

ACCOUNTANCY

ACCOUNTANCY

BY THE SAME AUTHOR

AUDITORS :
Their Duties and Responsibilities

ELEVENTH EDITION

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On the practical side, this book deals with the preparation of the accounts of a company for the purpose of audit: books to be examined by the auditor, forms of accounts submitted to auditors, nature and principles of an audit, detailed work of an audit, the Revenue Account and balance sheet, special points for consideration in various classes of audit, profits available for dividends, auditors' certificate and report, etc.; while on the legal side the duties and responsibilities of auditors under the Companies Acts, Partnership Acts, and Acts relating to Executors and Trustees, etc., are fully explained.

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ACCOUNTANCY

BY

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AUTHOR OF "AUDITORS," ETC.

(Of the Middle Temple, Barrister-at-Law)

CONSTRUCTIVE AND
RECORDING ACCOUNTANCY

180869.

30.8:23.

SECOND EDITION

LONDON

SIR ISAAC PITMAN & SONS, LTD., 1 AMEN CORNER, E.C.4
BATH, MELBOURNE AND NEW YORK



PRINTED BY SIR ISAAC PITMAN
& SONS, LTD., LONDON, BATH,
MELBOURNE AND NEW YORK

PREFACE

So far as the Author is aware, this is the first attempt that has been made to treat Accountancy on a scientific basis. For this purpose the subject has been divided into sections to which names that are new, both to Practitioners and to Students, have been assigned. Opinions are likely to differ as to the suitability of the nomenclature adopted, and the Author can only express the hope that his selection may so far meet with approval as to be considered worthy of adoption by professional Accountants.

For the purpose of affording practice in what the Author has described as the Construction of Books and Statements of Account, he has, in suggesting rulings for books, not set them out in columnar form, but in a series of lines indented and numbered. The constructor of a book suggested in these pages must therefore understand that the heading may be intended to extend across the whole page, and in some instances across the folio or double page; also that the numbers refer to vertical columns drawn from the bottom line underneath a heading; that the small letters in brackets refer to vertical columns with headings dividing the columns into sub-columns, which sub-columns can be further sub-divided into other columns with headings indicated by the numbers in brackets. For example, a Register of Tenders constructed in accordance

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ACCOUNTANCY

CHAPTER I INTRODUCTORY

OF those occupations which have developed in modern times into the professions, the oldest is probably that of building. The natural instinct of every human being prompts him to provide protection for himself and his belongings from cold, heat, and the other inclemencies of weather with which even the most favoured countries are at certain seasons visited.

No sooner, however, did men begin to build huts for their protection than they were driven to barter and traffic, and barter even in its most primitive form involves some kind of a system of accounts. The origins of the profession of Accountancy may therefore claim almost as remote an antiquity as those of architecture.

Accountancy then, in its rudest form, must have come into existence at a very early period of the world's history, long before the needs of mankind called for even the most elementary system of law, and before there was anything that could be regarded as the first beginning of the modern profession of medicine.

It is a natural instinct for human beings to wish to exchange something which they have for something which they lack, but which is in the possession of someone else, and when such exchange is more complicated than the mere handing over of one or two articles in exchange for an approximately similar number in the possession of someone else, a calculation, in order to carry out such an exchange, has necessarily to be made.

In making these calculations, many of the savage races used their fingers and toes, and consequently the number five, represented by the number of digits on one hand, or one foot, was the basis of their system of counting ; while twice that number, or ten, represented by the number of digits on both hands or both feet, formed the basis of other systems.

The number five was the basis of the early Greek system, which was subsequently altered to the decimal system, and ten is practically the basis of all other systems, with the exception of the Mexican, which is based on multiples of twenty.

Apart from any speculative theories as to the antiquity of Accountancy, the profession can undoubtedly claim that in the relics of the earliest civilisation of which some monuments are still extant, there is evidence of the existence of a genuine system of book-keeping which is not altogether without interest to the Accountant of to-day. In the remains of ancient Babylon, modern research has brought to light a large number of tablets made originally on soft clay which were written upon with a metal stylus, and then hardened by baking or drying in the sun. Many of these tablets are as old as about B.C. 2,600, and contain records of loans, also of partnership, and other commercial transactions; others are of a more recent date. For example, we learn from them that the Sons of Egibi carried on a business as bankers or moneylenders in Babylon for a considerable period down to about the fourth century before Christ. Tablets recording their transactions, varying in size from three-quarters-of-an-inch by half an-inch to nine inches by twelve inches, have been found with writing on both sides, and in some instances with writing on the edges in addition. Many of these tablets are undated, and those who have examined them have come to the conclusion that they are merely rough memoranda from which copies were made on larger tablets with amplification of detail, and bear signs of having been transcribed with the greatest care. Later on the clay tablet was superseded by the papyrus which was written upon with a reed.

Under the Roman Republic not only was there an extremely elaborate system of public taxation which involved a careful system of accounting, but Accountancy was also undoubtedly practised in the private life of the Roman family, as it was the custom for the head of the house to keep a book called an "Adversaria," in which were entered all the receipts and payments of his household. These entries were posted monthly into a book called the "*Codex Accepti et Depensi*," or register of receipts and payments, and an entry made in this book with the consent of a debtor was considered as being a good discharge. The system of Accountancy started in the days of the Republic was continued under the Empire, and it was the

custom, under the Empire, for a budget of expenditure for the year to be drawn up.

Without going further into these ancient times, the earliest system of accounting in Great Britain, so far as our present information shows, was that of the Exchequer of England and Scotland, the English Pipe Roll for the year 1130 to 1131 being the oldest statement of account appertaining to Great Britain now in existence. The Pipe Roll was a Statement prepared annually, showing the debts due to the Crown, as entered in the Exchequer and there compiled by the Treasurer. A copy was made by the Clerk to the Chancellor, and for a considerable time a further copy was kept by a representative of the King, but this was subsequently discontinued. At every Easter and Michaelmas a summons was issued to the Sheriff of each County, calling upon him to attend at the Exchequer on a given date, and account for his official revenue. Each Easter the Sheriff made a payment on account, and received as an acknowledgment a Tally, which was a shaft of wood on which was written a statement, showing its objects, and notches were cut on it representing pounds, shillings, and pence. This Tally was then split into two portions in such a manner that each portion showed the same amount. The following Michaelmas the Sheriff again attended, when he had to account for his revenue for the whole year, and this was done by the production of his Tally. This when fitted to the other half was accepted as proof of the payment he had previously made on account, the balance being accounted for by the production of evidence of certain authorised expenditure, supplemented by the handing over of the necessary cash or specie to close the Account.

As a result of the strict system of Account-keeping inaugurated by the Exchequer, many Corporations, and eventually some of the large Landowners, began to keep accounts of the revenue and expenditure of their estates; and the oldest private account now in existence is that of the Household Roll of Eleanor, Countess of Leicester, for 1265.

There is also evidence that about this period it was the custom for surveys of manors to be made, which contained details of the land itself, of the buildings erected on it, of all stock kept, of the free tenants and the terms of their tenure, also of the villeins and their services. Another statement contained particulars of the income received and the payments made.

The Corporations of towns about this period kept very excellent accounts, as is evidenced by the Account of the Chamberlain of London for 1334.

Until about the close of the fifteenth century the figures expressing money received or paid were Roman numerals, when the Arabic notation, which was in use in Italy in the twelfth century, began to be employed in Great Britain. Its adoption into general use was however of very slow growth.

Since the commencement of the sixteenth century, Accountancy, so far as it relates to keeping records of monetary transactions, has been established as an indispensable adjunct of all well-ordered establishments, whether the Offices of Government Departments, Town and City Corporations, Public and Private Corporations or Trading concerns, as also in the more private ones of landowners, merchants, and others, including the keeping of the private domestic accounts of a household.

The word "Accountant" is derived from the French "*Compteur*" which took its origin from the Latin "*Computare*." As a proof of its derivation the word was formerly written in English "Accomptant," but in process of time the word which was always pronounced by dropping the "p" became gradually changed both in pronunciation and in orthography to its present form.

An Accountant was originally a person employed in connection with the keeping of Accounts, and this term became also applicable to those who, being skilled in Accounts, devoted their energies to making the examination and the stating of Accounts their special occupation. The term is also applied to Officers in Public Offices in charge of Accounts. From the word "Accountant" the term Accountancy, which is of comparatively modern introduction, is derived.

Accountancy may be described as the science which deals with the recording of monetary transactions of every description, whether of a private nature, or of commercial or financial undertakings, and may be divided into three branches—

- I. Constructive.
- II. Recording.
- III. Analytical or critical

The constructive branch of Accountancy concerns itself with—

- I. The designing of books of account, including Registers for containing the necessary statistics, so as to ensure the best method of book-keeping for recording the transactions proposed to be undertaken by a new concern.
- II. The reorganisation of the account-keeping of an existing concern.
- III. The preparation of periodical statements to show the parties interested in a concern the financial results of its transactions for that period, and its financial position at the close of the period

The recording branch of Accountancy concerns itself with the making of correct entries in such books of account as have been designed for the purpose of containing them. This is technically known as "Book-keeping."

The analytical or critical branch of Accountancy is concerned in ascertaining the correctness of such entries, or the correctness of statements prepared from such entries, either by means of a periodical checking technically known as "Auditing," or by means of an investigation undertaken for a special purpose.

There are two classes of individuals mainly concerned with the practice of Accountancy, namely, the book-keepers, who may be either the principals interested in the recording of their own transactions, or those specially employed by principals for such purposes, and the professional Accountants, the leading members of which in Great Britain are styled "Chartered Accountants," and in America "Certified Public Accountants." The latter class are mainly employed in designing the system of book-keeping, where the transactions to be recorded are of a nature too complicated to be left to the book-keeper to settle the method of accounting, also in testing the accuracy of the work of the book-keepers by periodically auditing their accounts, and in making special investigations of accounts for purposes referred to later on.

The foundation of Accountancy is the theory and practice of Book-keeping, with which everyone who wishes to study the higher branches of the science must be thoroughly familiar.

The science of Book-keeping originated in Italy where commerce, as it is now understood, practically had its origin. It is known from

old records still in existence that Book-keeping by double entry was in use in Italy previous to the year 1340, the Accounts of the Steward of the Local Authority of Genoa having been thus kept.

In Venice also there are records in existence showing that Book-keeping by double entry was in use there as early as 1406, and later on this system of Book-keeping was introduced into Florence.

The first work on Book-keeping was published in Venice in 1494, and was written by a well-known mathematician, Luca Pacioli, who had made himself acquainted with commercial matters while he was tutor to the sons of Antonio de Rompiasi, one of the principal merchants of the Venetian Republic. This work, of which a copy is in the Library of the Institute of Chartered Accountants in England and Wales, is entitled "*Sūma de Arithmetica Geometria proportioni et proportionalita,*" which may be translated as "Everything about Arithmetic, Geometry, and Proportion." The work is in two parts, the first one dealing with Arithmetic and the other with Geometry, the portion of the work referring to Book-keeping being found at the end of the first part. To this portion there is the following introduction—"In order that the honourable subjects of The Most Gracious Duke of Urbino may have complete instructions in the ordering of business, I have decided to go beyond the proposed scope of this Work, and add this most necessary Treatise."

The treatise on Book-keeping is divided into 36 Chapters, and its object is stated to be to give the trader, without delay, information as to his assets and liabilities. The Author commences with showing how to open a set of books. He first suggests that a complete inventory of one's possessions and of one's liabilities shall be prepared, and he points out—as modern professional Accountants have frequently to explain to their clients—that such an inventory must not be made at different dates, but on the same date. He then advises, the inventory having been completed, that three books called the "Memorial," "Journal," and "Quaderno" (the old word for "Ledger") shall be kept.

It is not necessary here to refer further to this most interesting book, which is in black letter with specimens of engraved initial letters.

The first German Work on Book-keeping was published at Erfurt in 1523 and was written by Heinrich Schreiber, who entitled the book, "*Rechenbüchlin Künstlich, behend und gewiss auff alle*

kauffmanschafft gericht." From a perusal of this book it does not appear that he was very fully acquainted with the subject, and the first real work on Book-keeping in German which can claim to have any merit is one written by Johann Gottlieb, who published his work at Nuremberg in 1531.

The first English work on Book-keeping was a translation of Pacioli's work made by Hugh Oldcastle and published in 1543. Unfortunately not a single copy of the work is known to be in existence. A reprint was issued in 1588 by John Mellis, a School-master, who, at the end of his reprint added what he describes as "A little Inventorie, Journal and Ledger." This work, which is interesting as being the first English work on the subject now in existence, is to be found in the Library of the Institute of Chartered Accountants.

Various treatises made their appearance from time to time, but in works which contained also instructions in Arithmetic or Commercial Law. During the last century very many works have been published solely on Book-keeping, and in the last twenty years it is very little exaggeration to state that Great Britain has been flooded with works on the subject, many of which are of considerable merit, while others are of little value either to the student or to the practitioner.

It is no part of this work to touch in any way on the theory and practice of Book-keeping, which, as explained and taught in textbooks, deals of course with general principles only. These general principles have to be considered in conjunction with the special circumstances of each case before they can be put into practice in connection with any system of Accounts for recording the monetary transactions of an individual, a firm, or a corporation.

The first care, therefore, of anyone entrusted with the construction or the designing of a set of books of account, no matter what class of transactions he may have to record, is to make himself fully acquainted with the nature of such transactions as will be carried on by the business, and which will have to be recorded in the system of Book-keeping as designed by him. This remark applies whether the designer be a professional Accountant or the Book-keeper, who is to have charge of the books and, in order to obtain the necessary information, the designer should set about his work in the most systematic manner, including the taking of the fullest notes.

