A TEXTBOOK OF PRACTICAL BOOK-KEEPING

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A TEXTBOOK OF

PRACTICAL BOOK-KEEPING

(A manual for Ceylon Students, leading up to the examination for the Junior School Certificate (English) and the Commercial Education Certificate of the London Chamber of Commerce)

BY

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PREFACE

The main object of the present volume is to provide a textbook of Bookkeeping that will meet the special requirements of Ceylon students. The Bookkeeping papers set at our local public examinations deal, and rightly so, with rupees and cents, whereas British examinations held in Ceylon employ sterling currency. It is necessary, therefore, that the student should get accustomed to both currencies in working exercises. This has been provided for by the introduction against the various items of each exercise, of both currencies side by side, the teacher being left to decide in each case which currency his students should adopt.

The book embodies the results of many years of teaching experience, and has been specially designed to present what is usually considered a difficult subject, in a simplified form. It begins with a study of Capital, and leads on by a gradual process of expansion to the more advanced stages.

There is a popular idea that it is useless to attempt to teach Bookkeeping in schools, on the ground that each business has its own particular system of keeping accounts. As the general principles of Bookkeeping are uniform, however, it makes no real difference what particular system the pupil may have to follow when he leaves school. His knowledge of the elementary principles will undoubtedly be a fitting preparation for his work, and he will be able the more readily to master whatever system he may be required to follow later. In practice this has proved to be true in a large number of cases.

In presenting this book to the public, I am fully conscious of its limitations and of the fact that errors and omissions may have inadvertently crept in. I shall welcome any suggestions from my colleagues in the teaching profession, which will help to improve the next edition and make it even more suited to the special requirements of Commercial Classes in Ceylon.

I must acknowledge my indebtedness to the London Chamber of Commerce for permission to reproduce their examination papers ; and to several friends for the encouragement they have given me in writing this book.

S. T. W.

Park View,
Greenlands Road,
Havelock Town.

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CHAPTER I

Bookkeeping—Its scope and meaning

Bookkeeping has been variously described as an art, a science, and even a craft. We need hardly enter upon a long dissertation on these various terms; it will be sufficient for our purpose to know that in Bookkeeping we have to deal with both the theory and the art of keeping accounts. The theory deals with a study of the principles of the subject, and the art with the practical application of those principles. Unlike an absolute science, which is concerned with the acquisition of knowledge for its own sake, Bookkeeping is ordinarily studied with a view to its practical application in real life. For a knowledge of the subject, however edifying and interesting, would lose much of its value if put to no practical use. If, then, we regard Bookkeeping as essentially an art, we shall not be very far wrong. As we study the principles of the subject in subsequent chapters, we shall see that they are scientific, by which we mean that they are well ordered and logically arranged. They are based on what we may call systematized knowledge with the object of securing in their practical application all that would conduce to facility, accuracy and utility.

Meaning of Bookkeeping. What then is Bookkeeping? The beginner will at once answer: 'It is the art of keeping accounts'. Quite true; but there are many ways of keeping accounts which are not what the modern bookkeeper would call Bookkeeping. You yourself may keep a record of what you earn and what you spend, but Bookkeeping does not limit itself merely to recording what money we have received and what we have expended, for there are business dealings that involve no exchange of money at all, at least for the time being, as, for instance.

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when I sell goods to John Brown on credit. We must therefore probe deeper for a more comprehensive definition. Shall we say, then, that Bookkeeping is the art of recording business transactions ? That is a better definition, but it is necessary that we should introduce two factors : (i) the method of recording such business transactions, and (ii) the object in view in keeping such records. In an age of hurry and bustle like the present, any principles introduced require that we should be able to apply them with the least possible effort and yet secure the maximum result. Our records must also be such that we should be able at any time in the course of our business to draw up a statement of the exact position of our affairs, which should be capable of verification. If we deal in more articles than one, we should be able to ascertain what profit or loss we have made on each such article and how we stand in relation to the whole of those transactions. We should be able to tell how much each of our customers owes us and how much we owe each of them ; how much we have in cash and in the bank ; and generally how much we are worth. We might then expand our definition as follows :—

> Bookkeeping is the art of recording our business transactions on scientific lines in such a way that at any time we shall be able to ascertain the result of our various transactions and what we are worth.

Double Entry. Now, in using the term 'Bookkeeping', we must bear in mind that we refer exclusively to the method adopted universally by all leading business houses. It is known as the 'Double Entry' system because every transaction has to be recorded in at least two different accounts. Take, for instance, the following transaction : I sell goods to John Brown. If I sell goods to John Brown, I shall have to make an entry in John Brown's account as well as in my Goods account. You will see, when you study the chapter on the Trial Balance, how this double entry helps you to check your accounts so far as clerical accuracy is concerned. The Double Entry system is adopted so extensively because it is a complete system and the best that has so far been devised.

Single Entry. There is another system known as 'Single Entry' used by certain petty traders from economic considerations, as it involves less time than the Double Entry system. The term 'Single Entry' really belies its name, for not all transactions under that system involve only single entry. For instance, if I pay John Smith Rs. 50, it must be clear that I shall have to make an entry in my Cash account or I shall find a serious discrepancy in my cash balance later. I shall also have to make an entry in John Smith's personal account, or I shall be at sea when I try to ascertain his financial position in regard to my firm. There are many transactions, however, in the Single Entry system that involve only one entry, and the most serious defect in the system is that, although one can estimate what profit or loss has been made by the ultimate 'Statement of Affairs', there is no means either of checking clerical accuracy by any independent process, or of ascertaining the causes that have led up to the ultimate profit or loss. So that Single Entry may be considered to be but a partial application of the principles of Double Entry. We shall therefore discard this system in our present treatise.

Ledger & Subsidiary Books. Before we pass on to the next chapter, I should like to introduce to you the books most commonly used by bookkeepers. As you may have guessed, there are several such books, and you will learn later the purpose served by each of them. The principal book is called the *Ledger*. It contains all the accounts of the firm, and gives you at a glance your financial position in relation to each of them. The other books are all subsidiary to, or feeders of, the Ledger, viz : the *Journal*, the *Cash Book*, the *Sales Book*, the *Purchases-Book*, etc. In practical bookkeeping, *entries* are not made direct into the Ledger. They are made in one or other of the subsidiary books and then *posted* or transferred to the Ledger which is the great meeting place of all accounts. You must note in this connection that an entry made in one subsidiary book must not be made in any other subsidiary book. The choice of the subsidiary book which you should use in making a particular entry cannot be made arbitrarily but must be governed by certain rules which you will learn in subsequent lessions.

Exercise 1

1. Define Bookkeeping.

2. Why is the Double Entry system of Bookkeeping preferable to the Single Entry system? In what respects is the latter system deficient?

3. Name some of the books used in Bookkeeping. Which is the principal book?

4. Explain the difference between 'entering' and 'posting' trans actions.

CHAPTER II

The Balance Sheet

Solvent & Insolvent. Before we attempt a definition of a Balance Sheet, it is necessary that we should know the meaning of the terms 'solvent' and 'in-solvent'. We perhaps have heard of, or know, people who own property of various kinds – houses, motor cars and the like – and who live in apparent luxury and ease, but who are nevertheless bankrupt or insolvent in the real sense of the word. What does it mean? It means just this: that if such a person sold all he owned, the amount he realised by the sale, together with the money he had in cash and at the bank, would still not be sufficient to pay his debts. We would say, then, that an *Insolvent* or a *Bankrupt* is a person who is unable to meet his liabilities or debts in full. On the other hand, one who is able to do so is said to be *Solvent.*

It may here be mentioned that the terms 'insolvent' and 'bankrupt' are popularly regarded as having the same significance. In a legal sense, however, a person is not bankrupt unless he has committed an 'act of bankruptcy', after which he may be adjudged a bankrupt by the Court.

Now in Bookkeeping we ascertain whether a person is solvent or insolvent by drawing up what is known as a *Balance Sheet.* It is called a Balance Sheet because it gives a summary of the balances of various accounts and shows either (a) what balance a person has after providing for his liabilities or debts, or (b) what balance is still necessary to enable him to meet his liabilities. You will notice from the specimen Balance Sheets given overleaf how we arrive at these balances. In specimen A, I am solvent because I have the means of paying my debts; in specimen B, I am insolvent because I have not the means of paying my debts.

Specimen A

BALANCE SHEET

LIABILITIES	Rs.	Cts.	ASSETS	Rs.	Cts.
Debts Payable ..	4,000	00	Cash in hand ..	1,500	00
CAPITAL ..	20,000	00	Cash at Bank ..	4,200	00
			Debts Receivable ..	8,900	00
			Goods ..	6,800	00
			Furniture & Fittings ..	460	00
			Plant & Machinery ..	2,140	00
Rs.	24,000	00	Rs.	24,000	00

Specimen B

BALANCE SHEET

LIABILITIES	Rs.	Cts.	ASSETS	Rs.	Cts.
Debts Payable ..	28,000	00	Cash in hand ..	1,500	00
			Cash at Bank ..	4,200	00
			Debts Receivable ..	8,900	00
			Goods ..	6,800	00
			Furniture & Fittings ..	460	00
			Plant & Machinery ..	2,140	00
			NET DEFICIENCY ..	4,000	00
Rs.	28,000	00	Rs.	28,000	00

Assets & Liabilities. On the right hand side of the Balance Sheet I enumerate the various items in favour of the business, such as Cash in hand, Cash at Bank, Debts Receivable (or monies that are owing to me by other people), Goods (*i.e.* stock-in-trade for sale), Furniture and Fittings, and Plant and Machinery. These are called my *Assets*. There may of course be other assets, but for the present these will suffice to indicate the different kinds of items that are included under this heading.

On the left-hand side of the Balance Sheet, under the heading *Liabilities* are shown my Debts Payable, which are the monies that I owe other people.

Definition of Balance Sheet. Our definition of Balance Sheet would then be as follows :—A *Balance Sheet* is a statement of a person's Assets and Liabilities, balanced in such a way as to show whether he is solvent or insolvent.

Capital. The popular idea of the meaning of 'Capital' is that it consists of the sum total of the cash a person has, together with his stock-in-trade. This would be correct if he had no other assets and no liabilities, or, in other words, if he did not owe anyone anything. In Bookkeeping, we must take into account not only what we possess in the shape of assets but also what our liabilities are. If you will look at specimen A Balance Sheet you will notice that the total amount of my Assets exceeds the total amount of my Liabilities by Rs. 20,000.00. This is what in Bookkeeping we call *Capital* or what I am worth. It is put on the Liabilities side because it is the amount my business owes me, and it serves to equalise the totals of both sides. *Capital* then may be defined as the excess of a person's assets over his liabilities.

In Specimen B, I am hardly so fortunate, for my Liabilities exceed my Assets, and the balance is put down on the Assets side as 'Net Deficiency'. It shows that I am insolvent.

It may of course happen that the total of my Assets is exactly equal to the total of my Liabilities, in which case I am just solvent as I have the means of paying my debts ; but I possess no Capital.

How to Balance. You will observe then, that in order to balance my Balance Sheet, I must first ascertain the total amount of my Assets and the total amount of my Liabilities. I must then find the difference between the two, and put that difference down on the lighter side as indicated above. The two sides are then totalled and the Balance Sheet is ruled off, by which is meant that two lines are drawn under the totals in order to close the Balance Sheet.

Balancing, in other words, is the same process that is adopted by the grocer, for instance, in selling you a pound of sugar. Think of the scales as the framework of the Balance Sheet which it very nearly resembles. On the one side the grocer puts a pound weight, and on the other a certain quantity of sugar. When he finds that there is a preponderance on the side of the weight, he adds more sugar to the other until both sides are level. And balancing a Balance Sheet, as you must have noticed, is concerned in reality with making the two sides level. The totals of the Balance Sheet should, like the scales, be on the same level; otherwise one side of the 'scales' may seem heavier than the other.

Fixed & Floating Assets. Assets may be divided into two kinds: Fixed and Floating. By *Fixed Assets* we mean the material or property used in the conduct of our business. These include such items as Furnitrue and Fittings, Plant and Machinery. They are used exclusively for the purpose of carrying cn trade and are not intended for sale. The counters in a shop, or its show cases, are examples of fixed assets.

Floating or Circulating Assets, on the other hand, consist of the other items in our Assets column. They include the property we deal in or exchange in the course of our business. Stock-in-trade, Money, and Debts Receivable are all Floating or Circulating Assets.

Exercise 2

(The amounts in these and in subsequent exercises are given both in Ceylon and in English currencies. The teacher must decide which of these the student should adopt.)

1. (*a*) Define: Balance Sheet, Capital, Assets, Liabilities.

(*b*) Explain the difference between Fixed Assets and Floating Assets, Solvent and Insolvent.

2. From the following particulars make out a Balance Sheet, stating in each case whether I am solvent or insolvent :—

(*a*)

	Rs.	Cts.	£	s.	d.
Cash in hand	600	00	40	0	0
Cash at Bank	4,250	00	283	6	8
M. Silva owes me	325	00	21	13	4
J. Perera is my debtor	68	00	4	10	8
I owe T. Fernando	189	00	12	12	0
L. Fonseka is my creditor	368	00	24	10	8
My goods are worth	6,320	00	421	6	8
My Furniture aud Fittings are valued at	463	00	30	17	4

Note : A DEBTOR is a person who owes money.
A CREDITOR is a person to whom money is owing.

(*b*)

	Rs.	Cts.	£	s.	d.
I have cash	380	00	25	6	8
Bank overdrawn	220	00	14	13	4
A. Croning owes me	420	00	28	0	0
I owe my landlord	300	00	20	0	0
B. Dalton is my debtor	462	00	30	16	0
C. Beatty is my creditor	1,226	00	81	14	8
R. Isaac owes me	164	00	10	18	8
Stock in trade	320	00	21	6	8

Note : 'Bank overdrawn' means that I have drawn out of the bank more money than I had put in. The item indicates that I owe the bank money and it must therefore be treated as a liability.

(*c*)

	Rs.	Cts.	£	s.	d.
Cash in hand	460	00	30	13	4
Cash at Bank	980	00	65	6	8
Debts Payable :—					
A. Adam	4,164	00	277	12	0
B. Beaver	1,235	00	82	6	8
C. Cutter	2,120	00	141	6	8
D. Dennison	968	00	64	10	8
Debts Receivable :—					
E. Eaton	35	00	2	6	8
F. Farrar	128	00	8	10	8
My goods are worth	1,200	00	80	0	0
Premises	1,800	00	120	0	0

(*d*)

	Rs.	Cts.	£	s.	d.
Cash in hand	380	00	25	6	8
Cash at Bank	4,600	00	306	13	4
Goods in Stock	2,680	00	178	13	4
Sundry Debtors :—					
R. Dias	1,320	00	88	0	0
B. Perera	468	00	31	4	0
T. Silva	830	00	55	6	8
J. Mayo	1,412	00	94	2	8
Sundry Creditors :—					
D. Henry	716	00	47	14	8
S. Samuel	413	00	27	10	8
C. Fernando	212	00	14	2	8
Furniture & Fittings	1,600	00	106	13	4
Plant & Machinery	1,460	00	97	6	8

(*e*)

	Rs.	Cts.	£	s.	d.
Cash in hand	387	00	25	16	0
Bank overdraft	128	00	8	10	8
Value of Stock	2,400	00	160	0	0
Premises	7,600	00	506	13	4
Plant & Machinery	4,800	00	320	0	0
Furniture & Fittings	3.000	00	200	0	0
Sundry Debtors :—					
A. Belleth	300	00	24	0	0
R. Nadarajah	460	00	30	13	4
S. Muller	690	00	46	0	0
R. Peters	1,260	00	84	0	0
Sundry Creditors :—					
J. Perera	360	00	24	0	0
B. Robertson	1,800	00	120	0	0
A. Triggs	460	00	30	13	4

CHAPTER III

The Ledger and its Accounts

Definition of Accounts. We have already learnt that the Ledger is the principal book in Bookkeeping and that it contains all the accounts of the business. But what is an account ? It is a financial statement drawn up in a particular form giving details in regard to some definite matter or to some particular person. A study of the following example will make my meaning clear :—

Dr. JOHN SMITH Cr.

		Rs.	Cts.			Rs,	Cts,
To Balance	..	500	00	By Cash	..	50	00
,, Goods	..	26	00	,, Goods	..	65	00
				,, Cash	..	28	00
				,, Balance c/d	..	383	00
	Rs.	526	00		Rs.	526	00
To balance b/d	Rs.	383	00				

The account, as the heading shows, is a statement of my business transactions with John Smith. The left-hand side of the account is called the Debit (or Debtor) side, and the right-hand side the Credit (or Creditor) side. 'Dr.' and 'Cr.' entered at the top indicate these respective sides. We must not forget that

A DEBTOR is a person who owes something.

A CREDITOR is a person to whom something is owing.

The items on the Debtor side of the account would therefore indicate the amounts in respect of which John Smith owes me money, and the items on the Creditor side the amounts in respect of which I owe John Smith money. It must also be noticed that every item on the Debit side is introduced by the word 'To', and every item on the Credit side by the word 'By'. In other words, John Smith is Debtor to me or Credited by me in respect of the various items enumerated.

Balancing Accounts. The procedure adopted in balancing accounts is as follows :—

1. Find the difference between the totals of the two sides ;
2. Insert the difference on the lighter side so that the two totals may be equal ;
3. Add the two sides and 'rule off' ;
4. Bring down the balance to *the opposite side* as the opening entry for the ensuing period.

There is a reason for bringing down balances to the opposite side. As you will notice, the balance of an account is really the excess of one side over the other. It is put down in the first instance on the lighter side in order that the totals of the two sides may be equal, but it is brought down to the opposite side because, when equalities are deducted from both sides, the balance shows by how much one side is greater than the other, and such balance takes its proper ultimate place on the heavier side.

If you will now refer again to John Smith's account, you will see that it has been balanced in accordance with the above procedure. The letters 'c/d' and 'b/d' against the closing balance stand for 'carried down' and 'brought down' respectively.

In the example given, the balance of Rs. 383 is called a Debit balance because it is the excess of the debit side over the credit side. If, on the other hand, the credit

side were heavier, the balance would be called a Credit balance which would first be entered on the debit side to equalise the two sides and then carried down to the credit side.

Kinds of Accounts. In Bookkeeping there are three distinct kinds of Ledger accounts – Personal, Real and Nominal. In each case the heading of the Account indicates into which of these classes a particular account falls.

PERSONAL ACCOUNTS are accounts of persons. The account of John Smith, for instance, is a personal account.

REAL ACCOUNTS are accounts of things, *e.g.* Cash, Goods, Furniture, etc.

NOMINAL ACCOUNTS comprise all accounts that are neither Personal nor Real, and deal with transactions involving profits or losses, *e.g.* Interest, Discounts, Bad Debts, etc.

PERSONAL ACCOUNTS

Let us deal in this chapter more particularly with Personal Accounts, and leave Real and Nominal accounts to be dealt with later. As I have already said, Personal Accounts relate to persons. The account gives us the various items in respect of which the particular person is debited and credited, and also enables us to ascertain, by means of balancing, whether such person owes us money or whether we owe him money, and how much.

The rule that must be applied in making entries in Personal Accounts is :—

DEBIT THE RECEIVER
CREDIT THE GIVER.

If you will observe this rule as your guide in making entries, you cannot go wrong in your decision as to the side on which any particular entry should be made. The person who receives, owes me money or money's worth to the extent of his receipts, and becomes my debtor, for, as we have noticed, a Debtor is a person who owes something. If, on the other hand, he gives me something, then I become his Debtor and he becomes my Creditor, and his account should accordingly be credited with the amount. Now, when we talk about receiving and giving, we must remember that these are business transactions and are not the same as gifts that we make to our friends on special occasions such as birthdays.

Let us come back to our guide rule :

Debit the Receiver
Credit the Giver.

The reason for the application of this rule now becomes more evident to us. But shall we study it a little more closely ? The question naturally arises : What can a person receive and what can he give ? If we have already had business dealings with a person, the chances are that there will be a balance due by him or to him. In that case this balance will appear as the first item in his account. The example of John Smith's account at the beginning of this chapter indicates that he owed me Rs. 500, or in other words, that he was Debtor to me to that extent. The opening balance, however, gives us no particulars as to the transactions that resulted in that balance ; it merely indicates that such a balance existed at the beginning of our new trading period.

Apart from this opening entry, if there be one, there are many things one may give or receive. Cash or Goods naturally suggest themselves, but Services, though intangible, may be of equal value. If then we are asked what a person may give or receive, we shall answer :

1. Cash
2. Goods
3. Services

There are other items that may suitably be entered on the debit or credit side of a Personal account, but these refer mainly to items involving profit or loss and will be dealt with in the chapter on Nominal Accounts.

Goods. It must be noted that all sales or purchases of goods in the exercises are to be treated as CREDIT sales or purchases unless it is expressly stated that they are cash transactions. An item like 'Sold goods to John smith....Rs. 50', would mean that I sold him goods on credit to the extent of Rs. 50, and John Smith, having received the goods, would have his account debited as follows :—

Dr.

To goods..............Rs. 50.00

But if the sale was a cash sale and the name of John Smith was mentioned as the purchaser, *e.g.* 'Sold goods for cash to John Smith Rs. 50', it would still be desirable to show the transaction in John Smith's account as he is a customer of mine and it would interest me to know the extent of his dealings with my firm both for cash and on credit. In the latter case, John Smith has both received and given ; he has received goods and he has given cash. So we shall have to make two entries in John Smith's account which will, so to speak, counterpoise each other, as follows : -

Dr.	*Cr.*
To goods........Rs. 50.00	By Cash........Rs. 50.00

It would be useful to note, therefore, that if the name of the buyer or the seller is given in connection with a cash transaction, such transaction must be treated as two distinct transactions. In the above case they would be : -

(i) Sold goods to John Smith........Rs. 50.0C
(ii) John Smith paid me cash.......Rs. 50.00

Now it may happen that John Smith is not quite satisfied with some of the goods he has purchased from me, or that for some other reason he does not require them. These goods he returns to me, and, as he gives, I shall have to credit his account with the amount. But in that case, instead of entering the item as 'By Goods', I shall make my entry 'By Goods returned' to distinguish it from a purchase. Similarly, I may have occasion to return him some of the goods I bought from him, in which case I shall debit his account 'To Goods returned'.

Services. As has been pointed out, the services I render a person may be quite as valuable as the tangible cash or goods I give him. A doctor treats his patient ; a lawyer gives his client professional legal advice ; a broker helps to sell his principal's goods ; a clerk does the clerical work of his employer ; a servant attends to the household work of his master. In each case, service is rendered, and the man who receives such services should be debited in accordance with our rule. The doctor and the lawyer charge a fee ; the broker charges a commission ; the clerk is entitled to his salary, and the servant to his wages. Conversely, if I receive such services, I shall credit the accounts of the various parties who give me those services.

Settlement of Accounts. When we say that a man has *settled his account*, we mean that he has *paid the full balance* due by him. If, for instance, R. Adam's account shows that he still owes me Rs. 100, and he pays me that amount in full, or in other words settles his account, he will be credital with that sum and there will then be nothing owing by him. If, on the other hand, he pays me Rs. 25 '*on account*', it means that he has paid me that sum of money in *part settlement* of the amount due. The student must therefore discriminate between payments 'in settlement' and payments 'on account'.

Capital Account. There is another personal account that we must not overlook, and that is my own personal account in my firm. It is called the *Capital Account*. If my firm is solvent, then it would ordinarily have a certain amount of Capital. That amount is due to me personally by the firm, and according to our definition of Creditor, namely a person to whom something is owing, I would have the amount of Capital of the firm placed to my credit, as follows :—

Dr.			CAPITAL ACCOUNT		Cr.
	Rs.	Cts.		Rs.	Cts.
			By Balance ..	20,000	00

Remember then that Capital account is personal and that is represents my personal account in my firm.

Summary. 1. Personal accounts are Accounts of Persons
2. Debit the Receiver
3. Credit the Giver.

Before making an entry in a Personal account, ask yourself the question : Has he received or has he given ? If he has received, you must debit his account ; if he has given, you must credit his account. And remember that services given or received must be treated in exactly the same way as cash or goods.

Exercise 3

1. What are Personal Accounts ? Give an example.

2. What rule must you observe in making entries in Personal accounts ?

3. What is a Capital account ? Why is it classed with Personal accounts ?

4. Make out the following Personal accounts ; balance, and bring down balances :—

(*a*) **J. D. Silva's Account**

			Rs.	Cts.	£	s.	d.
March	1	I owe Silva..................	60	00	4	0	0
,,	3	Bought goods from Silva....	120	00	8	0	0
,,	5	Sold goods to Silva..........	38	00	2	10	8
,,	8	Paid Silva cash on account..	50	00	3	6	8
,,	12	Bought books from Silva....	320	00	21	6	8
,,	18	Bought rice from Silva......	28	00	1	17	4
,,	20	Sold goods to Silva..........	69	00	4	12	0
,,	24	Bought goods from Silva....	85	00	5	13	4
,,	28	Silva bought goods from me	26	00	1	14	8
,,	30	Silva sold me goods.........	68	00	4	10	8
,,	31	I settled Silva's account					

(*b*) **W. R. Perera's Account**

			Rs.	Cts.	£	s.	d.
Sept.	1	Perera owed me.............	190	00	12	13	4
,,	6	Sold goods to Perera........	160	00	10	13	4
,,	9	,, ,, ...	78	00	5	4	0
,,	12	,, ,, ...	67	00	4	9	4

			Rs.	Cts.	£	s.	d.
Sept.	15	Perera paid me on account ..	200	00	13	6	8
,,	16	Bought goods from Perera ..	32	00	2	2	8
,,	18	Perera bought goods from me	80	00	5	6	8
,,	20	Perera returned part of goods purchased................	30	00	2	0	0
,,	23	Perera sold me goods........	68	00	4	10	8
,,	25	Perera bought goods from me for cash..................	100	00	6	13	4
,,	28	Charged Perera commission for work done............	84	00	5	12	0
,,	29	Sold goods to Perera........	219	00	14	12	0
,,	30	Perera paid me on account ..	200	00	13	6	8

Note: The transaction on the 25th should be treated as two separate transactions : (1) Perera bought goods from me, and (2) Perera paid me cash.

(*c*) **R. Fernando's Account**

			Rs.	Cts.	£	s.	d.
June	1	Fernando owed me..........	325	00	21	13	4
,,	4	Sold goods to Fernando.....	48	00	3	4	0
,,	8	Fernando bought goods from me......................	86	00	5	14	8
,,	10	Fernando paid on account...	125	00	8	6	8
,,	14	I bought goods from Fernando for cash............	90	00	6	0	0
,,	16	Returned goods to Fernando as unsuitable.............	25	00	1	13	4
,,	18	Bought a table from Fernando	130	00	8	13	4
,,	23	Sold goods to Fernando......	320	00	21	6	8
,,	25	Services rendered to Fernando	160	00	10	13	4
,,	28	Fernando returned goods.....	18	00	1	4	0
,,	29	Fernando bought goods from me for cash..............	60	00	4	0	0
,,	30	Fernando paid on account...	100	00	6	13	4

(*d*) **J. Henty's Account**

			Rs.	Cts.	£	s.	d.
Dec.	1	Henty owed me.............	125	00	8	6	8
,,	2	Henty bought goods of me ..	38	00	2	10	8
,,	5	Sold Henty goods for cash...	85	00	5	13	4
,,	8	Henty did work for me......	46	00	3	1	4
,,	10	Bought goods from Henty...	166	00	11	1	4
,,	12	Sold goods to Henty........	320	00	21	6	8
,,	15	Received from Henty cash on account..................	50	00	3	6	8
,,	18	Purchases from Henty.......	85	00	5	13	4
,,	20	Sales to Henty.............	120	00	8	0	0
,,	22	Henty paid by cheque.......	75	00	5	0	0
,,	28	Henty bought goods from me for cash..............	80	00	5	6	8
,,	30	Bought goods from Henty...	28	00	1	17	4

CHAPTER IV

Real Accounts—Cash, Bank, Goods

In the last chapter we dealt with Personal accounts, and we took as our rule for making entries in such accounts : Debit the Receiver and Credit the Giver. In this chapter we shall deal with *Real Accounts* or *Accounts of Things*. The rule that guided us in connection with Personal Accounts cannot literally be applied here because inanimate objects cannot be Receivers and Givers. But the purport of it is just the same, and, instead of using the terms 'Receiver' and 'Giver', we may substitute 'What comes in' and 'What goes out.' Our rule then for making entries in Real Accounts would be :—

Debit the Account with what comes in

Credit the Account with what goes out

Cash Account. Let us begin with one of the simplest forms of Real Accounts – the Cash account. The opening entry, as in the case of Personal accounts, would be the balance brought down from the result of previous cash transactions. That balance must in the case of a Cash account, always be a debit balance, because, if you will give the matter a little thought, you will see that we cannot pay out of our cash box more money than we have put in, and the Credit side can therefore never be heavier than the Debit side. When money comes in, we debit the Cash account in accordance with our rule : when money goes out, we credit it. On the Debit side every item shown the source from which that money was received and on the Credit side every item shows for what purpose the money was spent or to whom it was given. If we were asked to make a Cash account from the following data :—

		Rs. Cts.
Cash in hand ..	.. ..	3,000 00
Bought goods for Cash	..	400 00
F. James paid me	.. ..	200 00
I paid A. Perkins	.. ..	1,300 00
Withdrew Cash from bank	..	2,600 00
Paid Cash into bank ..	..	100 00
I paid B. Hopper	.. ..	450 00

the result would be as follows :—

Dr. CASH ACCOUNT Cr.

		Rs.	Cts.			Rs.	Cts.
To Balance	..	3,000	00	By Goods	..	400	00
,, F. James	..	200	00	,, A. Perkins	..	1,300	00
,, Bank	..	2,600	00	,, Bank	..	100	00
				,, B. Hopper	..	450	00
				,, Balance c/d	..	3,550	00
	Rs.	5,800	00		Rs.	5,800	00
To Balance b/d	Rs.	3,550	00				

The first item on the debit side is the balance left over in our cash box after we had made our various payments before the beginning of our present trading period. The other two items indicate the sum we received from F. James and the amount we withdrew from the bank respectively. Similarly, on the credit side the four items show in what connection money was paid out of our cash box. The balance carried down shows the amount of cash in our possession at the end of our trading period. This amount naturally opens the Cash account of the next trading period.

Bank Account. The Bank account is treated in exactly the same way. If we look upon the Bank as a special cash box of ours, then we shall debit the Bank with monies we pay in and credit it with monies we withdraw. You will understand that there are many advantages in having a Bank account. To name some of them : Your money would be, in its keeping, much safer than it would be if you were content merely to let it lie in your

safe. Then there is the convenience of remitting money by cheques, which are really orders on the bank to pay to a certain party a specified sum of money. And, to add to these advantages, the bank allows you a certain amount of interest calculated on the minimum amount to your credit during each month provided that minimum does not drop below a certain figure.

We shall consider at greater length the question of Banking in a subsequent chapter, but at present it will suffice if we realise that money is drawn from the Bank by means of *cheques* which are orders on the bank, in the prescribed form, to pay a specified sum of money to a certain party. You must also remember that cheques received by us are debited to the Cash account unless we are expressly told that such cheques are paid into the Bank upon receipt.

Let us now consider an example of a Bank Account :—

		Rs. Cts.
Balance in Bank	.. ..	4,000 00
Paid cash into Bank	..	300 00
Paid by cheque for goods	..	450 00
Received cheque from J. Harris and paid it into Bank	..	600 00
Paid R. Jones cheque	..	200 00
Withdrew cash from Bank	..	150 00
Paid salaries by cheque	..	360 00

Our Bank Account would appear as under :—

Dr. BANK ACCOUNT Cr.

		Rs.	Cts.			Rs.	Cts.
To Balance	..	4,000	00	By Goods	..	450	00
,, Cash	..	300	00	,, R. Jones	..	200	00
,, J. Harris	..	600	00	,, Cash	..	150	00
				,, Salaries	..	360	00
				,, Balance c/d	..	3,740	00
	Rs. ..	4,900	00		Rs.	4,900	00
To Balance b/d	Rs.	3,740	00				

Unlike the Cash Account, the opening entry of a Bank account need not necessarily be a debit, for by arrangement with the Bank, it would be possible for us to draw out more money than we had actually put in. In such a case our opening entry would be a credit entry, for we would owe the Bank that money, and the Bank would be our Creditor. Such an item is referred to as 'Bank overdrawn,' which means that we have overdrawn or drawn more than the amount we actually deposited in the Bank.

Combined Cash & Bank Account. It is sometimes found more convenient to combine that Cash and Bank accounts by placing the two columns side by side on both divisions of the account. Let us take an example :—

	Rs. Cts.
Cash in hand	3,000 00
Bank overdrawn	450 00
Paid R. Bentley by cheque ..	20 00
Received Cash from S. Sydney	620 00
Paid into Bank	750 00
Paid by cheque for sundry expenses	18 00
Received cheque from R. Hartley which was paid into Bank	1,490 00
Withdrew Cash from Bank ..	250 00
Paid J. Smith Cash	56 00
Received cheque from B. Jones	125 00
Sold goods for Cash	60 00
Bought goods and paid by cheque	179 00

The combined Cash and Bank account would then be as follows :—

Dr. CASH AND BANK ACCOUNT Cr.

	Cash		Bank			Cash		Bank	
	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Balance ..	3,000	00			By Balance ..			450	00
,, S. Sydney	620	00			,, R. Bentley ..			20	00
,, Cash ..			750	00	,, Bank ..	750	00		
,, R. Hartley			1,490	00	,, Sundry ..				
,, Bank ..	250	00			,, expenses ..			18	00
,, B. Jones ..	125	00			,, Cash ..			250	00
,, Goods ..	60	00			,, J. Smith ..	56	00		
					,, Goods ..			179	00
					,, Balance c/d	3,249	00	1,323	09
Rs.	4,055	00	2,240	00	Rs.	4,055	00	2,240	00

To Balance b/d Rs. 3,249 00 1,323 00

Study the entry of each item carefully. There are three items you should particularly observe ; the item 'Paid into Bank' involves two entries – one on the credit side of Cash because cash goes out, and the other on the debit side of Bank, because money is put into the Bank. A similar item 'Withdrew cash from Bank' also involves two entries, but in this case Cash comes in and is debited : Bank gives out and is credited. You will also notice that each entry states the source from which money has been received or the purpose for which money has been expended. The entry 'Received cheque from B. Jones' requires some elucidation. Cash (and not Bank) is debited with the amount, because cheques received are treated as cash, as they can be used for purchasing goods or for paying debts in just the same way as cash can. Therefore, *unless you are specifically told that a cheque received has been paid into the bank upon receipt*, it is correct to debit your Cash account with the amount.

Goods Account. The treatment of a Goods account is somewhat different from that of either a Cash or a Bank account. Shall we take a very simple example as an illustration of what is meant ? Supposing we have a stock of a dozen pencils which we bought at 3 cents each, or 36 cents for the lot. In the course of our business we sell 5 pencils at 4 cents each and 2 pencils at 5 cents each. Our total income from the sale of pencils would thus amount to 30 cents, whereas our expenditure on pencils at the beginning of our trading period was 36 cents. Does it mean that we have lost 6 cents on the transaction ? Certainly not, for it will be obvious to you that we have sold only 7 pencils and that we have still 5 pencils in stock for sale. In other words, against our expenditure of 36 cents we have an income of 30 cents on the sale of 7 pencils, and 5 pencils which cost us 15 cents. You will see, then, that in balancing our Goods account, it is necessary that we should take into consideration the value of our stock at the end of our trading period or when we close our books. We have frequently heard of shops having what they call 'Stock-taking clearance sales', and it will now be apparent to you why it is necessary for them to take stock. It is for the purpose of enabling them to close their Goods account and see what profit or loss they have had in connection with the purchase and sale of the various commodities they deal in. But how shall we value stock? The rule is that we should value it at *cost price* or the price we actually paid for it, *unless* the market value of the articles has since come down, in which case we should value it at present ruling rates. Let us revert to our transactions in Pencils, and suppose that the price of pencils has not gone down since we purchased them. We shall then have 15 cents worth of pencils calculated at the cost price of 3 cents per pencil, and we must treat this amount as though we had actually sold the 5 pencils before we can ascertain exactly what profit we have made. This is done by placing the amount on the credit side of the account as shown below :—

Dr. PENCILS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance ..	0	36	By Cash ..	0	20
„ Gross profit (carried to P. & L. a/c) ..	0	09	„ Cash ..	0	10
			„ Value of stock ..	0	15
Rs.	0	45	Rs.	0	45
To Balance Rs.........Rs.	0	15			

Now, if you will reckon it out without the aid of the above account, you will see that we made a profit of 5 cents on our first sale and 4 cents on our second sale. This total of 9 cents is exactly the profit our account shows us we have made. The value of unsold stock is brought down as the opening entry for the new trading period, and what is known as the Gross Profit is carried away to an account called the Profit & Loss account (P. & L. a/c) with which we shall deal in our chapter on Nominal accounts.

It will be seen, then, that the Goods account may have two balances : (1) the gross profit or loss which is carried *away* to the Profit & Loss account, and (2) the value of Stock which is carried *down* as the opening item on the debit side for the ensuing period.

Gross Profit and Net Profit. A merchant or a shopkeeper buys goods at a certain price and sells them at a higher price so that he may make a profit on them. In the case of the Pencils accounts, which we have just examined, the profit made is 9 cents. But your must remember that all the profit made in that way cannot be appropriated by the trader because there are certain expenses, called '*overhead* charges' which we has to meet in connection with the conduct of his business. For instance, he may have to pay rent on his shop, the salaries of his staff, and many incidental charges. The profit he made *before* the deducation of those expenses is called the '*gross profit*' ; the profit made *after* the deduction of such expenses is called '*net profit*'. In other words, the net profit is the *actual* profit a person has made, and his Capital is increased by the amount of that profit. If a loss has been incurred on the Goods account, then, naturally, the debit side will be heavier than the credit side (including value of stock) and the balance or Gross Loss will appear on the credit side of the Goods account to make the total of the two sides equal. Whether the result is a Gross Profit or a Gross Loss, the balance will in each case be transferred to the Profit & Loss account. In the former case the balance will appear on the Credit side of the P. & L. account, and in the latter case on the Debit side. You will notice that balances are always carried to the *opposite* side of the P. & L. account. You will understand the reason for this when you have studied Nominal accounts.

Summary.

1. Real accounts are accounts of things, *e.g.* Cash, Bank, Goods.

2. Debit what comes into the account.

3. Credit what goes out of the account.

4. The credit side of a Cash account can never be greater than the debit side, for we cannot pay out of our cash box more money can we have put in.

5. The Credit side of a Bank Account *may* be heavier than the Debit side, for it is possible to arrange with the Bank, by giving them suitable security, to allow us an overdraft, or in other words to allow us to overdraw our account with them.

6. The Goods account cannot be closed until we know the value of our stock which should be reckoned at cost price, or, if the market has since declined, at current market price. Such value of stock should be entered on the Credit side on the account before the account is balanced.

7. The balance of the Goods account, which is either a Gross Profit or a Gross Loss, is carried *away* to the opposite side of the P. & L. account. The value of unsold stock is carried *down* to the Debit side as the opening balance for the next trading period.

Exercise 4

1. What are real accounts ? Name some of them.

2. What rule must you observe in making entries in real accounts ?

3. Why is it that Cash a/c can never have a credit balance ?

4. Why is 'stock taking' necessary to enable you to close your Goods accounts ?

5. How do you deal with (i) the balance of the Goods account, (ii) the value of stock.

6. Make out a combined Cash and Bank account from the following particulars. Balance the account and bring down balances :—

(*a*)

	Rs.	Cts.	£	s.	d.
Cash in hand........................	9,870	00	658	0	0
Cash at Bank........................	6,720	00	448	0	0
Paid cash into bank.................	3,000	00	200	0	0
Received cheque from A James.......	462	00	30	16	0
Cash sales..........................	696	00	46	8	0
Cash purchases......................	843	00	56	4	0
Paid R. Silva by cheque.............	246	00	16	8	0
Received cheque from B. Jones which was paid into Bank................	482	00	32	2	8
Withdrew from bank.................	500	00	33	6	8

	Rs.	Cts.	£	s.	d.
Paid for sundry expenses.............	36	00	2	8	0
Cash stolen from safe................	56	00	3	14	8
Gave A. Holden cheque..............	69	00	4	12	0
Bought goods and paid by cheque.....	150	00	10	0	0
Received cash from B. Jones.........	120	00	8	0	0
Cash purchases......................	234	00	15	12	0

Note : The item 'Cash stolen from safe' should be entered on the Credit side of Cash account because cash has gone out. Enter the item as 'By Loss by theft.'

(*b*)

	Rs.	Cts.	£	s.	d.
Cash in hand........................	8.296	00	553	1	4
Bank overdrawn.....................	1,260	00	84	0	0
Paid cash into bank.................	2,000	00	133	6	8
Paid G. Henry by cheque............	1,600	00	106	13	4
Bought goods and paid by cheque.....	350	00	23	6	8
Received cash from M. Perera........	896	00	59	14	8
Cash purchases......................	4,269	00	284	12	0
Received cheque from R. Silva.......	850	00	56	13	4
Paid R. Silva cash..................	465	00	31	0	0
Paid rent by cheque.................	100	00	6	13	4
Paid salaries by cash...............	426	00	28	8	0
Bank charged interest on overdraft...	45	00	3	0	0

Note : The last item 'Bank charged interest on overdraft' should be credited to Bank account as 'Interest on overdraft'. The amount is due to the Bank as interest on the sum we have overdrawn. The Bank would debit our account in their books, and conversely we would credit the Bank. We are the debtors and the Bank is the creditor.

(*c*)

	Rs.	Cts.	£	s.	d.
Cash in hand........................	6,842	00	456	2	8
Cash at Bank........................	4,960	00	330	13	4
Paid Fire Insurance by cheque........	125	00	8	6	8
Received from L. Harris cash.........	426	00	28	8	0
Bought goods and paid by cheque.....	1,200	00	80	0	0
Cash sales..........................	420	00	28	0	0
Cash purchases......................	824	00	54	18	8
Paid S. Lee cash....................	260	00	17	6	8
Paid sundry expenses................	48	00	3	4	0
Paid R. Watts by cheque.............	324	00	21	12	0
Withdrew cash for private expenses...	300	00	20	0	0
Paid to R. Norris...................	463	00	30	17	4
Received cash for sundry sales........	280	00	18	13	4

	Rs.	Cts.	£	s.	d.
R. Jones paid me..................	364	00	24	5	0
Paid into Bank.....................	1,500	00	100	0	0
Bank allowed me interest............	30	00	2	0	0

Note] The item 'Withdrew cash for private expenses' should be credited to Cash account as Cash goes out. The amount is for the use of the proprietor whose Capital account would therefore be debited Enter the amount in the Cash account as 'By Capital account (withdrawal)'.

'Bank allowed me interest.' Look at the note at the foot of the last exercise. The Bank in this case allows me interest, and the Bank account should therefore be debited.

7. From the following transactions make out a Goods account. Remember that the balance Gross Profit or Gross Loss is *carried away* to the P. & L. account, and the value of stock at the end of the transactions must be *carried down* as the opening balance for the next period :—

(*a*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	8,600	00	573	6	8
Cash sales.........................	300	00	20	0	0
Cash purchases.....................	684	00	45	12	0
Sold goods to B. Henry..............	329	00	21	18	8
Sold goods to R. Thomas............	624	00	41	12	0
Goods destroyed by fire..............	28	00	1	17	4
Purchases from S. Williams..........	329	00	21	18	8
J. Perkins bought goods of me........	660	00	44	0	0
H. Farrar sold me goods.............	326	00	21	14	8
Sold goods to J. Bailey..............	869	00	57	18	8
Value of Stock......................	9,200	00	613	6	8

Note] 'Goods destroyed by fire' should be entered on the credit side of the account. Enter the item as 'By Loss by fire'.

(*b*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	6,950	00	463	6	8
Sold goods for cash.................	390	00	26	0	0
Sold goods to A. Henty..............	462	00	30	16	0
Bought goods from B. George.........	329	00	21	18	8
R. James sold me goods.............	465	00	31	0	0
P. Cader bought goods of me.........	326	00	21	14	8
L. Jones sold me goods..............	432	00	28	16	0
C. Perera sold me goods..............	269	00	17	18	8
Sold to D. Silva goods...............	468	00	31	4	0
L. Darwin sold me goods.............	347	00	23	2	8
D. Martin purchased goods of me.....	638	00	42	10	8
Bought goods of E. Earle............	264	00	17	12	0
Cash purchases.....................	500	00	33	6	8
Value of stock......................	7,100	00	473	6	8

8. From the following transactions make out a Goods account and a combined Cash and Bank account, and balance these accounts :—

(*a*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	10,800	00	720	0	0
Cash in hand......................	1,496	00	99	14	8
Cash at Bank......................	3,200	00	213	6	8
Sold goods to R. Stewart............	1,600	00	106	13	4
Paid cash into Bank................	1,000	00	66	13	4
Cash purchases....................	165	00	11	0	0
Purchased from T. Brown goods......	30	00	2	0	0
Bought goods from S. James and paid cheque........................	800	00	53	6	8
Sold goods to R. Bastian............	75	00	5	0	0
Cash Sales.........................	900	00	60	0	0
R. Henry bought goods of me........	1,200	00	80	0	0
Drew cheque for private expenses.....	300	00	20	0	0
Value of Stock.....................	9,600	00	640	0	0

(*b*)	Rs.	Cts.	£	s.	d.
Stock of goods.....................	12,600	00	840	0	0
Cash in hand......................	1,450	00	96	13	4
Bank overdrawn....................	900	00	60	0	0
Sold goods for cash.................	286	00	19	1	4
Paid cash into Bank................	1,000	00	66	13	4
Paid wages by cheque...............	300	00	20	0	0
Paid into Bank cheque from J. Thomas	890	00	59	6	8
Cash purchases....................	320	00	21	6	8
Sold goods to B. Seale..............	20	00	1	6	8
Purchased goods for cash............	30	00	2	0	0
Bank charged interest on overdraft....	60	00	4	0	0
Cash sales.........................	1,800	00	120	0	0
Value of stock.....................	10,600	00	706	13	4

CHAPTER V

The Trading Account

In our last Chapter we dealt, among other things, with an account which we called the Goods account. In large business concerns, however, it is referred to as the Trading account, and we shall in future adopt this term instead of Goods. The *Trading Account* is the account that relates to the various goods in which a trader deals. In a firm that does business in a variety of goods, these Trading accounts are kept separately, for the Proprietor of the firm would naturally want to know what profit or loss he has made on each line of his business – what profit, for instance, on Drugs, on Toys, on Millinery, etc. We shall, however, restrict our consideration to one Trading account. The extension of this to various Trading accounts would of course be a simple matter.

Now it must be remembered that the business of a trader consists mainly in buying and selling goods, and the number of purchases and sales during any year would naturally be considerable. To lighten the burden of the Trading account, therefore, at least five subsidiary Trading accounts are kept, and only the *total* of each of these is transferred to the Trading account. These subsidiary Trading accounts are :—

1. Stock account
2. Purchases account
3. Sales account
4. Returns Inwards account (or Sales Returns)
5. Returns Outwards accounts (or Purchases Returns)

Stock Account. The value of stock *at the beginning* of the trading period is entered on the debit side of this account. The account is then balanced and the balance transferred to the debit of the Trading account. The value of stock *at the end* of the trading period is entered, as we have already seen, on the credit side of the *Trading account*; this value of stock should be brought down not to the debit side of the Trading account but to the debit side of the Stock account. The following is an example of a Stock account :—

Dr. STOCK ACCOUNT Cr.

		Rs.	Cts.		Rs.	Cts.
To Balance	..	360	00	By Balance transferred to Trading a/c Rs.	360	00
To Balance	Rs.	432	00			

The ultimate balance stock of Rs. 432.00 is entered on the credit side of the Trading account before that account is balanced, and the balance is brought down to the debit side of the Stock account, as above.

Purchases Account. All our purchases of goods, whether for cash or on credit, are entered on the debit side of our Purchases account, for when we make purchases, goods come in, and, according to our rule, the account should therefore be debited. The total amount is then entered on the credit side of this account in order to balance it, and the amount is transferred to the debit side of our Trading account, as follows :—

Dr. PURCHASE ACCOUNT Cr.

		Rs.	Cts.		Rs.	Cts.
To Cash	..	50	00	By Balance transferred to Trading a/c ..	184	00
„ B. Seale	..	20	00			
„ C. Curtis	..	35	00			
„ D. Yeats	..	44	00			
„ R. Bonsor	..	35	00			
	Rs.	184	00	Rs.	184	00

The Trading account, instead of being burdened with five items, will thus have only one item from the Purchases account, viz : Rs. 184.00.

Sales Account. In the same way, all our Sales are entered on the credit side of our Sales account, for in this case goods go out and the Sales account must be credited. The balance, which is the total of the credit side, is transferred to the credit side of our Trading account, as follows :—

Dr. SALES ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance transferred to Trading account ..	272	00	By Cash ..	30	00
			, G. Robins ..	60	00
			, R. Haggard ..	65	00
			,, M. James ..	49	00
			,, R. Henty ..	68	00
Rs.	272	00	Rs.	272	00

You will observe that neither the Purchases nor the Sales account leaves any balance to be brought down, as the total in each case is carried away to the Trading account.

Returns Inwards Account. In business, it sometimes happens that goods we sell are returned to us either in whole or in part, for various reasons. It may be that the quality of a certain article we supplied is not according to specification, and the goods are therefore sent back to us. As goods come in, we shall follow our rule by debiting the Returns Inwards account with the value of the goods returned. In our Sales account above, we notice that we have sold G. Robins goods to the value of Rs. 60.00. Supposing he returns half those goods to us as not being satisfactory, we shall debit our Returns Inwards account with the amount Rs. 30. Similarly,

CHAPTER I

Bookkeeping—Its scope and meaning

Bookkeeping has been variously described as an art, a science, and even a craft. We need hardly enter upon a long dissertation on these various terms ; it will be sufficient for our purpose to know that in Bookkeeping we have to deal with both the theory and the art of keeping accounts. The theory deals with a study of the principles of the subject, and the art with the practical application of those principles. Unlike an absolute science, which is concerned with the acquisition of knowledge for its own sake, Bookkeeping is ordinarily studied with a view to its practical application in real life. For a knowledge of the subject, however edifying and interesting, would lose much of its value if put to no practical use. If, then, we regard Bookkeeping as essentially an art, we shall not be very far wrong. As we study the principles of the subject in subsequent chapters, we shall see that they are scientific, by which we mean that they are well ordered and logically arranged. They are based on what we may call systematized knowledge with the object of securing in their practical application all that would conduce to facility, accuracy and utility.

Meaning of Bookkeeping. What then is Bookkeeping ? The beginner will at once answer : 'It is the art of keeping accounts'. Quite true ; but there are many ways of keeping accounts which are not what the modern bookkeeper would call Bookkeeping. You yourself may keep a record of what you earn and what you spend, but Bookkeeping does not limit itself merely to recording what money we have received and what we have expended, for there are business dealings that involve no exchange of money at all, at least for the time being, as, for instance.

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when I sell goods to John Brown on credit. We must therefore probe deeper for a more comprehensive definition. Shall we say, then, that Bookkeeping is the art of recording business transactions ? That is a better definition, but it is necessary that we should introduce two factors : (i) the method of recording such business transactions, and (ii) the object in view in keeping such records. In an age of hurry and bustle like the present, any principles introduced require that we should be able to apply them with the least possible effort and yet secure the maximum result. Our records must also be such that we should be able at any time in the course of our business to draw up a statement of the exact position of our affairs, which should be capable of verification. If we deal in more articles than one, we should be able to ascertain what profit or loss we have made on each such article, and how we stand in relation to the whole of those transactions. We should be able to tell how much each of our customers owes us and how much we owe each of them ; how much we have in cash and in the bank ; and generally how much we are worth. We might then expand our definition as follows :—

> Bookkeeping is the art of recording our business transactions on scientific lines in such a way that at any time we shall be able to ascertain the result of our various transactions and what we are worth.

Double Entry. Now, in using the term 'Bookkeeping', we must bear in mind that we refer exclusively to the method adopted universally by all leading business houses. It is known as the 'Double Entry' system because every transaction has to be recorded in at least two different accounts. Take, for instance, the following transaction : I sell goods to John Brown. If I sell goods to John Brown, I shall have to make an entry in John Brown's account as well as in my Goods account. You will see, when you study the chapter on the Trial Balance, how this double entry helps you to check your accounts so far as clerical accuracy is concerned. The Double Entry system is adopted so extensively because it is a complete system and the best that has so far been devised.

Single Entry. There is another system known as 'Single Entry' used by certain petty traders from economic considerations, as it involves less time than the Double Entry system. The term 'Single Entry' really belies its name, for not all transactions under that system involve only single entry. For instance, if I pay John Smith Rs. 50, it must be clear that I shall have to make an entry in my Cash account or I shall find a serious discrepancy in my cash balance later. I shall also have to make an entry in John Smith's personal account, or I shall be at sea when I try to ascertain his financial position in regard to my firm. There are many transactions, however, in the Single Entry system that involve only one entry, and the most serious defect in the system is that, although one can estimate what profit or loss has been made by the ultimate 'Statement of Affairs', there is no means either of checking clerical accuracy by any independent process, or of ascertaining the causes that have led up to the ultimate profit or loss. So that Single Entry may be considered to be but a partial application of the principles of Double Entry. We shall therefore discard this system in our present treatise.

Ledger & Subsidiary Books. Before we pass on to the next chapter, I should like to introduce to you the books most commonly used by bookkeepers. As you may have guessed, there are several such books, and you will learn later the purpose served by each of them. The principal book is called the *Ledger*. It contains all the accounts of the firm, and gives you at a glance your financial position in relation to each of them. The other books are all subsidiary to, or feeders of, the Ledger, viz : the *Journal*, the *Cash Book*, the *Sales Book*, the *Purchases-Book*. etc. In practical bookkeeping, *entries* are not made direct into the Ledger. They are made in one or other of the subsidiary books and then *posted* or transferred to the Ledger which is the great meeting place of all accounts. You must note in this connection that an entry made in one subsidiary book must not be made in any other subsidiary book. The choice of the subsidiary book which you should use in making a particular entry cannot be made arbitrarily but must be governed by certain rules which you will learn in subsequent lessions.

Exercise 1

1. Define Bookkeeping.

2. Why is the Double Entry system of Bookkeeping preferable to the Single Entry system ? In what respects is the latter system deficient ?

