			
Salaries and Wages	1240	0	0			
Rent and Rates	312	0	0			
Sundry Expenses	644	10	4			
Depreciation written off, viz.—						
Plant and Machinery @ 10 % per annum	80	12	0			
Furniture and Fittings @ 10 % per annum.. ..	21	0	0			
Expenses paid in advance	44	10	0			
,, accrued				33	0	0
	£13173	6	10	£13173	6	10

Stock of Goods on hand at 30th June, 19.., valued at £4,538 10s. 2d.

IN THE BOOKS OF THE HEAD OFFICE it will be necessary to keep four accounts to record the transactions with the branch. These are Branch Account, Branch Remittance Account, Branch Goods Account, and Branch Profit and Loss Account. The Branch Account should only be amended at the end of each trading period, and under ordinary circumstances will show a debit balance representing the indebtedness of the branch to the head office. The Branch Remittance Account and Branch Goods Account record the cash and goods transactions respectively between the head office and the branch. The Branch Profit and Loss Account is written up at the end of each period of trading, when details are sent by the branch. It is particularly to be noted that the first three accounts must always show the same balance as the corresponding account in the branch books, but of course transposed. Thus, Branch Account in the head office books must show a *debit* balance exactly equalling the amount standing in the branch books to the *credit* of Head Office Account, and similarly with the Branch Remittance and Branch Goods Accounts. It is on this principle that the results of the trading operations of the branch are brought into the head office books, items in transit at the date when the books are closed having been eliminated. These arise in the following manner. A consignment of goods or a remittance of cash may have been despatched from the head office to the branch, or *vice versâ* before the date of balancing the books and may not have reached its destination until after that date. The item will, therefore, have been debited to the particular account affected in the books of the consignor, but will not have been entered in the books of the consignee. In the example, goods despatched by the head office to the branch on June 30th have been transferred from the debit of Branch Goods Account to the debit of an account for "Goods in transit," which latter will be brought into the Balance Sheet as an asset under that name, and on July 1st, 19.., after the Balance Sheet has been prepared, this will be re-transferred to the debit of Branch Goods Account.

At the end of each period of trading the branch will forward to the head office a complete Trial Balance of its books, together with the Profit and Loss Account for the period and the Balance Sheet as at the conclusion of same. At the head office attention will first be directed to the correct adjustment of items in transit, which should then leave the balances on Branch Account, Branch Remittance Account, and Branch Goods Account exactly similar to the corresponding transposed balances on Head Office Account, Head Office Remittance Account, and Head Office Goods Account appearing in the Branch Trial Balance. The balances on Branch Remittance Account and Branch Goods Account will then be transferred to the Branch Account, closing the two former accounts. Next, by means of the Journal, the Branch Account will be debited and Branch Profit and Loss Account credited with the various revenue items appearing on the credit side of the Branch Trial Balance, such as Sales, Discounts earned, and the value of the stock of goods on hand at the end of the period. By the same means the Branch Account will then be credited, and Branch Profit and Loss Account debited, with the various expenses and outgoings appearing on the debit side of the Branch Trial Balance, such as the value of the stock of goods on hand at the commencement of the period, purchases of goods, salaries and wages, rent and rates, sundry expenses, and the like. The net effect of these Journal entries is to debit Branch Account and credit Branch Profit and Loss Account with the net profit made at the branch during the period in question. Next, the balance of net profit should be transferred from the Branch Profit and Loss Account to the credit of the General Profit and Loss Account. The balance on Branch Account may then be brought down, preferably under the different headings of assets and liabilities, as in the example.

The accounts will appear as follows in the head office Ledgers—

Branch Goods Account

Dr. *Cr.*

Jan.	10	To Goods ..	£252	10	4	June	30	By Goods in transit at this date..	£157	12	0
Feb.	6	,, ,, ..	276	12	6	,,	,,	,, Transfer to Branch Account ..	1711	12	8
Mar.	9	,, ,, ..	300	16	0						
Apr.	13	,, ,, ..	332	8	10						
May	17	,, ,, ..	179	0	0						
June	21	,, ,, ..	370	5	0						
,,	30	,, ,, ..	157	12	0						
			£1869	4	8				£1869	4	8

Goods in Transit Account

Dr. *Cr.*

June	30	To Branch Goods Account ..	£157	12	0						

Branch Remittance Account

Dr. *Cr.*

						Jan.	31	By Cash ..	£200	0	0
						Mar.	6	,, ,, ..	300	0	0
						Apr.	10	,, ,, ..	400	0	0
June	30	To Transfer to Branch A/c	£1540	0	0	June	28	,, ,, ..	640	0	0
									£1540	0	0

Branch Account

Dr.

				£	s.	d.
Jan.	1	To *Balances*, viz.—				
		Plant and Machinery	£1612 0 0			
		Furniture and Fittings ..	420 0 0			
		Stock of Goods on hand ..	2845 0 0			
		Sundry Debtors	1546 12 0			
		Cash at Bank ..	624 0 0			
		Expenses paid in advance	38 0 0			
				£7085	12	0
June	30	,, Transfer from Branch Goods Account		1711	12	8
,,	,,	,, *Branch Profit and Loss Account*, viz.—				
		Sales ..	£4232 10 0			
		Discounts earned ..	50 0 0			
		Stock on hand at 30th June, 1910 ..	£4538 10 2			
				8821	0	2
,,	,,	,, *Balances down*, viz.—				
		Sundry Creditors	£1084 5 4			
		Bank Overdraft ..	1141 2 6			
		Expenses accrued ..	33 0 0			
				2258	7	10
				£19876	12	8
July	1	To *Balances down*, viz.—				
		Plant and Machinery	£1531 8 0			
		Furniture and Fittings ..	399 0 0			
		Stock on hand ..	4538 10 2			
		Sundry Debtors	1770 0 0			
		Expenses paid in advance..	44 10 0			
				8283	8	2

Cr.

				£	s.	d.
Jan.	1	By *Balances*, viz.—				
		Sundry Creditors	£2150 16 0			
		Expenses accrued ..	13 19 8			
				2164	15	8
June	30	,, Transfer from Branch Remittance Account ..		1540	0	0
,,	,,	,, *Branch Profit and Loss Account*, viz.—				
		Stock of Goods on hand at 1st Jan.,	£2845 0 0			
		Purchases	2645 2 0			
		Discounts allowed ..	100 4 6			
		Salaries and Wages	1240 0 0			
		Rent and Rates ..	312 0 0			
		Sundry Expenses ..	644 10 4			
		Depreciation ..	101 12 0			
				7888	8	10
,,	,,	,, *Balances down*, viz.—				
		Plant and Machinery	1531 8 0			
		Furniture and Fittings ..	399 0 0			
		Stock on hand ..	4538 10 2			
		Sundry Debtors	1770 0 0			
		Expenses paid in advance..	44 10 0			
				8283	8	2
				£19876	12	8
July	1	By *Balances down*, viz.—				
		Sundry Creditors	£1084 5 4			
		Bank Overdraft ..	1141 2 6			
		Expenses accrued ..	33 0 0			
				2258	7	10

Note.—Net difference, £6025 0s. 4d.

Branch Profit and Loss Account for the Half Year Ended 30th June, 19..

Dr. *Cr.*

				£	s.	d.					£	s.	d.
June	30	To *Branch Account*, viz.—					June	30	By *Branch Account*, viz.—				
		Stock of Goods on hand at 1st Jan., 1910 ..		£2845	0	0			Sales		£4232	10	0
,,	,,	,, Purchases ..		2645	2	0			Stock of Goods on hand at 30th June		4538	10	2
,,	,,	,, Gross Profit carried down		3280	18	2							
				£8771	0	2					£8771	0	2
June	30	To Discounts allowed ..		£100	4	6	June	30	By Gross Profit brought down ..		£3280	18	2
,,	,,	,, Salaries and Wages ..		1240	0	0	,,	,,	,, Discounts earned ..		50	0	0
,,	,,	,, Rent & Rates		312	0	0							
,,	,,	,, Sundry Expenses ..		644	10	4							
,,	,,	,, Depreciation at 10 % p.a.											
		On Plant and Machinery		80	12	0							
		On Furniture & Fittings		21	0	0							
,,	,,	,, Net Profit carried down ..	√	932	11	4							
				£3330	18	2					£3330	18	2
June	30	To Net Profit transferred to general Profit and Loss A/c ..		932	11	4	June	30	By Net Profit brought down	√	932	11	4

Note.—Considerations such as the question of reserves for discounts and bad debts, etc., have been omitted from the above examples.

In the general Balance Sheet compiled by the head office, the various assets and liabilities of the branch should be added to the corresponding figures relating to the head office. Thus, for example, the stock of goods on hand at the branch will be shown along with the stock of goods on hand at the head office, and so on throughout. This is very important, particularly when there are numerous branches, in which case the inclusion of their indebtedness amongst, say, the Sundry Debtors, would render the Balance Sheet erroneous. It is to facilitate the preparation of the general Balance Sheet that the various assets and liabilities are brought down separately in the Branch Account.

The Accounts of Foreign Branches, involving the consideration of Fluctuating Currencies.—The principles of branch accounts as already enunciated apply to the accounts of foreign branches, with the additional complication brought about by reason of the books of such branches being kept in the currency of the country in which they are located. Thus, a foreign branch should keep a set of double-entry books with money columns appropriate to the currency of the particular country. Similar accounts should be kept to record the transactions of the branch with the head office situated in Great Britain as have been described, viz.: Head Office Account, Head Office Remittance Account, and Head Office Goods Account. Each of these should be ruled with additional money columns for pounds, shillings and pence, in which the equivalent appearing in English money in the head office books may be placed for convenience of reference, as advised by the head office from time to time. The corresponding accounts kept in the head office books in relation to the branch also should have reference columns showing the branch equivalent. The difficulties of fluctuating exchange can obviously only affect money transactions, so it is advisable to agree on a standard rate of exchange which shall apply to all other dealings between the branch and the head office. The books of the branch will be written up and closed in the same manner as has been already shown, the balances on the Head Office Remittance Account and Head Office Goods Account being transferred to the Head Office Account, to which is also passed the balance of the Profit and Loss Account.

At the end of each period of trading, the branch will forward a copy of the Trial Balance, along with copies of the Profit and Loss Account for such period, and the Balance Sheet extracted at the end thereof. The Trial Balance must be converted into English money at the head office before it can be used for incorporating the branch results of trading in the books of the head office. For this purpose it is well to bear in mind that all the assets at the branch are to be converted in accordance with the rules of accounting as to fixed assets being taken at cost (subject to depreciation), floating assets being valued as at the date of balancing. Thus the following rules as to conversion of the branch Trial Balance may be laid down—

(1) The balance standing to the credit of the Head Office Account

to be converted at the amount of the debit on Branch Account in the head office books.

(2) Subject to items in transit, which should be located by means of the subsidiary money columns already described, and allowed for as previously shown, the balances on the Head Office Remittance Account and the Head Office Goods Account should be converted at the amounts of the corresponding (transposed) balances on Branch Remittance Account and Branch Goods Account in the head office books.

Rules 1 and 2 are obviously necessary in order to enable the branch figures to be fitted into the head office books.

(3) Fixed assets (*i.e.*, assets which do not change from day to day, such as land and buildings, plant and machinery, etc.) should be converted at the rate of exchange ruling on the day on which they were purchased.

(4) Fixed liabilities (*i.e.*, mortgages or other fixed charges) should be converted at the rate of exchange ruling on the day on which they were incurred.

(5) Floating assets (*i.e.*, assets which change from day to day, such as book debts, stock-in-trade, cash at bank and in hand) should be converted at the rate of exchange ruling on the day of closing the books.

(6) Floating liabilities (*i.e.*, trade creditors, etc.) should be converted at the rate of exchange ruling on the day of closing the books.

(7) Profit and Loss Account items should be converted at the average rate of exchange ruling during the period covered by the Branch Trial Balance.

(8) The balance on the converted Branch Trial Balance should be placed to the debit or credit, as the case may be, of a Profit or Loss on Exchange Account. This balance is to be expected by reason of the various items in the Branch Trial Balance having been converted at varying rates of exchange.

The converted Branch Trial Balance may then be used for incorporation in the books of the head office in the same way as if the figures were those of an English branch. By adopting the above rules the published figures relating to fixed assets and liabilities will not show any variation from year to year. If thought advisable, a reserve may be made where the rate of exchange has fallen.

Example—

MOSCOW BRANCH TRIAL BALANCE AT 30TH JUNE, 19..

	Debit Roubles	Debit Kopecks	Credit Roubles	Credit Kopecks	Rate of Exchange	Debit £	Debit s.	Debit d.	Credit £	Credit s.	Credit d.
Head Office Account			150962	56					15100	0	0
,, ,, Remittance Account	257345	63				25500	0	0			
,, ,, Goods Account			126327	32					12525	0	0
Purchases	213482	78			10.00	21348	5	6			
Sales			527942	52	10.00				52794	5	0
Stock at 1st January, 1906	53419	25				5324	0	0			
Sundry Debtors	236420	76			10.20	23178	10	0			
,, Creditors			112177	46	10.20				10997	15	9
Wages	46235	37			10.00	4623	10	9			
Sundry Expenses	65378	15			10.00	6537	16	4			
Carriage and Freight	27642	54			10.00	2764	5	1			
Office Furniture (purchased 15th June, 1901) ..	3650	..			10.30	354	7	4			
Profit and Loss on Exchange			56	..		418	15	4			
Land and Buildings (purchased 5th August, 1900)	18635	24			10.15	1835	19	8			
Mortgage on Land and Buildings (incurred 5th August, 1900)			7000	..	10.15				689	13	1
Mortgage Interest accrued			70	..	10.20				6	17	3
Cash at Bank	2326	14			10.20	228	1	1			
	Rs. 924535	86	Rs. 924535	86		£92113	11	1	£92113	11	1

One hundred kopecks are equal to a rouble.

In the head office books, Branch Account stands debited with £15,100, Branch Remittance Account stands credited with £25,500, and Branch Goods Account debited with £12,525.

The rate of exchange at 30th June, 1906 = 10.20 Rs. to the £
,, ,, ,, ,, 5th Aug., 1900 = 10.15 ,, ,, ,, ,,
,, ,, ,, ,, 15th June, 1901 = 10.30 ,, ,, ,, ,,

The average rate of exchange for the six months ended 30th June, 1906, is 10 roubles to the £.

The stock on hand at 1st January, 1906, was converted at a figure of £5,324 in the head office books. The stock on hand at 30th June, 1906, is valued at Rs. 26,242.15.

CHAPTER XIII

PARTNERSHIP ACCOUNTS

The contract of Partnership may be constituted either verbally, in writing, or by deed. The special directions as to Interest on Capital and Drawings, Partners' Salaries, and the like, if any, as also the shares of the partners in the net profits of the business will be taken from the Partnership Articles, as such a deed is called, or where the partnership was originally constituted in writing, by reference to such document. In cases of verbal partnership, the adjustments previously made will provide some guide as to the terms of the partnership in relation to the accounts, but in any case it is advisable for the accountant or other person whose duty it is to frame the accounts, to bring the partners together, go over the various points enumerated, and take written notes which the partners should be requested to sign, the Balance Sheet being framed accordingly. When there are points on which nothing has been agreed between the partners, Section 24 of the Partnership Act, 1890, should be consulted—

24. The interests of partners in the partnership property and their rights and duties in relation to the partnership shall be determined, subject to any agreement express or implied between the partners, by the following rules—

(1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.

(2) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—

(*a*) In the ordinary and proper conduct of the business of the firm; or,

(*b*) In or about anything necessarily done for the preservation of the business or property of the firm.

(3) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of five per cent. per annum from the date of the payment or advance.

(4) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

(5) Every partner may take part in the management of the partnership business.

(6) No partner shall be entitled to remuneration for acting in the partnership business.

(7) No person may be introduced as a partner without the consent of all existing partners.

(8) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

(9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

It should therefore be observed that *in the absence of agreement to the contrary* partners are entitled to share equally in the profits of the business, and also in the capital thereof, but are not entitled to interest on their capital or to a salary for acting in the partnership business, although a partner advancing money to the firm other than his agreed capital is entitled to interest at the rate of 5 per cent. per annum. The regulation as to the place at which the partnership books are to be kept should also be noted.

A Capital Account should be opened for each partner, to which the amount of capital introduced by him should be credited. At the conclusion of each period of trading, the adjustments necessary in respect of the provisions of the Partnership Articles or other document, or as per the verbal agreement of the partners should be given effect to. The Interest on Capital should be calculated on the balance of capital standing to credit at the commencement of the period, credited to the partner's Capital Account, and debited through the Private Journal to an Interest on Capital Account, which will be written off to the debit of Profit and Loss Account. When Interest on Drawings is to be charged, the Partnership Articles should contain the necessary directions in that behalf, such as that the interest shall be calculated on the total monthly drawings of each partner as from the end of the month in which the drawings have taken place. The amount of Interest on Drawings will then be debited to the Capital Account of each partner and the total credited to Interest on Drawings Account, which will be transferred to the credit of Profit and Loss Account. Interest on Loans made by partners to the partnership firm will be credited to the Loan Account and debited to Interest Account, which will be written off to the debit of Profit and Loss Account. If salaries are payable to the partners, or any of them, the amount, unless paid separately from their private drawings, should be credited to the respective partners' Capital Accounts and debited to a Partners' Salaries Account, which will be written off to the debit of the Profit and Loss Account. When all the nominal accounts have been closed by transfer to the Profit and Loss Account, the net profit or loss shown thereby should be transferred to the credit or debit, as the case may be, of the partners' Capital Accounts in the proportions in which they share in the profits. It is to be observed that an agreement to share profits in certain proportions will bind the partners as between themselves to divide losses in the same ratio, unless it is expressly stipulated that losses are to be borne in some other proportion than that in which profits are shared. Again, when profits are expressed to be divisible in the proportions which the partners' capitals bear to each other, the capitals as originally brought into the firm will decide the ratio of profit, which should be adhered to throughout the term of the partnership.

Example.—The firm of Brown & Robinson take out a Trial Balance for the year ended 31st December, 19.., as follows :—

BROWN & ROBINSON.

Trial Balance at 31st December, 19...

	Dr.			*Cr.*		
James Brown, Capital Account				£5000	0	0
,, ,, Drawings ,,	£550	0	0			
,, ,, Loan ,,				1500	0	0
Benjamin Robinson, Capital Acct.				2000	0	0
,, ,, Drawings ,,	420	0	0			
Plant and Machinery Account ..	2262	9	3			
Furniture and Fittings	191	8	11			
Stock of Goods on hand at 1st January, 19....	2473	1	8			
Bills Receivable	534	3	9			
Bills Payable				236	1	10
Sales (less Returns, £116 10s. 8d.)				26192	3	7
Purchases (less Returns, £149 8s. 11d.)	20709	1	6			
Discount Account balance ..	117	1	6			
Wages of manufacture	2973	5	4			
Salaries	480	0	0			
Rent and Rates	220	2	5			
Gas, Water, and Electricity ..	38	9	6			
Coal and Coke	54	3	7			
Bad Debts	49	6	8			
Telephone Charges..	13	6	6			
Legal and Audit Charges	32	5	0			
Insurance	23	2	0			
Printing and Stationery	15	8	4			
Carriage	57	3	11			
Travelling Expenses	146	3	2			
Sundry Expenses and Petty Cash	48	1	5			
Sundry Debtors	4265	14	7			
,, Creditors				876	2	9
Cash at Bank	116	5	8			
Cash in hand	14	3	6			
	£35804	8	2	£35804	8	2

The Stock of Goods on hand at 31st December, 19.., was taken and valued at £3,528 4s. 8d.

Reserves are to be provided as follows—

For	Discounts $2\frac{1}{2}\%$ on Sundry Debtors.				
,,	,, $2\frac{1}{2}\%$,, ,, Creditors.				
,,	Rent and Rates	£32	0s.	0d.	
,,	Gas, Water, and Electricity	£5	0s.	0d.	
,,	Audit Fee	£31	10s.	0d.	

The following items are ascertained to be paid in advance and unexpired—

Telephone Charges to an amount of	£3	0s.	0d.
Insurance ,, ,, ,, ,, ,,	£11	10s.	0d.

Depreciation on Plant, Machinery, Furniture and Fittings at 10 per cent. per annum.

Interest on Capital and Loans is to be provided at the rate of 5 per cent. per annum, according to the terms of the Partnership Articles. Interest on Drawings at 5 per cent. per annum is also to be charged as from the dates of each withdrawal, and is calculated to amount to £12 10s. 0d. of which £10 is to be debited to James Brown, and £2 10s. 0d. to Benjamin Robinson, £200 of the latter's Drawings being in respect of his salary under the Partnership Articles. The net profits are to be shared in the proportion of James Brown $\frac{3}{5}$, Benjamin Robinson $\frac{2}{5}$.

Occasionally some difficulty is experienced in ascertaining the exact bearing of some of the clauses in the Partnership Articles. When this is the case it is advisable to interview the solicitor who drew up the agreement, so as to give proper effect to the intentions of the partners. The raising of a Goodwill in partnership books has already been dealt with under the heading of Goodwill.

An interesting point occurs when a partner having outside investments agrees with his co-partners to advance to the firm money obtained by the sale of the investments. In such a case, it is usually the fact that the partner places a certain value on his securities outside market fluctuations, so that on realisation, any loss or difference sustained must be properly adjusted. The broad rule under these circumstances may be stated as follows :— If the partners have agreed that the securities should be brought

Brown & Robinson

Trading and Profit and Loss Account for the year ended 31st December, 19...

Dr.		£	s.	d.		Cr.	£	s.	d.
19...					19...				
Jan. 1	To Stock of Goods on hand	£2473	1	8	Dec. 31	By Sales £26308 14 3			
Dec. 31	,, Purchases £20858 10 5					*Deduct* Returns .. 116 10 8			
	Deduct Returns .. 149 8 11						£26192	3	7
		£20709	1	6	,, ,,	,, Stock of Goods on hand	3528	4	8
,, ,,	,, Manufacturing Wages	2973	5	4					
,, ,,	,, Gross Profit carried down.. ..	3564	19	9					
		£29720	8	3			£29720	8	3
19...					19...				
Dec. 31	To Discounts	£201	16	4	Dec. 31	By Gross Profit brought down ..	£3564	19	9
,, ,,	,, Salaries	480	0	0	,, ,,	,, Interest on Partners' Drawings ..	12	10	0
,, ,,	,, Rent and Rates	252	2	5					
,, ,,	,, Gas, Water and Electricity ..	43	9	6					
,, ,,	,, Coal and Coke	54	3	7					
,, ,,	,, Bad Debts	49	6	8					
,, ,,	,, Telephone Charges..	10	6	6					
,, ,,	,, Legal and Audit Charges	63	15	0					
,, ,,	,, Insurance	11	12	0					
,, ,,	,, Printing and Stationery	15	8	4					
,, ,,	,, Carriage	57	3	11					
,, ,,	,, Travelling Expenses	146	3	2					

,, ,,	,, Sundry Expenses and Petty Cash	48	1	5					
,, ,,	,, Partner's Salary	200	0	0					
,, ,,	,, Interest on Loan	75	0	0					
,, ,,	,, ,, ,, Capital	350	0	0					
,, ,,	,, Depreciation on Plant and Machinery at 10 % per annum ..	226	4	11					
,, ,,	,, Depreciation on Furniture and Fittings at 10 % per annum.. ..	19	2	11					
		2303	16	8					
19... Dec. 31	,, *Net Profit carried down*	1273	13	1					
		£3577	9	9			£3577	9	9
19... Dec. 31	To *James Brown, Capital Account*, 3/5ths share of profit	£764	3	10	19... Dec. 31	By *Net Profit brought down*	1273	13	1
,, ,,	,, *Benjamin Robinson, Capital Account*, 2/5 share of profit	509	9	3					
		£1273	13	1			£1273	13	1

Brown & Robinson

Balance Sheet at 31st December, 19..

Liabilities.	£	s.	d.	£	s.	d.	£	s.	d.
Sundry Creditors				£876	2	9			
Deduct provision for discounts at $2\frac{1}{2}$ %				21	18	0			
							£854	4	9
Bills Payable							236	1	10
Sundry Reserves, viz.—									
Rent and Rates				£32	0	0			
Gas, Water, and Electricity ..				5	0	0			
Audit Fee				31	10	0			
							68	10	0
James Brown, Loan Account ..				£1500	0	0			
Add Interest for the year ended 31st December, 19..				75	0	0			
							1575	0	0
Capital Accounts—									
Jas. Brown, as at 1st January, 19..				£5000	0	0			
Add Interest on Capital at 5 % per annum				250	0	0			
,, $\frac{3}{5}$ Share of Net Profit ..				764	3	10			
				6014	3	10			
Deduct Drawings	£550	0	0						
,, Interest on Drawings	10	0	0						
				560	0	0			
							5454	3	10
Benjamin Robinson, as at 1st January, 19.. ..				£2000	0	0			
Add Interest on Capital at 5 % per annum				£100	0	0			
,, Salary under Partnership Articles				200	0	0			
,, $\frac{2}{5}$ Share of Net Profit.. ..				509	9	3			
				2809	9	3			
Deduct Drawings	£420	0	0						
,, Interest on Drawings	2	10	0						
				£422	10	0			
							2386	19	3
							£10574	19	8

Assets.	£	s.	d.	£	s.	d.
Plant and Machinery	£2262	9	3			
Deduct Depreciation at 10 % per annum	226	4	11			
				£2036	4	4
Furniture and Fittings	£191	8	11			
Deduct Depreciation at 10 % per annum	19	2	11			
				172	6	0
Stock of Goods on hand				3528	4	8
Sundry Debtors	4265	14	7			
Deduct Provision for Discount at $2\frac{1}{2}$ %	106	12	10			
				4159	1	9
Bills Receivable				534	3	9
Amounts unexpired, viz.—						
Telephone	3	0	0			
Insurance	11	10	0			
				14	10	0
Cash at Bank..				116	5	8
Cash in hand..				14	3	6
				£10574	19	8

into the firm, the partnership must bear any properly ascertained figure of loss sustained by reason of inopportune realisation, but if the agreement, express or implied, between the partners was that the owner of the securities should bring in a sum of money on loan or otherwise the loss should be with the partner making the advance.