The constructor of a system of Book-keeping should obtain from the proprietor of the concern, or from the manager, a general idea of the business to be carried on, and, if it is to consist of more than one department, the special nature of the business of each department. If the concern is an established one, and it is desired to change the system of Book-keeping already in force to one better suited to its requirements, the managers of these departments should be interviewed one by one, and the most minute details of what is transacted in their several departments should be obtained. If they are acquainted with Book-keeping their views on the system in force may be of great use to the constructor. The opinion of those engaged on the books of account will be even of greater service, and a discussion of every book with the clerk who writes it up may lead to the discovery of any faults which may exist in the system in force, and consequently to greater improvement in the system which is to replace it.

One of the ordinary initial mistakes of the employers of a Book-keeper is to procure from a stationer a set of books bearing the titles of the principal books of account, such as Ledger, Journal, Cash Book, Day Book, Invoice Book, Bills Payable Book, etc., to hand them to the Book-keeper, and to instruct him to write them up from the date of the first transactions which they wish to have recorded.

Except in the case of a very small concern, these ready-made books—apart perhaps from the Cash Book and Journal—are not, as a rule, suitable for the purpose for which they are intended. The Book-keeper is consequently fettered from the moment these books are handed to him, and his efforts to do his best with unsuitable material often leads to confusion in his entries and even to inaccuracies. When ultimately statements showing the results of the operations of the concern have to be prepared, a great amount of time is consumed which might be more profitably employed.

It follows, therefore, that in the case of a new enterprise, it is advisable, where possible, for the constructive part of the Accountancy to be taken in hand before the operations of the concern are commenced. This is not actually necessary, as should a rough book be kept containing, in order of date, complete entries of every transaction connected with the business, it is possible to enter the details in the books of account, when received later on, as accurately as if

made on the proper date. This, however, can only be done when such details have been entered in order in the rough book without a single omission having been made. In any case, however, this course of procedure is not to be recommended, as it is very difficult to record in a rough book of this description the variety of transactions as they take place, which naturally fall into their order, when entered at the proper time in the books controlled by the officers who are to have the permanent charge of them.

Should it be necessary, however, without waiting for the books to be prepared, to record the transactions of a concern, there should be entered in a rough book items such as the following—

The Capital introduced by the owner or the partners.

The Bank into which such Capital is paid.

The particulars of Cash receipts, with full details in respect of the goods sold. These should be entered immediately the remittances come into the office, whether by letter or by personal payment.

Details of payment of these receipts into the Bank.

A record of letters received.

A record of goods sent out, with names of buyers and amount of invoices.

Petty disbursements, such as for postages, carriage, etc.

Payments for wages or salaries.

Drawings by the owner or the partners to be charged to his or their separate accounts.

Payments made on account of the owner or the partners, to be charged to his or their separate accounts.

Bills of Exchange received or given, and other items too numerous to mention.

In the case of a concern carrying on many classes of transactions, it would be quite impossible for anyone to record in one rough book miscellaneous entries of this nature, and therefore it would be advisable to make the entries in several rough books, each corresponding, as near as possible, to the proper books of account in which the transactions are ultimately to be recorded. As long, however, as none of these items are omitted, it is quite possible at any future date to start a proper system of account-keeping, when these items can be re-copied into the books. It is even preferable to adopt

the plan of entering the transactions in rough books, in the order of their occurrence, than to commence with a complete set of books which will ultimately be found unsuitable to the business, but which having been commenced the proprietors do not care to replace.

When the owners of an established concern are desirous of improving the existing system of Book-keeping, the construction of the new system can be proceeded with in a leisurely way, as, even should it not be completed by the date originally desired, the entries in the new books of account can be made from the entries in the old ones by merely re-arranging and re-copying them.

The books in use by nearly every class of trader, professional man, banker, financier, and more especially by public companies transacting business, may be divided into two distinct classes, namely, those which may be styled either registry or statistical, and those which are usually called the financial books or books of account. The latter books are those which form part of a regular system of book-keeping, while the former are merely books of record, but which may be required to be kept by Act of Parliament, as referred to later on.

Before going into the actual construction of books of account, it is advisable to give some reasons why a proper system of account-keeping is so essential not only for traders but also for private persons.

1. Except for persons intentionally dishonest, it is most desirable that everyone shall be able to produce a Statement prepared from proper records, showing his net income, not only for the purpose of paying the correct amount of Income Tax, but also of proving it, if called upon to do so, and also for the purpose of not being assessed for Income Tax at too high a figure, as is very frequently the case in the absence of a proper return being made.
2. Should it be desirable for any purpose to borrow money either from one's bankers or from other sources, a proper Profit and Loss Account and Statement of Assets and Liabilities is of the greatest possible use in facilitating such an arrangement.
3. It is very often desirable to produce Statements of Account in the Law Courts as evidence in an action. This, of course,

can only be done in a satisfactory manner from a properly prepared set of books.

4. Should it for any reason be thought desirable to obtain a partner, a Statement prepared from proper books of account is essential in the first place to induce anyone to entertain the partnership, and, subsequently, when the intending partner wishes to have the accounts investigated for himself by his own professional Accountant, which is now invariably the case, a proper set of books can be laid before such Accountant for that purpose.
5. In all cases of partnership a proper system is necessary for the purpose of enabling the partners not only to ascertain their position as regards those with whom they do business, but also the position as between themselves.
6. In the event of bankruptcy proceedings being taken, it is most desirable that proof should be able to be afforded to the Court that the bankrupt has kept a proper set of books, as otherwise his discharge, when applied for, may be refused for a period of at least two years, even though on other grounds the discharge might be made to operate at once.

CHAPTER II

ACCOUNTANCY AND ITS PRACTITIONERS (I)

SECRETARIES, BOOK-KEEPERS, ETC.

ALTHOUGH in dividing Accountancy into three branches it was necessary to set out these branches in the following order—I. Constructive, II. Recording, III. Analytical or critical, yet for the purposes of referring to those who make Accountancy their main occupation, it will be more convenient to commence with those who practise the Recording branch of the science.

The term "Accountant" was originally applied to all persons who were concerned with account-keeping; but in modern times the more convenient term "Book-keeper" has been applied to those whose duty it is merely to record the transactions of their employers, leaving the application of the word "Accountant" to those who are either at the head of the Accounting Department of a public institution, or of an ordinary commercial counting-house. The term is frequently applied to the head Book-keeper of an establishment where the transactions are sufficiently numerous to require a staff working under him. This application of the word "Accountant" has, however, become somewhat inconvenient, as to the outside world the term "Accountant" is becoming almost synonymous with that of "Professional Accountant," whose occupation will be treated of later on.

There is practically no recognised form of education through which it is necessary that persons should pass before they are considered capable of taking charge of a set of books, however simple or however complicated. There are many institutions, both in London and in the provinces, where the theory of Book-keeping is most admirably taught, frequently, by itself, or in conjunction with other studies, such as ordinary commercial training, shorthand, foreign languages, etc., selected according to the class of appointment which the pupil hopes to obtain at the end of his course. In other words, there is at present no regularly constituted institution or society of Book-keepers through which those who

wish to be entrusted with the keeping of books of account must necessarily pass as pupils, or from whom they can obtain a certificate of qualification as a book-keeper as a result of an examination. It is perhaps as well that this should be so, as there is no reason why those whose ambition it is to obtain an appointment as a Book-keeper should be in any way fettered as to the method of acquiring the necessary qualification.

Many book-keepers commence life in much humbler positions, and obtain what is to them promotion as a book-keeper through their having proved their worth and eligibility to their employers, by having in their leisure hours acquired the necessary qualification for such advancement. Rising in the scale of those who are connected with the recording branch of Accountancy are secretaries of Companies, who, without being members of a profession, yet mainly owing to the very great increase in joint-stock enterprise within the last quarter of a century, have become a most important branch of the mercantile community.

The Chartered Institute of Secretaries was founded in 1891 for the purpose of advancing the interests of Secretaries generally, and of affording them a centre for meeting and exchanging views on subjects interesting to them. Ten years later it made a successful application for incorporation by Royal Charter, and this was granted by the Privy Council on the 4th November, 1902. Its principal objects were stated as being to devise means for testing the qualifications of candidates for admission to the professional membership of the Institute by examination in theory and in practice, or by any other actual and practical tests, and to grant certificates of qualification to successful candidates; to hold conferences and meetings for the discussion of professional affairs, interests, and duties, and for the reading of papers and the delivery of lectures; to compile and revise lists and registers of Secretaries; to issue copies of papers, lectures, and professional records from time to time to Members of the Institute; and generally to publish information of service or interest to Secretaries and the public at large.

The following are the qualifications for Membership—

FELLOWS

By-law 5. Every candidate for election into the class of Fellows

shall be not less than twenty-five years of age, and shall comply with the following conditions—

He shall have been engaged, as his chief occupation, on the staff of one or more Public Companies, or other Public Authorities or Bodies, or of one or more Societies or Institutions, for a period or periods aggregating at least eight years, and shall be actually practising at the time of his application for election as a Secretary, and have held office as Secretary, or in some other capacity which, though differently designated, he shall satisfy the Council is analogous and equivalent to that of Secretary, for at least three years past. An aggregate period of five years may be accepted by the Council provided he has been engaged for two years under any Fellow or Fellows of the Institute anterior to holding office as Secretary.

He shall satisfy the Council that he is a fit and proper person to become a Fellow of the Institute, both in respect of his own character and in respect of the office which he holds, and shall furnish the Council with such particulars as they may require with regard to the nature of his duties, and as to the Public Company, Authority, Body, Society, or Institution to which he is or has been attached.

He shall have passed the Final Examination, except in any case where dispensation has been granted under By-law 21.

ASSOCIATES

By-law 7. Every candidate for election into the class of Associates shall be not less than twenty-one years of age, and shall comply with the following conditions—

He shall have been engaged, as his chief occupation, in the office of one or more Public Companies or other Public Authorities or Bodies, or of one or more Societies or Institutions for a period or periods aggregating at least six years, and shall be so engaged at the time of his application for election. Four years may be accepted by the Council instead of six in the case of those who have served such four years under any Fellow or Fellows of the Institute ;

He shall satisfy the Council that he is a fit and proper person to become an Associate of the Institute, both in respect of his own character and in respect of the office which he holds, and he shall

furnish the Council with such particulars as they may require with regard to the nature of his duties, and as to the Public Company or other Authority, Body, Society, or Institution to which he is or has been attached ;

He shall have passed the Preliminary Examination, or have been exempted therefrom by the Council ; and

He shall have passed the Intermediate Examination, or been granted dispensation therefrom by the Council under By-law 21.

By-law 21 is as follows—

Dispensation from the Intermediate and Final Examinations shall be granted by the Council only in exceptional cases. No person shall be granted dispensation unless he satisfies the Council (*a*) that he is a person of eminence in the Secretarial profession, holding the position of Secretary or Clerk of a Society, Company, Guild, Institution, or Body Corporate having a gross revenue of not less than £25,000 per annum, or of a Company incorporated by or under Act of Parliament and having an issued share and (or) loan capital of not less than £500,000 ; or (*b*) that he possesses considerable experience in matters relating to the profession of Secretary, and in the case of a Candidate as Associate that he is 30 years of age and has had not less than ten years' experience in the office of a Public Company or other Public Authority or Body, or in some Society or Institution, and shall be so engaged as his chief occupation at the time of his application for dispensation and in the case of a Candidate as Fellow, that he is 40 years of age and has had ten years' experience as his chief occupation, as Secretary, Assistant Secretary, or in some other analogous and equivalent office in a Public Company or other Public Authority or Body, or in some Society or Institution, and is actually practising as such at the time of his application for dispensation. Such dispensation shall only be granted by a resolution passed by a majority of not less than three-fourths of the Members present and voting at a meeting of the Council specially convened with notice of this object, at which meeting not less than one-third of the Council shall be present.

Candidates may be exempted from the Preliminary Examination on production of Certificates that they are—

- (1) Graduates of any University in the United Kingdom.
- (2) Persons who have passed any of the following Examinations viz.—
 - (a) The “ Responsions ” Examination at the University of Oxford.
 - (b) The “ Previous ” Examination at the University of Cambridge.
 - (c) The Matriculation Examination or Entrance Examination of any recognised University in Great Britain or Ireland.
 - (d) The Higher Examination of the Oxford and Cambridge Schools Examination Board.
 - (e) The Examination for the First-class Certificate of the College of Preceptors.
 - (f) The Oxford or Cambridge Senior Local Examination.
 - (g) The Oxford or Cambridge Junior Local Examination.
 - (h) The Institute of Chartered Accountants (Preliminary Examination).
 - (i) The Society of Accountants and Auditors (Preliminary Examination).
 - (j) The Central Welsh Board (Senior and Honours).
 - (k) Leaving certificate of the Scottish Education Department, Higher Grade.
 - (l) Certificate of Irish Intermediate Board, Senior Grade.

In the case of the Examinations referred to in (d) (e) (f) (g) and (j), Candidates must pass in the same subjects as those of the Preliminary Examination.

The Council may, by resolution, declare that any other specified Examinations shall entitle to exemption from the Preliminary Examination, provided candidates have in such Examinations passed in the same subjects as those of the Preliminary Examination.

The Council may, if they think fit, exempt from the Preliminary Examination any candidate over the age of twenty-one who has not passed any of the above examinations, who shall satisfy them that he possesses the requisite educational *status*.