3. Name some of the books used in Bookkeeping. Which is the principal book ?

4. Explain the difference between 'entering' and 'posting' trans actions.

CHAPTER II

The Balance Sheet

Solvent & Insolvent. Before we attempt a definition of a Balance Sheet, it is necessary that we should know the meaning of the terms 'solvent' and 'insolvent'. We perhaps have heard of, or know, people who own property of various kinds – houses, motor cars and the like – and who live in apparent luxury and ease, but who are nevertheless bankrupt or insolvent in the real sense of the word. What does it mean ? It means just this : that if such a person sold all he owned, the amount he realised by the sale, together with the money he had in cash and at the bank, would still not be sufficient to pay his debts. We would say, then, that an *Insolvent* or a *Bankrupt* is a person who is unable to meet his liabilities or debts in full. On the other hand, one who is able to do so is said to be *Solvent.*

It may here be mentioned that the terms 'insolvent' and 'bankrupt' are popularly regarded as having the same significance. In a legal sense, however, a person is not bankrupt unless he has committed an 'act of bankruptcy', after which he may be adjudged a bankrupt by the Court.

Now in Bookkeeping we ascertain whether a person is solvent or insolvent by drawing up what is known as a *Balance Sheet.* It is called a Balance Sheet because it gives a summary of the balances of various accounts and shows either (a) what balance a person has after providing for his liabilities or debts, or (b) what balance is still necessary to enable him to meet his liabilities. You will notice from the specimen Balance Sheets given overleaf how we arrive at these balances. In specimen A, I am solvent because I have the means of paying my debts ; in specimen B, I am insolvent because I have not the means of paying my debts.

Specimen A

BALANCE SHEET

LIABILITIES	Rs.	Cts.	ASSETS	Rs.	Cts.
Debts Payable ..	4,000	00	Cash in hand ..	1,500	00
CAPITAL ..	20,000	00	Cash at Bank ..	4,200	00
			Debts Receivable ..	8,900	00
			Goods ..	6,800	00
			Furniture & Fittings ..	460	00
			Plant & Machinery ..	2,140	00
Rs.	24,000	00	Rs.	24,000	00

Specimen B

BALANCE SHEET

LIABILITIES	Rs.	Cts.	ASSETS	Rs.	Cts.
Debts Payable ..	28,000	00	Cash in hand ..	1,500	00
			Cash at Bank ..	4,200	00
			Debts Receivable ..	8,900	00
			Goods ..	6,800	00
			Furniture & Fittings ..	460	00
			Plant & Machinery ..	2,140	00
			NET DEFICIENCY ..	4,000	00
Rs.	28,000	00	Rs.	28,000	00

Assets & Liabilities. On the right hand side of the Balance Sheet I enumerate the various items in favour of the business, such as Cash in hand, Cash at Bank, Debts Receivable (or monies that are owing to me by other people), Goods (*i.e.* stock-in-trade for sale), Furniture and Fittings, and Plant and Machinery. These are called my *Assets.* There may of course be other assets, but for the present these will suffice to indicate the different kinds of items that are included under this heading.

On the left-hand side of the Balance Sheet, under the heading *Liabilities* are shown my Debts Payable, which are the monies that I owe other people.

Definition of Balance Sheet. Our definition of Balance Sheet would then be as follows :—A *Balance Sheet* is a statement of a person's Assets and Liabilities, balanced in such a way as to show whether he is solvent or insolvent.

Capital. The popular idea of the meaning of 'Capital' is that it consists of the sum total of the cash a person has, together with his stock-in-trade. This would be correct if he had no other assets and no liabilities, or, in other words, if he did not owe anyone anything. In Bookkeeping, we must take into account not only what we possess in the shape of assets but also what our liabilities are. If you will look at specimen A Balance Sheet you will notice that the total amount of my Assets exceeds the total amount of my Liabilities by Rs. 20,000.00. This is what in Bookkeeping we call *Capital* or what I am worth. It is put on the Liabilities side because it is the amount my business owes me, and it serves to equalise the totals of both sides. *Capital* then may be defined as the excess of a person's assets over his liabilities.

In Specimen B, I am hardly so fortunate, for my Liabilities exceed my Assets, and the balance is put down on the Assets side as 'Net Deficiency'. It shows that I am insolvent.

It may of course happen that the total of my Assets is exactly equal to the total of my Liabilities, in which case I am just solvent as I have the means of paying my debts ; but I possess no Capital.

How to Balance. You will observe then, that in order to balance my Balance Sheet, I must first ascertain the total amount of my Assets and the total amount of my Liabilities. I must then find the difference between the two, and put that difference down on the lighter side as indicated above. The two sides are then totalled and the Balance Sheet is ruled off, by which is meant that two lines are drawn under the totals in order to close the Balance Sheet.

Balancing, in other words, is the same process that is adopted by the grocer, for instance, in selling you a pound of sugar. Think of the scales as the framework of the Balance Sheet which it very nearly resembles. On the one side the grocer puts a pound weight, and on the other a certain quantity of sugar. When he finds that there is a preponderance on the side of the weight, he adds more sugar to the other until both sides are level. And balancing a Balance Sheet, as you must have noticed, is concerned in reality with making the two sides level. The totals of the Balance Sheet should, like the scales, be on the same level; otherwise one side of the 'scales' may seem heavier than the other.

Fixed & Floating Assets. Assets may be divided into two kinds: Fixed and Floating. By *Fixed Assets* we mean the material or property used in the conduct of our business. These include such items as Furnitrue and Fittings, Plant and Machinery. They are used exclusively for the purpose of carrying cn trade and are not intended for sale. The counters in a shop, or its show cases, are examples of fixed assets.

Floating or Circulating Assets, on the other hand, consist of the other items in our Assets column. They include the property we deal in or exchange in the course of our business. Stock-in-trade, Money, and Debts Receivable are all Floating or Circulating Assets.

Exercise 2

(The amounts in these and in subsequent exercises are given both in Ceylon and in English currencies. The teacher must decide which of these the student should adopt.)

1. (*a*) Define: Balance Sheet, Capital, Assets, Liabilities.

(*b*) Explain the difference between Fixed Assets and Floating Assets, Solvent and Insolvent.

2. From the following particulars make out a Balance Sheet, stating in each case whether I am solvent or insolvent:—

(*a*)

	Rs.	Cts.	£	s.	d.
Cash in hand	600	00	40	0	0
Cash at Bank	4,250	00	283	6	8
M. Silva owes me	325	00	21	13	4
J. Perera is my debtor	68	00	4	10	8
I owe T. Fernando	189	00	12	12	0
L. Fonseka is my creditor	368	00	24	10	8
My goods are worth	6,320	00	421	6	8
My Furniture aud Fittings are valued at	463	00	30	17	4

Note: A DEBTOR is a person who owes money.
A CREDITOR is a person to whom money is owing.

(*b*)

	Rs.	Cts.	£	s.	d.
I have cash	380	00	25	6	8
Bank overdrawn	220	00	14	13	4
A. Croning owes me	420	00	28	0	0
I owe my landlord	300	00	20	0	0
B. Dalton is my debtor	462	00	30	16	0
C. Beatty is my creditor	1,226	00	81	14	8
R. Isaac owes me	164	00	10	18	8
Stock in trade	320	00	21	6	8

Note: 'Bank overdrawn' means that I have drawn out of the bank more money than I had put in. The item indicates that I owe the bank money and it must therefore be treated as a liability.

(*c*)

	Rs.	Cts.	£	s.	d.
Cash in hand	460	00	30	13	4
Cash at Bank	980	00	65	6	8
Debts Payable:—					
A. Adam	4,164	00	277	12	0
B. Beaver	1,235	00	82	6	8
C. Cutter	2,120	00	141	6	8
D. Dennison	968	00	64	10	8
Debts Receivable:—					
E. Eaton	35	00	2	6	8
F. Farrar	128	00	8	10	8
My goods are worth	1,200	00	80	0	0
Premises	1,800	00	120	0	0

(*d*)

	Rs.	Cts.	£	s.	d.
Cash in hand........................	380	00	25	6	8
Cash at Bank........................	4,600	00	306	13	4
Goods in Stock......................	2,680	00	178	13	4
Sundry Debtors :—					
R. Dias........................	1,320	00	88	0	0
B. Perera......................	468	00	31	4	0
T. Silva.......................	830	00	55	6	8
J. Mayo........................	1,412	00	94	2	8
Sundry Creditors :—					
D. Henry.......................	716	00	47	14	8
S. Samuel......................	413	00	27	10	8
C. Fernando....................	212	00	14	2	8
Furniture & Fittings................	1,600	00	106	13	4
Plant & Machinery...................	1,460	00	97	6	8

(*e*)

	Rs.	Cts.	£	s.	d.
Cash in hand........................	387	00	25	16	0
Bank overdraft......................	128	00	8	10	8
Value of Stock......................	2,400	00	160	0	0
Premises............................	7,600	00	506	13	4
Plant & Machinery...................	4,800	00	320	0	0
Furniture & Fittings................	3.000	00	200	0	0
Sundry Debtors :—					
A. Belleth.....................	300	00	24	0	0
R. Nadarajah...................	460	00	30	13	4
S. Muller......................	690	00	46	0	0
R. Peters......................	1,260	00	84	0	0
Sundry Creditors :—					
J. Perera......................	360	00	24	0	0
B. Robertson...................	1,800	00	120	0	0
A. Triggs......................	460	00	30	13	4

CHAPTER III

The Ledger and its Accounts

Definition of Accounts. We have already learnt that the Ledger is the principal book in Bookkeeping and that it contains all the accounts of the business. But what is an account? It is a financial statement drawn up in a particular form giving details in regard to some definite matter or to some particular person. A study of the following example will make my meaning clear :—

Dr. JOHN SMITH Cr.

	Rs.	Cts.		Rs,	Cts,
To Balance ..	500	00	By Cash ..	50	00
,, Goods ..	26	00	,, Goods ..	65	00
			,, Cash ..	28	00
			,, Balance c/d ..	383	00
Rs.	526	00	Rs.	526	00
To balance b/d Rs.	383	00			

The account, as the heading shows, is a statement of my business transactions with John Smith. The left-hand side of the account is called the Debit (or Debtor) side, and the right-hand side the Credit (or Creditor) side. 'Dr.' and 'Cr.' entered at the top indicate these respective sides. We must not forget that

A DEBTOR is a person who owes something.

A CREDITOR is a person to whom something is owing.

The items on the Debtor side of the account would therefore indicate the amounts in respect of which John Smith owes me money, and the items on the Creditor side the amounts in respect of which I owe John Smith money. It must also be noticed that every item on the Debit side is introduced by the word 'To', and every item on the Credit side by the word 'By'. In other words, John Smith is Debtor to me or Credited by me in respect of the various items enumerated.

Balancing Accounts. The procedure adopted in balancing accounts is as follows :—

1. Find the difference between the totals of the two sides ;
2. Insert the difference on the lighter side so that the two totals may be equal ;
3. Add the two sides and 'rule off' ;
4. Bring down the balance to *the opposite side* as the opening entry for the ensuing period.

There is a reason for bringing down balances to the opposite side. As you will notice, the balance of an account is really the excess of one side over the other. It is put down in the first instance on the lighter side in order that the totals of the two sides may be equal, but it is brought down to the opposite side because, when equalities are deducted from both sides, the balance shows by how much one side is greater than the other, and such balance takes its proper ultimate place on the heavier side.

If you will now refer again to John Smith's account, you will see that it has been balanced in accordance with the above procedure. The letters 'c/d' and 'b/d' against the closing balance stand for 'carried down' and 'brought down' respectively.

In the example given, the balance of Rs. 383 is called a Debit balance because it is the excess of the debit side over the credit side. If, on the other hand, the credit

side were heavier, the balance would be called a Credit balance which would first be entered on the debit side to equalise the two sides and then carried down to the credit side.

Kinds of Accounts. In Bookkeeping there are three distinct kinds of Ledger accounts – Personal, Real and Nominal. In each case the heading of the Account indicates into which of these classes a particular account falls.

PERSONAL ACCOUNTS are accounts of persons. The account of John Smith, for instance, is a personal account.

REAL ACCOUNTS are accounts of things, *e.g.* Cash, Goods, Furniture, etc.

NOMINAL ACCOUNTS comprise all accounts that are neither Personal nor Real, and deal with transactions involving profits or losses, *e.g.* Interest, Discounts, Bad Debts, etc.

PERSONAL ACCOUNTS

Let us deal in this chapter more particularly with Personal Accounts, and leave Real and Nominal accounts to be dealt with later. As I have already said, Personal Accounts relate to persons. The account gives us the various items in respect of which the particular person is debited and credited, and also enables us to ascertain, by means of balancing, whether such person owes us money or whether we owe him money, and how much.

The rule that must be applied in making entries in Personal Accounts is :—

DEBIT THE RECEIVER
CREDIT THE GIVER.

If you will observe this rule as your guide in making entries, you cannot go wrong in your decision as to the side on which any particular entry should be made. The person who receives, owes me money or money's worth to the extent of his receipts, and becomes my debtor, for, as we have noticed, a Debtor is a person who owes something. If, on the other hand, he gives me something, then I become his Debtor and he becomes my Creditor, and his account should accordingly be credited with the amount. Now, when we talk about receiving and giving, we must remember that these are business transactions and are not the same as gifts that we make to our friends on special occasions such as birthdays.

Let us come back to our guide rule :

Debit the Receiver
Credit the Giver.

The reason for the application of this rule now becomes more evident to us. But shall we study it a little more closely ? The question naturally arises : What can a person receive and what can he give ? If we have already had business dealings with a person, the chances are that there will be a balance due by him or to him. In that case this balance will appear as the first item in his account. The example of John Smith's account at the beginning of this chapter indicates that he owed me Rs. 500, or in other words, that he was Debtor to me to that extent. The opening balance, however, gives us no particulars as to the transactions that resulted in that balance ; it merely indicates that such a balance existed at the beginning of our new trading period.

Apart from this opening entry, if there be one, there are many things one may give or receive. Cash or Goods naturally suggest themselves, but Services, though intangible, may be of equal value. If then we are asked what a person may give or receive, we shall answer :

1. Cash
2. Goods
3. Services

There are other items that may suitably be entered on the debit or credit side of a Personal account, but these refer mainly to items involving profit or loss and will be dealt with in the chapter on Nominal Accounts.

Goods. It must be noted that all sales or purchases of goods in the exercises are to be treated as CREDIT sales or purchases unless it is expressly stated that they are cash transactions. An item like 'Sold goods to John smith....Rs. 50', would mean that I sold him goods on credit to the extent of Rs. 50, and John Smith, having received the goods, would have his account debited as follows :—

Dr.

To goods..............Rs. 50.00

But if the sale was a cash sale and the name of John Smith was mentioned as the purchaser, *e.g.* 'Sold goods for cash to John Smith Rs. 50', it would still be desirable to show the transaction in John Smith's account as he is a customer of mine and it would interest me to know the extent of his dealings with my firm both for cash and on credit. In the latter case, John Smith has both received and given ; he has received goods and he has given cash. So we shall have to make two entries in John Smith's account which will, so to speak, counterpoise each other, as follows : -

Dr.	*Cr.*
To goods........Rs. 50.00	By Cash........Rs. 50.00

It would be useful to note, therefore, that if the name of the buyer or the seller is given in connection with a cash transaction, such transaction must be treated as two distinct transactions. In the above case they would be : -

(i) Sold goods to John Smith........Rs. 50.00
(ii) John Smith paid me cash.......Rs. 50.00

Now it may happen that John Smith is not quite satisfied with some of the goods he has purchased from me, or that for some other reason he does not require them. These goods he returns to me, and, as he gives, I shall have to credit his account with the amount. But in that case, instead of entering the item as 'By Goods', I shall make my entry 'By Goods returned' to distinguish it from a purchase. Similarly, I may have occasion to return him some of the goods I bought from him, in which case I shall debit his account 'To Goods returned'.

Services. As has been pointed out, the services I render a person may be quite as valuable as the tangible cash or goods I give him. A doctor treats his patient; a lawyer gives his client professional legal advice; a broker helps to sell his principal's goods; a clerk does the clerical work of his employer; a servant attends to the household work of his master. In each case, service is rendered, and the man who receives such services should be debited in accordance with our rule. The doctor and the lawyer charge a fee; the broker charges a commission; the clerk is entitled to his salary, and the servant to his wages. Conversely, if I receive such services, I shall credit the accounts of the various parties who give me those services.

Settlement of Accounts. When we say that a man has *settled his account*, we mean that he has *paid the full balance* due by him. If, for instance, R. Adam's account shows that he still owes me Rs. 100, and he pays me that amount in full, or in other words settles his account, he will be credital with that sum and there will then be nothing owing by him. If, on the other hand, he pays me Rs. 25 '*on account*', it means that he has paid me that sum of money in *part settlement* of the amount due. The student must therefore discriminate between payments 'in settlement' and payments 'on account'.

Capital Account. There is another personal account that we must not overlook, and that is my own personal account in my firm. It is called the *Capital Account*. If my firm is solvent, then it would ordinarily have a certain amount of Capital. That amount is due to me personally by the firm, and according to our definition of Creditor, namely a person to whom something is owing, I would have the amount of Capital of the firm placed to my credit, as follows :—

Dr. CAPITAL ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
			By Balance ..	20,000	00

Remember then that Capital account is personal and that is represents my personal account in my firm.

Summary. 1. Personal accounts are Accounts of Persons
2. Debit the Receiver
3. Credit the Giver.

Before making an entry in a Personal account, ask yourself the question: Has he received or has he given? If he has received, you must debit his account; if he has given, you must credit his account. And remember that services given or received must be treated in exactly the same way as cash or goods.

Exercise 3

1. What are Personal Accounts ? Give an example.

2. What rule must you observe in making entries in Personal accounts ?

3. What is a Capital account ? Why is it classed with Personal accounts ?

4. Make out the following Personal accounts; balance, and bring down balances :—

(*a*) **J. D. Silva's Account**

			Rs.	Cts.	£	s.	d.
March	1	I owe Silva.................	60	00	4	0	0
,,	3	Bought goods from Silva....	120	00	8	0	0
,,	5	Sold goods to Silva..........	38	00	2	10	8
,,	8	Paid Silva cash on account..	50	00	3	6	8
,,	12	Bought books from Silva....	320	00	21	6	8
,,	18	Bought rice from Silva......	28	00	1	17	4
,,	20	Sold goods to Silva..........	69	00	4	12	0
,,	24	Bought goods from Silva....	85	00	5	13	4
,,	28	Silva bought goods from me	26	00	1	14	8
,,	30	Silva sold me goods.........	68	00	4	10	8
,,	31	I settled Silva's account					

(*b*) **W. R. Perera's Account**

			Rs.	Cts.	£	s.	d.
Sept.	1	Perera owed me............	190	00	12	13	4
,,	6	Sold goods to Perera........	160	00	10	13	4
,,	9	,, ,, ...	78	00	5	4	0
,,	12	,, ,, ...	67	00	4	9	4

			Rs.	Cts.	£	s.	d.
Sept.	15	Perera paid me on account ..	200	00	13	6	8
,,	16	Bought goods from Perera ..	32	00	2	2	8
,,	18	Perera bought goods from me	80	00	5	6	8
,,	20	Perera returned part of goods purchased	30	00	2	0	0
,,	23	Perera sold me goods	68	00	4	10	8
,,	25	Perera bought goods from me for cash	100	00	6	13	4
,,	28	Charged Perera commission for work done	84	00	5	12	0
,,	29	Sold goods to Perera	219	00	14	12	0
,,	30	Perera paid me on account ..	200	00	13	6	8

Note: The transaction on the 25th should be treated as two separate transactions: (1) Perera bought goods from me, and (2) Perera paid me cash.

(*c*) **R. Fernando's Account**

			Rs.	Cts.	£	s.	d.
June	1	Fernando owed me	325	00	21	13	4
,,	4	Sold goods to Fernando	48	00	3	4	0
,,	8	Fernando bought goods from me	86	00	5	14	8
,,	10	Fernando paid on account	125	00	8	6	8
,,	14	I bought goods from Fernando for cash	90	00	6	0	0
,,	16	Returned goods to Fernando as unsuitable	25	00	1	13	4
,,	18	Bought a table from Fernando	130	00	8	13	4
,,	23	Sold goods to Fernando	320	00	21	6	8
,,	25	Services rendered to Fernando	160	00	10	13	4
,,	28	Fernando returned goods	18	00	1	4	0
,,	29	Fernando bought goods from me for cash	60	00	4	0	0
,,	30	Fernando paid on account	100	00	6	13	4

(*d*) **J. Henty's Account**

			Rs.	Cts.	£	s.	d.
Dec.	1	Henty owed me	125	00	8	6	8
,,	2	Henty bought goods of me ..	38	00	2	10	8
,,	5	Sold Henty goods for cash	85	00	5	13	4
,,	8	Henty did work for me	46	00	3	1	4
,,	10	Bought goods from Henty	166	00	11	1	4
,,	12	Sold goods to Henty	320	00	21	6	8
,,	15	Received from Henty cash on account	50	00	3	6	8
,,	18	Purchases from Henty	85	00	5	13	4
,,	20	Sales to Henty	120	00	8	0	0
,,	22	Henty paid by cheque	75	00	5	0	0
,,	28	Henty bought goods from me for cash	80	00	5	6	8
,,	30	Bought goods from Henty	28	00	1	17	4

CHAPTER IV

Real Accounts—Cash, Bank, Goods

In the last chapter we dealt with Personal accounts, and we took as our rule for making entries in such accounts: Debit the Receiver and Credit the Giver. In this chapter we shall deal with *Real Accounts* or *Accounts of Things*. The rule that guided us in connection with Personal Accounts cannot literally be applied here because inanimate objects cannot be Receivers and Givers. But the purport of it is just the same, and, instead of using the terms 'Receiver' and 'Giver', we may substitute 'What comes in' and 'What goes out.' Our rule then for making entries in Real Accounts would be :—

Debit the Account with what comes in

Credit the Account with what goes out

Cash Account. Let us begin with one of the simplest forms of Real Accounts—the Cash account. The opening entry, as in the case of Personal accounts, would be the balance brought down from the result of previous cash transactions. That balance must in the case of a Cash account, always be a debit balance, because, if you will give the matter a little thought, you will see that we cannot pay out of our cash box more money than we have put in, and the Credit side can therefore never be heavier than the Debit side. When money comes in, we debit the Cash account in accordance with our rule: when money goes out, we credit it. On the Debit side every item shown the source from which that money was received and on the Credit side every item shows for what purpose the money was spent or to whom it was given. If we were asked to make a Cash account from the following data :—

	Rs. Cts.
Cash in hand	3,000 00
Bought goods for Cash ..	400 00
F. James paid me	200 00
I paid A. Perkins	1,300 00
Withdrew Cash from bank ..	2,600 00
Paid Cash into bank	100 00
I paid B. Hopper	450 00

the result would be as follows :—

Dr. CASH ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance ..	3,000	00	By Goods ..	400	00
„ F. James ..	200	00	„ A. Perkins ..	1,300	00
„ Bank ..	2,600	00	„ Bank ..	100	00
			„ B. Hopper ..	450	00
			„ Balance c/d ..	3,550	00
Rs.	5,800	00	Rs.	5,800	00
To Balance b/d Rs.	3,550	00			

The first item on the debit side is the balance left over in our cash box after we had made our various payments before the beginning of our present trading period. The other two items indicate the sum we received from F. James and the amount we withdrew from the bank respectively. Similarly, on the credit side the four items show in what connection money was paid out of our cash box. The balance carried down shows the amount of cash in our possession at the end of our trading period. This amount naturally opens the Cash account of the next trading period.

Bank Account. The Bank account is treated in exactly the same way. If we look upon the Bank as a special cash box of ours, then we shall debit the Bank with monies we pay in and credit it with monies we withdraw. You will understand that there are many advantages in having a Bank account. To name some of them : Your money would be, in its keeping, much safer than it would be if you were content merely to let it lie in your

safe. Then there is the convenience of remitting money by cheques, which are really orders on the bank to pay to a certain party a specified sum of money. And, to add to these advantages, the bank allows you a certain amount of interest calculated on the minimum amount to your credit during each month provided that minimum does not drop below a certain figure.

We shall consider at greater length the question of Banking in a subsequent chapter, but at present it will suffice if we realise that money is drawn from the Bank by means of *cheques* which are orders on the bank, in the prescribed form, to pay a specified sum of money to a certain party. You must also remember that cheques received by us are debited to the Cash account unless we are expressly told that such cheques are paid into the Bank upon receipt.

Let us now consider an example of a Bank Account :—

	Rs. Cts.
Balance in Bank	4,000 00
Paid cash into Bank ..	300 00
Paid by cheque for goods ..	450 00
Received cheque from J. Harris and paid it into Bank ..	600 00
Paid R. Jones cheque ..	200 00
Withdrew cash from Bank ..	150 00
Paid salaries by cheque ..	360 00

Our Bank Account would appear as under :—

Dr. BANK ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance ..	4,000	00	By Goods ..	450	00
„ Cash ..	300	00	„ R. Jones ..	200	00
„ J. Harris ..	600	00	„ Cash ..	150	00
			„ Salaries ..	360	00
			„ Balance c/d ..	3,740	00
Rs. ..	4,900	00	Rs.	4,900	00
To Balance b/d Rs.	3,740	00			

Unlike the Cash Account, the opening entry of a Bank account need not necessarily be a debit, for by arrangement with the Bank, it would be possible for us to draw out more money than we had actually put in. In such a case our opening entry would be a credit entry, for we would owe the Bank that money, and the Bank would be our Creditor. Such an item is referred to as 'Bank overdrawn,' which means that we have overdrawn or drawn more than the amount we actually deposited in the Bank.

Combined Cash & Bank Account. It is sometimes found more convenient to combine that Cash and Bank accounts by placing the two columns side by side on both divisions of the account. Let us take an example :—

	Rs. Cts.
Cash in hand	3,000 00
Bank overdrawn	450 00
Paid R. Bentley by cheque ..	20 00
Received Cash from S. Sydney	620 00
Paid into Bank	750 00
Paid by cheque for sundry expenses	18 00
Received cheque from R. Hartley which was paid into Bank	1,490 00
Withdrew Cash from Bank ..	250 00
Paid J. Smith Cash	56 00
Received cheque from B. Jones	125 00
Sold goods for Cash	60 00
Bought goods and paid by cheque	179 00

The combined Cash and Bank account would then be as follows :—

Dr. CASH AND BANK ACCOUNT Cr.

	Cash		Bank			Cash		Bank	
	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Balance ..	3,000	00			By Balance ..			450	00
,, S. Sydney	620	00			,, R. Bentley ..			20	00
,, Cash ..			750	00	,, Bank ..	750	00		
,, R. Hartley			1,490	00	,, Sundry ..				
,, Bank ..	250	00			,, expenses ..			18	00
,, B. Jones ..	125	00			,, Cash ..			250	00
,, Goods ..	60	00			,, J. Smith ..	56	00		
					,, Goods ..			179	00
					,, Balance c/d	3,249	00	1,323	00
Rs.	4,055	00	2,240	00	Rs.	4,055	00	2,240	00

To Balance b/d Rs. 3,249 00 1,323 00

Study the entry of each item carefully. There are three items you should particularly observe ; the item 'Paid into Bank' involves two entries – one on the credit side of Cash because cash goes out, and the other on the debit side of Bank, because money is put into the Bank. A similar item 'Withdrew cash from Bank' also involves two entries, but in this case Cash comes in and is debited : Bank gives out and is credited. You will also notice that each entry states the source from which money has been received or the purpose for which money has been expended. The entry 'Received cheque from B. Jones' requires some elucidation. Cash (and not Bank) is debited with the amount, because cheques received are treated as cash, as they can be used for purchasing goods or for paying debts in just the same way as cash can. Therefore, *unless you are specifically told that a cheque received has been paid into the bank upon receipt*, it is correct to debit your Cash account with the amount.

Goods Account. The treatment of a Goods account is somewhat different from that of either a Cash or a Bank account. Shall we take a very simple example as an illustration of what is meant ? Supposing we have a stock of a dozen pencils which we bought at 3 cents each, or 36 cents for the lot. In the course of our business we sell 5 pencils at 4 cents each and 2 pencils at 5 cents each. Our total income from the sale of pencils would thus amount to 30 cents, whereas our expenditure on pencils at the beginning of our trading period was 36 cents. Does it mean that we have lost 6 cents on the transaction ? Certainly not, for it will be obvious to you that we have sold only 7 pencils and that we have still 5 pencils in stock for sale. In other words, against our expenditure of 36 cents we have an income of 30 cents on the sale of 7 pencils, and 5 pencils which cost us 15 cents. You will see, then, that in balancing our Goods account, it is necessary that we should take into consideration the value of our stock at the end of our trading period or when we close our books. We have frequently heard of shops having what they call 'Stock-taking clearance sales', and it will now be apparent to you why it is necessary for them to take stock. It is for the purpose of enabling them to close their Goods account and see what profit or loss they have had in connection with the purchase and sale of the various commodities they deal in. But how shall we value stock? The rule is that we should value it at *cost price* or the price we actually paid for it, *unless* the market value of the articles has since come down, in which case we should value it at present ruling rates. Let us revert to our transactions in Pencils, and suppose that the price of pencils has not gone down since we purchased them. We shall then have 15 cents worth of pencils calculated at the cost price of 3 cents per pencil, and we must treat this amount as though we had actually sold the 5 pencils before we can ascertain exactly what profit we have made. This is done by placing the amount on the credit side of the account as shown below :—

Dr. PENCILS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance ..	0	36	By Cash ..	0	20
„ Gross profit (carried to P. & L. a/c) ..	0	09	„ Cash ..	0	10
			„ Value of stock ..	0	15
Rs.	0	45	Rs.	0	45
To Balance Rs.........Rs.	0	15			

Now, if you will reckon it out without the aid of the above account, you will see that we made a profit of 5 cents on our first sale and 4 cents on our second sale. This total of 9 cents is exactly the profit our account shows us we have made. The value of unsold stock is brought down as the opening entry for the new trading period, and what is known as the Gross Profit is carried away to an account called the Profit & Loss account (P. & L. a/c) with which we shall deal in our chapter on Nominal accounts.

It will be seen, then, that the Goods account may have two balances : (1) the gross profit or loss which is carried *away* to the Profit & Loss account, and (2) the value of Stock which is carried *down* as the opening item on the debit side for the ensuing period.

Gross Profit and Net Profit. A merchant or a shopkeeper buys goods at a certain price and sells them at a higher price so that he may make a profit on them. In the case of the Pencils accounts, which we have just examined, the profit made is 9 cents. But your must remember that all the profit made in that way cannot be appropriated by the trader because there are certain expenses, called '*overhead* charges' which we has to meet in connection with the conduct of his business. For instance, he may have to pay rent on his shop, the salaries of his staff, and many incidental charges. The profit he made *before* the deducation of those expenses is called the '*gross profit*' ; the profit made *after* the deduction of such expenses is called '*net profit*'. In other words, the net profit is the *actual* profit a person has made, and his Capital is increased by the amount of that profit. If a loss has been incurred on the Goods account, then, naturally, the debit side will be heavier than the credit side (including value of stock) and the balance or Gross Loss will appear on the credit side of the Goods account to make the total of the two sides equal. Whether the result is a Gross Profit or a Gross Loss, the balance will in each case be transferred to the Profit & Loss account. In the former case the balance will appear on the Credit side of the P. & L. account, and in the latter case on the Debit side. You will notice that balances are always carried to the *opposite* side of the P. & L. account. You will understand the reason for this when you have studied Nominal accounts.

Summary.

1. Real accounts are accounts of things, *e.g.* Cash, Bank, Goods.

2. Debit what comes into the account.

3. Credit what goes out of the account.

4. The credit side of a Cash account can never be greater than the debit side, for we cannot pay out of our cash box more money can we have put in.

5. The Credit side of a Bank Account *may* be heavier than the Debit side, for it is possible to arrange with the Bank, by giving them suitable security, to allow us an overdraft, or in other words to allow us to overdraw our account with them.

6. The Goods account cannot be closed until we know the value of our stock which should be reckoned at cost price, or, if the market has since declined, at current market price. Such value of stock should be entered on the Credit side on the account before the account is balanced.

7. The balance of the Goods account, which is either a Gross Profit or a Gross Loss, is carried *away* to the opposite side of the P. & L. account. The value of unsold stock is carried *down* to the Debit side as the opening balance for the next trading period.

Exercise 4

1. What are real accounts ? Name some of them.

2. What rule must you observe in making entries in real accounts ?

3. Why is it that Cash a/c can never have a credit balance ?

4. Why is 'stock taking' necessary to enable you to close your Goods accounts ?

5. How do you deal with (i) the balance of the Goods account, (ii) the value of stock.

6. Make out a combined Cash and Bank account from the following particulars. Balance the account and bring down balances :—

(*a*)

	Rs.	Cts.	£	s.	d.
Cash in hand	9,870	00	658	0	0
Cash at Bank	6,720	00	448	0	0
Paid cash into bank	3,000	00	200	0	0
Received cheque from A James	462	00	30	16	0
Cash sales	696	00	46	8	0
Cash purchases	843	00	56	4	0
Paid R. Silva by cheque	246	00	16	8	0
Received cheque from B. Jones which was paid into Bank	482	00	32	2	8
Withdrew from bank	500	00	33	6	8

	Rs.	Cts.	£	s.	d.
Paid for sundry expenses	36	00	2	8	0
Cash stolen from safe	56	00	3	14	8
Gave A. Holden cheque	69	00	4	12	0
Bought goods and paid by cheque	150	00	10	0	0
Received cash from B. Jones	120	00	8	0	0
Cash purchases	234	00	15	12	0

Note : The item 'Cash stolen from safe' should be entered on the Credit side of Cash account because cash has gone out. Enter the item as 'By Loss by theft.'

(*b*)

	Rs.	Cts.	£	s.	d.
Cash in hand	8.296	00	553	1	4
Bank overdrawn	1,260	00	84	0	0
Paid cash into bank	2,000	00	133	6	8
Paid G. Henry by cheque	1,600	00	106	13	4
Bought goods and paid by cheque	350	00	23	6	8
Received cash from M. Perera	896	00	59	14	8
Cash purchases	4,269	00	284	12	0
Received cheque from R. Silva	850	00	56	13	4
Paid R. Silva cash	465	00	31	0	0
Paid rent by cheque	100	00	6	13	4
Paid salaries by cash	426	00	28	8	0
Bank charged interest on overdraft	45	00	3	0	0

Note : The last item 'Bank charged interest on overdraft' should be credited to Bank account as 'Interest on overdraft'. The amount is due to the Bank as interest on the sum we have overdrawn. The Bank would debit our account in their books, and conversely we would credit the Bank. We are the debtors and the Bank is the creditor.

(*c*)

	Rs.	Cts.	£	s.	d.
Cash in hand	6,842	00	456	2	8
Cash at Bank	4,960	00	330	13	4
Paid Fire Insurance by cheque	125	00	8	6	8
Received from L. Harris cash	426	00	28	8	0
Bought goods and paid by cheque	1,200	00	80	0	0
Cash sales	420	00	28	0	0
Cash purchases	824	00	54	18	8
Paid S. Lee cash	260	00	17	6	8
Paid sundry expenses	48	00	3	4	0
Paid R. Watts by cheque	324	00	21	12	0
Withdrew cash for private expenses	300	00	20	0	0
Paid to R. Norris	463	00	30	17	4
Received cash for sundry sales	280	00	18	13	4

	Rs.	Cts.	£	s.	d.
R. Jones paid me....................	364	00	24	5	0
Paid into Bank......................	1,500	00	100	0	0
Bank allowed me interest............	30	00	2	0	0

Note] The item 'Withdrew cash for private expenses' should be credited to Cash account as Cash goes out. The amount is for the use of the proprietor whose Capital account would therefore be debited Enter the amount in the Cash account as 'By Capital account (withdrawal)'.

'Bank allowed me interest.' Look at the note at the foot of the last exercise. The Bank in this case allows me interest, and the Bank account should therefore be debited.

7. From the following transactions make out a Goods account. Remember that the balance Gross Profit or Gross Loss is *carried away* to the P. & L. account, and the value of stock at the end of the transactions must be *carried down* as the opening balance for the next period :—

(*a*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	8,600	00	573	6	8
Cash sales..........................	300	00	20	0	0
Cash purchases.....................	684	00	45	12	0
Sold goods to B. Henry..............	329	00	21	18	8
Sold goods to R. Thomas............	624	00	41	12	0
Goods destroyed by fire.............	28	00	1	17	4
Purchases from S. Williams..........	329	00	21	18	8
J. Perkins bought goods of me........	660	00	44	0	0
H. Farrar sold me goods.............	326	00	21	14	8
Sold goods to J. Bailey..............	869	00	57	18	8
Value of Stock......................	9,200	00	613	6	8

Note] 'Goods destroyed by fire' should be entered on the credit side of the account. Enter the item as 'By Loss by fire'.

(*b*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	6,950	00	463	6	8
Sold goods for cash..................	390	00	26	0	0
Sold goods to A. Henty..............	462	00	30	16	0
Bought goods from B. George........	329	00	21	18	8
R. James sold me goods.............	465	00	31	0	0
P. Cader bought goods of me.........	326	00	21	14	8
L. Jones sold me goods..............	432	00	28	16	0
C. Perera sold me goods..............	269	00	17	18	8
Sold to D. Silva goods...............	468	00	31	4	0
L. Darwin sold me goods.............	347	00	23	2	8
D. Martin purchased goods of me.....	638	00	42	10	8
Bought goods of E. Earle............	264	00	17	12	0
Cash purchases......................	500	00	33	6	8
Value of stock......................	7,100	00	473	6	8

8. From the following transactions make out a Goods account and a combined Cash and Bank account, and balance these accounts :—

(*a*)	Rs.	Cts.	£	s.	d.
Stock in hand......................	10,800	00	720	0	0
Cash in hand........................	1,496	00	99	14	8
Cash at Bank........................	3,200	00	213	6	8
Sold goods to R. Stewart............	1,600	00	106	13	4
Paid cash into Bank..................	1,000	00	66	13	4
Cash purchases......................	165	00	11	0	0
Purchased from T. Brown goods......	30	00	2	0	0
Bought goods from S. James and paid cheque........................	800	00	53	6	8
Sold goods to R. Bastian.............	75	00	5	0	0
Cash Sales..........................	900	00	60	0	0
R. Henry bought goods of me........	1,200	00	80	0	0
Drew cheque for private expenses.....	300	00	20	0	0
Value of Stock......................	9,600	00	640	0	0

(*b*)	Rs.	Cts.	£	s.	d.
Stock of goods......................	12,600	00	840	0	0
Cash in hand........................	1,450	00	96	13	4
Bank overdrawn.....................	900	00	60	0	0
Sold goods for cash..................	286	00	19	1	4
Paid cash into Bank..................	1,000	00	66	13	4
Paid wages by cheque...............	300	00	20	0	0
Paid into Bank cheque from J. Thomas	890	00	59	6	8
Cash purchases......................	320	00	21	6	8
Sold goods to B. Seale...............	20	00	1	6	8
Purchased goods for cash............	30	00	2	0	0
Bank charged interest on overdraft....	60	00	4	0	0
Cash sales..........................	1,800	00	120	0	0
Value of stock......................	10,600	00	706	13	4

CHAPTER V

The Trading Account

In our last Chapter we dealt, among other things, with an account which we called the Goods account. In large business concerns, however, it is referred to as the Trading account, and we shall in future adopt this term instead of Goods. The *Trading Account* is the account that relates to the various goods in which a trader deals. In a firm that does business in a variety of goods, these Trading accounts are kept separately, for the Proprietor of the firm would naturally want to know what profit or loss he has made on each line of his business – what profit, for instance, on Drugs, on Toys, on Millinery, etc. We shall, however, restrict our consideration to one Trading account. The extension of this to various Trading accounts would of course be a simple matter.

Now it must be remembered that the business of a trader consists mainly in buying and selling goods, and the number of purchases and sales during any year would naturally be considerable. To lighten the burden of the Trading account, therefore, at least five subsidiary Trading accounts are kept, and only the *total* of each of these is transferred to the Trading account. These subsidiary Trading accounts are :—

1. Stock account
2. Purchases account
3. Sales account
4. Returns Inwards account (or Sales Returns)
5. Returns Outwards accounts (or Purchases Returns)

Stock Account. The value of stock *at the beginning* of the trading period is entered on the debit side of this account. The account is then balanced and the balance transferred to the debit of the Trading account. The value of stock *at the end* of the trading period is entered, as we have already seen, on the credit side of the *Trading account*; this value of stock should be brought down not to the debit side of the Trading account but to the debit side of the Stock account. The following is an example of a Stock account :—

Dr. STOCK ACCOUNT Cr.

		Rs.	Cts.		Rs.	Cts.
To Balance	..	360	00	By Balance transferred to Trading a/c Rs.	360	00
To Balance	Rs.	432	00			

The ultimate balance stock of Rs. 432.00 is entered on the credit side of the Trading account before that account is balanced, and the balance is brought down to the debit side of the Stock account, as above.

Purchases Account. All our purchases of goods, whether for cash or on credit, are entered on the debit side of our Purchases account, for when we make purchases, goods come in, and, according to our rule, the account should therefore be debited. The total amount is then entered on the credit side of this account in order to balance it, and the amount is transferred to the debit side of our Trading account, as follows :—

Dr. PURCHASE ACCOUNT Cr.

		Rs.	Cts.		Rs.	Cts.
To Cash	..	50	00	By Balance transferred to Trading a/c ..	184	00
„ B. Seale	..	20	00			
„ C. Curtis	..	35	00			
„ D. Yeats	..	44	00			
„ R. Bonsor	..	35	00			
	Rs.	184	00	Rs.	184	00

The Trading account, instead of being burdened with five items, will thus have only one item from the Purchases account, viz : Rs. 184.00.

Sales Account. In the same way, all our Sales are entered on the credit side of our Sales account, for in this case goods go out and the Sales account must be credited. The balance, which is the total of the credit side, is transferred to the credit side of our Trading account, as follows :—

Dr. SALES ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance transferred to Trading account ..	272	00	By Cash ..	30	00
			" G. Robins ..	60	00
			" R. Haggard ..	65	00
			" M. James ..	49	00
			" R. Henty ..	68	00
Rs.	272	00	Rs.	272	00

You will observe that neither the Purchases nor the Sales account leaves any balance to be brought down, as the total in each case is carried away to the Trading account.

Returns Inwards Account. In business, it sometimes happens that goods we sell are returned to us either in whole or in part, for various reasons. It may be that the quality of a certain article we supplied is not according to specification, and the goods are therefore sent back to us. As goods come in, we shall follow our rule by debiting the Returns Inwards account with the value of the goods returned. In our Sales account above, we notice that we have sold G. Robins goods to the value of Rs. 60.00. Supposing he returns half those goods to us as not being satisfactory, we shall debit our Returns Inwards account with the amount Rs. 30. Similarly,

R. Henty has returned Rs. 18 worth of the goods we sold to him. Our Returns Inwards account would then appear as under :—

Dr. RETURNS INWARDS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To G. Robins ..	30	00	By Balance transferred to Trading a/c ..	48	00
" R. Henty ..	18	00			
Rs.	48	00	Rs.	48	00

If you were asked on which side of the Trading account this Rs. 48 should be entered, you would no doubt say 'the Debit side,' and you would be quite right in saying so. But in actual practice we do what is tantamount to placing the sum on the debit side. Instead of adding it to the debit side we *deduct it from the credit side.* The reason for this is that thereby our Trading account will show us at a glance what our net sales have been. You will see, for instance, that the total of our sales, that is our gross sales, amounted to Rs. 272.00, from which we must deduct the value of the goods returned to us, viz. Rs. 48.00 if we would know what we have actually sold. That will leave us a balance of Rs. 224.00 which represents our actual sales. This is shown in our Trading account by providing each side of the amount with two columns – the inner column for details and the outer column for the net result.

Returns Outwards Account. Similarly, we may return goods bought by us. These we call, 'Returns Outwards' and credit the Returns Outwards account with the amount of such returns. The total which helps us to balance the account will then be placed on the debit side of the Returns Outwards account and transferred to the Trading account. But, instead of entering the amount on the credit side of the Trading account we *deduct it from the debit side* of that account. Let us suppose we have returned part of two of our purchases – Rs. 10

worth of goods to B. Seale and Rs. 5 worth to R. Bonsor. Our Returns Outwards account would then appear as follows :—

Dr. RETURNS OUTWARDS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance transferred to Trading a/c ..	15	00	By B. Seale ..	10	00
			„ R. Bonsor ..	5	00
Rs.	15	00	Rs.	15	00

Trading Account. We shall now examine our Trading account with the various transfers from the above subsidiary accounts :—

Dr. TRADING ACCOUNT Cr.

	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Stock ..			360	00	By Sales ..	272	00		
„ Purchases ..	184	00			*Less* returns	48	00	224	00
„ *Less* returns	15	00	169	00					
„ Gross profit transferred to Profit & Loss a/c ..			127	00	Value of stock ..			432	00
Rs.			656	00	Rs.			656	00

Note that (i) the value of stock is carried down to the debit side of *Stock account* : (ii) if the debit side is heavier than the credit side, the balance will be entered on the credit side of the Trading account as 'Gross Loss' and transferred to the debit side of P. & L. account. In the above instance, however, the credit side is heavier than the debit side, and the balance is therefore a Gross Profit.

Exercise 5

1. What is a Trading account, and how is it prepared ?

2. What are the subsidiary Trading accounts ? How is the balance in each case transferred to the Trading Account ?

3. What is done with the final value of stock, and to what account is it carried down ?

4. Prepare Trading and subsidiary Trading accounts from the following particulars:—

	Rs.	Cts.	£	s.	d
(*a*)					
Stock January 1, 1937	4,800	00	320	0	0
Credit sales	3,200	00	213	6	8
Credit purchases	1,428	00	95	4	0
Cash purchases	2,269	00	151	5	4
Cash Sales	1,468	00	97	17	4
Sales Returns	265	00	17	13	4
Purchases Returns	432	00	28	16	0
Stock Dec. 31, 1937	4,148	00	276	10	8
(*b*)					
Stock January 1, 1938	6,828	00	455	4	0
Sold goods to R. Jones	329	00	21	18	8
Cash sales	1,324	00	88	5	4
Purchased goods from T. Smith	1,436	00	95	14	8
Cash purchases	689	00	45	18	8
T. Henry purchased goods from me	268	00	17	17	4
R. Jones returned goods sold	46	00	3	1	4
Bought goods of C. Thomas	684	00	45	12	0
Returned goods to C. Thomas	36	00	2	8	0
T. Henry returned goods	15	00	1	0	0
G. Pearce sold me goods	630	00	42	0	0
Bought goods from M. Baron	694	00	46	5	4
Sold goods to J. Perera	1,396	00	93	1	4
Returned to M. Baron part of goods purchased	126	00	8	8	0
Sold goods to T. Silva	1,432	00	95	9	4
Stock December 31, 1938	7,100	00	473	6	8
(*c*)					
Stock January 1, 1938	8,694	00	579	12	0
Sold goods to C. Carson	683	00	45	10	8
Purchased goods from D. David	384	00	25	12	0
E. Earle bought goods of me	868	00	57	17	4
Returned part of goods bought from D. David	86	00	5	14	8
Sold goods to F. Francis	364	00	24	5	4
Carson returned part of goods purchased by him	49	00	3	5	4
Cash purchases	368	00	24	10	8
Cash sales	1,369	00	91	5	4
Bought goods of G. Gray	234	00	15	12	0
Sold goods to Henry	1,200	00	80	0	0
Henry returned part of goods purchased by him	120	00	8	0	0
Sold goods to I Isaac	469	00	31	5	4
Bought goods of J. Jones	689	00	45	18	8
Cash sales	246	00	16	8	0

	Rs.	Cts.	£	s.	d.
Purchased from K. Keary goods........	826	00	55	1	4
Sold goods to L. Lamont...............	1,600	00	106	13	4
I returned goods bought from J. Jones...	264	00	17	12	0
M. Marchant bought goods of me.......	384	00	25	12	0
Stock December 31, 1938...............	3,200	00	213	6	8

5. There are certain errors in the following Trading account. You are required to correct these errors and to draw up an accurate Trading account :—

Dr. TRADING ACCOUNT Cr.

	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Purchases ..	3,860	00			By Stock Jan. 1, 1933 ..			14,630	00
Less returns Inwards ..	439	00	3,431	00	,, Sales ..	4,800	00		
,, Gross Profit			29,799	00	*Less* returns Outwards ..	200	00	4,600	00
					,, Stock Dec. 31, 1933 ..			14,000	00
		Rs.	33,230	00			Rs.	33,230	00

To Stock Jan. 1, 1934 14,000 00

Dr. TRADING ACCOUNT Cr.

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Purchases ..	257	6	8				By Stock Jan. 1, 1933 ..				975	6	8
Less returns Inwards ..	20	5	4	228	14	8	,, Sales ..	320	0	0			
,, Gross Profit				1,986	12	0	*Less* returns Outwards ..	13	6	8	306	13	4
							,, Stock Dec. 31, 1933 ..				933	6	8
			£	2,215	6	8				£	2,215	6	

To Stock Jan 1, 1934 933 6 8

CHAPTER VI

Nominal Accounts

We now come to the third class of accounts – Nominal Accounts. They are also sometimes referred to in Bookkeeping as 'Impersonal' and 'Fictitious' accounts. 'Im personal' accounts would also of course include Real accounts or accounts of things, for real accounts are 'not personal'. The term 'fictitious' is used because the losses with which the accounts deal may be looked upon as payments to an imaginary person. But the term 'fictitious' gives a wrong impression, and, to the lay mind, may seem to the reference to some shady transactions which at all costs should be avoided by the honest bookkeeper.

Nominal Accounts are accounts dealing with *Profits* and *Losses*, the principal Nominal Account being the Profit the Loss accounts to which, you will remember, the Gross Profit or the Gross Loss from the Trading account is transferred. Like the Trading account, the P. & L. account has several subsidiary accounts, for you will understand that there are several ways in which a trader may make a profit or incur a loss. The rule for entering Nominal Accounts is :—

DEBIT your LOSSES
CREDIT your GAINS

Let us now consider some of the subsidiary P. & L. accounts to which we have referred :—

Discount Account. There are two kinds of discounts – Trade Discount and Cash Discount. *Trade Discount* is the deduction made on the price of goods by the manufacturer or the wholesale dealer in selling goods to the retail dealer. This varies with the cost of the raw material and generally with the cost of production of the finished article. It is usual for a manufacturer to issue to his customers a standard price list of the goods he manufactures, and to advise them periodically of the trade discount allowed on the various articles. This saves him the necessity for issuing a fresh price list with every rise and fall in price. Trade discount, however, is not usually shown in our accounts. A trader buys goods from a manufacturer who makes a deduction from the usual price so as to give the former a chance of making a profit on his sales. To take an example : A trader buys bicycles from a manufacturer at Rs. 50 each, but he sells them at Rs. 75 each to his customers. A manufacturer does not, as a rule, sell goods direct to the public, but where it is done, a customer would not be able to get a bicycle from the manufacturer at the same price as a retailer could, for the very good reason that if a manufacturer allowed the public a trade discount, they would naturally buy cycles direct from him and the retailer would have no chance of disposing of his cycles except at cost price. It would mean that the retailer, who generally buys goods in large quantities, would not in future be disposed to buy his goods from that particular manufacturer. Let us suppose that the retailer buys 50 cycles at a time. He would debit his Cycles account with the *actual cost* of the cycles to him, namely Rs. 2,500, and the Trade discount would have no place in his books.

It is the other kind of Discount (the Cash Discount) that we, as bookkeepers, have to deal with. *Cash Discount* may be defined as the allowance made for prompt payment of a debt or for payment within a prescribed time. When you buy goods at a shop, you will probably be allowed a cash discount of 10% if you pay cash at the time of purchase or if you settle your account perhaps during the month following purchase. Now a Cash Discount may be either a loss or a gain. If we allow others a cash discount, we lose, and, in accordance with our rule, our Discount account would be *debited* with the amount of that loss. On the other hand, if others allow us a Cash discount, we gain, and our Discount account would be *credited* with the

amount. The balance of the Discount account is then transferred to the *opposite* side of P. & L. account. To take an example :—

Dr. DISCOUNT ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To B. Arthur ..	45	00	By W. Watkins ..	38	00
„ C. Church ..	24	00	„ S. Saunders ..	20	00
			„ Balance transferred P. & L. Account ..	11	00
Rs.	69	00	Rs.	69	00

The two items on the Debit side indicate that we have allowed Arthur and Church cash discounts of Rs. 45 and Rs. 24 respectively. If *we allow* a discount then we lose, and as we should Debit our Losses, we must enter the items on the *Debit side* of the account. Conversely, the two items on the *Credit side* show what cash discounts Watkins and Saunders have *allowed us*. The net result of these allowances by way of discount respresents a loss of Rs. 11, and this amount, carried to the Debit side of P. & L. account, would therefore be in its right place.

Interest. Interest is another subsidiary P. & L. account. For instance, we may pay interest on monies borrowed by us, in which case we shall debit our interest account ; whereas, if interest has been received or is due to us, we shall be gainers to the extent of that interest, and credit our Interest account with the amount. Remember the rule : We Debit our Losses and Credit our Gains.

A trader may even sometimes debit his interest account with interest on his own Capital. You may ask why. The reason is that if he had invested his money in some other way and not put himself to the trouble of trading with it, he would get a certain percentage of interest on that investment. The charging of interest on Capital would, however, not make the slightest difference in his ultimate Capital because, although the Interest account is debited with the amount, his Capital account would be credited with a like amount. The only reason he can have for adopting this procedure is to ascertain what his actual profit is, *as the result of his trading*. If, however, there are two or more partners who have invested unequal sums of money in the business as Capital, then it would be proper that each partner should charge interest on his Capital before the profits of the firm are divided among them.

Depreciation. *Depreciation* is the loss we sustain by wear and tear of our possessions or by any cause that makes those possessions of lower value than when we purchased them. Suppose we buy a cycle at the beginning of the year for Rs. 100. At the end of the year that cycle will have depreciated in value say by 30% and will then be worth not more than Rs. 70. In the following year there will be a further depreciation, and so on until we shall find our cycle not worth more than, shall we say, Rs. 20. The same rule applies to our Fixed Assets. Our furniture, our plant and machinery, etc. show a steady decline in value because of the use they have been put to. Even the commodities we deal in may depreciate in value : The silk we have for sale may become tender : our goods may become shop soiled ; and so forth.

Now Depreciation is clearly a *Loss* to the firm and must be *debited* annually to our Depreciation account which will be balanced and the balance transferred to the opposite side of the P. & L. account. You will of course understand that all our items in the Depreciation account must be debit items because we cannot possibly gain through depreciation. The extent of the depreciation in connection with each particular article must be estimated at the time you close your books and will depend on the use to which you have put your possessions, *e.g.* 10% on Furniture, 20% on Plant and Machinery. The effect of this depreciation will be to reduce the values of these particular assets at the beginning of the next trading period. The Depreciation account will be debited because it is a loss, and the Furniture or other accounts will be credited with the amount because it is virtually the outgoing of value from these respective accounts.