DISSOLUTION OF PARTNERSHIP.—Although from a legal point of view a dissolution of partnership may be brought about in various ways, yet as regards the treatment of the book-keeping entries consequent thereon, dissolutions may be divided into two classes, viz.—

(*a*) When the assets of the firm are on dissolution sold to outside parties.

(*b*) Where the assets of the firm are taken over by a person or persons who have been partners in the dissolved firm.

As to (*a*) the procedure in this case is to open a Realisation Account in the Private Ledger, after the Profit and Loss Account, and Balance Sheet have been prepared up to, and as at the date of, dissolution. The whole of the balances in the books representing assets should then be transferred to the Realisation Account, the asset accounts, with the exception of the cash and bank balances, being thereby closed. Any costs of realisation should likewise be credited to Cash or Bank and debited to Realisation Account, to which is credited the proceeds of sale of the assets. The balance of Realisation Account, if a debit, will disclose the loss on realisation of the assets; if a credit, the profit in respect of same, and should be transferred to the debit or credit, as the case may be, of the Profit and Loss Account, from which it should be transferred to the partners' Capital Accounts in the proportions in which profits are shared. The liabilities of the firm should then be discharged and the balances due to the partners paid, after which the Capital Accounts should be balanced and ruled off. The books will then be closed.

Example.—The firm of A and B agree to dissolve partnership as at 30th June, 19.., the Profit and Loss Account for the half-year preceding that date being drawn up, the nominal accounts transferred thereto, and the Balance Sheet prepared, which is shown on page 184.

A and B, Balance Sheet at 30th June, 19..

Liabilities.		Assets.	
Sundry Creditors	£282	*Furniture and Fittings* ..	£148
		Stock of Goods	1643
A. Capital Account ..	3066	*Sundry Debtors*	2117
		Bills Receivable	142
B. Capital Account	798	*Cash at Bank*	86
		Cash in hand	10
	£4146		£4146

The assets of the firm are sold by private treaty and realise as follows—

Furniture and Fittings	£120
Stock of Goods	1600
Sundry Debtors	2117
Bills Receivable	140
(£2 being deducted as rebate of interest)	
	£3977

The costs of realisation amounted to £40.

The Realisation Account, Profit and Loss Account, and partners' Capital Accounts would appear as on pp. 185 and 186, the partners sharing profits equally according to the Partnership Articles.

(*b*) Where the assets of the firm are taken over by a person or persons who have been partners in the dissolved firm.

Under these circumstances it is often the case that the continuing partner or partners agree to take over the liabilities of the old firm, the amount of these being allowed in reduction of the purchase consideration. The Profit and Loss Account should first be drawn up, the nominal accounts closed, and the Balance Sheet prepared. If two or more of the partners in the old firm are taking over the business their Capital Accounts should be closed by transfer to a Joint Capital Account, to which the subsequent entries affecting them will be passed in the same manner as where one partner only takes over the business. If it is assumed that one of three partners is to take over the assets and liabilities of the firm on dissolution, the values of the assets and the amounts of the liabilities having been agreed upon, the Capital Account of the continuing partner should be debited with the assets at the agreed figures, the various accounts representing the assets being credited. The Capital Account of the continuing partner should then be credited with the

Realisation Account

Dr.			£	s.	d.	*Cr.*			£	s.	d.
19...						19...					
June	30	To *Transfers*, viz.—				July	15	By *Cash*, viz.—			
		Furniture and Fittings Account	£148	0	0			Furniture and Fittings ..	£120	0	0
		Stock of Goods Account ..	1643	0	0			Stock of Goods	1600	0	0
		Sundry Debtors' Accounts	2117	0	0			Sundry Debtors	2117	0	0
		Bills Receivable Account..	142	0	0			Bills Receivable	140	0	0
July	15	,, Cash, costs of realisation ..	40	0	0	,,	,,	,, *Transfer to Profit and Loss Account*, Loss on Realisation	113	0	0
			£4090	0	0				£4090	0	0

Profit and Loss Account

Dr.			£	s.	d.	*Cr.*			£	s.	d.
19...						19...					
July	15	To *Transfer from Realisation Account*, Loss on Realisation	£113	0	0	July	15	By *Loss on Realisation transferred to Partners' Capital Accounts*, viz.—			
								A, ½ share	56	10	0
								B, ½ share	56	10	0
			£113	0	0				£113	0	0

A, Capital Account

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... July	15	To *Transfer from Profit and Loss Account,* ½ share of Loss on Realisation ..		£56	10	0	19... June	30	By Balance		£3066	0	0
,,	,,	,, Balance	√	3009	10	0							
				£3066	0	0					£3066	0	0
19... July	15	To Cash		£3009	10	0	19... July	15	By Balance	√	£3009	10	0

B, Capital Account

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19.. July	15	To *Transfer from Profit and Loss Account,* ½ share of Loss on Realisation ..		£56	10	0	19... June	30	By Balance		£798	0	0
,,	,,	,, Balance	√	741	10	0							
				£798	0	0					£798	0	0
July	15	To Cash		741	10	0	19... July	15	By Balance	√	741	10	0

amounts of the liabilities taken over by him, the accounts representing the liabilities being debited. The balances on the asset accounts, being the differences between the book values and the agreed figures at which they are to be taken over by the continuing partner, should then be transferred to the debit or credit, as the case may be, of the Profit and Loss Account. The balance of the Profit and Loss Account should then be transferred to the partners' Capital Accounts in the proportions in which profits are shared. The amount due by the continuing partner must then be paid by him, Cash or Bank being debited and his Capital Account credited, balanced, and ruled off. The amounts due to the other partners as shown by their Capital Accounts should then be paid to them, after which the books will be complete.

Example.—A and B are partners, and their respective capitals at 1st January, 19.., are £4,000 and £2,000. At that date also there stood on their books the following balances—

Sundry Creditors	£380
Machinery and Plant	1,500
Stock of Goods	2,000
Office Furniture	80
Sundry Debtors	2,440
Cash in Bank	360

They agree to dissolve partnership at the above date, A to carry on the business. A is to discharge the liabilities, receive the debts, and take over the assets at the following figures, viz.—

Machinery and Plant	£1,200
Stock of Goods	1,800
Office Furniture	60

The Debtors, Creditors and Bank Balance are taken over at the figures above. Also B is to be allowed £1,000 as his half share of Goodwill.

The Profit and Loss Account and the partners' Capital Accounts appear on page 188.

A, CAPITAL ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... Jan.	1	To *Sundry Assets*, viz.—					19... Jan.	1	By Balance		£4000	0	0
		Machinery and Plant ..		£1200	0	0	,,	,,	,, ½ share of Goodwill ..		1000	0	0
		Goodwill		2000	0	0	,,	,,	,, *Sundry Liabilities taken over*, viz.—				
		Stock of Goods		1800	0	0			Sundry Creditors		380	0	0
		Office Furniture		60	0	0	,,	,,	,, Balance	√	2740	0	0
		Sundry Debtors		2440	0	0							
		Cash at Bank		360	0	0							
,,	,,	,, ½ share of differences in values of assets, from Profit and Loss Account		260	0	0							
				£8120	0	0					£8120	0	0
19... Jan.	1	To Balance	√	2740	0	0	Jan.	1	By Cash to B.		2740	0	0

B, CAPITAL ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
19... Jan.	1	To ½ share of differences in values of assets. from Profit and Loss Account		£260	0	0	19... Jan.	1	By Balance		£2000	0	0
,,	,,	,, Balance	√	2740	0	0	,,	,,	,, ½ share of Goodwill ..		1000	0	0
				£3000	0	0					£3000	0	0
Jan.	1	To Cash from A.		2740	0	0	19... Jan.	1	By Balance	√	2740	0	0

A AND B

Profit and Loss Account on Dissolution at 1st January, 19..

Dr.												
19... Jan.	1	To *Differences in values of assets taken over by A at this date*, viz.—					19... Jan.	1	By *Differences in values of assets taken over by A transferred to Partners' Capital Accounts*, viz.—			Cr.
		Machinery and Plant Acct.		£300	0	0			A, ½ share			
		Stock of Goods Account		200	0	0				£260	0	0
		Office Furniture Account..		20	0	0			B, ½ ,, ...	260	0	0
				£520	0	0				£520	0	0

CHAPTER XIV

JOINT STOCK COMPANIES' ACCOUNTS

The raising of the share capital and debentures of a Joint Stock Company affords some interesting work for the secretary or book-keeper. When the prospectus is issued a printed form of application for the shares or debentures is enclosed with each copy, so that intending applicants have merely to fill in the details as to name, address, description, and the number of shares applied for, and hand or send the same, along with a cheque for the amount payable on application on the shares applied for, to the Company's Bank or other expressed place of payment. The Company's Bankers are usually authorised to receive applications for shares. The cashiers at the Bank fill in the form of receipt at the foot of the Application Form, and hand the receipt to the applicant, the upper portion of the form being retained by the Bank. A bank pass-book is then written up for the Company, and the portions of the forms of application which have been retained by the Bank are also handed over to the Company. A separate column should be kept in the Company's Cash Book for the receipts on account of share capital or debentures, the totals of such special column being entered in the Bank column. When the number of applicants is very large, it is advisable to keep a separate Cash Book in respect of the receipts on account of share capital or debentures.

Application and Allotment Sheets should then be ruled in the form shown, and the details filled in from the application forms and Cash Book. The Application and Allotment Sheets should next be brought before the directors of the company for formal allotment. The directors decide as to the persons to whom shares shall be allotted, and the number of shares to be allotted to each applicant, not exceeding the number applied for. The resolutions of the directors should be clearly set out in the Minute Book. Allotment Letters should then be sent to each allottee, stating the number of shares allotted and the total amount due on allotment, any excess paid on application by reason of a smaller allotment than was applied for, being deducted from the amount due on allotment. To applicants to whom shares have not been allotted, a Letter of Regret is forwarded, enclosing a cheque for the amount paid by them. It is advisable to issue the Letters of Allotment as soon as possible after the directors' meeting, as the notification therein contained makes the legal contract complete and irrevocable, and until the Letters of Allotment are posted, applications for shares or debentures may be withdrawn. The Letters of Allotment are doubly perforated, the top portion being worded as the notification of the allotment, the middle portion containing instructions to the company's bankers to receive the amount due on allotment, and the lowest portion being worded as a receipt, which the bank cashier fills up and returns to the allottee on payment of the amount due. The Application and Allotment Sheets should be filled up with the various details as to Allotment, any defaulters being noted and attended to, the Application and Allotment Sheets being then bound in book form. Loose sheets are used for the latter purpose in cases where the number of applicants is very large, as the short space of time between the date of application and the date of allotment necessitates the employment of a number of clerks in such instances. If the number of applicants is not very large, an Application and Allotment Book ready bound should be used. The Register of Members and Share Ledger, in combined form, as shown in the example should then be written up, an account being opened for each shareholder, the different classes of shares being shown in different coloured inks. A Debenture Ledger should be kept in which an account for each debenture holder should be opened. When Calls on Shares are made by the Directors in accordance with the Articles of Association of the Company, the resolution authorising the calls should be clearly set out in the Minute Book, and each shareholder should be served with a notice of the resolution in similar form to the Allotment Letters. The amounts due should be paid to the company's bankers, and a counterfoil receipt, torn from the shareholder's form of notification of the call, should be filled in by the bank cashier. A Call Book should be kept in which to record the amount due by each shareholder in respect of the Call, and to show the date of payment, the details as to the Call being entered in the Register of Members.

Debentures are usually made payable on application and allotment; calls will not, therefore, be made in this case.

Register of Members and Share Ledger

Name ....
Address and Occupation ....

Dr. Shares Acquired.								*Dr.* Cash payable on shares.			
No. of Allotment.	No. of Transfer.	Date of Allotment or Transfer.	No. of Shares Allotted or Transferr'd.	Distinctive Numbers (inclusive).		Transferor's Folio.	Total value of Shares held.	Date when called.	Description of payment or No. of Call.	Amount per Share.	Total Amount.
				From.	To.						

Date of Entry as a Member ....
Date of Ceasing to be a Member ....

Cash paid on shares. *Cr.*				Shares transferred *Cr.*						
Date when due.	Date of Payment.	Cash Book Folio.	Amount.	No. of Transfer.	Date of Entry of Transfer.	No. of Shares transferred	Distinctive Numbers (inclusive).		Transferor's Folio.	Total value of Shares Transferred.
							From.	To.		

Application and Allotments Book

No. of Application.	Name.	Address and Occupation.	Number of Shares applied for.	Amount due per Share.	Amount paid on Application.	Date of Allotment.	Number of Shares allotted.

Distinctive Numbers of Shares allotted.		Number of Allotment.	Amount due on Allotment.	Date paid.	Cash Book Folio.	Cash paid on Allotment.	Excess paid on Application held over to Allotment.	No. of Letter of Regret.	Amounts returned to Applicants.	Folio in Register of Members.
From.	To.									

It is to be noted that all Limited Companies are, by the provisions of the Companies (Consolidation) Act, 1908, required to keep the following books to contain the prescribed particulars—

Register of Members.
Register of Directors and Managers.
Register of Mortgages and Charges.
Minute Book, and
Annual List and Summary Book.

Though not compulsory, a Register of Transfers is usually kept, and, where applicable, a Debenture Ledger.

The entries to be passed through the Private Journal on the issue of capital may be summarised as follows—

1. The total amount due on application for the shares subsequently allotted should be credited to the Preference or Ordinary Share Capital Account, as the case may be, and debited to an Application Account, to the credit of which the cash paid on application will have been posted from the Cash Book. Cash returned to applicants will be posted to the debit of the Application Account from the Cash Book.

2. The total amount of cash paid on application, and held over towards allotment should be debited to Application Account, which is thereby closed, and credited to Allotment Account.

3. The total amount due on allotment should be debited to Allotment Account and credited to the Preference or Ordinary Share Capital Account, as the case may be. The cash received on Allotment will already have been posted to the credit of Allotment Account from the Cash Book, so that when all the allottees have paid, the Allotment Account will be closed.

4. When a Call is made, the total amount due from the shareholders in respect of the Call should be debited to a Call Account and credited to the Preference or Ordinary Share Capital Account, as the case may be. When the amounts paid in respect of the Call have been posted to the credit of the Call Account, a Journal Entry should be made crediting the Call Account and debiting Calls in Arrear Account with the total amount remaining unpaid.

5. When assets and liabilities are taken over under a Purchase Agreement, the following entries should be made, with full narrations.

The values placed upon the various assets should be debited to appropriate accounts in respect thereof, whilst the liabilities taken over should be credited to accounts under proper headings, the balance being credited to a Vendor's Account for the person selling.

6. When shares are allotted as fully or partly paid under a Purchase Agreement, the amount agreed to be considered as paid should be debited to the Vendor's Account and credited to the Preference or Ordinary Share Capital Account, as the case requires, any cash paid to the vendor being posted to the debit of Vendor's Account from the Cash Book.

It will be observed that total accounts only are kept in the Private Ledger in respect of each class of shares, the Register of Members being entirely separate from the financial books and containing details as to the holding of each Member of the Company. The total cash paid by the individual shareholders as shown in the Register of Members, plus calls in arrear, should therefore equal the balance standing to the credit of the Preference or Ordinary Share Capital Account.

Similarly, a total account only is kept in the Private Ledger in respect of the Debentures, the Debenture Ledger supplying the detail as to the individual holdings.

The cost of floating a company, consisting of Government stamp duties and fees, professional charges, and the cost of the statutory books and printing of the Memorandum and Articles of Association is styled Preliminary Expenses and is debited to an account of that name. This is usually written off during the first three, four, or five years by transferring an equal portion each year from the Preliminary Expenses Account to the Profit and Loss Account according to the term during which it is desired to eliminate the item.

Example.—At July 1st, 19.., T. Warren's Balance Sheet is as follows—

T. WARREN

Balance Sheet at 1st July, 19...

LIABILITIES.		ASSETS.	
Sundry Creditors	£570	Machinery and Plant ..	£2500
		Furniture and Fixtures ..	120
Loan Creditor	1000	Stock of Goods	1700
		Sundry Debtors	2450
Bank Overdraft	60	Bills Receivable	150
CAPITAL ACCOUNT.		Cash in hand..	10
T. Warren	5300		
	£6930		£6930

A Limited Company is registered at the above date under the style of " T. Warren, Limited," with a Nominal Capital of £12,000 in 12,000 £1 shares, to take over the whole of the above assets and liabilities, Warren to be allotted 7,000 shares issued as fully paid in consideration of the purchase, whilst the Loan Creditor is to be allotted Debentures in respect of his claim. The Preliminary Expenses amount to £200. Warren's friends subscribe for shares (10s. per share payable on application and 10s. per share on allotment) to the amount of £2,000, and these are duly allotted and the cash received.

The difference between T. Warren's Capital of £5,300, as shown in the Balance Sheet, and the Purchase Consideration of £7,000 is clearly the price paid for Goodwill. The cash received in respect of Application for and Allotment of Shares would be posted to the

Entries in the Private Journal of

T. WARREN, LIMITED

				Dr.			*Cr.*		
19.. July	1	*Sundry Assets, Dr.* .. To *Vendor's Account, T. Warren*, viz.—					£8630	0	0
		Machinery and Plant		£2500	0	0			
		Furniture and Fixtures		120	0	0			
		Stock of Goods ..		1700	0	0			
		Sundry Debtors ..		2450	0	0			
		Bills Receivable ..		150	0	0			
		Cash in hand ..		10	0	0			
		Goodwill		1700	0	0			
		Assets taken over from T. Warren as per Purchase Agreement.							
,,	1	*Vendor's Account, T. Warren, Dr.* ..		1630	0	0			
		To *Sundry Liabilities*, viz.—							
		Sundry Creditors ..					570	0	0
		Loan Creditor ..					1000	0	0
		Bank Overdraft ..					60	0	0
		Liabilities taken over from T. Warren as per Purchase Agreement.							
		Carried forward..		£10260	0	0	£10260	0	0

Entries in the Private Journal of

T. WARREN, LIMITED

			Dr.			Cr.		
		Brought forward	10260	0	0	10260	0	0
19... July	1	*Vendor's Account, T. Warren, Dr.* ..	7000	0	0			
		To *Share Capital Account*				7000	0	0
		7,000 shares of £1 each issued to T. Warren as fully paid as per Purchase Agreement						
,,	,,	*Loan Creditor, Dr.* ..	1000	0	0			
		To *Debentures Acct.*				1000	0	0
		For Debentures issued to Loan Creditor.						
,,	,,	*Application Acct., Dr.*	1000	0	0			
		To *Share Capital Account*				1000	0	0
		10s. per share payable on application for 2,000 shares of £1 each.						
		Allotment Account, Dr.	1000	0	0			
		To *Share Capital Acct.*				1000	0	0
		10s. per share payable on allotment of 2,000 shares of £1 each.						
			£20260	0	0	£20260	0	0

credit of those accounts from the Cash Book. The Preliminary Expenses Account would be debited from the Cash Book with the amount of £200.

The commencing Balance Sheet of T. Warren, Ltd., would therefore appear as on page 198.

When shares are forfeited for non-payment of Calls under a power in the Articles of Association, the resolution of the directors should be clearly set out in the Minute Book, and the following entries should be made.

Preference or Ordinary Share Capital Account as the case may be, should be debited with the whole amount called up on the shares now forfeited, the Calls in Arrear Account being credited with

T. Warren, Limited

COMMENCING BALANCE SHEET

Liabilities.				Assets.			
Nominal Capital—				*Machinery and Plant*	£2500	0	0
12,000 shares of £1 each, £12000 0 0				*Furniture and Fixtures*	120	0	0
				Stock of Goods	1700	0	0
Subscribed Capital—				*Goodwill*	1700	0	0
9,000 shares of £1 each, fully paid ..	£9000	0	0	*Sundry Debtors*	2450	0	0
Debentures	1000	0	0	*Bills Receivable*	150	0	0
Sundry Creditors	570	0	0	*Cash at Bank*	1740	0	0
				Cash in hand	10	0	0
				Preliminary Expenses	200	0	0
	£10570	0	0		£10570	0	0

the amount of calls unpaid on the shares, and Forfeited Shares Account being credited with the amount paid in respect of the shares. It is advisable to record the forfeiture in the Register of Members by transferring the shares forfeited to an account headed Forfeited Shares.

Example.—The X. Engineering Co., Ltd., has Share Capital issued amounting to £60,000, the whole of which has been called up. W. Wilkins holds 50 £10 shares in the above Company, and has not paid the last call of £2 10s. 0d. per share. The Directors, in accordance with a power under the Articles of Association, pass a resolution forfeiting Wilkins' shares. The entries in the Private Journal of the X. Engineering Co., Ltd., will be as follows—

PRIVATE JOURNAL.

		Dr.			*Cr.*		
	Share Capital Acct., Dr.	£500	0	0			
	To *Calls in Arrear Account*				125	0	0
	,, *Forfeited Shares Account* ..				375	0	0
	For Forfeiture of 50 £10 Shares of W. Wilkins for non-payment of last call of £2 10s. 0d. per share. Directors' Minute Book, folio—						

The forfeiture will be shown as follows in the subsequent Balance Sheet of the Company—

LIABILITIES SIDE OF BALANCE SHEET

Nominal Capital—		
Subscribed Capital, 6,000 shares of £10 each, fully paid	£60000	
Deduct 50 shares forfeited	500	
		£59500
Forfeited Shares Account		375

The Annual Return of a Limited Company, known as the Annual List and Summary of Capital and Shares, must be made up as at the fourteenth day succeeding the first Ordinary General Meeting in each year, and filed with the Registrar of Joint Stock Companies. In the example given, the firm of T. Warren, Limited, has been selected so as to show how the various points already discussed in the flotation of that company would appear in the Annual List and Summary. In practice the details shown in the Annual List and Summary would be taken from the Register of Members, Register of Mortgages, and Register of Directors ; the Nominal Share Capital from the Memorandum of Association, and transfers of shares from the Register of Transfers. Private Limited Companies as defined by the Companies (Consolidation) Act, 1908, are not compelled to show a Statement in the form of a Balance Sheet, and in practice it is the custom to summarise the items contained in the Balance Sheet when drawing up such Statement in the case of Public Limited Companies. Before the Annual List and Summary is filed it should be copied in the Annual List and Summary Book. A Companies' Fee Stamp of five shillings is payable when the Annual List and Summary is presented for filing.

No. of Certificate.

FORM No. 6a.

THE COMPANIES ACTS, 1908–1917.

FORM E

as required by Part II of the 1908 Act (section 26).

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

SUMMARY OF SHARE CAPITAL AND SHARES

OF

T. Warren,

LIMITED,

made up to the *fifth* day of *September,* 19...

(Being the Fourteenth Day after the date of the First Ordinary General Meeting in 191 .)

Nominal Share Capital, £12,000, divided into* 12,000 Shares of ....£*	1 0 0 each.
Total Number of shares taken up* to the *fifth* day of *September,* 1911, (which number must agree with the total shown in the list, as held by existing members)	9,000
Number of shares issued subject to payment wholly in cash	2,000
Number of shares issued as fully paid up otherwise than in cash	7,000
Number of shares issued as partly paid up to the extent of .... per Share otherwise than in cash	*Nil*
‡ There has been called up on each of 2,000 Shares	£ 1 0 0
" " " " ..... "	£ *Nil*
" " " " ..... "	£ *Nil*
§Total amount of Calls received, including payments on application and allotment	£ 2,000
Total amount (if any) agreed to be considered as paid on 7,000 Shares which have been issued as fully paid up (otherwise than in cash)	£ 7,000
Total amount (if any) agreed to be considered as paid on ......Shares which have been issued as partly paid up to the extent of .... per Share	£ *Nil*
Total amount of Calls unpaid	£ *Nil*
Total amount (if any) of sums paid by way of Commission in respect of Shares or Debentures or allowed by way of Discount since the date of last Summary	£ *Nil*
Total amount (if any) paid on‖ ....Shares forfeited....	£ *Nil*
Total amount of Shares and Stock for which Share Warrants to bearer are outstanding .... Shares	£ *Nil*
Stock	£ *Nil*
Total amount of Share Warrants to Bearer issued and surrendered respectively since date of last Summary .... Issued	£ *Nil*
Surrendered	£ *Nil*
Number of Shares or amount of Stock comprised in each Share Warrant to bearer .... Number of Shares	*Nil*
Amount of Stock	£ *Nil*
Total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created after the first day of July, 1908	£ 1,000 Debentures

NOTE.—Banking Companies must add a list of all their places of business.

* *Where there are Shares of different kinds or amounts (e.g., Preference and Ordinary, or £10 and £ state the numbers and nominal values separately.*

‡ *Where various amounts have been called, or there are Shares of different kinds, state them separately.*

§ *Include what has been received on forfeited, as well as on existing, Shares.*

‖ *State the Aggregate number of Shares forfeited (if any).*

☞ The return must be signed, at the end, by the Manager or Secretary of the Company.

Presented for filing by

* STATEMENT in the form of a Balance Sheet made up to the *30th* day of *June*, 19.., containing the particulars of the Capital, Liabilities, and Assets of the Company

* This Statement is not required to be supplied by a Company which is a "Private Company" within the meaning of Section 121 (1) of the Companies (Consolidation) Act, 1908.