THE INTERMEDIATE OR ASSOCIATES' EXAMINATION

1. A Candidate for admission to the Intermediate Examination is required to produce evidence—

- (a) That he is not less than twenty-one years of age.
- (b) That he has passed the Preliminary Examination of the Institute, or has been exempted therefrom by the Council.

2. Candidates who comply with the conditions of Clauses (a) and (b) are entitled to sit for the Intermediate Examination.

3. Candidates who do not comply with the condition of Clause (a) may by special permission of the Council be admitted to the Intermediate Examination, but cannot be elected until all the conditions of membership (By-law 7) are complied with.

4. Special permission to sit for the Intermediate Examination will not as a rule, be granted to those who have joined, or taken steps towards joining, another profession (such as entering into Articles of Clerkship, preparing or entering for or passing Examinations). Special permission, may, if the Council think fit, be granted in such cases provided the Candidate has been, for a reasonable period previously, is at the time of application, and appears likely to continue to be, attached to the staff of Joint Stock Companies or other Public Bodies, or to be *bona fide* performing duties (not appertaining to other professions) in connection with such Companies or Bodies, during the greater part of his time daily.

SUBJECTS OF THE INTERMEDIATE EXAMINATION

5. The following subjects are compulsory—

- (1) Commercial Correspondence and the routine work of a Secretary's Office, including Filing and Indexing Documents.
- (2) Secretarial Practice, including Précis, Reports and Minutes and Procedure at Meetings.
- (3) Commercial Arithmetic.
- (4) Book-keeping and Accounts.
- (5) Mercantile Law.
- (6) One of the following subjects: Economics; or the Law relating to Companies, to Real and Personal Property, to Railways, to Shipping, to Gas, or Water, or Electric Lighting

or other similar undertakings, to Insurance, to Local Government and Municipalities, to Education, or other branch of law approved by the Council.

- (7) One of the following language subjects: Latin, French, Spanish, Italian, Russian, or other language approved by the Council, including an oral examination if a modern language is selected.

The following are the particulars of the foregoing Examination—

COMMERCIAL CORRESPONDENCE and the routine work of a Secretary's Office, including Filing and Indexing Documents.

SECRETARIAL PRACTICE, including Précis Writing, Preparing Reports and Minutes ; and Procedure at Meetings.

COMMERCIAL ARITHMETIC. Contracted multiplication and division, decimalisation of money, etc. ; weights and measures, invoices and bills, proportion, proportional division, partnership, freehold property, taxes, duties, insurances, profit and loss, interest—simple and compound, annuities, cash discounts, banker's and true discounts, modern coinage, exchange operations, chain rule, bills of exchange, equation of payments, stocks and shares, areas of squares and rectangles, the metric system.

BOOK-KEEPING AND ACCOUNTS. The elements of Book-keeping, including the drawing up of a Balance Sheet. The preparation of Statements for Income Tax Assessments.

MERCANTILE LAW. The elements of the Law of Contract, Bills of Exchange and Promissory Notes, Agency.

POLITICAL ECONOMY. Leading notions and definitions. Production, Land, Labour, Capital, and their relations. Industrial organisation and the condition of industrial efficiency. Markets. The theory of Value. The Distribution of Wealth, Rent, Interest, Wages, Profits.

Money and monetary problems. The functions of money, monetary systems.

Credit, commercial crises, outline of the English banking system, the reserve, etc. Foreign Exchanges. Foreign Trade.

COMPANY LAW. A knowledge of the Companies Acts, 1908 to 1917.

LANGUAGES. Grammar. Translation from the foreign language. Translation into the foreign language. Reading, dictation and conversation.

LAW RELATING TO ELECTRIC LIGHTING. Electric Lighting Acts of 1882 and 1888, and Electric Lighting (Clauses) Act, 1899; the incorporated Clauses of Gas Acts, Regulations issued by the Board of Trade thereunder, and the constitution of Electric Power Companies.

LAW RELATING TO MUNICIPALITIES. The Local Government and Municipal Corporations Acts.

LAW OF EDUCATION. A general knowledge of the Education Acts, 1870-1909, with special reference to the following: The Chief Central Authority—The Board of Education. Powers and Duties of Local Education Authorities. Duties of Parents and Employers. Schoolmaster and Teachers.

(Candidates are expected to be familiar with various forms and regulations issued by the Board of Education, in particular, the Code.) (A detailed Syllabus may be had on application.)

EXEMPTION FROM THE INTERMEDIATE EXAMINATION

6. Exemption from the Intermediate Examination may be granted by the Council only in exceptional cases, in accordance with By-law 21. The Council will give special consideration to the applications of Candidates who have taken the courses and passed the Examinations for Degrees or Diplomas in the Faculties of Commerce of recognised Universities in the United Kingdom.

THE FINAL OR FELLOWS' EXAMINATION

1. A Candidate for admission to the Final Examination is required to produce evidence—

- (a) That he is not less than twenty-five years of age.
- (b) That he has passed the Intermediate Examination of the Institute, or has been exempted from passing the Intermediate Examination.

2. Candidates who comply with the conditions of Clauses (a) and (b) are entitled to sit for the Final Examination.

3. Candidates who do not comply with the condition of Clause (a) may by special permission of the Council be admitted to the Final Examination, but cannot be elected until all the conditions of Bye-law 5 are complied with.

4. Special permission to enter for the Final Examination will not, as a rule, be granted to those who have joined, or taken steps towards joining, another profession (such as entering into Articles of Clerkship, preparing or entering for or passing Examinations). Special permission may, if the Council think fit, be granted in such cases provided the Candidate has been, for a reasonable period previously, is at the time of application and appears likely to continue to be, attached to the staff of Joint Stock Companies or other Public Bodies, or to be *bona fide* performing duties (not appertaining to other professions) in connection with such Companies or Bodies, during the greater part of his time daily.

SUBJECTS OF THE FINAL EXAMINATION

5. The following subjects are compulsory—

- (1) Economics.
- (2) Secretarial Practice and Duties.
- (3) Law and Conduct of, and Procedure at, Meetings.
- (4) Book-keeping and Accounts.
- (5) Mercantile Law.
- (6) One of the following subjects : Banking and Exchange ; or the Law relating to Companies, to Real and Personal Property, to Railways, to Shipping, to Gas, or Water, or Electric Lighting or other similar undertakings, to Insurance, to Local Government and Municipalities, to Education or other branch of law approved by the Council.
- (7) One of the following language subjects : Latin, French, Spanish, Italian, Russian, or other language approved by the Council, including an oral examination if a modern language is selected.

The following are the particulars of the foregoing Examination—

ECONOMICS. The subjects for the Intermediate Examination in greater detail. The problems of International Trade, Taxation, and Public Finance.

COMMERCIAL CORRESPONDENCE, PRÉCIS WRITING, Preparing Reports and Minutes.

SECRETARIAL PRACTICE AND DUTIES.

THE LAW AND CONDUCT OF, AND PROCEDURE AT, MEETINGS.

BOOK-KEEPING AND ACCOUNTS. Advanced Book-keeping, including a knowledge of Companies' Books and Accounts. The preparation of Statements for Income Tax Assessments.

MERCANTILE LAW. The subjects for the Intermediate Examination together with Contracts of Sale, Charter Parties and Bills of Lading, Partnership, Bankruptcy.

COMPANY LAW. The Companies Acts, 1908 to 1917, and their interpretation. The general regulations of Companies under the Companies Clauses (Consolidation) Act, 1845.

BANKING AND EXCHANGE. Banking and its history, nature and functions. Banking operations. Money currency. Note issues. The Bank of England. Practice of Bankers in regard to Cash Accounts. Bills discounted, Advances and Deposit of Valuables. The Money Market. Investments. Advances on Securities. Financial Crises. Exchanges. Financial Centres.

LANGUAGES. Grammar. Translation from the foreign language. Translation into the foreign language. Reading, dictation and conversation.

LAW RELATING TO ELECTRIC LIGHTING. All the Law relating to the supply of electricity in bulk and detail.

LAW OF EDUCATION. A general knowledge of the Education Acts, 1870–1909, with special reference to (i) Central Authorities (*a*) Board of Education ; (*b*) Local Government Board, Home Office, Board of Agriculture, and Treasury (general functions). (ii) Powers and Duties of Local Education

Authorities: (a) Education Committees ; (b) Higher Education ; (c) Elementary Education ; (d) Educational Treatment of Blind, Deaf, Defective, and Epileptic Children. (iii) Duties of Parents and Employers. (iv) Reformatory and Industrial Schools. (v) Powers and Duties of Poor Law Authorities. (vi) Universities and Schools under the Public School Acts (outline only). (vii) Educational Charities. (viii) Facilities for granting land for Education. (ix) Schoolmasters and Teachers.

(Candidates are expected to be familiar with various forms and regulations issued by the Board of Education, in particular, the Code.) (A detailed Syllabus may be had on application.)

[NOTE.—Scottish Law and Canadian Law may be taken in the Law subjects by candidates who so desire.]

The Institute has now a membership of over 4,000 and comprises Secretaries of the leading Joint Stock and other Companies ; also the Secretaries of a large number of recognised Institutions. The fees are distinctly moderate—as will be seen from the following scale—and it is therefore well worth anyone thinking of accepting an appointment, such as that of Secretary, to pass the examinations and become a member. The fees for the examinations, payable by the candidates, in respect of each occasion upon which they notify their desire to present themselves are—

One Guinea for the Preliminary Examination ;

One Guinea and a half for the Intermediate or Associates' Examination ; and

Two Guineas for the Final or Fellows' Examination.

The Entrance Fees are—

Two Guineas for Fellows ; and

One Guinea for Associates.

and the annual Subscriptions are—

Two Guineas for London Fellows ;

One Guinea for Country Fellows ;

One Guinea for London Associates ;

Half-a-Guinea for Country Associates.

An excellent Library and Reading Room is available for the use of Members, and an Employment Register is kept. A monthly publication called "The Secretary" is issued free to Members.

Another very useful Institution, the membership to which is confined, at the date of application for membership, to responsible officers in charge of the Accounts of Municipal Corporations or other similar authorities, and to those who hold an important position in the Treasurer's or Accountant's Department of a Municipal Corporation or other similar authority, is that of the Institute of Municipal Treasurers and Accountants.

This Institute was established in 1885 for the discussion of questions relating to finance and accounts of Municipal Corporations and other similar authorities, and for the interchange of opinions and experience of its members.

The following fees are payable—

Entrance fees—

One and a half Guineas for Members ;

Half-a-Guinea for Associates ;

Five Shillings for Students ;

while the annual subscriptions are at present—

One Guinea for Members ;

Half-a-Guinea for Associates ;

Five Shillings for Students.

It is the practice to hold an Annual Meeting at some town of importance, generally in the month of June, at which papers are read, and upon which discussions take place.

For the purpose of encouraging those who might find it useful to produce a certificate of their being qualified to accept positions either as Book-keepers or Accountants in institutions or mercantile offices, the Royal Society of Arts some years ago instituted Examinations in Book-keeping and Accounting, which at present are conducted by a Past President of the Institute of Chartered Accountants, assisted by Fellows of the Institute.

These Examinations are held each year early in the months of March and May. There are three stages of the Examination known as the Elementary, the Intermediate, and the Advanced Stages.

The Elementary Examination, so far as Accountancy is concerned

is confined to Book-keeping. Certificates are given to those who obtain fifty per cent. of the total number of marks. A fee of two shillings and sixpence is charged, which has to be paid on registration of the candidate's name. There are many other subjects in which Elementary Examinations are held, but it is unnecessary to refer to them in this work.

For the Book-keeping subject the following is the Syllabus—

- (1) Candidates must be prepared to show that they know the meaning of simple business terms and abbreviations.
- (2) Questions will be set on the use of Ordinary business documents such as Invoices, Statements of Account, Bank Notes, Cheques, Bills of Exchange, Receipts, etc.; and upon the employment and common forms of Postage, Petty Cash, Cash, Purchase and Sales Books, Returns Books, Journal, and Ledgers.
- (3) An exercise or exercises will be set in writing up simple transactions into the subsidiary books and posting to the Ledger; and the extraction from it of a trial balance.

The Intermediate Examination, so far as Accountancy is concerned, is also confined to Book-keeping. First and second class Certificates are granted; the minimum percentage of marks for these classes being seventy and forty respectively. A bronze medal is awarded to the candidate obtaining the highest marks in the first class in each subject in each stage if certified as proficient by the examiner. Should one hundred candidates present themselves for the Examination a second medal is given, when there are five hundred candidates in any subject a third medal is given, and a further medal for every additional five hundred candidates. A fee of three shillings is charged which has to be paid on registration of the candidate's name.

The Syllabus for the Intermediate Examination is as follows—

Candidates must be prepared to answer questions as to the meaning of mercantile forms used in connection with book-keeping, and as to the nature and use of the books of account usually kept by mercantile or manufacturing enterprises, including "Limited Companies"; and to work an exercise or exercises upon the principles of "double entry," involving

the use of subsidiary books and the preparation of Trading and Profit and Loss Accounts and a Balance Sheet.

There are two subjects for the Advanced Examination, so far as Accountancy is concerned, one in Book-keeping and another in Accounting. First and second-class certificates are granted in each subject; the minimum percentage of marks being seventy-five and fifty respectively. A silver medal is awarded to the candidate obtaining the highest marks if certified as proficient by the examiner. Should one hundred candidates present themselves for the Examination a second medal is given, and when there are five hundred candidates a third medal is given, and a further medal for every additional five hundred candidates. A fee of three shillings and sixpence is charged which has to be paid on registration of the candidate's name.