Dr. DEPRECIATION ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Furniture & Fittings ..	150	00	By Balance transferred ..		
„ Plant & Fittings ..	230	00	to P. & L. a/c ..	380	00
Rs.	380	00	Rs.	380	00

Bad Debts. *Bad Debts* are losses we incur through debts not being recoverable. A customer of ours, for instance, may die leaving no effects behind ; or he may be declared bankrupt by a Court of Law. In either case, if he owes us money, we shall lose the sum he owes us. These are *Losses* from our point of view and must be *debited* in this case to the Bad Debts accounts, the customer in question being credited with the amount so as to balance his account which should no more be shown as an asset in our books. It may sometimes happen that a person may be able to meet only part of his liabilities. For instance, the amount of his liabilities may be Rs. 50,000 when the total of all his assets amounts to only Rs. 25,000. In that case he will be able to meet his liabilities to the extent of half their value. When he settles his debts to that extent, he is said to *compound* with his creditors by paying them a *composition* of fifty cents in the rupee. You will see then that Bad Debts are normally Debit entries. There may also be credit entries in a case such as this : A person becomes insolvent. He owes us Rs. 2,000 and we have now no means of recovering that amount. So we *write off* his account by crediting his personal account with the amount so as to leave no balance, and by debiting our Bad Debts account with the amount. After some time, by dint of hard work or it may be inheriting a fortune, he becomes a wealthy man. If he is honest, he will not want us to lose our money, and so he settles his debt to us. In that case we shall debit our Cash, for cash comes in, and credit our Bad Debts account.

The balance of our Bad Debts accounts, like the other subsidiary P. & L. accounts, is transferred to the opposite side of the P. & L. account.

Dr. BAD DEBTS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To A. Adam ..	450	00	By Cash (A. Adam) ..	450	00
,, B. Beade ..	600	00	,, Balance transferred to P. & L. Account ..	1,190	00
,, C. Cash ..	590	00			
Rs.	1,640	00	Rs.	1,640	00

Trade Expenses. There are different forms of Trade Expenses that a trader has to meet in the course of his business. Among them are Advertising, Stationery, Travelling Expenses and Petty Expenses. If each of these has several entries, then these accounts should be kept separately so that we may know exactly what our expenditure on each is. Otherwise, it would be more economical to group them all under the general heading–Trade Expenses. The items, as you will realise must all be debit entries for when we incur these expenses we lose to that extent, and so, according to our rule, we must debit the account with these losses. The balance of this account must, as in the case of the other subsidiary P. & L. accounts, be transferred to the P. & L. account.

Wages and Salaries. This, too, is rightly a Trade Expense, but as the amount involved is generally high, we keep it distinct. The word '*salaries*' it must be noted, is used for payments to working partners, clerks, bookkeepers and others who perform the more important work of the firm, as distinct from '*wages*' which is applied to remuneration paid to peons, coolies, etc. The term 'Wages' is also applied to remuneration calculated on the 'day' basis. The Wages and Salaries account is dealt with in exactly the same way as Trade Expenses, the balance being transferred to the opposite side of the P. & L. account.

The ordinary wages and salaries are said to be 'unproductive' in the sense that they are not paid for the definite purpose of 'producing' articles for sale, but merely for the ordinary conduct of the business. As such, they are a loss to the firm. Manufacturers, however, have to pay

certain of their employees wages for the purpose of converting raw material into the finished article, such as cotton into cloth. Such wages are called *Productive Wages* or *Manufacturing Wages* or *Factory Wages.* As these wages really represent a part of the cost of the articles manufactured for sale, this expenditure is debited to the *Trading Account* through a Productive Wages account, and is *not* debited to the P. & L. account.

Commission. Another subsidiary P. & L. account is the Commission account. Commissions *allowed by us*, which are losses, are *debited* to this account, and commissions *earned by us* are *credited* to it.

The above are some of the subsidiary P. & L. accounts most commonly met with. There may be others, and they must be dealt with in exactly the same way, always remembering our guide rule :—

DEBIT your LOSSES

CREDIT your GAINS

Profit & Loss Account. As we have already seen, the balance of the various subsidiary P. & L. accounts are transferred in each case to the opposite side of the P. & L. account, as also is the Gross Profit or the Gross Loss from the Trading account. After these transfers have been made, we are then in a position to balance our Profit & Loss account :—

Dr. PROFIT & LOSS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Discount ..	22	00	By Gross Profit on Goods	2,670	00
,, Interest ..	39	00	,, Commission ..	20	00
,, Bad Debts ..	150	00			
,, Depreciation ..	100	00			
,, Trade Expenses ..	174	00			
,, Wages & Salaries ..	480	00			
,, Net Profit (transferred to Capital a/c	1,725	00			
Rs.	2,690	00	Rs.	2,690	00

You will observe that the balance of the P. & L. account is called the *Net Profit* as distinct from the *Gross Profit* transferred from the Trading account. *Gross Profit* is the profit derived on the sale of goods *without any deduction* for expenses, etc., whereas the *Net Profit* is the actual profit made by the firm *after deduction* of all such expenses and losses. The Net Profit is in turn transferred to the opposite side of the Capital account which, as we have already learnt, is the Proprietor's private account in the firm. Thus it will be seen that all Nominal accounts lead up to the Capital account, the balance of which represents the 'net worth' of the firm, or in other words its Capital.

Exercise 6

1. What are Nominal accounts ? What is the principal Nominal account ? Name some accounts that are subsidiary to the Profit & Loss account.

2. What rule should you observe in making entries in Nominal accounts ?

3. What is the difference between Gross Profit and Net Profit ? From what account is the Gross Profit derived, and to what account is it transferred ?

4. From what account is Net Profit derived and to what account is such Net Profit transferred ?

5. What is the difference between Productive Wages and unproductive Wages ? To which account is the balance of each of them transferred ?

6. From the following particulars make out subsidiary P. & L. accounts and transfer balances to the P. & L. account. Complete the P. & L. account and carry the balance to the proper side of Capital account. Balance the Capital account :—

(*a*)	Rs.	Cts.	£	s.	d.
Capital	48,000	00	3,200	0	0
Gross profit on goods	2,290	00	152	13	4
Paid rent	100	00	6	13	4
Stationery	26	00	1	14	8
Bad Debts	120	00	8	0	0
Discounts allowed	25	00	1	13	4
Discounts received	84	00	5	12	0
Carrage	43	00	2	17	4

	Rs.	Cts.	£	s.	d.
Rates paid	25	00	1	13	4
Paid gas bill	18	00	1	4	0
Travelling expenses	16	00	1	1	4
Sundry expenses	32	00	2	2	8
Depreciation of Furniture	20	00	1	6	8
Interest due by Bank	30	00	2	0	0
Wages and salaries	420	00	28	0	0

Note : The first item 'Capital' should be credited to Capital account. It represents the amount of Capital the Proprietor has in the firm.

(*b*)	Rs.	Cts.	£	s.	d.
Capital	68,000	00	4,533	6	8
Gross profit on goods	3,400	00	226	13	4
Paid Fire Insurance	125	00	8	6	8
Sundry expenses	48	00	3	4	0
Withdrew for private expenses	300	00	20	0	0
Bank charged interest on overdraft	48	00	3	4	0
Bad debts	426	00	28	8	0
Cash stolen from safe (Debit P. & L. a/c–To Loss by theft)	463	00	30	17	4
Gift to charity	45	00	3	0	0
Discounts received	84	00	5	12	0
Discounts allowed	42	00	2	16	0
Bad debts previously written off now settled	150	00	10	0	0
Wages and Salaries	380	00	25	6	8
Commission earned by me	120	00	8	0	0
Rent of office	200	00	13	6	8
Depreciation of Plant & Machinery	60	00	4	0	0

Note : 'Withdrew for private expenses' should be d[illegible]ted to the Capital account as the money is intended for the private use of the Proprietor.

(*c*)	Rs.	Cts.	£	s.	d.
Capital	18,000	00	1,200	0	0
Gross loss on goods	450	00	30	0	0
Stamps and stationery	55	00	3	13	4
Received from P. Henry the sum of Rs. 265 and allowed him discount	15	00	1	0	0
Travelling expenses	32	00	2	2	8
Borrowed Rs. 500 and paid interest	30	00	2	0	0
Sundry discounts made by me	42	00	2	16	0
Sundry discounts made to me	26	00	1	14	8
Rates and Taxes	54	00	3	12	0
Paid M. Renan *less* $2\frac{1}{2}\%$ discount	200	00	13	6	8

	Rs.	Cts.	£	s.	d.
R. Freeman paid me *less* 5% discount...	150	00	10	0	0
Allowed B. Peters for cash payment, a rebate of..........................	28	00	1	17	4
Wages and Salaries....................	380	00	25	6	8
Carriage............................	50	00	3	6	8

(*d*)

	Rs.	Cts.	£	s.	d.
Capital............................	20,000	00	1,333	6	8
Gross profit from Trading account......	2,620	00	174	13	4
Received from A. Adam Rs. 480 (£ 32) in settlement of an account for Rs. 500 (£ 33.6.8) Discount........	20	00	1	6	8
Bad debts..........................	324	00	21	12	0
Discounts allowed....................	48	00	3	4	0
Discounts received....................	56	00	3	14	8
Interest due on loan taken by me.......	83	00	5	10	8
Depreciation of furniture...............	25	00	1	13	4
Sundry expenses......................	18	00	1	4	0
Bank allowed me interest..............	145	00	9	13	4
I receive rent on cottages..............	255	00	17	0	0
Allowed C. Cain discount for cash payment of account..................	30	00	2	0	0
Petty expenses.......................	35	00	2	6	8
Drew for private expenses.............	240	00	16	0	0
Bad debts written off now recovered.....	120	00	8	0	0
Wages and Salaries....................	450	00	30	0	0
Rent...............................	100	00	6	13	4

(*e*)

	Rs.	Cts.	£	s.	d.
Capital............................	30,000	00	2,000	0	0
Gross Loss from Trading account.......	290	00	19	6	8
Discounts allowed....................	45	00	3	0	0
Discounts received....................	30	00	2	0	0
Bad debts...........................	380	00	25	6	8
Depreciation.........................	650	00	43	6	8
Drew for personal expenses.............	900	00	60	0	0
Wages and Salaries....................	580	00	38	13	4
Sundry expenses......................	420	00	28	0	0
Rent paid...........................	250	00	16	13	4
Carriage............................	480	00	32	0	0

CHAPTER VII

The Principle of Double Entry

In the previous chapters we have studied the different kinds of accounts and the rules that should guide us in making entries in each of them. Let us recapitulate :—

Personal Accounts

Accounts of Persons — Debit the Receiver
Credit the Giver

Real Accounts

Accounts of Things — Debit what comes in
Credit what goes out

Nominal Accounts

Accounts of Profits and Losses — Debit the Losses
Credit the Gains

Real and Nominal accounts are sometimes referred to as impersonal accounts.

Note also that

A Debtor is one who owes us money

A Creditor is one to whom we owe money

It is most important that you should master these different classes of accounts and the guide rules relating to each, and then we shall proceed to consider the principle of Double Entry bookkeeping.

'Double Entry', as its name implies, requires that every transaction should have a double entry in our books—one a Credit entry and the other a Debit entry. In other words, it means that every Debit entry must have a corresponding Credit entry, and *vice versa*. It does not necessarily mean that the Credit and the Debit entry of every transaction should belong to the same class of accounts, as, for instance, Real accounts. As a matter of fact it more often happens that a Debit entry in one class of accounts has its corresponding Credit entry in another class. But the principle of Double Entry is there just the same. Let us take a few examples :—

(i) *Sold goods to John Smith*

John Smith *Dr* To Sales ; John Smith *receives*
Sales *Cr* By John Smith ; goods *go out*

(ii) *R. Wyatt pays me cash*

Cash *Dr* To R. Wyatt ; Cash *comes in*
R. Wyatt *Cr* By Cash ; R. Wyatt *gives*

(iii) *Paid Trade Expenses by Cash*

Trade Expenses *Dr* To Cash ; it is *a loss*
Cash *Cr* By Trade Expenses ; Cash *goes out*

Now it may happen that a transaction involves more than two entries. Still the principle remains the same; the *total* of the Debit entries must be equal to the *total* of the Credit entries. To take an example :—

J. Smith pays me Rs. 185 in Settlement of an account for Rs. 200.

It means that I have allowed him a discount of Rs. 15 because the account has been 'settled'. The entries in my books would be :—

Cash	Dr. Rs. 185	
To Smith		Cr. Rs. 185
Discount	Dr. Rs. 15	
To Smith		Cr. Rs. 15

For the sake of convenience, and in order to save time, however, these two double entries are usually combined as follows :—

Cash	Dr. Rs. 185	
Discount	Dr. Rs. 15	
To Smith		Cr. Rs. 200
	200	200

Whatever the transaction may be, you will always find it possible, and indeed necessary, to equalise your Debits and Credits if you are to maintain the principle of Double Entry

TRIAL BALANCE

You will understand, then, that if every Debit has a corresponding Credit, at any time during the course of our business, the total of our Debits must be equal to the total of our Credits. A list of totals of these Debits and Credits is what is known in Bookkeeping as a Trial Balance which is drawn up as follows :—

TRIAL BALANCE

	Dr.		Cr.	
	Rs.	Cts.	Rs.	Cts.
Capital			14,926	00
Sales account			248	00
Purchases account..........	860	00		
Returns Inwards account..	26	00		
Returns Outwards account..			38	00
Cash......................	6,894	00	1,239	00
Bank	8,944	00	1,346	00
R. Henry	264	00	324	00
Discount account	48	00	236	00
Interest account	28	00	12	00
Wages and Salaries	495	00		
Bad Debts	320	00		
G. Gray	34	00	46	00
H. Harward	246	00	38	00
I. Isaacs	423	00	129	00
Rs.	18,582	00	18,582	00

In actual practice, however, only the *balances* are entered in the Trial Balance, and on the axiom that 'if quals be taken from equals the remainders are equal', both sides when added up must still be equal. The above Trial Balance would in fact be shown as under :—

TRIAL BALANCE

	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
Capital....................			14,926	00
Sales account			248	00
Purchases account..........	860	0C		
Returns Inwards account....	26	00		
Returns Outwards account.			38	00
Cash.......................	5,655	00		
Bank	7,598	00		
R. Henry...................			60	00
Discount account..........			188	00
Interest account...........	16	00		
Wages and Salaries.........	495	00		
Bad Debts..................	320	00		
G. Gray....................			12	00
H. Harward.................	208	00		
. Isaacs	294	00		
Rs.	15,472	00	15,472	00

The student is advised, in making out his Trial Balance, to adopt the second method, namely to insert only *balances* in his Trial Balance.

From the above example, you will realise that if the debit and credit columns of your Trial Balance tally, it by no means proves that your accounts are correct, though it does prove (i) clerical accuracy, and (ii) that every debit had a corresponding credit. That is the main purpose of the Trial Balance.

HOW TO PROVE

We must now consider, step by step, the procedure we should adopt in keeping our accounts, from the Preliminary Balance Sheet to the Final Balance Sheet. The steps are as follows :—

1. Open a Preliminary Balance Sheet and find what your initial Capital is ;

2. Open as many accounts in the Ledger as there are items in the Balance Sheet (including Capital), always remembering that *Assets are Debits* and *Liabilities are Credits*. Every item taken from the Balance Sheet will be entered in the respective Ledger accounts as 'To Balance' or 'By Balance' ;

3. Enter the *transactions* in the various accounts involved. In doing so, do not forget that *every Debit must have a corresponding Credit ;*

4. Draw up a Trial Balance, inserting only *balances* of the various accounts. Note that a Trial Balance is drawn up immediately after all the entries have been made ;

5. Balance all the subsidiary Trading accounts (Stock account, Purchases account, Sales account, Returns Inwards account and Returns Ourwards account), and carry the balances to the Trading account. Then enter the value of the stock you have in hand at the end of the trading period, on the Credit side of the Trading account. Balance the Trading account and carry the Gross Profit or the Gross Loss away to the opposite side of the P. & L. account ;

6. Balance the subsidiary P. & L. accounts (if any) and carry the balance in each case to the opposite side of P. & L. account ;

7. Balance the P. & L. account and carry the balance Net Profit or Net Loss to the opposite side of Capital account ;

8. Balance the Capital account ;

9. Balance the remaining accounts and open a Final Balance Sheet showing your Assets and Liabilities at the end of the trading period. *Do not forget* that the stock at the end of the trading period, which you will find on the credit side of the Trading account, should form one of your Assets.

You will find, if you have followed these instructions accurately and carefully, that the balance of the Capital account will correspond with the Capital as shown in your Final Balance Sheet. This is what is meant by 'proving' one's books.

The following exercise, which you are advised to follow point by point, will show you exactly how your accounts should be kept :—

On December, 1 1938, my Assets and Liabilities were as follows :—

	Rs.	Cts.
Cash in hand..............................	8,910	00
Cash at Bank..............................	4,620	00
Stock of Goods..........................	6,920	00
J. Smith owed me........................	496	00
I owed Peter Silva........................	324	00
Furniture....................................	860	00
T. Perera was my debtor...................	390	00
R. Fernando was my creditor................	265	00

Find my Capital by means of a Preliminary Balance Sheet and open the Ledger. Then enter the following transactions for December in their proper accounts. Take out a Trial Balance, and close and prove my accounts :—

	Rs.	Cts.
Sold goods to M. Baine....................	360	00
Baine returned part of goods sold to him......	50	00
Paid Cash into Bank........................	1,000	00
Peter Silva paid me Cash on loan............	200	00
I paid R. Fernando........................	250	00
And was allowed discount..............	15	00

	Rs.	Cts.
Sold goods for Cash........................	320	00
J. Smith paid me Cash......................	380	00
I allowed him discount.................	20	00
Bought of J. Charles goods..................	620	00
Returned part of goods bought from J. Charles.............................	36	00
Trade Expenses paid by cheque..............	45	00
Bought goods and paid by cheque............	390	00
Sold goods to J. Smith......................	675	00
Depreciate Furniture by 10%................	86	00
Paid Wages by cheque......................	250	00
Value of Stock on December 31, 1938....	7,550	00

The Preliminary Balance Sheet will appear as under :—

PRELIMINARY BALANCE SHEET (DECEMBER 1, 1938)

LIABILITIES	Rs.	Cts.	ASSETS	Rs.	Cts.
Peter Silva..............	324	00	Cash....................	8,910	00
H. Fernando..............	265	00	Bank....................	4,620	00
CAPITAL........	21,607	00	Stock of goods............	6,920	00
			J. Smith................	496	00
			Furniture................	860	00
			T. Perera................	390	00
Rs.	22,196	00	Rs.	22,196	00

Our next step is to open as many accounts in the Ledger as there are items in the Balance Sheet, regarding *Assets as Debits* and *Liabilities as Credits*. You will see there are six items on the Assets side and three on the Liabilities side, so we shall have to open nine accounts in all, as follows :

(Note that Cash and Bank are entered together in one account)

Dr. CASH AND BANK Cr.

	Cash		*Bank*			*Cash*		*Bank*	
	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Balance ..	8,910	00	4,620	00					

STOCK ACCOUNT

Dr.	Rs.	Cts.	Cr.	Rs.	Cts.
To Balance..........	6,920	00			

J. SMITH

D..	Rs.	Cts.	Cr.		
To Balance..........	496	00			

FURNITURE

Dr.	Rs.	Cts.	Cr.		
To Balance..........	860	00			

T. PERERA

Dr.	Rs.	Cts.	Cr.		
To Balance..........	390	00			

PETER SILVA

Dr.			Cr.	Rs.	Cts.
			By Balance..........	324	00

R. FERNANDO

Dr.			Cr.	Rs.	Cts.
			By Balance..........	265	00

CAPITAL

Dr.			Cr.	Rs.	Cts.
			By Balance..........	21,607	00

We must now proceed to enter our transactions, not forgetting that *every Debit must have a corresponding Credit.* Shall we deal with them one by one :—

Sold goods to M. Baine Rs. 360.00

M. Baine Dr. To Sales Rs. 360.00 (Baine receives)
Sales Cr. By M. Baine Rs. 360.00 (Goods go out)

Baine returned part of goods sold to him Rs. 50.00

Returns Inwards Dr. To Baine Rs. 50.00 (Goods come in)
Baine Cr. By Returns Inwards Rs. 50.00 (Baine gives)

Paid Cash into Bank Rs. 1,000.00

Bank Dr. To Cash Rs. 1,000.00 (into Bank)
Cash Cr. By Bank Rs. 1,000.00 (Cash goes out)

Peter Silva Paid me Cash Rs. 200.00

Cash Dr. To Peter Silva Rs. 200.00 (Cash comes in)
Peter Silva Cr. By Cash Rs. 200.00 (Silva gives)

I paid R. Fernando Rs. 250.00 *and was allowed Discount Rs.* 15.00

R. Fernando Dr. To Cash Rs. 250.00 (Fernando receives)
To Dis. Rs. 15.00
Cash Cr. By R. Fernando Rs. 250.00 (Cash goes out)
Dis. Cr. By R. Fernando Rs. 15.00 (A gain to me)

Sold goods for Cash Rs. 320.00

Cash Dr. To Sales Rs. 320.00 (Cash comes in)
Sales Cr. By Cash Rs. 320.00 (Goods go out)

J. Smith paid me Cash Rs. 380.00 *and I allowed him Discount Rs.* 20.00

Cash Dr. To J. Smith Rs. 380.00 (Cash comes in)
Discount Dr. To J. Smith Rs. 20.00 (a loss to me)
J. Smith Cr. By Cash Rs. 380.00 (Smith gives)
By Discount Rs. 20.00

Bought of J. Charles Goods Rs. 620.00

Purchases Dr. To J. Charles Rs. 620.00 (Goods come in)
J. Charles Cr. By Purchases Rs. 620.00 (Charles gives)

Returned part of goods bought from J. Charles Rs. 36.00

J. Charles Dr. To Returns Outwards Rs. 36.00 (Charles receives)
Returns Outwards Cr. By J. Charles Rs. 36.00 (Goods go out)

Trade Expenses paid by Cheque Rs. 45.00

Trade Expenses Dr. To Bank Rs. 45.00 (a loss to me)
Bank Cr. By Trade Expenses Rs. 45.00 (out of Bank)

Bought goods and paid by cheque Rs. 390.00

Purchases Dr. To Bank Rs. 390.00 (Goods come in)
Bank Cr. By Purchases Rs. 390.00 (out of Bank)

Sold goods to J. Smith Rs. 675.00

J. Smith Dr. To Sales Rs. 675.00 (Smith receives)
Sales Cr. By J. Smith Rs. 675.00 (Goods go out)

Depreciate Furniture by 10%

Depreciation Dr. to Furniture Rs. 86.00 (a loss to me)
Furniture Cr. By Depreciation Rs. 86.00

Paid Wages by Cheque Rs. 250.00

Wages Dr. To Bank Rs. 250.00 (a loss to me)
Bank Cr. By Wages Rs. 250.00 (out of Bank)

The value of Stock Rs. 7,550.00 is NOT a transaction but only a statement to enable me to balance my Trading account.

When I have entered my various transactions the appropriate accounts, the accounts will appear as under :—

Dr. CASH AND BANK Cr.

	Cash		Bank			Cash		Bank	
	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Bank ..	8.910	00	4,620	00	By Bank ..	1,000	00		
,, Cash ..			1,000	00	,, R. Fernando	250	00		
,, Peter Silva	200	00			,, Trade Expenses ..			45	00
,, Sales ..	320	00			,, Purchases ..			390	00
,, J. Smith ..	380	00			,, Wages ..			250	00

Dr. STOCK ACCOUNT Cr.

	Rs.	Cts.	
To Balance	6,920	00	

Dr. J. SMITH Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	496	00	By Cash	380	00
,, Sales	675	00	,, Discount	20	00

Dr. FURNITURE Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	860	00	By depreciation	86	00

Dr. T. PERERA Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	390	00			

Dr. PETER SILVA Cr.

	Rs.	Cts.		Rs.	Cts.
			By Balance	324	00
			,, Cash	200	00

Dr. R. FERNANDO Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash	250	00	By Balance	265	00
,, Discount	15	00			

Dr. CAPITAL Cr.

	Rs.	Cts.		Rs.	Cts.
			By Balance	21,607	00

Dr. M. BAINE Cr.

	Rs.	Cts.		Rs.	Cts.
To Sales	360	00	By Returns Inwards ..	50	00

Dr. SALES Cr.

	Rs.	Cts.		Rs.	Cts.
			By M. Baine	360	00
			,, Cash	320	00
			,, J. Smith..........	675	00

Dr. RETURNS INWARDS Cr.

	Rs.	Cts.		Rs.	Cts.
To M. Baine	50	00			

Dr. DISCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To J. Smith	20	00	By R. Fernando	15	00

Dr. PURCHASES Cr.

	Rs.	Cts.		Rs.	Cts.
To J. Charles............	620	00			
,, Bank.................	390	00			

Dr. J. CHARLES Cr.

	Rs.	Cts.		Rs.	Cts.
To Returns Outwards	36	00	By Purchases	620	00

Dr. RETURNS OUTWARDS Cr.

	Rs.	Cts.		Rs.	Cts.
			By J. Charles	36	00

Dr. TRADE EXPENSES Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank	45	00			

Dr. DEPRECIATION Cr.

	Rs.	Cts.		Rs.	Cts.
To Furniture	86	00			

Dr. WAGES Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank	250	00			

Having made all our entries in the Ledger, we must now draw up our Trial Balance, entering only the balance of each account. The Trial Balance will then appear as under :

TRIAL BALANCE

	Dr. Rs.	Cts.	Cr. Rs.	Cts.
Cash......................	8,560	00		
Bank......................	4,935	00		
Stock......................	6,920	00		
J. Smith...................	771	00		
Furniture..................	774	00		
T. Perera..................	390	00		
Peter Silva................			524	00
Capital....................			21,607	00
M. Baine...................	310	00		
Sales......................			1,355	00
Returns Inwards............	50	00		
Discount...................	5	00		
Purchases..................	1,010	00		
J. Charles.................			584	00
Returns Outwards...........			36	00
Trade Expenses.............	45	00		
Depreciation...............	86	00		
Wages......................	250	00		
Rs.	24,106	00	24,106	00

If you will now carry out the instructions on "How to Prove" Sections 5 to 9, the balanced accounts and the Final Balance Sheet should appear as under :—

CASH AND BANK

	Cash Rs.	Cts.	Bank Rs.	Cts.		Cash Rs.	Cts.	Bank Rs.	Cts.
To Balance ..	8,910	00	4,620	00	By Bank ..	1,000	00		
,, Cash ..			1,000	00	,, R. Fernando	250	00		
,, Peter Silva	200	00			,, Trade Expenses ..			45	00
,, Sales ..	320	00			,, Purchases ..			390	00
,, J. Smith ..	380	00			,, Wages ..			250	00
					,, Balance c/d ..	8,560	00	4,935	00
Rs.	9,810	00	5,620	00	Rs.	9,810	00	5,620	00

To Balance b/d Rs. 8,560 00 4,935 00

Dr. STOCK ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	6,920	00	By Balance (tansferred to trading account)	6,920	00

To Balance .... Rs. 7,550 00

Dr. J. SMITH Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	496	00	By Cash	380	00
,, Sales	675	00	,, Discount	20	00
			,, Balance c/d	771	00
Rs.	1,171	00	Rs.	1,171	00

To Balance b/d .... Rs. 771 00

Dr. FURNITURE Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	860	00	By Depreciation	86	00
			,, Balance c/d	774	00
Rs.	860	00		860	00

To Balance b/d .... Rs. 774 00

Dr. T. PERERA Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	390	00	By Balance c/d	390	00

To Balance b/d .... Rs. 390 00

Dr. PETER SILVA Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance c/d	524	00	By Balance	324	00
			,, Cash	200	00
Rs.	524	00	Rs.	524	00

By Balance b/d .... Rs. 524 00

Dr. R. FERNANDO Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash	250	00	By Balance	265	00
„ Discount	15	00			
Rs.	265	00	Rs.	265	00

Dr. CAPITAL Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance Capital c/d	22,182	00	By Balance	21,607	00
			„ Net Profit	575	00
Rs.	22,182	00	Rs.	22,182	00

By Balance b/d ...... Rs. 22,182 00

Dr. M. BAINE Cr.

	Rs.	Cts.		Rs.	Cts.
To Sales	360	00	By Returns Inwards ...	50	00
			„ Balance c/d	310	00
Rs.	360	00	Rs.	360	00

To Balance b/d .... Rs. 310 00

Dr. SALES Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance (transferred to Trading a/c	1,355	00	By M. Baine	360	00
			„ Cash	320	00
			„ J. Smith	675	00
Rs.	1,355	00	Rs.	1,355	00

Dr. RETURNS INWARDS Cr.

	Rs.	Cts.		Rs.	Cts.
To M. Baine	50	00	By Balance (transferred to Trading a/c) ..	50	00

Dr. DISCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To J. Smith	20	00	By R. Fernando	15	00
			„ Balance (transferred to P. & L. a/c) ...	5	
Rs.	20	00	Rs.	20	00

Dr. PURCHASES Cr.

	Rs.	Cts.		Rs.	Cts.
To J. Charles	620	00	By Balance (transferred to Trading a/c)	1,010	00
„ Bank	390	00			
Rs.	1,010	00	Rs.	1,010	00

Dr. J. CHARLES Cr.

	Rs.	Cts.		Rs.	Cts.
To Returns Outwards	36	00	By Purchases	620	00
„ Balance c/d	584	00			
Rs.	620	00	Rs.	620	00

By Balance b/d .... Rs. 584 00

Dr. RETURNS OUTWARDS Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance (transferred to Trading a/c)	36	00	By J. Charles	36	00

Dr. TRADE EXPENSES Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	45	00	By Balance (transferred to P. & L. a/c......	45	00

Dr. DEPRECIATION Cr.

	Rs.	Cts.		Rs.	Cts.
To Furniture	86	00	By Balance (transferred to P. & L. a/c	86	00

Dr. WAGES Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank	250	00	By Balance (transferred to P. & L. a/c)......	250	00

Dr. TRADING ACCOUNT Cr.

	Rs.	Cts.	Rs.	Cts.		Rs.	Cts.	Rs.	Cts.
To Stock ..			6,920	00	By Sales ..	1,355	00		
,, Purchases	1,010	00			*Less* returns	50	00	1,305	00
Less returns	36	00	974	00					
,, Gross Profit (transferred to P. & L. a/c)			961	00	,, Value of Stock			7,550	00
		Rs.	8,855	00			Rs.	8,855	00

Dr. PROFIT & LOSS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Discount	5	00	By Gross Profit from Trading a/c	961	00
,, Trade Expenses	45	00			
,, Depreciation	86	00			
,, Wages	250	00			
,, Net Profit (transferred to Capital a/c) ......:	575	00			
Rs.	961	00	Rs.	961	00

Note that the closing Value of Stock, though entered on the Credit side of the Trading account, is carried down to the Stock account for the next trading period. Note also that the value of this Stock forms one of the Assets in our Final Balance Sheet.

BALANCE SHEET AS ON 31st DECEMBER, 1938

Liabilities	Rs.	Cts.	Rs.	Cts.	*Assets*	Rs.	Cts.	Rs.	Cts.
Sundry Creditors:—									
Peter Silva	524	00			Cash in hand ..	8,560	00		
J. Charles..	584	00	1,108	00	At Bank ..	4,935	00	13,495	00
					Sundry Debtors				
CAPITAL ..	21,607	00			J. Smith ..	771	00		
Add Net Profit	575	00	22,182	00	T. Perera ..	390	00		
					M. Baine ..	310	00	1,471	00
					Stock of Goods			7,550	00
					Furniture ..	860	00		
					Less Depreciation ..	86	00	774	00
		Rs.	23,290	00			Rs.	23.290	00

You will observe that in the above Balance Sheet we have two columns on each side. The inner column is for details and the outer column for totals. The reason for the double column in the Balance Sheet is obvious. It gives at a glance the answer to any general information required. For instance, if we were asked how much our debtors owed us, we should say unhesitatingly Rs. 1,471.00, saving ourselves the trouble of totting up the individual debts due to us.

Follow every item of the above exercise carefully, and then work it out yourself independently of the book. Do not pass it over until you have understood every step taken. This is important.

You must also note in connection with the Balance Sheet :—

(i) That the Capital of Rs. 22,182.00 agrees exactly with the balance of our Capital account. Thus we are said to have 'proved' our books ;

(ii) That Cash and Bank (both being ready money) are shown together first in the inner column, the total being taken to the outer column :

(iii) That all Personal accounts are similarly shown individually in the inner column, the total of such assets or liabilities being taken to the outer column ;

(iv) That the original cost of the Furniture and the deduction for Depreciation are shown in the inner column and that the balance is given in the outer column ;

(v) That *all* the items of the Capital account (in this case only two) are represented on the Liabilities side in the inner column of the Balance Sheet, the resulting Capital only being shown in the outer column.

Suspense Account. Before closing this chapter it may be convenient here to refer to what is known as the Suspense account. It sometimes happens that money is received from a person who is untraceable. In that case we must debit our Cash account because Cash comes in, and, in order to fulfil the requirements of 'double entry,' we must credit some other account with a like amount. For that purpose we introduce a Suspense account as a temporary expedient, and credit it with the amount we have received. When the name of the sender is ascertained, the Suspense account will be debited and the sender's Personal account credited. Thus the Suspense account will leave no balance and the amount will be credited to the correct Personal account. You will understand then that, though a temporary account, the Suspense account, so long as it exists, must be treated in exactly the same way as a Personal account, the balance being shown in the Balance Sheet.

The principle of the Suspense account is also applied in other directions. Whenever it is desired to ascertain the true position of a person's affairs on a certain date, allowance must be made either (*a*) for liabilities incurred and not paid, or (*b*) for payment made in advance of the date on which the accounts are balanced. As an example of the former, we may take the case of 'Wages due but not paid.' The P. & L. account will be debited with the amount due and the Suspense account credited. In the second case, let us suppose that the accounts are balanced on the 31st December and that Fire Insurance premium on the building has been paid for twelve months to 31st March of the following year. The proportionate premium for three months will be credited to P. & L. account and the Suspense account debited. The reason for crediting the P. & L. account is that that account has already been debited with the full amount of the insurance premium, though the benefits received in exchange cover only nine months. Therefore, in order to ascertain the exact loss at 31st December, we must deduct the proportionate premium for three months, or in other words one-fourth of the total premium paid. By debiting the Suspense account with the amount, we indicate that, at the date of closing our books, the advance payment for three months is an amount owing to the business, and the item will therefore appear as an asset in the Balance Sheet. In both cases the items will be 'written back' or reverse entries made at the beginning of the next financial year so that the Suspense account will then leave no balance.

Exercise 7

1. What do you understand by 'Double Entry' Bookkeeping? Give an example of a transaction showing the double entry.

2. What is a Trial Balance? At what point in the working of your exercise would you draw up a Trial Balance?

3. Name the subsidiary Trading Accounts, and explain how the balance of the Returns Outwards account should appear in the Trading account.

4. What is the difference between Gross Profit and Net Profit? Which accounts, when balanced, will show (*a*) the Gross Profit and (*b*) the Net Profit, respectively, and to which account should each of these balances be transferred?

5. What is meant by 'proving' your books? If your accounts are 'proved', does it mean that they are accurate? If not, why not?

6. What is a Suspense account, and when is it necessary to introduce it?

7. (*a*) On December 1, 1938, J. Smith's Trial Balance was as follows :—

	Dr.					Cr.				
	Rs.	c.	£	s.	d.	Rs.	c.	£	s.	d.
Cash............	4,800	00	320	0	0					
Bank...........	5,620	00	374	13	4					
Sundry Debtors	8,940	00	596	0	0					
Sundry Creditors						1,360	00	90	13	4
Goods in Stock..	9,680	00	645	6	8					
Furniture & Equipment....	2,300	00	153	6	8					
Capital..........						29,980	00	1,998	13	4
Rs.	31,340	00	2,089	6	8	31,340	00	2,089	6	8

Open your Ledger with the above balances. Then enter the following transactions, draw out a Trial Balance, close and prove :—

			Rs.	Cts.	£	s.	d.
Dec.	3	Sold goods to Sundry Debtors..	350	00	23	6	8
,,	4	Paid Cash into Bank..........	1,500	00	100	0	0
,,	6	Paid by cheque for repairs to typewriter..................	20	00	1	6	8
,,	7	Received Cash from Sundry Debtors....................	180	00	12	0	0
		Allowed them discount	20	00	1	6	8

			Rs.	Cts.	£	s.	d.
Dec.	10	Bought for Cash a writing table	60	00	4	0	0
,,	12	Paid Sundry Creditors on account	215	00	14	6	8
		Discount allowed	15	00	1	0	0
,,	14	Bought goods of Sundry Creditors	684	00	45	12	0
,,	16	Sold goods to Sundry Debtors....	2,450	00	163	6	8
,,	19	Cash sales......................	275	00	18	6	8
,,	21	Sundry Trade Expenses.........	120	00	8	0	0
,,	24	Bought goods and paid by cheque	325	00	21	13	4
,,	26	Drew cheque for private expenses	500	00	33	6	8
,,	30	Sold goods for Cash............	1,860	00	124	0	0
,,	31	Paid Wages.....................	380	00	25	6	8
		Rent for Dec. due but not paid..	100	00	6	13	4
		Value of Stock...............	6,800	00	453	6	8

Note :

1. The item 'Repairs to Typewriter' should be debited to the P. & L. account and not to the Furniture & Equipment account. A little thought will show you that if the Furniture & Equipment account were debited, the value of the original equipment would be enhanced, but such is not the case.

2. Drawings Account. The item on the 26th 'Drew cheque for private expenses' should be debited to the Drawings account, the Bank account being credited.

In order not to overburden the Capital account with the drawings for private purposes of the proprietor of the firm, a Drawings account is usually kept, to which is debited all amounts drawn by him for *private use*. This account is subsidiary to Capital account and should be balanced in the usual way and the balance transferred to the Capital account.

(*b*) On the 31st May, 1938, my Trial Balance was as follows :—

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£	s.	d.	£	s.	d.
Cash	3,840	00			256	0	0			
Bank........	8,560	00			570	13	4			
Stock.......	7,426	00			495	1	4			
Sales........			4,268	00				284	10	8
Purchases ..	5,983	00			398	17	4			
A. Abraham	269	00			17	18	8			
B. Butler ..			326	00				21	14	8
C. Crabbe ..	436	00			29	1	4			
D. David ..	129	00			8	12	0			
E. Earle....			46	00				3	1	4
P. & L. a/c	194	00			12	18	8			
Furniture ..	2,690	00			179	6	8			
Capital			24,887	00				1,659	2	8
Rs.	29,527	00	29,527	00	1,968	9	4	1,968	9	4

Open your Ledger with the above balances. Then enter the following transactions for the month of June. Draw up a Trial Balance, a Trading account, a P. & L. account and a Balance Sheet as at 30th June, 1938 :—

			Rs.	Cts.	£	s.	d.
June	1	Cash sales.....................	286	00	19	1	4
,,	4	Paid cash into bank...........	1,200	00	80	0	0
,,	5	Paid B. Butler on account by cheque....................	25	00	1	13	4
,,	8	Purchased goods from F. Francis and paid by cheque...	896	00	59	14	8
,,	10	A. Abraham paid me cash......	145	00	9	13	4
		I allowed him discount......	5	00		6	8
,,	12	Sold goods to Abraham........	324	00	21	12	0
,,	15	Trade expenses paid by cash...	86	00	5	14	8
,,	18	C. Crabbe became insolvent and paid me a composition of 50 cents in the rupee (10s in the £) in full settlement					
,,	20	Goods destroyed by fire........	125	00	8	6	8
,,	21	D. David paid me cash.........	25	00	1	13	4
,,	22	Sold goods to David...........	1,328	00	88	10	8
,,	25	Bought goods from Earle......	945	00	63	0	0
,,	26	Returned part of goods bought from E. Earle on the 25th....	76	00	5	1	4
,,	28	Paid Earle by cheque on account	380	00	25	6	8
		He allowed me discount.....	20	00	1	6	8
,,	20	Repairs to Furniture paid by cheque....................	39	00	2	12	0
,,	30	Paid wages by cash...........	685	00	45	13	4
		Rent due but not paid.........	100	00	6	13	4
		Value of stock................	11,200	00	746	13	4

(*c*) On the 31st December, 1938, A. Thomas's accounts showed the following balances :—

	Rs.	Cts.	£	s.	d.
Goods in hand (at beginning of trading period)........................	120,000	00	8,000	0	0
Sundry Creditors......................	3,000	00	200	0	0
Returns Inwards......................	37	00	2	9	4
Rent..................................	75	00	5	0	0
Sundry Debtors.......................	2,944	00	196	5	4
Bad Debts............................	420	00	28	0	0
Sales.................................	63,157	00	4,210	9	4
Purchases............................	2,240	00	149	6	8
Returns Outwards....................	544	00	36	5	4

	Rs.	Cts.	£	s.	d.
Cash	6,900	00	460	0	0
Bank Current account	742	00	49	9	4
Bank Deposit account	7,500	00	500	0	0
Discounts allowed	66	00	4	8	0
Discounts received	49	00	3	5	4
Trade Expenses	483	00	32	4	0
Furniture and Fittings	1,580	00	105	6	8
Plant and Machinery	849	00	56	12	0
Capital	77,086	00	5,139	1	4
Value of Stock (31st December)	69,150	00	4,610	0	0

You are required to draw up the Trading a/c, the P. & L. a/c, the Capital a/c and the Balance Sheet as at 31st December, 1938.

(*d*) The assets and liabilities of O. Oliver on the 1st January, 1938, were as follows :—

ASSETS

	Rs.	Cts.	£	s.	d.
Machinery	750	00	50	0	0
Stock of goods	2,927	00	195	2	8
Sundry Debtors :—					
M. Miggs	210	00	14	0	0
S. Silva	345	00	23	0	0
G. Gedge	911	25	60	15	0
Cash in hand	2,317	00	154	9	4
Rs.	7,460	25	£ 497	7	0

LIABILITIES

	Rs.	Cts.	£	s.	d.
Sundry Creditors :—					
B. Biggs	751	25	50	1	8
L. Lewis	480	00	32	0	0
Capital	6,229	00	415	5	4
Rs.	7,460	25	£ 497	7	0

Open Ledger accounts with the above balances, and then enter the following transactions. Take out a Trial Balance as at 16th January, 1938, close your books and prove :—

			Rs.	Cts.	£	s.	d.
Jan.	1	Opened account at Bank paying cash	1,500	00	100	0	0
,,	2	Sold goods to M. Miggs	379	00	25	5	4
		,, S. Silva	625	00	41	13	4

			Rs.	Cts.	£	s.	d.
Jan.	3	Received cash from G. Gedge	880	00	58	13	4
		Discount	24	00	1	12	0
		Paid wages in cash	75	00	5	0	0
		Withdrew cash for personal use	150	00	10	0	0
		Paid cash into bank	900	00	60	0	0
,,	4	Bought goods from L. Lewis	758	00	50	10	8
,,	5	Paid cheque to B. Briggs	735	25	49	0	4
		Discount	16	00	1	1	4
,,	7	Received cash from M. Miggs.	210	00	14	0	0
		Discount	14	00		18	8
,,	9	Paid wages in cash	75	00	5	0	0
,,	12	Sold goods to G. Gedge	325	00	21	13	4
		Cash purchases	275	00	18	6	8
		Paid cash for carriage on goods on account of G. Gedge	8	00		10	8
,,	13	Paid L. Lewis by cheque	470	00	31	6	8
		Discount	12	00		16	0
,,	14	Allowed G. Gedge for goods damaged in transit	75	00	5	0	0
,,	16	Cash sales	485	00	32	6	8
		Withdrew from bank for office use	225	00	15	0	0
		Paid wages in cash	75	00	5	0	0
		Bought for cash from Colombo Engineering Co. additional machinery	375	00	25	0	0
		Cash purchase	305	00	20	6	8
		Sold goods to A. Aylmer	450	00	30	0	0
		Value of stock	2,700	00	180	0	0

Note : Carriage on goods. In this case you will debit G. Gedge with cost of carriage or transport, as it was incurred on his behalf. If, however, the arrangement was that the seller should pay carriage, the amount would of course be debited to the P. & L. a/c.

When carriage has been paid for goods brought to my own warehouse, you will understand that such carriage adds to the cost of the goods, and in such case the carriage should be debited to the Trading account.

CHAPTER VIII

Books of Original Entry

THE JOURNAL

You will remember that in Chapter 1 we referred to the Ledger as the principal book in Bookkeeping, and also stated that there were various subsidiary books into which transactions were first entered. Hitherto, in order to familiarize ourselves with the Ledger, we have made entries *direct* into that book. Such entries are known as 'blind entries'. This, however, is not what is done in actual practice. The items are first *entered* in one or other of the several subsidiary books in use, and then *posted* or transferred to the Ledger. There is thus a difference between *entering* and *posting*. In making entries in subsidiary books, you must be careful to see (i) that such entries are made in the appropriate subsidiary book, and (ii) that an entry made in one subsidiary book does not appear in any other subsidiary book; otherwise, such an entry when posted will appear twice in the Ledger.

In this Chapter we shall consider the use of a very important subsidiary book – the JOURNAL. The Journal is not now so extensively employed as it used to be, when it was the only subsidiary book and every transaction had to be entered in it before being transferred or posted to the Ledger. Other subsidiary books have since been introduced in order to lighten the work of the Bookkeeper and simplify the art of Bookkeeping. The Journal, however, still retains its place as a subsidiary book because certain entries that cannot appropriately be made in any other subsidiary book must necessarily find their way into the Journal. You will see what these entries are as we proceed.

The Journal prepares entries for the Ledger in the form indicated below :—

JOURNAL

		Led. Fol.	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
Wages	Dr.		400	00		
To suspense a/c					400	00

You will observe that there are two columns for the amounts, both on the right hand side – one a Debit column and the other a Credit column. The contraction 'Dr.' in the body of the Journal may be put right up against the Ledger Folio column as above, so that every subsequent 'Dr.' (represented by the mark ") will appear under the previous 'Dr.' The whole Journal will thus present a neat appearance. The word 'To' in the second line is slightly indented to show that the credit item appears more to the right than the debit item; and every subsequent 'To' will appear with exactly the same indentation.

In posting the above entry to the Ledger, the Wages a/c will be debited : 'To suspense a/c, Rs. 400'; and conversely, the Suspense a/c will be credited: 'By Wages, Rs. 400.'

The column for Ledger Folio is referred to at the end of this chapter.

Opening Entries. In the previous chapter we commenced our exercise by opening what we called a 'Preliminary Balance Sheet'. That is now no longer necessary as it can conveniently be supplanted by Journal entries. This is one of the uses to which the Journel may be applied. In future exercises you must therefore adopt this method in making your opening entries.

Instead of the Preliminary Balance Sheet referred to in the last chapter, we may journalise the entries as follows :—

JOURNAL

	Led. Fol.	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
Cash ....Dr.		8,910	00		
Bank .... „		4,620	00		
Stock of Goods .... „		6,920	00		
J. Smith .... „		496	00		
Furniture................ „		860	00		
T. Perera .... „		390	00		
To Peter Silva				324	00
„ R. Fernando				265	00
„ Capital				21,607	00
	Rs.	22,196	00	22,196	00

Not only does the Journal enable you to ascertain your Capital, but it also prepares the entries in such a way as to make it an easy matter to post them into the Ledger. Thus all debit items will be posted to the debit side of the various accounts in the Ledger with the introduction 'To Balance', for of course in this instance the amounts represent the balances brought forward. Similarly, the credit entries will be posted to the credit side of the respective accounts as 'By Balance'. For example, in the Cash account the first entry will appear on the debit side – To Balance Rs. 8,910-00 ; and in Peter Silva's account the first item will be on the credit side – By Balance Rs. 324.00.

Closing Entries. There is another important function of the Journal. In our previous lessons we dealt with the transference of a balance from one account to another account, for instance, the Sales account is balanced and the balance is transferred to the Trading account ; the Trading account is balanced and the balance, Gross Profit or Gross Loss, is transferred to the P. & L. account ; the P. & L. account is balanced and the balance, Net Profit or Net Loss, is transferred to the Capital account. In every such instance it is necessary to pass a Journal entry before such transference is made, debiting

one account and crediting the other. If, for example, the P. & L. account shows a net profit, that balance will appear on the debit side of P. & L. account, and it will be transferred to the credit side of the Capital account. The appropriate Journal entry for such a transference would be :—

P. & L. account Dr.
To Capital account
(being balance transferred)

Rectifying Errors. The Journal is also used to rectify any errors that have been made. For instance, let us suppose that we have received cash Rs. 150 from A. Brown. We should of course in that case credit A. Brown with the amount. But supposing we have inadvertently credited C. Crow instead. It will then be necessary for us to rectify the error by passing the following Journal entry :—

C. Crow Dr. Rs. 150.00
To A. Brown Rs. 150.00
(being amount wrongly credited to C. Crow)

This entry will not only give Brown the necessary credit but it will also wipe off the credit entry we have wrongly made in Crow's account. A Bookkeeper must be careful not to erase an entry he has once made, for it may arouse suspicion that his accounts are 'faked'. The proper way is to rectify such an error by a suitable Journal entry.

Other Journal Entries. Besides the entries we have referred to above, there are several adjustments which do not properly come within the scope of the other subsidiary books, such as Interest, Depreciation, Bad Debts, etc. Such items must therefore also find a place in the Journal before being posted to the Ledger. For example :

Depreciation a/c	Dr. Rs. 300.00	
To Furniture a/c		Rs. 300.00
Bad Debts a/c	Dr. Rs. 500.00	
To John Brown		Rs. 500.00

Narration. It is usual in a Journal entry to elucidate a transaction by appending a note at the foot of such entry explaining the purpose for which the record is made. This is called a *Narration.* The Narration should be as brief as possible but sufficiently informative. For example, ' Goods stolen ' would be shown in the Journal as follows :—

P. & L. account Dr.
To Stock account
(being loss by theft).

The Journal, then, has three important uses :—

(1) To record all opening entries ;

(2) To record all closing entries when balances are transferred from one account to another ;

(3) To record all transactions that cannot suitably be entered in any other subsidiary book.

Ledger Folio. In *every* subsidiary book, just in front of the figures, there in provided a column for 'Ledger Folio'. In posting each item into a Ledger account, it is necessary to state in this column the folio or page on which the relative account appears in the Ledger. This not only helps you to ascertain whether or not any particular item has been posted, but it also proves a valuable reference in locating the account in question in the Ledger. You must therefore see that in future this extra column (Led. Fol.) appears in every subsidiary book and that the proper folio number is entered against each item immediately it is posted.

There is similarly a column before the figures in every account in the Ledger. When an item is posted to the Ledger, it is necessary not only to state the folio number of the relative Ledger account in the Ledger Folio column of the subsidiary book, but also to indicate against each item in the Ledger account the source of the posting. In the case of an item having been posted from the Journal it will be sufficient for examination purposes if you enter

the letter 'J' against each item. In a large business, however, where there are several pages of the Journal, you must indicate the page or folio of the Journal from which the item has been posted, *e.g.* 'J 14' which means that the relative entry may be found on page 14 of the Journal.

Exercise 8

1. What is a Journal ? What particular transactions would you journalise ?

2. What is the difference between 'entering' and 'posting' ?

3. What purpose does a 'Ledger Folio' column in a subsidiary book serve ?

In the following exercises all entries should be journalised (i) in order that you may learn the procedure adopted in journalising transactions of various kinds, and (ii) because we have not yet dealt with the other books of original entry which are employed in actual practice.

4. (*a*) Journalise the following transactions inserting suitable narrations :—

			Rs.	Cts.	£	s.	d.
Jany.	1	Sold goods to B. Sharpe.......	150	00	10	0	0
,,	2	B. Sharpe returned goods as unsuitable..................	15	00	1	0	0
,,	3	Drew cash from bank..........	200	00	13	6	8
,,	5	Cash purchases................	560	00	37	6	8
,,	8	Cash sales......................	420	00	28	0	0
,,	10	Deposited cash in bank........	500	00	33	6	8
,,	12	J. Addision has been credited in error with an amount which should have been credited to J. Anderson........	56	00	3	14	8
,,	15	Bought goods of R. Leal.......	39	00	2	12	0
,,	16	Part of goods bought from R. Leal returned as damaged....	10	00		13	4
,,	18	Drew cheque for private purposes...................	150	00	10	0	0
,,	20	Withdrew from bank for office cash.......................	230	00	15	6	8
,,	25	Goods destroyed by fire........	80	00	5	6	8
,,	28	Paid L. Marks by cheque on account.....................	50	00	3	6	8
,,	31	Paid wages by cash...........	300	00	20	0	0

Note : The item on the 12th should be debited to J. Addison and credited to J. Anderson.

The cheque drawn for private purposes on the 18th should be debited to the Drawings account. This account will be balanced and the balance transferred to the Capital account.

(*b*) Journalise the following transactions inserting suitable narrations :—

		Rs.	Cts.	£	s.	d.
Feb.	1 Paid cash into bank............	500	00	33	6	8
,,	3 A. Green settled his account by cash...................	290	00	19	6	8
	Discount allowed............–	10	00		13	4
,,	5 Paid by cheque, Trade Expenses.....................	25	00	1	13	4
,,	7 Goods bought from P. Arthur	35	00	2	6	8
,,	10 Cash stolen from safe..........	20	00	1	6	8
,,	12 Paid R. Henry cheque.........	38	00	2	10	8
	Discount received...........	2	00		2	8
,,	14 Sold goods to T. Smith........	48	00	3	4	0
	T. Smith returned part of goods sold to him...........	12	00		16	0
,,	15 Bank allowed interest on Current account............	18	00	1	4	0
,,	18 Paid rates and taxes..........	48	00	3	4	0
,,	20 D. Daniel has been debited in error with an amount which should have been debited to D. Dawson.................	68	00	4	10	8
,,	22 Received cheque from C. Clark which was paid into bank.....	95	00	6	6	8
	Discount allowed...........	5	00		6	8
,,	25 Paid J. Hocking..............	75	00	5	0	0
,,	28 Withdrew by cheque for private purposes..................	125	00	8	6	8
	Rent due but not paid.......	100	00	6	13	4

(*c*) On December 1, 1936 my accounts showed the following balances :—

	Rs.	Cts.	£	s.	d.
Cash in hand..........................	8,690	00	579	6	8
Cash in bank..........................	4,630	00	308	13	4
Goods in stock........................	30,460	00	2,030	13	4
Creditors :—					
J. Brown..................	360	00	24	0	0
B. Williams................	250	00	16	13	4
A. Higgins..................	48	00	3	4	0

	Rs.	Cts.	£	s.	d.
Debtors :—					
P. Thomas....................	62	00	4	2	8
R. Jones......................	120	00	8	0	0
B. Smith......................	886	00	59	1	4
A. Pearce.....................	490	00	32	13	4
Furniture...........................	1,230	00	82	0	0

Ascertain my Capital by means of Journal entries, and open accounts in the Ledger. Then enter the following transactions in the Journal, post to Ledger, draw up a Trial Balance, close accounts and prove your books :—

		Rs.	Cts.	£	s.	d.
Dec.	3 Bought goods for cash.........	680	00	45	6	8
,,	4 Sold goods to P. Thomas.......	1,600	00	106	13	4
,,	8 Paid J. Brown by cheque......	200	00	13	6	8
,,	10 Bought goods and paid by cheque.....................	360	00	24	0	0
,,	12 R. Jones paid me cash.........	110	00	7	6	8
	I allowed him discount......	10	00		13	4
,,	14 Sold goods for cash............	1,260	00	84	0	0
,,	16 Goods destroyed by fire........	65	00	4	6	8
,,	18 Sold goods to R. Jones........	2,195	00	146	6	8
,,	20 Paid J. Brown cash...........	150	00	10	0	0
	He allowed me discount.....	10	00		13	4
,,	21 Bought goods for cash.........	690	00	46	0	0
,,	22 B. Smith paid me cash........	200	00	13	6	8
,,	28 Paid cash into bank...........	1,500	00	100	0	0
,,	30 Paid A. Higgins cash..........	38	00	2	10	8
	He allowed me discount.....	10	00		13	4
,,	31 Paid wages by cheque.........	230	00	15	6	8
	Withdrew cash for private expenses....................	250	00	16	13	4
	Rent due but not paid.........	100	00	6	13	4
	Value of stock..............	28,075	00	1,871	13	4

(*d*) On June 1, 1937 R. Haig's books showed the following balances :—

Assets	Rs.	Cts.	£	s.	d.	Liabilities	Rs.	Cts.	£	s.	d.
Cash in hand	380	00	25	6	8	D. Droll ..	290	00	19	6	8
Cash in Bank	1,600	00	106	13	4	Capital ..	5,035	00	335	13	4
Goods in stock	2,450	00	163	6	8						
A. Abel ..	315	00	21	0	0						
R. Barlow ..	420	00	28	0	0						
C. Crow ..	160	60	10	13	4						

Journalise the above opening entries and post them to their proper Ledger accounts. Then journalise the following transaction and post to Ledger :.