Capital and Liabilities.				Assets.			
Nominal Capital—				*Machinery and Plant*	£2200	0	0
12,000 shares of £1 each, £12,000				*Furniture and Fixtures*	104	0	0
Subscribed Capital—				*Stock of Goods*	2925	0	0
9,000 shares of £1 each, fully paid..	£9000	0	0	*Goodwill*	1700	0	0
Debentures	1000	0	0	*Sundry Debtors*	4270	0	0
Sundry Creditors	1635	0	0	*Bills Receivable*	236	0	0
Balance of Profit and Loss Account	1240	0	0	*Cash at Bank*	1425	0	0
				Cash in hand	15	0	0
	£12875	0	0		£12875	0	0

Names, etc., of the *Directors of *T. Warren* **Limited, on the** *fifth* **day of** *September* 19

† The present Christian Name or Names and Surname.	‡ Any former Christian Name or Names or Surname.	Nationality.	Nationality of Origin (if other than the present Nationality).	Usual Residence.	Other Business Occupation(s), if any.
Thomas Warren		*British*		*Springfield, Green Lane, Haslingden*	
William Turner		*British*	*U.S.A.*	*Sunnyside, Albert Park, Haslingden*	*Corn Merchant*
Ernest Evans		*British*		*The White House, Albert Park, Haslingden*	

* "Director" includes any person who occupies the position of a Director and any person in accordance with whose directions or instructions the Directors of a Company are accustomed to act.

† Christian name includes any forename. In the case of a Peer or a person usually known by a British title different from his surname, the title by which he is known must be substituted for his surname.

‡ In the case of natural-born British subjects, a former Christian name or surname should not be shown where that name or surname has been changed or disused before the person bearing the name had attained the age of eighteen years; and in the case of a married woman the name or surname by which she was known previous to the marriage should not be given.

List of Persons holding Shares in T.
on the *fifth* day of *September*, 19.., and of Persons
Return, or (in the case of the first Return) of the incorporation of
the Shares so held.

Folio in Register Ledger containing Particulars.	NAMES, ADDRESSES, AND OCCUPATIONS.			
	Surname.	Christian Name.	Address.	Occupation.
1	*Warren*	*Thomas*	*Springfield, Green Lane, Haslingden*	*Engineer*
2	*Turner*	*William*	*Sunnyside, Albert Park, Haslingden*	*Merchant*
3	*Evans*	*Ernest*	*The White House, Albert Park, Haslingden*	*Engineer*
4	*Spencer*	*James*	*The Firs, Moorside Road, Haslingden*	*Gentleman*
5	*Leigh*	*Charles*	116 *Hawthorn Avenue, Haslingden*	*Cashier and Secretary*
6	*Warren*	*Mrs. Eliza*	*Springfield, Green Lane, Haslingden*	*Married woman*
7	*Williamson*	*Henry*	110 *Hawthorn Avenue, Haslingden*	*Engineer*

* The Aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the Summary to have been taken up.

† When the Shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be shown separately.

Warren Limited,

who have held Shares therein at any time since the date of the last

the Company, showing their Names and Addresses, and an Account of

ACCOUNT OF SHARES.					REMARKS.
* Number of Shares held by existing Members at date of Return.†	‡ Particulars of Shares Transferred since the date of the last Return or (in the case of the first return) of the Incorporation of the Company, by persons who are still Members.		‡ Particulars of Shares Transferred since the date of the last Return or (in the case of the first return) of the Incorporation of the Company, by persons who have ceased to be Members.		
	Number. †	Date of Registration of Transfer.	Number. †	Date of Registration of Transfer.	
7000					
400					
420					
680					
100					
300					
100					
9000					

(Signature) *Charles Leigh*
(State whether Manager or Secretary)
Secretary.

* The Date of Registration of each Transfer should be given, as well as the Number of Shares transferred on each date. The particulars should be placed opposite the name of the Transferor, and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately opposite the particulars of each Transfer.

CHAPTER XV

STORES, STOCK AND COST ACCOUNTS

The ascertainment of the actual cost of manufacture of the articles dealt in by a firm is of great importance. To attain this end, it is necessary to keep proper records of stores and materials used in the course of manufacture, so that a good system of store and stock-keeping must be instituted before the cost accounts can be relied upon. This subject is essentially one upon which the circumstances surrounding each business will determine the form of accounts to be used. It should be noted that a good system of store and stock-keeping should be installed by firms engaged in merchanting only, apart from the necessity for such accounts for the purposes of Cost Accounts. In describing a system of Stores, Stock and Cost Accounts, it is apparent that with necessary modifications the Stores and Stock Accounts could be made to suit the requirements of a merchant.

In some manufacturing businesses the articles dealt in are small, so that it is better in such cases to ascertain the cost of a quantity rather than of a single article.

The factors to be reckoned in Costing naturally divide themselves into three—

1. The cost of the materials or stores used in respect of the article or articles of which the cost is to be ascertained.

2. The amount of wages of production paid.

3. The addition, by percentage or otherwise, of an amount necessary to cover the establishment expenses of the business, such as Rent, Rates, Insurance, Office and Management Salaries, and the like.

The principles of a good system of store-keeping are similar to those which have been enunciated in regard to the financial books of a business, viz.: the recording of stores received in a book kept solely for that purpose, the recording of stores issued in another book, and the posting of these into a form of Stores Ledger. These remarks apply equally to the keeping of stock books. Modifications of this form may be useful in certain businesses, notably merchanting, in which it is often the fact that goods are purchased in the exact quantity required by the customer. Again, in the metal trade the Sales Day Book and Purchase Day Book may be provided with columns for weights so as to keep a check on the periodical stock-taking. The records kept by means of the Stores Books should be frequently verified by actual stock-taking, and it is usually impracticable to keep the books in money values, so that columns for weights, quantities or dimensions should be provided, dependent upon the nature and circumstances of the business.

Stores Received Book

(Written up from Invoices for Stores Purchased)

Date.	No. of Invoice.	Name of Suppliers.	Class of Stores.	Number of Articles.	Stores Ledger Folio.	Weights (or if applicable dimensions). Tons.	Cwts.	Qrs.	Lbs.

Stores Issued Book

(Written up from the "requisition notes" for materials required for contracts sent in by the foreman or manager of the works)

Date.	No. of Requisition Note.	Class of Stores.	Number of Articles.	Stores Ledger Folio.	Weights (or if applicable dimensions). Tons.	Cwts.	Qrs.	Lbs.	Cost Ledger Folio.	Contract to be charged.

STORES LEDGER

(Posted from Stores Received and Stores Issued Books)

Date.	Name of Suppliers.	No. of Art's.	Stores Recd. Book Folio.	Weights. T.	C.	Q.	Lbs.	Date.	Contract to be charged.	No. of Art's.	Stores Issd. Book Folio.	Weights. T.	C.	Q.	Lbs.

An account will be opened in the Stores Ledger for each class of stores used, so that the balance on each account will give the weight of such material in stock. The Stores Issued Book must also be posted into the Cost Ledger. The Stores Received Book should frequently be compared with the Purchase Day Book.

The analysis of the Wages should be made by the use of an analytical Wages Book, in the form shown.

COST LEDGER

Date.	Weights of Stores. Tons.	Cwts.	Qrs.	Lbs.	Rate at which charged.	Folio.	Value of Stores used.	Wages paid.	Proportion of Establishment Charges.	Total Cost.

There is no necessity to bring in the contract price. In some businesses it may be necessary to provide for stores returned from contracts. This would be done by means of a book for that purpose. An account is opened in the Cost Ledger for each contract or quantity of articles of which the cost is required. The postings are from the Stores Issued Book, Wages Allocation Book, and Cost Journal.

Wages Allocation Book

No.	Name.	Occupation.	Folio in Wages Book.	Total paid.	Cost Acct. No. 1.	Cost Acct. No. 2.	Cost Acct. No. 3.	Cost Acct. No. 4.	Cost Acct. No. 5.	Cost Acct. No. 6.

The Wages Allocation Book is written up from the Wages Book and Employees' Work Books.

Cost Journal

Nominal Account Balances.				Amount of wages expended on each cost account.		Amount of establishment charges chargeable to each contract.		
Date.	Name of Account.	Folio in Nom. Ledg.	Debit Balance.	Cost Acct. No.	Amount of Wages.	Ratio of Expenses to Wages.	Cost Ledg. Folio.	Amount.

The Cost Journal is a book used for the allocation of establishment charges, which in the example are split up between the Cost Accounts in proportion to the wages of production expended on each contract or quantity of articles of which the cost is required. Thus the Cost Journal contains the nominal balances taken from the Nominal Ledger, shows the total productive wages expended on each costing, and has columns for the calculation of the amount of establishment charges to be borne by each cost, which amount is then debited in the Cost Ledger.

It is to be observed that the financial books are not to be interfered with in any way under this system. There is in practice little or no advantage to be gained by joining the system of costing to the financial books.

The accuracy of the Cost Accounts may be proved by the use of the totals of the various books.

BASES OF VALUATION OF ASSETS

The basis of valuation of stock-in-trade should be the cost or market price, whichever is the lower. The basis of valuation of fixed assets should be the cost price as written down from time to time by the allowance of proper depreciation, which should cover all probabilities of loss of value, such as by reason of wear and tear, effluxion of time, obsolescence and permanent fall in market value. By this means the fixed assets are in effect valued at figures which they should bring if the business were sold as a going concern. Fluctuations in the values of the assets of a similar class should not be allowed to interfere with the figure put upon a particular asset in books of account, provided that the fluctuation is expected to right itself within a reasonable period of time.

A permanent increase in the value of a fixed asset would best be treated as a Secret Reserve, or if the book value is written up, the credit in respect of the added value should be placed to a Permanent Reserve Fund not to be used for the equalisation of dividends, although as a matter of law it is probable that the increase in the book value could be taken into account in paying a dividend. A Limited Company is not legally bound to provide for depreciation of its fixed assets unless its Articles of Association require it to do so, but sound finance dictates that full and proper provision should be made under that head. On the other hand, floating assets are from a legal point of view, to be properly depreciated. In practical accounting this automatically takes place, as in the valuation of stocks of goods, in which case a lower value is placed on old stock. Book Debts, Bills Receivable and other Floating Assets are so recorded as to eliminate any question of depreciation, if such is ever possible with items of that nature. It is always advisable to have complete inventories of fixed assets such as Plant, Machinery, Tools, Furniture, Fittings, etc., if possible with the book value of each item clearly shown.

BANKING

CHAPTER I

THE BANK OF ENGLAND

HISTORY.—Previous to the foundation of the Bank of England in 1694 the business of banking was carried on by the Goldsmiths. They were the only people who had anything in the nature of secure accommodation, and, in consequence, were entrusted with the care of money and valuables for which they gave receipts. In time these receipts became, by custom, transferable and were known as "Goldsmiths' Notes"—the earliest form of Bank Notes. The Bank of England placed banking on quite a different footing and modern methods may be said to have commenced with its incorporation.

The Bank of England was founded for the express purpose of providing money for the Government, and the banking business was a *quid pro quo* obtained from the Government in return for the accommodation which was given them. The Bank lent the whole of its Capital (£1,200,000) to the Government at 8 per cent. per annum and £4,000 a year for management expenses. The principal concession they obtained was the right to issue "Notes" for an amount equal to the Capital. In those days the principal idea of banking was the issuing of Notes payable to bearer on demand; "Deposit Banking" as we know it to-day was scarcely heard of.

The Bank was an immediate success and, naturally, brought a competitor into the field, which, however, not having the support of the Government, proved a failure.

The history of banking in England and Wales from this time is of a conflict for supremacy between the Bank of England on the one hand and all other banking interests on the other. The Government was very much at the mercy of the Bank financially, as it provided the money necessary for carrying on the country's wars—raising fresh capital from time to time for this purpose—and consequently the Bank had little difficulty in getting legislation passed in its favour.

BANK CHARTER OF 1708.—The most important of these Acts was that of 1708 which, amongst other things, prohibited any other company or partnership of more than six members, issuing Notes payable to bearer on demand. Remembering that this issuing of Notes was the principal business of banking at the time, it will be seen that the Act had an enormous influence on the development of banking. The practical result was to confine the whole business, other than that of the Bank of England, in the hands of private individuals or small partnerships. Anything in the nature of Joint Stock banking was unknown, and as this Act was not repealed until 1826, banking in England and Wales was, during the whole of this period, greatly confined and restricted. This accounts for the extremely prominent place which the Bank of England held in the Banking World, and which it retains, in some respects, to-day.

English and Scotch Banking Compared.—The effects of this legislation can be very clearly seen by contrasting the banking systems of England and Scotland. In the latter country no such privileged position was granted to the Bank of Scotland, and other banks grew up, constituted on very similar lines and with equal powers, the result being that very little private banking was done. The various companies extended their branches into remote parts of the country and for many years Scotland was served with a banking system far superior to that of England. At the present time, when English banking has developed to such a remarkable extent, offices are to be found in Scotland in places where no English Bank would dream of establishing itself.

The Bank of England cannot now claim the pre-eminence it once had. Since the repeal (in 1826) of its 1708 Charter, Joint Stock Banks have made their appearance, and since 1833 have been established in London. Of late years absorptions and amalgamations have been numerous; the private banker is rapidly disappearing, and the small company, more slowly, following. The large banks with their head offices in London are steadily growing, and it seems likely that in time the whole of the banking business of the country will be in the hands of a small number of large banks. This is already the case in Scotland.

Some of the largest English banks have now bigger resources than the Bank of England itself, but the latter maintains its supreme position by being the "Bankers' Bank"—that is to say, the large City bankers keep their surplus funds in the hands of the Bank of England. In this way the Bank of England controls the only reserve stock of gold in the country.

BANKING RESERVES.—If the balance sheet of a country banker is examined, it will be noticed that there is an item among the Assets, "Cash in hand and at London Agent's" and on a London banker's balance sheet an item "Cash in hand and at the Bank of England." In each case the "Cash in hand" is very little more than the banker needs for his day-to-day till requirements. His "Reserve" is kept elsewhere—in the case of the country banker at the London Agent's and in the case of the London banker, at the Bank of England.

The great bulk of the trade and commerce of the country is done on credit (Banking itself is simply a vast system of Credit), the whole of which depends for its support upon the Cash Reserve in the Banking Department of the Bank of England. This is what is known as the "Central Reserve System."

Under such a system it is evident that in order to ensure a smooth working and freedom from scares and panics, it is essential for the Reserve to be maintained at a substantial figure, and the Directors of the Bank have to keep constant watch to see that it is not depleted beyond the safety point. They are under no legal obligation to do this, and have in fact repudiated any such duty, but nevertheless in practice they are very careful to keep the Reserve to the required level.

BANK RATE.—The Directors meet every Thursday, when a statement of accounts is brought before them, and if from the figures, or from any advance knowledge they possess, they think the Reserve to be insufficient they raise the "Bank Rate," which is the minimum rate at which they will discount bills of exchange for other than their own customers.

OTHER MONEY RATES.—The importance of the Bank Rate lies in the fact that to a very large extent it governs all other rates of interest ruling in the money market. By it bankers fix the rate they allow for money on deposit; the interest charged on a large proportion of their loans rises and falls automatically with it; and the rate of discount in the open market approaches it as nearly as competition will permit. The raising of the Bank Rate thus causes the general value of money in the London market to be raised to a similar extent, and offers an inducement to foreign bankers to invest some of their money in London Bills. This increased demand for bills on London naturally increases their price, which means that the foreign exchanges will move in our favour—that is towards our incoming specie point.[1]

Bank of England and the Government.—The Bank of England is also the Government's banker; it keeps all its accounts; negotiates its loans; pays interest on its stocks; and provides it with temporary advances when its supply of ready money is not sufficient to meet its current expenses. With the exception of the Note Issue, which, in common with all other issues in England and Wales, is governed by the Bank Act of 1844, the Government has no control over the actions of the Bank. It is quite as independent as any other bank, is the property of the Stockholders and is managed by its Board of Directors.

The Bank and the Public.—The Bank of England will open current accounts with members of the general public on the same lines as other bankers but is generally more severe in its requirements as to the balance to be maintained and the general conduct of the account; the fact that one keeps an account at the Bank of England is considered a passport of financial respectability.

The Bank in a Crisis.—Being the keeper of the only real banking reserve in the country, the Bank of England has to provide enormous sums in the event of a crisis or panic in the Money Market. At such times the other bankers call in the money which they have lent to the Bill Brokers who, naturally, have not the means of paying except by borrowing elsewhere, and the Bank of England is the only source of supply available. A similar movement on a smaller scale may be observed towards the end of every month when the Joint Stock Banks are calling in their funds for Balance Sheet purposes. The result is shown in the increase of the "Other Securities" in the Banking Department—the increase representing the amount lent.

Bank Act, 1844.—Under the provisions of the Bank Act of 1844, the Bank of England is divided into two completely separate departments—the Issue and the Banking; the former concerns itself solely with the business of the Note Issue and the latter with all other business. The Act strictly limited the amount of Notes

[1] See page 283.

which the Bank could issue against securities, the sum fixed being £14,000,000 with power to increase this, on application, by two-thirds the amount of any country bank issues which lapsed. Owing to the rapid rate at which issuing banks have been absorbed by London banks and the consequent loss of their right to issue notes, the Bank of England has been able to increase the amount of its fiduciary issue to £18,450,000.

BANK RETURN.—The Bank is required to publish weekly in the *London Gazette* a statement of its accounts; this is known as the Bank Return, of which the following is a copy—

BANK OF ENGLAND

WEEK ENDING, JANUARY 31ST, 19. .

ISSUE DEPARTMENT

Notes Issued	£55,834,125	Government Debt ..	£11,015,100
		Other Securities ..	7,434,900
		Gold Coin and Bullion	37,384,125
		Silver Bullion	—
	£55,834,125		£55,834,125

BANKING DEPARTMENT

Proprietors' Capital ..	£14,553,000	Government Securities	£15,270,184
Rest	3,444,986	Other Securities ..	33,615,335
Public Deposits ..	17,983,571	Notes	27,576,630
Other Deposits ..	41,412,704	Gold and Silver Coin..	949,665
7 Day and other Bills	17,553		
	£77,411,814		£77,411,814

ACTIVE CIRCULATION.—The first amount in the Return, namely, "Notes Issued," does not represent the total which is in circulation in the country. A large portion of it is held in the Reserve in the Banking Department, and the "Active" circulation is found by subtracting that amount from the total amount issued. In this case it gives a total of £28,257,495.

THE RESERVE.—It will be noticed that the Reserve in the Banking Department, which is generally spoken of as a "Gold" reserve, actually consists of notes and money, by far the larger part being notes. This is simply an arrangement for convenience; if the gold is wanted it can immediately be obtained by withdrawing notes from the Banking Department and cashing them in the Issue Department, which has always more gold than the total of notes in the Reserve. It is, therefore, quite right to consider the Banking Reserve as a gold one.

GOVERNMENT SECURITIES.—Care must be taken to distinguish between the "Government Debt" in the Issue Department and "Government Securities" in the Banking Department. The former is the balance of the amount borrowed by the Government from the capital issues of the Bank; it is simply a book debt on which the Government pays interest and for which there is no stipulated time for repayment. The latter represents the ordinary investments of the Bank in securities guaranteed by the British Government, including their holding of Treasury Bills, and any securities deposited by the Government for temporary advances, which are required at the end of every quarter (except March) to provide for the payment of pensions, dividends, and other quarterly disbursements. The security taken by the Bank goes by the name of "Deficiency Bills" and they are paid off as the Revenue comes in.

THE RETURN AND THE MONEY MARKET.—The items in the Return which chiefly affect the rates of interest in the Money Market are the "Other Deposits" and the "Banking Reserve." Movements in the Bank Rate are principally influenced by the proportion which the latter bears to the Bank's total liabilities to the public ("Public Deposits" and "Other Deposits"). This proportion now generally varies from 40 to over 50 per cent.

OTHER DEPOSITS.—The "Other Deposits" are the Bank's total liabilities to its customers other than the Government, and include the balances of the London Bankers. It is this fact which causes the amount to influence the Money Rates. It indicates roughly the amount of surplus money at the disposal of the outside market. When the Other Deposits are high it means that the Bankers have a good deal of money to dispose of and competition among themselves will tend to drive the rates down; when they are low, loanable capital is scarce and the rates will rise. The Rates principally affected are those for "Money at call" and "Seven day loans." It also affects, in a lesser degree, the Market Rate of discount. This rate is nearly always below the Bank Rate and when the

"Other Deposits" are high the difference is generally considerably greater than when they are low.

THE REST.—The other items in the Return have not much influence on the Money Market. The "Rest" is an amount accumulated out of the profits of the Bank, but not distributed to the Stockholders; it is generally known in other bank balance sheets as the "Reserve Fund." It is never below £3,000,000—any sum above that total is being accumulated towards the next dividend.

PUBLIC DEPOSITS.—"The Public Deposits" consist of the various Government balances; an interesting feature of this item is the way in which it mounts up between January and March, showing the activity of the income tax collector.

OTHER SECURITIES.—"Other Securities" in the Issue Department are certain investments of the Bank allocated as the balance of security for the Note Issue, while a similar item in the Banking Department is the remainder of the general investments of the Bank, together with securities taken against advances and discounts to customers and bill brokers.

CHAPTER II

BANKERS AND THEIR CUSTOMERS

Banking and Commerce.—The development of Banking since the introduction of Joint Stock Banks has had a great influence on the trade of the country. The greater the amount concentrated in the hands of bankers the greater the loan fund available for the promotion of commerce. It may be taken for granted that the great bulk of the money which is kept with bankers—that on current accounts particularly—is money that the customer would not be able to use in any other way; it is an amount which must be kept available for contingencies and which it would not be safe to lock up in increased business. The banker, however, can very safely lend a very large percentage of the total amount, as it is extremely unlikely that he will be called upon for repayment by all his customers at once. Experience will tell him what proportion he must keep as Reserve and the remainder can be profitably employed. This amount which a banker lends to his customers finds its way into commercial channels, and increases the capital available for reproductive purposes; it enables merchants to enter upon fresh enterprises when otherwise they would have to wait for a return from money already invested.

Discounts.—One of the simplest methods by which this increase of trade can be effected is by the discounting of Bills of Exchange. A merchant, say, in London, will ship goods abroad, and draw a bill of exchange, payable some time in the future, on the London Agent of the consignee. When this has been accepted he will be able to get the bill discounted by his banker, and so have the price of the goods available for further business immediately instead of having to wait for payment by the purchaser. When an agent of the consignee with power to accept bills is not available, the shippers can attach the bill of lading, policy of insurance, letter of hypothecation, and invoice, to the bill of exchange, and then sell it to his banker before acceptance. The banker is satisfied with the security of his customer's signature as drawer and the shipping documents which will give him a title to the goods in case the bill is not duly met.

Documentary Bills.—These bills are known as "Documentary Bills," and as a rule the drawee can obtain possession of the documents only on payment of the bill—sometimes, however, when his commercial standing is above suspicion, and the bill has not been discounted, the documents are surrendered on his acceptance of the bill.

When goods are consigned to some port comparatively near, the merchant can send his bill by mail for acceptance and return, and then discount it with his banker.

Loans.—Traders can also supplement their capital by borrowing on the security of their premises and book debts, the negotiation of which will be discussed in a later chapter.

Relation Between Banker and Customer.—The relation between a banker and his customer is that of debtor and creditor, and except in cases provided for by special legislation, the common law governing this relationship applies to them. A banker has an added obligation towards his customer of paying his cheques when presented, if they are in order, have not been stopped, and he has sufficient funds in his hands to meet them. It is a paramount duty of a banker to protect his customer's credit in every possible way, and if convicted of wrongfully returning a cheque, he is liable to his customer in damages. It is not necessary for the customer to prove that he has actually suffered damage; the fact of the dishonour of the cheque is presumption of such damage. He does not, however, incur any liability to any third party. He owes no duty to the payee or other holder, and whatever actual damage such payee or holder may suffer, he has no remedy against the banker.

Determination of Banker's Obligations.—This obligation of the Banker to pay his customer's cheques is determined by—

(*a*) Countermand of payment (stopping).

(*b*) Notice of customer's death.

(*c*) Notice of customer's bankruptcy.

(*d*) Service of a Garnishee Order Nisi.

Death of Customer.—Notice of death must be given by someone entitled to give it or the Banker may disregard it; great care should be exercised or action may be taken on a false rumour. The reason a banker may not pay cheques after notice of death is in order to protect the interests of creditors who have not got cheques.

If a man dies owing more than he possesses, it would not be fair that those who happened to have cheques should be paid in full and the others have to receive less in consequence. All must share and share alike, and therefore the banker must not pay in any case. Holders of cheques must apply to the executors.

BANKRUPTCY.—In the case of Bankruptcy the position is somewhat different, and harder on the banker. The official publication of the bankruptcy in the *Gazette* is deemed to be good notice to the banker even if he does not see it. In practice the difficulty is not so great as it might seem, as the Official Receiver generally informs the banker of the receiving order having been made, at the same time requesting him to send a cheque for any balance he may have. Cases are quite possible, however, in which the Official Receiver does not know of the banking account and the banker is then dependent on the official publication. If, afterwards, he pays any cheques he will have to refund the money to the trustee for the estate.

ACT OF BANKRUPTCY.—A banker is in an even more difficult position when he gets notice that his customer has committed an "Act of Bankruptcy." He has to decide off-hand whether the deed alleged is really an act of bankruptcy, and the dividing line between what is and what is not such an act is very finely drawn. He also has to decide whether the information he receives is good "notice." If the banker decides both questions in the affirmative, he must cease payments on the account, otherwise if actual bankruptcy occurs within three months of the "Act" he will have to refund all payments into the estate.

GARNISHEE ORDER.—A Garnishee Order Nisi is an Order from a judge in chambers, given to a judgment creditor, attaching a debt owing to his debtor. When such a creditor knows that his debtor keeps a banking account, he frequently considers that account a debt suitable to attach as likely to be sufficient to meet his judgment. The benefit he will obtain depends, of course, on the balance which the debtor happens to have at his banker's at the time of the service of the order. The banker is called upon to attend on a certain date "to show cause why he should not discharge" the debt of his customer. If he has sufficient funds and the order has not been previously removed he will have to pay, and debit his customer with the amount plus expenses.

The banker is only called upon to pay a limited amount—the amount of the debt—but in order to make his position secure he must entirely close the account until the order is removed or discharged. The reason is that if it should happen that any of the balance of the account was not the customer's own money, but held by him on behalf of someone else, and the banker were to pay that away during the currency of the order for the customer's private benefit, he would have to refund the money to the party to whom it really belonged.