For the Book-keeping subject the following is the Syllabus—

Candidates must be prepared to work an exercise or exercises upon the principles of double entry. They must also be prepared to answer questions upon—

1. The principal and subsidiary books employed (their uses, forms, and rulings) in different enterprises, whether wholesale or retail, merchant, manufacturing, or financial, and whether governed by private trading agreements, by the Companies Acts, or by special Acts of Parliament.
2. The statistical books and registers of limited and other companies, their rulings, uses, and methods of keeping.
3. The methods of keeping and presenting accounts (including "branch" and "departmental" accounts) of private partnerships (including the adjustment of Accounts as between partners) and public companies, however constituted, including the "columnar or tabular system" and the "sectional system of self-balancing Ledgers."
4. Foreign currencies and their record in books of account.
5. The preparation of Accounts for Income tax assessments.

Accounting is considered an entirely separate examination, for which a separate certificate is given.

It is not necessary that candidates who enter for the examination

in Accounting should also enter for the Book-keeping examination; but as a knowledge of practical Book-keeping is essential to a candidate benefiting by the other examination, the Society strongly urge that candidates for this subject should enter also for the Advanced Book-keeping (Stage III) if they have not already obtained a Certificate in that subject.

The following is the Syllabus of the Accounting Examination—

ACCOUNTING.

The Double-entry system of book-keeping. Its pre-eminence. Its application to the varying needs of commercial and public undertakings, charities, etc. The variations in its detailed application necessitated by the differing needs of private traders, Joint Stock and other public companies and institutions.

Capital and Revenue. Income and Expenditure. Depreciation. Reserves. Sinking Funds. Goodwill.

Joint Stock Companies. The statistical and other records and returns rendered necessary by statute, or by the special needs arising out of the formation and conduct of Joint Stock companies. The special books and registers employed, whether obligatory or otherwise. Company accounting. The methods of dealing with the special transactions arising out of the formation, conduct, amalgamation, or reconstruction of Joint Stock companies. The construction, interpretation, and criticism of the accounts published or employed by Joint Stock companies. The special books, accounts, records, and returns necessary under liquidation proceedings. Private companies.

The Double-account system. Its principles and characteristics, and its application to the accounts of Parliamentary and other companies. The special books and the statutory and other forms of account employed by Railways, Gas, Water, and Electric Lighting Companies.

Branch and Departmental accounts and returns. Foreign Exchanges and their record. The accounts and returns of Foreign Branches.

Hire-Purchase and Royalty accounts.

Stores and Stock accounts. Cost accounts.

Partnership accounts. The rights and duties of partners *inter se* as they affect the accounts. The adjustments arising out of partnership relationships. The introduction of new partners. The retirement of partners. Goodwill in partnership accounts. Dissolution and realisation. Limited Partnerships.

The accounts, books, registers, and records of Banks and Insurance Companies. The slip system of posting.

The books, accounts, returns, and records necessary upon the insolvency of an individual or firm during bankruptcy proceedings, and under Deeds of Arrangement.

Income Tax.

The London Chamber of Commerce also issue certificates to candidates for Book-keeping in both their "Junior Examination" and their "Senior Examination."

For the Junior Examination the entrance fee is two shillings and sixpence. The Examination is conducted in the general principles of Book-keeping by double entry, including keeping of the ledger and subsidiary books; also a knowledge of commercial terms.

For the Senior Examination the entrance fee is five shillings. The Examination includes both Book-keeping and Accountancy, and the following is the Syllabus—

1. *The principles of book-keeping.*

(a) Single entry—Its meaning—The books used—Its incompleteness.

(b) Double Entry—Its theory—Scientific methods—Adaptability to all classes of commercial transactions—How superior to Single Entry.

2. *The books employed*—The uses of the several varieties of Cash Books—Sales Books—Purchase Books—Journals—Ledgers—Subsidiary Books—Special Books used in particular businesses—The "Columnar System" The "Sectional System" of Self-balancing ledgers.

3. *The terms used*—The meaning and nature of the terms employed such as "Capital"—"Loans"—"Debentures"—"Mortgages"—"Overdraft"—"Creditors"—"Personal and Impersonal or Nominal Accounts"—"Bills payable"—"Bills receivable"—"Discounts"—"Interest"—"Liabilities"—"Assets"—"Debtors"—"Stocks"—"Profit

and Loss"—" Shares (Ordinary, Preference, Deferred) "—
 " Rents "—" Royalties "—" Leases "—" Premiums "—
 " Depreciation "—" Sinking Funds "—" Provisions "—
 " Plant "—" Fixed Charges "—" Tillages "—" Crops "—
 " Consignments "—" Investments "—" Reserve Funds,"
 etc.

4. *The balancing of books.*—Methods of balancing books at stated periods—The preparation of Trading Accounts, Profit and Loss Accounts, and Balance Sheets.
5. *The variations in particular businesses.*—The books required, the method of keeping them, and the form of the presentation of Accounts in different enterprises, such as Shopkeepers—Merchants,—Manufacturers—Railway and Canal Companies—Gas and Water Companies—Municipal Corporations—County Councils—Insurance (Life, Fire, Marine, etc.) Companies—Shipowners—Brokers—Joint Stock Companies, etc., Bankers, etc.

The scheme of the Examinations of the London Chamber of Commerce embrace other subjects, Book-keeping and Accounting being one of them, and in order to obtain the " Junior Commercial Education Certificate " and the " Higher Commercial Education Certificate," candidates are obliged to pass in each of the obligatory subjects and at least in two of the optional subjects, Book-keeping in the Junior Examination and Book-keeping and Accounting in the Senior Examination being optional subjects.

Examinations are held between the Easter and Whitsuntide vacations in each year, both in London and in the Provincial, Colonial, Indian and Foreign centres.

CHAPTER III

ACCOUNTANCY AND ITS PRACTITIONERS (II)

PROFESSIONAL ACCOUNTANTS

ALTHOUGH professional Accountants were recognised in many parts of the United Kingdom previous to 1854, they were merely persons who had been induced by chance to follow Accountancy as a profession, but who had not received any special training beyond that acquired in various branches of commerce. A knowledge of Book-keeping, a capacity to prepare statements of affairs, principally in insolvency cases and in bankruptcy, and an ability to act as trustees in bankruptcy or as liquidators of companies under the Court of Chancery, the predecessor of the Chancery Division of the High Court of Justice, were all the qualifications that were required or even expected of them.

The earliest record in existence of an Accountant being employed to make a special examination of a set of books and to report professionally thereon is of or about the year 1721. The investigation arose out of the failure of the notorious South Sea Company, which led to the great financial crisis, since popularly known as "The South Sea Bubble."

The South Sea Company was formed in 1710, and for several years had a very high reputation, being looked upon by many as a serious rival of the Bank of England itself. Sir John Blunt, one of its Directors, formulated a plan for decreasing the National Debt, which was approved by his brother Directors and laid by them before Parliament. The South Sea Company offered the Government £7,500,000 for the Irredeemable Annuities which had been granted by the Government, and early in 1720 they actually received permission to introduce a Bill to carry this out. As a result, the Stock of the Company rose in a few days from 130 to 300, and kept rising until it ultimately reached 1,000 per cent. Excitement ran high, and in spite of a most emphatic warning delivered in the Commons by Mr. Walpole, the Bill was passed. Advantage was taken of this extraordinary mania for speculation which seized upon every class

to promote companies of the most absurd description. Eventually the Company failed, and its failure brought down a great number of these other "bubble" Companies and ended their career. The utmost indignation prevailed, and influence was brought to bear on Parliament, by means of public meetings and petitions, so that an Act was passed restraining the Directors and Officials from leaving the Kingdom for twelve months, ordering them to make an inventory of their estates and effects, and preventing them from transferring and alienating the same. At the same time a Committee of thirteen was appointed with full powers to examine persons, papers, and records.

Mr. Sawbridge, a Member of Parliament and one of the Directors of the South Sea Company, presented a petition to the House of Commons asking for leniency to be shown to him, and stating that he began the world with a very considerable fortune, that all the time he was a Director of the South Sea Company he was a partner in a firm of Bankers, and that by reason of the multiplicity of his affairs he was drawn off from constant attendance in the service of the Company.

Mr. Charles Snell, who described himself as a Writing Master and Accountant of Foster Lane, London, was called in, probably by Mr. Sawbridge himself, to investigate the books of his firm, and his report which was headed "Observations made upon examining the Books of Sawbridge & Co.," is curiously enough undated, but it was evidently issued either at the end of 1720 or at the beginning of 1721, and is the earliest known instance of the employment of any person as a professional Accountant.

The examination of an old London Directory shows the names of a few persons who held themselves out to undertake Accountancy work ; but although Chartered Accountants came into existence in Scotland, as explained later, in 1854, that which really brought professional Accountants into prominent notice in England was the catastrophe caused by the failures which followed the suspension of the Banking House of Overend, Gurney & Co., in 1866, and which led to perhaps the most serious commercial panic the City of London has ever known. At that time there were a certain number of professional Accountants, who for many years had been employed on the recommendation of firms of Solicitors practising in Bankruptcy, and the failures of 1866 were of such magnitude

that the services of a few of the best known of these professional Accountants were eagerly sought after. Many of them, for more convenience, amalgamated their practices, and thus laid the foundation of some of the most eminent firms of Chartered Accountants practising in London and the leading towns of England, many of which are now existing under the same style which they then assumed.

On the 23rd October, 1854, a Royal Charter was granted to the practising professional Accountants of Edinburgh, incorporating them under the style of "The Society of Accountants in Edinburgh," which is the oldest body of Chartered Accountants in the world. On the 15th March, 1855, the practising professional Accountants of Glasgow were incorporated by Royal Charter into the "Institute of Accountants and Actuaries in Glasgow," which, as its title indicates, included among its members recognised Actuaries of Life Insurance Companies; while twelve years later, on the 10th April, 1867, the "Society of Accountants in Aberdeen" was also incorporated by Royal Charter.

No combined movement appears to have been attempted amongst the professional Accountants of England until 1870 when the "Institute of Accountants" was formed, which, however, during the ten years of its existence numbered amongst its members only the recognised leading practitioners and some of the senior members of their staffs, admission to its ranks being somewhat jealously guarded. As a result of this exclusiveness another Association, called the "Society of Accountants in England," was formed in 1872 and the practitioners in three of the principal provincial towns also formed independent Societies, namely the "Incorporated Society of Liverpool Accountants," the "Manchester Institute of Accountants," and the "Sheffield Institute of Accountants."

Conferences took place between the governing bodies of these various Associations with the result that a petition was presented to Queen Victoria in 1879, pointing out that the profession of public Accountants in England and Wales was a numerous one; that their functions were of great and increasing importance in respect of their employment in the capacities of Liquidators acting in the winding-up of companies, of Receivers under decrees, and of Trustees in bankruptcy, and in various other positions of trust under the Courts of Justice, as also in the auditing of Accounts of Public Companies and

of partnerships, and otherwise. It was also pointed out that the aggregate number of members of these five Societies exceeded five hundred and that in that number were comprised nearly all the leading professional Accountants in England and Wales.

This petition was favourably considered by the Privy Council, and on the 11th May, 1880, Letters Patent were issued incorporating the Institute of Chartered Accountants in England and Wales.

The progress of the Institute has been remarkable, for where, as has been seen, the aggregate membership of the five Societies incorporated into the new Institute was, at the time of the grant of the Charter in 1880, only five hundred, it now contains close upon four thousand five hundred members.

The object of the petitioners for the Royal Charter was to raise those who were at that time practising as Accountants, and performing what was undoubtedly professional work, into the dignity and status of a recognised profession, such as that of the Navy, Army, Church, Law, Medicine, etc., by causing it to be enacted that not merely skill in purely professional work was alone necessary to qualify for membership, but that those who followed the work professionally should give proof of a certain social position so far as education and culture generally could ensure it to them. It was accordingly enacted that in the first instance no one should be admitted as a Student or Articled Clerk, as they are termed by the Charter, until he had either passed an educational examination conducted by the Institute itself, or produced a Certificate showing that he had passed certain examinations of an equivalent standard, referred to hereafter, and that to obtain admission to the profession itself he must subsequently pass two other examinations purely in professional subjects.

To those therefore who resolve upon entering the profession of a Chartered Accountant, in either England or Wales, the preliminary examination of the Institute of Chartered Accountants in England and Wales must be passed, except under the special conditions referred to later.

The Preliminary Examination which, as already stated, is a purely educational one, is conducted wholly in writing, and in the following subjects—

Dictation and short English Composition.
Arithmetic.

Algebra to Quadratic Equations (inclusive).

Euclid (the first four books).

History of England and Geography.

And also in any two of the following optional subjects, to be selected by the Candidate, one of which at least must be a language— (1) Latin; (2) Ancient Greek; (3) French; (4) German; (5) Italian; (6) Spanish; (7) Advanced Mathematics; (8) Physics; (9) Chemistry; (10) Biology; (11) Geology; (12) Stenography.

Graduates, however, of any University of the United Kingdom or persons who have passed one of the following examinations are entitled to be articled without passing the preliminary examination—

The "Responsions" Examination of the University of Oxford.

The "Previous" Examination of the University of Cambridge.

The Matriculation Examinations of the Universities of Birmingham, Bristol, Durham, London, or Wales, or the Examination of the Joint Matriculation Board of the Universities of Manchester, Liverpool, Leeds and Sheffield.

The Oxford or Cambridge Senior Local Examination.