			Rs.	Cts.	£	s.	d.
June	4	Sold goods to A. Abel.........	120	00	8	0	0
,,	5	B. Barlow paid Cash..........	410	00	27	6	8
		Discount allowed...........	10	00		13	4
,,	8	Paid Trade Expenses by cash	150	00	10	0	0
,,	10	Goods brought from D Droll..	340	00	22	13	4
,,	12	C. Crow paid cheque which was deposited in bank...........	100	00	6	13	4
,,	15	Sold goods to B. Barlow.......	195	00	13	0	0
,,	18	Paid postage by cash..........	12	00		16	0
,,	20	Paid cash into bank...........	300	00	20	0	0
,,	24	Withdrew from bank for private purposes.....................	500	00	33	6	8
,,	29	Sold goods to C. Crow.........	135	00	9	0	0
,,	30	Paid wages by cheque.........	250	00	16	13	4
		Paid rent by cheque...........	100	00	6	13	4
		Value of stock..............	2,700	00	180	0	0

After posting the above, take out a Trial Balance. Then close your books and draw up a Balance Sheet as on 30th June, 1937.

Note : In transferring balances from one account to another, remember that it is necessary first to pass a Journal entry.

(*e*) Correct the following errors by appropriate Journal entries :—

(*i*) An amount of Rs. 60 (£ 4.0.0) paid to D. Arthur has been wrongly debited to D. Arden ;

(*ii*) Rs. 30 (£ 2.0.0) paid for repairs to Furniture has been debited to Furniture account ;

(*iii*) Rs. 300 (£ 20.0.0) paid for extension to Buildings has been debited to P. & L. account ;

(*iv*) Commission Rs. 45 (£ 3.0.0) earned by G. Henty has been debited to R. Henty and credited to P. & L. account.

CHAPTER IX

Books of Original Entry

THE CASH BOOK AND THE PETTY CASH BOOK

In this lesson we shall deal with another very important book - the Cash Book. If you will refer to Chapter IV you will see that our Cash and Bank accounts were placed together side by side in one account. We must now include an additional column for Cash Discount which, as we have already learnt, is the discount allowed for prompt payment of a debt or for payment within a prescribed time. These three accounts are embodied in what is known as the *Cash Book*. It is primarily a book of original entry because every item in it has to be posted to the opposite side of the relative account in the Ledger. Thus, an item on the Debit side of the Cash Book reading

Cash

To Alfred Smith................Rs. 150.00

means that Alfred Smith has paid me cash Rs. 150. As Cash comes in, Cash has to be *debited*, but in posting the item to the Ledger, it is necessary that Alfred Smith's account should be *credited*, thus completing the double entry.

But, unlike the other subsidiary books, the Cash Book is not merely a book of original entry. It is also a part of the Ledger, in that it represents the Cash and Bank Ledger accounts, and so no separate account should appear in the Ledger for either Cash or Bank. You will therefore understand what is meant when we say that the Cash Book is both a book of original entry (because items have to be posted from it to the Ledger), and also a part of the Ledger (because it represents the Cash and Bank Ledger accounts). The Cash and Bank columns in the Cash Book must be balanced in the usual way, and the balances carried down. You must not forget, in drawing up your Trial Balance and your Balance Sheet, to include these balances.

So far as the Discount column is concerned, this must *not* be balanced in the Cash Book, but the totals must be carried to the Debit and Credit sides of the Discount account in the Ledger. The Discount account will then be balanced and the balance transferred as usual to the P. & L. account. The introduction of the Discount column in the Cash Book of course saves the Bookkeeper the labour of journalising these items, and as Cash Discounts, where allowed, naturally accompany receipts and payments, the Cash Book has been found to be the most convenient place to record them.

A specimen of a Cash Book will be found on the next page. Study it carefully and note how it is balanced. The balance, Cash Rs. 948 and Bank Rs. 1,014, will of course appear as Assets in the Balance Sheet.

You will insert in the Ledger Folio column in each case the number of the folio or page in the Ledger on which the account to which each item is posted, appears. In the corresponding column of the Ledger account you will enter 'C.B.' which means that the source of your posting is the Cash Book. Where Cash is paid into Bank or where money is withdrawn from the Bank for office use, as in the case of the last two items, insert in the Ledger Folio column on each side the letter 'C' which stands for 'Contra.'

CASH BOOK

Dr. CASH

Date	Receipts	L.F.	Discount Rs.	Discount Cts.	Cash Rs.	Cash Cts.	Bank Rs.	Bank Cts.
19..								
Jan. 1	To Balance	b/f			300	00	500	00
,, 2	,, A. Alford	1	5	00			295	00
,, 3	,, B. Bairn	4	4	00	346	00		
,, 4	,, C. Crawford	6					480	00
,, 5	,, D. Daniel	9	6	00	230	00		
,, 6	,, Cash	C					100	00
,, 7	,, Bank	C			200	00		
			15	00	1,076	00	1,375	00
Jan. 9	To Balance	b/d			948	00	1,014	00

CONTRA Cr.

Date	Payments	L.F.	Discount Rs.	Discount Cts.	Cash Rs.	Cash Cts.	Bank Rs.	Bank Cts.
19..								
Jan. 1	By E. Ewing	10	3	00			126	00
,, 4	,, F. Frewin	12	2	00	28	00		
,, 5	,, G. Grant	14					35	00
,, 6	,, Bank	C			100	00		
,, 7	,, Cash	C					200	00
,, 9	,, Balance	c/d			948	00	1,014	00
			5	00	1,076	00	1,375	00

The *totals* of the Discount column will be transferred to the Discount account in the Ledger as follows :—

Dr. DISCOUNT Cr.

		Rs.	Cts.			Rs.	Cts.
To sundries	C. B.	15	00	By sundries	C. B.	5	00

You will observe, in connection with the Discount column, that the Discount always appears on the same side, Debit or Credit, on which the relative entry in the Cash or Bank column is entered. A little thought will make it clear that when money is paid to me, the Cash account is debited. and any discount I may allow to the payer is a loss to me and must therefore also be debited. Conversely, if I pay, money goes out and is credited, and the discount allowed to me is a gain and must therefore be credited. When I receive money, I lose in allowing discount ; when I pay money, I gain in receiving discount.

In posting items to the Ledger from the Cash Book, it is necessary to show in the Ledger account both the amount received or paid as well as the discount allowed. For example, in posting the item against E. Ewing, we shall make the following entries on the Debit side of E. Ewing's account :—

To Bank	Rs. 126.00
,, Discount	,, 3.00

You must also remember that when cheques are received, they must be treated as Cash and debited to the Cash account *unless* you are specifically told, as you are, in some examination papers, that all cheques received are paid into the Bank upon receipt, in which case the Bank account will be debited.

THE PETTY CASH BOOK

There is another book–the Petty Cash Book—which may properly be dealt with in this Chapter. Petty Cash, as its name implies, is the cash kept for meeting petty or small expenses such as Travelling, Cartage and Sundries. Its main purpose is to lighten the work of the Cash Book proper and also to save making several entries in the Ledger, for of course it must be obvious that if minor items of expenditure involving a few rupees or a few cents are entered in the Cash Book, this book will soon be filled with a large number of small items, and every such item will have to be posted to the Ledger separately.

The Petty Cash Book is usually in charge of a junior clerk called the Petty Cashier, and it is generally kept on what is known as the Imprest System. According to this system, a round sum of money (say Rs. 100) is paid to the Petty Cashier who will keep a record of all his expenditure and see that, where possible, every item of such expenditure is supported by a voucher or a receipt. When his resources are coming to an end, he will apply for a further sum of money. His accounts will then be checked with the vouchers, and he will be refunded *the exact amount of his expenditure* so that he will then begin with the original amount of the Imprest. For instance, if he had received Rs. 100 originally and he had spent Rs. 92, he will be given only Rs. 92 which, with his balance of Rs. 8, will make up the original amount of Rs. 100.

You will see on the next page the form of a Petty Cash Book. This book may have several columns to provide for various Petty Cash disbursements, but we have included only a few to give you an idea how a Petty Cash Book should be kept on the Imprest System. The Petty Cashier in this case began with a sum Rs. 100, and during the month he spent Rs. 98 for which he received a cheque on the 31st January, leaving him with the original sum of Rs. 100 to start afresh on the 1st February.

PETTY CASH BOOK

Amount Received	Date		PARTICULARS	Voucher No.	Amount Paid (Total)	Travelling Expenses	Cartage	Stationery	Sundries	NAME	L. Fo.	Amount
						DISTRIBUTION OF P. & L. PAYMENTS				LEDGER ACCOUNTS		
R. c.					R. c.							
100 00	1933 Jany.	1	To Balance									
			By Cartage	1	3 00		3 00					
		4	,, Envelopes	2	4 00			4 00				
		5	,, telegram	3	5 00				5 00			
		6	,, table fan	4	30 00					Furniture a/c		30 00
		10	,, cart hire	5	8 00		8 00					
		12	,, train fare to Kandy	6	12 00	12 00						
		15	,, Stamps	7	6 00				6 00			
		18	,, note paper	8	10 00			10 00				
		20	,, rickshaw fare	9	2 00	2 00						
		25	,, carriage of goods for C. Clark	10	10 00					C. Clark		10 00
		28	,, telegram to R. Henry	11	4 00					R. Henry		4 00
		31	,, advertisement	12	4 00				4 00			
					98 00	14 00	11 00	14 00	15 00			44 00
98 00		31	To cheque received			L. Fo.	L. Fo.	L. Fo.	L. Fo.			
			By Balance c/d		100 00							
Rs. 198 00					198 00							
Rs. 100 00	Feb.	1	To Balance b/f									

The Bookkeeper will now post the totals of the distribution to the Debit of the various accounts in the Ledger, viz :—

Travelling Expenses..............	Rs.	14.00
Cartage.........................	,,	11.00
Stationery......................	,,	14.00
Sundry Expenses................	,,	15.00
Furniture account................	,,	30.00
C. Clark.........................	,,	10.00
R. Henry.......................	,,	4.00

The corresponding credit entry will of course be the Rs. 98 spent by the Petty Cashier, as shown in the Petty Cash book.

At the end of a Trading Period, when you close your books, the balance of the Petty Cash may be returned to the Cashier who will enter it on the debit side of his Cash account ; or the balance of the Petty Cash may be treated separately as an Asset just like the balance of Cash shown in the Cash Book.

The Ledger Folios of the first four items in the above example will be shown at the foot of the respective columns, where indicated ; those of the other three items will appear in the column reserved for them. The Petty Cash Book, like its parent the Cash Book, is both a book of original entry and also a part of the Ledger, as it represents the Petty Cash Ledger account ; and therefore no special Petty Cash account need appear in the Ledger when a Petty Cash Book is used. Do not forget that the balance of the Petty Cash Book (if any) must appear in your Trial Balance, as well as in your Balance Sheet, because it represents part of your cash.

Exercise 9

1. What do you understand by a three-column Cash Book ?

2. 'The Cash book is both a book of original entry as well as a part of the Ledger'. Discuss this statement.

3. When Cash is withdrawn from Bank or paid into Bank, what will you enter in the Ledger Folio column against each item ? What does the abbreviation stand for ?

4. How does the use of a Petty Cash Book save the Bookkeeper work ? What is meant by the Imprest System of Petty Cash ?

5. (*a*) Draw up a columnar Petty Cash Book making provision in it for Postage & Telegrams, Travelling Expenses, Carriage, and Sundries. Then record the following transactions and enter the sum which should be received from the Cashier to make up the amount of the 'Imprest' :—

			Rs.	Cts.	£	s.	d.
Jany.	1	Received from Cashier........	150	00	10	0	0
,,	2	Bought postage stamps.......	10	00		13	4
,,	3	Stationery.................	5	00		6	8
		Rickshaw fare...............		75		1	0
,,	4	New Year gifts..............	20	00	1	6	8
		Paid garden coolie...........		50			8
		Surcharge on letters..........		25			4
,,	5	Telegram....................		50			8
,,	6	Rail fare....................	6	00		8	0
		Bought files.................	5	75		7	8
		Packing materials............	3	50		4	8
		Office chair..................	15	00	1	0	0
,,	7	Paid for telephone trunk calls	28	00	1	17	4
		Paid rickshaw fare on account R. Morgan................	1	25		1	8
,,	8	Advertisement...............	15	00	1	0	0
		Tram Fare..................		50			8
		Paid for telegram on account B. Brown.................	3	75		5	0

(*b*) From the following complete and balance the three-column Cash Book. (All cheques received are paid into the Bank upon receipt) :—

1938			Rs.	Cts.	£	s.	d.
June	1	Balance of cash in hand.......	8,000	00	533	6	8
		Balance at Bank............	12,000	00	800	0	0
,,	4	Bought goods and paid by cheque.....................	320	00	21	6	8
,,	6	Paid sundry creditors cash......	890	00	59	6	8
		Paid sundry creditors by cheque	560	00	37	6	8
		Discount..................	50	00	3	6	8
,,	7	Withdrew from Bank for office use.......................	500	00	33	6	8

			Rs.	Cts.	£	s.	d.
June	8	Sundry debtors paid me cash..	600	00	40	0	0
		Discount..................	20	00	1	6	8
,,	10	Sold goods for cheque........	384	00	25	12	0
,,	12	Drew cheque for private expenses	500	00	33	6	8
,,	15	Received cash for bad debt previously written off........	230	00	15	6	8
,,	18	Cash stolen from safe.........	80	00	5	6	8
,,	20	Paid cash for office expenses..	54	00	3	12	0
		Received cheque from sundry debtors for Rs. 260.00 (£ 17.6.8) in settlement of an account for..............	290	00	19	6	8

(*c*) Enter the following items in the three-column Cash Book, and balance the Cash Book :—

1938			Rs.	Cts.	£	s.	d.
April	1	Cash in hand................	6,800	00	453	6	8
		Bank overdraft..............	150	00	10	0	0
,,	5	Sold goods for cash...........	200	00	13	6	8
,,	6	Drew from Bank for Petty Cash	50	00	3	6	8
,,	8	Received cheque from C. Cook which I paid into Bank.....	25	00	1	13	4
,,	9	C. Cook's cheque dishonoured	25	00	1	13	4
,,	12	Trade expenses...............	175	00	11	13	4
,,	15	Cash sales...................	600	00	40	0	0
,,	18	Paid into Bank..............	500	00	33	6	8
,,	19	Cash Purchases..............	250	00	16	13	4
,,	20	H. Hawkins paid me cash Rs. 110 (£ 7.6.8) in full settlement of his account for	115	00	7	13	4
,,	25	Paid R. Nelson by cheque....	160	00	10	13	4
		He allowed me discount....	8	00		10	8
,,	28	Withdrew cash for private expenses..................	100	00	6	13	4

(*d*) Enter the following in a columnar Cash Book. Balance and bring down balances :—

1938			Rs.	Cts.	£	s.	d.
Nov.	1	Cash in hand................	2,800	00	186	13	4
		Bank overdraft..............	300	00	20	0	0
,,	4	Paid cash into Bank..........	2,000	00	133	6	8
,,	5	Sold goods for cash...........	600	00	40	0	0
,,	7	Received from M. Regan cheque for Rs. 385.00 (£ 25.13.4) in settlement of an account for Rs. 400 (£ 26.13.4). Paid Cheque into bank.					
,,	12	Paid by cheque to R. Hodgson Rs. 400 (£ 26.13.4) less $2\frac{1}{2}\%$ discount.					
,,	14	Drew cheque for Petty Cash..	200	00	13	6	8

	Rs.	Cts.	£	s.	d.
Nov. 16 Bought goods for cash.........	395	00	26	6	8
,, 22 Paid to W. Collins cheque for amount due to him Rs. 650 (£ 43.6.8) less 4% discount					
,, 28 Paid by cash for repairs to furniture..................	89	00	5	18	8
,, 30 Paid wages by cheque.........	300	00	20	0	0

(e) On January 1, 1937 L. Lawson's books showed the following balances :—

	Rs.	Cts.	£	s.	d.
Cash in hand..........................	480	00	32	0	0
Cash at bank..........................	2,050	00	136	13	4
Goods on hand.........................	6,180	00	412	0	0
Debts Receivable :—					
M. Silva..........................	570	00	38	0	0
F. Henderson......................	790	00	52	13	4
S. Ferguson.......................	1,290	00	86	0	0
Horses and carts......................	1,760	00	117	6	8
Liabilities :—					
A. Knight.........................	327	00	21	16	0
W. Clive..........................	430	00	28	13	4

Find his Capital by means of the usual Journal entries and open accounts in the Ledger. Then enter the following transactions for the month of January (using Journal and Cash Book), post to Ledger and take out a Trial Balance :—

	Rs.	Cts.	£	s.	d.
Jan. 2 Bought goods for cash.........	350	00	23	6	8
,, 4 Received from M. Silva cash in full settlement of his account....................	560	00	37	6	8
,, 6 Sold goods to S. Ferguson for Cash Rs. 180 (£ 12.0.0) on Credit Rs. 760 (£ 50.13.4)..	940	00	62	13	4
,, 10 Received from S. Ferguson cheque and paid same into bank.....................	120	00	8	0	0
Allowed him discount......	15	00	1	0	0
,, 11 Sent credit note to F. Henderson for goods reported damaged..................	90	00	6	0	0
,, 12 Sold goods to M. Silva........	320	00	21	6	8
,, 14 Bought goods from W. Clive	160	00	10	13	4
,, 16 Sent cheque to W. Clive......	320	00	21	6	8
He allowed me discount....	10	00		13	4
,, 18 Bought a new horse and paid for same by cheque........	300	00	20	0	0
,, 20 Paid wages by cash..........	180	00	12	0	0

	Rs.	Cts.	£	s.	d.
Jan. 21 Received from M. Silva cheque on account and paid same into bank.................	160	00	10	13	4
,, 22 Paid into bank..............	300	00	20	0	0
,, 23 Returned goods to W. Clive as not up to sample...........	160	00	10	13	4
,, 24 Paid cash for trade expenses	65	00	4	6	8
,, 26 M. Silva became bankrupt and paid a composition of 40 cents in the rupee (8s in the £) into the firm's banking account					
,, 28 L. Lawson paid his private accounts by cheque........	230	00	15	6	8
,, 31 Value of stock...............	6,300	00	420	0	0
Gas account due but not paid	13	00		17	4
Depreciate Horses and Carts..	20	00	1	6	8
Credit Capital with interest...	180	00	12	0	0

Close the accounts, and draw up a Balance Sheet as on 31st January, 1937.

N.B.—All P. and L. items may be posted direct to the P. & L. account.

CHAPTER X

Banking and Cheques

We must now turn our attention to the question of Banks and their uses. The advantages in having an account in a Commercial Bank are many. In the first place, the Bank is a convenient depository for our money, as there our cash would be safer than in our own keeping. The Bank, moreover, allows us a certain amount of interest calculated on the minimum monthly balance to our credit. This interest we should lose if the money were deposited in our safe. The Bank also collects for us all cheques (drawn on any bank), money orders, etc. which we hand in, and places the proceeds to our credit. There are, of course, other advantages that may suggest themselves to the student, but perhaps the greatest advantage is our ability to pay our debts by means of cheques which we shall deal with later in this chapter.

Opening a Bank Account. Should we desire to open a Bank account, we must first select a Bank that, by reason of its long standing, public support and its reserve fund, has established a reputation. Having done that, we must furnish the Bank with references from people of standing or from persons who already have accounts in the same Bank. These references are required in order that the Bank may protect itself against unscrupulous or undesirable persons who may open an account not so much because they wish to take advantage of the benefits the Bank offers as because they may use the fact as a handle for purposes of fraud.

We shall then be required to fill up the specified application form and pay in the amount with which we wish to open our account. The Bank will thereupon supply us with (i) a cheque book, (ii) a pass book, and (iii) a paying-in slip book.

Current and Deposit Accounts. The account we have now opened is called a *Bank Current Account.* We deposit into this account from time to time cash, cheques, money orders, postal orders, etc., and we withdraw from this account, by means of cheques, monies that we wish to pay our creditors or that we require for our own private or office use. It is this account that is dealt with in the Cash Book referred to in the last chapter. When we make our deposit we debit our Bank account, and when we draw out money by means of cheques, we credit the account.

This Current Account, however, must not be confused with what is known as a *Bank Deposit Account.* In a Deposit Account we place a certain sum of money with the Bank on Fixed Deposit for a certain term, say six months or one year, or on the understanding that say three months' notice should be given on either side before withdrawal. In any case we shall have to wait till the expiry of the term before we can get our money back. It must be quite clear that this Deposit Account cannot be operated on by means of cheques, and that no further sums may be paid in from time of time as is possible with our Current Account. When we hand in our deposit, the Bank gives us what is called a *Fixed Deposit Receipt.* In it is mentioned the name of the depositor, the amount deposited, the date of re-payment or the notice required for withdrawal, and the interest allowed. The interest varies from time to time according to the Bank's immediate need of money, and may be anything between 2 and 5 per cent. The advantage of a Fixed Deposit account as against a Current account is that the interest allowed by the Bank for the former is greater than the interest allowed on Current accounts which is, in Ceylon, at present ½% per annum calculated on the minimum monthly balance to one's credit provided such minimum does not fall below Rs. 1,000. Accounts are balanced half-yearly, and no interest is allowed unless it amounts to Rs. 5. When only a small amount (less than Rs. 500) is retained in the Bank, the Bank makes a charge of Rs. 7/50 each half year for the services it renders in maintaining the account.

Fixed Deposit accounts, then, have no place in our Cash Book except in so far as we make the deposit either in cash or by cheque. For Fixed Deposits we shall therefore open a separate account in our Ledger in just the same way as we would if we lent money to a person. The balance of this Deposit account, which is a debit balance, will appear as one of our Assets in our Balance Sheet.

CHEQUES

As we have seen, when we open a Current account in a Bank, one of the books we receive is a *Cheque Book*. This book may consist of 25, 50 or a larger number of leaves, and the Bank will debit us with the cost of such cheque book. A Cheque Book contains a series of detachable forms with counterfoils, as in the following specimen :—

No. B 345	No. B 345
Jany., 15, 1937	Colombo, *January* 15, 1937,
R. Henry	**Colombo Banking Co., Ltd.**
	order
in settlement	Pay *R. Henry, Esq.,* or ~~Bearer~~
of a/c	Rupees *twenty five only—*
Rs. 25/-	Rs. 25/- *B. James*

A *Cheque* may be defined as an unconditional order on a Bank to pay on demand a specified sum of money to a certain person. In the above illustration B. James is the *Drawer*, the Colombo Banking Co., Ltd. the *Drawee*, and R. Henry the *Payee*. The cheque leaf is torn off the book by the Drawer and sent to R. Henry who presents it at the Bank and receives his money. The counterfoil is retained by B. James for reference.

But let us examine our specimen cheque in greater detail. You will notice that both the cheque and the counterfoil bear the same serial number, viz : B. 345. This serial number is

useful for reference both by the Bank and by ourselves. For instance, if we lost a blank cheque leaf we should be able to inform the Bank of the fact, quoting the serial number of which the Bank has a record.

Bearer and Order Cheques. The payee's name (R. Henry) is inserted in the body of the cheque, and we have in this instance crossed out the word 'Bearer' and substituted 'Order'. If we had not done so, the cheque would be called a *Bearer cheque* and anybody would be able to cash it because the order of the Drawer is to 'Pay R. Henry *or bearer*.' That would naturally make it very unsafe because a person who came by it through unfair means would be able to draw the money from the Bank without the payee's knowledge or consent. It is therefore usual to alter the word 'Bearer' to 'Order' and so make it an 'Order cheque'. In fact, some Banks print the word 'Order' instead of 'Bearer' on their cheque leaves. When a cheque is an Order cheque, that is when it is payable to a certain party or to order, it is necessary for the payee to endorse the cheque before he can collect the money from the Bank. A cheque is endorsed by the payee's putting his signature across the back of the cheque at the perforated end. By his making this endorsement, it can always be proved that he did receive the money even though he may not have sent the drawer of the cheque a receipt.

Endorsements. Now, endorsements may be of different kinds. If R. Henry merely put his signature on the back of the cheque, that would be called a *General* or *Blank* endorsement, and would have the effect of converting the cheque at once into a Bearer cheque, for once that endorsement has been made, anybody can obtain cash for it from the Bank. But R. Henry may desire to pass the cheque on to a third party in settlement of a debt, in which case he would make a *Special* endorsement somewhat as follows :—

Pay Mr. W. Jones or Order
R. Henry.

Mr. Jones will then have to endorse the cheque before he can cash it. But he in turn may wish to transfer his interest in the cheque to yet another party, in which case he too would make a Special endorsement; and so on. A third kind of endorsement is called a *Restrictive* endorsement which is a Special endorsement in favour of a third party in such a way that the third party is unable to transfer the cheque further. The endorsement would be as follows :—

Pay Mr. W. Jones only

R. Henry.

In this case no further transfer of the cheque is possible because the endorsement restricts payment to W. Jones.

When endorsing a cheque the payee should be careful to see that the exact name on the cheque is repeated, even if there is any error in the initials or in the spelling of the name. Mr. A. B. Perera, for instance, receives a cheque payable to Mr. A. R. Pereira. The correct endorsement would be :—

A. R. Pereira

A. B. Perera

the signature of Mr. A. B. Perera being placed under the incorrect name. If, again, Mrs. A. B. Perera, who ordinarily signs herself Alice Perera, receives a cheque payable to Mrs. A. B. Perera, the correct endorsement would be :—

Alice Perera

Wife of A. B. Perera.

Again, if one's signature is not quite legible, as unfortunately is the case with some signatures, the endorsement must consist of the payee's name in clear characters with his signature appended underneath.

If the correct endorsement is not made, the Bank will return the cheque with the remark 'Endorsement Irregular.'

Date. Cheques should usually be dated with the date upon which they are drawn, but they are not invalid by reason of their being ante-dated (having a previous date) or post-dated (having a subsequent date). If a cheque is not dated, the Bank may refuse to cash it and may return it with the remark 'Incomplete' or 'Undated.'

It is sometimes found necessary to *post-date* a cheque. A person desires to make a payment by cheque but he has not sufficient funds in the bank at present to meet it. If the cheque is dated with the true date, the Bank will refuse to cash it on presentation because there are not sufficient funds to the credit of the drawer to meet such a cheque. The drawer, therefore, post-dates the cheque as he hopes before the date to deposit sufficient funds to secure payment of the cheque. No post-dated cheque can be cashed before the date stated on it.

If a cheque is not presented for payment within six months of its date, the Bank will probably return it marked '*Stale.*'

Amount. The amount or value of the cheque, as you will notice, appears twice—once in words and once in figures. The words are necessary to prevent any person from altering the figures before presenting the cheque for payment. In our example it would be quite a simple matter to insert the figure 1 before 25 and so to alter the value of the cheque from Rs. 25 to Rs. 125. If, for any reason, the figures and the words do not tally, the Bank will return the cheque with the remark 'amounts differ' or 'figures and writing disagree.'

It must also be noted that where any alteration is made on the face of a cheque, either in connection with the amount or in any other particular, every such alteration must be initialled by the drawer of the cheque. Some banks require that every alteration shall be supported by the full signature of the drawer.

Dishonoured Cheques. Before issuing a cheque, the drawer must be careful to see that he has sufficient money in the Bank to meet it ; otherwise, the cheque will, on presentation, be *dishonoured* by the Bank and returned with one or other of the following remarks made in an abbreviated form :—

R/D (Refer to Drawer), which is a request that the payee should communicate with the drawer in regard to payment. The drawer in such a case may have asked the Bank to stop payment of the cheque.;

N/S (Not Sufficient Funds). This is an indication that the balance in the Bank at credit of the drawer is not sufficient to meet the cheque ;

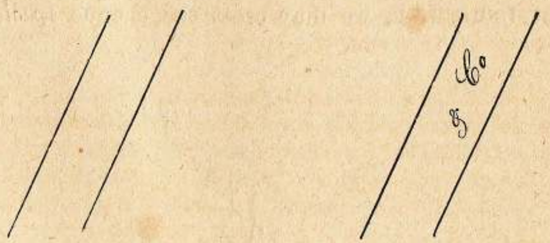
N/E (No Effects), which means that the drawer has no balance to his credit at the bank.

When a cheque is thus dishonoured by the Bank, we should write at once to the drawer and demand payment in cash. Our right of action of course lies against the drawer and not against the Bank. An adjustment in our accounts will now be needed in order to rectify matters so far as our book-keeping is concerned, and in order to do this we must *Debit the Drawer* and *Credit the Bank* with the value of the dishonoured cheque. This is really a reversal of our original entry when we debited the Bank and credited the Drawer.

Cheques are sometimes returned by the Bank with the remark 'Effects not cleared.' This means that the Drawer had paid in sufficient funds in the form of cheques, etc., but that cash for them had not been collected by the Bank ; in other words, that these cheques had not yet passed through the Bank's Clearing House through the medium of which cheques on other banks are collected. This is tantamount

to a temporary dishonouring of the cheque until sufficient cash has been collected to meet it on the deposits made by the drawer. In that case we shall wait for a day or two and then present the cheque again for payment.

Crossed Cheques. You have already seen that it is safer to issue an Order cheque than to issue a Bearer cheque, because an Order cheque requires the endorsement of the payee, whereas a Bearer cheque does not. But even an Order cheque is not quite safe, for it is quite possible for a person who has stolen the cheque to forge the signature of the payee and thus obtain the money from the Bank. This is particularly the case where the Bank has no means of identifying the signature of the payee. In order to make cheques more secure, therefore, we resort to the expedient of crossing our cheques by drawing two parallel transverse lines across the face of the cheque as follows :—



The insertion of the words " & Co." between the crossing is a relic of bygone days. When the practice of crossing a cheque was first introduced, the most usual ending of banking firms was " and Company." The employment of these words, however, is not compulsory in the crossing of a cheque. The effect of this crossing is that the Bank will not pay cash in exchange for the cheque but will only place it to the credit of the payee's account. In that way, even if the cheque gets lost and is paid into someone's account, it can always be traced back. A cheque which is not crossed is sometimes referred to as an *Open Cheque.*

Of course it may happen that the person to whom I send a crossed cheque has no account in a Bank, in which case he will either ask someone who has such an account to exchange it for an uncrossed cheque of his own, or he will pass it on to someone else in settlement of a debt. If he finds it inconvenient to do either, he may return me the cheque which I shall 'open' by writing the words 'Pay Cash' underneath the crossing, and adding my signature thereto. He will then be able to obtain cash for it from the Bank in the same way as he would if the cheque were not crossed.

The above crossing is called a *General Crossing.* In order to restrict the negotiation of a cheque still further, we may make a *Special Crossing* by writing the name of the Bank through which it should be paid between the two lines of the crossing. Thus, if the name of our Bank is the Mercantile Bank of India, Ltd. and we send a crossed cheque to a person who, we know, has an account in the National Bank of India, Ltd., we may cross the cheque *specially* as follows :—

That would amount to an order on our Bank (the Mercantile Bank) to pay the sum named on our cheque only to the National Bank of India, Ltd. In that case, no other Bank than the National Bank will be paid that money by our Bank.

It is always wise, when forwarding a cheque through the post, to cross it, and if we want further security of payment to the right party, we may write the words 'A/c. Payee only' between the crossing, or, instead of the words 'or Order' we may substitute 'only.' In either case, only the payee can receive credit for the amount of the cheque.

Not Negotiable.

There is yet a further variation of the crossing, namely the insertion of the words 'Not Negotiable' between the lines of the crossing. The words in themselves, however, do not constitute a crossing. 'Not Negotiable' does not prevent the transfer of a cheque from one party to another, but it means that the person to whom it is transferred accepts it subject to defects in the title. If the transferor has a good title to the cheque, then the transferee has nothing to fear in regard to its acceptance, but if the transferor obtained the cheque through fraudulent means, then the transferee has no more title to it than the transferor had, and he can be compelled to restore it to the original payee. For instance, R. Henry receives a cheque for Rs. 25 which was stolen from him by A. Thief. A. Thief transfers it to B. Blank from whom he receives value in exchange. When R. Henry discovers that B. Blank holds the cheque, he can compel B. Blank to give up the cheque even though B. Blank accepted the cheque in good faith and paid A. Thief value in exchange. When accepting a cheque marked 'Not Negotiable,' therefore, we are warned to 'Beware of the transferor.'

It must be noted that when a person receives a cheque, it is quite in order for him to restrict the negotiability of it, for example, by crossing an uncrossed cheque or by converting a General Crossing into a Special Crossing, or by writing the words 'A/c Payee only' across the face of the cheque. But he may not make any other alterations such as changing the date or the amount of the cheque. Any of these latter alterations must be made by the drawer himself who should initial or sign every such alteration.

Overdrafts. Overdrafts at the Bank are not permitted except with the previous consent of the Bank. In case you desire to overdraw your account at the Bank, that is, to draw out of the Bank or to issue cheques for a sum or sums exceeding the amount at your credit, it will be necessary for you to see the Bank Manager first and arrange for such overdraft up to an agreed amount. The Bank will of course require suitable security before they allow such an overdraft, and you will be debited by the Bank with interest on the money you have overdrawn. In the case of a Bank overdraft, the Bank must of course be credited, for we owe the Bank money. We are their debtors.

BANK PASS BOOK

The Pass Book issued to us by the Bank at the time we open our account, is a book in which is entered a copy of our account, in debit and credit form, as it appears in the Bank Ledger. It is sent to the Bank periodically to be written up, and customers are requested not to make any entries in it themselves. The Pass Book shows us at a glance what balance is at our credit on a certain date as shown by the Bank Ledger. This balance, you would expect, should correspond with the balance as shown by the Bank column in our Cash Book. That however, is not always the case for the very good reason that some cheques that we have issued may not yet have been cashed, and also that some cheques we have paid into the Bank, such as out-station cheques, have not yet been realised, for the Bank will not usually credit out account with any such cheque or other document until its value has been collected. If then, on a certain date, we close our books, and the two balances (that is the balance as shown in the Pass Book and that shown in our Bank account) do not agree, we shall have to prepare what is known as a Bank Reconciliation Statement.

Bank Reconciliation Statement. This statement is one which reconciles the balance as shown in the Bank Pass Book with the balance as shown in our Cash Book (Bank account). Such a statement would be made out in the following form :—

Bank Reconciliation Statement.

December 31, 1938.

			Rs. Cts.
Balance as per Pass Book			8,900·00
Add cheques paid in but not cleared:			
A. Alder	Rs.	150·00	
B. Black	,,	250·00	400·00
			Rs. 9,300·00
Less cheques issued but not presented :			
C. Clark	Rs.	75·00	
D. Dower	,,	225·00	
E. Elmar	,,	50·00	350·00
Balance as per Cash Book			Rs. 8,950·00

It must be observed that if, instead of there being a Bank balance in our favour, there is a Bank overdraft, that is, that we have overdrawn our Bank account and are debtors to the Bank, then a reverse process will be necessary in making out our Reconciliation Statement. In other words, instead of *adding* the amount of the cheques paid in but not cleared we must *deduct* that amount and so reduce the amount of our indebtedness to the Bank. Similarly, cheques issued by us but not cashed should be *added* to the amount of our overdraft.

PAYING-IN SLIP BOOK

This is a book which is issued by the Bank and used by us (their customers) for the purpose of paying in cash, cheques, etc. for credit of our account. It saves us the trouble of writing a letter to the Bank when making deposits. To each paying-in-slip there is a counterfoil in which is entered a summary of the payments made, the paying-in slip itself containing full particulars. Cash is generally paid to the Cashier or 'teller' as he is sometimes called, and cheques, money orders, etc. to the Accountant. When deposits are made, the counterfoil is initialled by a Sub Accountant and thus we have an immediate receipt for cash etc. paid in.

Exercise 10

1. Name some of the advantages in having a Commercial Bank account.

2. What is the difference between a Bank Current account and a Bank Deposit account ?

3. Name the three parties to a cheque, and draw a specimen form of a cheque.

4. What difference is there between an Order cheque and a Bearer cheque ? Why is an Order cheque safer ?

5. What do the following terms mean :—Stale, R/D, N/S, 'amounts differ', 'incomplete'?

6. What is meant by endorsing a cheque ? How can a cheque be passed on to another party by the payee ?

7. Name the different kinds of endorsements and give an example of each.

8. What is a crossed cheque, and what effect has a crossing ?

9. What is the difference between a General Crossing and a Special Crossing ?

10. What steps ought we to take when a cheque presented at the Bank is dishonoured ?

11. What is a post-dated cheque ? Why is it necessary sometimes to post-date a cheque ?

12. How can we draw a cheque to ensure that no one but the payee shall receive the money ?

13. What is meant by the term 'Not Negotiable' written across the face of a cheque ?

14. Of what use is a Bank Pass Book ?

15. What is a Bank Reconciliation Statement ? Give an example.

16. What is a Paying-in Slip Book, and what purpose does it serve.

17. (a) On the 31st December, 1936, my Bank Pass Book showed a balance to my credit of Rs. 1,940.00 (£129-6-8).

My account had not been credited with the following outstation cheques :—

S. Swan................	Rs. 160·00	(£10-13-4)
B. Rowlands...........	,, 340·00	(£22-13-4)

The following cheques issued by me had not been cashed :—

R. Jones	Rs. 240·00	(£16- 0-0)
B. Henry...............	,, 160·00	(£10-13-4)
C. Cowan...............	,, 190·00	(£12-13-4)
D. Perera	,, 180·00	(£12- 0-0)

Prepare a Bank Reconciliation Statement showing what balance my Bank account should show in the Cash Book.

(b) On the 31st January, 1938, my Bank balance was Rs. 2,640.00 (£176-0-0) whereas the Bank Pass Book showed a balance of Rs. 2,820.00 (£188-0-0). Prepare a Bank Reconciliation Statement, inserting appropriate entries, reconciling the two balances.

(c) R. Meaden's accounts on the 1st December, 1938, showed the following balances :—

	Rs.	Cts.	£	s.	d.
Cash in hand.........................	8,970	00	598	0	0
Bank overdraft.......................	140	00	9	6	8
Stock of goods.......................	10,460	00	697	6	8
Debts Receivable :—					
B. Wilsden	690	00	46	0	0
R. Thomas	420	00	28	0	0
L. Caldera.......................	920	00	61	6	8
M. Perera	438	00	29	4	0
J. Joseph.........................	265	00	17	13	4
C. Silva...........................	820	00	54	13	4
R. Fernando.....................	238	00	15	17	4
Debts Payable :—					
S. de Alwis......................	760	00	50	13	4
J. Buchanan.....................	425	00	28	6	8
Furniture and Fittings................	1,400	00	93	6	8

Find his Capital by means of the usual Journal entries and open accounts in the Ledger. Then enter the following transactions, post to Ledger, take out a Trial Balance, close your accounts and draw up a Balance Sheet as on 31st December. All transactions that cannot be suitably entered in the Cash Book should be journalised :—

		Rs.	Cts.	£	s.	d.
Dec. 3	Paid Cash into Bank..........	3,000	00	200	0	0
,, 5	Bought goods for cash..........	439	00	29	5	4
,, 7	Placed on Fixed Deposit at Bank by cash..............	2,000	00	133	6	8
,, 8	Sold goods for cash...........	860	00	57	6	8
,, 10	Cash purchases................	150	00	10	0	0
,, 12	Sold goods to J. Henry for cash..	1,230	00	82	0	0
,, 15	Drew cheque for petty cash....	500	00	33	6	8
,, 18	Paid S. de Alwis by cheque....	480	00	32	0	0
	He allowed discount.........	20	00	1	6	8
,, 19	L. Caldera became insolvent and paid a composition of 50 cents in the rupee (10s. in the £) in full settlement of his debt.....					
	Petty cash expenses..........	35	00	2	6	8
,, 20	B. Wilsden paid me cash........	390	00	26	0	0
	Discount allowed............	10	00		13	4
,, 21	Cash sales....................	1,290	00	86	0	0
,, 22	Sold goods to B. Wilsden.......	380	00	25	6	8
,, 23	Petty cash payments..........	22	00	1	9	4
	Received cash for a Bad Debt previously written off........	120	00	8	0	0
,, 24	Cheque received from R. Thomas	420	00	28	0	0
	B. Wilsden returned as unsuitable part of goods sold on the 22nd	75	00	5	0	0
,, 25	Cash purchases................	120	00	8	0	0
	M. Perera paid cash............	370	00	24	13	4
	Discount allowed............	30	00	2	0	0
,, 26	Returned part of goods bought on 25th and re-received a refund of..................	20	00	1	6	8
,, 27	Paid J. Buchanan by cheque....	190	00	12	13	4
	Discount allowed............	10	00		13	4
,, 28	Drew cheque for private purposes	250	00	16	13	4
	Sales to C. Silva..............	200	00	13	6	8
	Paid sundry expenses by cheque	110	00	7	6	8
	Bought goods for cash from F. Beven	230	00	15	6	8
,, 31	Interest on Capital............	150	00	10	0	0
	Paid rent by cheque...........	100	00	6	13	4
	Value of stock................	9,000	00	600	0	0

Depreciate Furniture & Fittings 5%

CHAPTER XI

Books of Original Entry

THE PURCHASES AND SALES BOOKS AND THE RETURNS BOOKS

We have already dealt with two very important books of original entry—the Journal and the Cash Book. In this chapter we shall consider four other books subsidiary to the Ledger, namely the Purchases Book, the Sales Book, the Returns Inwards Book and the Returns Outwards Book.

THE PURCHASES BOOK

The Purchases Book (also called the Invoice Book or the Purchases Journal or the Bought Book) is a book in which all *credit* purchases are recorded. Cash purchases will of course find a place in the Cash Book and be posted from there to the Ledger. The form of a Purchases Book is as follows :—

PURCHASES BOOK

Date	Name	Particulars	L.F.	Amount	
				Rs.	Cts.
1936					
Jan. 4	T. Abel	4 tons coal	2	60	00
6	R. Black	4 reams paper	8	35	00
8	S. Snowden	6 cases milk	20	72	00
		Purchase a/c Dr.	16	Rs. 167	00

Every item of the Purchases Book is *posted* direct to the *credit* of the person from whom the purchase was made because they are the givers. Thus T. Abel will be credited with Rs. 60·00 ('By purchases'), B. Black with Rs. 35·00 and S. Snowden with Rs. 72·00. The *total* of the Purchases Book will then be entered on the *Debit* side of Purchases Account in the Ledger, thus completing the double entry and equalising the Debits with the Credits. Now if we had no Purchases Book, we should have to journalise every one of these three transactions—Purchased goods from Abel, Purchased goods from Black, and Purchased goods from Snowden, and when posting these entries to the Ledger we shall have six postings to make—three to the personal accounts and three to the Purchases account. With our Purchases Book, however, we have only four postings to the Ledger—three to the personal accounts and only one to the Purchases account. Thus you will see that if our credit purchases had been numerous, an enormous saving of time and labour would be effected by the employment of a Purchases Book. The use of the Journal to record these transactions would mean that every individual purchase would have to be posted to the Debit side of Purchases Account, thus causing the Purchases Account to assume abnormal proportions, apart entirely from the additional labour entailed.

What you should particularly observe in connection with a Purchases Book is that it is used for recording only *Credit* Purchases, or Purchases for Cash *where the name of the seller is given*. In the latter case, such a purchase would be treated as two separate transactions. Take for example a purchase of Rs. 60·00 worth of goods for Cash from T. Reed. We shall deal with it as two separate transactions, viz :—

(*a*) Purchased goods from T. Reed.... Rs. 60·00

(*b*) Paid T. Reed Cash.............. „ 60·00

In the above case, (*a*) will be entered in our Purchases Book and (*b*) in our Cash Book. The reason for dealing with the transaction in this way is that our books will show what we have purchased from T. Reed not only on credit but also for Cash. So far as T. Reed's account is concerned he will first be credited, when we post the item from the Purchases Book, with the Rs. 60·00, and then, when we post the item from the Cash Book, he will be debited with a like amount. These two items will therefore balance each

other. The items that remain will show a Debit entry in the Purchases Account and a Credit entry in the Cash Account, and that would mean that we have purchased goods for Cash.

You must also note that by Purchases which are to be recorded in the Purchases Book, we mean purchases of goods *for trading purposes*. Purchases of furniture, office equipment, etc., which are intended for the conduct of the business and are not for sale, should be journalised.

Invoices. When we purchase goods, the seller will send us an Invoice of such goods, and the receiving clerk will make a record of the goods received in a 'Goods Received Book.' An invoice is a statement giving full particulars of goods sold and their value. In such a statement may also be included the cost of carriage, and that expense must also naturally be included as forming part of the cost of the goods. When the Invoice has been checked with the Goods Received Book, it will, if in order, be passed on to the Accounts Department so that the necessary entries may be made in the Purchases Book.

Columnar Purchases Book. If we deal in more than one class of goods, *e.g.* Drapery, Stationery and Groceries, we should keep what is known as a Columnar or Departmental Purchases Book, so that our purchases may at once be analysed and the various Departments debited with the totals of their respective purchases. The following will serve as an illustration of such a book :—

COLUMNAR PURCHASES BOOK

Date	Name	Particulars	L.F.	Total		Drapery		Stationery		Groceries	
				Rs.	Cts.	Rs.	Cts.	Rs.	Cts.	Rs.	Cts.
Jan. 6	R. Pearce	2 bales shirting	30	160	00	160	00				
7	F. Field	4 reams paper	19	60	00			60	00		
9	J. Robins	6 cases salmon	38	120	00					120	00
10	B. Henry	12 pieces linen	22	200	00	200	00				
12	S. Thomas	3 cases butter	43	230	00					230	00
14	L. Perera	5 cases ink	26	72	00			72	00		
			Rs.	842	00	360	00	132	00	350	00
						L. F. 18		L. F. 40		L. F. 30	

Each of the sellers will be credited with the total value of the goods purchased, and the Drapery, Stationery and Groceries Accounts will be debited with the *total* of their respective columns. You will notice that the Ledger Folio columns of these last three accounts are inserted at the bottom of the totals.

In a business having several Departments, you will realise the value of keeping the accounts of each Department separate so that we may ascertain what profit or loss each Department has made. If we were content, for instance, to amalgamate the accounts for Drapery, Stationery and Groceries in one Trading account, we shall not know how we have fared in regard to the working of each Department, although we can tell the result of our trading as a whole.

THE SALES BOOK

What we have said about the Purchases Book applies equally to the Sales Book (also called the Sales Day Book or the Sales Journal or the Sold Book), with the exception that the parties whose names appear in it and to whom the goods are sold on credit are *debited*, and the total of the Sales Book is *credited* to the Sales Account in the Ledger.

The Sales Book, whether in the simple form or in the columnar form is ruled in exactly the same way as the Purchases Book.

The following is a specimen of the simple form of Sales Book :—

SALES BOOK

Date		Name	Particulars	L.F.	Amount	
1936					Rs.	Cts.
Jany.	5	R. Bleakly	3 cases syrup	5	120	00
	8	J. Knower	1 doz. tins salmon	25	12	00
	10	S. Pearce	6 cases herrings	20	150	00
	11	M. Perera	8 jars preserve	21	11	00
	12	L. Silva	4 cases chutney	28	32	00
			Sales a/c Cr.	25	Rs. 325	00

When an order for goods is received, the particulars are first entered in an Order Book, and when the goods are despatched the particulars of each despatch are recorded in the Despatch Book from which the Sales Book is written up. An Invoice is drawn up at the same time and sent to the customer, usually on the same day the goods are despatched.

RETURNS BOOKS

Two books are usually kept—one a Returns Inwards Book (also called the Sales Returns Book) and the Returns Outward Book (also called the Purchases Returns Book.) These books are kept on exactly the same lines as the Purchases Book and the Sales Book, and are intended to record respectively the value and particulars of goods returned *by* a customer, and of goods returned *to* him.

The whole or part of the goods sold or purchased may be returned for various reasons : It may be that the goods supplied were not up to specification or that they were in some way damaged.

The total of the Returns Inwards Book will of course be *debited* to the Returns Inwards account in the Ledger, and the total of the Returns Outward Book will be *credited* to the Returns Outwards account in the Ledger.

Credit Note. As in the case of Purchases, any goods returned to us will be recorded by the stores clerk in the Goods Received Book, and we shall then issue to the customer a *Credit Note* which is a note giving particulars of an amount in respect of which a customer is being credited. It takes the following form and is printed in red ink to distinguish it from a Debit Note which is printed in black :—

CREDIT NOTE

J. Black Esq. January, 4, 1936.

Cr. in account with Johnson Bros.

Jan.	4	By groceries returned this day	Rs. 24·00

It sometimes happens that goods which are received by a customer in a more or less damaged condition are *not* returned to the seller. But in such a case the buyer will naturally claim compensation for the damage. In that event the seller will make an allowance to the buyer and will send him a Credit Note in support of such allowance. A Credit Note may also be issued to a customer for other reasons: Perhaps we have made an error in calculation in our invoice, and that in consequence the amount of the Invoice exceeded the proper sum. In order to adjust this overcharge we shall send him a Credit Note 'By overcharge in Invoice No— '. A Credit Note would also be sent when the cost of packages is charged for in the original Invoice and the empties are returned—'By empties returned'.

Debit Note. A Debit Note is the converse of a Credit Note, and may be defined as a note showing the amount in respect of which a person is being debited. It really serves as an extension of an Invoice, and is made out in the following form :—

DEBIT NOTE

R. Henry Esq.

Dr. to Thos. Braid & Co.

Jany.	4	To undercasting of Invoice No...........	Rs. 10·00

When an undercharge has been made in casting the Invoice either in regard to the price charged or in computation, a corrected Invoice is sent to replace the previous one; but where the error is discovered some time later, the usual procedure is to send a Debit Note which is really a supplementary Invoice. Some firms also send Debit Notes when they return goods to the seller.

Exercise 11

1. What is a Purchases Book ? What particular kinds of entries are recorded in such a Book ?

2. What is a Sales Book ? How and where would you enter a transaction 'Sold goods to T. Timothy for cash'?

3. How does the use of Purchases and Sales Books reduce the work of the Book-keeper ?

4. Why are Purchases and Sales Books sometimes kept in Tabular or Columnar form ?

5. What is a Returns Inwards Book and where is the total of such a book entered in the Ledger ?

6. What is a Credit Note ? How do you distinguish it from a Debit Note ?

7. Name three items that may suitably be entered in a Credit Note. Draw up a Credit Note in proper form.

8. When is a Debit Note sent to a customer ?

9. (*a*) From the following particulars draw up in proper form a Purchases Book, a Sales Book, a Returns Inwards Book and a Returns Outwards Book :—

			Rs.	Cts.	£	s.	d.
Jan.	2	Sold goods to R. Smith........	200	00	13	6	8
,,	3	Bought goods from P. Pearson..	150	00	10	0	0
,,	4	Returned goods to Pearson as unsuitable..................	30	00	2	0	0
,,	6	Sold goods to J. Brown........	340	00	22	13	4
,,	7	J. Brown returned goods bought on the 6th..................	35	00	2	6	8
,,	8	Sold goods to S. Swan..........	450	00	30	0	0
,,	9	Bought goods of R. Thomas....	160	00	10	13	4
,,	10	R. Smith returned goods as damaged....................	40	00	2	13	4
,,	11	Sales returns from S. Swan.....	60	00	4	0	0
,,	12	Sold goods to A. Smith for cash..	120	00	8	0	0
,,	14	Bought goods of B. Taylor......	315	00	21	0	0
,,	15	Sales to C. Beven..............	240	00	16	0	0
,,	16	Bought of R. Dawson goods....	190	00	12	13	4
		Returned goods to B. Taylor....	50	00	3	6	8

(*b*) On July 1, 1938, A. Smith began business with a Capital of Rs. 50,000·00 (£3,333-6-8) in cash. His transactions during the month were as under. You are required to make the necessary entries in proper subsidiary books and to post them to the Ledger. Draw out a Trial Balance and close the accounts, bringing down balances. Prepare a Balance Sheet as at 31st July, 1938 :—

			Rs.	Cts.	£	s.	d.
July	1	Opened a Bank account with....	38,000	00	2,533	6	8
,,	2	Bought goods for cash.........	10,000	00	666	13	4
,,	3	Bought Office Equipment and paid by cheque..............	3,850	00	256	13	4

		Rs.	Cts.	£	s.	d.
July	4 Sold goods to B. Bird..........	620	00	41	6	8
,,	6 Commission due from C. Carey for work done...............	345	00	23	0	0
,	7 Sold goods for cash to C. Carey.	960	00	64	0	0
,,	8 Sold goods to D. Dunn.........	1,125	00	75	0	0
,,	10 Part of goods sold on 7th returned as unsuitable.........	35	00	2	6	8
,,	12 Purchased goods from E. Earle..	1,400	00	93	6	8
,,	14 B. Bird paid cash.............	185	00	12	6	8
	Discount allowed............	15	00	1	0	0
,,	15 Loan to F. Frank per cheque....	500	00	33	6	8
,,	18 Sundry expenses paid by cash...	38	00	2	10	8
,,	20 Bought goods from G. Gamp	600	00	40	0	0
	and paid him on account by cheque.....................	250	00	16	13	4
,,	25 D. Dunn paid me..............	1,000	00	66	13	4
,,	28 Withdrew cash from bank......	2,000	00	133	6	8
,,	31 Paid rent by cheque...........	200	00	13	6	8
	Paid salaries by cash...........	450	00	30	0	0
	Value of stock..............	10,500	00	700	0	0

(c) The following is my Trial Balance on July 31, 1938. You are required to prepare therefrom a Trading Account, a P. & L. Account, a Capital Account and a Balance Sheet :—

TRIAL BALANCE

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£	s.	d.	£	s.	d.
Stock account (1-7-38)	8,000	00			533	6	8			
Sundry Debtors......	890	00			59	6	8			
Sundry Creditors.....			460	00				30	13	4
Cash................	9,640	00			642	13	4			
Bank................	8,260	00			550	13	4			
P. & L. Account.......	95	00			6	6	8			
Returns Inwards.....	48	00			3	4	0			
Returns Outwards....			63	00				4	4	0
Sales...............			2,900	00				193	6	8
Purchases...........	3,620	00			241	6	8			
Capital.............			27,130	00				1,808	13	4
	30,553	00	30,553	00	2,036	17	4	2,036	17	4

Value of stock on 31st July. 1938 Rs. 9,200 00 £ 613 6 8

(*d*) On December 1, 1936, the accounts of R. Fernando showed the following balances :—

	Rs.	Cts.	£	s.	d.
Cash..............................	8,600	00	573	6	8
Bank overdrawn.....................	280	00	18	13	4

	Rs.	Cts.	£	s.	d.
Debts Receivable :—					
P. Henry.......................	160	00	10	13	4
B. Jowett......................	290	00	19	6	8
C. Durrant.....................	130	00	8	13	4
D. Silva.......................	1,420	00	94	13	4
K. Stephens....................	140	00	9	6	8
Debts Payable :—					
J. Perera......................	230	00	15	6	8
L. Mottau......................	180	00	12	0	0
S. Nigel.......................	95	00	6	6	8
Stock account....................	12,600	00	840	0	0
Purchases account................	8,200	00	546	13	4
Sales account....................	6,920	00	461	6	8
Returns Inwards..................	280	00	18	13	4
Returns Outwards.................	140	00	9	6	8
Furniture and Fittings...........	1,600	00	106	13	4

Find his Capital through Journal entries and open accounts in the Ledger. Then enter the following transactions in suitable subsidiary books, take out a Trial Balance and close your books. Draw up a Balance Sheet as at 31st December, 1936 :—

(Accounts involving profit or loss may be posted direct to the P. & L. a/c.).