The usual practice is for the banker to open an entirely separate account—called say "No. 2 a/c"—through which any future transactions must go, until the restrictions on the old account have been removed.

Breach of Trust.—A banker must not under any circumstances connive at a breach of trust. If he should receive notice that by honouring any particular cheque he would be assisting his customer to commit such a breach, he is bound to dishonour the cheque or be liable to refund the money to the beneficiary. This may place great difficulties upon the banker, as he has to be satisfied that the notice is good and trustworthy, or he may, on the other hand, make himself liable to his customer in damages for dishonouring the cheque when the account was in funds.

Paying Bills of Exchange.—It has been stated that it is a banker's paramount duty to his customer to pay his cheques on presentation, unless for some reason already noted ; the same obligation does not in any way apply to Bills of Exchange accepted payable at his office. This is one of the few cases where a banker has the option of pleasing himself. He is entitled to act upon the acceptance, pay the bill, and debit his customer's account, or he may decline to do so until the customer has made special arrangements with him. The usual practice is for the banker to pay. Although a banker has, in this particular case, an option, when he has once adopted a certain course he must continue to act in the same way, unless he gives his customer sufficient notice of a change. If, after paying bills for some time, he were suddenly to return one for want of advice, the customer would have a good case against him for damages for injury to credit.

Course of Business.—The same rule applies to almost all a banker's dealings with his customers ; wherever a certain well-defined course of business has been pursued, the banker must not alter it to his customer's detriment without giving him sufficient notice to enable him to arrange his affairs differently ; for example : where a banker is in the habit of paying cheques against securities which he holds, or the balance on another account, or uncleared cheques, he must continue to do so until he has given his customer ample notice of a change.

UNSECURED OVERDRAFTS.—There is one course of dealing, however, to which no claim for continuity can ever be established. Where a banker has been in the habit of overpaying his customer's account with no security whatever, he can stop that at any time. It is somewhat like lending a friend a £5 note whenever he asks for it ; however many times it may have been done, one is always entitled to refuse.

A banker's duties to his customers in the matter of collection of cheques is dealt with in a later chapter.

REFERENCES.—A banker is frequently applied to for a reference as to the financial standing and integrity of his customers. He must, of course, be careful to say only what is strictly true or he may, on the one hand, either induce the enquirer to enter into business transactions which he would not otherwise do, or, on the other, he may injure his customer's credit. It is the practice to answer these enquiries only to other bankers. If the reply is sent without any signature being attached the banker will escape any liability for fraudulent misrepresentation.

PROFITS.—The profits of a banker are principally derived from the interest he receives from the discounting of bills and the granting of loans, less the amount which he pays for interest on deposit accounts. He also receives interest on his investments in various Stock Exchange Securities. If a customer does not keep a sufficient balance on his account to make it remunerative, the banker will charge him a small commission, but not very much profit is made in this way. A banker issuing his own Notes makes a profit on all those issued against securities. Profit is also made on the issue of Letters of Credit and Circular Notes ; on acting as Agent for other banks and on buying and selling stocks and shares on behalf of customers.

BANKERS' ACCEPTANCES.—Another source of profit is the accepting of bills on behalf of customers ; this a banker does for a fixed percentage of the amount of the bills. The liability of the banker on his acceptance being absolute, he will perform this service only for the very best customers and, even then, requires them to put up cover, and also to provide the cash to meet the bill two or three days before maturity. The cover may be any form of security, but very frequently consists of shipping documents relating to the goods for which the bill is drawn.

The object of a customer paying the banker to accept drafts in this way is to get the bills discounted at a lower rate than could otherwise be obtained. The amount paid to the banker for commission would be more than saved by the lower rate of discount.

CHAPTER III

CURRENT, DEPOSIT, AND OTHER ACCOUNTS

Current Accounts.—A banker receives money from his customers either on " Current " or " Deposit " account.

A Current or Running account is one on which the customer is entitled to draw cheques. The money is at his disposal at any time without notice. In London, current accounts bear no interest and the banker expects a certain minimum balance to be maintained in order to make the account remunerative. Each account involves the banker in certain out-of-pocket expenses ; he provides all stationery, including pass book and cheque book entirely free, the only amount which the customer is called upon to pay being the cost of the Government stamp on each cheque. Added to this, each account must be expected to bear its proportion of the banker's general expenses which are, in London especially, very heavy. If a sufficient balance for this purpose is not maintained it becomes necessary for the banker to charge a commission for keeping the account.

In some parts of the country the procedure is different. Interest at a small rate is allowed on the minimum monthly balance, and a charge is made (say half-a-crown per cent.) on the turnover, that is the total amount of the cheques paid during the year. This has the appearance of being a somewhat fairer arrangement, as the customer gets interest according to the balance he keeps and is charged according to the amount of work which his account entails.

Deposit Accounts.—Money received on Deposit account is generally subject to seven days' notice of withdrawal, and earns a fluctuating rate of interest payable half-yearly. The rate is nearly always $1\frac{1}{2}$ per cent. below the Bank Rate, but when the latter is exceptionally high, bankers do not as a rule allow more than 4 per cent. upon their deposits.

Deposit accounts are opened both with customers who keep Current accounts and others who are known as " Strangers." The usual practice (although different banks have different methods) is for strangers to receive "Deposit Receipts," but for customers simply to have the transactions recorded in their pass books, by transfers from and to their current accounts.

Deposit Receipts.—The "Deposit Receipt" given to strangers is not a negotiable instrument, and is exempt from stamp duty; it cannot be transferred to any third party, although some bankers have a cheque form printed on the *back* of the Receipt which, after due notice has been given, they will allow to be negotiated as a cheque and the money withdrawn in that way.

Fixed Deposits.—Customers having large sums at their disposal which they know will not be required for some considerable period, may be allowed to deposit it for a fixed time at a fixed rate, but this is a rare exception with London Bankers. The Foreign and Colonial Bankers with offices in London, however, make this a substantial part of their business, and the rate of interest they allow is generally considerably higher than the ordinary bankers' rate, and the longer the period for which it is deposited the higher will be the rate; different banks having different maxima. It is well in this connection to bear in mind the principle, which has very few exceptions, that "The higher the rate, the greater the risk."

Combining Accounts.—Where a customer keeps more than one account at a banker's, whether it be two current accounts or a current and deposit account, the banker is entitled to combine the two in case of necessity. For example: if a customer having a No. 1 and No. 2 account each with a credit balance of £50, draws a cheque for £75 on his No. 1 account, the banker may pay it and set off the £25 overdraft on the No. 1 account against the £50 credit on the No. 2. If the customer now draws a cheque for, say, £40 on his No. 2 account the banker is entitled to return it, notwithstanding that the particular account on which it is drawn has a larger credit balance than the amount of the cheque. He has a "lien" on the £50 balance to the extent of the £25 overdraft on the No. 1 account, leaving only £25 available for the customer to draw upon.

The same rule applies where the accounts are current and deposit, or even if the accounts are kept at different branches of the same bank. In all these cases the banker has the option; he can either combine the accounts as suggested or he can, if he prefer, return the original cheque which overdrew the No. 1 account. He must not, however, as we have before noted, change a course of business which he has adopted, to the detriment of his customer.

Loan Accounts.—London Bankers do not, as a rule, open Loan accounts with anyone who does not keep a current account with them. When a loan is granted the amount is placed to the credit of the current account and the interest debited to that account every quarter. Loans are, generally, granted only for short periods —say three months; at the end of that time they must be either paid off or renewed. If the circumstances are the same as when the loan was granted, there will be no difficulty in getting a renewal, but it is against all the principles of banking for a banker to lock his money up for long periods. He is liable to repay all he holds on current account at call, and on deposit, at short notice; he must, therefore, place it in such a way as to enable him to call it in without undue delay. A banker's investments must be "liquid," that is, able to be easily realised.

Loans on Stock Exchange Securities.—Loans are granted on varying classes of securities; the best form, from the banker's point of view, being "Stock Exchange Securities," that is those saleable on the London Stock Exchange and quoted in their official list. The advantages are twofold: first, the value can be immediately calculated and fluctuations noted daily, and, secondly, he can, in case of necessity, realise his security without delay by selling it through his stockbroker. The security must always have a certain agreed margin of value above the amount of the loan, and it is of great importance to the banker to be able to check this frequently by reference to the daily quotations.

The most approved Stock Exchange Security is in the form of "Bonds to Bearer"—that is, bonds negotiable by delivery. The simple handing them over by the customer to the banker in exchange for the loan constitutes the banker the absolute possessor until the loan is paid off; no trouble or expense of transfer is necessary. Some American Railroad certificates, which have the transfer form on the back signed in blank by the registered proprietor are transferable in the same way and are thus equally good.

Other forms of security—those transferable by deed—must be transferred into the name of the banker or his nominees; the transfer is made out for a "nominal consideration" and requires a stamp of only 10s. for any amount. There will also generally be a further fee of 2s. 6d. to be paid on registration of the transfer. When the loan is granted on the security of British Government or other inscribed stocks, the stockholder must attend at the Bank and transfer the Stock, or obtain a Power of Attorney for that purpose.

Fortnightly Loans to Stockbrokers.—Special loans are made to Stockbrokers on this class of security for the purpose of enabling them to " carry over " transactions from one account to the next. They are known as " Fortnightly Loans to Stockbrokers " and are lent for the definite period from one settlement to the next at a fixed rate. If it is required to continue the loan for the next account, the customer must make a new bargain with the banker.

Loans on Title Deeds.—Title deeds to property are also taken as security for loans, but this is not the kind of cover which a banker favours. It possesses neither of the two good points which we noted in the case of Stock Exchange Securities; the price is neither easily calculated nor the changes of value readily noted, and in the event of the banker being compelled to realise the property a forced sale would probably produce much less than its real value.

Title deeds will be either Freehold or Leasehold. From the banker's point of view the former are by far the superior. The value of freehold property is not liable to the same steady fall that is bound to occur in leasehold, and in most places, certainly in growing towns, the value is almost sure to increase owing to the demand for ground. The decrease in the value of a leasehold is very rapid as the term draws near its end, and, at the close, it is worth less than nothing owing to the liability for dilapidations.

Under these circumstances a banker should be very careful in lending money on this class of property; arrangements must be made for the loan to be repaid at least more quickly than the running off of the lease, and short leases should never be taken at all. A leaseholder is generally bound by certain restrictions by the ground landlord, and in the event of the ground rent not being paid, the latter can seize the property; it is therefore essential for the banker to see that the terms of the lease are complied with and the ground rent regularly paid. It is also necessary in lending money on all kinds of house property to see that the fire insurance premium is kept paid up to date, or a fire may dispose of all the security. The best plan is for the banker to get from his customer a standing order to pay all charges on the property; he is thus sure of the payments being made and does not have to worry the customer for the receipts.

It is the difficulty of realisation which chiefly makes land and house property a bad banking security. It is one of the canons of banking that funds should not be locked up, and where the loan is to be anything of a permanent nature it should be obtained by way of an ordinary legal mortgage.

LETTER OF CHARGE.—The charge which a banker obtains is generally in the form of an equitable mortgage with a power of attorney enabling him to sell the property and give a legal discharge in the name of the customer. The deed requires to be stamped at the rate of 2s. 6d. per cent. on the amount of the loan. If a further loan is granted on the same property, the revenue authorities will stamp it for the extra amount, notwithstanding the deed is dated more than thirty days previously, on production of a letter from the banker explaining the circumstances for which the extra stamps are required. When the property is registered at the Land Registry, the charge must also be registered there (fee 1s.) and the registrar will not then register any future transfer without giving notice to the banker.

LOANS ON SHIPPING DOCUMENTS.—Money is also lent on Shipping Documents—Bills of Lading, Dock Warrants, Warehouse Warrants, etc. These are documents of title to goods and are negotiable by endorsement; when endorsed in blank they become negotiable by delivery.

Documents of title to goods are not such thoroughly negotiable instruments as Bills of Exchange. A good title can generally be given to the latter even by someone whose title is bad, but in the case of the former, one bad transfer will invalidate all subsequent ones. A banker has, therefore, to be careful in lending money on this class of security. The most important consideration is the *bonâ fides* of his own customer, and next, the integrity of the issuer of the document, especially in the case of warrants.

GUARANTEES BY THIRD PARTIES.—Customers who have none of these securities to pledge can frequently obtain a loan on a promissory note supported by the assignment of a life policy or the guarantee of a third party. The latter must be very carefully dealt with and must cover every contingency; the form used is what is called a " continuing guarantee," that is, one covering not only the particular transaction to which it refers, but all others in the future, up to a fixed limit, until notice is given to discontinue.

Guarantees under seal require a 10s. stamp, but for those under hand a 6d. postage stamp is sufficient. The latter are good only if given for a consideration, but in the case of bank guarantees this is presumed.

Loans to Limited Liability Companies.—In lending money to limited liability companies, it is necessary to ascertain if they have power to borrow, and if so, on what security; this can only be found out by consulting their Articles of Association. If they have not the power, and a banker lends money, it is *ultra vires* and the banker could not recover his money in a court of law.

If the money has been used to pay " off outstanding liabilities the banker, by the right of subrogation, can claim the amount so paid. He stands in the place of the original creditors."

" Where a company has the power to borrow, but has no security to lodge, loans are sometimes granted on the personal security of the directors. The best way is to take a *joint and several* promissory note signed by all the directors, promising to pay the *company*, and then getting the company to endorse the note over to the banker."

Loans to Local Authorities.—The question of lending money to Local Authorities (Town Councils, County Councils, etc.) has been greatly complicated by recent decisions in the Law Courts. The banker must in any case be sure—

(*a*) That the Authority has the legal power to spend money for the purpose for which the loan is required.

(*b*) That it has official sanction to borrow the money.

(*c*) That it has power to pledge the security which is offered.

(*d*) That the resolution authorising the spending the money has been passed by the Authority.

As these various Authorities are regulated and controlled by several Acts of Parliament, and some of them by their own Special Charters, it is very advisable for a banker to get legal advice before granting any facilities.

Discounts.—The very best way in which a banker can use his customers' money is by discounting approved Bills of Exchange, because the accommodation is only for a short and definite period, the money automatically coming back to the banker, in full, upon payment of the Bill. Bank Bills (that is those accepted *by* a banker) are discounted without enquiry at the very best rate, but with Trade bills a banker requires to be satisfied as to the standing of the acceptor, by enquiring of his banker, and charges a higher rate of discount to cover the greater risk.

Discounting accounts for Trade bills are generally opened only for customers whose own commercial standing is undoubted; the banker depends more upon his stability and liability on his endorsement of the bill, than he does on the security of the acceptance. When opening a large Trade Discount account a banker would do well to secure an agreement from the customer to keep a certain proportionate minimum balance (from 5 to 10 per cent. of the amount of discount according to circumstances) and instructions to debit all unpaid bills direct to the account.

Overdrafts.—Instead of placing the money to the credit of a customer's account by way of loan, accommodation is sometimes given by allowing the account to be overdrawn; this is more common in the provinces than in London. At first sight this appears a much cheaper way of borrowing money, as the customer is charged only on the actual amount he is overdrawn on his daily balance, whereas with a loan he takes a lump sum, and what he is not actually using remains on his current account earning nothing. In practice it does not work out quite so simply; the banker usually charges a higher rate for overdrafts, and also a commission for his trouble and expenses in keeping the current account. The security for an overdraft may be any of those already mentioned for loans; for quite temporary purposes an overdraft may be granted without security provided the banker is satisfied with his customer's promises and power of repayment.

Book Debts.—Traders are occasionally granted advances on the security of their book debts, in which case it is necessary for them to produce a properly audited balance sheet.

Money at Call.—" Money at Call and Short Notice " is an item which appears on every London Banker's balance sheet; it comes next to the " Cash in hand and at Bank of England " and is looked upon as the next source of supply in case further cash is required.

It consists of the Banker's surplus funds and is lent to the Bill Brokers—Call money, sometimes called " Day to Day " money, being repayable on demand, and the " Short Notice " money being lent for a week. These "surplus funds" are of course constantly varying, depending on the amount paid in and withdrawn during the day; consequently the rate of interest charged is very irregular. Money may be plentiful in the morning and rates very easy, but by the afternoon it may be scarce and rates forced up considerably. The Security for these loans consists of parcels of bills deposited by the brokers.

"Window Dressing."—When the bankers are preparing for their balance sheets they sometimes "call in" a portion of this money in order to increase their amount of "Cash." If the brokers cannot obtain their accommodation at another banker's, they are compelled to apply to the Bank of England, and it is this demand which is frequently referred to in the money articles, when it states that a large business was done at the Bank in loans for a week. Billbrokers do not apply to the Bank if they can avoid it, as they can never borrow for less than a week at a rate of at least one half per cent. above Bank Rate.

CHAPTER IV

CHEQUES

Cheques.—A cheque is defined in the Bills of Exchange Act, 1882, as a "bill of exchange drawn on a banker, payable on demand." As it is a bill of exchange it must be unconditional;[1] therefore all those documents similar to cheques, and commonly passed as such, but having conditions attached to them (such as the signing of a receipt) are not cheques within the meaning of the Act.

The importance of this lies in the fact that people dealing with those documents which do not come strictly within the definition, do not get the benefit of the various protections which are provided in the Act, unless covered by one of the two following clauses of other Acts.

Revenue Act, 1883.—Section 17 of the Revenue Act, 1883, provides that the crossed cheques sections of the Bills of Exchange Act, 1882 shall "extend to any document issued by a customer intended to enable any person to obtain money from a banker, as if the document were a cheque, provided that nothing in this Act shall be deemed to render such a document a negotiable instrument." This seems to protect the banker fairly, but as it specifically denies to the document the property of negotiability it does not give much protection to a "holder."

Stamp Act, 1853.—Section 19 of the Stamp Act, 1853, which is the only section of that Act not repealed, reserves to the banker paying "any *draft or order* upon a banker payable to order on demand" the same protection against forged endorsements that he has on bills on demand and cheques.

Essentials of a Cheque.—The essentials of a cheque are date, name of banker, name of payee, sum in words and figures, drawer's signature, and stamp. A cheque is payable on demand, but payment cannot be demanded before its ostensible date; if a cheque is dated on Sunday it is not payable before Monday.

Post-dated Cheques.—Post-dated cheques are very anomalous documents; they have all the effect of a bill payable some time

[1] See definition of Bill of Exchange, page 248.

in the future, but require only a twopenny stamp instead of the *ad valorem* stamp required for such a bill. Thus the revenue is defrauded when a post-dated cheque is drawn for more than £10. The Bills of Exchange Act distinctly says that a cheque is not invalid by reason of its being post-dated, and such cheques have been successfully sued upon in the Courts, so there is no question of their validity. If a cheque is issued undated a holder is entitled to fill in the date himself.

The name of the payee should be filled in by the drawer, but the holder can supply the omission ; if payable to order the payee must endorse. Order cheques payable to fictitious or non-existing payees may be treated as payable to " bearer," and impersonal cheques such as " Pay Wages or Order " are generally so treated.

The sum payable must be expressed both in words and figures ; if the two amounts differ the Bills of Exchange Act says the "words " should be taken as correct, but this is not the custom of bankers. They generally look at the figures and if they are the *smaller* amount they will be willing to pay that ; if the party presenting will not accept that, the cheque is returned marked " Words and figures differ."

The drawer's signature is, of course, the first essential on a cheque.

Stamp.—A cheque must also bear a twopenny stamp, without which the document is invalid. The stamp is usually impressed ; an ordinary postage stamp is sufficient but it must be put on *before it is issued by the drawer and must be cancelled by him.* This is a fact which is not sufficiently well known and appreciated. A stamp placed upon a cheque by any later party is entirely inoperative and the cheque cannot be sued upon ; it is impossible even to charge the party who actually affixed the stamp. A person taking such a cheque from an intermediate party can only be safe when the stamp is cancelled by the drawer's signature. The paying banker may put on the stamp and either pay two pence less, or charge the customer in account, but even this does not relieve all the previous parties from their liability for a £10 fine.

Cheque as Negotiable Instrument.—A cheque is a thoroughly negotiable instrument ; it fulfils the two requisites of perfect negotiability, viz., it is by custom transferable, and it can be sued upon by the party holding it, provided he has taken it in good faith, given value for it, and had no notice of any defect in the title of the person from whom he took it. Thus a party who took a cheque from a thief might get a perfect right to it. This right is modified by the "not negotiable" crossing, the effect of which will be described later. Nearly all cheques which are not cashed across the counter, are now collected by the bankers through the agency of the Clearing Houses, and with the exception of those cleared locally in a few of the largest provincial towns, all the cheques in the country go through the London Clearing House. Cheques drawn on the London offices of the Scotch Banks, the Foreign Banks and two or three West End Bankers are still collected by Walk Clerks.

The London Clearing.—The "Clearing" is divided into three parts—

(*a*) *Town:* for the Head Offices and nearer City Branches.

(*b*) *Metropolitan:* for the inner range of London Branches and West End Bankers.

(*c*) *Country:* for the remainder

All country bankers who have not a head office in London appoint one of the clearing bankers as their Agent, who arranges their clearing for them. Settlement is made for the Town and Metropolitan clearing the same day, but the Country cheques are only paid for on the second day following.

Cheques drawn on Scotland, Ireland, Isle of Man, and the Channel Islands have to be collected by post.

Liabilities of Parties.—Everyone who signs his name on a cheque, either as drawer or endorser, makes himself responsible to the holder for its due payment, and in the event of the cheque being dishonoured by the banker on whom it is drawn, the holder has the right to sue all or any of such endorsers and drawer. The latter is the one who is primarily liable, the endorsers being merely sureties for the further security of the holder. If the cheque is paid by an endorser, he has still a claim against the drawer who can only be discharged from his liability by the Statute of Limitations or discharge in bankruptcy. The holder must, however, present the cheque for payment within a reasonable time or he will lose his remedies against the endorsers, and, in the unlikely event of the failure of the banker in the interval, if the drawer had sufficient balance to meet the cheque the holder will lose his right against him, but can claim from the banker's estate in bankruptcy

Reasonable Time.—What is a reasonable time is a mixed question of law and fact, and must be decided by the nature of the instrument, the usages of trade and of bankers, and the facts of the particular case. In the absence of special circumstances, no holder should keep a cheque in his possession later than the day after he receives it ; he should either pay it in to his bankers for collection or negotiate it to some other holder. A collecting banker is allowed the same time for sending the cheque forward for collection, but it is the invariable practice of bankers to deal with all cheques received on the day of receipt ; any banker who held a cheque longer than the day after it was paid in, and his customer suffered loss in consequence, would be liable to make the loss good.

Alterations.—All alterations on a cheque must be certified by the *signature* of the drawer. Bankers used to be satisfied with initials, but as these are so easily forged, they are now insisting on signatures. An alteration from " Bearer " to " Order " need not be certified as it simply imposes a further duty on the holder. Where a cheque is signed by two or more persons the signatures of *all* are required to the alteration, otherwise it is possible for one of them so to alter the cheque (say by writing " pay cash " on a crossed cheque or by altering " Order " to " Bearer ") as to be able to convert it to his own use without the knowledge of the other signatories. In a recent case on these lines the banker had to refund the money to the account.

Fiduciary Signatures.—When the persons signing the cheques wish to avoid all personal responsibility for them, it is necessary that they should so express themselves as to leave no room for doubt. Usually a company's cheques require the signatures of one or two directors and the secretary, and the best way for them to show that the liability rests on the company is for them to sign " per pro." (meaning per procuration of) the company. This form legally signifies that they have the authority of the company delegated to them to sign in this way, and throws the whole responsibility on the company. " For and on behalf of " is another form which is amply sufficient. It is not enough simply to place *after* one's signature one's official designation such as

T. Brown,

Director of the A. B. Company.

It is essential for the words showing that the signature is "for" the company to appear, otherwise the signatories will be personally liable.

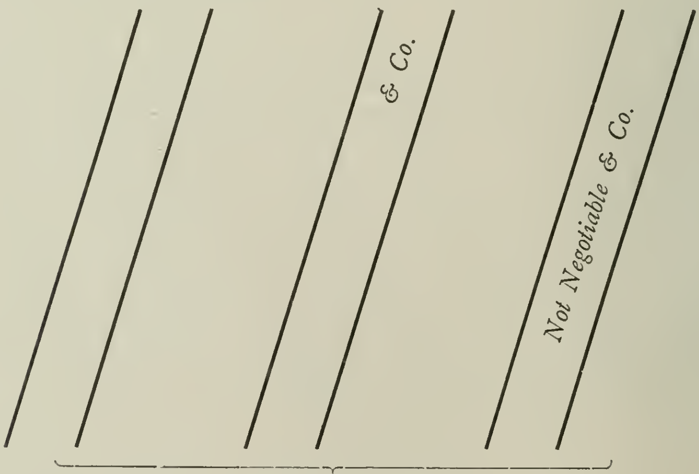
Crossed Cheques.—A crossed cheque is one which bears across its face two parallel transverse lines, with or without the words "not negotiable" or the words "and company." This is a "general" crossing.

Where a cheque bears across its face the name of a banker with or without the words "not negotiable" this is a "special" crossing, and the cheque is said to be crossed specially to that banker. The transverse lines are not necessary to a special crossing.

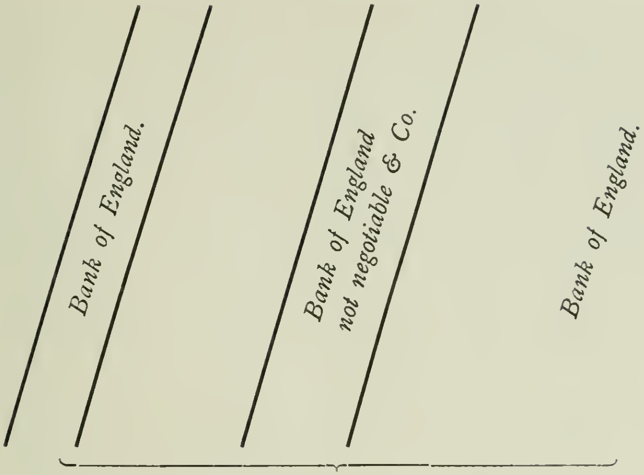
A cheque which is crossed generally, can be paid only to a banker; one which is crossed specially can be paid only to that particular banker whose name appears in the crossing.