The Higher Certificate Examination of the Oxford and Cambridge Schools Examination Board.

The Senior or Honours Certificate Examinations of the Central Welsh Board.

The Examinations held by the Civil Service Commissioners for First Class Clerkships in the Home Civil Service or the India Civil Service, the examinations for admission to the Royal Military College at Sandhurst or the Royal Military Academy at Woolwich.

The dispensation in the case of certain of the above examinations is dependent upon the substituted examination having included the subjects of the Institute's Preliminary Examination.

A Certificate having been obtained of having passed the Preliminary Examination, or a Certificate of Exemption in consequence of having passed one of these equivalent examinations, the candidate is then entitled to be articled to a practising member of the Institute, and forms of these articles, which, however, are usually altered to a certain extent, can be obtained from the Secretary of the Institute.

Preliminary Examinations, for the convenience of candidates

not resident in London, are held in a few of the principal towns in England.

The term of articles prescribed by the Charter is five years, except in the case of graduates of a University, who are only obliged to serve for three years under articles.

Every articulated clerk is allowed to present himself for the Intermediate Examination after the expiration of one-half of his term of service, and the Examination, which is conducted in writing, is in the following subjects—

Book-keeping and Accounts (including Partnership Accounts).

Book-keeping and Accounts (including Executorship Accounts).

Auditing.

The Rights and Duties of Liquidators, Trustees, and Receivers.

The articulated clerk is entitled, after two years have elapsed since he passed the Intermediate Examination, to present himself for the Final Examination, except that graduates of a University may present themselves one year after passing the Intermediate Examination. The Council have power to allow any candidate to present himself for the Final Examination within the last three months of his service.

The Final Examination is conducted in writing and is in the following subjects—

Book-keeping and Accounts (including Partnership Accounts).

Book-keeping and Accounts (including Executorship Accounts).

Auditing.

The Rights and Duties of Liquidators, Trustees, and Receivers.

The principles of the Law of Bankruptcy, and of the Law relating to Joint Stock Companies.

The principles of Mercantile Law, and of the Law of Arbitrations and Awards.

To those articulated clerks who obtain a certain number of marks at either the Intermediate or Final Examinations prizes are given, while to others who do not obtain the requisite number of marks, but who obtain above a certain minimum number, certificates of merit are awarded. The names of the candidates who obtain prizes or certificates of merit are published in order of merit, and the names of the other successful candidates are arranged alphabetically.

The Examination Committee have power to award once every year, to the candidate who shall have best acquitted himself at the Preliminary Examinations held in such year, the Prize known as the "Deloitte Prize," the funds for which consist of £1,000 Didcot, Newbury, & Southampton Junction Railway (Newbury Section) five per cent. Debenture Stock, and the person to whom the prize is awarded is entitled to receive the whole of one year's income of this fund in five equal annual instalments to be paid to him on the completion of each of his five years of service. If at the time of the award of the prize the successful candidate is not then serving under articles to a member of the Institute, and if he does not enter into such articles within the period of one year after the award of the prize, the award is cancelled. If the successful candidate is serving under articles at the time the prize is awarded, he receives from the Council a certificate to that effect under the Seal of the Institute, and if not serving under articles, he receives a certificate immediately on his entering into articles.

The Examination Committee have power to award to a candidate at the Intermediate Examination, provided that he is not more than twenty-five years of age, a prize to be paid out of the interest arising from certain funds in the hands of the Council, known as the "Robert Fletcher Prize." If the income will permit of it a sum of £30 a year is payable from the date of the Examination until the termination of the articles, but the whole of the payments are not in any case to exceed a total of £75.

The successful candidate also receives from the Council of the Institute a certificate under the Seal of the Institute that he has been awarded the prize.

Frederick Whinney Prize : This prize, which is at present of the value of £12, is awarded, subject to the approval of the Council, to the candidate at each Intermediate Examination who presents the best papers in Book-keeping and Accounts.

The first on the list of successful candidates of the Final Examination, provided his age does not exceed twenty-seven years and that he has presented himself for examination at the earliest possible date at which he can do so under the Bye-laws will be awarded the "W. B. Peat" Gold Medal and Prize of the value of about £30; while the candidate who, under similar conditions, shows the greatest proficiency in the subject of "Auditing" is entitled to

receive the "William Quilter Prize" which is of the value of about £5 10s.

Frederick Whinney Prize : This prize, which is at present of the value of £18, is awarded, subject to the approval of the Council, to the candidate at each Final Examination who presents the best papers in Book-keeping and Accounts.

Having obtained the certificate stating that he has passed the Final Examination, the articled clerk is then entitled to apply for admission to the Institute, and on paying an entrance fee of Ten Guineas and an annual subscription of Two Guineas for an Associate if he wishes to practise in the metropolis, or One Guinea if he elects to practise in the country, he is entitled to membership with the privileges of the use of the Building, Library, etc.

There are branch libraries at Birmingham, Bristol, Leeds, Leicester, Liverpool, Manchester, Newcastle-upon-Tyne, Nottingham, and Sheffield, maintained partly by the members practising locally, and partly by contributions from the Institute Funds.

The Institute is governed by a Council of forty-five Fellows, nine of whom retire annually but are eligible for re-election. One Member of the Council is elected annually as President and another Member as Vice-President.

Another society was formed in 1885 under the style of the "Society of Accountants & Auditors," the members of which are styled "Incorporated Accountants." This Society now consists of upwards of two thousand five hundred members practising either as professional Accountants, or holding appointments of various descriptions in all quarters of the globe.

There are two classes of members, namely Fellows and Associates, in addition to honorary members, which it is in the power of the Council to elect. No person is eligible for admission as a Fellow until he has shown to the satisfaction of the Council that he has been continuously in practice as a professional Accountant in the United Kingdom, Empire of India, or any Colony or Dependency of the United Kingdom for not less than seven years immediately prior to the date of his application ; or, having passed the examination for the admission of Associates referred to hereafter, has been continuously in practice for not less than three years immediately prior to his application. No person, except under certain exceptional conditions, is eligible for admission as an Associate who is not at the

date of his application a professional Accountant, or a principal clerk of a professional Accountant, or an Accountant in the service of the Government of the United Kingdom, or of the Government of India, or of any Colony or Dependency of the United Kingdom, or of a Corporation or Public Body, and who has not passed such an examination or examinations as the Council may from time to time determine.

The Council have under their bye-laws prescribed that the passing of a preliminary examination shall be a condition precedent to the commencement of service under Articles of Indentures. The time for service under Articles is five years unless the proposed Articled Clerk is a graduate of one of the Universities, when the period of service is only three years.

The Preliminary Examination of the Society embraces the following subjects—

- (a) Arithmetic.
- (b) Writing from Dictation.
- (c) English Grammar and Composition.
- (d) English History.
- (e) Geography.
- (f) Algebra (including Equations and Fractions).
- (g) First Book of Euclid.
- (h) Any two of the following Languages, viz.:—Latin (Elementary), French, German.

The Intermediate Examination of the Society embraces the following subjects—

- (a) Book-keeping and Accounts.
- (b) The adjustment of Partnership and Executorship Accounts.
- (c) The Law relating to Partners and Executors.
- (d) The Rights and Duties of Liquidators, Trustees, and Receivers.
- (e) General Commercial knowledge.

Candidates for the Final Examination have to pass in the following subjects—

- (a) Advanced Accounting, and General Commercial knowledge.
- (b) Auditing.
- (c) The Adjustment of Partnership and Executorship Accounts.
- (d) The Law relating to Partners and Executors.

- (e) The Rights and Duties of Liquidators, Trustees, and Receivers.
- (f) Mercantile, Joint Stock Company, and Bankruptcy Law.
- (g) The Law of Arbitrations and Awards.

Candidates may obtain exemption from the Preliminary Examination should they have passed an equivalent Examination embracing all the subjects of the Preliminary Examination.

The Society have power to appoint an Examination Committee wherever necessary in any of the Colonies or Dependencies of the British Empire, who may hold examinations at as nearly as possible the same time as the Society's Examination of Candidates possessing the necessary qualifications.

Articles or Indentures of Apprenticeship are a condition precedent to the Intermediate Examination subject to the following special provisions—

- (a) Clerks to Public Accountants (other than Articled Clerks) of not less than six years' continuous service, and whose age shall not be less than twenty-two years, may apply for permission to sit for the Intermediate Examination, provided they have first passed or obtained exemption from the Preliminary Examination.
- (b) Candidates (other than Articled Clerks) who have passed the Intermediate Examination and attained the age of twenty-five years, may apply for permission to sit for the Final Examination. Such Candidates must produce Certificates from their employer or employers, proving nine years' continuous service in the profession.
- (c) Senior Clerks to Public Accountants who have had not less than ten years' continuous experience in the profession, and have attained the age of twenty-seven years may apply to sit for the Final Examination only. Such Candidates must produce Certificates from their employer or employers, proving their length of service, position and character.
- (d) No Clerk shall be admitted to the membership of the Society without Examination. But upon a longer continuous service than is prescribed in the two preceding clauses the Council may at its discretion permit an Examination equivalent to the Final to be substituted for the above.

(e) The term "Public Accountant" shall be deemed to include a Municipal or County Accountant.

The fees for the examinations are as follows—

Preliminary ..	..	£1	1s.	0d.
Intermediate ..	..	£1	11s.	6d.
Final ..	..	£2	2s.	0d.

Associates pay on admission a sum of Five Guineas and an annual subscription of Two Guineas if in practice in London; One-and-a-half Guineas, if in the Provinces; One Guinea, in Scotland or Ireland; Half-a-Guinea, if in practice abroad. Persons admitted as Fellows, without first becoming Associates, pay on admission Ten Guineas, and Associates admitted as Fellows pay an entrance fee of Five Guineas. Fellows pay an annual subscription of Four Guineas, if in practice in London; Three Guineas, in the Provinces; Two Guineas, if in practice in Scotland or Ireland; and One Guinea, if abroad.

The three Societies of Chartered Accountants in Scotland, namely, those of Edinburgh, Glasgow, and Aberdeen, entered into an Agreement in 1893 providing for uniform rules for qualification for and admission to membership of their respective corporate bodies, and for the establishment of a General Board for the examination of apprentices, the following regulations apply therefore to all these Societies.

No person who is under seventeen years of age can be taken by a Member of any of the Societies as an Apprentice, except under special circumstances, and the period of service is for five years, except for University graduates who are only required to serve for three years.

The Preliminary Examination has to be passed by each candidate before commencing his apprenticeship, with the exception of those who have taken a degree at any University of the United Kingdom, or who may hold either a Leaving or Intermediate Certificate of the Scotch Education Department, provided that his Intermediate Certificate includes Mathematics, English, and one other language, or who may have passed at the Leaving Certificate Examination (Lower Grade) or at the Junior or Senior Local Examinations conducted by any of the Universities, in all cases including not less than three subjects, one of which must be Mathematics and one

English. Applicants who are not entitled to complete exemption must undergo the whole examination, as exemption is not allowed in individual subjects.

The Preliminary Examination is held in the following subjects—

- (a) Writing to Dictation, English Grammar, and Composition.
- (b) Arithmetic (Elementary); including Vulgar and Decimal Fractions, Practice, Proportion, and Interest.
- (c) Algebra; Simple Rules, Factors, H.C.F., L.C.M., Fractions, Equations (and Problems) of the first degree with one unknown.

In addition Candidates have to be examined in three out of the following subjects—

- (a) British History.
- (b) Geography of the World: with special reference to the Geography of Great Britain, its Colonies, and the Continent of Europe.
- (c) Geometry: Euclid, Book I with deductions.
- (d) Shorthand: Dictation and Transcription of Notes.
- (e) Latin: including Grammar and short Translations.
- (f) French or German: including Grammar and short Translations.

The Intermediate Examination has to be passed at some time during the last three years of the apprenticeship and after at least one year has been served, and one year at least must elapse between the date of passing the Examination and the date when an apprentice is entitled to go up for the Final Examination.

The Intermediate Examination is held in the following subjects—

- (a) Arithmetic: including Vulgar and Decimal Fractions, Practice, Proportion, Simple and Compound Interest, and Discount.
- (b) Algebra: Including Quadratic Equations, Arithmetical and Geometrical Progressions, Compound Interest and Annuities-certain; and the nature and use of Logarithms.

- (c) Book-keeping : including the framing of Balance Sheets and Profit & Loss Accounts.
- (d) Framing Accounts, Interest States, etc.
- (e) Correspondence and Précis Writing.

The Final Examination cannot be undergone until the candidate has completed his apprenticeship and has attended certain prescribed classes. The Examination is in two divisions and may be taken separately in either order or together. Should the candidate elect to take the divisions separately, he must pass the second division within a period of twenty-six calendar months from the time he passed the first division selected by him ; if he fails to do so and desires to present himself again he will have to undergo his examination in both divisions.

In the case of any candidate who undergoes both divisions of the Examinations at one time, the Examination Board may hold him to have passed in one division and to have failed in the other.

The following are the subjects of the Final Examination—

FIRST DIVISION

Law of Scotland—

Paper No. 1.

Actuarial Science.

- (a) Annuities certain, Sinking Funds, Loans repayable by instalments, etc.
- (b) The Principles of Life Annuities, Assurances and Reversions.

Paper No. 2.

Political Economy.

- (a) General Economic Principles.
- (b) Statistics, Rate of Interest and Investments, Currency, Banking, Credit, Commercial Crises, National and Municipal Debts, Taxation.

Paper No. 3.