		Rs.	Cts.	£	s.	d.
Dec.	1 Paid cash into bank............	5,000	00	333	6	8
	Charged D. Silva interest on overdue account.............	25	00	1	13	4
,,	2 Purchased goods and paid by cheque.....................	230	00	15	6	8
	Sold goods to P. Henry.........	1,225	00	81	13	4
,,	3 Received cheque in full discharge of B. Jowett's account.......	275	00	18	6	8
,,	4 C. Durrant bought goods.......	2,400	00	160	0	0
	Paid charges on his a/c by cash	80	00	5	6	8
,,	5 B. Button bought goods........	860	00	57	6	8
,,	6 Sold goods to T. Smith.........	690	00	46	0	0
,,	7 Bought goods from J. Perera....	460	00	30	13	4
,,	8 K. Stephens paid cash.........	75	00	5	0	0
	Discount allowed............	5	00		6	8
	T. Smith returned part of goods bought on 6th...............	60	00	4	0	0
,,	9 Paid Rates by cheque..........	50	00	3	6	8
,,	10 Paid L. Mottau cheque.........	90	00	6	0	0
	Discount allowed............	10	00		13	4
,,	12 Repairs to Furniture paid by cash.......................	25	00	1	13	4

		Rs.	Cts.	£	s.	d.
Dec.	13 Sold goods to E. Ealing........	250	00	16	13	4
,,	15 K. Stephens became insolvent and paid a composition of 25 cts. in the rupee (5s. in the £) in full settlement of his debt					
,,	16 D. Silva paid me cash..........	390	00	26	0	0
	Discount allowed...........	10	00		13	4
,,	17 Bought goods of L. Mottau......	265	00	17	13	4
,,	18 Returned part of goods bought from L. Mottau.............	30	00	2	0	0
,,	20 Productive wages paid by cash..	300	00	20	0	0
	Received cash for Bad Debt previously written off........	150	00	10	0	0
,,	21 Sold goods to A. Douglas.......	620	00	41	6	8
,,	22 Douglas returned part of goods bought on 21st..............	120	00	8	0	0
	Paid rent by cheque...........	100	00	6	13	4
	Cash sales....................	225	00	15	0	0
,,	23 Drew cheque for self..........	300	00	20	0	0
	Cash purchases................	185	00	12	6	8
,,	24 R. Samuel sold me goods.......	165	00	11	0	0
,,	28 Returned part of goods bought from R. Samuel.............	30	00	2	0	0
,,	29 Received cheque from A. Douglas	238	00	15	17	4
	Discount allowed..............	12	00		16	0
,,	31 Paid wages by cash............	260	00	17	6	8
	Interest on Capital...........	140	00	9	6	8
	Goods on hand.................	12,500	00	833	6	8

CHAPTER XII

Bills of Exchange

Bills of Exchange play a very important part in the credit transactions of large business concerns. But what is a Bill of Exchange ? The Bills of Exchange Act of 1882 defines it 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'. This is a very full definition, and should be committed to memory.

For purposes of illustration, we shall assume that John Perera owes Joseph Silva Rs. 1,000·00. Joseph Silva makes out a Bill of Exchange in the following form and sends it to John Perera :—

No. 1 Colombo, February 1, 1938.

Rs. 1,000.00

STAMP

Two months after date pay to me or my order the sum of One Thousand rupees, value received.

JOSEPH SILVA

JOHN PERERA, Esq.

Now this Bill complies in every particular with the definition of the Bills of Exchange Act. You will notice that, as in the case of a cheque, there are three parties to the Bill, viz: the Drawer (Joseph Silva), the Drawee (John Perera) and the Payee (Joseph Silva). In this example the Drawer and the Payee are one and the same person, but if Joseph Silva required the Bill in order to pay a creditor of his (Alan Gomes), then, instead of the words 'me or my order' he might substitute 'Alan Gomes, Esq. or order', and Alan Gomes would thus become the Payee. In that way, if *A* owes *B* money, and *B* owes *C* money, *B* can meet his liability to *C* by drawing a Bill on *A* and making *C* the Payee.

Let us examine our illustration in greater detail. The date of the Bill appears on the right upper corner, and on the left upper corner there appears the serial number of the Bill. This serial number is of course not essential to the composition of a Bill of Exchange, but where a firm's business is conducted largely through Bills, it is customary to give each a serial number for the sake of easy reference. On the left side you will also find a stamp, either adhesive or embossed, to satisfy the stamp duty which is reckoned in each country according to a graduated scale fixed by law.

In Ceylon, the stamp duty payable on Bills of Exchange is stated as follows in Ordinance No. 22 of 1909 :—

Bills of Exchange payable on demand 5 cents.

Bill of Exchange, promissory note, draft or order for the payment at any time otherwise than on demand to the party named therein, or the bearer, or to order, of any sum of money—

Not over Rs. 100	10 cents.
Over Rs. 100 and not over Rs. 250	15 ,,
Over Rs. 250 ,, Rs. 500	25 ,,
Over Rs. 500 ,, Rs. 1,000	50 ,,
Every further Rs. 1,000 or part thereof	50 ,,

In England, the stamp duty on Bills of Exchange is as follows :—

Bills of any amount payable on demand or at sight or within three days after date or sight 2d.

On other Bills the duty payable is as follows :—

For sums not exceeding £ 10	2d.
Over £ 10 and not over £ 25	3d.
Over £ 25 ,, £ 50	6d.
Over £ 50 ,, £ 75	9d.
Over £ 75 ,, £ 100	1s.
Every further £ 100 or part thereof	1s.

Term or Currency. The *term or currency* always begins the wording of the body of the Bill. In Inland Bills this is generally so many months *after date* and in Foreign Bills, which are Bills drawn by a person in one country upon a person in another country, it is so many days or months *after sight*. 'After sight' means after the date on which the Drawee has had the opportunity of seeing the Bill, that is, after it has been presented to him. Now, according to our illustration, you would presume that the Bill falls due on the 1st April, or two *calendar* months after the date stated on it. That, however, is not the case because the law allows *Three Days Grace* for payment after maturity, unless the Bills specifically states that the term is to be *without grace*. This Bill will therefore *mature* or become due on the 4th April. The term of the Bill, that is the period that must elapse before the Bill matures, is sometimes also called the *Tenor* of the Bill.

A Bill may also payable '*On Demand*' or '*At Sight*', in which case payment is due immediately on presentation, no days of grace being reckoned on such Bills.

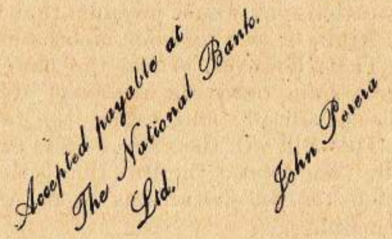
Payee. As we have pointed out, the Payee is the person to whom the money should be paid. In this case he is also the Drawer (Joseph Silva). The words 'or my order' require that the Payee shall endorse the Bill before he can claim the money.

Amount. As in cheques, the value of the Bill is written both in words and in figures, in order to make it more difficult of alteration. The figures are shown at the top of the Bill in the place indicated.

Value Received. These words, although superfluous, are invariably added to the Bill to show that value in cash, goods or services has been received by the Debtor. Even without these words, it would be assumed that such value has been received.

Drawer and Drawee. The Drawer (Joseph Silva) affixes his signature at the bottom of the Bill, just as he does when he signs a cheque, and the name of the Drawee (John Perera), to whom it is addressed, appears on the left bottom corner.

Acceptance. Having drawn this Bill, Joseph Silva will now send it to John Perera for the latter's *acceptance*. If John Perera agrees to the terms of the Bill, he will *accept* it by writing across the face of the Bill :—



It would be sufficient if he merely wrote the word 'Accepted' and put his signature underneath, but usually the Drawee arranges with his Bank to pay the Bill at maturity on his account, and so he adds the name of his Bank in order that the Bill may be met there when due.

The above Acceptance is called a *General Acceptance* to distinguish it from what is known as a *Qualified Acceptance*. If the Drawee is not willing to agree to *all* the terms of

the Bill (he may, for instance, be willing to accept it for only part of the sum specified ; or provided the term of the Bill is extended to say three months), he will make a *Qualified Acceptance* by writing across the face of the Bill

Accepted for Rs. 500 only.

or

Accepted payable in three months.

If he refuses to accept the Bill at all, then of course the document will have no value whatever, and will be said to be *dishonoured for non-acceptance*. If, however, he does accept the Bill, he will return it to the Drawer who will then hold a document of some value. John Perera will now no longer be known as the Drawee but as the *Acceptor*, and the Bill will be known as John Perera's *Acceptance*. By accepting the Bill, John Perera accepts the responsibility of complying with the terms of the Bill, that is, of paying the value of the Bill at maturity to the holder who will be either the payee or a person to whom it has been legitimately transferred by endorsement.

Joseph Silva (the Drawer) has now obtained documentary proof of Perera's indebtedness to him, and he can make use of the Acceptance in one of three ways, *e.g.*

(*a*) He may keep the Bill until it matures and then collect the money, or

(*b*) He may transfer it by endorsement to one of his creditors, or

(*c*) He may *Discount* it at the Bank by endorsing and handing it over to the Bank and receiving prompt cash in exchange. In such a case the Bank will not be willing to give the full value of the Bill (Rs. 1,000) in exchange because the Bank will have to wait until the Bill matures before it can collect the money, and must therefore make up the interest on the payment ; moreover, the Bank is entitled to remuneration for the services it renders. The Bank will therefore charge Joseph Silva what is known as *Bank Charges* and will deduct that amount from the Rs. 1,000 before the cash is handed over. Now, although Joseph Silva has discounted the Bill at the Bank and received cash in exchange, it must be remembered that there exists a *contingent liability* on Silva's part to the Bank, for should the Bill be subsequently dishonoured, the Bank will debit Silva with the full value of the Bill. By 'contingent liability' is meant a liability that is contingent or dependent on something happening, that something in this case being the non-payment of the Bill. A Bill of Exchange may also be discounted with a person or firm other than a Bank, in the same way.

Endorsement. What we have said about endorsements on cheques applies in the same measure to Bills. There are three kinds of endorsements—General, Special and Restrictive. In the case of a *General Endorsement* (or 'Endorsement in Blank'), the payee merely writes his name across the back of the Bill, thus converting the Order Bill into a Bearer Bill which may now be negotiated in the same way as a Bearer Cheque. Or he may make a *Special Endorsement* transferring his interest in the Bill to another party, as, for example, by writing on the back of the Bill :

Pay to A. Fernando, Esq. or order
Joseph Silva.

Now, A. Fernando in turn may transfer the Bill to another party, and so on. Thus it sometimes happens that there is not sufficient space on the back of the Bill to accommodate all the endorsements. In that case a slip of paper called an *Allonge*, which is the same width as the Bill, is pasted at the end of the original Bill, and endorsements are continued on that slip of paper. But the first endorsement, after the Allonge has been attached, should be partly on the original Bill and partly on the Allonge. This is necessary in order to prevent the substitution of another allonge with intent to defraud.

Again, an endorsement may be a *Restrictive Endorsement* which prevents the further negotiation of the Bill by restricting payment to the next party and to no other. An example of a Restrictive Endorsement would be :—

Pay to A. Fernando, Esq. only
Joseph Silva.

A Fernando will then not be entitled to transfer his interest in the Bill to a further party, because payment is restricted to him.

An endorsement is also sometimes made with the addition of the words '*sans recours*' (without recourse). It means that the endorser in such a case disclaims all liability in the event of the Acceptor or any of the previous endorsers of the Bill failing to meet it when due.

Dishonoured Bills. We have already referred to the possibility of a Drawee's refusing to accept a Bill. It is also possible that, after accepting it, he fails to settle the Bill when it becomes due. The Acceptance is then said to be *Dishonoured for non-Payment.* When a Bill is dishonoured for non-payment, it is usual for the Drawer to have it *Noted* as an independent proof that the Bill was presented for payment and not met. This *Noting* is usually done by a Notary Public who represents the Bill for payment and then makes an endorsement on it to the effect that the Bill was presented for payment and not paid, and the reason for such non-payment. It must be observed that our failure to *note* a Bill does not invalidate our claim on the Bill : the noting merely establishes independent proof that the demand was made and was rejected. It is essential, however, that when a Bill is dishonoured, we should lose no time in acquainting those liable on the Bill of the fact ; otherwise, such parties will be relieved from liability. In the case of Foreign Bills, this noting is followed by a *Protest* which is a certificate given by a Notary Public that the Bill was presented for payment and was refused. The extra charge for noting must naturally be debited to the Acceptor's account as he was responsible for the expense to which the Drawer was put in this connection.

Settlement of Acceptance. The Acceptor of a Bill can settle his Acceptance in various ways. If he has sufficient money to meet it before it matures, he may pay prompt cash in consideration of a discount or rebate made to him for early settlement. This is known as *Retiring a Bill.* The allowance or rebate will of course be a loss to the holder of the Bill and will be treated as such in his books.

The Acceptor may also, with the consent of the holder, *Renew* his Bill by giving a fresh Bill in exchange for the old one. In such a case it will be necessary that the amount of the new Bill should be for a larger amount than that provided on the original Bill, because the holder will have to wait for a further period before the money on the new Bill becomes due, and he will require interest on his money for that period. If, for instance, in our illustration, John Perera cannot meet his Bill on the due date (4th April), the Drawer may be content to accept in exchange a new Bill for say Rs. 1,050 which becomes payable on the 7th June. It may also be possible for Perera to settle his old Acceptance by paying cash Rs. 500 and giving a new Bill for say Rs. 525 in exchange for the old Bill.

Drafts. The word 'Draft' is often used indiscriminately as synonymous with a 'Bill' or an 'Acceptance.' In its real sense a Draft is a Bill of Exchange which has been drawn but *not* accepted. An Acceptance, on the other hand, is a Bill that *has* been accepted. We talk about 'drawing a draft' on A. Nelson but never of drawing an acceptance. The term 'Bill' is used to signify either a Draft or an Acceptance.

Bills Receivable and Bills Payable. Before we consider how we should deal in Bookkeeping with our transactions in Bills, we must note that Bills are divided into two classes: Bills Receivable and Bills Payable. A *Bill Receivable* is a Bill on which we have to *receive* money, while a *Bill Payable* is a Bill on which we have to *pay* money. If you will refer to our illustration at the beginning of this chapter, you will see that, so far as Joseph Silva is concerned, it is a Bill Receivable because he hopes to receive money on it at some future date. On the other hand, John Perera calls it a Bill Payable because he has undertaken to pay the value of the Bill at maturity. Thus, every Bill is both a Bill Receivable and a Bill Payable; the Payee calls it a *B.R.* and the acceptor or the Payer calls it a *B.P.* We must not, however, let this consideration obscure the issue. When we talk of a Bill we must look at it from our own standpoint and treat it accordingly. If we draw a Bill and someone else accepts it, we call it a *B.R.* Conversely, if another person draws a Bill and we accept it we call it a *B.P.* We call a Bill a *B.R.* or a *B.P.* according to whether we have to *receive* money on it or to *pay* money on it. It must also be obvious to you that an acceptance is retained by the payee until it is met, and when it is met it must be returned to the acceptor.

Bills in Bookkeeping. What is perhaps a very important question in connection with Bills is how we should deal with them in our books. Now, you have already learnt that if we buy goods from P. Smith we must debit the Purchases account and credit P. Smith; or if we receive Cash from Smith, we debit our Cash account and credit P. Smith. In precisely the same way, if P. Smith gives us his Acceptance, we debit the Bills Receivable account and credit P. Smith. The balance of our *B.R.* account will be shown as an asset in our Balance Sheet. On the other hand, if we give P. Smith our Acceptance, we shall debit P. Smith and credit our Bills Payable account. The balance of the *B.P.* account will appear as a liability in our Balance Sheet. This is simple enough. But, as we have seen, there are various things that may happen in connection with a Bill. We shall first take the case of a Bill Receivable, and see how we should deal with transactions relating to such Bills :—

BILLS RECEIVABLE

(*a*) **Drawing a Bill.** "*I draw a Bill on P. Smith for Rs.* 1,000 *which he accepts*".

If I were journalising all my transactions, this would appear as follows :—

B. R.	Dr. Rs. 1,000	
To P. Smith		Rs. 1,000

No entry should really be made in your books until the Bill has actually been accepted, but when a Bill is drawn it is usually presumed, unless otherwise stated, that the Bill has been accepted.

(*b*) **Meeting a Bill.** "*P. Smith meets his Bill at maturity.*"

Cash	Dr. Rs. 1,000	
To B.R.		Rs. 1,000

It is important here that you should notice that *when a Bill is settled or met, no personal account is involved.* Cash goes one way and the Bill goes the other way. This is true both of Bills Receivable and of Bills Payable. Although Smith pays me the money to redeem his Bill, I cannot credit him with the amount because I had already credited him when he gave me his Acceptance. I have now to return him the *B.R.* that I hold, and as the *B.R.* goes out I credit the *B.R.* account with the amount and debit the Cash which comes in.

(*c*) **Dishonoured Bills.** "*P. Smith dishonours his Acceptance at maturity. Noting charges paid Rs.* 10."

P. Smith	Dr. Rs. 1,010	
To B.R.		Rs. 1,000
,, Cash (noting charges)		,, 10

The above is merely a reversal of the entry as shown in (*a*) with the additional debit to P. Smith's account of Rs. 10 which was paid in cash as noting charges. The Bill, having been dishonoured, is now a worthless document, and as I originally debited the *B.R.* account with the value of the Bill in the expectation that it would be met at maturity, I have now to make a contra entry on the credit side, which cancels that debit entry.

(*d*) **Retired Bills.** "*P. Smith retires his Acceptance before maturity by paying me Cash Rs.* 980."

Cash	Dr. Rs. 980	
Discount	,, 20	
To B.R.		Rs. 1,000

In this case we have received only Rs. 980 in settlement of a *B.R.* whose face value is Rs. 1,000. The difference, Rs. 20, represents the discount I allow Smith for retiring his Acceptance at an earlier date than that on which it was due. As such a discount is a loss to me, I must, of course, debit my discount account with the Rs. 20.

(*e*) **Renewed Bills.** "*P. Smith renewes his Acceptance by giving me a new Bill for Rs.* 1,050."

B.R.	Dr. Rs. 1,050	
To P. Smith		Rs. 1,050
P. Smith	Dr. Rs. 1,050	
To B.R.		Rs. 1,000
,, Interest		,, 50

A new *B.R.* for Rs. 1,050 has come in and the *B.R.* account must therefore be debited, while P. Smith is credited with that amount. The old *B.R.* for Rs. 1,000 has gone out and must be credited. The difference Rs. 50 represents the Interest I gain for having to wait a further period before the new *B.R.* becomes due. This interest is a gain to me and must therefore be credited to the Interest account.

(*f*) "*P Smith settles his Acceptance by giving me Cash Rs.* 500 *and a new Bill for Rs.* 525."

Cash	Dr. Rs. 500	
B.R.	,, ,, 525	
To P. Smith		Rs. 1,025
P. Smith	Dr. Rs. 1,025	
To B.R.		Rs. 1,000
,, Interest		,, 25

Cash Rs. 500 and a new *B.R.* have come in and these accounts must therefore be debited. The old *B.R.* for Rs. 1,000 has gone out and that account must therefore be credited. The difference Rs. 25 represents the Interest allowed to me for the further period before the Bill matures and is credited to Interest account.

(*g*) **Negotiating Bills.** *"I settle my debt to R. Jones by giving him P. Smith's Acceptance."*

R. Jones	Dr. Rs. 1,000	
To B.R.		Rs. 1,000

Note that P. Smith's account is not in any way affected by this transaction. A Bill, as we have seen, is a negotiable instrument and may be transferred by endorsement from one party to another. Whoever holds the Bill at the date of maturity will of course claim the value from the Acceptor direct.

(*h*) *"I buy goods from R. Jones and give him P. Smith's Acceptance in payment."*

Purchases	Dr. Rs. 1,000	
To R. Jones		Rs. 1,000
R. Jones	Dr. Rs. 1,000	
To B.R.		Rs. 1,000

The *B.R.* in this case takes the place of Cash, and the transaction is dealt with in just the same way as we should deal with a cash purchase from R. Jones.

(*i*) **Discounting Bills.** *"I discount P. Smith's Acceptance with the Bank for Rs. 985."*

Bank	Dr. Rs. 1,000	
To B.R.		Rs. 1,000
Bank Charges	Dr. Rs. 15	
To Bank		Rs. 15

In practice, the above entries will naturally be made in the Cash Book, the Bank first being debited with the *full value* of the Bill and then credited with the Discount which in this case is termed 'Bank Charges.' The 'Discount' must *not* be entered in the Discount column of the Cash Book because this column is reserved for *Cash discounts*, and you have already learnt that Cash discounts are allowances made for prompt payment of a debt or for payment within a prescribed time.

(*j*) **Discounted Bills dishonoured.** *"P. Smith's Acceptance discounted at the Bank returned dishonoured".*

P. Smith	Dr. Rs. 1,000	
To Bank		Rs. 1,000

The Bank must be credited with the full value of the Bill because when it was discounted at the Bank we debited the Bank with its full value. Now that the Bill has been dishonoured, we must cancel that debit with a contra credit entry. Moreover, as P. Smith was credited with the amount when he gave us his Acceptance, he must now be debited with a like amount.

BILLS PAYABLE

In the above examples we have studied the procedure adopted in Bookkeeping, in dealing with Bills Receivable. The method of dealing with Bills Payable, you will understand, is just the reverse, but for purposes of illustration we shall take a few examples in order to make it clear how the Bookkeeper should deal with them :

(*a*) **Accepting a Bill.** *"I accept P. Smith's draft for Rs.* 1,000 *or "P Smith draws on me for Rs.* 1,000".

P. Smith	Dr. Rs. 1,000	
To B.P.		Rs. 1,000

If I had given P. Smith cash, I should debit him and credit Cash ; if I had sold him goods, I should debit him and credit Sales. Just in the same way, if I give him a *B.P.* (my Acceptance), I debit him and credit *B.P.*

(*b*) **Settling a Bill.** *"I settle my Acceptance to P. Smith at maturity".*

B.P.	Dr. Rs. 1,000	
To Cash		Rs. 1,000

Note here again that when a Bill is paid, whether it be a *B.P.* or a *B.R.*, no personal account is involved. The Bill goes one way and the Cash goes the other way. In the above case I have paid cash to redeem my Acceptance (*B.P.*). The *B.P.* therefore comes in and is debited, while Cash goes out and is credited.

(*c*) **Dishonoured Bills.** "*I dishonour my Acceptance to P. Smith at maturity*".

B.P.	Dr.	Rs. 1,000	
To P. Smith			Rs. 1,000

This is a reversal of the entries I made in (*a*) above, and my financial position in regard to P. Smith stands just as it was before I accepted his draft.

(*d*) **Renewed Bills.** "*I renew my Acceptance to P. Smith by giving him a new B.P. for Rs.* 1,050".

P. Smith	Dr.	Rs. 1,050	
To B.P.			Rs. 1,050
B.P.	,,	,, 1,000	
Interest	,,	,, 50	
To P. Smith			,, 1,050

A new Bill Payable for Rs. 1,050 has gone to Smith and the *B.P.* account is credited with that amount. The old *B.P.* for Rs. 1,000 has come in and that account is therefore debited. The interest of Rs. 50 is a loss to me and must be debited to the Interest account. P. Smith will now have to wait a further period therefore the new Bill matures, and he is therefore entitled to that extra credit by way of interest.

The above transactions will suffice to show you how to deal with Bills Payable. It must be noted that, after I have accepted P. Smith's Bill, I am not concerned with what he does with it. He may transfer it by endorsement to another party, or he may discount it at the Bank, but that would make absolutely no difference to me What I *am* concerned about is that the Bill falls due on a certain day and that

I must be ready to redeem it then. The holder of the Bill at the time of its maturity, you will understand, may not be P. Smith at all ; but whoever has possession of it at the time (supposing it is legally transferred by endorsement) will be entitled to payment, and when I honour (or pay) my Acceptance, I shall credit my Cash and debit my *B.P.* account with the amount of the Bill.

Accommodation Bills. It may happen that a person is in need of ready money and cannot obtain a temporary loan. He knows, however, that if he has an Acceptance (a *B.R.*), he can discount it at the Bank. He therefore resorts to the simple expedient of finding a person who would accommodate him by accepting his draft, although that person may not owe him any money at all. Such a Bill is called an *Accommodation Bill* or a " kite". It may also be that the person to whom he has applied is also in need of some money and so they arrange to divide the proceeds. Now this is what happens : *A* is in need of Rs. 500 and his friend *B.* is also in need of Rs. 500. *A* therefore draws a draft for Rs. 1,000 on *B* ; *B* accepts it and returns it to *A*. *A* then discounts the Bill at the Bank on the joint credit of both *A* and *B.*, and receives say Rs. 950 in cash, the Bank having deducted Rs. 50 to cover their charges and interest. This Rs. 950 is divided between *A* and *B*. When the Bill matures, *B* will be expected to meet it, and by arrangement, *A* will refund to *B* his half share of the value of the Bill (namely Rs. 500) before the due date of the Bill. In this way both *A* and *B* were accommodated with ready money at the time they needed it. You will realise, however, that a Bank will not readily discount an Accommodation Bill because if *A* or *B* has not sufficient credit to be able to raise a loan without resorting to the device of introducing an Accommodation Bill, it is hardly likely, in ordinary circumstances, that either of them will be able to meet the Bill when it falls due. Moreover, in a transaction of this nature, the amount does not represent value received, and the Bill is therefore not a legitimate one.

Promissory Notes. A *Promissory Note* (or a *pro. note*), is really another and a simpler form of an Acceptance. It is a promise to pay a certain sum of money to a certain person on a certain date, and is drawn in the following form :—

PROMISSORY NOTE

Colombo, February, 1, 1938.

Rs. 1,000.00

STAMP

Two months after date I promise to pay to Mr. Joseph Silva or his order the sum of Rupees One thousand for value received.

JOHN PERERA

Now in essence, this Promissory Note has the same significance and the same value as John Perera's Acceptance referred to at the beginning of this chapter, for both documents are an undertaking by John Perera to pay Joseph Silva the sum of Rs. 1,000 on the 4th April. The real difference between the two documents lies in the fact that in the case of the Bill of Exchange, the creditor (Joseph Silva in this case) draws it, and the debtor (John Perera) accepts it ; whereas in the case of the Promissory Note, it is drawn by the debtor (John Perera). In making entries in his books, Joseph Silva would treat both of them in exactly the same way ; in other words, he would deal with a Promissory Note as he would with an Acceptance. Either of the documents entitles him to receive money, and so far as he is concerned, they are both treated as Bills Receivable.

Foreign Bills. A Foreign Bill, is distinct from an Inland Bill, which we have dealt with above, is, as its name implies, one which is drawn or payable or both, in a foreign country. If a person abroad owes us money, we may draw a Foreign Bill on him.

Foreign Bills are usually drawn in sets of two or three, each part of the set sometimes being referred to as a "*via*". The necessity for sets lies in the fact that, in case one *via* gets lost in transit, the second *via*, which is sent by a subsequent mail, may be negotiated, and time may thus be saved in collecting the money.

Sometimes, however, only a single Bill of Exchange is issued, not in duplicate or triplicate. Such a Bill is called a *Sola of Exchange.*

In principle, a Foreign Bill does not differ from an Island Bill, though of course the wording has to be changed slightly to meet its special requirements. Let us examine a Foreign Bill which has been drawn in duplicate :—

FIRST OF EXCHANGE

Exchange for £ 100

Colombo, August 1, 1936.

STAMP

Thirty days after sight pay this first of exchange (second of the same tenor and date unpaid) to our order the sum of one hundred pounds sterling. Value in account which please place to account.

L. SMITH & Co.

To Messrs. S. Peters & Co.,
Manchester.

SECOND OF EXCHANGE

Exchange for £ 100

Colombo, August 1, 1936.

STAMP

Thirty days after sight pay this second of exchange (first of the same tenor and date unpaid) to our order the sum of one hundred pounds sterling. Value in account which please place to account.

L. SMITH & Co.

To Messrs. S. Peters & Co.,
Manchester.

You will realise that if this Bill were dealt with in the same way as we deal with an Inland Bill, the process of forwarding the Bill to England for acceptance and return to us, and sending it back to England at maturity for payment would be a long and tedious one. In practice, such a draft would be discounted at a local Bank who would then send it to their Agents in Manchester for collection.

When we make a shipment of goods to a person abroad, we draw a draft on him for the value of our shipment. To this draft we attach the following documents of title :—

(i) *The Bill of Lading* (which is the Steamer Company's receipt for goods shipped, and which must be produced at the other end before the goods can be delivered) ;

(ii) *The Policy of Marine Insurance* (covering marine risk of the goods while in transit) ;

(iii) *An Abstract Invoice* (a summary of the full Invoice which is posted direct to the consignee) ; and

(iv) *A Letter of Hypothecation* (whereby the goods are assigned to the Bank as security).

We are then said to draw with documents attached, and the draft itself is called a *Documentary Draft.* A Bill, when no such documents are attached, is called a *Clean Bill.*

Now a Documentary Draft may be extended further by the addition of the words "Shipping Documents attached to be surrendered on Acceptance" or "Shipping Documents attached to be surrendered on Payment". In the former case, the Bank at the other end surrenders the shipping documents on the Drawee's *accepting* the Bill, and in the latter case only on his *paying* the Bill. The Bill in each of the above instances will be known either as a *D/A Bill* (Documents against Acceptance) or as a *D/P Bill* (Documents against Payment.)

In certain countries a time is allowed by custom for the payment of a Bill of Exchange, and this is termed the *Usance* of the country.

You will see from the above what a useful purpose a Bill of Exchange serves in foreign trade. It may be that the orderer of goods may not be disposed to pay for them in advance, and that we, as sellers are not inclined to trust them with the goods without payment ; in such a case a Bill of Exchange helps us through the difficulty. Moreover, a Bill of Exchange enables us to get prompt payment for our goods, although of course we have to meet the Bank Charges when discounting the Bill.

Exercise 12

1. What is a Bill of Exchange as defined by the Bills of Exchange Act of 1882 ?

2. Draw an Inland Bill of Exchange from the following particulars :—

Term :	3 months
Amount :	Rs. 2,000
Drawer :	R. Massey
Drawee :	J. Henry
Payee :	S. Silva

The Bill to be accepted payable at the Mercantile Bank of India, Ltd.

3. Define the following terms as applied to a Bill of Exchange : Currency ; maturity ; days of grace ; tenor ; on demand.

4. How does a Qualified Acceptance differ from a General Acceptance ? Give an example of the former.

5. Distinguish between 'Dishonoured for non-acceptance' and 'Dishonoured for non-payment'.

6. What do you mean by 'Discounting a Bill' ? What is a 'Contingent liability' ?

7. Distinguish between General Endorsement, Special Endorsement, and Restrictive Endorsement. What is an 'Allonge' ?

8. What do you understand by : 'Noting a Bill', 'Protest', 'Retiring a Bill', 'Renewing a Bill' ?

9. Distinguish between Draft, Acceptance and Bill.

10. How does a Bill Receivable differ from a Bill Payable ? 'Every Bill is both a Bill Receivable and a Bill Payable'. Explain this statement.

11. What is an Accommodation Bill ?

12. Define Promissory Note. What difference is there between a Promissory Note and a Bill of Exchange ?

13. What is a Foreign Bill ? Give an example, and state why it is drawn in sets.

14. What is a Documentary Draft ? Name the documents referred to, and state how a D/A Bill differs from a D/P Bill.

15. What do you understand by 'Usance'?

16. Where do the balances of your B.R. and B.P. accounts appear when you close your books ?

17 (*a*)

On December 1, 1936 my Bills Receivable and Bills Payable accounts showed the following balances : B.R. Rs. 15,000 (£ 1,000); B.P. Rs. 9,000 (£ 600). Journalise the following transactions and post entries to the B.R. and B.P. accounts only. Balance these two accounts and bring down balances :

		Rs.	Cts.	£.	s.	d.
Dec. 2	Drew on P. Perera at one month..................	600	00	40	0	0
,, 3	Accepted the drafts of :—					
	J. Smith, at two months...	300	00	20	0	0
	R. Wade, at three months.	800	00	53	6	8
	T. Brown, at one month...	250	00	16	13	4
,, 5	S. Silva gave me his Acceptance	750	00	50	0	0
,, 6	L. Abraham drew on me at one month...............	380	00	25	6	8
,, 8	T. Brindley dishonoured his Acceptance due this day...	400	00	26	13	4
,, 10	C. Crow renewed his Acceptance for Rs. 600 (£ 40) by giving me a new Bill for...	650	00	43	6	8
,, 11	I gave D. David my Promissory Note................	360	00	24	0	0
,, 15	Met my Acceptance to E. Earl due this day, at Bank	480	00	32	0	0
,, 18	F. Frank drew on me at two months..................	260	00	17	6	8
,, 20	I renewed my Acceptance to G. Gaunt for Rs. 390 (£ 26) by giving him cash Rs. 90 (£ 6) and a new Bill for Rs. 325 (£ 21.13.4)					
,, 23	H. Hay pays his Acceptance due this day..............	525	00	35	0	0
,, 25	Gave J. Jones my Acceptance at two months............	350	00	23	6	8
,, 26	L. Lawson renewed his Acceptance for Rs. 800 (£ 53.6.8) due this day by giving me Cash Rs. 300 (£ 20) and a new Bill for Rs. 550 (£ 36.13.4)					
,, 27	Discounted at Bank B.R. for	525	00	35	0	0
	Bank charges on above....	30	00	2	0	0
,, 28	Received Promissory Note from D. Marrs............	80	00	5	6	8
,, 29	P. Prance retired his Acceptance for Rs. 480 (£ 32) by a Cash payment of........	465	00	31	0	0

(*b*) On 1st January, 1936, my Assets and Liabilities were as follows :—

	Rs.	Cts.	£.	s.	d.
Cash............................	1,900	00	126	13	4
Bank............................	4,300	00	286	13	4
Stock of Goods....................	6,800	00	453	6	8
B.R. (Nos 1, 2, 3 & 4)...............	4,900	00	326	13	4
B.P. (Nos. 1 & 2)..................	2,300	00	153	6	8
P. Peters owed me..................	460	00	30	13	4
R. Rawson ,, ,, ...	380	00	25	6	8
J. Parsons ,, ,, ...	620	00	41	6	8
I owed A. Abel.....................	340	00	22	13	4
,, B. Bull.......................	630	00	42	0	0

Ascertain my Capital by means of the usual Journal entries, and open accounts in the Ledger. Then enter the following transactions in suitable subsidiary books (Journal, Cash Book, Sales Book and Purchases Book) and post to Ledger. Close and prove.

		Rs.	Cts.	£.	s.	d
Jan. 3	Paid Cash into Bank........	1,000	00	66	13	4
,, 4	Gave A. Abel my Promissory Note....................	340	00	22	13	4
,, 5	Drew on J. Parsons at 1 month for...............	500	00	33	6	8
,, 7	Rawson gave me his Acceptance at 2 months.........	380	00	25	6	8
,, 9	Discounted S. Silva's B.R. (No. 1) for Rs. 1,000 (£ 66. 13.4), the Bank crediting me with.................	970	00	64	13	4
,, 12	Paid A. Abel by cheque......	340	00	22	13	4
,, 15	Bought goods from B. Bull and gave him B.R. (No. 2) in payment..............	2,600	00	173	6	8
,, 16	B. P. (No. 1) met at Bank at maturity.................	1,500	00	100	0	0
,, 18	Sold goods for Cash.........	490	00	32	13	4
,, 20	Silva's Acceptance discounted at Bank returned dishonoured.............	1,000	00	66	13	4
,, 22	Sold goods to P. Peters......	3,250	00	216	13	4
,, 24	Peters paid me cheque on account, which was paid into Bank...............	2,000	00	133	6	8
,, 28	B.R. (No. 3) settled by cheque which was paid into Bank	800	00	53	6	8
,, 30	Sold goods for Cash.........	90	00	6	0	0
,, 31	Value of Stock..............	6,100	00	406	13	4

(*c*) On June 30, 1936 P. Perkin's accounts showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Cash............................	960	00	64	0	0
Petty Cash........................	40	87	2	14	6
Bank....e........................	2,480	00	165	6	8
Stock of Goods....................	6,560	50	437	7	4
Furniture.........................	2.800	00	186	13	4
P. & L. a/c (Dr.)..................	392	62	26	3	6
Debts Receivable :—					
A. Abraham....................	468	00	31	4	0
B. Butcher.....................	325	00	21	13	4
C. Cramer......................	826	56	55	2	1
D. Doughty.....................	496	37	33	1	10
Debts Payable :—					
E. Edmund.....................	384	12	25	12	2
F. Fairhead....................	624	87	41	13	2
Bills Receivable....................	3,200	00	213	6	8
Bills Payable.......................	2,620	00	174	13	4

Ascertain his Capital through Journal entries and open accounts in the Ledger. Then enter the following transactions for July in their proper books,—Cash book, Purchases Book and Sales Book. Any items which do not appropriately fall into any one of these books should be journalised.

Post the accounts to the Ledger and extract a Trial Balance. Then draw up and complete the Trading account, P. & L. account, Capital account and Balance Sheet :—

			Rs.	Cts.	£.	s.	d.
July	2	Bought goods from E. Edmund	200	00	13	7	4
,,	4	Accepted draft of F. Fairhead for......................	500	00	33	6	8
,,	5	Paid sundry expenses from Petty Cash...............	7	50		10	0
,,	6	Bought goods for Cash.......	820	00	54	13	4
,,	7	Withdrew from Bank.......	1,000	00	66	13	4
,,	8	Drew on A. Abraham at 3 months..................	468	00	31	4	0
,,	10	B. Butcher paid cheque on account..................	240	00	16	0	0
		Allowed him discount.....	5	00		6	8
,,	11	Sold goods to A. Abraham...	1,890	00	126	0	0
,,	12	Cash Sales.................	1,400	62	93	7	6
,,	13	Discounted A. Abraham's Acceptance at Bank.......	468	00	31	4	0
		Bank charges on above....	12	00		16	0
,,	14	Paid Edmund on account by cheque................	475	00	31	13	4
		He allowed discount.......	25	00	1	13	4

			Rs.	Cts.	£.	s.	d.
July	15	Repairs to Furniture paid by cheque..................	76	87	5	2	6
,,	16	B.P. due today met at Bank	1,500	00	100	0	0
,,	17	H. Hunt's Acceptance due today dishonoured......	1,600	00	106	13	4
		Paid Noting charges on above	12	50		16	8
,,	18	Paid Cash for Stationery.....	86	00	5	14	8
,,	20	R. Lamb renewed his Acceptance for Rs. 900 (£ 60) by giving Cash Rs. 450 (£ 30) and a new Bill at 3 months for	500	00	33	6	8
,,	21	Sold goods to C. Cramer.....	920	00	61	6	8
,,	22	Drew on C. Cramer at 2 months for...............	1,000	00	66	13	4
,,	23	D. Doughty became bankrupt and paid a composition of 75 cts. in the rupee (15s in the £) in full settlement....					
,,	25	Goods destroyed by fire......	75	00	5	0	0
,,	28	Bought goods for Cash.......	345	00	23	0	0
,,	31	Paid Wages by Cash........	285	00	19	0	0
		Credit Capital with Interest	200	00	13	6	8
		Rent due but not paid.......	90	00	6	0	0
		Value of stock............	6,500	00	433	6	8
		Depreciate Furniture 2½%...					

(*d*) From the following particulars draw up and close the Bills Receivable and Bills Payable accounts. No other accounts need be opened. All transactions Should be *Journalised* before being posted to the Ledger :—

On January 1, 1936 my B.R. and B.P. accounts showed the following balances :—

			Rs.	Cts.	£.	s.	d.
		Bills Receivable............	6,900	00	460	0	0
		Bills Payable...............	4,600	00	306	13	4
Jan.	2	Drew on R. Silva at 1 month	500	00	33	6	8
,,	4	Accepted S. Perera's draft at 1 month...............	480	00	32	0	0
,,	5	J. Fernando's Acceptance discounted at Bank.......	810	00	54	0	0
,,	8	A. Conway drew on me at 2 months for.............	690	00	46	0	0
,,	10	E. de Soysa renewed his Acceptance for Rs. 600 (£40) due today by giving me Cash Rs. 200 (£13.6.8) and a new Bill at 4 months for...	450	00	30	0	0
,,	12	Bought goods from V. Deutrom and gave him T. Edwards' Acceptance in settlement	260	00	17	6	8
,,	14	Met my Acceptance at Bank.	345	00	23	0	0

Date	Particulars	Rs.	Cts.	£.	s.	d
Jan. 18	C. Elias retired his Bill for Rs. 980 (£ 65.6.8) before maturity, and I allowed him a rebate of Rs. 20 (£ 1.6.8)	960	00	64	0	0
,, 19	R. Field's Acceptance which was discounted at Bank, returned dishonoured......	1,200	00	80	0	0
	Paid Noting Charges on above	12	00		16	0
,, 20	Bought goods from J. Fernando	500	00	33	6	8
	Accepted his draft at 1 month for	480	00	32	0	0
	He allowed me discount.....	20	00	1	6	8
,, 22	I dishonour my Acceptance to B. Gauder.............	1,800	00	120	0	0
	I send him cheque for.......	800	00	53	6	8
	And accept a new Bill from him at 3 months for.......	1,100	00	73	6	8
,, 24	Sold goods for B.R..........	300	00	20	0	0
,, 28	I honour my Acceptance to C. Geddes due this day, payment being made by bank	650	00	43	6	8

(*e*) A. Thomas had a Capital of Rs. 6,800.00 (£ 453.6.8) on 1st December, 1936, his goods being worth Rs. 2,500 (£ 166.13.4). On 31st December his accounts showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Returns outward....................	60	00	4	0	0
Rent..............................	100	00	6	13	4
Sundry Debtors....................	700	00	46	13	4
Bad Debts.........................	210	00	14	0	0
Sales.............................	450	00	30	0	0
Purchases.........................	800	00	53	6	8
Bank..............................	860	00	57	6	8
Sundry Creditors..................	50	00	3	6	8
Discounts allowed.................	50	00	3	6	8
Discounts received................	80	00	5	6	8
Furniture & Fittings..............	500	00	33	6	8
Plant & Machinery.................	1,500	00	100	0	0
Bills Receivable..................	300	00	20	0	0
Bills Payable.....................	80	00	5	6	8
Value of Stock....................	3,000	00	200	0	0

You are required to prepare Trading, P. & L. and Capital accounts, and Balance Sheet as at 31st December, 1936.

Depreciate Furniture & Fittings 5%, and Plant & Machinery 10%.

(*f*) P. Isaac and R. Jacob agree to put through an Accommodation Bill for Rs. 1,500 (£ 100) and to divide the proceeds. Isaac draws on Jacob, and Jacob accepts the Bill and returns it to Isaac. Isaac thereupon discounts the Bill at the Bank, receiving Rs. 1,450 (£96. 13.4) half of which he pays to Jacob by cheque. On the maturity of the Bill, Isaac sends Jacob a cheque for Rs. 750 (£ 50) to enable the latter to meet the Bill, and the Bill is paid by Jacob. Show the records of these transactions as they would appear in Isaac's books.

CHAPTER XIII

Bills Books

You will remember that we have already learnt the use of various books of original entry such as the Journal, the Cash Book, the Purchases Book, the Sales Book, etc. We are now going to add to that number by introducing Bills Receivable and Bills Payable Books. Where a comparatively few Bills of Exchange have to be dealt with, it will ordinarily be sufficient to journalise transactions dealing with them unless you are specially requested to open Bills Books.

In principle, Bills Books are exactly the same as the Purchases and Sales Books we have already studied. In the Purchases Book, for example, we recorded all our credit purchases, and posted the total of those purchases to the debit of the Purchases account in our Ledger. We also credited each individual purchase, to the personal account of the party from whom we bought the goods. The object of the Purchases Book is of course to save ourselves the trouble of posting each purchase, as it occurs, to the Purchases account, as we should have to do if we used the Journal instead of the Purchases Book. In just the same way, we record in our Bills Receivable Book, all Bills Receivable that have come in, whether in the form of Acceptances or of Promissory Notes. We credit each party from whom we receive such a Bill with the relevant amount, and then at the end of our trading period when we close our books, we transfer the total of the Bills Receivable Book to the debit of the Bills Receivable account in our Ledger.

So far, the position seems plain enough. But, you ask, what shall I do if a B.R. is met before the trading period is over ? Should I deduct the amount of that Bill before transferring the total of the B.R. Book to the Bills Receivable account in the Ledger ? The answer is emphatically–No. Whatever happens to a Bill in the meantime will be passed through either the Cash Book or the Journal, and the postings from these books will find a place in the Bills Receivable account in the Ledger. For instance, if we have an entry in our Bills Receivable Book to indicate that we have received John Robin's Acceptance for Rs. 500, that entry will find a place, with the other Bills Receivable we have received, on the debit side of the Bills Receivable account, *although it might have been met before we closed our books.* Shall we say that Robins met his Acceptance on the due date. If we had asked our Bank to collect the money for us, we shall then debit the Bank as follows :—

To B.R. Rs. 500.00

Now, in posting this transaction, the Bills Receivable account will be *credited* with that amount, and thus the B.R. account will be less by the credit entry of Rs. 500.

Again, if Robins dishonoured his acceptance at maturity, we shall pass a Journal entry as follows :

Robins	Dr. Rs. 500.00	
To B.R.		Rs. 500.00

Here, again, the B.R. account is credited, and it will have an exactly similar effect on the Bills Receivable account, namely that the total of the B.R. account will be reduced by that sum.

The Bills Payable Book, on the other hand will be dealt with just as we deal with our Sales Book ; Debit the person to whom we have given our Acceptance, and credit the Bills Payable account with the total of all the Bills Payable we have issued.

Unlike the Purchases and Sales Books, however, the Bills Books must give full particulars of each Bill in regard to its term, name of drawer, name of acceptor, etc. You will find specimens of Bills Books on page 144.

Bills Receivable Book. In posting the Bills Receivable Book, you will realise that in each case the person from whom you have *received* the Bill should be credited. So far as our Ledger is concerned, it makes not the slightest difference who the Drawer of the Bill is, or who the Acceptor, although these details, would be useful in case the Bill is not honoured at maturity.

In the first transaction, S. Silva has drawn the Bill, and J. Smith has accepted it. Smith's Acceptance then passes into the hands of P. Perera either by endorsement or by his having been made the original payee, and he in turn endorses it over to us, it may be in settlement of an amount he owed us. What we are concerned with is the fact that Perera has given us a valuable document (J. Smith's Acceptance) which we can utilise in various ways, for we may transfer it by further endorsement to a creditor of ours (you will notice in the 'Remarks' column that we have so endorsed it to R. Jones) recording such transfer through the Journal ; or, we may even obtain ready money on it by discounting the Bill at the Bank. Following the old rule, then, that a *giver* should be *credited*, we credit P. Perera's account with the value of the Bill.

In the next two items we ourselves are the Drawers and R. Adams and B. Henty have accepted our Drafts, and returned their Acceptances to us. In each of these cases it is obvious that we should credit Adams and Henty with the value of their respective Bills.

Having posted our three credit items to the accounts of the persons from whom we have received Acceptances, we next post the *total* of our Bills Receivable Book (namely Rs. 2,210) to the debit of the Bills Receivable account in our Ledger. That makes the corresponding debit entry and we have thus got our double entry complete.

Bills Payable Book. Just as we credit a person who gives us an Acceptance, so we *debit* the person to whom we give our Acceptance, for he has *received* and our rule tells us that a receiver should be debited. Look at the specimen Bills Payable Book and ask yourself the question–To whom have I given my Acceptance ? The answer should of course be–To the Drawer of the Bill.

BILLS RECEIVABLE BOOK

No.	Date Received	Received from	Drawer	Acceptor	Where Payable	Date of Bill	Term	Due Date	Led. Fo.	Amount Rs.	Cts.	REMARKS
41	1934 May 2	P. Perera	S. Silva	J. Smith	Mercantile Bank	1934 April 26	3 m/d	July 29	38	450	00	Endorsed to R. Jones
42	June 4	R. Adams	Self	R. Adams	National Bank	May 31	2 m/d	Aug. 3	16	800	00	Paid at maturity
45	Aug. 18	B. Henty	Self	B. Henty	Chartered Bank	Aug. 1	3 m/d	Nov. 4	26	960	00	Discounted at Bank
						Bills Receivable a/c Dr.			6	2,210	00	

BILLS PAYABLE BOOK

No.	Date of Acceptance	Drawer	In whose favour	Where payable	Date of Bill	Term	Due Date	Led. Fo.	Amount Rs.	Cts.	REMARKS
25	1934 July 8	T. Smith	J. Fonseka	Imp. Bank	1934 July 6	3 m/d	Oct. 9	5	1,200	00	Met at maturity
26	Aug. 12	R. Forbes	R. Forbes	,,	Aug. 9	4 m/d	Dec. 12	14	500	00	
27	Oct. 2	H. Gregg	H. Gregg	,,	Sept. 25	1 m/d	Oct. 28	16	790	00	
					Bills Payable a/c Cr.			3	2,490	00	

In the first item, although the Bill has been drawn by T. Smith, it is made payable to J. Fonseka. It does not matter to us, however, who the payee is. It is the Drawer to whom I send my Acceptance, and therefore he, as the receiver, should be debited. You will notice in the 'Remarks' column that that particular Bill was met at maturity. The money certainly did not go to the Drawer, for the draft was drawn in favour of Fonseka, and unless Fonseka had in the meantime transferred it by endorsement to someone else, it is he who was entitled to the money, being the last holder of the Bill.

In the next two items, my Acceptances are in favour of the Drawers (R. Forbes and H. Gregg).

We see then, that when posting the Bills Payable Books we must in each case debit the account of the *Drawer* of the Bill. The corresponding credit of these various debits will of course be the *total* of the Bills Payable Book (Rs. 2,490) which is posted to the credit of the Bills Payable account in the Ledger, for these Bills have gone out.

Exercise 13

1. What purpose do Bills Books serve in Bookkeeping ?

2. On January 5, 1936, Messrs. Silva & Co. of Kandy drew a Bill of Exchange on Messrs. Perera & Co. of Colombo for Rs. 12,000 (£800) at 3 months after date. After acceptance, the Bill was transferred by endorsement to Messrs. Fernando & Co., Galle. Draw the Bill of Exchange, showing Acceptance and Endorsement.

3. The above Bill was dishonoured at maturity, and the Endorsee arranged with the Acceptor to take a new Bill of Exchange at three months plus interest at 5% per annum and Rs. 2 (2s. 8d.) to cover expenses. Make the Journal entries in the books of the Acceptor to record these transactions.

4. A. Bruce owes you Rs. 3,500 (£ 233.6.8). He sends you cash Rs. 500 (£ 33.6.8) and a Bill for Rs. 2,000 (£133.6.8) in part settlement of his indebtedness. He dishonours his Acceptance at maturity and you pay for noting charges Rs. 3 (4s.). Brûce becomes bankrupt, and his Trustee in bankruptcy pays a first and final dividend of 33 cents per rupee (6/8 in the £). Show Bruce's Ledger account in your books.

5. Rule Bills Receivable and Bills Payable books, and make four entries in each of them. Explain how the items in these books are posted to the Ledger.

6. Pass the following transactions through properly ruled Bills Receivable and Bills Payable books. Any transactions that cannot be entered in these books should be journalised. All Bills Payable are payable at my Bank—the Imperial Bank.