Object of Crossing.—The object of crossing is to give further protection to the rightful owner of a cheque. As it is payable only to a banker it is always possible to trace a fraud back to the guilty party, whereas if the cheque is uncrossed, a thief can take it straight to the bank on which it is drawn, forge the payee's endorsement, if necessary, and obtain the money before the drawer has had the opportunity of stopping payment.

Specimen Crossings—



General Crossings



Special Crossings

No one should cash a crossed cheque for a stranger or the objects of the crossing are nullified.

Crossing, however, is not in any way intended to retard the legitimate negotiation of cheques, and one is quite safe in taking a crossed cheque in the ordinary course of business from any party whom one thinks one can trust. If it turns out that the party has no right to the cheque and has obtained it fraudulently, that will not prevent the holder from recovering the amount, provided he can show that he took it in good faith, gave value for it, and had no notice of the defect in the title of the party from whom he took it.

Not Negotiable Crossing.—If in addition to the transverse parallel lines and the words "and Company" the cheque bears the words "not negotiable" (not necessarily between the lines) a new position arises. Section 81 of the Bills of Exchange Act, 1882, reads: "Where a person takes a crossed cheque which bears on it the words 'not negotiable' he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had." The words have no other meaning than that here quoted. They do *not* mean that the cheque is not transferable. So long as every transfer of the cheque is a good and legitimate one, the words "not negotiable" have no bearing on the document; it is only when someone obtains the cheque in an illegitimate manner, such as finding or stealing, that the words begin to have any force. It is evident that a person so obtaining the cheque could himself get no title to it, and the section lays it down that after that, no future holder can get any title. The practical position then is this: if offered a "not negotiable" crossed cheque in the ordinary course of business, it is perfectly safe to take it provided one is sure of the *bonâ fides* of the party who is offering it; if not sure, the risk is run of discovering that some fraud has been committed and that one has obtained no rights against the various parties on the cheque—the only right that can be enforced is against the person from whom it was taken, *if he can be found!*

"Not negotiable" has no application whatever to uncrossed cheques and in the manner in which it is used here it cannot apply to other commercial documents. If it is wished to restrict the negotiation of a bill it is necessary either to put special wording in the body, or for an endorser to endorse restrictively.[1]

Postal Orders.—The words not negotiable are printed on the top of postal orders when issued. These documents are governed by a special Act of Parliament and are not negotiable instruments in the same sense as cheques and no one can under any circumstances obtain a good title to them after they have been fraudulently dealt with.

Who May Cross.—A crossing, either general or special, may be put upon the cheque by the drawer; if uncrossed any subsequent holder may cross it, or, if crossed generally, may add a banker's name and make it special, or may add the words "not negotiable." A collecting banker may cross an uncrossed cheque, or if the cheque is already crossed generally, may cross it specially to himself or may cross it again to another banker as his agent for collection. With the exception of this latter case, a cheque which bears across it the name of two bankers would not be paid.

"Opening" Crossed Cheques.—When cash is required from the banker in exchange for a crossed cheque, the practice is permitted for the *drawer* to write the words "pay cash" within the crossing and put his signature to the alteration. No one but the drawer can remove the crossing and a recent decision of the

[1] See page 260.

courts throws great doubt on its legality in any case. Sir John Paget, Bart., K.C., supposes that if a drawer issued a crossed cheque to a payee from whom it was stolen, and the thief took it to the drawer and got him to " open " it, if the banker paid cash across the counter he would be liable to the true owner (the payee). Where the drawer " opens " the cheque before parting with it, however, it is difficult to see how any liability can attach to the banker.

" ACCOUNT PAYEE."—Another custom has crept into use of putting in the crossing the words " a/c payee " or " a/c T. Jones." The Act says " A crossing authorised by this Act is a material part of the cheque; it shall not be lawful for any person to obliterate, or, except as authorised by this Act to add to or alter a crossing." There is no mention in the Act of anything like this " a/c payee "; therefore the addition would appear to be unauthorised and illegal. We cannot, however, leave the matter here. Commercial Law is based very largely on custom—the custom is generally established first and the law comes afterwards—and where custom can be proved, it is generally sufficient to win a suit even in a case like this where it seems directly *contrary* to the law.

In a judgment delivered on November 14th., 1906, Mr. Justice Channell said, referring to " a/c payee " : " That marking was not provided for by the Bills of Exchange Act, 1882, but the custom had grown up in order further to protect the drawer against damage if the cheque were lost or stolen. It was a direction to the receiving banker that the drawer desired the cheque placed to the credit of the account of the payees. To disregard this direction . . . . would, in my opinion, be negligence," and that is the present position.

LIABILITY OF PAYING BANKER.—Where a banker on whom a crossed cheque is drawn, pays it contrary to the crossing, that is, either in cash over the counter, or, if crossed specially, to some other banker than the one whose name appears in the crossing, or if it bears the names of two bankers, then he will be liable to the true owner of the cheque for any loss he may incur through such payment. He is only liable to the true owner, and for any loss. There is no question of damages for doing something contrary to instructions, so that if the banker is certain he is paying the rightful owner, he will not suffer any loss through paying a crossed cheque in cash.

PROTECTION TO PAYING BANKER.—Where a banker pays a crossed cheque, in good faith and without negligence, strictly according to the terms of the crossing, he will not have to recoup the true owner of the cheque if it eventually turns out that he has paid a wrong party. This protection applies only if he pays in good faith and without negligence. He must have had no intimation from any reliable source that anything was wrong with the cheque. This seems to cover such a case as a *payee* giving notice to the banker that he has lost a certain cheque and asking that payment should be stopped. The banker's usual answer is that he must receive his instructions from the drawer to whom alone he owes any duty. This is in itself correct, but it behoves the banker to take special care, and if possible to return the cheque with some answer on it which cannot in any way reflect upon the drawer, such as "Have received notice that this cheque has been lost—communicating with drawer." This protects the payee and does not damage the credit of the drawer. If the banker insists on paying, as many hold he is perfectly justified in doing, it becomes a question whether or not the court would consider he had acted in good faith. Then there is the question of negligence. A banker can only be protected if everything on the cheque appears to be perfectly in order—the date, the words and figures, the crossing, and in case of "order" cheques, the endorsement, which must agree with the name of the payee.[1]

FORGED ENDORSEMENTS.—It is not necessary for the banker to be able to prove that the endorsement is actually signed by the payee; as long as it appears to be in order the banker is protected even if it turns out to be a forgery. This is a special protection given to Bankers paying "Bills payable to order on demand drawn on a banker"; he is still liable if he pays any other bill on a forged endorsement, although he may not be in any better position to judge of its authenticity. It is sometimes asked why there should be this difference in the two cases; if it is necessary to protect him in the one case, why not in both? The answer is, that, according to Common Law, if a person is directed to pay a certain individual, and really pays someone else, he has not carried out the instructions of his principal and cannot therefore charge him with the amount. A banker who pays on a forged or unauthorised endorsement is in this position, but it was realised by the legislature that, owing

[1] The question of endorsement is dealt with in full on page 259.

to the enormous increase in the use of cheques, the burden of being responsible for endorsements was greater than bankers ought to have to bear, and they therefore gave them this relief. Because they did not consider it necessary to relieve them in the case of ordinary bills is not a ground of complaint, besides which, there *is* a greater chance of a banker getting notice when a bill payable some time in the future gets into wrong hands. Unless the fraud takes place immediately before the due date, there is time for its discovery and for due notice to be given to the banker.

Protection in the case of cheques paid under these circumstances is also given to the drawer if the cheque has come into the hands of the payee. This throws the burden of the loss upon the party who was, presumably, so negligent as to let the instrument get into wrong hands.

PROTECTION TO COLLECTING BANKER.—A banker who collects for a customer crossed cheques to which it eventually transpires he has no title, or a defective title, is also protected against loss, though great difficulties have been experienced in getting the full measure of protection which the legislature undoubtedly intended. The first difficulty was experienced in settling the question as to what constitutes a customer.

CUSTOMER.—It was held in one case that a first transaction—that of opening a new account—cannot constitute a man a customer; this is reasonable, as the word "customer" seems to imply that something in the nature of habit and custom is required before a man can be called a customer, but it was not suggested how many transactions were necessary. Another case decided that the "habit and custom" of changing cheques at a banker's for a period of over twenty years and paying the proceeds into various accounts for which he was a collector did not constitute a man a customer; that it was necessary that he should keep an account.

We must therefore take it that in order to get this protection a banker must collect the cheque for someone who has kept an account with him for some reasonable period.

The next difficulty arose over the phrase "receives payment for a customer." It is usual for bankers to place amounts received for their customers to their credit the same day under the description of "Cash." In a case known as *Capital and Counties Bank* v.

Gordon it was held that where a banker did this, he credited the customer with the amount at once, whereas he did not receive payment for the cheque until some time later—say, the next day,—and that therefore the banker really *lent* the customer the money on the security of the cheque and then afterwards collected the cheque for *himself*. Whatever reason there may be in the argument, it undoubtedly entirely upsets the intention the legislature had in passing the section.

Act of 1906.—In order to bring the matter back into the form originally intended, a new Act was passed, known as the Bills of Exchange (Crossed Cheques) Act, 1906, which enacted that "A banker receives payment of a crossed cheque for a customer, within the meaning of Section 82 of the Bills of Exchange Act, 1882, notwithstanding that he credits his customer's account with the amount of the cheque before receiving payment thereof."

It must be noticed that here again the banker must collect "in good faith and without negligence," and it is this obligation which makes it extremely necessary that a collecting banker should carefully examine the cheques he receives for his customers' accounts before placing them to their credit. We have already seen that failure to take note of such instructions as "a/c payee" is held to be negligence, but there is another matter where great discrimination is necessary.

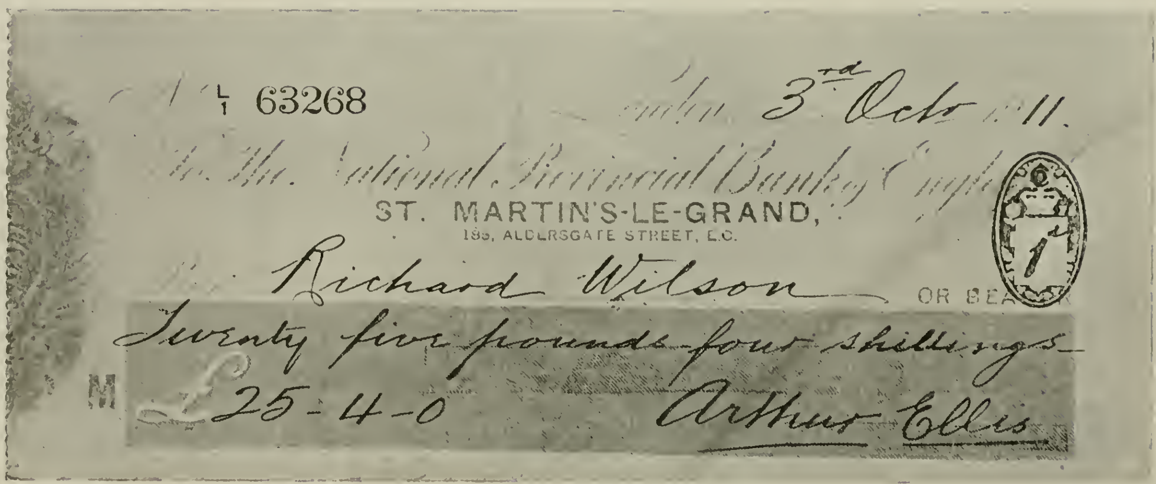
Bankers and Employees.—A banker must not receive for the account of an employee or agent, cheques which are payable to his principal, without the latter's direct authority. In many cases, especially where limited liability companies are concerned, the employee has the power to endorse for the company, but this, of course, does not authorise him to deal with the cheque on his own account. Cheques are frequently made payable to the official of a company by name; such as "Pay J. Smith, Secretary, Newcastle Coal Co., Ltd., or Order," or simply "Pay J. Smith or Order" and crossed "a/c Newcastle Coal Co., Ltd." In both these cases a banker who placed the cheque to the private account of J. Smith would be held to be just as negligent as if the cheque were made payable to the company. Bankers have had, in recent years, to refund in several cases the amounts of cheques collected in this way for officials' private accounts.

Bankers and Agents.—In the case of agents, the circumstances are often different. Frequently it is the intention of the principal that the agent should be empowered to deal with the money. Insurance Agents, for example, usually collect all their premiums and then settle with the company once a month. It is obvious here, that when the policy holders make their cheques payable to the "Company or Order" the agent must endorse on their behalf and pay the amount in to his own credit. It is the duty of the banker in cases of this sort to apply to the company for their authority to deal with the cheques for the private account of the agent. On receipt of such authority the banker is in a safe position and any future defalcations of the agent do not affect him.

Drawing Cheques.—In order to protect the interests of the banker, the customer should be careful in the filling up of the cheque. Both the figures and the words should be commenced as near as possible to the left-hand margin, with no spaces left between the words, and lines should be drawn between the figures to prevent others being added. A properly drawn cheque appears on page 246.

The importance of taking care in this matter is very great; the customer, of course, is only liable for the amount he orders the banker to pay, but it is his duty to see that he does not prejudice the banker's position by culpable negligence. Some older cases on this point, where the Court held that the banker had been misled by the contributory negligence of the drawer, put the loss upon the latter, and in a case decided in the House of Lords in 1918, it was held that if a customer draws a cheque in a manner which facilitates fraud, he is guilty of a breach of duty as between himself and the banker, and is responsible for any loss suffered by the banker as a natural and direct consequence of this breach of duty.

Answers on Unpaid Cheques.—If the customer has not sufficient money to the credit of his account to meet his cheques and the banker does not feel disposed to allow an overdraft, the cheques are returned. The usual answer put upon the cheque for this reason is either N/S meaning "not sufficient," or R/D meaning "refer to drawer." The latter is the one now more frequently used, the idea seeming to be that it does not cast such a stigma on the credit of the drawer, as it may mean that the cheque is returned for any other reason. As, however, it is now generally understood



NOTE.—The Stamp Duty on a Cheque is now 2d.

to mean the want of funds, it would be just as well to put the old fashioned N/S upon the cheque. If the banker has reason to expect that funds will be paid in to meet the cheque he may add "please present to-morrow" or "please present again" but there is no obligation on the holder to comply with the request. This phrase by itself is not a sufficient answer; it is no reason for returning the cheque.

The presentation of a cheque, drawn on an account with insufficient balance to meet it, does not, in England, create any claim upon the money which is there; any cheque, presented later, for a sum within the balance would be paid. In Scotland, however, the presentation of the first cheque would act as an assignment of the balance to the holder of the cheque; the banker would be unable to pay any other cheques until either the first had been discharged in some other way, or the balance paid over to the holder, and fresh money paid in to meet the later cheques.

Where a banker returns a cheque because his customer has countermanded payment he marks it "Orders not to pay."

Cheques are frequently returned for technical reasons which reflect no discredit on the drawer, and for which no damages could be obtained. The drawer himself may not have done everything in order. If the signature or signatures to the cheque do not in every way correspond with the orders and specimens given to the banker, he would return the cheque marked "Signature differs." If alterations are made and not properly verified he would put "alteration requires drawer's signature."[1] Other reasons might be "Date required"; "amount must be expressed in words"; "amount must be expressed in figures" or "payee's name required" or where the drawer has been exceptionally absent-minded, "requires signature" or where more than one is necessary "another signature required."

Irregularities by endorsers are much more frequent causes for the dishonour of cheques. Common reasons are E/I (endorsement irregular), E/R (endorsement required), or "official endorsement required," where officials sign for companies without showing their authority. Those drafts which require receipts to be signed are frequently presented without a receipt stamp when for over £2, and must be returned marked "receipt requires stamp."

[1] Initials used to be sufficient.

CHAPTER V

BILLS OF EXCHANGE AND PROMISSORY NOTES

Bill of Exchange.—A Bill of Exchange is defined by the Bills of Exchange Act, 1882, as—

"An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

An instrument which does not comply with these conditions or which orders any act to be done in addition to the payment of money is not a bill of exchange."

The importance of the definition lies in the note which follows it. Many documents which are in commercial use as bills of exchange do not come within the definition, are consequently not bills within the meaning of the Act, and are not governed, or the parties to them protected, by any of its provisions. They may be bills of exchange for stamping purposes as the definition in the Stamp Act is wider.

An order to pay out of a particular fund is conditional: for example "Pay J. Brown or Order out of the proceeds of my property now in your hands for sale"; but an unqualified order, coupled with an indication as to where the drawer is to get reimbursement, or a statement of the transaction which gave rise to the bill, such as "Pay J. Brown or Order.......... against Letter of Credit No. 250" is valid.

It is an essential feature of commercial documents of this description that they should be paid; they must not, therefore, be hedged about with any conditions or payable on some contingency which may or may not happen, and the fact that the contingency does happen does not cure the defect in the original drawing of the document.

The instrument must be an *Order*, but no particular form of words is necessary. It is not required that the word "pay" should appear, but any instruction such as "Credit the account of ...." is sufficient.

The order must be "in writing"—this covers printed matter. It must be addressed by one person to another. This is important, as it cuts out from the benefit of the Act a very large class of documents such as those drawn by Colonial branches on their head offices in London, which are held to be drawn by a person on *himself*; the difference in the actual signatures of branch and head office officials is ignored, the material fact being that it is the same institution.

The bill must be signed by the drawer, but not necessarily at the time of drawing; if signed at any time later it will not invalidate the document.

DETERMINABLE FUTURE TIME.—The payment must be either on "demand" (including "at sight" or "on presentation") or at a fixed or determinable future time. The latter is defined by the Act as—

(1) A fixed period after date or sight.

(2) A fixed period after the occurrence of a specified event which is *certain* to happen, though the time of happening may be uncertain.

If the happening is uncertain, the fact that it does actually happen does not cure the invalidity of the bill—it was invalid when drawn and can never afterwards become a good bill.

"Three months after my death" is a good order.

"Three months after my marriage" is not; even although the date of the marriage may be already fixed.

SUM CERTAIN.—The bill must be for a "sum certain in money." It must not require the delivery of anything but money, so an order to pay in some form of Stock Exchange Securities is not a good bill. The sum must be "certain," therefore an order to pay "the market price of one hundred quarters of corn" is not a bill of exchange. The expression "Pay One hundred pounds *and interest*" is considered as a "sum certain" within the meaning of the Act.

VALUE RECEIVED.—The words "value received" which usually appear on bills are not essential. English law presumes consideration, but some foreign countries require the particulars of the consideration to be given.

NEGOTIABILITY.—A bill of exchange, like a cheque, is a thoroughly negotiable instrument, that is, it gives to persons taking it rights against the parties to the bill that they may not have had under the Common Law. These rights are based on customs long recognised by merchants using the documents for purposes of exchange, and legislatures have adopted the customs into the Statute Law in order to facilitate the use of bills as mercantile instruments. Commerce requires that they should be readily taken by merchants in order that trade may be comfortably financed. The use of bills is as far in advance of the use of metallic money, as the latter is of barter, and any difficulties which were put in the way of the negotiation by legal enactments would considerably retard commerce. Provided that anyone takes a bill of exchange in the ordinary course of business, without notice of any defects, and without any negligence, he can acquire a perfect right to it against all comers. Forgery will, of course, upset all calculations, but when deliberate fraud has been committed some innocent person is bound to suffer ; it only remains for the law to put the loss on the party whom it considers ought to bear it.

Parties to a Bill.—The parties to a bill of exchange are—

(1) Drawer. (2) Drawee. (3) Payee.

When the bill is accepted the drawee becomes the acceptor, and when endorsed the payee becomes the endorser. If he endorses it payable to someone else, that person is the endorsee and will, when he endorses it, become the second endorser.

Any party liable as a surety on a bill—that is as drawer or endorser—can, if he wishes, insert in the bill the name of a person to whom the holder can refer in case of dishonour by non-acceptance or non-payment. Such a person is known as a " Case of Need." The usual method is to write at the foot of the bill " In case of need with Messrs. ...." In practice this is found only on foreign bills.

Essentials of a Bill.—The essential features of a Bill of Exchange are—

(1) Date and place of issue.
(2) Time of payment.
(3) Sum.
(4) Name and address of drawee.
(5) Name of payee (or " Bearer ").
(6) Drawer's signature.
(7) Acceptance of bills payable after sight.

If a bill payable after date, or the acceptance of one payable after sight, is undated, it is open to any holder to insert the true date of such drawing or acceptance. If, through inadvertence or want of knowledge, he inserts a wrong date, he cannot himself obtain any advantage of such error, but if he negotiates it, any future holder who receives it without notice that anything is wrong, can presume it to be the true date and act accordingly. If the drawer or acceptor has to suffer thereby, it is the result of his own carelessness in omitting the date.

It does not invalidate the Bill if the place of issue and payment are not there, but they are highly necessary features—both of them for the purpose of deciding whether the bill is an inland or foreign one and the place of payment for the purpose of presentation.

Inland and Foreign Bills.—An Inland Bill is one which purports to be both drawn and payable within the British Isles (including the Isle of Man and the Channel Isles) or drawn within the British Isles on someone residing therein. Any other bill is a foreign bill.

The fact that a bill drawn in Britain on a merchant, say, in London, is accepted by him payable abroad, does not make it a foreign bill, and a bill drawn in Britain on a person residing abroad, which is expressed in the body to be " payable in London " is also an inland bill.

The following are specimens of Inland and Foreign Bills respectively.

1/- Stamp.

Manchester, *Jan.* 1*st*, 19. . .

£100.

Three Months after date pay to our Order the sum of One hundred pounds for value received.

Brown Bros.

To J. Smith,
61 Cork St.,
London, E.C.

Accepted payable at the Bank of London, J. Smith.

This bill requires the endorsement of Brown Bros.

Due May 3rd, 19..

No. 14568.

BANK OF SAHARA, Ltd.

Timbuctoo, *Jan. 1st, 19..*

£100.

Foreign 1/- Bill.	Three Months after sight pay this First of Exchange (Second and Third of the same date and tenor unpaid) to the order of *J. Smith* the sum of One hundred pounds Stg. for Value received.

Per Pro. The Bank of Sahara, Ltd.

A. Brown, *Accountant.*
R. Clarke, *Manager.*

Accepted Jan. 3rd, 19.. payable at the Bank of London, Ltd.
For the Bank of Africa, Ltd.,
S. Robinson, Manager.
T. Jones, Accountant.

To The Bank of Africa, Ltd.,
Threadneedle Street,
London, E.C.

Discounting.—The Discounting of Bills of Exchange is, as we have seen, a most important part of a banker's business; it is good for the banker as a means of employing his funds profitably in "liquid" security, and it is good for the customer as a means of enabling him to undertake fresh business with money which would otherwise be locked up until the bill was paid. When a banker discounts a bill he buys from the customer all his rights, and becomes what is known as a "holder in due course." A banker would require his customer's endorsement in every case (even when not necessary to put the bill in order) for the purpose of securing his liability upon the instrument.

Bills for Collection.—If the banker merely holds the bill for collection for the account of his customer, he acquires no property in the document as a holder for value, but as a banker he has a "lien" on it in case the customer overdraws his account. As agent for collection he has certain duties to perform; if the bill has not been accepted he must present for acceptance without delay, and, when accepted, retain it until maturity and present for payment. The necessity for performing this duty on the exact date will be referred to later.

A Bill of Exchange cannot be crossed, and if an ostensible crossing is put upon it, it is inoperative. Any bill can be presented for payment in cash across the bank counter.

COLLECTION.—All bills, however, in the hands of bankers for collection and which are accepted payable at "Town" or "Metropolitan" banks are almost invariably presented through the agency of the London Clearing House; those payable at Country Banks are not taken through the clearing but must be presented by post either direct to the acceptor's banker or through the agency of another local bank.

Where a bill is accepted payable at a private house it must be remembered that it is essential to get actual cash in payment or something that can be converted into cash the same day. The instructions issued to "walk" clerks are to the effect that they can only take a cheque in payment if it is either a "Town" one, which will be cleared the same day, or one which they can collect on their way back to the Bank. In either case the bill must not be handed over to the payer. A cheque is not a legal tender payment, and must be attached to the bill, when both cheque and bill will be cleared together. The acceptor will get the bill returned to him in the pocket of his pass book. The cheque may be made payable to "Bill attached"; it is then the duty of the banker on whom it is drawn to examine the bill and see that it is in order, and if not, to return both cheque and bill with the reason stated. If the cheque is simply made payable to the party presenting the bill, the paying banker will be under no obligation to examine the latter.

PAYMENT UNDER REBATE.—The term "Rebate" when applied to the payment of bills of exchange refers to that class of bills known as "documentary" bills, already described on page 229. We saw there that the documents were to be given up according to the instructions of the drawer of the bill against either its acceptance or payment. In the latter case the acceptor has to wait until the maturity of the bill of exchange before he can get the bill of lading which will enable him to secure the goods. In many cases this may become a hardship, as it may prevent him obtaining the benefit of a good market, so he is allowed to take up the bill "under rebate," that is, he can obtain both bill and documents by paying the holder the amount of the bill *less* a deduction for interest for the time the bill has still to run. The rate of interest he can claim to be deducted is ½ per cent. above bankers' Deposit Rate. This method of obtaining the documents is not a legal right, but only one adopted by the custom of merchants, which would, however, be probably enforced by a court if occasion arose. The payment of a bill by acceptor before maturity does not operate as a discharge of the bill, but can only be looked upon as a *purchase*, making the acceptor a holder for value. At any time before maturity he has the right to re-issue it. If he retains it until the due date it is automatically discharged.