The Law relating to—

- (a) Partnership.
- (b) Bills, Cheques, and Deposit Receipts.
- (c) Sale, Insurance, and Cautionary Obligations.
- (d) Trusts.

(e) Judicial Factories.

(f) Fee and Life rent.

Paper No. 4.

The Law relating to—

(a) Insolvency and Bankruptcy.

(b) Joint Stock Companies.

(c) References, Remits and Arbitration.

SECOND DIVISION .

General Business of Accountant—

Paper No. 5.

Book-keeping.

The Theory and Practice of Book-keeping, including the preparation of Balance Sheets, Trading Accounts and Profit & Loss Accounts.

Paper No. 6.

Partnership Accounts, etc.

The adjustment of Partners' Accounts, Joint Adventure and Consignment Accounts, States of Affairs for Creditors, Cost Accounts, Income-tax Returns and Claims.

Paper No. 7.

Auditing.

The procedure and requisites in the Audit of Balance Sheets, Accounts and Books; including those of Public Bodies, Companies, Firms, and Trust Estates.

Paper No. 8.

Trust Accounts.

The framing of Executory and Factorial Accounts, Rentals, Schemes of Division and Interest States, Apportionments, Estate and Farm Accounts, Accounts of Municipal and Local Authorities, etc.

The Institute of Chartered Accountants in Ireland was incorporated by Royal Charter on the 14th May, 1888, on the petition of a number of professional Accountants practising in the Cities of Dublin, Belfast, Cork, and other places in Ireland, and its existing bye-laws were passed by the Privy Council in Ireland on the 4th February, 1889

With a few exceptions, membership of the Institute is obtained by service under articles to an existing Member for five years, except for graduates of Universities, who are eligible for admission after service under articles of three years only. No Member is entitled to have more than two articulated clerks, and no person under sixteen years of age is entitled to be articulated.

Every Associate on election pays an entrance fee of Ten Guineas, and every Associate becoming a Fellow pays a further Ten Guineas by way of entrance fee; the annual subscription is for an Associate Three Guineas and for a Fellow Five Guineas.

Every person about to become an Articled Clerk must, before he is articulated, pass a Preliminary Examination, and subsequently, before obtaining admission to the Institute, the Intermediate and Final Examinations of the Institute. The Preliminary Examination which is conducted wholly in writing embraces the following subjects—

- (a) Writing from Dictation.
- (b) Writing a short English Composition.
- (c) Arithmetic.
- (d) Algebra, to Quadratic Equations (inclusive).
- (e) Euclid (the first three books).
- (f) Geography.
- (g) History of England.
- (h) Latin (Elementary).
- (i) And in any two of the following subjects, one of which, at least, must be a language, to be selected by the Candidate—
 - (a) French.
 - (b) German.
 - (c) Chemistry.
 - (d) Electricity, Magnetism, Light and Heat.
 - (e) Higher Mathematics.
 - (f) Shorthand.
 - (g) Irish History and the Irish Language.
 - (h) Italian.
 - (i) Spanish.
 - (j) Light and Heat.

Any person however upon satisfying the Council that he has either taken one of the following degrees, or passed one of the following

examinations, is entitled to be articled without passing the Preliminary examination—

1. Graduates of any University in the United Kingdom.
2. Persons who have passed the Matriculation Examinations at Trinity College, Dublin, the Royal University of Ireland, the First Public Examination before Moderators at Oxford, or the previous Examination at Cambridge, or the Examination in Arts for the Second Year at Durham, or the Catholic University, the Queen's Colleges, Belfast, Cork, or Galway, or the London University, the Preliminary Examination of the Victoria University, Manchester, or of the Universities of Birmingham, Leeds, or Liverpool ; the Moderations Examination at St. David's College, Lampeter, the Examination of the Oxford and Cambridge Schools Examination Board, or the Examination of the First-class Certificate of the College of Preceptors, or the Oxford or Cambridge Senior Local Examination, or the Senior Grade Examination of the Intermediate Education Board for Ireland ; the Examinations held by the Civil Service Commissioners for First-class Clerkships in the Home and Indian Civil Service, the Examination for admission to the Royal Military College, Sandhurst, and to the Royal Military Academy, Woolwich ; the Preliminary Examination of the Institute of Chartered Accountants in England and Wales, and of the General Examining Board of the Chartered Accountants of Scotland.

After the expiration of one-half of his term of service an articled Clerk is entitled to be allowed to pass the Intermediate Examination, which is held in the following subjects—

- (a) Book-keeping (including Partnership Accounts).
- (b) Auditing.
- (c) Executorship Accounts (Elementary).
- (d) The Formation and Management of Joint Stock Companies under the Companies Acts ; Bankruptcy and Arrangements (Ireland) ; Receivers in Chancery.
- (e) Algebra (to binomial Theorem, inclusive).

An Articled Clerk cannot present himself for his Final Examination until he has served his five years (or three years if a

graduate of a University). He is then examined in the following subjects—

- (a) Commercial Accounts ; Income Tax Statements and the law relating thereto.
- (b) Auditing, and the Law relating thereto.
- (c) Probate, Legacy, and Executorship Accounts, and the Principles of the Law relating thereto.
- (d) The Powers, and Duties, and Accounts of Liquidators under the Companies Acts ; and of Receivers in Chancery.
- (e) The Principles of the Law of Bankruptcy relating to Ireland, and the Preparation of Bankruptcy Schedules and Accounting Statements.
- (f) The Principles of the Law relating to Commercial Accounts, Partnerships, and the Law of Arbitration and Awards.
- (g) Actuarial Science—
 - Compound Interest, and Annuities-certain.
 - The Elementary Theory of Probabilities.
 - The Elementary Principles of Life Annuity and Assurance Calculations.

In the case of an articed clerk or other clerk whose service shall have commenced before the commencement of the Bye-Laws, it shall not be compulsory on him to pass an examination in Algebra in the foregoing list of subjects of the Intermediate Examination, nor in Actuarial Science in the foregoing list of subjects of the Final Examination.

In the case of a person who has passed the following examinations of the four Societies of Chartered Accountants, namely, the Final Examination, or the Examination equivalent to the Final Examination, of the Institute of Chartered Accountants in England and Wales, or the Final Examination of the Society of Accountants in Edinburgh, or the Member's Examination of the Institute of Accountants and Actuaries in Glasgow, or the Examination of the Society of Accountants of Aberdeen, and who takes up his residence permanently in Ireland as a Public Accountant, or as a Clerk to a Member of the Institute, he shall, by virtue of his having passed one or other of the said Examinations, as evidenced by the Certificate to that effect, be exempted on applying to be admitted an Associate of the Institute from

passing the Preliminary Examination, Intermediate Examination, Final Examination, and the Examination equivalent to the Final Examination, or any of them prescribed in the Bye-Laws, subject to certain regulations of the Council in regard to the admission of such persons as members.

A person who has passed his Intermediate Examination must not present himself at the Final Examination within two years thereafter ; but an exception is made in favour of Graduates of a University who have been articled for three years only, and they may present themselves for the Final Examination one year after passing the Intermediate Examination. The Examination Committee, however, have power on any reasonable cause being shown to admit any person to be examined at any time after the expiration of his term of service.

In addition to the five Associations of Chartered Accountants and the Society of Incorporated Accountants domiciled in Great Britain, there are a number of Associations of Chartered and other professional Accountants in the Colonies, the United States of America, and other countries. A list of these is appended, but application must be made to the officials of these Associations for information as to their regulations respecting admission to membership.

Adelaide Society of Accountants.

American Society of Public Accountants.

Associação Portuguesa de Contabilidade.

Association of Accountants in Montreal.

Californian Society of Certified Public Accountants.

Chartered Accountants' Association of Manitoba.

Dominion Association of Chartered Accountants.

Federal Institute of Accountants.

Gremium der Buchsachverständigen un Wien.

Incorporated Institute of Accountants of New Zealand.

Incorporated Institute of Accountants, Victoria.

Institute of Accountants and Adjusters of Ontario.

Institute of Accountants and Auditors of British Columbia.

Institute of Accountants and Auditors of Western Australia
(Incorporated).

Institute of Accountants in South Australia.

Institute of Chartered Accountants of Nova Scotia.

Institute of Chartered Accountants of Ontario.
Institute of Chartered Accountants in South Africa.
Instituto Technico de Contadors (Peru).
National Society of Certified Public Accountants in the U.S.
Nederlandsche Academic van Accountants te Utrecht.
Nederlandsche Instituut van Accountants te Utrecht.
New Zealand Accountants' and Auditors' Association.
Queensland Institute of Accountants.
Society of Accountants and Auditors of Victoria.
Sydney Institute of Public Accountants.
Tasmanian Institute of Accountants.
Transvaal Society of Accountants.

Many of these Associations have Students' Societies annexed to them, which are furnished with lending libraries, and afford facilities for their Members attending special classes and lectures when preparing for the Intermediate and Final Examinations of their respective Institutes.

It does not necessarily follow that those who have qualified themselves for admission to any of the Societies of Chartered Accountants or the other Societies of professional Accountants in Great Britain should subsequently practise as professional Accountants in order not to lose the benefit of their professional education. For many years it has been recognised that the mere fact of their being members of these Institutes renders them desirable candidates for appointments of every description where business-like attainments, knowledge of office management, and accountancy are considered essential qualifications. In this respect, therefore, membership of the profession of a Chartered Accountant offers advantages which are not enjoyed by members of any other profession, for although many appointments are open only to barristers, yet they are few in number compared with those which are constantly being obtained by Chartered Accountants in open competition.

CHAPTER IV

THE RECORDING BRANCH OF ACCOUNTANCY OR BOOK-KEEPING

WITHOUT attempting to teach the theory and practice of Book-keeping, with which this work is not concerned, a treatise on Accountancy would not be complete without some reference to this most important branch of the subject. It is therefore proposed to refer in a general way to those books of account which practically occur in almost every set of books which are kept on a system of Book-keeping by double entry, more from the point of view of those who have to record the entries in the books than for the purpose of instructing them in the science of Book-keeping either by single entry or double entry, with which they are supposed to be acquainted before reading this work. Beyond this it is not considered necessary to refer again to the manner of keeping these books when making suggestions later on for any special rulings for them in connection with the account-keeping of particular businesses.

CASH BOOK.—The Cash Book, which should contain the particulars of cash received and paid, is written up in a variety of forms—

In the case of a very small concern such as that of the business of a retail tradesman where no banking account is kept, the receipts are frequently placed in a column on one side of the Cash Book and the payments in a column on the other side, and the only means of checking its accuracy is by ascertaining whether the cash in the shop till agrees with the balance shown in the Cash Book. In a small business where there is a current account with a banker, it is most advisable that two Cash Books should be kept, the entries in one being confined to recording the details of the receipts and their payment into the bank and the amounts drawn thereout by means of cheques or the meeting of acceptances when due. The other book should contain the details of the petty cash payments as referred to later on.

One of the most objectionable forms of a Cash Book which used to be very commonly in use is that where two columns are kept on

both the debtor and the creditor side, the two outer columns being described as bank columns, and the two inner columns being used for recording the receipts in cash and the payments out in cash. Every cheque drawn for the payment of a debt is by this system treated as a payment taken out of the bank and brought into the cash column on the receipt side as though it were received in cash, and entered again as if it were a cash payment in the cash column on the payment side. This method of keeping the Cash Book is fortunately becoming extinct.

Should it for any purpose be considered desirable to combine both the Cash Account and the Banking Account in one Cash Book, the plan may be adopted of placing all receipts in the inner column on the debit or left-hand side, except those which are paid into the bank, which should be entered in the bank column on the same side, and all payments out of cash should be entered in the cash column on the credit or right-hand side and all cheques drawn entered in the bank column on the same side. A plan preferable to this is to make it an invariable practice for all cash received to be paid into the bank, placing the details in an inner column on the debit side of the Cash Book and extending the totals as paid into the bank into the outer column, and for all cheques drawn to be entered in a single column on the credit side to include cheques for round sums drawn on the banking account for the purpose of disbursements not made by cheque, accounting for such disbursements in a separate book, usually called a "Petty Cash Book."

A Cash Book kept in this manner is practically a Ledger Account of the cash received and paid, including of course bank charges and amounts paid direct either into or by the bank, such as Bills and other amounts collected by the bank which should be entered in the Cash Book from the Pass Book when received periodically from the bank. It is therefore not necessary to post any entries from such a Cash Book to a Ledger Account of "Cash," and consequently when the Trial Balance is taken out the balance shown in the Cash Book must be placed in either the debit or the credit column of the Trial Balance according to whether there is a balance at the Bankers, or whether the account with the bank is overdrawn.

In a few exceptional cases, such as those of Societies where the sources of income are few in number, including the periodical subscriptions and entrance fees of members, and perhaps one or two

other items, it is the practice to keep what is known as a "Columnar Cash Book." This is a Cash Book ruled with columns having the necessary headings, and the totals of such columns can be posted at the end of each month, quarter, or year, to the proper impersonal accounts in the Ledger, thus saving time and reducing the number of entries which posting in the usual way would necessitate being made.

In the same way when all the payments can be apportioned among a few headings, columns on the credit side of the Cash Book can be made use of.

The Columnar system is also applied to some businesses, but as a rule it is not much in favour with mercantile men nor with professional Accountants for employment in mercantile offices.

The Cash Book should contain in addition to the money columns a column before the first cash column on each side, to contain the number of the page or the folio of either the personal or the impersonal account of the Ledger to which each item is posted.