Post the transactions in the above books to the Ledger, and balance the Bills Receivable and Bills Payable accounts :—

			Rs.	Cts.	£.	s.	d.
		Bills Receivable a/c (Nos. 1-9) balance............	8,000	00	533	6	8
		Bills Payable a/c (Nos. 20-24) balance............	5,000	00	333	6	8
1934 Jan.	1	Received from J. Hubert & Co. their A/ce (No. 10) drawn by me on them in my favour, payable 20 days from date at the Mercantile Bank.........	4,200	00	280	0	0
,,	4	Accepted P. Perera's draft at 2 months in his favour dated Jan. 2, 1934 (B.P. No. 25) for..............	1,300	00	86	13	4
,,	6	Received from S. Silva his A/ce (No. 11) at 2 months drawn by me on him on Jany. 4 in my favour, payable at the National Bank. Endorsed this Bill and forwarded it to B. Niles............	1,200	00	80	0	0
,,	8	R. Andree drew on me in his favour at 30 days. Accepted this draft (B.P. No. 26)................	1,000	00	66	13	4
,,	9	Received from a .Fernando & Co. a B.R. (No. 12) drawn by me on them in my favour, payable at the Chartered Bank 3 months after this date...........	1,650	00	110	0	0
,,	12	Handed to P. Gomes my Acceptance (No. 27) in his favour at 2 months for	1,820	00	121	6	8
,,	14	Discounted B.R. (No. 1) at Bank for Rs. 800.00 (£53. 6.8), the Bank charges being Rs. 20.00 (£1.6.8)...	780	00	52	0	0

			Rs.	Cts.	£.	s.	d.
1934 Jan.	15	Received J. Stewart's A/ce (B. R. 13) in my favour at 3 months from Jan. 12, payable at Mercantile Bank..................	950	00	63	6	8
,,	18	Bill Payable (No. 20) redeemed at Bank.......	1,350	00	90	0	0
,,	24	B.R. (No. 10) due today dishonoured.............	4,200	00	280	0	0
		Paid noting charges on above.................	1	50		2	0
,,	25	Gave R. James my Acceptance (No. 28) dated Jan. 20, payable 2 months after date drawn by him in favour of P. Abrahams.	600	00	40	0	0
,,	26	Received T. Thomas's Promissory Note (B.R. 14) payable in 3 months......	300	00	20	0	0
,,	28	Accepted B. Brown's draft (B.P. 29) drawn by him in his favour at 6 months.	960	00	64	0	0
,,	29	Discounted B.R. (No. 2) for Rs. 1,000.00 (£ 66.13.4) at Bank, receiving cash...	975	00	65	0	0
,,	30	Endorsed and forwarded B.R. (No. 3) to J. Mendis	1,300	00	86	13	4
,,	31	Renewed my B.P. (No. 21) for Rs. 2,000.00 (£ 133. 6.8) by paying cheque Rs. 600.00 (£ 40.0.0) and a new B.P. at 3 months for	1,450	00	96	13	4

CHAPTER XIV

Goodwill and Reserves

In this chapter we shall deal with two accounts of a very practical nature to all business men, namely Goodwill and Reserves.

GOODWILL

Goodwill has been defined as 'the benefit accruing from connection and reputation'. Let us take an illustration: A. Arthur starts a business as Bookseller & Stationer on a very small scale under the title of the Premier Book & Stationery Co. By perseverance and application to his work, he has succeeded in building up a fairly prosperous business, and has managed to secure a large clientele. You will realise of course that it had been necessary for him also to spend a considerable sum of money in advertising his trade in order to attract new customers. He now feels that the time has come for him to retire, and B. Beale, who is anxious to take the business over and continue to run it, offers to purchase the business from Arthur for the cost price of all his stock-in-trade and fittings. Arthur, however, declines the offer for the very good reason that he has established a lucrative business both by his own efforts and by the expenditure of various sums of money by way of advertisement. If Beale now took it over, he would have the advantage of all that work; and expense, and the present customers of the firm would most likely continue to patronise the firm. Arthur therefore suggests to Beale that the latter should pay him Rs. 5,000 for that advantage and for the reputation that has been established by the firm; for, you see, if Beale started a new business he would have up-hill work in developing it, and the chances are that it would be some time before his establishment

became known and he was able to derive a satisfactory profit on his outlay. Beale therefore readily accepts Arthur's offer, and pays him, in addition to the cost of the stock-in-trade and fittings, a further sum of Rs. 5,000 for Goodwill.

B. Beale then starts, under the old title of the Premier Book & Stationery Co. with a Capital of say Rs. 39,000 consisting of :—

Stock-in-trade	Rs.	30,000 00
Fixtures & Fittings	,,	4,000 00
Goodwill	,,	5,000 00

He would open his books with the following Journal entries which would be posted to his Ledger :—

Stock	Dr.	Rs.	30,000 00	
Fixtures & Fittings	,,	,,	4,000 00	
Goodwill	,,	,,	5,000 00	
To Capital				Rs. 39,000 00

You will see, then, that among his Assets, one of the items is Goodwill, and his Goodwill account will appear in his Ledger as follows :—

Dr. GOODWILL Cr.

	Rs.	Cts.	
To Balance	5,000	00	

But Goodwill is an *intangible* asset, for Beale has nothing to show for it. This is rather unsatisfactory, and so, year after year when he closes his books, he sets aside a portion of his profits to writing off the Goodwill account. The Journal entry he would make at the end of the first year would be somewhat as follows, although of course the amount may be larger or smaller according to the profits he makes :—

P. & L. account	Dr.	Rs.	1,000·00	
To Goodwill				Rs. 1,000·00

(to write off part of Goodwill)

The Goodwill account, after the above journal entry has been posted, would then appear with a balance of only Rs. 4,000·00 as follows :

Dr.	GOODWILL				Cr.
	Rs.	Cts.		Rs.	Cts.
To Balance	5,000	00	By P. & L. a/c	1,000	00
			,, Balance c/d	4,000	00
Rs.	5,000	00	Rs.	5,000	00
To Balance b/d .... Rs. 4,000		00			

In this way, if he is able to devote Rs. 1,000 to writing off Goodwill every year, he will have wiped off the Goodwill account entirely at the end of five years. In the meantime, the balance of the Goodwill account will appear as an Asset in his Balance Sheet.

RESERVES

A business man with sufficient foresight is not content merely to have large profits and make no provisions for a time of stress such as was brought about by the recent depression. He therefore, if he is a prudent man, puts by a part of his profits every year to meet any contingency that may arise in the future, by crediting his Reserve Fund with that amount.

Now, losses may occur in various ways other than by a trade depression. The most frequent of these is brought about by debtors not meeting their dues, either by becoming bankrupt, or by dying and leaving no effects behind, or in some other way.

Reserve for Bad and Doubtful Debts.

In order to meet the case of Debtors who cannot or will not meet their liabilities, a trader lays aside a portion of his profits for this purpose. Here, for instance, is the Balance Sheet of A. Perera :—

BALANCE SHEET

Liabilities	Rs.	Cts.	Assets	Rs.	Cts.
Debts Payable:—			Cash	5,000	00
			Bank	10,000	00
Rs. Cts.			Debts Receivable:—		
F. Fudge 300 00					
G. Grain 1,700 00	2,000	00			
			Rs. Cts.		
			A. Henry 690 00		
			B. Brown 430 00		
			C. Cramer 1,260 00		
Capital	35,000	00	D. Dream 1,620 00		
			E. Elder 4,000 00	8,000	00
			Stock of goods	12,000	00
			Furniture	2 000	00
Rs.	37,000	00	Rs.	37,000	00

On scrutinising this Balance Sheet, I say to A. Perera 'I see you have debts amounting to Rs. 8,000 due to you. Is it likely that you will be able to collect all of it, or may not some portion of it have to be written off as unrecoverable? He is forced to admit that, from his previous experience, he is not likely to be so fortunate as to collect it all. He therefore reserves, say 5% of this amount, from his profits, to meet this possible loss, and credits it to an account called 'Reserve for Bad and Doubtful Debts'. He passes this through his Journal as follows :—

P. & L. account Dr. Rs. 400·00
To Reserve for Bad
and Doubtful Debts a/c Rs. 400·00

Now this Reserve for Bad & Doubtful Debts account will show Rs. 400 to its credit, and so will be treated as a Liability in our Balance Sheet, for you will remember that *credits* are *liabilities*. That means that his Capital account will be reduced by a corresponding amount, and will show a Balance (Capital) of Rs. 34,600 instead of Rs. 35,000 as before. In practice, however, instead of showing this amount on the Liabilities side, we *deduct it from the total* *of the Debts Receivable* on the Assets side, and this gives the same result. His Balance Sheet will then appear as under :—

BALANCE SHEET

Liabilities	Rs.	Cts.	Assets	Rs.	cts.
Debts Payable :—			Cash	5,000	00
Rs. Cts.			Bank	10,000	00
F. Fudge 300 00		00	Debts Receivable :—		
G. Grain 1,700 00			Rs. Cts.		
	2,000	00	A. Henry 690 00		
			B. Brown 430 00		
Capital	34,600	00	C. Cramer 1,260 00		
			D. Dream 1,620 00		
			E. Elder 4,000 00		
			8,000 00		
			Less Reserve for B. & D. Debts 400 00	7,600	00
			Stock of Goods	12,000	00
			Furniture	2,000	00
Rs.	36,600	00	Rs.	36,600	00

It may be asked : How do you compute the amount to be reserved for Bad & Doubtful Debts ? This is a matter for the individual trader. Either he will go through his list of debtors and pick out those he thinks are likely to prove 'bad' or 'doubtful', and provide a Reserve for that amount ; or, basing his computation on previous experience, he may reserve a certain percentage of the *total* value of debts receivable. In the above example, we have adopted the latter procedure and have provided a Reserve of 5% on the total of the book debts.

Let us now turn for a moment to the Reserve for Bad & Doubtful Debts account. You will notice that it has a credit Balance of Rs. 400.00. During our trading period, if any Bad Debts arise, we shall, as usual, debit the Bad Debts account with such amounts. Before we close our books, however, the total of that Bad Debts account will be transferred by means of a Journal entry to the debit of the Reserve for Bad & Doubtful Debts account, for

obviously the Reserve account was originated in order to meet such losses. Let us suppose that the amount of the Bad Debts account is Rs. 250.00. That sum will then be transferred to the debit of the Reserve for Bad & Doubtful Debts account, leaving a credit balance in the latter account of Rs. 150.00. Now supposing that, for the *next* trading period a Reserve for B. & D. Debts of Rs. 300.00 is required, it will be necessary to debit only the *balance* Rs. 150·00 to the P. & L. account and credit the Reserve account with that amount. Our Reserve for Bad & Doubtful Debts for the new trading period will be as under :—

Dr. RESERVE FOR BAD & DOUBTFUL DEBTS Cr.

	Rs.	Cts.		Rs.	Cts.
To Bad Debts a/c	250	00	By P. & L. a/c	400	00
,, Balance c/d	300	00	,, ,, ...	150	00
Rs.	550	00	Rs.	550	00
			By Balance b/d Rs.	300	00

It may, however, happen that through unforeseen circumstances the Bad Debts account shows a total *exceeding* the amount of our Reserve, say Rs. 500·00. It will then be necessary to provide a further Reserve to the extent of that deficiency by crediting the Reserve for B. & D. Debts a/c and debiting the P. & L. a/c as follows :—

P. & L. a/c Dr. Rs. 100·00

To Reserve for Bad &

Doubtful Debts a/c Rs. 100·00

That will exactly balance the Reserve for Bad & Doubtful Debts a/c.

Supposing, again, that it is desired to create a Reserve for the *new* trading period of Rs. 300·00, the same procedure will be gone through as at first, the P. & L. a/c being debited with that amount and the Reserve a/c being credited with a like sum. The Reserve account for the new trading period will then stand as follows :—

Dr. RESERVE FOR BAD & DOUBTFUL DEBTS Cr.

	Rs.	Cts.		Rs.	Cts.
To Bad Debt a/c	500	00	By P. & L. a/c.	400	00
, Balance c/d	300	00	,, ,, ...	100	00
			,, ,, ...	300	00
Rs.	800	00	Rs.	800	00
			By Balance b/d Rs.	300	00

Reserve for Discounts. You will remember that, in the Chapter on Nominal accounts, we referred to what we called Cash Discount as the discount allowed for prompt payment of a debt or for payment within a prescribed time. . It is but reasonable to suppose that some of our Debtors will claim this discount by prompt payment of their debts, and that we shall thus be losers. That being so, it is desirable that we should make provision in any Balance Sheet we draw up, for such a possible loss, just as we made provision for possible Bad & Doubtful Debts. This is done in actual practice by reckoning a certain percentage of our Book Debts as a possible loss on account of Cash Discounts we allow. But you must note that such a percentage must be calculated *after deducting* the Reserve for Bad & Doubtful Debts. Supposing, for instance, we took the Balance Sheet referred to in the last section : The Book Debts (or the Debts Receivable) amounted to Rs. 8,000 from which we deducted Rs. 400 as a Reserve for Bad & Doubtful Debts, leaving a balance of Rs. 7,600. If it is decided to reserve 3% for possible losses on account of Cash Discounts, we shall have to calculate it on the Rs. 7,600 and not on the full total of the Book Debts. We shall accordingly pass a Journal entry to make the necessary provision, as follows :—

P. & L. account Dr. Rs. 228.00
To Reserve for Discount
to Debtors a/c Rs. 228.00
(being 3% Reserve for Discounts on book debts less Reserve for Bad & Doubtful debts)

The Reserve for Discounts to Debtors Account must be treated in exactly the same way as we treated the Reserve for Bad & Doubtful Debts Account. The Cash Discounts we allow, as you know, are shown on the debit side of the Cash Book. When we close our books we shall transfer the total of this Cash Discounts column to the debit side of the Reserve for Discounts to Debtors a c. Lets us suppose that the Cash Discounts we allowed amounted to Rs. 150, and that we require a new Reserve for Discount to Debtors for the next trading period, of Rs. 300. There is a balance from the old Reserve a/c of Rs. 78, so that we shall have to provide a new Reserve of only Rs. 222, which is Rs. 300 less Rs. 78. The Reserve for Discounts to Debtors account will appear as under :—

Dr. RESERVE FOR DISCOUNTS TO DEBTORS Cr.

	Rs.	Cts.		Rs.	Cts.
To Dis. allowed as per Cash Book	150	00	By P. & L. a/c.........	228	00
,, Balance c/d	300	00	,, ,, ...	222	00
Rs.	450	00	Rs.	450	00
			By Balance b/d Rs.	300	00

The Debts Receivable item on the Assets side of the Balance Sheet referred to above will then appear as follows :—

A. Henry	Rs.	690 00		
B. Brown	,,	430 00		
C. Cramer	,,	1,260 00		
D. Dream	,,	1,620 00		
E. Elder	,,	4,000 00		
	,,	8,000 00		
Less Reserve for B. & D. debts	,,	400 00		
	,,	7,600 00		
Less Reserve for Discounts	,,	300 00	Rs.	7,300 00

The Capital in the Balance Sheet will then be further reduced by the amount of this additional Reserve of Rs. 300.

The question now arises: What about our Debts Payable? As we shall probably gain in Cash Discounts when we pay prompt cash in settlement of our liabilities, you will agree that we may in the same way make provision for such a gain. This is done by opening a *Reserve for Discounts from Creditors Account* and *debiting* it with the amount of the deduction we decide on, at the same time crediting the P. & L. account with that sum. This of course is the exact reverse of what we did in connection with the Reserve for Discounts to Debtors account; in the latter case it indicates a loss, while in the Reserve for Discounts from Creditors account it is a gain.

To go back to our Balance Sheet. Our Liabilities amount to Rs. 2,000. Supposing we desire to create a Reserve for Discounts from Creditors account of 4% then we shall pass a Journal entry as follows :—

Reserve for Discounts from Creditors account	Dr.	Rs. 80·00	
To P. & L. account			Rs. 80.00

and the liabilities item in our Balance Sheet will appear thus :—

F. Fudge	Rs.	300 00		
G. Grain	,,	1,700 00		
	,,	2,000 00		
Less Reserve for Discounts	,,	80 00	Rs.	1.920 00

That will of course *increase* our Capital by Rs. 80.

Any Cash Discounts we actually receive will naturally appear on the credit side of the Cash Book, and will be transferred to the credit side of the Reserve for Discounts from Creditors account and so reduce our Reserve.

If it is not desired to make provision for a Reserve for Discounts from Creditors account, then the total of the Cash Discounts we receive may be transferred to the credit side of the Discount account (P. & L. a/c.)

Other Reserves. Now that you have understood the principle governing Reserves, you will realise that it is possible to create other Reserves in the same way, to meet any specific loss that may occur. Some firms, particularly Banking Companies and Limited Liability Companies, provide a Reserve Fund or Rest to meet any possible emergency of a general character. In such cases the Reserve Fund will be credited and the P. & L. account debited with a sum agreed upon. The balance of the Reserve Fund, being a credit balance, will then appear in the Balance Sheet as a liability.

Exercise 14

1. What do you understand by Goodwill?

2. Why is it desirable to write down Goodwill year by year? Give the Journal entry necessary to write down Goodwill.

3. Give the Journal entries required to open the books of S. Pearce from the following particulars, and show his Capital account :—

S. Pearce has taken over the business of the Oriental Trading Co. at its present value, including all Debts Receivable and Payable, and has agreed in addition to pay the proprietor Rs. 4,000 (£266.13.4) as Goodwill. The Oriental Trading Co. at date of handing over had the following Assets and Liabilites :—

	Rs.	Cts.	£.	s.	d.
Debts Receivable....................	4,500	00	300	0	0
Goods in stock.......................	9,000	00	600	0	0
Furniture & Fittings.................	3,200	00	213	6	8
Debts Payable........................	1,800	00	120	0	0

4. What is a 'Reserve for Bad & Doubtful Debts? How is it shown in the Balance Sheet?

5. What are the two 'Reserve for Discounts' Accounts? Where do they appear in the Balance Sheet?

6. The following is a statement of my Assets and Liabilities on the 31st December, 1936 :—

	Rs.	Cts.	£.	s.	d.
Cash	4,800	00	320	0	0
Bank overdrawn	120	00	8	0	0
Debts Receivable	3,200	00	213	6	8
Debts Payable	880	00	58	13	4
Stock of Goods	16,000	00	1,066	13	4
Furniture	3,600	00	240	0	0
Bills Receivable	8,400	00	560	0	0
Bills Payable	3,900	00	260	0	0
Capital	31,100	00	2,073	6	8

Make the following adjustments and draw up a Balance Sheet :—

Reserve for Bad & Doubtful Debts 5%
Reserve for Discounts to Debtors 4%
Reserve for Discounts from Creditors 4%
Depreciate Furniture 10%

7. On the 31st December 1938 my accounts showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Cash	186	00	12	8	0
Bank	6,200	00	413	6	8
Goodwill	4,000	00	266	13	4
Bills Receivable	9,200	00	613	6	8
Bills Payable	3,500	00	233	6	8
Opening Stock	12,300	00	820	0	0
Purchases	3,900	00	260	0	0
Sales	8,400	00	560	0	0
Returns Inwards	86	00	5	14	8
Bad Debts	200	00	13	6	8
Reserve for Bad Debts	350	00	23	6	8
Sundry Debtors	9,600	00	640	0	0
Sundry Creditors	2,800	00	186	13	4
Drawings	1,200	00	80	0	0
Sundry Expenses	600	00	40	0	0
Salaries	1,800	00	120	0	0
Insurance	222	00	14	16	0
Capital	34,444	00	2,296	5	4
Closing Stock	10,800	00	720	0	0

After making the following adjustments, draw up Trading and P. & L. accounts and a Balance Sheet as at 31st December, 1938 :—

(*a*) Write off Rs. 500 (£ 33.6.8) from Goodwill.

(*b*) Bring forward Rs. 22 (£. 1.9.4) Insurance as unexpired.

CHAPTER XV

Consignments

Let us now consider Consignments as distinct from a definite sale of goods.

Some merchants not only conduct business in their own district but also send goods to Agents abroad for sale, Such a shipment is known as a Consignment. The shipper, who is also the owner of the goods, is called the *Consignor*, and the Agent to whom the goods are sent for sale is called the *Consignee*. In other words, the Consignor consigns a consignment to the Consignee. The Agent may also refer to the Consignor as his *Principal* in the transaction.

A *Factor* is an Agent who deals *in his own name* and has possession of the goods in addition to being entrusted with their sale. Consequently, he is personally liable on his contracts. An Agent, on the other hand, deals in the name of his Principal and on his Principal's account, and the contracts he enters into, or the sales he makes, on account of his Principal, are therefore binding on the latter.

In making a consignment to an Agent, we shall of course agree to pay him a certain commission on sales, say $2\frac{1}{2}$% of the gross proceeds. That, however, would leave us, as Consignors insecure, because if he sells our goods *bona fide* to persons who subsequently become bankrupt, we shall have to suffer the loss due to such irrecoverable debts. In order to avoid this, we offer the Agent a *Del Credere Commission* which is an *additional* commission paid to an Agent for guaranteeing payment for goods sold on behalf of his Principals. By that means, the Agent becomes personally liable for payment on the consignment sold by him.

The question then arises—How shall we deal with Consignments in our books ? It must be obvious that we cannot reasonably debit the Consignee's personal account with the value of our Consignment because, although we have sent him the goods, they do not belong to him, for he merely holds them on our behalf and for sale on our account. Nor would it be correct to credit our Sales Account with the cost of this consignment, for it is not a sale. We therefore open two accounts to provide for a consignment to our Agent, say R. Frank of Adelaide : (1) 'CONSIGNMENT TO R. FRANK ACCOUNT' which is debited with the value of the consignment ; and (2) 'GOODS ON CONSIGNMENT ACCOUNT' which is credited with a like amount.

You will realise that, in making this consignment we must incur certain expenses in forwarding the goods, such as freight, marine insurance, etc. These are additional charges to the Consignment Account, and the Consignment. Account must therefore be debited with all such expenses, while the Cash account is credited with those expenses. So that right at the start we find the Consignment account debited not only with the value of our goods but also with all charges incurred in connection with the shipment. Shall we say that the value of our consignment is Rs. 5,000 and that we have paid Cash Rs. 75 for freight and Rs. 20 for marine insurance, etc. Our Consignment Account will then appear as under :—

Dr. CONSIGNMENT TO R. FRANK Cr.

	Rs.	Cts.	
To Goods on consignment	5,000	00	
„ Cash Freight.........	75	00	
„ „ Sundries.........	20	00	

We then wait until we hear from our Agent (R. Frank) that he has sold the goods. He does this by sending us what is known as an *Account Sales* showing the

gross proceeds of the sale of the consignment *less* all charges incurred by him at his end as well as the commission due to him. The Account Sales will thus show the *net proceeds* of the sale, which we credit to the Consignment account, debiting the Agent's personal account with a similar sum.

The following is a specimen of an Account Sales :—

ACCOUNT SALES of 50 cases tea ex. ss. "Omrah" sold by the undersigned for and on behalf of..........(Consignors).

Mark

R. F.

Adelaide

	Rs.	Cts.	Rs.	Cts.
30 cases tea @ Rs. 120 per case....			3,600	00
20 „ „ @ Rs. 115 „			2,300	00
			5,900	00
Less				
Landing and cartage.........	50	00		
Fire Insurance................	30	00		
Warehouse rent..............	10	00		
Customs duty................	100	00		
Commission 2½%.............	147	50		
Del credere com. 2½%.........	147	50	485	00
Net proceeds		Rs.	5,415	00

E. & O. E.

July 20, 1934. (Sgd) R. FRANK

When we have entered the *net proceeds* (Rs. 5,415.00) to the credit of the Consignment account, we then balance this account and carry the balance to the P. & L. account, for such a balance is either a profit or a loss on the consignment. Our Consignment account will now read as follows :—

Dr. CONSIGNMENT TO R. FRANK Cr.

	Rs.	Cts.		Rs.	Cts.
To Goods on consignment	5,000	00	By R. Frank, net proceeds of Account Sales....	5,415	00
„ Freight	75	00			
„ Insurance etc	20	00			
„ P. & L. Account	320	00			
Rs.	5,415	00	Rs.	5,415	00

The above entries will of course pass through the Journal or the Cash Book in the usual way, before being posted to their respective accounts in the Ledger.

There are two possible difficulties that may confront us in dealing with this consignment. Supposing, at the time we close our books, we have received no Account Sales from our Agent. Then the Consignment account will remain as it was originally, and the *total* of that account (Rs. 5,095.00) will be treated as an Asset in our Balance Sheet. If you will think it over carefully, you will see that, just as we regard our final value of stock as an asset, we should also treat this consignment as goods we have on hand, including the expenses we have been put to in making the consignment.

Supposing, again, that our Agent has so far sold only 30 cases of the tea and that he has sent us an *interim* Account Sales of those goods. We shall, in that case, credit the Consignment account with the net proceeds (say Rs. 3,230.) and deal with the account in exactly the same way as we deal with the Trading Account. In other words, we shall have to estimate the value of the *unsold* 20 cases and place it on the credit side of the account before balancing the account. In estimating the cost of these 20 cases, we must base our valuation, not only on the actual cost of the goods but also on the expenses incurred in shipping them. That amount is Rs. 5,095, and as two-fifths of the consignment still remains unsold, the value of such unsold portion will be two-fifths of Rs. 5,095, or Rs. 2,038. The Consignment account will, in such a case, appear as follows :—

Dr. CONSIGNMENT TO R. FRANK Cr.

	Rs.	Cts.		Rs.	Cts.
To Goods on consignment	5,000	00	By R. Frank net proceeds of A/S 30 cases tea...	3,230	00
" Freight..............	75	00	" Balance of consignment unsold	2,038	00
" Insurance etc.........	20	00			
" transfer to P. & L. a/c	173	00			
Rs.	5,268	00	Rs.	5,268	00
To Balance ....Rs.	2,038	00			

The profit on the 30 cases sold will be carried to the P. & L. account and the value of the 20 cases unsold will be treated as an Asset in our Balance Sheet.

In regard to the Goods on Consignment account, it is treated as a further subsidiary Trading account, and the balance is carried away to the Trading account as follows :—

Dr. GOODS ON CONSIGNMENT ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To transfer to Trading account	5,000	00	By Consignment to R. Frank	5,000	00

It is usual, when a consignment is sent to an Agent, for the Consignor to draw on the Consignee for a part of the value of the consignment. It is also customary for the Consignee, when sending his Account Sales to the Consignor, to remit any balance of the net proceeds to the latter. Such transactions must be treated in the usual way apart entirely from the consignment. The Consignee will naturally be credited with any drafts the Consignor may draw on him, or with any remittances he may make to the Consignor.

One other point needs reference here. When we *sell* goods to a customer of ours, we furnish him with a document, known as an *Invoice* which is a statement giving full particulars of *goods sold*, including quality, quantity and price. Now a Consignment does not represent goods sold, and so we cannot send the consignee in Invoice as such. But we send him, instead, a *Pro Forma Invoice* which gives particulars of what the goods actually cost the consignor, including freight, insurance, etc. This Pro Forma Invoice serves two very useful purposes : (1) It gives the consignee an indication as to the price below which he should not sell ; and (2) it is useful for Customs purposes where an *ad valorem* (*i.e.* according to value) duty is levied. Unless such an Invoice is produced, there might be considerable difficulty in passing the goods through the Customs because they will have to be examined and assessed in order that the *ad valorem* duty may be computed.

Consignments Inwards. We have so far dealt with Consignments Outwards, or consignments which affect the consignor. Let us now consider what procedure we should adopt in regard to Consignments Inwards. Supposing Perera & Co. of Colombo, as Agents for T. Brown, Tasmania, receive a consignment of 100 cases of Apples for sale on his account, the *Pro Forma* invoice for which amounts to Rs. 800. Here, Perera & Co. are the consignees and T. Brown is the consignor. The usual procedure, in the case of such a consignment is for the consignees (Perera & Co.) to make a record of the consignment in what is known as a Consignments Inwards Register. Beyond this, the consignees need not make any entries in their books because the goods received do not belong to them. But in taking delivery of the goods, the consignees are called upon to pay certain expenses made in connection with the consignment such as Landing charges, Fire Insurance, Warehouse rent, Customs duty, etc. Now these expenses are made on behalf of the consignor, and the consignees therefore open an account in the name of the consignor (T. Brown) and debit that account by a posting from the Cash Book. When sales are effected, the consignor's account is *credited* with the amount realised, and the Cash account (if cash is received) or the buyer's account (if the goods are sold on credit) is *debited* with that amount. After the goods have been sold, the consignees also debit the consignor's account with any commission due (including *del credere* commission if any) on the gross proceeds, and credit their Commission account with that sum. The Account Sales is then made out by a reproduction of all the items in the consignor's personal account, and a remittance is sent to cover the balance due.

Let us suppose, in the above instance, that Perera & Co. made the following cash payments in connection with the consignment of apples: Landing charges Rs. 20; Warehouse rent Rs. 10; Fire insurance Rs. 15; and Customs duty Rs. 20.

The consignor has also drawn on the consignees for Rs. 400 against the consignment.

Perera & Co. sell 20 cases of apples @ Rs. 12 per case; 30 cases @ Rs. 15 per case; and 50 cases @ Rs. 16 per case. They charge a commission of $2\frac{1}{2}\%$ on gross proceeds plus $2\frac{1}{2}\%$ *del credere*, and remit the balance due, by bank draft.

The Consignor's account as it would appear in Perera & Co's Ledger would then be :—

T. BROWN

Dr. (Consignment of 100 cases apples invoiced at Rs. 800) Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash:			By Sales:		
Landing charges..	20	00	20 cases @ Rs. 12..	240	00
Warehouse rent ..	10	00	30 „ @ „ 15..	450	00
Fire insurance	15	00	50 „ @ „ 16..	800	00
Customs duty	20	00			
„ Commission $2\frac{1}{2}\%$	37	25			
„ Del credere $2\frac{1}{2}\%$	37	25			
„ Bill Payable	400	00			
„ Bank draft..........	950	50			
Rs.	1,490	00	Rs.	1,490	00

In dealing with Consignments Inwards, some book-keepers, as soon as the consignment is received, open two accounts, one in the name of the Consignor whom they credit with the value of the Pro Forma invoice, and the other a Consignments Inwards account which they debit with a similar amount. The sales are credited to the Consignments Inwards account and the balance of this account is transferred to the Consignor's personal account. The transaction we have just dealt with will therefore appear in the Consignee's Ledger as under :—

Dr. CONSIGNMENT FROM T. BROWN Cr.

	Rs.	Cts.		Rs.	Cts,
To T. Brown (value of consignment	800	00	By Sales:		
„ Balance transferred to T. Brown's a/c	690	00	20 cases @ Rs. 12..	240	00
			30 „ @ „ 15..	450	00
			50 „ @ „ 16..	800	00
Rs.	1,490	00	Rs.	1,490	00

T. BROWN

Dr. (Consignment of 100 cases apples invoiced at Rs. 800) Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash:			By Consignment of apples	800	00
Landing Charges..	20	00	,, Profit on sale of consignment	690	00
Warehouse rent ..	10	00			
Fire insurance....	15	00			
Customs duty	20	00			
,, Commission 2½%	37	25			
,, Del credere 2½%	37	25			
,, Bill Payable	400	00			
,, Bank draft	950	00			
Rs.	1,490	00	Rs.	1,490	00

This procedure, however, is not strictly correct because there is no justification for our credition the Consignors' personal account with the value of the consignment (Rs. 800). If we do, it will show that Perera & Co. owe Brown that sum of money, whereas, as a matter of fact, they *do not*. In dealing with Consignments Inwards therefore, we shall adopt the lines laid down in the previous example, having only one account for the Consignor and not opening any account for Consignments Inwards. The entry we make in our Consignments Inwards Register is a sufficient record of our having received the consignment, and we make a further note of the fact in the heading of T. Brown's account, that it relates to a special consignment.

If our consignments (either Outwards or Inwards) are numerous, the best plan is to give each consignment a serial number *e.g.* 'Consignment to R. Frank No. 1'. But what you must remember is that *each consignment* must be dealt with *separately*, otherwise we shall have two or more consignments included in the same Consignment account, and we shall not be able to tell what profit or loss we have made on each of them.

Exercise 15

1. What do you understand by the terms–Consignment ; Consignor ; Consignee ?

2. What is a *del credere* commission as distinct from an ordinary commission ?

3. In what respects does a Factor differ from an Agent ?

4. In making an Outward Consignment, why is it incorrect to debit the Consignee's personal account with the value of such consignment ?

5. What is a 'Goods on Consignment Account', and where is the balance of this account transferred to ?

6. In dealing with Inward Consignments, what account or accounts is it necessary for you to open in your books ? How is an Inward Consignment recorded by the Consignee ?

7. What is an Account Sales ? From what account do you get particulars to enable you to draw up an Account Sales ?

8. At the date of closing your books. how would you deal with an Outward Consignment account (1) where the consignment has not been sold by the Consignee, and (2) where the consignment has been only partially sold by your Agent ?

9. What is a *Pro Forma* Invoice ? How does it differ from an ordinary Invoice, and what purpose does it serve ?

10. (*a*) T. Silva & Co. of Colombo (Copra dealers) send a consignment of 200 bags copra (250 cwts.) valued at Rs. 1,250 (£ 83.6.8) to H. Wilkins, London. The Consignee is to receive a commission of 3% on gross proceeds plus 3% *del credere*. The Colombo charges are as follows :—

Cost of bags	Rs.	60	(£ 4.0.0)
Shipping charges	Rs.	40	(£ 2.13.4)
Harbour dues	Rs.	8	(10s. 8d.)
Marine Insurance	Rs.	7	(9s. 4d.)
Freight	Rs.	312	(£ 20.16.0)
They draw on the Consignee for	Rs.	1,000	(£ 66.13.4)

The Consignee incurs the following expenses in London :—

Landing Charges	Rs.	30	(£ 2.0.0)
Duty	Rs.	60	(£ 4.0.0)
Fire Insurance	Rs.	5	(6s. 8d.)
Warehouse rent	Rs.	6	(8s.)

He sells the consignment as follows :—

80 bags @ Rs. 10 (13s. 4d.) a bag
50 ,, @ Rs. 9 (12s.) a bag
and the balance for Rs. 750 (£ 50.0.0)

and remits the balance due to the Consignor by bank draft.

Draw up an Account Sales for the consignment and show T. Silva & Co's account in the Consignee's ledger, and also how the consignment is recorded in the Consignor's ledger.

(*b*) J. Fernando & Co., Colombo (Cinnamon dealers) send a Consignment of 100 bales cinnamon each 100 lbs. net @ 31 cents (5d.) per lb., to R. Jones, London. The Colombo charges are :—

Harbour Dues	Rs. 2	(2s. 8d.)
Marine Insurance	Rs. 20	(£ 1.6.8)
Freight	Rs. 319	(£ 21.5.4)
Sundries	Rs. 7.50	(10s).

The Consignee pays the following charges in London :—

Landing	Rs. 25	(£ 1.13.4)
Duty	Rs. 50	(£ 3.6.8)
Fire Insurance	Rs. 4.50	(6s.)
Warehouse rent	Rs. 5	(6s. 8d.)
and sells the consignment for	Rs. 4,500	(£ 300.0.0)

He is allowed a commission of 2½% on gross proceeds, plus 2½% *der credere.*

The Consignors draw on the Consignee for Rs. 1,500 (£ 100.0.0) against the consignment. The Consignee, when sending the consignor an Account Sales, remits the balance due, by bank draft.

Show how this consignment will be recorded in (*a*) the Consignor's ledger; (*b*) the Consignee's ledger. Draw up in proper form an Account Sales showing the net proceeds of sales.

(*c*) On March 30, 1938 I received a consignment of 10 cases Toys from Hiyoto & Co. of Japan for sale on their account. The *pro-forma* invoice value of the goods was Rs. 1,500 (£ 100.0.0) and I was to receive 3% commission on gross proceeds of sale plus 2% *del credere*, The consignors drew on me for half invoice value, and the draft was duly met.

On June 30 I sold 4 cases at Rs. 200 (£ 13.6.8) per case, and the balance at Rs. 225 (£ 15.0.0) per case.

The Colombo charges were: Landing Rs. 25 (£ 1.13.4); Duty Rs. 55 (£. 3.13.4); Fire Insurance Rs. 6 (8s.); Warehouse rent Rs. 8 (10s. 8d.)

Make out in proper form an Account Sales showing net proceeds and also the Consignors' account showing what balance I owe them.

CHAPTER XVI

Joint Accounts and Contract Accounts

Joint Accounts. In the last chapter we considered adventures or risks taken by a Consignor in sending consignments to an Agent abroad. In such consignments the Consignor took the *full* risk of the adventure, and any profit or loss he made on it was entirely his own. Frequently, however, a merchant shares the risk of buying and selling goods with other parties, the profit or loss being divided in proportion to the share taken in the venture by each party. In such a transaction, a *Joint Adventure Account* is opened and debited with the value of the goods as well as with any expenses incurred and any commission that may be charged by the seller. The account is later credited with the sum realised by sales, and the balance profit or loss divided among the adventurers. To take a very simple illustration :

> I bought goods for cash Rs. 3,000 on J/A with R. Peries. These goods were sold to J. Fernando for Rs. 4,000 and I charged a commission of 3% on the sale.

The following entries will be necessary :—

J/A with R. Peries Dr.	Rs.	3,000·00		
To Cash			Rs.	3,000·00
(to be passed through Cash Book)				
J. Fernando Dr.	Rs.	4,000·00		
To J/A with R. Peries			Rs.	4,000·00
J/A with R. Peries Dr.	Rs.	120·00		
To Commission a/c			Rs.	120·00
J/A with R. Peries Dr.	Rs.	880·00		
To R. Peries			Rs.	440·00
,, P. & L. a/c			,,	440·00

and the Joint Adventure would appear in my Ledger as under :—

Dr. JOINT ACCOUNT WITH R. PERIES Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash	3,000	00	By J. Fernando	4,000	00
„ Commission	120	00			
„ Profit transferred to R. Peries	440	00			
P. & L. a/c	440	00			
Rs.	4,000	00	Rs.	4,000	00

The above transaction is simple enough, but often a consignment is sent to an Agent abroad on Joint Account of both Consignor and Consignee. As in the above illustration, the Consignor opens a Joint Adventure account in his Ledger and debits it with the value of the goods plus all expenses incurred by him. If he draws against the consignment and discounts the Bill at the bank, the Bank charges may also be debited to the Joint Adventure account. The Consignor sends a Pro Forma invoice to the Consignee to show exactly what the goods cost and what his expenses have been. He also credits the Joint Adventure account with any draft he may draw against the consignment as also with any remittance in settlement made to him by the Consignee.

The Consignee, on the other hand, opens a Joint Adventure account in the Ledger, and debits it with all the expenses he has been put to at his end, such as landing charges, fire insurance, duty, etc. He also debits the account with any drafts the Consignor may have drawn on him and credits it with proceeds of sales. He then apportions the resulting profit by debiting the Joint Adventure Account and crediting *half* to his own P. & L. account, and remits any balance due to the Consignor.

By way of illustration, let us take the following transactions :—

A Perera & Sons of Colombo ship to B. Henty of London 200 cases of tea valued at Rs. 8,000 on Joint Account. A Perera & Sons incur the follow-

ing expenses :—Marine Insurance Rs. 16 ; Freight Rs. 220 ; Shipping charges Rs. 80. They draw on B. Henty, on account of the consignment for Rs. 4,000, and discount the Bill at the Bank, the bank discount being Rs. 75. The expenses of B. Henty in London are as follows : Landing charges Rs. 25 ; Warehouse rent Rs. 10 ; Fire insurance Rs. 8 ; Duty Rs. 30.

The Consignee sells the consignment as follows : 100 cases @ Rs. 50 per case ; 40 cases @ Rs. 60 per case ; and 60 cases @ Rs. 68 per case. He remits the balance due to the Consignors by bank draft, having deducted his half share of profit

The Joint Accounts in the Consignors' and the Consignee's Ledgers respectively will be as under :—

Dr. JOINT ACCOUNT WITH B. HENTY Cr.

	Rs.	Cts.		Rs.	Cts.
To Cost of 200 c/s tea ..	8,000	00	By B. R.	4,000	00
„ Marine insurance	16	00	„ Cash	5,899	00
„ Freight	220	00			
„ Shipping Charges	80	00			
„ Discount on B. R. ...	75	00			
„ P. & L. a/c (½ share Profit	1,508	00			
Rs.	9,899	00	Rs.	9,899	00

Dr. JOINT ACCOUNT WITH A. PERERA & SONS Cr.

	Rs.	Cts.		Rs.	Cts.
To Draft of A. Perera & Sons paid	4,000	00	By Sales 100 c/s @ Rs. 50 ..	5,000	00
„ Landing charges	25	00	40 c/s @ „ 60 ..	2,400	00
„ Warehouse rent	10	00	60 c/s @ „ 68 ..	4,080	00
„ Fire insurance	8	00			
„ Duty	30	00			
„ P. & L. a/c (½ share profit	1,508	00			
„ Bank draft	5,899	00			
Rs.	11,480	00	Rs.	11,480	00

You may ask how Henty computed his half share of profit at Rs. 1,508 before he sent Perera & Sons a remittance in settlement of the balance due. The answer is simple. From the *pro Forma* Invoice he received, he knew the cost of the consignment and the Colombo charges. He also knew what his own charges in London were. Combining these two, he deducted the total from the proceeds of sale and divided the difference by two in order to ascertain his half share of the profit, as follows :—

Proceeds of sale			Rs.	11,480·00
Less				
Value of consignment	Rs.	8,000·00		
Colombo charges	,,	391·00		
London charges	,,	73·00	,,	8,464·00
Total profit			Rs.	3,016·00
Half profit			Rs.	1,508·00

The combined statement in connection with the venture may be set out as follows :—

Dr. JOINT ADVENTURE IN TEA Cr.

	Rs.	Cts.		Rs.	Cts.
To Cost of 200 c/s tea	8,000	00	By Sales:—		
,, *Colombo charges:*			100 c/s @ Rs. 50 ..	5,000	00
Marine insurance ..	16	00	40 c/s @ ,, 60 ..	2,400	00
Freight	220	00	60 c/s @ ,, 68 ..	4,080	00
Shipping charges ,..	80	00			
Disct. on B. R.....	75	00			
London charges:					
Landing charges	25	00			
Warehouse rent	10	00			
Fire Insurance	8	00			
Duty	30	00			
,, Net Profit:					
A. Perera & Sons ..	1,508	00			
B. Henty	1,508	00			
Rs.	11,480	00	Rs.	11,480	00

Contract Accounts. A contract is an undertaking to supply certain articles or to do certain work for a specified amount. The person who enters into such an agreement is called a Contractor. In undertaking work of this nature, a Contractor usually gives each contract a special number in his Contract Register and deals with each of them separately in his books because he will naturally want to know what profit or loss there is on each contract.

In order to carry out a contract for, say, the building of a house, various expenses are incurred by the Contractor such as the supply of materials, which of course is by far the heaviest item in the execution of a contract. The other expenses will include such items as cartage, wages and incidental expenses. All these items will be debited to the Contract account, as well as any charge made for the use of his plant. He will also open a personal account for his Principal, and credit that account with any instalment made to him on account of the contract. On completion of the contract, the Personal account is debited with the amount agreed upon for erecting the building, and the Contract account is credited with a similar sum. The balance of the Contract account will represent a profit or a loss to the Contractor on that particular contract, and will therefore be transferred to his P. & L. account.

For purposes of illustration, shall we say that A. Thomas contracted to erect a building for B. Butler for Rs. 6,000. His expenses in putting up the building were : Materials Rs. 4,800 ; Wages Rs. 660 ; Cartage Rs. 18, Incidental expenses Rs. 42. He received from B. Butler on two occasions Rs. 2,000 and Rs. 2,500. The entries A. Thomas should make in his books are as follows :—

Contract (Building) a/c	Dr.	Rs.	4,800·00		
To Materials				Rs.	4,800·00

Contract (Building) a/c	Dr. Rs. 720·00	
To Wages		Rs. 660·00
,, Cartage		,, 18·00
,, Incidental expenses		,, 42·00
(to be passed through the Cash Book)		
Cash	Dr. Rs. 4,500·00	
To B. Butler		Rs. 2,000·00
,, ,,		,, 2,500·00
(to be passed through the Cash Book)		

He will also, on completion of the contract, debit Butler, with the amount agreed upon, and credit the Contract account with that sum, as follows :—

B. Butler	Dr. Rs. 6,000·00	
To Contract (Building a/c)		Rs. 6,000·00

The account in his Ledger would then read as follows :—

Dr. CONTRACT No. 1 (Building) Cr.

	Rs.	Cts.		Rs.	Cts.
To Materials	4,800	00	By B. Butler as per Contract	6,000	00
,, Cash:					
Wages	660	00			
Cartage	18	00			
Sundries	42	00			
,, Profit transferred to P. & L. a/c	480	00			
Rs.	6,000	00	Rs.	6,000	00

Dr. B. BUTLER (Contract No. 1) Cr.

	Rs.	Cts.		Rs.	Cts.
To Contract (bldg. as per agreement....	6,000	00	By Cash............	2,000	00
			,, ,, ...	2,500	00
			,, Balance due	1,500	00
Rs.	6,000	00	Rs.	6,000	00

There is one point, however, that should be made clear. If at the time A. Thomas closes his books, the building remains unfinished, what should he do in connection

with the Contract Account ? In that case, it is better not to try to ascertain what profit he has made so far, because it would be difficult to apportion his expenses to the amount of work already done. The wiser way is to treat whatever he has spent on the contract as an Asset in his Balance Sheet, deducting from it any advance he may have received from Butler. For example, in the above illustration, if the building remains incomplete, he will show Rs. 1,020 as an Asset in his Balance Sheet from the following figures :—

Material	Rs.	4,800		
Wages	,,	600		
Cartage	,,	18		
Sundries	,,	42	Rs.	5,520
Less Advance received			,,	4,500
			Rs.	1,020

Exercise 16

1. What is a Joint Adventure account ?

2. Where a Consignor sends a consignment on Joint Account with a Consignee, name some of the items chargeable to the debit and credit sides of the Joint Adventure Account in the Ledgers of both Consignor and Consignee.

3. In the above case, how does the Consignee ascertain his proportion of profit ? Where would he enter such profit ?

4. To what account does the Consignor transfer his share of the profit on a specified Joint Adventure ?

5. What is a contract ?

6. Hov does a Contractor deal in his books with a contract for a definite piece of work ?

7. In case a contract is not complete at the time he closes his books, how does a Contractor show it in his accounts ?

8. (*a*) H. Henry purchases goods for cash on Joint Account with R. Roberts, value Rs. 2,160 (£ 144.0.0). R. Roberts sends him a cheque for Rs. 1,080 (£ 72.0.0) which was paid into bank, being his share of the cost of the articles. Henry sells the goods to B. Jones for Rs. 3,000 (£ 200.0.0) and charges a commission of 3% on the sale.

Make out the Joint Adventure account and R. Roberts' account as they would appear in H. Henry's Ledger.

(*b*) J. Black of Colombo sends a consignment to C. White, Sydney of 100 cases tea valued at Rs. 4,000 (£ 266.13.4) for sale on Joint Account. The Colombo charges are :—

Freight	Rs. 120	(£ 8.0.0)
Marine Insurance	Rs. 10	(13s. 4d.)
Shipping charges	Rs. 60	(£ 4.0.0)
Incidental expenses	Rs. 30	(£ 2.0.0)

The Sydney charges are :—

Landing	Rs. 20	(£ 1.6.8)
Warehouse rent	Rs. 18	(£ 1.4.0)
Fire Insurance	Rs. 8	(10s. 8d.)
Duty	Rs. 40	(£ 2.13.4)

The Consignee sells the goods for cash Rs. 5,200 (£ 346.13.4) and sends the Consignor a bank draft for the balance due, after deducting his share of profit.

Show how the Joint Account would appear in the Ledgers of the Consignor and the Consignee.

(*c*) S. Peter (contractor) undertakes to build a school for J. Morgan for Rs. 8,000 (£ 533.6.8). He has supplied material worth Rs. 6,000 (£ 400.0.0) and his expenses are ; Wages Rs. 600 (£ 40.0.0) ; Cartage Rs. 30 (£ 2.0.0) ; Incidental expenses Rs. 60 (£ 4.0.0). The use of his plant he estimated at Rs. 90 (£ 6.0.0). He received from J. Morgan an advance of Rs. 4,000 (£ 266.13.4.). On completion of the contract he received the balance due from Morgan.

Show the Contract account and J. Morgan's account in the books of S. Peter.

(*d*) On the 1st June, 1936 the books of L. Moses showed the following balances :—

Sundry Creditors	Rs.	1,620	(£ 108.0.0)
Sundry Debtors	Rs.	2,400	(£ 160.0.0)
Cash in hand	Rs.	890	(£ 59.6.8)
Cash at Bank	Rs.	6.200	(£ 413.6.8)
Bills Receivable	Rs.	2,800	(£ 186.13.4)
Bills Payable	Rs.	1,900	(£ 126.13.4)
Current Contracts : value of work done :			
Contract No. 1	Rs.	3,600	(£ 240.0.0)
,, No. 2	Rs.	4,800	(£ 320.0.0)
,, No. 3	Rs.	6,500	(£ 433.6.8)

Instalment received on Contracts :			
Contract 1 (T. Hentry) .	Rs.	500	(£ 33.6.8)
,, 2 (R. Jones)	Rs.	1,500	(£ 100.0.0)
,, 3 (B. Benger)	Rs.	3,000	(£ 200.0.0)
Plant & Machinery	Rs.	5,000	(£ 333.6.8)
Stock of Materials	Rs.	12,000	(£ 800.0.0)

Ascertain his Capital and open accounts in the Ledger.

The following are his transactions for June. You are required to enter them in suitable subsidiary books (transactions relating to Bills of Exchange may be journalised) and post to Ledger. Draw out a Trial Balance and a Balance Sheet as on June 30, 1936. (All cheques received are paid into bank upon receipt) :—

			Rs.	Cts.	£.	s.	d.
June	1	Paid cash into Bank........	300	00	20	0	0
,,	2	B.R. discounted at Bank....	1,000	00	66	13	4
		Bank charges on above.....	30	00	2	0	0
,,	4	Drew on Sundry Debtors...	1,200	00	80	0	0
,,	6	Materials supplied for contract No. 3.............	500	00	33	6	8
,,	9	Drew cheque for Wages :					
		Contract No. 1..........	150	00	10	0	0
		,, ,, 2..........	250	00	16	13	4
		,, ,, 3..........	300	00	20	0	0
,,	10	Materials supplied for Contract No. 1..........	600	00	40	0	0
,,	11	Accepted Bill from Sundry Creditors................	435	00	29	0	0
,,	15	Contract No. 2 completed. Received cheque from R. Jones in settlement of balance due.............	5,000	00	333	6	8
,,	18	Drew cheque for private expenses..............	300	00	20	0	0
,,	20	Sundry Debtors paid me by cheque.................	210	00	14	0	0
,,	22	Paid Sundry Creditors by cheque.................	180	00	12	0	0
,,	25	Bought Materials and paid by cheque..............	160	00	10	13	4
,,	28	Sold Materials for Cash.....	1,800	00	120	0	0
,,	30	Interest charged on Capital.	200	00	13	6	8
		Stock of Materials........	9,300	00	620	0	0
		Depreciate Plant & Machinery 5%					

CHAPTER XVII

Income and Expenditure Accounts

In some institutions where subscriptions are voluntary, it is usual for the Treasurer to submit periodically a statement giving a summary of the amounts he has actually received from various sources as well as of sundry disbursements he has actually made in cash. Such a statement is called a RECEIPTS AND PAYMENTS Account. It is nothing more or less than a summary of what is shown in his Cash Book or his Cash and Bank Accounts. It gives no particulars of any amounts outstanding, either of income earned but not received, or of liabilities incurred but not paid, and the balance of such an account merely shows what cash the Treasurer actually has at the end of the period covered by such a statement.

A Receipts and Payments Account, however, must not be confused with what is known as an INCOME AND EXPENDITURE Account which is an account of non-trading concerns such as a Society or a Club or an Association, and which gives a summary of *all* income and expenditure, whether cash has been actually received or not, or whether cash has been actually paid or not. The difference between a Receipts and Payments Account and an Income and Expenditure Account, therefore, is that whereas the former gives particulars of cash actually received or paid, the latter shows what income has been earned and what liabilities have been incurred, whether such income or expenditure has been received or paid in cash, or not.

An Income and Expenditure Account is really the equivalent of what in a trading concern we call the Profit & Loss Account, for it shows what profit or loss we have

made during a given period. That being so, you will understand that in such an account the income we derive, whether actually received or not, must be placed on the *credit* side of the account, while the liabilities we incur, whether actually paid or not, must be placed on the *debit* side. Remember that this account, in a non-trading concern, takes the place of the Profit & Loss account in a trading concern, and you will have no difficulty in making your entries accurately. For instance, subscriptions are due from three members of an Association. A, B and C, of Rs. 25 per head. While we debit each of these members with Rs. 25, we shall credit the Income and Expenditure account with Rs. 75. When cash is received from them, we shall adopt the usual procedure of crediting A, B and C and debiting our cash. On the other hand, if we incur certain expenditure and settle it by cash, we shall debit the Income and Expenditure account and credit cash.

Again, supposing we depreciate our Furniture, we shall debit our Income and Expenditure account (it being a loss) and credit our Furniture account in just the same way as we debited P. & L. account and credited Furniture account in a trading concern.

The balance of our Profit and Loss Account, as you know, is transferred to our Capital account. As the balance of the Income and Expenditure account also represents a profit or a loss, such a balance is similarly transferred to our Capital account and is shown in our Balance Sheet as such, together with any profits we had previously made. Some Associations, instead of opening a Capital account, substitute for it what they call a Reserve account, as they regard all the profit they have made as a reserve for meeting any unforeseen expenditure. But whether we call such an account a Capital account or a Reserve account, it will appear on the liabilities side of our Balance Sheet.

As a matter of fact, when an Income and Expenditure account is presented, it is customary also to submit with it a Balance Sheet in the usual form, the balance of the Income and Expenditure account being shown in such Balance Sheet as Capital.

Let us take an illustration :—

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ended 31st December, 1936 Cr.

Expenditure	Rs.	Cts.	Income	Rs.	Cts.
To rent	900	00	By subscriptions	4,000	00
,, wages and salaries ..	2,400	00	,, bank interest	125	00
,, printing & stationery	250	00	,, donations	500	00
,, bad debts	150	00			
,, sundries	420	00			
,, depreciation of furniture	100	00			
,, postage	60	00			
,, balance profit transferred to Capital a/c	345	00			
Rs.	4,625	00	Rs.	4,625	00

BALANCE SHEET at 31st December, 1936

Liabilities	Rs.	Cts.	Assets	Rs.	Cts.
Sundry Creditors	480	00	Sundry Debtors......	1,300	00
Subscriptions paid in Advance	120	00	Cash at Bank	5,600	00
CAPITAL A/C :— Per last statement Rs. 6,855·00 Inc. & Exp. a/c ,, 345·00	7,200	00	Furniture Rs. 1,000·00 *Less* depreciation ,, 100·00	900	00
Rs.	7,800	00	Rs,	7,800	00

From the above statements you will observe that a profit of Rs. 345 was made during the year 1936. This amount, added to the Capital of Rs. 6,855 shown in the previous Balance Sheet, makes a total Capital at the end of 1936, of Rs. 7,200. If, on the other hand, the Income and Expenditure account showed a loss instead of a profit, that loss will be *deducted* from the previous Capital.

You will also notice that Furniture has been depreciated by Rs. 100. This amount has been shown on the debit side of the Income and Expenditure account (it being a loss), and also as a deduction from Furniture on the Assets side of the Balance Sheet.

Revenue Account. The Income and Expenditure account is also sometimes called a Revenue account, although this term is usually applied to the accounts of Railway Companies, Water and Lighting Companies, etc. The Revenue account, like the Income and Expenditure account, embraces all income or profits made, and against this is charged all expenses or losses, the balance indicating what profit or loss has been made on the Revenue account. And here it would be well for you to distinguish between Capital and Revenue expenditure. *Capital Expenditure* is expenditure incurred in adding to your Assets, as, for instance, when you buy new machinery or extend your property. In either case your Assets have increased in value and the particular asset affected will be debited with such expenditure, while cash will be credited. *Revenue Expenditure*, on the other hand, is concerned with such items as repairs to machinery. It does not add to your existing assets but has the effect of maintaining the value of such assets. Such an expenditure is of course a loss and should therefore rightly be debited to the Revenue account.