It is very necessary to distinguish between "Rebate" in this connection and the way in which the word is used in a banker's balance sheet.[1]

STAMPS.—The schedule of stamps required on bills of exchange is as under—

	s.	d.
Bill of Exchange payable on demand . . . or with a currency of only 3 days after date or sight		2
Bill of Exchange of any *other* kind whatsoever and promissory note of *any* kind whatsoever, except a Bank Note, drawn or expressed to be payable in the United Kingdom, where the amount does not exceed £10		2
Exceeds £10 and does not exceed £25 ..		3
,, £25 ,, ,, £50 ..		6
,, £50 ,, ,, £75 ..		9
,, £75 ,, ,, £100 ..	1	0
For every £100 or fractional part of £100 further	1	0

The fact that a bill is payable "with Interest" does not affect the amount of Stamp Duty required.

By the Finance Act, 1899 (Section 10), the duty on a bill of exchange *both drawn and expressed to be payable out of the United Kingdom*, when actually paid or endorsed, or in any way negotiated in the United Kingdom, is as follows—

	d.
If the amount exceeds £50 and does not exceed £100	6
For every £100 or fractional part of £100 further ..	6

[1] See page 300.

Exemptions from Stamp Duties.—Various exemptions are allowed, principally in favour of bankers, and include—

(1) Bankers' payments (for clearing purposes). (2) Letter written by one banker in the United Kingdom to another banker in the United Kingdom directing the payment of any sum of money to a third party. (3) Letter of Credit. (4) Various Government drafts. (5) Interest coupons.

Affixing Stamps.—Great importance must be attached to having the proper stamp on a bill, placed there by the proper person at the proper time. We have already seen how disastrous consequences may follow on not having a cheque properly stamped, and the same applies to other bills.

Stamping Bills drawn within the United Kingdom.—Those drawn in the United Kingdom[1] (unless requiring only a twopenny stamp) must be drawn on impressed stamped paper. On no consideration will the Inland Revenue stamp such a bill which has been already drawn on unstamped paper. The stamp must also be a proper "bill or note" stamp, but if for some reason the bill has been drawn on paper bearing an impressed stamp for sufficient amount, but of the wrong denomination (say a transfer stamp), it can then be stamped after execution on payment of the amount of the duty and a fine of £2 if the bill is not then payable, or £10 if it is payable.

Stamping Bills drawn out of the United Kingdom.—Bills drawn out of the United Kingdom requiring an *ad valorem* stamp *must* be stamped with an adhesive foreign bill stamp ; if it should happen to bear an impressed one it is useless, and still requires the adhesive one. The stamp must be affixed by the first person in the United Kingdom into whose hands the bill comes, and be cancelled by him.

If the bill is merely presented for acceptance in the United Kingdom, it need not be stamped, but such cases must be very rare ; if presented for acceptance there is likely to be some further transaction—either endorsement, transfer, or payment.

[1] For stamping purposes United Kingdom does *not* include Channel Isles and Isle of Man.

Acceptance.—Acceptance is the signification of the drawee of his assent to the order of the drawer. Until he thus signifies his assent he is not in any way liable on the bill. He may owe the drawer the money, and be liable to be sued for it, but the drawer has no power to make him liable on the instrument.

The essential feature of acceptance is the drawee's signature across the face of the bill; it is usually accompanied by the word "accepted," but this is not absolutely necessary. In the case of bills payable "after sight" the date of the acceptance must be inserted, and from that date the maturity of the bill is calculated. Most bills are now accepted payable at the drawee's bankers and then the acceptance appears as in the specimen copy on page 252.

An acceptance is incomplete and may be revoked until either the bill has been delivered to the person presenting it for acceptance, or the drawee has notified him of the acceptance.

Acceptance Essential.—Some bills are paid by the drawee without acceptance, but in the following cases presentation for acceptance is essential—

(*a*) Bills payable after Sight.
(*b*) Where bill expressly states that it is payable "after acceptance."
(*c*) Where bill is payable in some other place than the residence or place of business of drawee.

By accepting a bill the acceptor engages to pay the bill according to the tenor of his acceptance, but he has the option of varying the effect of the bill as drawn, by qualifying its terms.

Qualified Acceptances.—A Qualified acceptance may be—

(*a*) *Conditional*—Such as "Accepted payable on giving up Bills of Lading for cotton per s.s. *America*."
(*b*) *Partial*—That is, for a part of the amount—for example, a bill drawn for £100 and "Accepted for £50."
(*c*) *Local*—That is, accepted payable at a particular place *only*.

(*d*) *Qualified as to Time*—For example, a bill drawn payable two months after date and "Accepted payable three months after date."

(*e*) The acceptance of one or more of the drawees, but not all.

Rights of Holder.—Although the drawee has the right given him to modify the order of the drawer, it is still within the power of the holder of the bill to refuse to take such a qualified acceptance. If the bill is being presented for acceptance by the drawer himself, he may be agreeable to take any acceptance the drawee will give him rather than get nothing, but if the bill has been negotiated, and endorsed by one or more other parties, they have dealt with the bill on the terms of the drawing, and are consequently unlikely to agree with any variation of them. In this case the person presenting should treat the bill as dishonoured by non-acceptance, give notice to all the parties concerned, and make his claim upon them for immediate payment. If he takes any other course he must do so entirely at his own risk. In some cases it is possible all the previous parties may agree to the qualification, and the bill can then run until maturity on the terms of the qualified acceptance.

Signature on Blank Stamped Paper.—A Bill may be accepted before it is signed by the drawer; while otherwise incomplete; when overdue; or after a previous refusal to accept.

If a person signs his name on a piece of blank paper impressed with a bill stamp, and delivers it to another person to convert into a bill, it is *primâ facie* authority to complete the bill for any amount that the stamp will cover, using the signature according to circumstances either as acceptor, drawer, or endorser. It must be completed within a reasonable time and in accordance with the authority given, in order to charge those who were parties to it before completion, provided that any holder in due course after completion, is entitled to enforce it in any case, if he took it without notice of any defects.

Persons with no Capacity to Contract.—Any person, having no capacity to enter into a contract has no power to accept a bill. Companies and corporations are bound by their Articles of Association or Statute, and may be forbidden to accept bills. Where a bill is accepted by such a person, company, or corporation, it can still be enforced against the other parties.

Dishonour.—If a bill is dishonoured by non-acceptance, an immediate right of recourse against the drawer and endorsers accrues to the holder ; this is an unusual right and, being contrary to the law of all continental countries, could probably not be enforced against any parties in those countries.

Notice of the dishonour must be given to all the parties who are liable on the bill or they will be discharged from their liability, except that in such a case, where the bill is subsequently negotiated to a holder in due course, who has no notice of the previous dishonour, he retains all his rights against the previous parties, as if they had had notice.

If there is a " case of need " upon the bill, the usual plan to adopt, after giving notice and protesting the bill for dishonour, is to refer to him. The case of need would probably accept the bill for " Honour."

Acceptance for Honour.—Section 65 of the Act reads : " Where a bill of exchange has been protested for dishonour by non-acceptance . . . . . and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *suprâ* protest for the honour of any party liable thereon. . . ." It is to be noted that it requires the consent of the holder. We have already seen that according to English law he has an immediate right of recourse, but as it would be almost impossible to enforce this right abroad, it is much better for him to obtain the acceptance for Honour.

The person so accepting would be the London Agent of the party for whose honour he accepts, and would only comply with the request provided he had money or securities of his principal in his hands to cover the transaction. By accepting the bill in this way, he makes himself personally liable to the holder and all parties subsequent to the one for whose honour he accepts, just as much as if he accepted as drawee. The form of acceptance is the same, except that it *must* state that it is " for honour " and *should* state for whose honour it is accepted ; if this latter is not stated, it is taken to be for the honour of the drawer, as he is the party primarily liable on the bill, and payment on his behalf would discharge most parties.

If a bill payable " after sight " is accepted for honour, the maturity is calculated, not from the date of such acceptance, but from the date of the protest for non-acceptance. This is the date that the bill was " sighted " by the drawee, and is the true one from which to reckon.

Although accepted, the bill must not be presented for payment to the acceptor for honour without giving the original drawee a final chance of paying. It must be presented to him for payment, and, if refused, again protested for dishonour by non-payment, before it can be presented to the acceptor for honour. He then has to pay not only the amount of the bill, but also the two charges made by the notary, all of which he can debit to his principal.

ENDORSEMENT.—Endorsement is defined in the Act as " Endorsement completed by delivery." The actual writing of a signature on the back of a bill does not constitute a legal endorsement ; it must be completed by delivery or negotiation in order to render the endorser liable on the bill.

It may be well to interpolate here that *every* contract on a bill is incomplete and revocable until the instrument has been delivered or negotiated in order to give effect thereto, except that in the case of an acceptor, if he notifies his acceptance to the person entitled to call for the bill, then the acceptance is complete.

The holder of a bill payable to his own order cannot negotiate it without endorsing it ; if he transfers it, the transferee cannot get a better title to it than the transferor, but he has the right to obtain the endorsement later. An endorsement is usually written on the back of the bill, but one on the face has been held to be valid. If there is no room on the back for a further endorsement, a slip of paper, called an allonge, may be affixed to the bill to lengthen it, and a signature on the allonge is a good endorsement of the bill.

KINDS OF ENDORSEMENTS.—Endorsements are of three kinds—

(1) Blank. (2) Special. (3) Restrictive.

A Blank Endorsement consists of the endorser's signature only.

A Special Endorsement is one which orders payment to be made to someone else ; for example, a bill made payable to J. Smith or Order endorsed—

Pay T. Brown or Order,
J. Smith.

The bill then requires the further endorsement of T. Brown to put it in order.

A Restrictive Endorsement orders payment to be made to someone else *only;* such as—

Pay T. Brown only.
J. Smith;

or,

Pay T. Brown for my account.
J. Smith.

When an "Order" bill is endorsed in blank, or when, after having been specially endorsed the last endorsement is in blank, the bill may be treated as payable to "bearer." There is one difference, however, between such a bill and one that was originally payable to bearer. In the latter case it must always remain a bearer bill, but in the former it is possible for a subsequent holder to revive the "Order." Thus in the example given, suppose T. Brown endorses the bill in blank and passes it on to A. Clarke, the latter can then either pass it on by delivery as a bearer bill or he can again endorse it specially, say, to R. Robinson, the back of the bill then appearing—

Pay T. Brown or Order,
J. Smith.

T. Brown.

Pay R. Robinson or Order,
A. Clarke;

and the document again becomes an "Order" Bill and requires R. Robinson's endorsement to complete it.

Restrictive Endorsements.—A Restrictive Endorsement prohibits further negotiation of the bill, or orders it to be dealt with for a special purpose only and does not act as a transfer of ownership. The endorsee gets a title to the bill, but cannot negotiate it to anyone else. Any person taking it *after* the restrictive endorsement will do so entirely at his own risk.

No Partial Endorsements.—There cannot be anything in the way of a partial endorsement, but an endorser can negotiate a bill without any liability to himself by endorsing it—

Pay T. Brown or Order without
recourse to me
J. Smith;

or,

Pay T. Brown or Order Sans Recours,
J. Smith;

and neither T. Brown nor any subsequent holder will have any claim on the bill against J. Smith. It is open to T. Brown to refuse the bill with such an endorsement. It is doubtful whether or not the endorser incurs the same liability as a transferor by delivery, as, for example, in the case of a previous forgery. In America he has been held liable in such circumstances.

FORM OF ENDORSEMENT.—The endorsement must agree in every particular with the name of the payee or endorsee. Many difficulties as to endorsements will be overcome by remembering that they must be "signatures" and consequently all designations such as Mr., Mrs., Esq., etc., are not in order. On the other hand, official titles which are commonly signed after the name are allowable such as Capt. Brown endorsed A. Brown—Capt., or Dr. Brown, endorsed A. Brown, M.D.

Another difficulty arises when the name of the payee has been written incorrectly; when told that he must endorse in the same way, a person may reply that it is not his correct name and he does not care to do it. It must be remembered that in order to constitute a forgery, the signature must be put there with intent to defraud; so long as it is only for the purpose of enabling the rightful owner to get his money there can be no risk. The Act also provides a way of escape for a holder with a tender conscience; it says he must endorse as described, adding, *if he think fit*, his proper signature.

An endorsement by a limited liability company must be made by someone who states his official capacity, or who clearly indicates by the form of endorsement that he has the authority of the company to endorse. The endorsement of one executor is sufficient for all, but where a bill is payable to a person since deceased, the endorsement of the executor must be confirmed by a banker. In the case of trustees the endorsement of *all* is necessary.

Where anyone is endorsing in a fiduciary capacity and does not want to be made personally liable, it is essential that it is clearly shown that he is signing for someone else. Some expression such as " per pro." or " For and on behalf of " should be used.

The following are examples of the way various payees should endorse—

Payee.	Endorsement.
Brown—Mr. Brown. Mrs. Brown—A. Brown, Esq.	A. Brown.
Messrs. Brown.	A. and B. Brown.
Messrs. Brown & Son.	Brown & Son.
Messrs. A. Brown & Co.	A. Brown & Co.
Messrs. Browns.	" Browns."[1]
Brown & Co., Ltd.	*per pro.* Brown & Co., Ltd., A. Brown, Director.
The Acton Laundry Co.	For The Acton Laundry Co., A. Brown.
The Acton Laundry Co., Ltd.	For The Acton Laundry Co., Ltd., A. Brown, Secretary.
Executors of A. Brown.	For Self & Co-executors of A. Brown, J. Smith.
Trustees of A. Brown.	J. Smith A. Clarke T. Robinson Trustees of A. Brown.

In the case of dividend warrants payable to two or more, it is usual to take the discharge of one of the payees, but it is not compulsory and any company can instruct their bankers to insist on the signatures of all payees. Per procuration signatures are not taken for discharging dividend warrants.

Negotiation.—Bills payable to bearer are negotiated by delivery, those payable to Order by endorsement completed by delivery. A negotiable bill continues to be negotiable until it has been either restrictively endorsed, or discharged by payment or otherwise. If, however, it is overdue, anyone taking it is affected with notice

[1] A custom which has only been approved of late years.

that there may be defects in the title of the transferor, and no subsequent holder can get any better title to it. If the bill is payable on demand it is considered to be overdue if it appears on its face to have been in circulation an unreasonable time.

Due Date.—The maturity of a bill payable after date is calculated from the date of the bill, one payable after sight from the date of the acceptance. Where a bill is payable so many months after date or sight it is calculated in calendar months ; where a bill is dated 31st May at one month, the month expires on the 30th June. A similar bill dated 30th June would finish the month on the 30th July. If the bill is for a certain number of days after date the actual number of days (including Sundays and holidays) are counted.

Days of Grace.—When the apparent due date is by this means found, three days, called days of grace, are further allowed. This custom was originated to allow the various parties time to fulfil their obligations and allow for delays, but with the improvement of communication this indulgence is not now necessary, but the days of grace have become an absolute fixture, unless it is expressly stipulated in the bill that it is to be paid " without grace." A bill which is now presented before the expiration of the three days will be returned marked " not due." Bank Post Bills do not take days of grace.

Non-Business Days.—Bills payable on Sunday are payable the previous day. The easiest rule by which to remember the due date of a bill which matures on a non-business day is—

It is due on the *nearest* business day to the day on which it is nominally payable ; if there are two business days equally near, then it is payable on the one previous to the due date. For example—

Christmas Day falls on a Monday ; bills due on the Sunday are payable on Saturday, and those due on Boxing Day on the Wednesday. There are two business days equally near to Christmas Day, viz., Saturday and Wednesday, the bills due on Christmas Day will therefore be payable on Saturday—the earlier of the two.

Bills Payable by Instalments.—If no time of payment is expressed upon a bill, it is payable on demand.

A bill is deemed to be payable at a fixed or determinable future time if it is stipulated to be payable by instalments, provided there is a fixed time for the payment of each instalment.

Usance.—Bills drawn abroad, instead of being made payable so many days or months after date or sight sometimes have the currency expressed in "usances." A "usance" is the "usual time" for which bills drawn in that place run. Thus, a bill drawn in a place where the usance is one month and expressed to be payable at three usances would be payable three months after date. If drawn for a half usance it would mean fifteen days. Similarly, a bill drawn abroad payable "in the middle of July" would be due 15th July, and with three days' grace would become payable on 18th July.

Greek Calendar.—In places where the Greek Orthodox Church is the established religion, the "Old Style" Calendar is still used. Bills drawn in those places generally have both dates expressed (old and new). Thus a bill drawn in Russia on their New Year's Day would be dated January 1/14, and the maturity in this country would be calculated from January 14th.

Dishonour by Non-Payment.—A bill is dishonoured by non-payment when it is duly presented for payment and payment is refused or cannot be obtained, or when presentment is excused and the bill is overdue and unpaid. An immediate right of recourse accrues to the holder against the drawer and endorsers provided due notice is given to them of the dishonour. If they do not get such notice they are discharged from their liability. If notice of dishonour by non-acceptance has already been given, it is not necessary to give notice of the further dishonour by non-payment unless the bill has in the meantime been accepted.

Notice of Dishonour.—The question of notice is one of the utmost importance. It is only when a bill is dishonoured that trouble begins, and if due notice is not given according to the rules, it is ineffectual and the liability of the various parties is discharged. The following rules must be carefully acted upon.

Rules as to Notice.—(1) Notice must be given by or on behalf of the holder or of an endorser, who, at the time of giving it *is himself liable on the bill.*

A case occurred where a holder gave notice to an endorser one day late; he was thus discharged from his liability. The *same day,* however, the endorser gave notice to the drawer who thus got his notice on the day it should have reached him—he suffered no hardship whatever, but as the notice was given to him by an endorser who, at the time of giving it, was *not* liable, the notice was ineffectual and the drawer was also discharged.

(2) Notice may be given by an agent in his own name or in the name of the party entitled to give notice.

(3) Notice may be written or verbal provided it is in terms sufficiently clear to identify the bill.

Verbal notice, although sufficient, is not advisable ; in the event of a dispute it would be difficult to prove either that any notice at all had been given, or, if given, that it was sufficiently explicit.

(4) The return of a dishonoured bill is sufficient notice.

This is a common practice among bankers and others who are presenting only as agents, and have no claim upon the bill, or have the right to debit the bill to the account of the party to whom they are returning it. A dishonoured bill should never be returned in this way unless the holder has such a means of charging the party to whom he returns it, otherwise he is parting with his security. A banker must not debit in this way bills which he has *discounted* for his customer, without their special authorisation to do so.

(5) Notice may be given to a duly authorised agent.

Drawers and endorsers of bills can only expect their notices to reach them at their ordinary home or place of business, and, if they are away, the responsibility of having a duly authorised agent to receive the notice rests with them.

pa(6) Notice must be given to the representative of a deceased rty it such can be found.

(7) Where the drawer or endorser is bankrupt, notice may be given to either him or his trustee.

(8) (*a*) Where the person giving and the person to receive notice live in the same place, notice must be sent off in time to reach the latter on the day after dishonour.

(*b*) Where the parties live in different places the notice must be sent off not later than the day after dishonour.

This is a most important rule ; if the parties do not receive their notice at the proper time, they are discharged from all liability.

(9) Each party to receive notice has a similar time to give notice to the next antecedent party.

Delay in giving notice is excused by circumstances beyond the control of the party to give notice, but must be given as soon as the cause of delay ceases to operate. Notice is altogether dispensed with—

(*a*) When, after the exercise of reasonable diligence, it cannot be given.

(*b*) If the person to receive notice has either expressed or implied that he does not want notice.

NOTING AND PROTESTING.—In order to be able to give a legal proof of presentment, dishonoured bills are generally "noted." In the case of inland bills it is optional; for foreign ones it is compulsory. In Scotland, in order to get "summary diligence" an inland bill must be noted.

The bill is handed to a notary who presents it again for either acceptance or payment, as the case may be. He usually receives the same answer as that given at the original presentment. The "noting" consists of an entry in the notary's official register of the fact of the presentment and the answer given, together with a copy of the bill. The notary affixes a ticket to the bill stating the answer received and the amount of his charges, and before the bill can be discharged, this amount must be added to the amount of the bill.

In the event of the dishonour giving rise to a lawsuit, a "protest" is necessary. This is an official document based on the entry in the notary's register and can be extended at any time

TIME OF NOTING.—A bill must be noted at the place of dishonour, on the day of dishonour or on the next succeeding business day, except in the case of one presented and returned by post, when it can be noted in the place to which it is returned on the day of its return. It is necessary to distinguish between "presenting by post" and sending by post to an agent for collection. The first would only be where bills are accepted payable at a banker's; no one would think of presenting a bill by post at a private house or place of business. If the bill is sent to another banker with a request that he will present for payment, then in the event of dishonour and noting being required *he* must "note" it in his own town on the day of dishonour and then return it. In the event of the parties not wishing the bill noted, it is usual to write on the top left-hand corner the letters N/N (not to be noted). Where a bill is lost, destroyed, or wrongly detained, a protest may be made on a copy.

HOUSEHOLDER'S DECLARATION.—Where no notary is available, noting may be performed by a declaration of a householder in the presence of two witnesses. The following is a specimen of such a declaration—

> "Know all men that I, A B (householder) of .... in the county of .... in the United Kingdom at the request of C D, there being no notary public available, did on the ...... day of .... 19.., at .... demand payment (or acceptance) of the Bill of Exchange hereunder written from E F, to which demand he made answer .... wherefore I now in the presence of G H and J K do protest the same Bill of Exchange."
>
> (Signed) A B
>
> G H } Witnesses.
> J K }
>
> Then follows a copy of the bill.

AMOUNT RECOVERABLE ON A DISHONOURED BILL.—The amounts which may be recovered from parties liable on a dishonoured bill are—

(*a*) The amount of the bill.

(*b*) Interest from maturity (or in the case of one payable on demand from the date of presentment).

(*c*) Expenses of noting, and, when necessary, of protesting.

Where a bill has been dishonoured abroad, parties in this country who are liable on the bill, may be charged in lieu of the above with the "re-exchange." The foreign holder is entitled to draw a bill at sight upon the party liable, for such a sum that he can sell it immediately for sufficient to cover the amount of the bill, noting expenses, stamp on new bill, and any loss on the exchange.

RIGHTS OF VARIOUS PARTIES.—All parties to a bill of exchange have certain rights and incur certain liabilities.

The *drawer* has presumably, by arrangement with the drawee, the right to draw upon him by bill. This right, however, is not inherent in his position as a commercial creditor of the drawee; in some continental countries it is, but here the drawee incurs no liability upon the instrument until he has agreed to it by acceptance. In the case of a customer of a bank, he has the right to draw cheques upon the account so long as it is in funds, but has not the right to draw bills of exchange in any other form without previous arrangement.

The *payee*, as soon as the bill is delivered to him by the drawer, has the right of requiring the drawee to accept, failing which he has an immediate right of recourse against the drawer. Unless the bill contains words prohibiting transfer, he has also the right to negotiate it for value and give a good title to his transferee.

A *holder in due course* has the right to payment of the bill at maturity by the acceptor or drawee, failing which he has the right to sue the other parties. Where a holder's title is defective, if he negotiates the bill to a holder in due course, that new holder obtains a good and complete title, and if he obtains payment, the person paying in due course gets a good discharge.

The *drawee* has the right, in the case of a bill payable after date or sight, to have the bill left one day for acceptance, and has also the right to refuse acceptance altogether.

An *acceptor* as such can have little in the way of *rights* on a bill; he is more concerned with liabilities. He has the right to expect presentment for payment before having any legal action taken against him, but even here, we have seen that presentment is excused in certain cases. In the event of the drawer having forwarded any goods or securities as cover for the bill, the acceptor has the right to a lien on such goods or securities.

LIABILITIES OF PARTIES.—The *liabilities* of the various parties will be better considered as a whole. The acceptor of a bill is the party primarily liable to the holder to discharge it by payment at or after maturity. Failure to present at the due date will not discharge the acceptor from his liability; he can only get rid of it either by payment, or, after the lapse of six years, by the Statute of Limitations, or by a discharge in bankruptcy. Death will not discharge the liability; a claim can still be made upon the acceptor's executors.

The other parties, drawer and endorsers, are all sureties to guarantee to the holder, that, failing payment by the acceptor, they will pay in his stead. As far as the holder is concerned they are all co-sureties, but between themselves they are each liable to all who took the bill subsequent to themselves and have a claim on all those who went before. Suppose a person to hold an accepted bill with three endorsements, the position as to their liability will be:—

Primarily liable—Acceptor.	*Secondarily liable*	Drawer.
		1st endorser.
		2nd endorser.
		3rd endorser.

in the order in which they stand. For example, the 2nd endorser will be liable to the holder and the 3rd endorser, but will have a claim on the 1st endorser and the drawer. It will thus be seen that when a bill is dishonoured by the acceptor, the drawer is the party ultimately called upon to settle it, but he has, of course, still got his remedy against the acceptor—the principal debtor.

It must be remembered that each surety who does not receive notice of dishonour according to the rules already laid down, unless notice is excused, is entirely discharged from his liability on the bill.

DISCHARGE.—A bill is discharged by payment to the holder at or after maturity, in good faith, by or on behalf of the drawee or acceptor. All rights of action on the bill then cease. Payment before maturity simply amounts to an ordinary purchase or negotiation, and the drawee or acceptor can again negotiate the bill. Payment by any party other than the drawee or acceptor does not operate as a discharge of the bill, because the party so paying has still a right of action on the instrument against the acceptor who is the principal debtor.

The discharge of a bill must be distinguished from the discharge of various parties to the bill; the latter may be discharged by want of notice of dishonour, while the bill may be still undischarged.

BILLS IN A SET.—Foreign bills, such as the specimen on page 252, are very frequently drawn in a "set," that is to say, with two or more copies. Each part of the set is numbered and contains a reference to the other parts. The reason is to ensure that one copy at least should reach its destination and at the earliest possible moment. The usual plan is to send the copies by following mails or by different routes to the same person, but sometimes, in order to expedite acceptance, one copy is sent to an agent of the drawer, at the place where the drawee lives, in order that he may present for acceptance, which is thus obtained before the arrival of the copies negotiated to payee.