In many businesses it is the custom to allow or to receive discount, but as the term "discount" is used to express a trade discount, a cash discount, or a banker's discount, it should here be explained that it is only the two latter discounts which are entered in the Cash Book. The best method of entering these discounts in the Cash Book is, from a book-keeping point of view, to have a third column on both sides of the Cash Book between the ledger posting folio and the column for details. In such a case the order of the "Cash Book" rulings would be as follows—

On the Debit or Receipt side—

1. Date.
2. Account to be credited.
3. Ledger folio.
4. Discount column.
5. Column for details.
6. Bank column.

On the Credit or Payment side—

1. Date.
2. Account to be debited.
3. Ledger folio.
4. Discount column.

5. Column for details.

To be made use of if it is the practice to draw cheques which are split up into two or more items, otherwise this column is unnecessary.

6. Bank column.

Under the discount column on the debit side should be entered the amount of the discount which is allowed to a customer on the payment of his account other than for that which is known as a "trade discount." A trade discount should never, under any circumstances, be entered in this column, as it should be properly dealt with at the time the sale is entered in the Day Book. In this column should also be entered any discount which may have been charged by the bank for discounting a Bill of Exchange in those cases where the Banker has deducted the discount from the amount of the Bill, only giving his customer credit for the balance.

Under the discount column on the payment side should be entered any cash discount which is deducted on paying an account. There will also be entered here any discount deducted by a Bank for discounting a Bill of Exchange should the Banker have given his customer credit for the full amount of such Bill.

In posting from the Cash Book to the Ledger, it is the practice to enter on the credit side of a debtor's Ledger Account the amount of discount allowed under the amount received from the debtor in his account, to post the discount deducted to the debit of a creditor's account after debiting him with the amount of the payment, and to post the totals of the two discount columns either daily, weekly, or at other periods, according to how often the Cash Book is ruled off and balanced. Care must be taken to post the totals in these discount columns to the same side of the Discount Account in the Ledger as they appear in the Cash Book, instead of reversing this operation, as is the usual method of posting to the Ledger from the other books.

Twice at least in every year, say, on the 30th June and the 31st December, when the balances are usually struck by Bankers and brought down in the Pass Books of their customers, and always at the date on which the books are closed for the purposes of taking out periodical Statements of Account, a statement reconciling the balance as shown in the Cash Book with that of the Banker's Pass Book should be entered in detail in the Cash Book. These balances are very seldom identical for the reason that cheques drawn on the

Bankers on the day on which the books are closed, and perhaps those drawn on some days previous to the balancing day will not have been presented to the Bankers for payment, and, unless a special arrangement has been made with the Bankers, they will not have given credit to their customers for cheques on country Bankers handed to them for collection, which have not been cleared at the balancing date.

This Reconciliation Statement should commence with the balance as shown in the Cash Book, to which should be added, with details, the cheques drawn and entered in the Cash Book which have not passed through the bank, and consequently do not appear in the Pass Book. From the total thus obtained there should be deducted the amounts of the cheques paid into the bank and entered in the Cash Book, but for which credit has not been given in the Pass Book, and the balance thus arrived at should agree with the balance as shown in the Banker's Pass Book.

DAY BOOK. For some reason which it is difficult to explain, and of which perhaps it is not too much to say that no sensible explanation can possibly be given, the book which practically for centuries has been known in all book-keeping treatises as the "Day Book," is now frequently described by other names. It is occasionally called a "Sales Book," sometimes a "Sales Journal," but for the purpose of a work on Accountancy it is better that the name by which this book has been known for so long a period in treatises on Book-keeping should be retained.

The Day Book should be kept in the room from which all goods are dispatched; or if this is not possible, owing to the fact that goods sold are sent out from more than one sale-room, the book should be divided into a number of departmental Day Books each of which can be treated independently for the purpose of the book-keeping system. In many businesses it is the custom to have rough Day Books for alternate days, such as some to contain the sales of Mondays, Wednesdays, and Fridays, and others for those of Tuesdays, Thursdays, and Saturdays. These can be considered as sections of the Day Book, or the entries can be re-copied into one book which of course then becomes the Day Book for the Book-keeping system.

The original entries in these rough Day Books are frequently made by clerks who may know nothing whatever of the theory of Book-keeping, and who perform their work in a purely mechanical way.

In such cases the Day Book should be in as simple a form as possible and should seldom contain anything more than the date, the name of the person to whom the goods are sent, the number or weight of the goods sold, the cost per unit, and the total amount of each sale. There should also be a column for the Ledger folio, if the Ledger is posted direct from this Day Book; and occasionally other columns are added showing the freight, shipping charges, dock charges, fire and marine insurance, etc.

The modern practice is to treat the Day Book as being partly a Journal, and to carry periodically the total of the sales money column to the credit of a sales account in the Ledger. Where it is desired to show the sales in two or three divisions on the credit side of the Profit and Loss Account, the Day Book may have two or three money columns representing these divisions, so that the totals of such columns may be carried periodically direct from the Day Book to the Impersonal Ledger Accounts. When however it is wished to show the sales in more than four items, then it is better to analyse them periodically and pass them through the Journal debiting "Sundry Debtors" and crediting the Impersonal Sales Accounts.

Barristers, Chartered Accountants, Solicitors and the members of other professions do not keep Day Books as indicated above as their fees are not necessarily debited item by item. They however keep records of their consultations, attendances in Court, attendances on Clients, etc., and the Clients' Accounts in their Ledgers are debited when the memoranda of the fees or charges are rendered.

INVOICE BOOK. In the same way as the title of "Day Book" has been changed, so is the old fashioned name of Invoice Book now frequently altered to "Purchases Book," "Bought Book," and even the most extraordinary incorrect name of "Purchases Day Book." As for centuries the title "Day Book" has in treatises on Book-keeping been solely connected with sales, and the title "Invoice Book" with purchases, to call the Invoice Book a "Purchases Day Book" is almost as absurd as styling it a "Debit Credit Book."

The Invoice Book should as a rule contain merely the date, the name of the person from whom the goods have been purchased, and the amount, together with a column for the Ledger folio, and, if desired, a column for the number of the invoice, where it is the practice for the invoices to be filed and numbered for ready reference.

Where frequent purchases are made from the same person it is the custom in some counting houses to write up the Invoice Book only once a month, bringing the invoices from each supplier together. The total of each group of invoices is in such cases placed in a money column next to the column intended to contain the Ledger folio, and a further money column is added to contain the amount of each invoice.

It is a modern practice to which there can be no objection, only it is not one recommended, for the invoices as received to be pasted in a guard book containing a cash column for the amount of the invoices, and for the postings to be made direct from this guard book to the credit of the supplier of the goods and to the debit of a Purchases Account. It is better for a proper Invoice Book to be kept in the simple manner above indicated.

In addition to the "Invoice Book" and "Day Book"—by whatever names they may be called—it is usually desirable to keep two other books relating to the goods purchased and sold. One is used for recording the value of any goods which after purchase and entry in the Invoice Book have to be returned. Such book is usually known as a "Returns Outwards Book" or "Bought Returns Book" for which the five following columns are necessary—

1. Date.
2. Name of Creditor.
3. Ledger folio.
4. Amount.
5. Particulars of goods returned.

In the same way a "Returns Inwards Book" or "Sold Returns Book" should be kept with five columns on which to enter the value of the goods which are returned by a customer either for dissatisfaction, incorrectness in executing the order, or for any other cause. The columns would be headed as follows—

1. Date.
2. Name of Customer.
3. Ledger folio.
4. Amount.
5. Particulars of goods returned.

Care should be taken that entries are only made in these books

where the goods returned have already passed through the "Day Book" or the "Invoice Book," as should such goods be returned and entered in the "Returns Inwards Book" or the "Returns Outwards Book" before the original sales or purchases are entered in the "Day Book" or "Invoice Book," an error may be made which may be an exceedingly troublesome one to discover subsequently.

BILLS RECEIVABLE BOOK.—The reader is presumed to be acquainted with the nature of Bills of Exchange and the discounting thereof, also the method of recording bill transactions in the books. As however it is very important that all Bills received from customers in payment of their Accounts should be properly entered, the following ruling is given for a Bills Receivable Book, which is suitable to most businesses—

1. Number of Bill.
2. Date received.
3. From whom received.
4. Name of Drawer.
5. Name of Acceptor.
6. Bank where payable.
7. Date of Bill.
8. Date when due.

(a) to (1) a column for each month of the year in which to insert the day of the month.

9. Amount.
10. Ledger folio.
11. Remarks.

In this column should be entered any particulars as to the Bill, *e.g.*, if it is discounted, if paid into Bank for collection, if dishonoured, etc.

When a Bill has been received in settlement of an Account it is, as the reader is probably aware, treated as though it were an actual payment, and the amount is consequently passed to the credit of the debtor, the Bills Receivable Account in the Ledger being in some offices at the same time debited, although, as a rule, the debit to the Bills Receivable Account in the Ledger is made periodically when the amount column of the Bills Receivable Book is added up. The method of treating Bills Receivable when dishonoured

is explained in all text-books on Book-keeping. The balance of the Bills Receivable Accounts in the Ledger should agree with the total value of the bills in hand at any period, and this balance should be checked from time to time with the bills as a matter of ordinary precaution.

BILLS PAYABLE BOOK.—The ruling for a Bills Payable Book applicable to most businesses would be as follows—

1. Number of Bill.
2. Date of acceptance.
3. Name of Drawer.
4. To whom payable.
5. Bank where payable.
6. Date of Bill.
7. Term.
8. Date when due.

(a) to (1) a column for each month of the year in which to insert the day of the month.

9. Amount.
10. Ledger folio
11. Remarks.

When a Bill has been given in settlement of an Account the amount is passed at once to the debit of the creditor, and the Bills Payable Account in the Ledger will be credited either direct or in manner similar to the procedure in the case of Bills Receivable, with the total of the Bills as shown in the Bills Payable Book when the amount column is added up.

JOURNAL.—To carry out the system of book-keeping fully by double entry, the record of every commercial transaction connected with the business should be passed through the Journal, but the tendency of modern Book-keeping is to make as little use of this book as possible. On the continent of Europe, however, the greatest importance is still attached to a correct keeping of the Journal, and in France and Spain, and possibly in other countries, every trader is by law compelled to keep this book and to enter therein, at least in abstract form, a complete record of his transactions, and such book has to be stamped by the Tribunal of Commerce of the nearest town in which such a Tribunal exists. The Journal has also to be presented to the Tribunal from time to time in order that it may be

satisfied that such book has been properly kept up and that pages have not been extracted.

The first entries in a Journal are frequently of great importance as it is only by means of such entries that the constitution of a firm or of a company can be correctly ascertained from the books of account themselves. The Accountant or book-keeper therefore whose business it will be to record the transactions of a firm, should be supplied with a copy or at least have inspection of the Deed of Partnership from which he will learn the names of the partners, the share of the profits which each partner is to enjoy, the capital each partner is required to provide, the rate of interest such capital is to bear, the amount (if any) to be paid for the acquisition of the goodwill of an existing business, and a schedule with prices of any buildings, plant, machinery, furniture, or other property to be acquired by the partnership, and other information from which he will be enabled to draft the necessary opening entries in the Journal. He will commence by making all the vendors creditors for the amount they are to receive, debiting of course the proper accounts with as much detail as possible, so that the books may contain full particulars of all that has been acquired from such vendors. He will make the partners debtors for the capital they undertake by the deed of partnership to place in the firm at its commencement or incorporation, and will, later on at the proper dates, charge the partners with any further capital they are to bring in. He will also when closing the books credit them with the salaries (if any) they are entitled to receive under the deed in addition to their share of the profits, also with the interest (if any) their capital is to bear. If a provision has been made in the deed of partnership that drawings on account are to be charged with interest from the date of each drawing to the date to which the books are made, he will so charge the drawing accounts of the partners.

Journal entries will also have to be made on the date at which it is arranged to close the books and prepare the periodical Profit and Loss Account and Balance Sheet in connection with any reserves that have to be made for possible loss on the realisation of debts, for outstanding accounts both debtor and creditor, for interest accounts both receivable and payable, and for transfers as referred to later on.

In opening the books of a company, journal entries have to be

made in connection with the issue of the share capital, the acquisition of the business from the vendors, the preliminary and other formation expenses, most of which opening entries will, with the exception of those relating to the capital, be on the same lines as the opening entries for a firm. Similar entries will also have to be made in the Journal at the date on which the books are closed and the accounts made up for presentation to the shareholders.

The old custom of journalising the cash, sales, purchases, bills receivable, and bills payable has practically become obsolete in England and America, though it is still retained in many foreign countries.

It is very important that due regard should be had to what is called the narrative, or the explaining of the transactions in each journal entry, so that thereafter there may be no doubt as to why such entry has been made. This is especially essential in the case of what are known as transfers from one Ledger Account to another. The practice which so often occurs in modern days of making a transfer between two Ledger Accounts without a journal entry to explain the entries is most distinctly bad accountancy and should never be practised.

In former days it was also the practice to add up the totals of both the debtor and creditor columns, carrying these totals from page to page until the end of a week, month, quarter, or year had been reached. The more modern practice is for the Accountant to satisfy himself merely that the details opposite each entry in the two cash columns balance, and to this there cannot be any objection.

LEDGER.—It is advisable, even in the smallest business, that the Impersonal Accounts and the private Personal Accounts of the partners should not be entered in the same Ledger as the Personal Accounts of the debtors and creditors. The Ledger which contains the first named Accounts is usually known as the "Private Ledger" which may, in the case of businesses of importance, be subdivided, so that the private accounts of the partners together with the Profit and Loss Account and Balance Sheet may be kept by themselves or a confidential Clerk, or by their professional Accountants, while the other impersonal accounts, such as purchases, sales, rent, salaries, wages, etc., can be posted in the same office as are the other accounts into the general Ledgers.