From what you have learnt in the proceding paragraphs, you will observe that Income and Expenditure account, Revenue account, and P. & L. account are all identical. The difference lies solely in the kind of business that employs one or more of these terms. An Income and Expenditure account applies to non-trading concerns ; a Profit and Loss account applies to trading concerns ; and a Revenue account applies to Companies such as Water and Lighting Companies.

Exercise 17

1. What is a Receipts and Payments account ?

2. What is an Income and Expenditure account, and in what respects does it differ from a Receipts and Payments account ?

3. Who keeps an Income and Expenditure account? Does such an account differ from a P. & L. account ?

4. What is a Revenue account ? Distinguish between Capital and Revenue expenditure.

5. From the following particulars draw up an Income and Expenditure account of the Colombo Sports Association for the year 1936, and a Balance Sheet as at 31st December, 1936 :—

	Rs.	Cts.	£	s.	d.
Subscriptions paid....................	4,600	00	306	13	4
,, in arrears..............	800	00	53	6	8
Rent paid...........................	1,200	00	80	0	0
Rates and Taxes (unpaid).............	460	00	30	13	4
Repairs.............................	60	00	4	0	0
Printing and Stationery...............	120	00	8	0	0
Postage.............................	45	00	3	0	0
Donation received....................	25	00	1	13	4
Incidental expenses..................	64	00	4	5	4
ASSETS :—					
Sundry Debtors..................	250	00	16	13	4
Furniture.......................	1,200	00	80	0	0
Stock of wines, etc................	1,860	00	124	0	0
Cash...........................	4,046	00	269	14	8
LIABILITIES :—					
Sundry Creditors.................	620	00	41	6	8
CAPITAL Account. Balance from last statement..................	3,600	00	240	0	0

Depreciate Furniture 10%

CHAPTER XVIII

Partnership Accounts

In the exercise we have done so far, we have regarded each business as the property of a single person or a 'sole trader,' and we opened a Capital account in each case to record the proprietor's personal account in the firm.

Frequently, a 'Partnership' is entered into by two or more persons (not exceeding twenty ; or ten in the case of Banking concerns) for the purpose of conducting a definite business. In such a case, it will of course be necessary to have a separate Capital account for each such partner. For instance, if Robert Fernando and P. Joseph were partners in a Firm, there would be two Capital accounts : Robert Fernando's Capital Account and P. Joseph's Capital Account.

In the Partnership Act of 1890 a PARTNERSHIP has been defined as 'the relation which subsists between persons carrying on a business with a view to profit.' When such a partnership exists, it must be evident to you that some agreement should be reached as to the exact position of each partner, the Capital to be subscribed by each, the division of profits, etc., in order to avoid future complications. This contract or agreement need not necessarily be in writing and may be made orally or be inferred from the conduct of the partners, but it is usual and expedient to record this agreement in writing in what is known as the ARTICLES OF PARTNERSHIP which should include among other things :—

(1) The name and nature of the business.
(2) The Capital to be invested by each partner.
(3) The salary, if any, to be paid to each partner.

(4) The amount each partner may draw in any year in anticipation of profits.
(5) The rate of interest chargeable on drawings.
(6) The interest to be allowed on the Capital of the partners.
(7) The proportion in which profits or losses should be divided among the partners.
(8) The value of goodwill on the death or retirement of a partner or on the admission of a new partner.
(9) A clause providing for arbitration in case of dispute.

Subsidiary Capital Accounts. In order not to overburden the Capital account proper and to keep the earnings and the liabilities of the partners distinct, various subsidiary Capital accounts are sometimes kept for each partner, such as Interest account, Salaries account, and the like. In that way it becomes clear at a glance what each partner has gained or has been debited with, on each such item. It is not proposed in this volume to deal with all of these subsidiary accounts individually, and it will suffice for our purpose if we have only two subsidiary Capital accounts which we shall call (1) a DRAWINGS ACCOUNT ; and (2) a CURRENT ACCOUNT. In the former we shall record the amounts drawn out of the firm by each partner during the trading period, and in the latter we shall combine all the various amounts (excluding Drawings) with which each partner should properly be debited and credited. As in the case of other subsidiary accounts, these two accounts will then be balanced, and the balances transferred to the opposite side of the main account, in this case the Capital account.

Let us take an illustration :

A Adam and B. Beach are partners in a firm, the former contributing Rs. 20,000 as Capital, and the latter Rs. 10,000. According to the Articles of Partnership, each partner is to be credited with interest on his Capital at 6% and the profits or losses are to be divided equally. Each of the partners is to receive Rs. 1,200 per annum as salary. The accounts of the partners may then appear as follows :—

Dr. A. ADAM'S CAPITAL A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Drawings a/c	1,400	00	By Balance	20,000	00
„ Balance Capital c/d..	27,000	00	„ Current a/c	8,400	00
Rs.	28,400	00	Rs.	28,400	00
			By Balance b/d Rs.	27,000	00

Dr. A. ADAM'S DRAWINGS A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash	200	00	By Balance transferred to Capital a/c ..	1,400	00
„ „	450	00			
„ „	350	00			
„ „	400	00			
Rs.	1,400	00	Rs.	1,400	00

Dr. A. ADAM'S CURRENT A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance transferred to Capital a/c	8,400	00	By Interest on Capital	1,200	00
			„ Salary	1,200	00
			„ ½ share net profit ..	6,000	00
Rs.	8,400	00	Rs.	8,400	00

Dr. B. BEACH'S CAPITAL A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Drawings a/c	1,500	00	By Balance	10,000	00
„ Balance Capital c/d..	16,300	00	„ Current a/c	7,800	00
Rs.	17,800	00	Rs.	17,800	00
			By Balance b/d Rs.	16,300	00

Dr. B. BEACH'S DRAWINGS ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash	300	00	By Balance transferred to Capital a/c	1,500	00
„ „	300	00			
„ „	400	00			
„ „	500	00			
Rs.	1,500	00	Rs.	1,500	00

Dr. B. BEACH'S CURRENT ACCOUNT Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance transferred to Capital a/c	7,800	00	By Interest on Capital	600	00
			,, Salary	1,200	00
			,, ½ share net profit..	6,000	00
Rs.	7,800	00	Rs.	7,800	00

The Capital of the two partners is shown on the Liabilities side of the Balance Sheet as follows :—

CAPITAL A/cs :—	Rs. Cts.	Rs. Cts.
A. Adam	20,000 00	
Less Drawings	1,400 00	
	18,600 00	
Add Int. on Capital	1,200 00	
Salary	1,200 00	
½ net profit	6,000 00	27,000 00
B. Beach	10,000 00	
Less Drawings	1,500 00	
	8,500 00	
Add Int. on Capital	600 00	
Salary	1,200 00	
½ net profit	6,000 00	16,300 00

The above method of showing the Capital of the different partners may be adopted by the student in working his exercises.

An alternative method of dealing with partners' Capital is sometimes employed where the Capital is fixed. The partners' Capital accounts are shown intact, and a Current account deals with *all* items to be credited or debited to the partners. In such a case the accounts will appear as under :—

Dr. A. ADAM'S CAPITAL A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance c/d	20,000	00	By Balance	20,000	00
			By Balance b/d Rs.	20,000	00

Dr. A. ADAM'S CURRENT A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash (drawings)	200	00	By Int. on Capital	1,200	00
,, ,, ,, ...	450	00	,, Salary	1,200	00
,, ,, ,, ...	350	00	,, ½ net profit	6,000	00
,, ,, ,, ...	400	00			
,, Balance c/d	7,000	00			
Rs.	8,400	00	Rs.	8,400	00
			By Balance b/d Rs.	7,000	00

Dr. B. BEACH'S CAPITAL A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance c/d	10,000	00	By Balance	10,000	00
			By Balance b/d Rs.	10,000	00

Dr. B. BEACH'S CURRENT A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Cash (drawings)	300	00	By Int. on Capital	600	00
,, ,, ,, ...	300	00	,, Salary............	1,200	00
,, ,, ,, ...	400	00	,, ½ net profit	6,000	00
,, ,, ,, ...	500	00			
,, Balance c/d	6,300	00			
Rs.	7,800	00	Rs.	7,800	00
			By Balance b/d Rs.	6,300	00

and the accounts on the Liabilities side of the Balance Sheet will be shown as follows :—

	Rs. Cts.	Rs. Cts.
CAPITAL		
A. Adam	20,000 00	
B. Beach	10,000 00	30,000 00
CURRENT A/cs		
A. Adam :		
Int. on Capital	1,200 00	
Salary	1,200 00	
½ net profit	6,000 00	
	8,400 00	
Less Drawings	1,400 00	7,000 00
B. Beach		
Int. on Capital	600 00	
Salary	1,200 00	
½ net profit	6,000 00	
	7,800 00	
Less Drawings	1,500 00	6,300 00

In the above illustration you will observe that the balances of both the Capital and the Current Account are *brought down*, and are shown as separate items in the Balance Sheet. If, in the Current account, the amount shows a loss to partners instead of a gain, then such amount will appear on the Assets side of the Balance Sheet as being due to the firm by the partners concerned.

Interest on Capital, the Salary of partners, etc., which appear as credit entries in the partners' accounts, will of course find their corresponding debits in the P. & L. account. On the other hand, if by agreement it is decided that the partners should pay interest on their drawings then the partners' Drawings account will be debited with such interest and the P. & L. account credited as being a gain to the firm.

Exercise 18

1. What do you understand by a Partnership ? How many partners may there be in (*a*) an ordinary partnership, (*b*) a Banking institution ?

2. What are Articles of Partnership? Name some of the principal items that should appear in such Articles.

3. What is a Partner's Drawings account? Through what books would you pass such Drawings ?

4. What is a Partner's Current account? Name a few items that would appear in such an account.

5. If the Capital of the various partners in a firm is unequal, suggest some method whereby the partner with the greater Capital may earn more than the partner with less Capital.

6. Why do partners sometimes charge interest on their Capital ?

7. Is it desirable that partners should pay interest on their Drawings ? If so, why ?

8. (*a*) C. Collins and D. Dream are partners in a trading concern. Collins contributes Rs. 51,000 (£ 3,400.0.0) as Capital and Dream Rs. 24,000 (£ 1,600.0.0). Interest on Capital to be credited to partners at 5% and the profits or losses are to be divided two-thirds to Collins and one-third to Dream. They are each to be paid a salary of Rs. 3,000 (£ 200.0.0) per annum. The total net profit for the year is Rs. 12,000 (£ 800.0.0). Show the partners' Current and Capital accounts in the books of the firm, and how the Capital would appear in the Balance Sheet.

(*b*) E. Earle, F. Fagin and G. Grant are co-partners in a firm of chocolate manufacturers. On January 1, 1936 their Capital was Rs. 75,000 (£5,000.0.0), Rs. 50,000 (£3,333.6.8) and Rs. 25,000 (£1,666.13.4) respectively. Each partner was to receive 5% interest on his Capital and to be paid Rs. 3,000 (£200.0.0) per annum as salary.

The net profit on the business for 1936 was Rs. 18,000 (£1,200.0.0) to be divided among the partners in proportion to their Capital.

The Drawings of the partners during the year were as follows :—

E. Earle	Rs.	4,000	£	266	13	4
F. Fagin	Rs.	2,800	£	186	13	4
G. Grant	Rs.	3,500	£	233	6	8

No interest to be charged on their Drawings.

Prepare and balance the partners' respective Capital accounts.

(*c*) On December 31, 1938 the following Trial Balance was extracted from the books of the firm in which H. Hynes and I. Ignatius were partners :—

TRIAL BALANCE

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£	s.	d.	£	s.	d.
H. Hynes Capital a/c			60,000	00				4,000	0	0
I. Ignatius ,,			30,000	00				2,000	0	0
Sundry Debtors	6,600	00			440	0	0			
Sundry Creditors			1,500	00				100	0	0
Plant & Machinery	15,000	00			1,000	0	0			
Furniture	6,000	00			400	0	0			
Purchases	8,000	00			533	6	8			
Sales			30,000	00				2,000	0	0
Purchases Returns			250	00				16	13	4
Sales Returns	560	00			37	6	8			
Sundry Expenses	380	00			25	6	8			
Wages & Salaries	4,800	00			320	0	0			
Stock (Jan. 1, 1938)	42,000	00			2,800	0	0			
Bills Receivable	7,000	00			466	13	4			
Bills Payable			2,500	00				166	13	4
Carriage Inwards	230	00			15	6	8			
Carriage Outwards	350	00			23	6	8			
H. Hynes Drawings a/c	2,400	00			160	0	0			
Ignatius Drawings a/c	2,000	00			133	6	8			
Cash in hand	1 600	00			106	13	4			
Cash at Bank	27,330	00			1,822	0	0			
Rs.	124,250	00	124,250	00	8,283	6	8	8,283	6	8

Prepare Trading and P. & L. accounts for the year 1938 and a Balance Sheet as on 31st December, 1938, after making the following adjustments :—

(1) 6% interest to be allowed on Partners' Capital but no interest to be charged on Drawings ;

(2) Depreciate Plant & Machinery 10% and Furniture 5% ;

(3) Create a Reserve for Bad & Doubtful Debts of 10% on Sundry Debtors ;

(4) Value of stock, December 31, 1938 : Rs. 33,000 (£2.200.0.0)

(5) Profits or losses to be divided *pro rata* to partners' Capital ;

Note : Debit 'Carriage Inwards' to Trading a/c, as being part of cost of purchases ; debit 'Carriage outwards' to P. & L. a/c.

(*d*) The following represents the Trial Balance of Messrs. Jenkins & Kennedy on 31st December. 1936 :—

TRIAL BALANCE

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£	s.	d.	£	s.	d.
J. Jenkins', Capital a/c			40,000	00				2,666	13	4
K. Kennedy's Capital a/c			15,000	00				1,000	0	0
J. Jenkins' Drawings a/c	1,500	00			100	0	0			
K, Kennedy's Drawings a/c	500	00			33	6	8			
Plant & Machinery	15,000	00			1,000	0	0			
Furniture	5,000	00			333	6	8			
Stock (Jan. 1, 1936)	40,000	00			2,666	13	4			
Sundry Debtors	9,000	00			600	0	0			
,, Creditors			5,500	00				366	13	4
Reserve for Bad Debts			500	00				33	6	8
Purchases	6,800	00			453	6	8			
Sales			28,000	00				1,866	13	4
Returns Inwards	275	00			18	6	8			
Returns Outwards			150	00				10	0	0
Manufacturing wages	3,600	00			240	0	0			
Salaries	2,400	00			160	0	0			
Cash in hand	1,600	00			106	13	4			
Cash at Bank	3,475	00			231	13	4			
Rs.	89,150	00	89,150	00	5,943	6	8	5,943	6	8

The partners are to receive no salary but they should be credited with 6% interest on their Capital. The net profits or losses to be shared *pro rata* to their Capital.

Depreciate Plant & Machinery 10%

Prepare Trading and P. & L. accounts, for the year ended 31st December, 1936, and a Balance Sheet as on that date.

Value of Stock, 31st December, 1936 Rs. 26,000.00 (£1,733.6.8)

CHAPTER XIX

Sectional Ledgers

In large business houses, it is usual to sub-divide the Ledger into sections. These are designated :—

(1) THE GENERAL LEDGER, in which are recorded all accounts of an impersonal nature. In other words, all Real and Nominal accounts are entered in this Ledger. The Trading account and its subsidiary accounts, the P. & L. account and its subsidiary accounts, the Capital account, are all accounts that would properly be entered in the General Ledger. The Cash and Bank accounts, as shown in the Cash Book, are of course also part of the General Ledger.

A section of the General Ledger is sometimes recorded in a separate Ledger called the PRIVATE LEDGER which contains only the Partners' Capital, Drawings, and Current accounts, and the P. & L. account.

(2) THE SALES LEDGER, also called the Sold Ledger or the Debtors' Ledger, in which are recorded personal accounts of Debtors. When we sell goods to a person that person is debited with the amount, and so his personal account appears in the Sales Ledger. Apart from Sales, too, if a person's account is debited for some other reason, his account should be shown in the Sales Ledger. That is why it is sometimes known as the Debtors' Ledger.

(3) THE PURCHASES LEDGER, also called the Bought Ledger or the Creditors' Ledger, in which are recorded personal accounts of Creditors.

The personal accounts in the Sales and Purchases Ledgers remain in their respective Ledgers when remittances are made by or to the persons concerned. For instance, when we sell goods to J. Smith, his account will naturally

appear in the Sales Ledger. When he pays us money in full or part settlement of his debt, he will be credited with the amount, and his account will still remain in the Sales Ledger although a credit entry has been made in it.

You will see, then, that instead of using one Ledger as we have done hitherto, we should use three Ledgers, as follows :—

(1) A GENERAL LEDGER (for all Real and Nominal accounts);

(2) A SALES LEDGER (for all personal accounts of Debtors);

(3) A PURCHASES LEDGER (for all personal accounts of Creditors).

In drawing up your Trial Balance, you will see to it that the balances of these various Ledger accounts are kept distinct, as follows :—

TRIAL BALANCE

	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
General Ledger				
Cash	4,840	00		
Bank	12,075	00		
Stock of goods	9,680	00		
Furniture	2,360	00		
Capital			30,530	00
Sales			9,500	00
Reserve for Bad Debts			1,000	00
Repairs	20	00		
Purchases	1,920	00		
Trade Expenses	120	00		
Wages	380	00		
Rent	105	00		
Returns Outwards			100	00
Sales Ledger				
M. Martin	1,500	00		
N. Noble	2,040	00		
O. Ogle	5,000	00		
P. Peter	3,000	00		
Purchases Ledger				
R. Roberts			210	00
S. Sandy			300	00
T. Trent			500	00
W. Wattle			900	00
Rs.	43,040	00	43,040	00

In working your exercises, see that your Ledger is subdivided into these three sections, indicating at the top of each page what Ledger it is—General Ledger, Sales Ledger or Purchases Ledger. The Ledger Folio column of the subsidiary books should also show to what particular Ledger the respective entries are posted. The letters G. L., S.L., and P.L., will suffice for this purpose, with the addition of the folio number of each such Ledger, *e.g.*, G. L. 8 will indicate a posting to folio 8 of the General Ledger.

There is no real difficulty in following the above procedure. All that is done is the substitution of three different Ledgers for one Ledger; in other words, one Ledger is sub-divided into three sections as indicated above.

One question may arise in connection with these Sectional Ledgers. Supposing we both buy goods from, and sell goods to, the same party, in what Ledger should his account appear? The answer is that his account will remain in the Ledger in which it was originally opened. Cases of this kind are, however, very infrequent.

Self-Balancing Ledgers. The Sectional Ledgers referred to above are usually made self-balancing. This is done particularly in order that any error may be more easily located; that is to say, if any particular Sectional Ledger does not give a correct Trial Balance, we shall have to restrict our checking to that particular Ledger in order to detect our mistake.

If we adopt the plan given in the previous paragraphs on Sectional Ledgers, it is plain that not one of the three Ledgers can be self-balancing, for the very good reason that an entry made on the debit side of a Sales Ledger account may find its corresponding credit entry on the credit side of a General Ledger account. For instance, if I sell goods to R. Roberts for Rs. 100, the Sales a/c in the *General Ledger* will be credited with that amount: *By Roberts Rs.* 100. The corresponding debit entry will appear in R. Roberts' a/c in the *Sales Ledger: To Sales Rs.* 100.

That being so, the sum of the debits and the sum of the credits in any particular Ledger cannot agree, although the sum of the debits and the credits in all three Ledgers taken together should be equal. In other words, the balances appearing in the Trial Balance of each separate Ledger will not present equal totals.

In order to make each Ledger self-balancing, therefore, some adjustment is necessary. This is done in the following manner:—

(*a*) GENERAL LEDGER. Open two adjustment accounts: (1) A SALES LEDGER ADJUSTMENT A/C to which is *debited* the balance of the Debtors' accounts as shown in the Sales Ledger, and (2) a PURCHASES LEDGER ADJUSTMENT A/C to which is *credited* the balance of the Creditors' accounts as shown in the Purchases Ledger.

(*b*) SALES LEDGER. Open a GENERAL LEDGER ADJUSTMENT A/C and *credit* it with the balance of the Debtors' accounts appearing in that Ledger. The corresponding *debit* entry of this total will appear in the Sales Ledger Adjustment A/c in the General Ledger as shown in (*a*) above.

(*c*) PURCHASES LEDGER. Open a GENERAL LEDGER ADJUSTMENT A/C and *debit* it with the balance of the Creditors' accounts in that Ledger. The corresponding *credit* entry will appear in the Purchases Ledger Adjustment A/c in the General Ledger as shown in (*a*) above.

The Sales Ledger Adjustment A/c and the Purchases Ledger Adjustment A/c in the General Ledger will then represent a summary of the personal accounts in the Sales Ledger and the Purchases Ledger respectively. You will see, therefore, that instead of showing every personal account in the General Ledger, which would occupy probably the greater part of the Ledger, we have a summary of these in the two Adjustment accounts. Particulars regarding the personal account of any individual, will of course be shown in either the Sales Ledger or the Purchases Ledger according to whether the person is a debtor or a creditor.

I have said above that in the Sales Ledger, a General Ledger Adjustment account is opened, and credited with the balance of the Debtors' accounts. The other postings to the Sales Ledger are made from one or other of the various subsidiary books we have already studied. In practice, the debits and credits of the Adjustment accounts are entered from the totals of the subsidiary books. For instance, you have learnt that the total of the Sales Book is posted to the credit of the Sales account in the General Ledger, and the individual items are debited to the personal accounts in the Sales Ledger. In addition to these postings, the *total* of the Sales Book is posted to the credit of the General Ledger Adjustment account in the Sales Ledger, and debited to the Sales Ledger Adjustment account in the General Ledger.

Similarly, reverse postings to the Adjustment accounts are made in connection with the Purchases Book.

So far as the Cash Book is concerned, an extra column is provided on each side, the column on the debit side giving particulars of items to be posted to the Sales Ledger, and the column on the credit side giving particulars of items to be posted to the Purchases Ledger. The total of this debit column is then posted to the debit of the General Ledger Adjustment account in the Sales Ledger and to the credit of the Sales Ledger Adjustment account in the General Ledger. Conversely, the total of the Credit column is posted to the credit of the General Ledger Adjustment account in the Purchases Ledger, and to the debit of the Purchases Ledger Adjustment account in the General Ledger.

A similar procedure is adopted in connection with the Journal, the Bills Books and the Returns Books.

Let us take a very simple exercise to illustrate our meaning :—

On December 1, 1938 P. Rodrigo's books showed the following balances :—

			Dr.		Cr.	
			Rs.	Cts.	Rs.	Cts.
Cash at Bank			10,000	00		
Sundry Debtors:						
A. Perera	200	00				
B. Silva	1,300	00				
C. Fernando	250	00	1,750	00		
Sundry Creditors:						
D. Alwis	1,095	00				
T. Samuel	45	00				
R. Thomas	80	00			1,220	00
Stock of goods			30,000	00		
Furniture			2,100	00		
Capital					42,630	00
		Rs.	43,850	00	43,850	00

His transactions during the month were as follows :—

			Rs.	Cts.
Dec.	1	Sold goods to A. Perera	4,000	00
	3	Drew on B. Silva for	1,000	00
	4	Paid cheque to D. Alwis	485	00
		Discount allowed	15	00
	5	Bought goods from T. Samuel	600	00
	10	Sold goods to C. Fernando	3,300	00
	12	C. Fernando returned goods	80	00
	15	Received cheque from A. Perera which was paid into bank	2,400	00
		Discount allowed	100	00
	16	Sold goods for cash which was paid into bank	8,000	00

My books will then show the following entries and postings

CASH BOOK

	Sales Led. Rs.	c.	Dis. Rs.	c.	Bank Rs,	c.		Purch. Led. Rs.	c.	Dis. Rs.	c.	Bank Rs.	c.
To Balance					10,000	00	By D. Alwis	500	00	15	00	485	00
,, A. Perera	2,500	00	100	00	2,400	00	,, Balance c/d					19,915	00
,, Sales					8,000	00							
	2,500	00	100	00	20,400	00		500	00	15	00	20,400	00
To Balance b/d					19,915	co							

Note:— (*a*) Cash column has not been provided as all payments and receipts refer to Bank.

(*b*) Bank and Discount accounts, being impersonal, must be regarded as General Ledger accounts.

SALES BOOK

				Rs.	Cts.
Dec.	1	A. Perera	S. L.	4,000	00
		C. Fernando	S. L.	3,300	00
		Sales Total	G. L.	7,300	00

PURCHASES BOOK

				Rs.	Cts.
Dec.	5	T. Samuel	P. L.	600	00
		Purchases Total	G. L.	600	00

RETURNS INWARDS BOOK

				Rs.	Cts.
Dec.	12	C. Fernando	S. L.	80	00
		Returns Inwards Total	G. L.	80	00

BILLS RECEIVABLE BOOK

				Rs.	Cts.
Dec.	3	B. Silva	S. L	1,000	00
		B. R. Total	G. L.	1,000	00

JOURNAL

		Dr. Rs.	Cts.	Cr. Rs.	Cts.
Sales Ledger Adjustment a/c ....Dr.	G. L.	1,750	00		
To General Ledger Adjustment a/c .... (being total of Debtors' balances)	S. L.			1,750	00
Sales Ledger Adjustment a/c ....Dr.	G. L.	7,300	00		
To General Ledger Adjustment a/c .... (being total of Sales Book	S. L.			7,300	00
General Ledger Adjustment a/c ....Dr.	S. L.	2,500	00		
To Sales Ledger Adjustment a/c .... (being Cash received and Dis. allowed as per C. B.)	G. L.			2,500	00
General Ledger Adjustment a/c ....Dr.	S. L.	1,000	00		
To Sales Ledger Adjustment a/c .... (being total of B. R. Book)	G. L.			1,000	00
General Ledger Adjustment a/c ....Dr.	S. L.	80	00		
To Sales Ledger Adjustment a/c .... (being total of Ret. Ind. Book)	G. L.			80	00
General Ledger Adjustment a/c ....Dr.	P. L.	1,220	00		
To Purchases Ledger Adjustment a/c .... (being total of Creditors' balances)	G. L.			1,220	00
General Ledger Adjustment a/c ....Dr.	P. L.	600	00		
To Purch. Ledger Adjustment a/c .... (being total of Purchases Book)	G. E.			600	00
Purchases Ledger Adjustment a/c ....Dr.	G. L.	500	00		
To General Ledger Adjustment a/c .... (being Cash paid and Dis. received as per C. B.)	P. L.			500	00

GENERAL LEDGER

Dr. STOCK Cr.

	Rs.	Cts.			
To Balance	30,000	00			

Dr. FURNITURE Cr.

	Rs.	Cts.			
To Balance	2,100	00			

Dr. CAPITAL Cr.

				Rs.	Cts.
			By Balance..........	42,630	00

Dr. **SALES** Cr.

	Rs.	Cts.		Rs.	Cts.
			By Sales as per S. B.	7,300	00
			„ Bank	8,000	00

Dr. **BILLS RECEIVABLE** Cr.

	Rs.	Cts.			
To total of B.R. book	1,000	00			

Dr. **DISCOUNT** Cr.

	Rs.	Cts.		Rs.	Cts.
To Dis. as per C.B.......	100	00	By Dis. as per C.B......	15	00

Dr. **PURCHASES** Cr.

	Rs.	Cts.		Rs.	Cts.
To Purchases as per P.B.	600	00			

Dr. **RETURNS INWARDS** Cr.

	Rs.	Cts.		Rs,	Cts.
To Returns as per R.I.B.	80	00			

Dr. **SALES LEDGER ADJUSTMENT A/c** Cr.

	Rs.	Cts.		Rs.	Cts.
To Debtors' Balance....	1,750	00	By Bank & Dis. as per C.B.	2,500	00
„ Sales as per S.B......	7,300	00	„ B.R.	1,000	00
			„ Returns Inwards..	80	00
			„ Balance c/d......	5,470	00
Rs.	9,050	00	Rs.	9,050	00
To Balance b/d ....Rs.	5,470	00			

Dr. **PURCHASES LEDGER ADJUSTMENT A/c** Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank & Dis. as per C.B.	500	00	By Creditors' balance ..	1,220	00
„ Balance c/d	1,320	00	„ Purchases as per P.B	600	00
Rs.	1,820	00	Rs.	1,820	00
			By Balance b/d ....Rs.	1,320	00

SALES LEDGER

Dr. **A. PERERA** Cr.

	Rs.	Cts.		Rs.	Cts,
To Balance	200	00	By Bank..............	2,400	00
„ Sales	4,000	00	„ Discount	100	00
			„ Balance c/d	1,700	00
Rs.	4,200	00	Rs.	4,200	00
To Balance b/d ...... Rs.	1,700	00			

Dr **B. SILVA** Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	1,300	00	By B.R.	1,000	00
			„ Balance c/d	300	00
Rs.	1,300	00	Rs.	1,300	00
To Balance b/d ...... Rs.	300	00			

Dr. **C. FERNANDO** Cr.

	Rs.	Cts.		Rs.	Cts.
To Balance	250	00	By Returns	80	00
„ Sales	3,300	00	„ Balance c/d	3,470	00
Rs.	3,550	00	Rs.	3 550	00
To Balance b/d ...... Rs.	3,470	00			

Dr. **GENERAL LEDGER ADJUSTMENT A/c** Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank & Dis. as per C.B.	2,500	00	By Debtors' Balance..	1,750	00
„ B.R.	1,000	00	„ Sales as per S.B. ..	7,300	00
„ Returns Inwards	80	00			
„ Balance c/d.........	5,470	00			
Rs.	9,050	00	Rs.	9.050	00
			By Balance b/d Rs.	5,470	00

PURCHASES LEDGER

Dr. D. ALWIS Cr.

	Rs.	Cts.		Rs.	Cts.
To Bank	485	00	By Balance	1,095	00
,, Discount	15	00			
,, Balance	595	00			
Rs.	1,095	00	Rs.	1,095	00
			By Balance b/d Rs.	595	00

Dr. T. SAMUEL Cr.

				Rs.	Cts.
			By Balance	45	00
			,, Purchases	600	00

Dr. R. THOMAS Cr.

				Rs.	Cts.
			By Balance	80	00

Dr. GENERAL LEDGER ADJUSTMENT A/c Cr.

	Rs.	Cts.		Rs.	Cts.
To Creditors' Balance	1,220	00	By Bank & Dis. as per C.B.	500	00
,, Purchases as per P.B.	600	00	,, Balance c/d	1,320	00
Rs.	1,820	00	Rs.	1,820	00
To Balance b/d Rs.	1,320	00			

You will see that the items in the Adjustment Accounts are posted through the Journal. You will also notice that every item in the Sales Ledger Adjustment Account in the General Ledger has its corresponding debit or credit entry in the General Ledger Adjustment Account in the Sales Ledger, and that every item in the Purchases Ledger Adjustment Account in the General Ledger has it corresponding debit or credit entry in the General Ledger Adjustment Account in the Purchases Ledger. This serves to preserve the balance in each of the three Ledgers. Study the items one by one, and be sure you understand them.

We shall now proceed to extract our Trial Balance as follows :—

TRIAL BALANCE

GENERAL LEDGER

	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
Bank	19,915	00		
Discount	85	00		
Stock of goods	30,000	00		
Furniture	2,100	00		
Capital			42,630	00
Sales			15,300	00
Purchases	600	00		
Bills Receivable	1,000	00		
Returns Inwards	80	00		
Sales Ledger Adjustment Account	5,470	00		
Purchases Ledger Adjustment Account			1,320	00
Rs.	59,250	00	59,250	00

SALES LEDGER

	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
A. Perera	1,700	00		
B. Silva	300	00		
C. Fernando	3,470	00		
General Ledger Adjustment Account			5,470	00
Rs.	5,470	00	5,470	00

PURCHASES LEDGER

	Dr. Rs.	Dr. Cts.	Cr. Rs.	Cr. Cts.
D. Alwis			595	00
T. Samuel			645	00
R. Thomas			80	00
General Ledger Adjustment Account	1,320	00		
Rs.	1,320	00	1,320	00

Exercise 19

1. Name the three principal Sectional Ledgers, and state what accounts are embodied in each of them.
2. What is a private Ledger ? For what accounts is it reserved?
3. How are the Sectional Ledgers made self-balancing ?
4. What are the two Adjustment accounts that appear in the General Ledger ? What does each of them represent ?
5. What are the corresponding debit and credit entries of the two Adjustment accounts in the General Ledger, and where are they found ?
6. Do Exercise in Chapter XII 17 (c) again, showing the accounts in the three Sectional Ledgers. The Trial Balances should give the items in each Sectional Ledger separately.

CHAPTER XX

Hints to Students

We have now completed a full course in Elementary Bookkeeping. I trust the lessons in the foregoing chapters have proved not only helpful but also interesting. If you have worked through the exercises conscientiously and carefully, you should have no difficulty in satisfying the examiners in any of the ordinary local examinations in Bookkeeping in which an elementary knowledge is required. Those of you who have done the exercises in sterling currency should be able to work the Bookkeeping tests for the Commercial Certificate examination of the London Chamber of Commerce.

It is important that you should provide yourselves with footrules, pencils, and, if possible, with fountain pens. What may appear to be minor matters, such as the omission of 'Dr.' and 'Cr.' must not be overlooked. In working the test papers that follow, do not waste a moment in playing with the accounts. Remember that the tests require that you should complete the exercises in the time specified, and if you find you have a few minutes to spare, go over your work again and see if it cannot be improved.

NEATNESS in a Bookkeeping test is absolutely essential. Do not imagine that, because you have proved your books, you will get full marks for your work. See that your figures are properly arranged–the units under the units, the tens under the tens, etc., or you will find it much more difficult to add up correctly. Untidiness results in loss of marks. Use your footrule in ruling off accounts, and, if possible, use red ink in balancing them. See that your papers are arranged in proper order and that the answers to the same question are written on consecutive pages.

FOLLOW INSTRUCTIONS. Read the instructions before you begin your work. If the totals of your Trial Balance do not agree, go over your exercise again and look for your mistake. A student who acts contrary to instructions, wastes his time and gets no additional marks for his trouble.

TRIAL BALANCE. See that your Trial Balance contains only *balances* of your accounts, and *not the totals*. Do not attempt to 'manipulate' your Trial Balance if the totals are unequal, by deliberately altering figures to make them agree. It is dishonest and will result in failure.

BILLS OF EXCHANGE. If the opening entries in your exercises include Bills of Exchange (either B.R. or B.P.) which fall due during the period covered by the exercise, you must regard them as met on the due dates without any further instructions from the examiner, unless you are told in the exercise that they have been dishonoured. Make a note in pencil among the transactions in the question paper, against the dates when such Bills fall due, so that you may not overlook the fact when working through the exercise.

When discounting a Bill Receivable at the Bank, debit the Bank with the full amount of the Bill, and credit the Bank with the discount charged, calling it 'Bank Charges'.

If an exercise indicates that a Bill drawn has been accepted at a later date, do not make any entry in your books until the Bill has been accepted.

CONTINGENT LIABILITIES. Remember that these do not become actual liabilities unless and until the Bills discounted at the Bank have been dishonoured. If, therefore, in your opening statement there are Contingent Liabilities for Bills under discount at the Bank, they must not be included among your liabilities. Where such Bills are dishonoured at maturity, the Bank must of course be credited with the value of the Bill, and the Acceptor debited.

SUBSIDIARY BOOKS. If you are asked to make your entries in suitable subsidiary books, do not confine your attention to the Journal. Remember that the Journal is used as a subsidiary book only for entries that cannot properly be made in one of the other subsidiary books. Also be careful that the same entry is not made in more than one subsidiary book; otherwise, you will have the same transaction posted twice to the Ledger. Even if there is only one entry to be made in a Sales or a Purchases Book, record it in that book and do not journalise the transaction.

CALCULATIONS. Get accustomed to calculating rapidly. Several transactions may require multiplication; be careful not to trip. Make sure you know the meaning of a dozen; a score; a gross; a quire; a ream.

TEST PAPERS. Do all the exercises in the following pages of this book, and as many more as you can secure. Time your working, and make sure you can complete each exercise well within the time allotted. Many students fail through not being able to do sufficient of the exercise in the prescribed time.

COMMERCIAL TERMS

Account Current. (A/C), also called a running account, is a statement in debit and credit form showing the financial transactions between two parties. It usually embodies the interest charged on the daily balances.

Ad Valorem. (ad val.). According to value. An ad valorem duty on goods is the duty imposed according to the value of the goods.

Agent. (Agt.). A person who acts on behalf of another who is called the Principal.

Agio. The difference between the real and the nominal value of the money of a country, *e.g.* between paper money and gold.

Amortisation. The diminution of a debt by means of annual drawings from a Sinking Fund.

Ante-date. To date a document, such as a cheque, with a date prior to that on which it is drawn.

Arbitration. The reference to a person called an Arbitrator of a dispute between two or more parties, for his decision.

Assignment. The transfer by deed of the title to property, to another party called the Assignee.

Audit. The verification of accounts by a person called an Auditor who testifies to their correctness.

Average. A term used in marine insurance to indicate loss at sea. Average may be either general or particular.

A General Average loss is a loss incurred for the general safety of the ship and cargo, as for instance, where the goods of a particular individual are thrown overboard in order to lighten the ship in a storm, or where the masts of the vessel have to be cut away. In such cases, the owners of the ship as well as of the cargo have to contribute proportionately to the value of their property, in order to make good that loss.

A Particular Average loss is a partial loss arising through an accident, when damage occurs through the perils of the sea. In that case, the loss falls on the owner of the property, and he cannot claim any contribution from the others who have an interest in the ship or cargo. If the goods are covered 'with particular average', the underwriters must make good such loss. Goods may also be insured 'free of particular average' (f.p.a.).

Bank Rate. The minimum rate per cent. charged by the Bank of England for discounting Bills.

Banker's Draft. A Bill of Exchange (usually drawn on demand) issued by one banker requesting another banker or their Agents to pay a certain sum of money to the order of the person named on the draft.

Barratry. In Marine Insurance, is a wrongful act on the part of the master or the crew of a vessel with intent to injure the owner of the ship or the charterer or the insurer.

Barter. The exchange of one commodity for another without the intervention of money.

Bear. A speculator on the Stock Exchange who sells stocks and shares which he does not possess, in the hope of buying them at a lower price before payment falls due, and of selling them at the agreed price.

Bill of Lading. (B.L.). A receipt given by the master or agents of a vessel, for goods taken on board for shipment to a foreign port. This receipt must be produced at the port of destination before the goods can be delivered.

Bill of Sale. (B.S). A deed mortgaging goods as security for debt.

Bonded Warehouse. A place where imported goods are stored until the duties on them are paid. Such goods are said to be 'in bond'.

Bonus. An extra distribution of profits made to shareholders in addition to the ordinary dividend.

Book Debts. Debts owing to a trader as shown in his books.

Bottomry Bond. A contract by which a ship is pledged as security for the re-payment of a loan to enable the ship to proceed on its voyage, the loan to be re-paid on the completion of the voyage. A *Respondentia bond* is a bond by which money is borrowed on the security of the cargo, and the borrower is personally liable for the debt.

Bull. A speculator on the Stock Exchange who buys stocks and shares which he does not want, in the hope that the price will rise before settlement day, and that he will thus be able to sell them at a profit.

Charter Party. A contract by which the whole or part of a vessel is hired to a person called the charterer.

C. i. f. 'Cost, insurance and freight'. A c.i.f. price includes the cost of the goods plus insurance plus freight.

Clearing House. A place at which bankers meet daily to exchange cheques and bills due to or from one another, and so to settle their obligations.

Company, Limited Liability. A company registered under the Companies Acts. The liability of the shareholders is limited to the amount of the capital they have invested in the business, and their private property cannot be seized for payment of the firm's debts.

Contingent Liability. A liability which becomes existent on the happening of a certain event. For instance, when a Bill which has been discounted at the bank is not met by the acceptor on the due date, we become liable to the bank for the amount of the Bill.

Credit Note. A note sent to a person giving him credit for the amount stated on it. A Credit Note is usually sent to a buyer when he returns goods or when he has been overcharged for them.

Cum Dividend. (cum div.) With dividend. When stocks or shares are sold 'cum div.', the buyer is entitled to the dividend which may accrue. The term 'ex div.' indicates that the seller is entitled to such dividend.

Current Account. A Current Account at a Bank is an account from which you can withdraw money, or to which you can add at pleasure.

Customs Duty. The taxes levied on goods imported from, or exported to, another country.

Debenture. A written promise given by a Company to re-pay a loan made to it, at a certain rate of interest and within a prescribed time.

Debit Note. A note sent to a person debiting him with certain sum of money. It is issued to a buyer when he has been undercharged, and takes the form of a supplementary Invoice.

Demurrage. A charge made by the owners of a vessel on the shippers or the charterers for delaying the ship beyond the time agreed upon. The term is also applied to the charge made by a Railway Company for delay in removing goods from their trucks.

Deposit Account. A Bank Deposit Account is an account where money is deposited with a Bank at a specified rate of interest and for a specified time. Money cannot be withdrawn from this account until the time mentioned expires.

Depreciation. An amount by which property diminishes in value through wear and tear.

Discount. A Trade Discount is the allowance made by a manufacturer or a wholesale dealer to a retail trader. A Cash Discount is the allowance made to a buyer when he pays prompt cash for his purchases or settles his account within a prescribed time.

Dividend. The share of profits apportioned to the share-holders of a Company.

Dock Warrant. (D.W.) A receipt given by a Dock Company for goods lying at the docks. The warrant may be transferred to a third party by endorsement.

Docket. The endorsement of letters or other documents with a summary of their contents.

Drawback. An allowance made by Government for imported goods on which duty has already been paid but which have been re-exported.

E. & O. E. (Errors and Omissions excepted.) Inserted at the foot of accounts to indicate that the person sending the account reserves to himself the right to rectify any errors in the account. 'E.E.' stands for 'errors excepted'.

Excise. An inland tax on certain articles manufactured and consumed in the country.

Ex Dividend. See 'Cum dividend'.

F. O. B. (Free on Board). A price for goods including the cost of delivery on board steamer.

Firm Offer or Refusal, is an offer of goods made to a party at a certain price and subject to the offer being accepted within a given period. The owner is not free to sell the goods elsewhere until that period expires or unless the offer has been refused earlier.

Folio. (Fol.) The page of a book ; or two pages facing each other.

Freight. The charge made for conveying goods by steamer. The term is also used to mean the cargo of a ship.

Garnishee. A person who has received notice (called a Garnishee Order) from a Court of Law requesting him not to part with money due by him to a judgment debtor.

Gilt-Edged Securities. A term used to describe stocks on which the interest is absolutely secure.

Indorsee. A person to whom a negotiable instrument is transferred by endorsement, (also spelt Endorsee.)

I. O. U. An abbreviation of 'I owe you'. A statement acknowledging a debt. It is neither a receipt nor a promissory note, and requires no stamp.

Insurance. A contract whereby an underwriter or an insurer undertakes to make good a loss incurred by the insured who pays a certain premium to the underwriter for the risk taken.

Interest. A charge of so much per cent. made by a lender of money, on the loan.

Investment. Money laid out in business of any kind in the hope of deriving profit therefrom.

Invoice. (Inv.) A written statement giving full particulars of the quantity, quality and price of goods sold to a buyer.

Jettison. The throwing overboard of cargo or ship's tackle for the purpose of saving the ship or the other cargo.

Lease. A contract by which property of any kind is let to a person called the Lessee, for a term of years and on certain conditions. The person who grants such a lease is called the Lessor.

Letter of Credit. (L./C.) A request whereby a banker or a merchant requests some other person to pay to a certain party a sum or sums of money up to a specified total.

Lien. The right a person has of retaining possession of property belonging to another until certain demands of his have been satisfied.

Limited Liability Company. (See Company, Limited Liability).

Liquidation. The winding up of a Company by a person called a Liquidator whose business it is to realise the assets and pay off the liabilities of the Company.

Lloyd's. An Association of Underwriters with Head Quarters at the Royal Exchange, London.

Manifest. A form giving full particulars of the cargo and crew of a vessel. It is filled up by the Captain and delivered to the Customs House before the steamer leaves port.

Moratorium. An extension of time for the payment of debts, which is sometimes granted by the Government of a country.

Mortgage. The grant of property as security for the payment of a debt.

Negotiable. An instrument which, in its transfer from one person to another, conveys to the latter a legal right to the money or property referred to, is said to be negotiable.

Net. The amount remaining after all allowances and deductions have been made.

Net Cash. A price that is not subject to discount.

Net Proceeds. The amount realised on the sale of goods after deduction of all charges, expenses and commission.

Notary Public. A person who attests or certifies deeds and other documents.

Overdraft. An amount which a customer is permitted by a banker to draw from his current account, in excess of the amount standing to his credit.

Par. The nominal value of stock and shares. If the price of such stocks and shares rises above par, they are said to be at a premium ; if it falls below par, the stocks and shares are said to be at a discount.

Pass Book. (Bank). A book supplied and written up periodically by the bank, giving particulars of amounts deposited as well as amounts withdrawn from current account.

Plant. A name applied to the machinery, tools, etc. which are used for carrying on a business.

Post-date. To date a document such as a cheque with a date ahead of that on which it is drawn.

Posting. Transferring entries from a subsidiary book to the Ledger.

Power of Attorney. A deed authorising another to act on one's behalf. A person receiving such an authorisation from a firm, signs documents per pro (per procurationem) the firm ; *e.g.* per pro. Jenkins & Co., T. Carlyle.

Premium. In insurance, a premium is an amount paid to underwriters for the risk they take in insuring one's goods or life.

Prices Current. A list of goods with their current market prices.

Primage. A fee paid to the ship owners in addition to the freight levied for the conveyance of goods.

Principal. The head of an institution. The term is also used to represent a sum of money that has been lent out on interest.

Protest. A formal certificate by a Notary Public attesting the dishonour of a foreign Bill of Exchange.

Rebate. An allowance or discount allowed when a Bill of Exchange is met before the due date.

Reconciliation Statement. Where the balance shown by a Bank Pass Book differs from that shown in the Cash Book (Bank account) a statement is made reconciling the two balances. This is called a reconciliation statement. The difference is due to cheques, etc. paid into the bank but not yet collected, and to cheques issued but not yet presented for payment.

Reserve Fund. A portion of the profits of a business set aside to meet contingencies.

Retail. The sale of goods in small quantities.

Salvage. Compensation allowed to a person for saving a ship or its cargo from danger or loss in case of shipwreck, capture or other similar danger. The term is also applied to indicate what has been recovered from a shipwreck.

San Recours. Without recourse. A term used in the endorsement of a Bill of Exchange to free the endorser from liability in case the bill is not met at maturity. When these words are added to an endorsement, the endorser cannot be sued on the bill.

Scrip. A provisional certificate issued to the shareholders of a Company entitling the holder to shares in the Company when they are issued.

Sinking Fund. A fund provided by setting aside a portion of the revenue of a corporation or business for the purpose of settling debts already incurred.

Sleeping Partner. A person who invests money in a partnership firm but who takes no active interest in the conduct of the business.

Solvent. Having sufficient capital to meet one's debts in full.

Stocks. Capital represented by shares in a firm or corporation. Stock is always fully paid up whereas shares need not be. Stock can also be divided into fractions.

Stock-in-Trade. The goods or merchandise that a dealer has in his possession.

Stock-Taking. A valuation of all stock-in-trade for the purpose of ascertaining the exact financial position of a firm.

Suspense Account. An account into which items are entered temporarily, where the name of the debtor or creditor is not known.

Tale Quale. A term used in the grain trade to indicate that the goods shipped are of the same quality as the sample, the buyer taking the risk of damage during the voyage.

Tare. A deduction on the gross weight of goods as an allowance for the weight of the package or other material in which the goods are packed.

Trade Discount. A discount allowed by a manufacturer or a wholesale dealer to a retail trader.

Trade Mark. A device of some sort attached to manufactured goods to distinguish them from the same kind of goods manufactured by other persons.

Turnover. The value of total sales of goods during a specified period.

Ullage. Leakage or waste.

Underwriter. A person who writes his name at the foot of a marine insurance policy, undertaking the risk of an insurance.

Usance. The time allowed in certain countries for the payment of a Bill of Exchange, exclusive of days of grace.

Voucher. A document acknowledging receipt of money; a receipt.

Warrant. (Warehouse). A receipt for goods deposited in a public warehouse.

Warranty. An undertaking to pay compensation to a person in case of failure to perform any or all of the terms of a contract.

Without Prejudice. Where a dispute arises between two parties, a statement made 'without prejudice' cannot be produced in evidence in a Court of Law.

Write off. To close an account in the ledger by transferring the balance to the debit of the Profit & Loss account, as, *e.g.* when a debtor becomes bankrupt.

TEST PAPERS

TEST PAPER 1 (2 hours)

1. On a certain date my Bank Pass Book showed a balance of Rs. 2,600 (£ 173.6.8) in my favour while on the same date my Cash Book showed a balance at Bank of Rs. 2,480 (£ 165.6.8). Assuming that both balances were correct, draw up the necessary statement to adjust the discrepancy.

2. On January 1, 1937, John Perera's books showed the following balance :—

	Rs.	Cts.	£.	s.	d.
Cash in hand	10,800	00	720	0	0
Goods in stock	6,800	00	453	6	8
Bills Receivable	5,400	00	360	0	0
Bills Payable	2,500	00	166	13	4
Consignment of goods to R. Brown Melbourne	1,200	00	80	0	0
Debtors : A. Adam	690	00	46	0	0
B. Brian	620	00	41	6	8
C. Carr	260	00	17	6	8
Creditors: D. Dove	460	00	30	13	4
E. Elgin	190	00	12	13	4

Find his Capital by means of the usual Journal entries, and open accounts in the Ledger. Then enter the following transactions in suitable subsidiary books, post to Ledger and extract a Trial Balance :—

			Rs.	Cts.	£.	s.	d.
Jan.	3	Paid cash into bank	10,000	00	666	13	4
	4	Sold goods for cash	150	00	10	0	0
	6	Received from A. Adam cash in full settlement of his account	660	00	44	0	0
	9	Sold goods to Brian for cash	350	00	23	6	8
		,, ,, ,, ,, on credit	250	00	16	13	4
	12	Bought goods from D. Dove	300	00	20	0	0
	14	Returned as unsuitable goods bought from D. Dove on 12th	75	00	5	0	0
	15	Sent cheque to Elgin for	100	00	6	13	4
		He allowed discount	10	00		13	4

		Rs.	Cts.	£.	s.	d.
Jan.	16 Discounted B.R. for Rs. 350 (£23.6.8) at Bank, receiving	320	00	21	6	8
	20 Bought goods from E. Elgin and paid by cheque.......	430	00	28	13	4
	21 Received from R. Brown, Melbourne, account sales of consignment showing net proceeds..................	1,640	00	109	6	8
	25 Paid sundry expenses by cash	90	00	6	0	0
	27 Sold goods to D. Dove......	670	00	44	13	4
	29 Cash stolen from safe.......	40	00	2	13	4
	31 Paid wages by cheque......	320	00	21	6	8
	Credit Capital with interest	160	00	10	13	4
	Value of stock.............	6,900	00	460	0	0

Close the accounts and prepare Trading and P. & L. accounts, and Balance Sheet as at 31st January, 1937.

TEST PAPER 2 (2½ hours)

1. On the 1st December, 1936, A. Silva's accounts showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Cash..............................	694	00	46	5	4
Bank overdrawn....................	239	00	15	18	8
Petty Cash.........................	65	00	4	6	8
Goods in stock......................	9,400	00	626	13	4
Bills Receivable.....................	850	00	56	13	4
Bills Payable........................	500	00	33	6	8
Sundry Debtors.....................	4,200	00	280	0	0
Sundry Creditors....................	1,420	00	94	13	4
P. & L. a/c (Debit).................	105	00	7	0	0
Furniture & Fittings................	3,800	00	253	6	8
Plant & Machinery..................	2,640	00	176	0	0
Capital............................	19,595	00	1,306	6	8

With the above balances open accounts in the Ledger. Then enter the following transactions in suitable books, post to Ledger, take out a Trial Balance, close the accounts, and prepare Balance Sheet as on December 31, 1936 :—

		Rs.	Cts.	£.	s.	d.
Dec.	1 Paid cash into bank........	500	00	33	6	8
	3 Sent consignment of goods to R. Jones, Melbourne.....	1,500	00	100	0	0
	Shipping and other charges paid on above by cheque....	185	00	12	6	8
	4 Sold goods to Sundry Debtors...................	300	00	20	0	0
	6 Sold goods for cheque which was paid into bank.........	675	00	45	0	0

		Rs.	Cts.	£.	s.	d.
Dec.	8 Sent cheque to Sundry Creditors in settlement of an account for Rs. 300 (£20.0.0)	290	00	19	6	8
	10 Paid Sundry expenses from Petty cash................	18	00	1	4	0
	12 Discounted B.R. at Bank ..	350	00	23	6	8
	Bank charges on above.....	15	00	1	0	0
	15 Bought goods from Sundry Creditors.................	90	00	6	0	0
	17 B. P. due today met at Bank	230	00	15	6	8
	20 B. R. from Sundry Debtors due today dishonoured.....	300	00	20	0	0
	Noting charges on above paid by cheque...........	15	00	1	0	0
	22 Sundry Debtors paid cash in settlement of an account for Rs. 200 (£ 13.6.8).......	195	00	13	0	0
	23 Withdrew from Bank.......	200	00	13	6	8
	25 Received from Sundry Debtors cash in settlement of an account for Rs. 300 (£20.0.0)	285	00	19	0	0
	31 Paid wages by cash.........	360	00	24	0	0
	Credit Capital with Interest	250	00	16	13	4
	Value of stock.............	7,500	00	500	0	0

Depreciate Furniture and Fittings 5% and Plant and Machinery 10%

2. Rule a form of Petty Cash Book inserting therein five entries.

3. What do you understand by an Account Sales ? Mention some of the items you would expect to find in an Account Sales.

TEST PAPER 3 (2½ hours)

1. What do you understand by a Trial Balance ? If the total of the debits of your Trial Balance agrees with the total of the credits, what does it prove ?