The other parts are then negotiated in the ordinary way with an intimation that the "first" is with Messrs. ...., who are also frequently named as a "case of need." The usual form of words will generally be either—

"First and in need with Messrs. ....
"Première acceptée et au besoin chez M..............
"Prima und falls bei ...."

The whole of the copies constitute one bill, but the negotiation is subject to certain rules. If a holder endorses two or more parts to different holders, he becomes liable on each part that he so endorses, and subsequent endorsers become liable on the part which they themselves endorse as if they were separate bills.

The drawee may accept any one part, but not more; if he accepts more than one part he will be liable on each part so accepted if they get into the hands of different holders.

If, after having accepted one part, the acceptor nevertheless pays another part while the accepted part is in the hands of a different holder, he is still liable on the accepted part.

Subject to the foregoing rules, discharge of one part by payment or otherwise discharges the bill.

Accommodation Bills.—An Accommodation Bill is one whereof the acceptor or principal debtor is an accommodation party, that is, he has no commercial connection with the bill and does not, as represented by the bill, owe the drawer money. Accommodation Bills, as their name implies, are drawn to enable some person, who may or may not be a party to the bill, to obtain temporary assistance by getting the bill discounted. Bankers do not, as a rule, discount this class of paper because of its unsatisfactory nature. If there should be names on the bill, which are good enough for anyone to take as security, it is necessary to be sure that the names were put on the bill with the intention of the writers becoming parties to the bill. In a case where a person was induced to endorse a bill for £10,000 by writing his name through a hole in a piece of blotting paper, he being given to understand he was merely witnessing a signature, he was held not to be liable as the endorsement was obtained by fraud; that he had no intention of making himself liable as endorser of the bill, and that the signature could not therefore operate as an endorsement.

Accommodation Parties.—An Accommodation Bill must be distinguished from a Commercial Bill with one or more Accommodation Parties thereto. Any bill may have the addition of an accommodation party either as drawer or endorser, in order to strengthen the security and the more easily to obtain discount. These accommodation parties become sureties to the holder for the due discharge of the bill.

It is the duty of the person accommodated to provide funds to meet an accommodation bill at maturity and the payment of the bill by or on behalf of such person operates as a discharge of the bill. Payment by the accommodation acceptor discharges the bill, but he has still a right of action on the transaction which gave rise to the bill, against the person for whose benefit the bill was drawn.

Action on Dishonoured Bill.—Where a bill for from £5 to £100 is dishonoured, summary proceedings may be taken in the County Court at any time within six months, dating, in the case of bills dishonoured by non-payment from the date of maturity, and for those dishonoured by non-acceptance from the *date of the bill.*

Bank Post Bills.—Bank Post Bills are issued by the Bank of England. Any person can obtain from the Head Office or any Branch of the Bank, on payment of cash, a bill payable seven days hence at any other office of the Bank. These bills are issued for any amount from £10 to £1,000 and do not take any days of grace.

Promissory Notes.—A Promissory Note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person or to bearer.

By comparing this with the definition of a Bill of Exchange, on page 248, it will be seen that it only differs from that to the extent necessary to provide for the different forms of the instruments. A Bill is an order—a Note is a promise. In a Bill the person giving the order is called the drawer—in a Note the person making the promise is called the maker. Both must be unconditional and all the other features are identical. The following is a specimen Promissory Note—

£100. LONDON, *Jan.* 1*st*, 19..

ON DEMAND I promise to pay *William Jones or Order* the sum of *One hundred pounds* for value received.

John Smith.

Payable at
3, *High Street,*
London.

STAMP DUTIES.—The schedule of stamp duties will be found on page 254. It should be carefully noted that *all* promissory notes, whether on demand or not, require an *ad valorem* stamp. The reason for this differentiation between bills and notes on demand is that the instruments are entirely different in their term of currency. A bill payable on demand is intended for immediate payment, while a promissory note payable on demand is generally used as a continuing security for a loan and is to be kept for some length of time before any demand is made for payment. It is thus in circulation for a time, approximating more to that of a bill payable after date or sight, and the stamp duty is fixed accordingly.

With the exception of any differences noted later, the provisions of the Bills of Exchange Act relating to bills of exchange apply in the same way to promissory notes; the maker of a note corresponds to the acceptor of a bill. None of the provisions relating either to acceptance or bills in a set applies to promissory notes.

NEGOTIATION.—Before a note becomes a binding document it must be delivered to the payee, or if payable to the maker's order, must be endorsed and negotiated by him.

"JOINT" AND "JOINT AND SEVERAL" NOTES.—A promissory note may be made by two or more makers and they may make themselves either "jointly" or "jointly and severally" liable. Where the makers are jointly liable, judgment must be obtained against them jointly. If judgment be obtained against one only and the amount is not recovered no further action lies against the others. A "joint and several" note is, therefore, a much better security for a loan, as the failure of any one of the makers to pay his part still leaves the remainder liable to make it good, and each of the makers may be sued separately.

The different liability is denoted by different forms of wording—

"We promise to pay," or "We jointly promise to pay," are forms for a joint note. "We jointly and severally promise to pay," or "*I* promise to pay," signed by two or more makers, are forms for a joint and several note.

Endorsement of Demand Notes.—Where a promissory note payable on demand is endorsed, it must be presented for payment within a reasonable time in order to render the endorser liable. In considering what is a "reasonable time" for any particular note, regard must be had to the facts of the particular case, and also to the nature of the instrument as a continuing security. In any case if the note is again negotiated to a fresh holder who takes it in good faith and without any notice of any defect in the title of his transferor, he will acquire a right against any previous endorsers, although a reasonable time has elapsed since the endorsement.

Protesting Foreign Notes.—It is not necessary to protest a dishonoured foreign note, but if it is required to charge a foreign party in his own country, it is extremely advisable, as in most other countries protest is essential, and action can only be taken there according to the laws of that particular country.

Circular Notes and Letters of Credit.—Circular Notes and Letters of Credit are documents issued by bankers for the purpose of enabling their customers, travelling abroad, to obtain cash or to get foreign bankers to accept drafts issued as payment for merchandise purchased. Private travellers generally find it more convenient to take Circular Notes. These are issued for fixed sums of £10 each or multiples of £10, and request any of the banker's foreign correspondents to encash the notes at the Rate of Exchange of the day on the application of the person whose name appears on the note and who is to be recognised by his endorsement in the presence of the correspondent, the signature to be compared with a specimen already signed upon a letter of indication which the customer also carries. Instructions issued with the circular notes require the holder to sign the letter of indication immediately on its receipt and to carry it quite apart from the notes—say one on the person and the other among the baggage. In this way it is almost impossible for a thief to get possession of both the notes and the Letter of Indication and one is useless without the other. The foreign correspondent re-imburses himself by using the notes as bills payable in London, which he negotiates in the usual way.

Letters of Credit are used for similar purposes but the negotiation is different. The letter may be addressed to one or more special correspondents or, like the circular notes, to all. In the latter case the holder must carry a Letter of Indication, but in the former specimen signatures may be sent direct—an arrangement safer even than the other. The Letter states that the customer may have credit up to a certain figure ; the money is obtained by the holder drawing a cheque upon his banker in the ordinary way, simply adding that it is drawn against Letter of Credit No...... On the back of the Letter the foreign banker writes off the amount of the cheque drawn, and when any further amounts are required it can be readily seen what balance of credit remains. This process can go on until the total credit is exhausted.

Instead of drawing the cash for a Letter of Credit, mercantile representatives sometimes obtain foreign bankers' acceptances to their bills. It often happens that a buyer of goods abroad can get better terms by drawing on a well-known local banker and obtaining his acceptance, than if he had to draw upon some more or less unknown firm in the place he comes from.

A more usual way for English buyers abroad, however, is for them to draw bills direct on a London banker who has agreed to accept them. London bankers are so well known in commercial circles abroad that these drafts find ready takers at the best rate of exchange.

CHAPTER VI

THE FOREIGN EXCHANGES

Foreign Exchanges.—Foreign trade consists of an exchange of commodities between the various countries, payment for which is made by means of bills of exchange. Bills drawn in one country and payable in another are generally drawn and payable in different currencies and the rate at which one currency is changed into the other is called the "Rate of Exchange."

Law of Supply and Demand.—The Rate at which Bills of Exchange on foreign countries are bought and sold depends, like the price of all commodities, on the law of supply and demand. The supply and demand for bills on any particular country will depend chiefly upon the amount of the trade with that country in the course of being liquidated. Unless the imports and exports (including "invisible exports" such as interest due on investments, and payment for services rendered) between this country and another are exactly equal in value, there will be what is called a "balance of trade" either for or against us. The balance is "for" us if we have to receive more than we have to pay, and *vice versâ*.

If the balance of trade is against us, those wanting to buy bills for the purpose of remittance will find the supply short, and competition to purchase what bills there are, will cause the price to rise. The rise in the price of bills is in ordinary circumstances, strictly limited; it cannot go beyond the point at which it would be just as cheap to send gold. The expenses connected with shipping gold are cost, packing, insurance and freight, and when the price of bills becomes as high as these combined charges the exchange is said to have reached "specie point."

Specie Points.—There are two specie points, the "outgoing," as illustrated above, and the "incoming," when, theoretically, the price of bills is such that it is profitable for foreign debtors to send gold here. The expenses connected with shipping gold vary, so that specie points cannot be accurately fixed, but their approximate figures are well known.

Par of Exchange.—When the supply of and demand for bills on any particular country is exactly equal the exchange would be at par. As it is impossible to know exactly when this occurs it is also impossible to fix a *True Par* of Exchange, so in order to get a figure to work from, a *Mint Par* has been adopted.

MINT PAR.—A Mint Par of Exchange is arrived at by a comparison of the weight and fineness of the metal in the standard coin of one country and the standard coin of the other. In order to be able to calculate the Mint Par, it is necessary to know the Mint Laws of the countries concerned. For example, the Mint Law of England says that 480 ounces troy $\frac{11}{12}$ fine shall be made into 1869 sovereigns; and the Mint Law of France, that 1,000 grammes $\frac{9}{10}$ fine shall be made into 155 Napoleons (3,100 francs). To find the Mint Par between England and France find the value of the gold in one sovereign and in the twentieth part of a Napoleon (1 franc) and divide one by the other.

We know that 1 oz. Troy = 31·1035 grammes.

Then $\frac{480}{1} \times \frac{11}{12} \times \frac{1}{1869}$ = gold in 1 sovereign (in ozs.).

and $\frac{1000}{1} \times \frac{9}{10} \times \frac{1}{3100} \times \frac{1}{31{\cdot}1035}$ = gold in 1 franc (in ozs.).

Divide and we get—

$$\frac{\frac{480}{1} \times \frac{11}{12} \times \frac{1}{1869}}{\frac{1000}{1} \times \frac{9}{10} \times \frac{1}{3100} \times \frac{1}{31{\cdot}1035}} = \frac{480 \times 11 \times 10 \times 3100 \times 31{\cdot}1035}{12 \times 1869 \times 1000 \times 9}$$

$$= 25{\cdot}2215.$$

The Mint Par is called 25·22¼ francs to £1.

Similarly, the Mint Law of Germany is that 500 grammes *Pure Gold* shall be made into 69¾ 20 mark pieces $\frac{9}{10}$ fine (1395 marks).

The gold in 1 mark = $\frac{500}{1} \times \frac{1}{1395} \times \frac{1}{31{\cdot}1035}$ (in ozs.).

and the fraction is $\frac{480 \times 11 \times 1395 \times 31{\cdot}1035}{12 \times 1869 \times 500} = 20{\cdot}429.$

The Mint Par for Germany is 20·429 marks = £1.

The American Mint Law is more simple: \$1 weighs 25·8 grains Troy $\frac{9}{10}$ fine and the gold in \$1 in ozs. is thus $\frac{25 \cdot 8}{1} \times \frac{9}{10} \times \frac{1}{480}$ and the fraction is $\frac{480 \times 11 \times 10 \times 480}{12 \times 1869 \times 25 \cdot 8 \times 9} = 4.86\frac{2}{3}$.

The Mint Par for America is $4.86\frac{2}{3} = £1$.

The Mint Par between any other two countries both using the same metal for a standard can be found in the same way. A Mint Par cannot be established between countries using different standards, say Gold and Silver; the relative value between the two metals, which is constantly changing, must be taken into calculation.

Specie Points may be approximately fixed by adding and subtracting from the Mint Pars the usual average cost of sending bullion from one country to the other. In this way we get the following—

	Outgoing.	Incoming.
France ..	.. $25.12\frac{1}{2}$	$25.32\frac{1}{2}$
Germany	.. 20.33	20.53
America	.. $4.83\frac{1}{2}$	$4.89\frac{1}{2}$

and these figures represent about the extreme fluctuations of these various exchanges.

Extraordinary circumstances such as war or rumours of war may cause holders of bills either to sell at a sacrifice or demand a higher price according to the state of the balance of trade, rather than trust to movements of gold which may not take place owing to risk; or the extra cost of insurance may add to the cost of transmission of bullion and drive the Specie points farther apart.

Exchange in London meets twice a week, Tuesdays and Thursdays; a specimen of a "Course of Exchange" issued after the meeting appears on page 278.

It will be noticed that each place (except New York) has a quotation for three months' bills, while a very few have also a quotation for "cheques" or "short," which means anything up to eight days. Another point to notice is that there are two quotations for each place; the first is for Bank or "fine" bills, the second for trade bills. The latter are cheaper owing to the greater risk attaching to them.

London Course of Exchange

On 'Change the rate for long bills on Germany moved in favour of this country. Italian and Portuguese currencies slightly depreciated in value. Paris cheques were dealt in at 25.24½-25.25½, and Berlin at 20.51-20.53.

		19.. Tuesday, Jan. 30.		19.. Thursday, Feb. 1.	
Amsterdam, etc., cheques		12 1¾	12 2¼	12 1¾	12 2¼
Do.	3 months	12 4½	12 5	12 4½	12 5
Antwerp and Brussels	,,	25 58¾	25 63¾	25 57½	25 62½
Hamburg	,,	20 69	20 73	20 70	20 74
Berlin, etc.	,,	20 69	20 73	20 70	20 74
Paris	cheques	25 23¾	25 26¼	25 23¾	25 26¼
Do.	3 months	25 45	25 50	25 45	25 50
Marseilles	,,	25 46¼	25 51¼	25 46¼	25 51¼
Switzerland	,,	25 55	25 60	25 55	25 60
Austria	,,	24 43	24 47	24 43	24 47
Petrograd & Moscow	,,	24 $\frac{15}{16}$	25 $\frac{1}{16}$	24 $\frac{15}{16}$	25 $\frac{1}{16}$
Genoa, etc.	,,	25 72½	25 77½	25 73¾	25 78¾
New York	60 days	48 $\frac{9}{16}$	48 $\frac{11}{16}$	48 $\frac{9}{16}$	48 $\frac{11}{16}$
Madrid, etc.	3 months	43¼	43½	43¼	43½
Lisbon	,,	48 $\frac{5}{16}$	48 $\frac{9}{16}$	48¼	48½
Oporto	,,	48 $\frac{5}{16}$	48 $\frac{9}{16}$	48¼	48½
Copenhagen	,,	18 47	18 51	18 46	18 50
Christiania	,,	18 48	18 52	18 47	18 51
Stockholm	,,	18 48	18 52	18 47	18 51

Method of Quoting Rates.—A very important feature to note is that the Rates are quoted in varying ways. Nearly all quote the amount of foreign money exchangeable for £1 sterling, but a few are quoted in English money—the number of pence exchangeable for the foreign standard coin. The result is that a rise in the price of bills quoted in the foreign money causes the rate to *fall* (for example, you will get *fewer* francs and centimes for your sovereign if the bill is dearer) while a rise in the price of bills quoted in English money causes the rate to rise.

Favourable and Unfavourable.—If, therefore, the same tendency is at work on all the Exchanges at once, we cannot say they are either rising or falling, as some will be going one way and some the other. The terms in general use are that the Exchanges are either "favourable" or "unfavourable." It is often considered to be for the credit of a country to have gold coming in, therefore a rate is termed favourable when it is tending towards the incoming specie point.

Short and Long Rates.—By comparing the rates quoted for "cheques" and "three months'" bills on the same place, it will be seen that there is a considerable difference between them, and if the course of exchange is followed for a considerable period it will be noticed that the difference varies. The principal cause of difference is the effect of interest on a three months' bill. If a debt has become due, say, in Amsterdam, it can be discharged either by a cheque or a three months' bill; if the latter, the creditor would either discount it and credit the proceeds in account, or retain the bill and charge his debtor interest until it matured. In either case the amount chargeable would be calculated according to the rate of discount ruling in Amsterdam at the time, and a bill could, therefore, be purchased here at an amount so much cheaper than the cheque. Another charge upon a bill is the Stamp duty, and there is also the risk of dishonour.

We thus find that the "Long" Rate for bills quoted in foreign money will equal the "Short" rate plus interest (according to the rate ruling in the place on which the bill is drawn) plus bill stamp, plus a trifle for risk. A change of discount rates in Amsterdam will cause an alteration in the long rate for Dutch bills quite independently of any alteration of the cheque rates.

It is to the *cheque* rates, however, that we look if we wish to follow the tendency of the money market and the influences governing the influx and efflux of gold to the Reserve in the Bank of England, and as neither these nor the rates of discount in the foreign centres are published in the London Course of Exchange the real tendency of the exchanges cannot be followed.

Telegraphed Cheque Rates.—Fortunately, however, most papers publish cheque rates telegraphed daily from the various foreign centres, and as the rates on both sides will be approximately the same the general tendency can be followed from these. Overleaf is a specimen of such a list of rates.

Bankers' Investments in Foreign Bills.—We have seen that the difference between the Long and Short rates depends on the rate of interest prevailing in the country on which the bill is drawn. When a banker buys a foreign bill for investment—due, say, three months hence, he will buy it at the long rate. He will sell it just before maturity at the short rate, and the difference between his buying and selling price will be his profit on the transaction. Suppose that in the interval the short rate has not changed, his profit will be exactly at the rate of interest which he expected.

Foreign Exchanges on London

The following are the latest rates of exchange on London, cabled from the chief commercial centres, together with current rates of discount at the principal Continental cities—

Closing Quotations.	19.. March 21.	19.. March 20.
Paris, cheque	25 24	25 24
Ditto, market discount	$3\frac{1}{4}$ p.c.	$3\frac{1}{4}$ p.c.
Berlin, cheque	20 $45\frac{1}{2}$	20 46
Ditto, market discount	$4\frac{7}{8}$ p.c.	$4\frac{7}{8}$ p.c.
Frankfort, short	20 43	20 $45\frac{1}{2}$
Ditto, market discount	$4\frac{13}{16}$ p.c.	$4\frac{11}{16}$ p.c.
Hamburg, sight	20 $45\frac{1}{2}$	20 45
Ditto, market discount	$4\frac{7}{8}$ p.c.	5 p.c.
Vienna, sight	24 $14\frac{1}{2}$	24 $14\frac{1}{2}$
Ditto, market discount	$4\frac{5}{8}$ p.c.	$4\frac{5}{8}$ p.c.
Amsterdam, cheque	12 $09\frac{1}{2}$	12 $09\frac{3}{8}$
Ditto, market discount	$3\frac{7}{8}$ p.c.	$3\frac{7}{8}$ p.c.
Brussels, cheque	25 39	25 $39\frac{1}{4}$
Ditto, market discount	$3\frac{1}{2}$ p.c.	$3\frac{3}{8}$ p.c.
Antwerp, short	25 $40\frac{1}{4}$	25 $40\frac{1}{4}$
Rome, sight	25 $48\frac{1}{2}$	25 48
Madrid, sight	27 23	27 23
Lisbon, sight	$48\frac{7}{16}$	$48\frac{9}{16}$
Petrograd, sight	94 85	94 85
Constantinople, three months	110 17	110 17

Effect of Alterations of Bank Rate.—It is this fact which gives importance to the raising or lowering of our Bank Rate. Bills on London are always a good banking security, and foreign bankers are always willing to invest some of their funds in London bills provided the anticipated profit is sufficient. The raising of our Bank Rate, with the consequent increase of profit which it promises, therefore offers a greater inducement to foreign bankers to invest their money in London bills. This increased investment will not in any way affect the number or amount of the trade bills available, which depends on the amount of trade in course of liquidation. The supply of bills will probably be somewhat increased by the creation of bills drawn specially to obtain the extra profit, but the increase is unlikely to be anything so great as the increased demand. The natural result is a rise in the price; if this tendency is continuous it may be sufficient to send the price as high as the outgoing specie point, which is the same as our incoming specie point. At all events, the exchanges are likely to move sufficiently to prevent gold leaving this country, and, speaking generally, this is all that is absolutely needed. We get so much gold in London direct from the South African mines that if we can manage to retain a fair amount of that, our requirements will usually be satisfied.

From this we see that the Rate of Interest affects not only the Long Rate—which it *always* does—but sometimes also the short rate. This influence is more likely to be felt in countries approximately near, where the difficulties of moving bullion are not so great as they are in the case of distant countries. The length of time during which this form of influence can be exerted is strictly limited. Bankers cannot take more than a certain amount in bills, and when they have satisfied their requirements, will not increase their demand, and the question of balance of trade is again left as the dominating factor governing changes of rates.

Effect of Travellers' Expenditure.—People travelling abroad and taking any form of paper money such as Bank Notes, Circular Notes, or Letters of Credit will also affect the Exchanges. The paper which they circulate will operate in the foreign markets as a means of remittance to England, and in order to neutralise their effect, a corresponding amount of exports must be sent from this country.

Effect of Foreign Loans.—The issuing or repayment of foreign loans has also a great effect. Whenever such a loan is negotiated in London, it means that we have to supply the foreigner with the agreed amount, or such part of it as is not being spent here, by a certain time. These supplies would be in some form of bills of exchange for which some cover would have to be provided. If a foreign country is repaying a loan, or any portion of one, exactly the opposite effect is produced.

Transfer of International Securities.—There are some securities known as "International Stocks" because there are dealings in them in many of the world's bourses. Blocks of these stocks are sometimes transferred from one country to another by purchase. The transfer will act as a remittance to the purchasing country and would go to set off an adverse balance of trade.

ARBITRAGE OPERATIONS.—Exchange bankers can sometimes take advantage of the state of the various exchanges to find a means of sending a cheap remittance to a place, where the exchange is adverse, by an operation known as an "Arbitrage" of exchange. Suppose, for instance, a banker in Austria, who has to remit money to London, finds that bills on London are dear, but observes that he can remit cheaply to Paris, and from intelligence received from his Paris agent learns that Paris can remit cheaply to London. He can buy a bill on Paris, remit to his agent there and direct him to buy a bill and remit to London. He thus settles his debt in London cheaply by means of a double transaction. It is sometimes still more profitable to employ two intermediaries and the operation is then known as a double arbitrage. The continued use of arbitrage operations will neutralise their value by their effect on the various exchanges.

CIRCUMSTANCES AFFECTING THE EXCHANGES.—We are now in a position to summarise the various causes which will give rise to a variation in the supply of, and demand for, Bills of Exchange on any particular country. They are—

(1) Exports and Imports.

(2) Payments for Services rendered.

(3) Payment of Interest on Foreign Loans.

(4) Bankers' Investments in Foreign Bills.

(5) Issue of Circular Notes, Letters of Credit, and the spending of Bank Notes abroad.

(6) Transfers of International Securities.

(7) Issue or Repayment of Foreign Loans.

(8) Arbitrage operations.

The financial causes are frequently for a time the most effective, but will eventually have to succumb to the commercial influences. Exports and Imports, as modified by the "Invisible" Exports and Imports (causes Nos. 2 and 3), are the ultimate chief factors governing the Rates of Exchange.

CHAPTER VII

BANKERS' CHARGES, PASS BOOK, AND SECURITIES

BANKERS' CHARGES.—The charges made by London Bankers are—

Interest on Loans and Overdrafts.

Discount on Bills of Exchange.

Commission on Unremunerative Accounts.

Out of Pocket Expenses—Postages, etc.

INTEREST ON LOANS.—The Rate of Interest on Loans is agreed upon at the time the loan is granted. Usually it fluctuates with the tendency of the market, being, say, 1 per cent. above Bank Rate, with a minimum rate chargeable of 4 per cent. The interest is charged for the exact number of days which the loan is running, and is debited to the customer's current account on March 31st, June 30th, September 30th, and December 31st in each year, or at such other times when the loan is entirely paid off.

INTEREST ON OVERDRAFTS.—The Rate charged for overdrafts would be generally higher than for loans, as there is no balance on the account such as the banker would require in the ordinary course to make the account remunerative. The case can be met by the banker adding to the actual overdraft a presumed balance, that is an amount which a banker would expect to be kept to the credit of such an account in order to make it pay. The interest is calculated on the amount of overdraft from day to day.

DISCOUNT.—Discount is charged to the customer at the same time that the amount of the bill is credited. It is calculated for the number of days between the day of discount and the maturity of the bill, the rate per cent. being fixed by arrangement.

COMMISSIONS.—London Bankers as a rule do not make any charge for keeping a current account. They supply all stationery, including pass book and cheque book, free (excepting, of course, the Government stamp on each cheque), and look to the customer to keep sufficient balance to make the account pay. If the balance is insufficient for this purpose they charge a commission, varying according to the balance kept and the work given. This commission is charged quarterly or half-yearly. This is a perfectly legitimate charge, but until a course of business has been established a banker must not return a cheque for want of funds simply owing to his charges. The customer must either have been informed or have seen his pass book. When a practice has once been established, the customer must be taken to have notice of the charges and make his arrangements accordingly, but even then the banker must not anticipate them and return a cheque before the usual date for debiting the commission.

Country Bank Charges.—In many Country Banks and in Scotland the practice is different. Interest is allowed to the customers on their current account balances—generally on the minimum balance for the month—and they are charged a certain percentage on their turnover; the turnover being the total amount of the cheques paid on the account during the half-year. In Scotland a charge is made for collecting cheques, with the exception of those drawn on London, which they are only too glad to get, as they have generally to make more payments in London than they have to receive.