2. Journalise the following transactions :—

	Rs.	Cts.	£.	s.	d.
(a) Rent due by me but not paid	100	00	6	13	4
(b) Sold goods to R. Perera.....	320	00	21	6	8
(c) Accepted W. Thompson's bill for..................	500	00	33	6	8
(d) K. Fernando's acceptance due this day, dishonoured ..	280	00	18	13	4
(e) W. Silva renewed his acceptance for Rs. 600 (£ 40.0.0) due this day by giving me a new bill for..............	650	00	43	6	8
(f) Rates paid in advance......	150	00	10	0	0

3. Enter the following in a columnar Cash Book. Balance and bring down balances :—

		Rs.	Cts.	£.	s.	d.
Nov.	1 Cash in hand..............	2,800	00	186	13	4
	Bank overdraft.............	300	00	20	0	0
	4 Paid cash into bank........	2,000	00	133	6	8
	5 Sold goods for cash.........	600	00	40	0	0
	7 Received from M. Regan cheque for Rs. 385 (£25.13.4) in settlement of an account for......................	400	00	26	13	4
	Paid cheque into bank.					
	10 J. Smith's acceptance for Rs. 290 (£ 19.6.8) under discount with bank returned this day dishonoured. Bank paid noting charges.........	5	00		6	8
	12 Paid by cheque to R. Hodgson for amount of his account Rs. 400 (£26.13.4) less 2½% discount.					
	14 Drew cheque for Petty Cash	200	00	13	6	8
	16 Bought goods for cash......	395	00	26	6	8
	18 B. P. duly met at bank.....	180	00	12	0	0
	22 Paid to W. Collins cheque for amount due to him Rs. 650 (£ 43.6.8) less 4% discount.					
	28 Paid by cash for repairs to furniture..................	89	00	5	18	8
	31 Paid wages by cash.......	300	00	20	0	0

4. On December 31, 1936 my accounts showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Stock (Dec. 31, 1935)................	18,900	00	1,260	0	0
Furniture & Fittings................	1,500	00	100	0	0
Bills Receivable.....................	6,400	00	426	13	4
Bills Payable.........................	1,560	00	104	0	0
Sundry Debtors.....................	9,000	00	600	0	0
Sundry Creditors....................	3,573	00	238	4	0
Sales account.........................	12,300	00	820	0	0
Purchases Account...................	4,825	00	321	13	4
Returns Inwards....................	230	00	15	6	8
Returns Outwards....................	160	00	10	13	4
Consignment to London...............	2,384	00	158	18	8
P. & L. Account (Dr. balance)........	260	00	17	6	8
Cash in hand.........................	3,625	00	241	13	4
Cash at Bank.........................	7,690	00	512	13	4
Petty Cash...........................	160	00	10	13	4
Drawings Account....................	500	00	33	6	8
Capital (Jan. 1, 1936)...............	37,881	00	2,525	8	0

You are required to prepare Trading, Profit and Loss, and Capital accounts for the year ended December 31, 1936, and a Balance Sheet as on that date.

Note :— (*a*) Depreciate Furniture & Fittings 10%.

(*b*) Create a Reserve for Bad & Doubtful Debts of 10% on book debts ;

(*c*) The stock in hand on December 31, 1936 was valued at Rs. 13,000 (£ 866.13.4).

TEST PAPER 4. (2½ hours)

The amounts of some of the items of the following Trial Balance have been placed in the wrong column. You are required to make the necessary adjustments and draw out a correct Trial Balance :—

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£	s.	d.	£	s.	d.
Bank...........	3,010	00			200	13	4			
Cash............			470	00				31	6	8
Bills Receivable..			560	00				37	6	8
Bills Payable.....	1,200	00			80	0	0			
Trade Expenses..	50	00			3	6	8			
Sundry Debtors..	380	00			25	6	8			
Sundry Creditors			240	00				16	6	0
Stock Account....			4,800	00				320	0	0
Purchases Account.......	490	00			32	13	4			
Sales Account....			960	00				64	0	0
Capital Account..			7,360	00				490	13	4
Rs.	5,130	00	14,390	00	342	0	0	959	6	8

2. On December 1, 1934, the books of A. Fernando showed the following balances :—

	Rs.	Cts.	£.	s.	d.
Cash in hand........................	480	00	32	0	0
Cash at Bank........................	1,850	00	123	6	8
Bills Receivable.....................	1,820	00	121	6	8
Bills Payable........................	960	00	64	0	0
Petty Cash...........................	40	00	2	13	4
Stock of goods.......................	4,560	00	304	0	0
Plant & Machinery..................	3,600	00	240	0	0
Furniture & Fittings................	4,000	00	266	13	4
Debts Receivable :—					
Robt. Watts....................	380	00	25	6	8
S. Weyman......................	210	00	14	0	0
R. Stephens.....................	495	00	33	0	0
T. Hardy........................	260	00	17	6	8
Debts Payable :—					
C. Croning......................	256	00	17	1	4
R. Mack.........................	180	00	12	0	0
J. Berwick......................	365	00	24	6	8

Find his Capital by means of the usual Journal entries, and open accounts in the Ledger. Then enter the following transactions for the month of December in suitable subsidiary books, post to Ledger, take out a Trial Balance, close accounts and prepare Balance Sheet as on December 31, 1934 :—

		Rs.	Cts.	£.	s.	d.
Dec.	2 Bought goods and paid by cheque..................	130	00	8	13	4
	3 Drew cheque for Petty Cash	60	00	4	0	0
	4 Paid cash into bank........	300	00	20	0	0
	6 Sold goods for cash.........	640	00	42	13	4
	7 Bought goods from K. Walters	200	00	13	6	8
	8 Received cheque from R. Watts on account..........	150	00	10	0	0
	10 Received cheque from S. Weyman in full settlement of account..................	200	00	13	6	8
	11 Accepted C. Croning's draft for	256	00	17	1	4
	12 R. Thomas's bill due today dishonoured..............	400	00	26	13	4
	Paid noting charges on above by cash..................	15	00	1	0	0
	13 Paid sundry expenses from Petty Cash................	8	00		10	8
	14 Received consignment of goods from Robt. Jobson, Melbourne, for sale on his account..................	2,000	00	133	6	8
	Paid charges on above......	150	00	10	0	0
	15 T. Hardy became insolvent and paid in cash a composition of 40 cents in the rupee (8s. in the £)					
	16 A. Fernando withdrew by cheque for private expenses	150	00	10	0	0
	18 B/P due today met at bank	380	00	25	6	8
	19 Sold Jobson's consignment for cheque................	3,000	00	200	0	0
	Commission charged on sale	120	00	8	0	0
	21 Remitted Jobson by bank draft net proceeds of consignment.					
	23 R. Stephens paid by cheque Rs. 100 (£ 6. 13. 4) Allowed him discount Rs. 5 (6s. 8d.).................	105	00	7	0	0
	27 Paid J. Berwick by cheque Rs. 355 (£ 23.13.4) and was allowed discount Rs. 10 (13s. 4d.)................	365	00	24	6	8

		Rs.	Cts.	£.	s.	d.
Dec.	28 Cash stolen from safe.......	30	00	2	0	0
	31 Bank allowed interest on current account..........	20	00	1	6	8
	Rent due but not paid.....	100	00	6	13	4
	Value of stock.............	4,500	00	300	0	0
	Depreciate Furniture and fittings 5%; Plant and Machinery 8%.					

N.B.—All cheques received are sent to the bank upon receipt. All P. & L. items may be posted direct to P. & L. account.

TEST PAPER 5 (2½ hours)

1. In checking your accounts you find that your bookkeeper has made the following errors :—

(*a*) Rs. 150 (£ 10.0.0) paid for repairs to furniture has been debited to the furniture account.

(*b*) Rs. 100 (£ 6.13.4) paid by B. Barber has been placed to the credit of B. Brohier.

What Journal entries are necessary to rectify these errors ?

2. The following represented my Trial Balance on 1st June, 1934:—

	Dr.		Cr.		Dr.			Cr.		
	Rs.	Cts.	Rs.	Cts.	£.	s.	d.	£	s.	d.
Cash............	9,800	00			653	6	8			
Bank (overdraft)			200	00				13	6	8
Furniture.........	2,000	00			133	6	8			
Stock of goods....	22,000	00			1,466	13	4			
Sales............			3,600	00				240	0	0
Purchases........	8,900	00			593	6	8			
Returns Outwards			450	00				30	0	0
Returns Inwards	520	00			34	13	4			
Consignment to Melbourne.....	5,360	00			357	6	8			
Bills Receivable..	4,980	00			332	0	0			
Bills Payable....			1,870	00				124	13	4
Sundry Debtors..	9,240	00			616	0	0			
Sundry Creditors			6,320	00				421	6	8
P & L. account..	625	00			41	13	4			
Reserve for Bad Debts..........			924	00				61	12	0
Capital..........			50,061	00				3,337	8	0
Rs.	63,425	00	63,425	00	4,228	6	8	4,228	6	8

Open your Ledger with the above balances. Then enter the following transactions in appropriate subsidiary books and post to Ledger :—

Take out a Trial Balance and balance the accounts. Draw up a Trading account and a P. & L. account, and a Balance Sheet as at 30th June, 1934 :—

			Rs.	Cts.	£.	s.	d.
June	1	Paid into bank	8,000	00	533	6	8
	3	Sold goods to Sundry Debtors	1,600	00	106	13	4
	5	Bought goods for cash	300	00	20	0	0
	6	Sold goods for cash to Sundry Debtors	2,460	00	164	0	0
	7	Part of goods sold to Sundry Debtors on the 3rd returned as unsuitable	68	00	4	10	8
	10	Received Account Sales of Consignment to Melbourne with demand draft in settlement of net proceeds which was paid into bank	6,950	00	463	6	8
	12	B. R. from Sundry Debtor due today dishonoured	500	00	33	6	8
		Paid noting charges on above by cash	15	00	1	0	0
	15	Met B.P. due today by cheque	350	00	23	6	8
	16	Paid by cash, repairs to furniture	25	00	1	13	4
	17	Sundry Debtor paid me cash	380	00	25	6	8
		And was allowed discount .	20	00	1	6	8
	18	Bought goods from Sundry Creditors	490	00	32	13	4
	19	Sold goods to Sundry Debtors	1,230	00	82	0	0
	20	Paid Trade Expenses by cheque	260	00	17	6	8
	23	Paid Sundry Creditors by cheque	650	00	43	6	8
		And was allowed discount .	50	00	3	6	8
	26	Bought 2 office tables and paid by cheque	150	00	10	0	0
	28	Cash purchases	390	00	26	0	0
	30	Bank allowed interest for half year	32	00	2	2	8
		Paid wages by cheque	400	00	26	13	4
		Paid rent by cheque	150	00	10	0	0
		Gas account due but not paid	20	00	1	6	8

Note.—(*a*) Depreciate Furniture 5% of Rs. 2,000 (£ 133.6.8)

(*b*) Raise the Reserve for Bad Debts to Rs. 1,200 (£80.0.0)

(*c*) Value of stock on June 30, 1934 .. Rs. 25,800 (£ 1,720.0.0)

The London Chamber of Commerce

BOOK-KEEPING

Examination papers for the Commercial Education Certificate

Time Allowed for each paper—3 hours

(*All questions may be attempted. Marks may be lost by lack of neatness. Erasures must not be made.*)

SPRING EXAMINATION, 1937

1. From the following particulars open the books of Albert Baker on 1st January last, enter the transactions into subsidiary books (assuming that the trader pays all his cash receipts into the Bank and pays everything by cheque) ; post to the Ledger and prepare a Trial Balance.

	£	s.	d.
Land and Buildings	3,000	0	0
Stock valued at selling price £2,500 but which actually cost 25 per cent less.			
Furniture and Fixtures	393	0	0
Sundry Debtors : H. James	200	0	0
R. Brown	150	0	0
Loan on Mortgage of Land and Buildings	2,000	0	0
Loan by Albert Baker's wife	500	0	0
Sundry Creditors : T. Jones	75	0	0
S. Green	100	0	0
Income Tax	230	10	0
Bank Overdraft	1,000	0	0
Capital of A. Baker	1,712	10	0

Transactions :

1937			£	s.	d.
Jan.	1	A. Baker paid into Bank as further capital	2,000	0	0
		Paid for furniture	38	12	6
		Drew for Petty Cash Expenses	25	0	0
		Bought goods of T. Jones	520	0	0
		Returned goods to S. Green	50	0	0

1937.			£	s.	d.
Jan.	2	Paid T. Jones his a/c to date being allowed 5 per cent. discount Received from R. Brown cheque in settlement of amount due from him less discount of 2½ per cent.			
,,	4	Sold goods to H. James £300 subject to Trade Discount of 15 per cent.			
,,	5	Received cheque from H. James to clear his a/c as at 1st January, less discount 2½ per cent.			
,,	6	Bought goods of R. Brown................	190	0	0
		H. James's cheque returned dishonoured			
		Paid Income Tax........................	230	10	0
,,	8	Drew cheque to restore Petty Cash Balance to £25 in respect of payments during the week as follows :—			

	£	s.	d.
Wages.................	15	3	4
Postages................	1	17	10
Sundries................		18	9

2. From the information which follows, select that which you think would be used in making the Trading Account of Wm. Harvey, a Jam Manufacturer. Prepare the Trading Account for the year ended 31st December, 1936.

	£	s.	d.
Purchases of Fruit, etc...........................	2,007	11	10
Carriage on Fruit............................	129	3	2
Sales..	7,354	17	10
Travellers' Salaries & Commission..................	697	10	9
Delivery Expenses..............................	106	8	3
Vanmen's Wages................................	312	0	0
Manufacturing Expenses.........................	433	4	2
,, Wages............................	2,019	6	7
Office Salaries................................	462	10	0
,, Expenses...............................	47	8	10
,, Rents, Rates, Light & Heat.................	91	2	1
Factory ,, ,, ,, ,, ...	242	8	2
Labels and Seals Used..........................	18	7	6
Purchases of Jars	79	9	10
Stocks (1st January) Fruit.......................	67	8	6
Jars..............................	13	7	6
Stocks (31st December) Fruit.......................	73	3	9
Jars..............................	9	3	5

3. F. Roberts' Cash Book showed the Balance at Bank at 31st December, 1936, as £238 0s. 10d. but his Pass Book showed the balance as £262 7s. 6d.

On examination he found that cheques which he had drawn in favour of Reynolds & Co. and M. Spencer for £30 15s. 0d. and £12 10s. 10d. respectively had not been presented for payment: a cheque for £14 6s. 8d. which had been paid to Bank on 30th December was not credited by the Bank until 4th January, 1937, and the Bank had charged £4 12s. 6d. for working the account for the half-year to 31st December.

Prepare the Reconciliation Statement.

4. The Books of Messrs. Black & White, who are partners with equal capitals, have been written up to 31st December, 1936, but certain adjustments and closing entries still require to be made.

You are required to give the journal entries necessary to record the following :—

(*a*) Interest on Partners' Drawings (5 per cent. per annum) which were as follows :—

On 31st March, 30th June, 30th September and 31st December, Black £100 and White £80.

(*b*) Repairs to Black's private house £15 10s. 0d. had been charged in the Repairs to Premises Account of the business.

(*c*) White had taken goods from Stock for his personal use value £10 10s. 0d.

(*d*) The net profit of £3,600 was divisible between the partners in proportions 3 : 2.

SUMMER EXAMINATION, 1937

1. A and B were in partnership as sports outfitters, and the partnership agreement provided (among other things) that—

(*a*) Interest on Capital was to be credited at 6 per cent. per annum before dividing profits ;

(*b*) Profits were to be divided between them in the proportion of three-fifths to A and two-fifths to B.

The following particulars were extracted from the books at 31st March, 1937 :—

	£	s.	d.	£	s.	d.
Capital Account A				2,500	0	0
" " B				1,500	0	0
Current Account A				460	0	0
" " B	90	0	0			
Purchases	7,300	0	0			
Sales				10,504	0	0
Cash at Bank	2,302	0	0			
Cash in hand	56	0	0			
Wages-Workshop	476	0	0			
" Other	1,135	0	0			
Trade Debtors	1,080	0	0			
Reserve for bad Debts				35	0	0
Insurance	43	0	0			
Rent, Rates, Heating, Lighting	354	0	0			
Office and Shop Expenses	28	0	0			
Workshop Expenses	17	0	0			
Advertising	215	0	0			
Carriage Inwards	94	0	0			
Carriage Outwards	117	0	0			
Expenses Paid in Advance	31	0	0			
Sundry Creditors				1,919	0	0
Stock in hand, 31st March, 1936	3,580	0	0			
	£16,918	0	0	£16,918	0	0

You are required to Prepare Trading and Profit and Loss Accounts for the year to 31st March, 1937, and a Balance Sheet at that date, having regard to the following :—

(*a*) Stock was valued at £3,361 on 31st March, 1937.

(*b*) Reserve for Bad Debts to be made up to 5 per cent. of Trade Debtors.

(*c*) One-sixth of the Rent, Rates, Heating and Lighting to be charged to the Workshop.

2. (*a*) From the following particulars show how A. Clarkson's Account would appear in J. Freeman's Ledger :—

On 4th May, 1936, Freeman sold to Clarkson 20 cases of goods at £3 15s. per case, less 20 per cent, trade discount and 2½ per cent. for cash in the month following delivery. On the 9th June Clarkson returned 2 cases. He paid £15 on account on 29th June. On 4th July Clarkson was insolvent, and paid 4s. in the £ by cheque.

(*b*) From the following particulars show how the stationery account would appear in the Ledger after balancing the Accounts on 30th June, 1937 :—

1937			£	s.	d.
Apl.	1	Stock of Stationery on hand..	6	8	9
May	10	Purchased Office Stationery for cheque	4	10	3
June	7	Purchased Office Stationery on credit from Office Supplies Ltd.	17	3	6
	30	Stock of Stationery on Hand	8	7	3

3. The total of the debit balances in a Trial Balance is £7,623.12s.8d.; the credit balances total £7,807.2s.8d. It is ascertained that all items have been posted, and are in the correct accounts and of the correct arithmetical amount. The Trial Balance is correctly totalled.

What is the probable nature of the error, and what is the correct total of the Trial Balance ?

4. A. Paine starts in business as dentist. During his first year his cash receipts were £176 and his expenses £153. At the end of the year there were outstanding debtors amounting to £49 and no liabilities.

During the second year cash received amounted to £407 and expenses were £198. At the end of this year outstanding debtors amounted to £71, and there were no liabilities.

Find A. Paine's net profit for both the first and second year of business.

5. What do you understand by the words "Credit Balance"? Copy the following statements and fill in suitable words to complete each statement :—

(*a*) A credit balance in the Bank Account indicates............

(*b*) A credit balance in a Personal Account indicates............

(*c*) A credit balance on Wages Account, after Final Accounts have been prepared, indicates............

(*d*) A credit balance in the Trading Account indicates............

AUTUMN EXAMINATION, 1937

1. L. Ross commenced business on 1st January, 1937, and had the following transactions. Write these up in the proper books, post to the Ledger, and take out a Trial Balance.

All cash was banked daily and all payments were made by cheque unless otherwise stated.

1937

Jan. 1 Paid into Bank £400.

Agreed to rent premises from C. Doe at £ 320 per annum and to take over fittings value £80.

Paid C. Doe one quarter's rent in advance.

L. Ross advanced privately cash £16.14s.0d. with which he made cash purchases :—

Stationery £4.16s.0d.; Stamps £3; Office Furniture £8.18s.0d.

,, 2 Received invoices for purchases made on 1st instant :—

K. Luck, £480, less trade discount 10% ;

M. Noble, £ 200 ;

J. Lines, Office Furniture, £44.

,, 3 Cashed cheque for petty cash £25 and repaid cash advanced privately £ 16.14s.0d.

Sold goods for cash £ 28.8s.0d.

Sold goods on credit to R. Ford, £ 56.

,, 4 Paid K. Luck and M. Noble for amounts due less 5% cash discount.

,, 5 Sold goods on credit to F. Richards, £ 164.

Bought goods on credit from M. Noble, £ 220.

Agreed with M. Noble that only 2½% cash discount be allowed on payment made to him on 4th January.

,, 6 Completed arrangements whereby S. Gray became a partner as from 1st January.

S. Gray paid to Bank £ 400 as capital.

Received cheque R. Ford £ 53.4s.0d. in settlement.

2. On 1st October, 1936, X and Y agreed to enter into partnership on the following terms :—

X is to receive a salary of £ 400 per annum to be credited to his current account in quarterly instalments of £ 100.

Y is to receive four-fifths of all profits up to £ 500 per annum, and X one-fifth ; Profits in excess of £ 500 per annum to be divided equally. All losses to be shared equally between the partners.

Interest is to be allowed on partners' capital accounts at the rate of 5% per annum to be credited to their current accounts before dividing profits as above. No interest to be charged on drawings.

From the above particulars and the following information extracted from the books on 30th June, 1937, prepare the Profit and Loss account and Balance Sheet of X and Y :—

	£	s.	d.
Gross Profit	2,716	6	2
Rent and Rates	415	10	1
Leasehold Premises	3,000	0	0
Furniture, Fittings and Equipment	280	0	0
Commission Received	79	2	1
Partner's Salary (credited to X)	200	0	0
Drawings : X.– £450 ; Y.– £450	900	0	0
Light, Heat and Power	79	8	9
Cash in hand and at Bank	544	16	5
Stock	1,097	8	10
Bills Receivable	600	0	0
Bills Payable	150	0	0
Bank Deposit	200	0	0
Bank Deposit Interest	1	10	0
Sundry Debtors	987	3	2
Sundry Creditors	100	7	9
Insurance (annual premium paid to 30th September, 1937)	23	3	8
Discount Allowed	437	9	9
Discount Received	270	10	3
Bill Discounting charges	22	7	4
Trade and Office Expenses	310	1	7
Wages and Salaries	420	6	8
Capital : X.–£ 3,000 ; Y.–£3,000	6,000	0	0

The Leasehold Premises were taken over on 1st October, 1936, on a lease which expires on 30th September, 1966.

The amount for Rent and Rates includes rates £19.7s.6d. paid on X.'s private residence.

£ 7.9s.4d. is due for electricity consumed and is not yet included in the accounts.

The item Trade and Office Expenses includes £ 15.10s.0d. paid for an office typewriter.

It was resolved to make a Reserve of 5% on Sundry Debtors for doubtful debts.

3. From the following figures relating to Sales Ledger No. 1 prepare a Sales Ledger Adjustment Account :—

1937			£	s.	d.
Oct.	1	Balance of Sales Ledger Adjustment Account	1,761	3	1
	31	Sales for month	1,576	10	9

Oct. 31	Returns for month	29	2	1
	Cash and Cheques Received	1,593	2	6
	Discount Allowed	83	17	0
	Bad Debts	10	2	2

WINTER EXAMINATION, 1937

1. On 4th January, 1937, George Clarkson commenced business with a balance of £950 in the Bank, and during the following week transacted the following business. Pass these items through the necessary books and post them to the Ledger.

(*Note* —No Trial Balance is required but candidates may make one if they desire to do so.)

1937.

Jan. 4 Entered into agreement to rent premises at £60 per quarter payable monthly at the end of each month.

„ 5 Paid cheque £65 for shop fixtures and fittings already installed.
Purchased on credit from Wholesalers, Ltd., stock of goods £120 10s. 5d., less 20 per cent. trade discount.

„ 6 Purchased Office Furniture from Office Supplies Co., £45 11s. 0d. Drew Cash from Bank for Office purposes, £15.

„ 7 Purchased goods on credit from C. J. Merchant, £32 7s. 10d.
Purchased a second-hand Motor Van for cheque £70.
Purchased for cash Office Account Books £ 1 4s. 0d., Office Stationery 18s., and Packing Materials £1 3s. 6d.

„ 8 Received from Wholesalers, Ltd., an allowance of £8 3s. 9d. for damaged goods in the consignment purchased on the 5th instant.
Purchased for cash petrol and oil for motor van 8s. 6d.

„ 9 Paid assistants' wages in cash £2 10s. 0d.
Cash Sales for the week amounted to £47 8s. 11d., which amount was paid into Bank.

2. From the following information extracted from the books of a Leather Manufacturer at 31st December, 1936, prepare Trial Balance Trading and Profit and Loss Account.

(*Note* :—No Balance Sheet is required.)

	£	s.	d.
A.B. Capital Account—balance at credit	649	15	0
A.B. Drawing Account—balance at debit	770	6	11
Plant	1,342	8	2
Stock, 1st January, 1936	2,627	0	11
Insurance (¾ Factory; ¼ Office)	132	19	7
Rates and Water (¾ Factory; ¼ Office)	87	17	5
Light and Heat	71	7	1
Purchases	7,034	19	2
Wages (Factory £899 2s. 0d., Office £280 1s. 7d.)	1,179	3	7
Sales	12,045	4	1
Freehold Premises	1,236	2	8
Discount Allowed	281	12	10
Power	330	7	11
Trade Expenses	603	7	6
Cash at Bank	251	4	2
Sundry Debtors	1,380	5	8
Sundry Creditors	4,763	14	5
Commission paid	129	9	11

The Stock at 31st December, 1936, amounted to £4,184 2s. 6d., £40 Insurance had been paid in advance. There is £15 owing for Rates and £20 for Light and Heat. You have to charge depreciation of 5 per cent. per annum on Plant.

3. On 1st February, 1937, the Balance Sheet of Wm. Wrightson & Sons was as follows:—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Crs.	123	8	0	Cash in hand and at Bank	178	10	6
Capital	622	13	5	Stock	325	7	9
				Sundry Debtors	67	3	2
				Furniture, Fixtures and Fittings	175	0	0
	£746	1	5		£746	1	5

On that date J. Pledger agreed to buy the business for £650. Pledger agreed to take over all the assets and liabilities except the Cash in hand and at Bank.

Show by means of Journal Entries the record which Pledger would make in his books on taking over the business.

4. On 1st January, 1935, a firm purchased machinery value £550 and resolved to depreciate it at the rate of 10 per cent. per annum on the diminishing balance.

On 30th June, 1936, an additional machine was purchased for £50, to be depreciated on the same basis.

On the same date a machine purchased on 1st January, 1935, for £70 was sold for £40.

Show the Machinery Account of the firm from 1st January, 1935, up to and including 31st December, 1936.

SPRING EXAMINATION, 1938

1. W. Jeffries carrying on business as a wholesale fruiterer, etc., had the following balances on his books at 1st January, 1938 :—

Stock of fruit, etc. £175; Cash at bankers £234; Cash in Office £35; Office Furniture £87; Freehold Premises £1,500; Vehicles £250; Goodwill £560; Sundry Debtors—J. Johns £62 13s., F. Wilkinson £37 17s.; Sundry Creditors—Fruit Marketing Co. £35 16s.; R. Robson £121 12s.; Loan Account—Mrs. Jeffries £750; Rates (to 31/12/37) £8 3s. 4d.; Reserve for Bad Debts £15.

Enter the above balances in the Ledger; enter the following transactions in the proper subsidiary books; post to the ledger and abstract a trial balance.

1938

Jan. 2 Paid Income Tax (Sch. A) by cheque £23 15d. 0d.

,, 2 Paid Rates (to March 31st) by cheque £16 6s. 8d.

,, 4 Bought of M. Levy fruit, etc., £18 17s. 5d.

Paid R. Robson's account (less 2½ per cent. cash discount).

Received cheque on account from J. Johns and paid it into Bank, £35.

,, 6 Sold to F. Wilkinson, fruit, etc., value £28 2s. 3d.

Sold fruit for cash and banked proceeds £47 15s. 0d.

,, 7 Purchased new motor-van value £150 from Garages, Ltd. Old van, valued in books at £57 was taken in part exchange and an allowance made of £30.

Jan. 7 Bought fruit, etc., of Fruit Marketing Co., £19 7s. 6d.

Paid Fruit Marketing Co's account as at 1/1/1938, less 2½ per cent. cash discount.

Paid from Office Cash—Wages £5 15s. 0d.
Sundry Expenses £2 3s. 6d.

Drew cheque for self £6 10s. 0d.

2. On 1st October. 1937, S. Sedgefield commenced business and took over the following assets and liabilities from R. Elsdon :—

Sundry Debtors (guaranteed by Elsdon) £182 6s. 7d.; Machinery and Plant £500; Premises £900; Fixtures and Fittings, £125; Stock £636 7s. 6d.; Sundry Creditors £347 3s. 1d.

In addition, he agreed to pay £400 for goodwill. Sedgefield paid into bank £3,000 out of which he paid for Elsdon's business.

In the Trial Balance extracted on 31st December, 1937, accounts arising out of the above showed the same balances as on 1st October, 1937, with the exception of Sundry Debtors which were £196 5s. 7d., Sundry Creditors £401 6s. 2d. and Cash at Bank £267 6s. 1d. In addition, the following balances appeared in the ledger.

	£.	s.	d.
Petty Cash	20	0	0
Bad Debts	14	15	3
Sales	1,798	9	2
Purchases	786	3	1
Returns Inwards	78	4	1
Manufacturing Expenses	88	7	9
Rates (Factory ¾; Office ¼)	69	3	8
Power	97	6	4
Light, Heat and Water (Factory ¾; Office ¼)	24	9	4
Carriage Inwards	36	8	10
Carriage Outwards	57	7	6
Factory Wages	688	5	0
Salaries	125	0	0
Trade and Office Expenses	89	5	4

You are required to prepare Trading and Profit and Loss Accounts for the quarter ended 31st December, 1937, and a Balance Sheet at that date taking the following into consideration :—

(*a*) Stock on hand 31st December, 1937, £542 4s. 7d.

(*b*) 10 per cent. per annum depreciation is to be written off Machinery and Plant.

(c) Rates £32 4s. 8d. are paid in advance.

(d) £49 7s. 4d. is due for electricity (Power £40 10s. 0d., Light £8 17s. 4d.)

(e) Of the Bad Debts, £9 6s. 3d. is on debtors guaranteed by Elsdon.

3. A. and B. are in partnership sharing profits and losses A. two-thirds; B.—one-third. A's Capital is £5,000 and B.'s £4,000, and it is agreed that interest on Capital shall be allowed at the rate of 4 per cent. per annum.

After closing the accounts and crediting the partners' Current Accounts with their respective shares of the profit, it is discovered that Interest on Capital has been altogether omitted from the accounts.

Show by means of a Journal Entry how this can be rectified and also how you have made your calculation.

4. The following is the balance Sheet of a sole trader. State the amount of:—

(1) Fixed assets.

(2) Floating assets.

(3) Working capital.

Show in each case how you arrive at your calculations.

BALANCE SHEET OF X. A SOLE TRADER, AS AT 31st DECEMBER, 1937

	£		£
Sundry Creditors ..	2,500	Land and Buildings ..	10,000
X. Capital account	26,000	Plant & Machinery ..	7,500
		Furniture & Fittings ..	500
		Stock	5,000
		Sundry Debtors ..	3,750
		Bills Receivable ..	750
		Cash in hand and at Bank	1,000
	£28,500		£28,500

SUMMER EXAMINATION, 1938

1. On 1st June, 1938, the position of F. R. Blanchard was as follows:—

Petty Cash £ 15; Cash at Bank £ 576.17s.9d.; Stock £ 482.18s.0d.: Sundry Debtors:—R. Slaley £ 98.3s.6d.; F. Gibside £ 134.5s.1d. Sundry Creditors:—W. Dipton £234.9s.2d., T. Staward £ 26.4s.5d. Furniture and Fittings £220; Leasehold Premises £ 150.

Enter the above position direct into the ledger, then pass the following transactions through the proper books and post them to the ledger. Make a Trial Balance as at 30th June, 1938.

1938

June 3 Paid by cheque to W. Dipton his account as at 1st instant less 5 per cent. cash discount.

,, 8 Purchased from T. Staward goods £ 72.4s.9d.

,, 13 Received loan from Bank £ 500.

,, 14 Completed arrangements for purchase of Freehold of Premises for £ 680 plus legal expenses £ 27, and paid by cheque.

,, 15 Received from F. Gibside the amount of his account at 1st instant and paid it into bank.

,, 17 Purchased from W. Dipton goods £ 132. 7s. 1d.

,, 20 F. R. Blanchard handed over for use in the business a private motor car value £ 160 and a desk value £ 10.

,, 23 Paid Rates by cheque £ 32.3s.9d.
Paid T. Staward cheque £ 18.1s.5d. in settlement of his account as at 1st June, the balance being an amount allowed by him for damaged goods.

,, 26 Sold to R. Slaley goods £ 72.5s.3d. and received from him cheque £ 50 on account.

,, 29 Purchased from Office Supplies Co., Ltd., Office Stationery £ 4.10s.0d. and packing materials £ 5.1s.6d.

,, 30 Petty Cash Expenses during the month were as follows:—

Postages	£ 4 2s. 3d.
Office Expenses	£ 2 7s. 9d.
Carriage	£ 5 3s. 1d.

The balance of Petty Cash was restored to £ 15.

2. A. and B. were in partnership sharing profits and losses equally.

They were entitled to 5 per cent. per annum on Capital before the division of profits (payments in and withdrawals during the year being ignored).

Depreciation of Plant is to be charged at 10 per cent. and a Reserve of 5 per cent. on Debtors is to be provided for doubtful debts. Their

Manager was entitled to commission which amounted for the year to £ 264.

The net profit for the year ended 30th June, 1938, after giving effect to the foregoing with the exception of the provision as to interest on Capital, was £ 5,689.

You are required to prepare the Balance Sheet of A. and B. as at 30th June, 1938, having regard to the following additional information :—

	£
Capital A. — 1st July, 1937	5,000
Capital B. — 1st July, 1937	4,500
Plant–1st July, 1937	1,000
Furniture and Fittings (1st July, 1937)	100
Drawings–A.	1,600
Drawings–B.	1,600
Stock 30th June, 1938	4,000
Sundry Trade Debtors	8,400
Sundry Trade Creditors	1,700
Cash at Bank	940
Cash in hand	33

3. W. Gladden does not keep proper books of account. From the following particulars ascertain his Sales and his Purchases for the month ending 30th June, 1938 :—

	£	s.	d.
Sundry Trade Debtors (1st June)	347	9	8
Sundry Trade Debtors (30th June)	410	2	1
Cash received from Trade Debtors during month	370	7	6
Discount allowed to Trade Debtors during month	19	3	4
Cash Sales for month	107	3	1
Sundry Trade Creditors (1st June)	509	17	2
Sundry Trade Creditors (30th June)	487	3	7
Cash paid to Trade Creditors during month	498	16	5
Discount received from Trade Creditors during month	27	4	1
Cash Purchases during month	23	3	1

4. On 1st January, 1938 the balances appearing in the following accounts in V. Farewell's ledger were :—

Packing Materials	Dr. balance		21	3	4
Lighting and Heating	Cr.	,,	8	2	6
Rates	Dr.	,,	10	9	9
Machinery	Dr.	,,	220	0	0
Advertising	Dr.	,,	27	0	0

(*a*) Open accounts as above, insert the balances, then show how the following transactions would appear in the accounts.

N.B.—Only the accounts named above are required.

1938

Jan.	7	Paid cheque for Lighting and Heating £ 8 2s. 6d.
Mar.	30	Purchased new machinery from Equipment, Ltd. £110
April	8	Returned a machine valued £ 20 purchased on 30th March.
May	7	Paid cheque for advertising £ 160.
May	9	Paid account for Lighting and Heating by cheque £ 9.7s.9d.
May	27	Purchased packing materials on credit from F. Playwell, £ 15.10s. 3d.
June	21	Paid by cheque Rates for half year ending 30th September 1938, £ 22.8s.6d.

(*b*) Balance the accounts as at 30th June, 1938, taking into account the following additional information :—

(1) Stock of packing materials on hand £ 8.11s.10d.

(2) Machinery to be depreciated at the rate of 10 per cent. per annum.

(3) £ 9.4s.9d. is due for Lighting and Heating.

(4) It was decided to carry forward three quarters of the charge in the advertising account for the half year ended 30th June, 1938.

AUTUMN EXAMINATION, 1938

1. The following draft Trial Balance was extracted from the books of X. and Y. as on 30th June, 1938, after the Trading Account had been prepared. In it there are certain errors which you are required to correct and then to prepare Profit and Loss Account for the year ended 30th June, 1938, and a Balance Sheet as at that date, dividing profits in the proportions of 5 to X. and 4 to Y. The Bad Debt reserve is to be kept at £ 500.

DRAFT TRIAL BALANCE, 30th JUNE, 1938

	£	s.	d.	£	s.	d.
X. Capital Account				7,600	0	0
Y. Capital Account				4,000	0	0
X. Current Account (Cr. Bal.)				1,650	0	0
Y. Current Account overdrawn	270	0	0			
Stock, 30th June	6,780	0	0			
Plant and Machinery	4,050	0	0			
Bills Payable				790	0	0
Salaries	2,630	0	0			
Depreciation–Plant and Machinery	450	0	0			
Furniture and Fittings	810	0	0			

	£	s.	d.	£	s.	d.
Rent, Rates and Taxes..........	1,250	0	0			
Rates paid in advance...........	40	0	0			
Office Expenses–Stationery, etc...	470	0	0			
Depreciation—Furniture and Fittings	90	0	0			
Bad Debts.....................	220	0	0			
Motor Lorries..................	1,440	0	0			
Carriage Outwards..............				310	0	0
Discounts allowed..............				1,430	0	0
Discounts received..............	810	0	0			
Depreciation on Motor Lorries....	360	0	0			
Legal Expenses.................	230	0	0			
Insurances.....................	320	0	0			
Insurances paid in advance.......	30	0	0			
Investments....................	2,500	0	0			
Interest thereon................				150	0	0
Interest on Capital, X...........	380	0	0			
Interest on Capital, Y...........	200	0	0			
Sundry Debtors and Creditors....	6,790	0	0	3,820	0	0
Reserve for Bad Debts..........				500	0	0
Bank Overdraft.................	1,320	0	0			
Cash in hand...................	30	0	0			
Trading Account (Credit Bal.)....				10,440	0	0
	£31,470	0	0	£30,690	0	0

2. On 1st January, 1938. Dennis & Holmes possessed the following assets and liabilities :—

> Plant and Machinery £ 3,000; Freehold Buildings £ 4,000; Stock £ 2,400; Cash at Bank £ 800; and Debtors £ 2,300 (A. Brown £ 800; C. Denny £ 900; E. Jones £ 600).

The Creditors were : Box & Co. £ 1,200 ; Brookes Bros. £ 1,000 ; and Corbett & Co. £ 1,300.

The Capital of the firm belonged to the partners in equal proportions.

During January the following transactions took place, all cash received being paid into bank and all payments being made by cheque:

		£
Sales on credit to	A. Brown	£ 200
	C. Denny	550
	E. Jones	300
Purchases on credit from	Box & Co.	800
	Brookes Bros.	700
	Corbett & Co.	400

		£
Cash received from	A. Brown	800
	C. Denny	800
	E. Jones	700
Cash paid to	Box & Co.	1,100
	Brookes Bros.	800
	Corbett & Co.	500
	Trade Expenses	240
	Salaries and Wages	100
	Partners' Drawings	75 each.

Record the above transactions in the proper subsidiary books and post to the Sold Ledger, Bought Ledger and General Ledger. Extract a General Trial Balance as at 31st January. (The separate ledgers are not required to be made self-balancing).

3. The following details as to bad and doubtful debts are extracted from the books of Jacques & Co :—

31*st December*, 1935.—Bad debts, to be written off : C.D. £ 60 ; E.F. £95 ; both being totally irrecoverable. Five per cent. is to be reserved for bad and doubtful debts on £ 1,100, that being the amount owing by the debtors then outstanding.

31*st December*, 1936.—Five per cent. is to be reserved for bad and doubtful debts on £ 2,500, that being the total amount owing by the debtors then outstanding.

31*st December*. 1937.—Bad debts to be written off : G.H. £ 50 ; L.J. £ 60. Five per cent. is to be reserved for bad and doubtful debts on £ 1,500, that being the total amount owing by the debtors then outstanding.

You are required to show the necessary Ledger entries in the following accounts :—

(1) The Bad Debts Account.

(2) The Reserve for Bad and Doubtful Debts Account.

4. At 31st March, 1938, when a trader, F. Thompson, balanced his accounts, there was a difference in his books of £ 11 17s. 8d. Being unable to trace the difference, he opened a Suspense Account and debited the amount thereto.

He subsequently discovered that the difference was due to the following errors and omissions in the books :—

> Purchases Book incorrectly totalled for January, 1938. £ 1,253.3s.7d. should be £ 1,235,3s.7d.

Cash Book Discount Column (Dr.) November, 1937. £ 7.2s.8d. not posted.

Goods £ 25 sold to M. Rose and correctly entered in the Sales Book had been debited to his account as £ 2. 5s.

State how you would correct the above errors.

WINTER EXAMINATION, 1938

1. A. and B. were in partnership. A is entitled to the first £ 500 of profit, the remainder to be divided as to three-fifths to A and two-fifths to B. The partnership agreement further provided that interest at 5 per cent. per annum be allowed on partners' Capital Accounts and also on Current Accounts balances from a previous year and charged at the same rate on drawings.

On 30th June, 1937 the following Trial Balance was extracted from the books of the firm :—

	£	£
A. Capital Account		8,000
B. ,, ,,		6,000
A. Current Account (balance 30th June, 1936)		2,880
Drawings :—30th Sept. 1936 £ 1,000		
31st March, 1937 £ 1,800	2·800	
B. Current Account (balance 30th June, 1936)		1,680
Drawings :— 30th Sept. 1936 £ 800		
31st March, 1937 £ 800	1,600	
Plant and Machinery	3,630	
Office Salaries	1,985	
Bad Debts	327	
Furniture and Fittings	880	
Reserve for Bad Debts		500
Factory fuel and Power	395	
Sales (*less* Returns)		38,752
Freehold Land and Buildings	5,522	
Stock (30th June, 1936)	8,955	
Purchases (*less* Returns)	13,852	
Carriage on Purchases	397	
,, Sales	516	
Manufacturing Wages	3,785	
,, Expenses	942	
Printing, Stationery and Office Expenses	1,396	
Lighting and Heating	89	
Sundry Expenses	359	
Sundry Debtors and Creditors	12,980	4,862
Rates, Taxes and Insurance	2,846	
,, ,, ,, (in Advance)	218	
Advertising	3,507	
Cash at Bank	2,401	
,, in Hand	32	
Staff Superannuation Fund		6,740
	£ 69,414	£ 69,414

You are required to prepare Trading and Profit and Loss Accounts for the year ended 30th June, 1937, and a Balance Sheet at that date, taking the following into consideration :—

(*a*) Plant and Machinery is to be depreciated at the rate of 10 per cent. per annum, and Furniture and Fittings at 5 per cent. per annum ;

(*b*) Reserve for Bad Debts to be made equal to 5 per cent. of the Sundry Debtors ;

(*c*) After charging interest on Capital and Drawings but before ascertaining the shares of profit due to the partners, 10 per cent. of Net Profit for year to be transferred to the Staff Superannuation Fund ;

(*d*) Stock in hand on 30th June, 1937 was valued at £ 8,116.

2. On 31st December, 1937 G. Roger's Trial Balance showed a total on the debit side of £ 5,076.3s.2d. and a total on the credit side of £ 5,031.3s.4d. A Suspense Account was opened temporarily for the difference.

After balancing the books and preparing the final accounts, the following errors are discovered. Give the entries necessary to correct the accounts :—

(*a*) B. Woodson's account has been debited with £ 45.4s.0d. instead of £ 4.5s.4d.

(*b*) A discount allowed to F. Gee £3.4s.10d. had been correctly entered in the Cash Book but entered in Gee's account as £ 3.10s.4d.

(*c*) The credit balance of C. Roper's account as shown in the ledger on 31st December was £ 54.4s.2d. It was included in the Trial Balance as £ 45.4s.2d.

(*d*) R. Grant received an allowance of £ 1.6s.8d. It was not entered into his account.

(*e*) A payment of £ 26.8s.0d. for rates had been correctly entered in the Bank Account but had been debited to the Rates Account as 20.8s.0d.

3. How would the following transactions affect the assets and liabilities (including Capital and Profit) of a business ?

In *each* case name the particular Balance Sheet items affected and give the extent to which they are affected.

(*a*) Purchased goods on credit £ 91.

(*b*) Sold goods (cost price £ 30) for cash £ 38.

(*c*) Paid J. Williams, a creditor, a cheque for £ 46.10s.9d.

(*d*) Depreciated Office Furniture by £ 12.10s.0d.

4. A. Richards is a coal merchant. On 1st January, 1938 his stock in hand valued at cost price amounted to £ 160.10s.0d. During January his purchases amounted to £ 236.7s.9d. and his sales to £ 258.7s.0d. Assuming that Richards adds 25 per cent. to the cost price, prepare a statement estimating his stock in hand at 31st January, 1938.

SPRING EXAMINATION, 1939

1. A.B., who was in business on his own account, agreed to admit his manager C.D. as a partner on 1st January, 1938.

A.B. was to draw £ 25 per month and C.D. £ 15 per month on which no interest was to be charged.

Interest at 5 per cent. per annum was to be allowed on Capitals.

C.D. was to be credited with a partnership salary of £125 per annum.

Profits were to be shared in the proportions of ¾ to A.B. and ¼ to C.D.

On 31st December, 1938, the following balances were extracted from the books of the Partnership.

	£	£
A.B. Capital Account		5,000
Current Account	300	
C.D. Capital Account (cash 1st Jan.)		1,000
Current Account	55	
Goodwill	1,500	
C.D. Partnership Salary	125	
Plant and Machinery (31st December, 1937)	2,800	
Stock (31st December, 1938)	2,610	
Bad Debts	224	
Bad Debts Reserve (31st December, 1937)		200
Office Salaries	963	
Office Expenses	163	
Travellers' Salaries and Commission	1,237	
Rent, Rates, etc., of Offices	184	
Discount Account		21
Bank Overdraft		243
Sundry Debtors and Creditors	5,826	4,512
Office Furniture	200	
Carriage (on Sales)	1,014	
Manufacturing Account. Balance 31st Dec. 1938		6,227
	£17,203	£17,203

You are required to prepare Profit and Loss Account for the year ended 31st December, 1938, and a Balance Sheet as at that date, taking the following matters into consideration :—

(*a*) Depreciation is to be provided on Plant and Machinery at 10 per cent. and on Office Furniture at 7½ per cent.

(*b*) The Bad Debt Reserve is to be made up to £325.

(*c*) Travellers' commission for the month of December amounting to £ 124 is outstanding.

(*d*) The partnership agreement provides that out of C.D.'s share of profits the sum of £200 shall be transferred to his Capital Account each year until his Capital is equal to one-half of A.B.'s.

2. On 1st February, 1938, the firm of Jonas & Co. borrowed £1,000 from A. Lender, and paid interest at 6 per cent. per annum quarterly on 1st May, 1st August, 1st November and 1st February.

Show the accounts relating to this loan in the ledger of Jonas & Co., for the year ended 31st March, 1938, and the year ended 31st March, 1939. (Ignore Income Tax).

3. The following is X.Y.'s Balance Sheet for the year ended 31st December, 1938 :—

Laibilities.		£ s. d.	*Assets.*		£ s. d.
Sundry Creditors		59 3 2	Cash in Hand and at Bank		116 7 9
Bank Loan		100 0 0	Stock (at cost)		297 5 0
Capital (1st Jan.)	£ 559 18 10		Sundry Debtors		41 3 4
Add Net Profit ..	301 4 1		Fixtures and Fittings	£ 290 0 0	
	861 2 11		Less Depreciation 5% per annum	14 10 0	
Less Drawings	290 0 0				275 10 0
		571 2 11			
		£730 6 1			£730 6 1

State what items in the above Balance Sheet would have been affected and show exactly how they would have been affected if during the trading period.

(a) Depreciation had been written off the Fixtures and Fittings at the rate of 10 per cent. per annum, instead of 5 per cent. per annum.

(b) The proprietor had taken goods from stock cost value £13 10s. 0d.

(c) The cost value of stock had been written down by 5 per cent.

(d) The Bank Loan had been repaid.

(e) A debt amounting to £4 7s. 4d. had been written off as bad.

Your answer should show the effect of each of the above items (a) to (e) separately.

4. What information can you derive from the following account.

W., Waterson.

1939			£	s.	d.	1939			£	s.	d
Jan.	1	To Bal.b/d..	69	10	6	Jan.	6	By Bank & Discount	69	10	6
,,	21	,, Sales ..	79	4	7	,,	23	,, Allowances	5	2	7
						,,	31	,, Balance c/d	74	2	0
			£148	15	1				£148	15	1
Feb.	1—	To Bal. b/d	74	2	0						

State what documents would pass between your firm and W. Waterson in respect of the month's transactions.

ANSWERS TO EXERCISES

Exercise										
2.	2 (a)	Capital	Rs.	11,469 00	£	764	12	0	
	(b)	,, nil. Tot.	Rs.	1,746 00	£	116	8	0	
	(c)	Net Def.	Rs.	3,884 00	£	258	18	8	
	(d)	Capital	Rs.	13,409 00	£	893	18	8	
	(e)	,,	Rs.	18,149 00	£	1,209	18	8	
3.	4 (a)	Bal. paid	Rs.	498 00	£	33	4	0	
	(b)	Debit bal.	Rs.	348 00	£	23	4	0	
	(c)	,,	Rs.	591 00	£	39	8	0	
	(d)	,,	Rs.	153 00	£	10	4	0	
4.	6 (a)	Bal. Cash	Rs.	7,479 00	£	498	12	0	
		Bank	Rs.	9,237 00	£	615	16	0	
	(b)	,, Cash	Rs.	2,882 00	£	192	2	8	
		Bank	Rs.	1,355 00	£	90	6	8	(Cr.bal.)
	(c)	,, Cash	Rs.	4,937 00	£	329	2	8	
		Bank	Rs.	4,841 00	£	322	14	8	
	7 (a)	G.P.	Rs.	2,071 00	£	138	1	4	
	(b)	G.L.	Rs.	172 00	£	11	9	4	
	8 (a)	G.P.	Rs.	1,580 00	£	105	6	8	
		Bal. Cash	Rs.	1,231 00	£	82	1	4	
		Bank	Rs.	3,100 00	£	206	13	4	
	(b)	G.L.	Rs.	244 00	£	16	5	4	
		Bal. Cash	Rs.	2,186 00	£	145	14	8	
		Bank	Rs.	630 00	£	42	0	0	
5.	4 (a)	G.P.	Rs.	486 00	£	32	8	0	
	(b)	G.P.	Rs.	989 00	£	65	18	8	
	(c)	G.L.	Rs.	631 00	£	42	1	4	
	5	G.P.	Rs.	71 00	£	4	14	8	
6.	6 (a)	Capital	Rs.	49,559 00	£	3,303	18	8	
	(b)	,,	Rs.	69,617 00	£	4,641	2	8	
	(c)	,,	Rs.	16,887 50	£	1,125	16	8	
	(d)	,,	Rs.	21,823 00	£	1,454	17	4	
	(e)	,,	Rs.	26,035 00	£	1,735	13	4	
7.	7 (a)	Capital	Rs.	29,910 00	£	1,993	8	0	
	(b)	,,	Rs.	25,812 00	£	1,720	16	0	
	(c)	,,	Rs.	86,665 00	£	5,777	13	4	
	(d)	,,	Rs.	6,468 00	£	431	4	0	
8.	4 (a)	Capital	Rs.	46,280 00	£	3,085	6	8	
	(d)	,,	Rs.	4,373 00	£	291	10	8	

Exercise							
9. 5 (a)		Rs.	115 75	£	7	14	4
(b)	Cash bal.	Rs.	8,306 00	£	553	14	8
	Bank bal.	Rs.	10,764 00	£	717	12	0
	Disct.totals	Rs.	50 00	£	3	6	8
(c)	Cash bal.	Rs.	6,685 00	£	445	13	4
	Bank bal.	Rs.	140 00	£	9	6	8
	Discount total Dr.	Rs.	5.00	£		6	8
	,, ,, Cr.	Rs.	8.00	£		10	8
(d)	Cash bal.	Rs.	916 00	£	61	1	4
	Bank bal.	Rs.	571 00	£	38	1	4
	Discount total Dr.	Rs.	15.00	£	1	0	0
	,, ,, Cr.	Rs.	36.00	£	2	8	0
(e)	Capital	Rs.	12,684 00	£	845	12	0
10. 17 (a)		Rs.	1,670 00	£	111	6	8
(c)	Capital	Rs.	23,865 00	£	1,591	0	0
11. 9 (a)	Total P.B.	Rs.	815 00	£	54	6	8
	,, S.B.	Rs.	1,350 00	£	90	0	0
	,, Ret. In. Book	Rs.	135 00	£	9	0	0
	,, ,, Out. Book	Rs.	80 00	£	5	6	8
(b)	Capital	Rs.	50,812 00	£	3,387	9	4
(c)	,,	Rs.	27,530 00	£	1,835	6	8
(d)	,,	Rs.	27,963 00	£	1,864	4	0
12. 17 (a)	Bal. B.R.	Rs.	14,300 00	£	953	6	8
	,, B.P.	Rs.	11,155 00	£	743	13	4
(b)	Capital	Rs.	16,590 00	£	1,106	0	0
(c)	,,	Rs.	16,631 97	£	1,108	15	4
(d)	Bal. B.R.	Rs.	5,500 00	£	366	13	4
	,, B.P.	Rs.	4,555 00	£	303	13	4
(e)	Capital	Rs.	6,555 00	£	437	0	0
13. 6	B.R.	Rs.	7,800 00	£	520	0	0
	B.P.	Rs.	8,780 00	£	585	6	8
14. 3	Capital	Rs.	18,900 00	£	1,260	0	0
6	,,	Rs.	30,493 00	£	2,032	18	1
7	,,	Rs.	33,058 00	£	2,203	17	4

Exercise							
15. 10 (a)	Net proceeds of A/s	Rs.	1,779 00	£	115	9	4
	Profit	Rs.	102 00	£	3	13	4
(b)	Net proceeds of A/s	Rs.	4,190 50	£	279	7	4
	Profit	Rs.	742 00	£	47	16	0
(c)	Cr. bal.	Rs.	1,198 50	£	79	18	0
16. 8 (a)	½ profit	Rs.	375 00	£	25	0	0
(b)	½ profit	Rs.	447 00	£	29	16	0
(c)	Profit	Rs.	1,220 00	£	81	6	8
(d)	Capital	Rs.	36,580 00	£	2,438	13	4
17. 5	Excess of Income over Exp.	Rs.	3,356 00	£	223	14	8
18. 8	Capital :						
(a)	C. Collins	Rs.	64,550 00	£	4,303	6	8
	D. Dream	Rs.	32,200 00	£	2,146	13	4
(b)	E. Earle	Rs.	86,750 00	£	5,783	6	8
	F. Fagin	Rs.	58,700 00	£	3,913	6	8
	G. Grant	Rs.	28,750 00	£	1,916	13	4
(c)	H. Hynes	Rs.	60,580 00	£	4,038	13	4
	I. Ignatius	Rs.	29,490 00	£	1,966	0	0
(d)	J. Jenkins	Rs.	38,190 91	£	2,546	1	3
	K. Kennedy	Rs.	14,384 09	£	958	18	9

Test Paper

1. (2)	Capital	Rs.	23,425 00	£	1,561	13	4
2. (1)	Capital	Rs.	19,118 00	£	1,274	10	8
3. (3)	Cash bal.	Rs.	616 00	£	41	1	4
	Bank ,,	Rs.	396 00	£	26	8	0
	Disc. Cr. ,,	Rs.	21 00	£	1	8	0
(4)	Capital	Rs.	37,576 00	£	2,505	1	4
4. (2)	Capital	Rs.	15,387 00	£	1,025	16	0
5. (2)	Capital	Rs.	52,329 00	£	3,488	12	0

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