Pass Book.—The Pass Book is a banker's record of his dealings with his customer. It is the property of the banker and any writing in it by the customer himself should be discouraged. In order that it may be taken as a proof copy of the customer's account as appearing in the banker's books, it is essential that all entries should be made by the banker only. A calculation of the balance in pencil would not of itself be objectionable.

From a banker's point of view, the law relating to the pass book is extremely unsatisfactory. If the banker, in error, places money to the customer's credit in his pass book, and the customer on the strength of that entry pays away money that he otherwise would not do, then the banker must abide by his entry. There seems no legal obligation on the part of the customer to verify the entry in any way. He is entitled to presume that, being there, it is correct. There is, however, an old Scottish case on the point where the judge said that it would be unthinkable that where, simply by the error of a clerk, a double entry had been made, that the customer should be able fraudulently to extort £80 from the bank and that the bank should not be able to rectify. According to later cases, however, we can hardly apply that doctrine unless the mistake is discovered in time to inform the customer before he has altered his position, or in a case where it can be demonstrated that the customer *knew* the money did not belong to him.

The entries on the other side of the account, however, do not appear to bind the other party in any way, unless some definite adhesion to them has been made. The customer may have had his pass book out many times; he may even have placed his initials against the last entry on each occasion, but even that does not appear to bind him to all the entries on the debit side. It is always open to him, for instance, to say that certain entries relate to forged cheques, and the fact that if he had, on some previous occasion, pointed out the first of such entries he would have prevented the later payments, does not in any way saddle him with such negligence as to estop him from denying their authenticity. There seems to be no legal obligation on his part to examine the pass book; his initials can only be taken to mean that he has seen it to that point and possibly calculated what balance he has, but it does not bind him to accept the debit entries. To expect him personally to verify each entry, and thereby to agree to it, has been said by judges to be putting a burden upon him which he is not called upon to bear, the verification may very well be left to a clerk who may be himself the forger. The only remedy (which to London Bankers at all events is almost impossible), is to get the customer to sign a form agreeing to the balance as it appears at a particular date, and the pass book would then probably be held to represent a settled account between the parties which could not be reopened.

The American Supreme Court has taken a much more stringent view of the duties of a customer to his banker, and it is possible, as we have as yet no definite House of Lords' decision against the banker in this particular, that we may eventually get the various duties and obligations clearly defined.

Extraneous Duties of a Banker.—A banker, among other extraneous duties which he undertakes for his customers, takes charge of their securities and valuables without making any specific charge. The customer is expected to keep a sufficiently good account to enable the banker to perform this duty free; if not, the question of commission would again arise, but if charged it would not be specifically for this service.

Taking Charge of Securities.—Securities will divide themselves into two classes; those which require the banker to perform some duty and those which do not. The former are said to be held by the banker "as a banker" and the latter simply for "safe custody."

The first class comprises bearer bonds with coupons attached, the coupons to be cut off and presented for payment as and when they become due, and American Railway Shares endorsed in blank, the dividends on which have to be collected from the registered proprietors. The second class comprises practically all others. Registered Bonds, Stocks and Shares, Leases, etc., the dividends and interest on which may be sent either to the customer or direct to the Bank, but the banker has no duty to perform in order to get them.

BANKER'S LIEN.—Upon all those securities which a banker holds "as a banker" he has a general lien; the customer cannot remove them from his custody at any time that he is in debt to the banker. If, however, the securities are pledged to the banker for a special purpose, to secure a specific advance, the customer can then claim them upon repayment of that particular loan, quite independently of the fact that he may owe the banker money in other ways. The "special lien" completely defeats the "general lien."

Bankers usually get over this difficulty by getting their customers to sign a charge on the securities, not only for the particular loan or overdraft which is being arranged at the time, but to cover all future debts of any kind.

TAKING CHARGE OF BOXES.—Bankers also take charge of boxes of valuables and plate chests. They make a practice of being ignorant of the contents; the receipt given having printed upon it "Contents unknown." All boxes received are required to be securely locked, and parcels properly sealed.

The legal position of a banker who thus takes charge of valuables without any remuneration is that of a "gratuitous bailee," and the duty required of such a party is that he should take as much care of the property as a reasonable person would take of his own. The fact that a banker has safes and strong rooms, of course necessitates that he should accommodate his customers' property in them. The best opinion as to the exact liability of a banker is that he is liable for wrongful conversion if he delivers the box on a forged order, but that he is not liable for fraud, theft, fire, and such like contingencies provided he has taken all reasonable care consistent with the facilities that he possesses. Being a *gratuitous* bailee, he is not bound to go to any extra expense in preserving his customers' property.

A banker must keep careful record of all securities and valuables deposited with him. A double set of books is required ; one a record under the name of each customer of what securities he has deposited, and the other a record under the heading of each separate *security* as to the amount of such security deposited by the various customers. The latter is essential, as frequently transactions arise with regard to a particular security which necessitate the banker knowing at once how much he holds of it, and to whom it belongs. Although bankers always endeavour to attend to such operations as repayments, conversions, drawings, and calls which require immediate attention, and do all that is necessary, they do not bind themselves, and, in a note at the foot of the receipt which they give the customers, they usually definitely state that although they will take all pains to protect their customers' interests, they do not accept any liability in the matter. One of the more frequent causes of loss is where loans are repayable by periodical drawings. The numbers of the drawn bonds are duly advertised, but in the event of a number being missed, the mistake is not discovered until the next coupon becomes due, when payment is refused. Repayment of the bond is then, of course, obtained, but the half-year's interest is lost. In the case of some Russian loans notice is not even given when the next coupon is due ; the coupons are still periodically paid until the amount of the bond itself has been exhausted, and the holder then discovers that for many years past he has been living on his capital.

CHAPTER VIII

BANK BOOK-KEEPING

The following outline of some of the methods of keeping bank books is not intended to cover any complete system of book-keeping, but merely to indicate some phases of the subject peculiar to banks. One important feature of banking business is that the commodity with which it deals—money—is not bought and sold at different prices, but the profit is made by charging for its use. A great difficulty in dealing with the subject arises from the fact that no two banks keep precisely the same books ; each has its own system, which in some cases differs widely from that of other banks. Even the methods of keeping the ordinary Current Account Ledgers vary considerably ; some have a column where the balance is shown others do not.

The principles governing any system of bank book-keeping, however, are precisely the same as the ordinary double-entry commercial book-keeping. Every debit entry must have a corresponding credit.

The complete statistics of the bank are contained in a Ledger known as the " Private " or " General " Ledger, and a statement of the balances in the various accounts in that Ledger is taken out and shows the exact state of the bank's affairs daily.

The " Slip " System.—The customers' accounts are kept in the " Current Ledgers " and the " Deposit Ledgers," and these are generally posted on what is known as the " slip system," that is, for every entry made a " slip " of some sort will be provided. For the credit side of the customers' accounts the " slips " will be those made out by the customer himself when paying in cheques or money, or in the case of special credits such as bills, coupons, or loans, a similar slip would be made out by an official of the bank. For the debit side of the account the " slips " will be the customer's own cheques which have been paid, or special debits for " discount," " interest on loans," or other charges, again made out by bank officials. The entries in the Ledger are made from these " slips " which are then sorted into cards under the various customers' names and used again for the purpose of writing up the pass books—the debit slips being placed in the pocket of the book for return to the customer. Some banks substitute a "docket" or summary in place of the customer's paying-in slip, but this appears quite unnecessary.

CREDIT SLIPS.—We will now trace a paying-in slip and its various items through the books. Take the following specimen credit paid in by A. Brown to the Bank of London.

THE BANK OF LONDON.

Date........*Jan. 1st,* 19..

Credit..............*A. Brown*..............................

	£	s.	d.
Bank Notes	100	0	0
Gold	20	0	0
Silver	6	12	6
Cheques......*Lloyds*...............	200	0	0
Glyn	60	0	0
L. C. and West. West End	255	0	0
L.J.S.B., Pall Mall	80	0	0
Bank of Scotland	200	0	0
Cheque drawn by A. Smith on the Bank of London	1000	0	0
Total £	1921	12	6

The cashier first enters it in his Received Cash Book which is ruled with separate columns for total—money—notes.

JAN. 1ST, 19..

	Total.			Money.			Notes.
A. Brown	£1921	12	6	£26	12	6	100

THE WASTE BOOK.—The paying-in slip and the cheques are passed behind to the "Waste Book clerk," where the items are still further split up as on p. 290, the object being to get, at the end of the day, totals of the cheques which are collected in each of the varying ways indicated.

The cheques are then sorted out and put into course of collection,

Name.	Particulars.	Notes.	Money.			House Debits.			Metro. Clearings.			Town Clearings.			Walks.			Total.		
A. Brown		100	£26	12	6															
	Lloyds											£200	0	0						
	Glyn											60	0	0						
	L.C.W. West E. ..								£255	0	0									
	Jt. P.M.								80	0	0									
	Bk. Scot.														£200	0	0			
	A. Smith					£1000	0	0										£1921	12	6

while the "slip" goes forward to the Ledger keeper to be posted to the credit of A. Brown's account. Let us now examine how the cheques in each of the columns are disposed of.

"House Debits."—The "House debits" are cheques drawn on other accounts in the same bank; they are listed into a book called the "House Debits Book," and then passed on to the Ledger keeper to be posted to the debit of their various accounts.

Town Clearing.—The "Town clearing" includes all cheques drawn on the head offices of the clearing banks; most of their City branches and four at Southwark. The cheques are all now marked at the left-hand bottom corner with a "T." All town clearing cheques received at the head offices before 4 o'clock are cleared the same day, the Clearing House being open until 10 minutes past 4, and a little later on special days.

Metropolitan Clearing.—The Metropolitan clearing consists of cheques drawn on the branches of the clearing bankers within the inner Metropolitan area, and such banks as Coutts', etc., in the West End, who clear through their agents. The Metropolitan clearing opens first thing in the morning and all cheques received at the head offices by the first post are cleared. The cheques are marked "M."

The "Walks" comprise all articles drawn on banks not included in the clearing, among others the London offices of the Scotch and foreign banks, and on persons other than bankers. Postal and Money Orders are included under this head.

The notes are collected from the cashier at the end of the day, the total agreed with his book and signed for. They are then entered in a "Note Waste," in which the numbers are taken.

The Note Trial.—The notes are agreed at the close of business by a special trial as under—

Balance from previous day, say	£ 10,000		
Cashier A .. .. (Received)	1,000	Cashier A .. .. .. (Paid)	£3,000
B	500	B	1,200
C	2,000	C	800
D	1,500	D	2,000
		Balance	8,000
	£ 15,000	£	15,000

The balance of £8,000 must agree with the amount of notes actually in possession of the chief cashier at the end of the day.

MONEY TRIAL.—The money is balanced in a similar way, but has to agree with the sum total held by all the cashiers and the reserve in the hands of the chief.

COLLECTION OF CHEQUES.—The town clearing cheques will have been sorted into their various banks, a list made out for each, the cheques themselves delivered to their proper desks in the Clearing House, and finally the lists made up in the bank agreed with those taken down by the paying bankers at the Clearing House. In the Waste Book, cheques on the Bank of England are included with the town clearing. They are not, however, sent to the Clearing House for collection, but, as all the clearing bankers have accounts at the Bank of England, they are " paid in " to those accounts just as an ordinary customer would pay in cheques to his credit.

The Metropolitan cheques will have been similarly listed but retained in the bank for the next morning's clearing.

Some of the walks will have been collected and some retained for collection the next day. We shall see later how the various amounts are collected into the nightly balance.

COUNTRY CHEQUES.—Most bankers credit their customers' accounts with country cheques only after they have received payment for them, but some now credit them as cash. In the latter case they would be entered on the paying-in slip of which we have had a specimen and would have a separate column in the Waste Book. Country cheques are sent through the Clearing House at 12 noon, and payment is made for them, less the unpaids, on the second day following. Those banks which credit them as " cash " are thus out of the money for two, or in some cases, three days.

PAID CHEQUES.—Cheques drawn by the customer for the debit of his account will come forward to the banker, to be paid either across the counter, through the clearing, or, as we have seen, in to some account at the same bank, and passed through the House Debits Book.

The paying cashier's book will be ruled as under—

Name.	Amount.			Numbers.		Notes.	Money.		
				20051/60	10/10	100			
A. Brown	200	0	0	69532/41	10/5	50	50	0	0

Dr. *Cr.*

Date.	Name.				Date.					Rate.	Balance.		
Feb. 6	Self	£1500	0	0	Jan. 1	Cash	£1000	0	0	2½	£1000	0	0
					,, 10	Do.	500	0	0	do.	1500	0	0
											Nil		
							£1500	0	0				

Dr. INTEREST ACCOUNT. *Cr.*

Date.	Days.	Interest.				Date.	Name.				Date.	Name.			
Jan. 1	10		13	8	A. B.	Feb. 6	Self	£3	9	1	Feb. 6	Interest.. ..	£3	9	1
,, 10	27	2	15	5	A. B.										
Feb. 6	37	£3	9	1	A. B.										

The entries on page 292 are those for a cheque for £200 drawn by A. Brown, paid across the counter in 10/£10 notes, 10/£5 notes, and £50 money. The cheques are taken from the cashier's file, ticked off against the entries, and then posted by the Ledger clerk to the various current accounts. Cheques paid through the clearing are similarly dealt with after having been entered on the clearing sheets.

Credits and debits for Deposit Accounts are treated by the cashiers in the same way as for Current Accounts, but there is, of course, a separate Ledger. A ruling must be provided in the Deposit Ledger for calculating the interest and also for an " Interest Account." The interest is calculated half-yearly ; if the customer has also a Current Account the amount is credited to that ; if not, it remains on the " Interest Account " until drawn.

On page 293 is a specimen ruling for a Deposit Ledger. It shows calculations of interest for the number of days at the prevailing rate of interest. This necessitates a calculation every time there is an alteration of rate. To overcome this, what is known as the " decimal system " is generally adopted. A date card is kept and each day the number opposite the date is increased by 1 for every ½ per cent. in the rate ; thus, when the rate is 2½ per cent. 5 is added every day. The card appears as under—

Jan. 1	5	Feb. 1	160	
2	10	2	165	
3	15	3	170	
4	20	4	175	
5	25	5	180	
	etc.		etc.	

The number opposite the date is used for the number of days, and interest calculated on $\frac{1}{10}$ of the sum at 5 per cent. Thus, for £100 deposited on Jan. 4th and withdrawn Feb. 1st, the calculation would be on £10 for 140 days at 5 per cent.

Loan Ledger.—When a customer requires a loan, a separate account is opened for him in the " Loan Ledger." His Loan Account is debited and his " Current Account " credited with the same amount. The Loan Ledger will require balance columns and spaces for calculating interest similar to the Deposit Ledger, but as rates vary according to circumstances, interest is calculated at each alteration either in the figures or in the rate, and the amount debited to the Current Account quarterly.

Date.		Acceptor.	Drawer.	Due Date.	Rate.
19..				19..	
Nov.	20	J. Brown	T. Smith	Dec. 30	
				19..	
		A. Falcon	T. Smith	Jan. 10	
		B. Fisher	T. Smith	Feb. 6	
					@ 4½
19...				19..	
Jan.	7	J. Brown	T. Smith	Feb. 20	@ 4½

Amount.			Fate.		*Dr.*				*Cr.*			Balance.		
				19..				19..						
				Nov. 20	£880	0	0					£880	0	0
£150	0	0	Paid					Dec. 30	£150	0	0	730	0	0
								Balance	730	0	0	850	0	0
210	0	0	Paid									640	0	0
520	0	0												
£880	0	0		19..					880	0	0			
				Jan. 1										
120	0	0		Balance	£730	0	0	Jan. 10	210	0	0			
				Jan. 7	120	0	0							

Discount Ledger.—The Discount Ledger in which are posted particulars of all bills discounted for each customer is different. Discount is calculated at the start and debited at once to the customer's Current Account, so no columns are wanted for interest calculations. Particulars of each bill, however, are necessary, and a specimen appears on page 295.

The bill when due must be credited to the Bills Discount account even if it is unpaid, but in that event instead of debiting " Cash " it will be debited to an account called " Past Due Bills," and remain there until the account is settled between the bank and the customer.

Cash Articles.—The " Cash Account " balance at the end of the day consists not only of the total of notes and money in hand but also the " cash articles." An " article " is the technical name given to any instrument of value (cheques, bills, promissory notes, etc.), and the " cash articles " is a total of all those items which have been put through the Waste Book but which are at the end of the day still uncollected.

Nightly Balance.—The nightly balance is made by adding to the morning's balance or " rest," everything which has been received during the day, and this should agree with the total of everything which has been paid added to the balance at the close.

Opposite is a specimen of a Nightly Balance of a branch office. The ruling allows amounts credited and debited to Current Accounts to be kept distinct from those posted in to the General Ledger, and a special column for a money balance.

The entries above the thick line are all those passing through the ordinary channels of Cash Books and bankers' charges, and cheques for collection paid into the head office for the credit of the branch. Below the thick line are all credits advised from head office, such as country cheques and special items such as loans, bills discounted, etc., where credits or debits for the customer's Current Accounts are balanced by opposite entries in the General Ledger.

The left-hand side starts with the balance in hand—the rest, £10,926 4s. 10d., of which £5,420 1s. 8d. is money, and then are entered from various books the items received. These include a receipt for Head Office Account of an amount sufficient to pay the cheques presented for payment through the clearing (£5,450 5s. 11d.).

The other side shows the amounts paid including cheques paid

MONDAY, JAN. 1ST, 19..

	Current Accounts. £	s.	d.	General Ledger Account. £	s.	d.	Money. £	s.	d.
Cash Account—Rest..				10926	4	10	5420	1	8
Received Cash Book ..	20930	2	0	1002	0	0	1007	14	0
Bills Discounted				1000	0	0			
Short Bills	3000	0	0						
Walk Book							7	8	11
Head Office (Met. clearing)				5450	5	11			
£42308 12s. 9d.	23930	2	0	18378	10	9	6435	4	7
Sundry persons per Country cheque	5000	0	0						
Stamped Cheque Books ..				4	3	4			
A. B. Loan	1000	0	0						
C. D. do.	5000	0	0						
E. F. do.	500	0	0						
Sundry persons per Bills Discounted	2000	0	0						
Discount per contra ..				20	5	2			
	37430	2	0	18402	19	3			
Current accounts				37430	2	0			
				55833	1	3			

	Current Accounts. £	s.	d.	General Ledger Account. £	s.	d.	Money. £	s.	d.
Bank Notes..				4000	0	0			
Cash Articles				1190	18	4			
Money				4410	4	7	4410	4	7
				9601	2	11			
House Debits	1069	10	0						
Paid Cash Books	5017	0	0	1008	0	0	2025	0	0
Bankers' charges	5450	5	11						
Head Office (cheques for collection)				20162	13	11			
£42308 12s. 9d.	11536	15	11	30771	16	10	6435	4	7
Head Office per Country cheques				5000	0	0			
Sundry persons per contra	4	3	4						
Loans per Sundry persons..				6500	0	0			
Bills discounted per Sundry persons				2000	0	0			
Sundry persons per Discount	20	5	2						
	11561	4	5	44271	16	10			
Current Accounts				11561	4	5			
				55833	1	3			

into head office for collection (£20,162 13s. 11d.), and the amount in hand at the end of the day (£9,601 2s. 11d.) which will be the new "Rest" for the next day. The totals of the two columns of each side agree, and the third or money column on each side agrees.

Daily Statement.—The statement of daily balances is extracted from the General Ledger in a form similar to the one which follows—

Statement of Daily Balance

Dr.				*Cr.*		
£8410	4	7	Bank Notes and Money			
1190	18	4	Cash Articles			
			Bad Debt Reserve			
5000	0	0	Bills Discounted			
			Current Accounts, Credit Balances	£210000	0	0
52	10	6	Current Accounts, Debit Balances			
20	15	6	Current Expenses			
			Deposit Accounts	70000	0	0
			Deposit Interest	264	2	5
			Discount	72	10	1
			General Commissions	2	6	8
16	2	5	General Interest			
84500	0	0	Loans			
			Loan Interest	34	10	1
			Past Due Bills			
10	0	0	Postages			
			Profit and Loss			
25	6	8	Rates and Taxes			
			Rebate	35	4	6
			Rents			
210	0	0	Salaries			
41	13	4	Stamped Cheque Books			
			Stationery			
			Suspense			
17	10	0	Wages			
£180913	12	5	Head Office			
£280408	13	9		£280408	13	9

Capital.—Opposite is a specimen of a London banker's Balance Sheet. The first point to notice is that a large part of each share is unpaid (£84 10s. out of £100). This is an amount for which the shareholders are liable in the event of liquidation. It is a guarantee for the benefit of the depositors.

Reserve Fund.—The Reserve Fund is an amount which has been accumulated out of past profits: it is a further guarantee for

Statement of Accounts for the Half-year Ending 31st December, 19..

General Balance

Dr. **Liabilities.**

Liabilities	Sub-amount	£	s.	d.
Capital subscribed, £22,934,100 in 299,341 Shares of £100 each; paid up £15 10s. per Share..		£3554785	10	0
Reserve Fund—				
Invested in Consols, Guaranteed 2¾ % Stock, and Transvaal Government 3 % Guaranteed Stock, as per Contra ..		1150000	0	0
Current Accounts	£25726035 10 1			
Deposit Accounts	13696998 16 0			
		39423034	6	1
Acceptances and Guarantees		3826543	17	1
Liabilities by endorsement on Foreign Bills sold		12735	8	8
Other Accounts, including interest due on Deposits, unclaimed Dividends, etc.		653995	14	11
Rebate on Bills not due..		41719	4	6
Profit and Loss—				
Balance brought forward	£215578 7 4			
Net profit for the half-year ending 31st December, 19..	237247 4 2			
	452825 11 6			
Less Amount provided in Profit and Loss Account, as below, for writing down Investments	60000 0 0			
		392825	11	6
		£49055639	12	9

Assets. *Cr.*

Assets	Sub-amount	£	s.	d.
Cash in hand	£3311502 1 0			
,, in Bank of England	3171298 11 3			
		£6482800	12	3
Money at Call and at Short Notice		7792816	10	6
Investments—				
Securities of and guaranteed by the British Government	£2432355 6 8			
India Stock and Indian Railways Guaranteed Bonds	76667 12 6			
Corporation Stocks, Railway and Waterworks Debenture and Preference Stocks, Colonial Stocks, Foreign Government and Railway Debenture Bonds ..	3075412 14 5			
Other Investments	158918 0 0			
	5743353 13 7			
Reserve Fund—				
£618,500 Consols				
£216,300 Guaranteed 2¾ % Stock				
£560,450 Transvaal Government 3 % Guaranteed Stock	1150000 0 0			
		6893353	13	7
Bills Discounted—				
(*a*) Three months and under.. ..	4648801 9 9			
(*b*) Exceeding Three months.. ..	838203 13 6			
		5487005	3	3
Loans and Advances		16654093	0	0
Liabilities of Customers on Acceptances and Guarantees, as per Contra		3826543	17	1
Liabilities of Customers for endorsements, as per Contra ..		12735	8	8
Bank Premises, chiefly freehold (at cost or under)		1505645	19	6
Other Accounts, including interest due on Investments, etc.		400645	7	11
		£49055639	12	9

the depositors. These two liabilities are nearly always more than balanced by assets in the form of Stock Exchange investments. In this case the reserve is specially provided for and the other investments are over £2,000,000 more than the paid-up capital.

Public Liabilities.—The Current, Deposit, and other Accounts are the banker's general liabilities to its customers, and the acceptances represent the amount for which the banker has made himself liable as the acceptor of bills on behalf of his customers, and which is balanced by the customers' liability on the other side, as is also their liability on endorsements.

Rebate.—The next figure on the sheet is an interesting one. "Rebate on Bills not yet due" represents that portion of the discount which has been charged to the customers and credited to the Discount Account, but which has not been earned in the period covered by the Balance Sheet. Some of the discount belongs to the period between 31st Dec., 191.., and the date of the maturity of the bills; this amount is deducted from the Profit and Loss Account and carried forward to the new account.

Cash.—The item of first importance on the assets side is the Cash, both in hand and at the Bank of England. This should never be below 15 per cent. of the public liabilities; in this sheet it appears to be over 16 per cent. Money at call and short notice is that which we have spoken of as being lent to the bill brokers.

Liquid Assets.—These items, together with bills discounted and investments are the banker's "liquid assets," that is, those easily realisable. Loans and other advances cannot be so readily called in.

Premises.—The Premises Account is generally undervalued. Arrangements are made for writing down the value of each block every half-year, so that when leases fall in the amount has been fully liquidated and a sum set aside for dilapidations. Beyond this, when the profits allow, sums are periodically taken from the Profit and Loss Account further to reduce the amount.

Opposite is the Profit and Loss Account of the bank for the half-year.

It will be noticed that interest allowed to customers is charged on the debit side; in many, if not most, banks this is taken off before the gross profit is calculated. The deposit interest is

Profit and Loss Account

		£	s.	d.		£	s.	d.
Interest allowed to Customers		£262596	16	3	Profit unappropriated on 30th June, 191..	£215578	7	4
Salaries, Contributions to Pension Fund, Bank Premises Account, and other expenses at Head Office and Branches ..		232536	19	7	Gross Profit for the half-year ending 31st December, 191.., after making provision for all bad and doubtful debts and payment of Income Tax	774100	4	6
Rebate on Bills not due		41719	4	6				
Amount applied to writing down Investments		60000	0	0				
Dividend on 229,341 Shares at the rate of 10 % per annum, and a Bonus of 3s. 1d. per Share, being at the rate of 2 % per annum, together 18s. 7d. per Share, *less Income Tax* ..	£200673 7 6							
Balance, being undivided profit carried forward to the next half-year.. ..	192152 4 0							
		392825	11	6				
		£989678	11	10		£989678	11	10

deducted from the loan interest and the *balance only* carried to the Profit and Loss Account.

The amount carried forward, the amount set aside for dividend, and the rebate have to be accounted for on the General Balance Sheet.

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