In large establishments a number of Ledgers may have to be kept, but no matter how many there may be, they all, from a Book-keeping point of view, are treated as though they were sections of one Ledger, and the balances must be taken therefrom into the Trial Balance before the Profit and Loss Account and Balance Sheet can be prepared.

For ordinary purposes the simplest form of ruling for the Ledger is preferable, the columns required being for the date, particulars, folio of the book from which the account is posted into the Ledger and a single cash column, the columns being the same both on the debit and credit side. Occasionally, however, it is advisable to have specially ruled Ledgers, examples of which will be found in Chapter VI.

In addition to these primary books of account, forming part of the system of double entry Book-keeping, certain subsidiary books have in nearly every business to be kept, one of these being the Petty Cash Book.

PETTY CASH BOOK.—Although this deals with apparently unimportant matters, having regard to the smallness of the amounts entered therein as compared with the larger sums which will probably appear in the Cash Book, Journal, and Ledgers, yet it is mainly through improperly kept Petty Cash Books and want of supervision that the greatest number of defalcations arise. It is therefore strongly recommended that the Petty Cash Book be regarded in every office as one of the regular books of account. It should be properly bound and lettered, and should never be kept in the form of a mere memorandum book, as is too frequently the case. It is also very important that receipts of every description, even the smallest, should not be retained by the Clerk or Cashier who keeps the Petty Cash for entry in the Petty Cash Book, but should be paid into the Bank and entered in the Cash Book. The Petty Cash should be derived from only one source, namely from the proceeds of cheques drawn for round sums on the banking account. The amount of these cheques should be entered in the Cash Book to the debit of Petty Cash, so that each item of receipt in the Petty Cash Book can be checked with a direct entry in the Cash Book. This checking should be regularly undertaken by the principal, or one of the partners of a firm, or a director of a company, as the case may be.

The payment side of a Petty Cash Book may be kept by entering

all the details in one column, or the payments may be arranged under a number of headed columns according to which may be most convenient, having regard to each individual business. Should only one column be made use of, an abstract should be made of this column either daily, weekly, or monthly, according to the number of entries, and then posted from this abstract to the proper Ledger Accounts, thus making this abstract a Journal Entry. There can of course be no objection to entries being made in the Journal itself, but this is not necessary nor according to modern practice.

In many offices what is known as the " Imprest System " prevails. Under this system the Cashier is supplied with a round sum for Petty Cash which is used as a floating balance, and from time to time when the amount expended either daily, weekly, or monthly, but never in excess of this floating balance, has been ascertained, a cheque is drawn for this exact amount placing again in the hands of the Cashier the agreed floating balance.

CHAPTER V

THE CONSTRUCTIVE BRANCH OF ACCOUNTANCY

THE constructive branch of Accountancy concerns itself with

- I. The designing Books of Account, including Registers for containing the necessary statistics, so as to ensure the best method of book-keeping for recording the transactions proposed to be undertaken by a new concern.
- II. The re-organisation of the account-keeping of an existing concern.
- III. The preparation of periodical statements to show the parties interested in a concern the financial results of its transactions for that period, and its financial position at the close of the period.

In designing a set of books the old statement must be borne in mind that the Accounts must be shaped for the business, and not the business for the Accounts. Although innumerable works on Book-keeping have been specially written for the different and numerous classes of businesses now carried on, each work founded on the general principles of double entry Book-keeping, yet even these special works should not be slavishly copied, as every business has its own needs as regards its Account-keeping, and what may be styled its own peculiarities.

It is therefore most important that those about to open a set of books for any concern should not take for granted that a set of books employed in the office of what is believed to be a similar business will be exactly suitable for their purpose, and before any special rulings for the books of account are settled the nature of the business must be understood by the constructor, even down to the smallest detail.

In the previous chapter reference has been made to the ordinary books of account comprehended in the system of double entry Book-keeping, and in a later chapter forms of rulings for some of these books will be found under the heading of the business for which they are deemed specially suitable.

It is not therefore necessary in this place to discuss further the construction of these books, but to proceed at once with that of those registry or statistical books which are required either by law or by custom to be kept by companies or other associations registered under Acts of Parliament, some of which also, either from custom or for convenience, are kept by private persons and firms. These afford excellent examples of constructive accountancy.

The first book or register of any kind required by a newly incorporated public company is one recording the details connected with the subscription and allotment of the Capital which practically brings it into existence, and enables it to carry out the transactions for which it is incorporated. There is no recognised title for such a book, but it very frequently is described as an "Application for and Allotment of Shares Book," and before sitting down to draft the form it is ultimately to take, the constructor must have clearly in his mind the various operations which take place in connection with the issue and subscription of Capital.

The details in connection with the issue of the prospectuses do not concern him, as they are sent to many persons who may never be connected with the company. Those to whom the prospectus has successfully appealed, and who consequently wish to invest in the concern, will have to forward either to the office of the company or to its Bankers forms of application for shares filled in with their names, addresses, occupations, or rank, the number of shares they apply for, the amount payable thereon, and accompanied by a remittance for the minimum sum which is required to be paid on application.

These application forms have in due course to be gathered together, arranged, numbered, and placed before the Directors at a Board meeting convened for the purpose of allotment. The shares applied for thereon are either allotted in part, or in full, according as to whether more applications for the Capital are received than the Directors are able to satisfy, if the allotment be made in full, or whether the exact number of shares offered has been applied for, or whether they have only been partially applied for.

The allotment having been formally made by the Directors, letters of allotment have to be issued to those subscribers who have obtained an allotment, while those who have not been successful will have sent to them what are known as "Letters of Regret." The allottees will, with their allotment letter, probably also receive a

notice that the balance of the money required to be paid up on the shares will fall due on one or more fixed dates.

Certificates for these shares will ultimately have to be sent out to each shareholder, as the allottees are in future styled, and for that purpose distinctive numbers are affixed to the shares allotted to each shareholder. For the purpose of binding the applicants as well as for reasons connected with general office management, the issue of such letters of allotment and the subsequent issue of the certificates of shares have to be noted.

In sitting down therefore to construct an "Application for and Allotment of Shares Book," the designer has to bear the following facts in mind:—The number of those who apply for shares; the names and particulars of the applicants; the number of shares they apply for; the number of shares allotted; the number of shares not allotted; the amount remitted by the applicant; the amount retained; the amount (if any) returned; the amount of future calls; the consecutive numbers of the shares allotted; the place of postage of the letters of allotment (this is important as an affidavit made by the person posting these letters of allotment is sufficient to bind the applicant); the time of posting; the date of issue of the certificates of shares and other special facts.

With this information in front of him, the designer can then proceed to construct the form of ruling, and he will naturally adopt the following columns—

1. Number of Application.
2. Date of Application.
3. Number of Allotment.
4. Applicant.
 - (a) Name.
 - (b) Address.
 - (c) Description.
5. Number of Shares applied for.
6. Amount of deposit.
7. Number of Shares allotted.
8. Distinctive numbers of Shares allotted (inclusive).
 - (a) From.....
 - (b) To.....
9. Total amount payable in respect of Shares allotted.
10. Balance payable on Allotment.

11. Amount returnable.
12. Amount payable on First Call.
13. Postage of Allotment Letters.
 - (a) By whom posted.
 - (b) Place of posting.
 - (c) Time of posting.
14. Date of issue of Certificate of Shares.
15. Remarks.

It occasionally happens that when a prospectus is issued inviting applications, it is so well responded to by the public as to lead to such a number of applications for shares being received that the Directors will not allot any shares to some of the applicants. In such cases it is usual to issue to the unsuccessful applicants what are known as "Letters of Regret," and in order to keep a complete record of the facts connected with these unsuccessful applications, it is advisable to enter these applications and the consequent issue of these Letters of Regret in the "Application for and Allotment of Shares Book."

The amount returnable, which would represent the full amount received from applicants, could be inserted in column No. 11, and after column 13, the following column with sub-columns—which would of course be numbered 14, etc.—could be inserted—

14. Postage of Letters of Regret.

- (a) By whom posted.
- (b) Place of posting.
- (c) Time of posting.

Or there would be no objection to heading column 13 "Postage of Letters of Allotment and Letters of Regret", and keeping the record in the same column.

Frequently a company issues more than one class of share, and a form of "Application for and Allotment of Shares Book" can be designed to meet such a case, but it is preferable to use a separate book for recording the details in connection with the allotment of each class of share.

The usual plan is to issue with each prospectus a separate form of application for each class of share, frequently on different coloured paper, these forms are sorted and a separate "Application for and

Allotment of Shares Book " can be written up in respect of each class of shares. The officials of many companies prefer not to keep open a book of this nature after the certificates of shares have been issued, and in such cases the designer of the book would of course leave out columns referring to calls not intended to be made until after the issue of the certificates. He may also, if preferred, design separate books for each call on similar lines for the purpose of recording the details in connection with each call made.

REGISTER OF MEMBERS.—The Companies (Consolidation) Act, 1908, section 25, enacts that every company shall keep in one or more books a register of its members, and that there shall be entered therein the following particulars—

1. The names and addresses, and the occupations, if any, of the members and in the case of a company having a share capital, a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member.
2. The date at which each person was entered in the register as a member.
3. The date at which any person ceased to be a member.

By section 37 of the Companies (Consolidation) Act, 1908, on the issue of a share warrant, the company must strike out of its register of members the name of the member then entered therein as holding the shares or stock specified in the warrant, as if he had ceased to be a member, and must enter in the register the fact of the issue of the warrant, a statement of the shares or stock included in the warrant, distinguishing each share by its number and the date of the issue of the warrant, and until the warrant is surrendered the particulars are deemed to be the particulars required to be entered in the Register of Members.

Section 43 of the Act of 1908 prescribes that where a company under this Act having a capital divided into shares has converted any portion of its capital into stock, and given notice of such conversion to the Registrar of Joint-Stock Companies, the Register of Members must show the amount of stock held by each member, instead of the amount of shares and the particulars relating to the shares.

The register may consist of different books, which by reference from one to the other supply all the information required.

Under certain circumstances it is probable that allotment sheets might constitute a register of members.

A company whose objects comprise the transaction of business in a colony is authorised by section 34 of the Companies (Consolidation) Act, 1908, to keep a branch register of members resident in such colony, if authorised so to do by its regulations as originally framed, or as altered by special resolution.

If shares are paid in whole or in part not in money, but in money's worth, the Directors will properly state on the Register of Members that the shares are to the extent of such money's worth paid up, although no money has passed.

The following is a suitable form for the ruling of a Register of Members—

At the head of each page leave three or four blank lines. On the first of these should be written the full Christian name, surname, and description or occupation of the shareholder; the next line should contain his address, and the other blank lines will be available for any changes of address formally intimated either in writing or by the shareholder in person.

On the debtor or left-hand side of the page should be a heading "Shares transferred," and underneath columns with the following headings—

1. Date of ceasing to be a member, or date of transfer deed if only part of the shares are being sold.
2. Particulars of shares transferred.
 - (a) No. of transfer deed.
 - (b) Number of shares transferred.
 - (c) Distinctive numbers of shares (inclusive).
 - (1) From.....
 - (2) To.....
3. Total amount paid on shares transferred.

On the credit or right-hand side should be a heading "Shares acquired," and underneath columns with the following headings—

1. Date of becoming a member or of acquiring further shares.

2. Particulars of shares acquired.
 - (a) No. of transfer deed or No. of allotment.
 - (b) Number of shares acquired.
 - (c) Distinctive numbers of shares (inclusive).
 - (1) From.....
 - (2) To.....
3. Amount payable on shares.
 - (a) Journal folio.
 - (b) Amount.
4. Total amount paid on shares acquired.
 - (a) Cash Book folio.
 - (b) Amount.

ANNUAL LIST OF MEMBERS AND SUMMARY.—Every company working under the Companies (Consolidation) Act, 1908, and having a share capital, is required by the 26th section to make, once at least in every year, a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year are members of the company; and such list has to state the names, addresses, and occupations of all the members therein mentioned, and the number of shares held by each of them, and also has to contain a summary specifying particulars which will be found in Chapter XIV.

The above list and summary has to be contained in a separate part of the register, and must be completed within seven days after such fourteenth day as is mentioned in this section.

Every year means a year from 1st January to 31st December.

The necessary ruling for such a book is clearly indicated by the particulars given above.

DEBENTURE SEALING BOOK.—Where debentures are offered for public subscription and there is likely to be an over-subscription, it is very desirable that an "Application for and Allotment of Debentures Book" should be designed and printed previous to their issue, and this can be constructed very much on the principle of the "Application for and Allotment of Shares Book"; but where the debentures are only issued from time to time as money is required, the best method of recording their issue is in what is generally known as a "Debenture Sealing Book" which may be ruled with the following columns—

1. Debenture number.

2. Folio in Debenture Holders' Ledger.
3. Holder.
 - (a) Name,
 - (b) Address.
 - (c) Description.
4. Amount paid.
5. Date of payment.
6. Name of Bank (if more than one Bank is authorised to receive subscriptions).
7. Date of Sealing.
8. Initials of Directors sealing.

From this book a Register of Debentures can be first written up, which would afterwards be kept up from the Debenture Sealing Book as Debentures are issued from time to time, and also from the Register of Transfers of Debentures.

REGISTER OF SHAREHOLDERS.—Every company registered under the Companies Clauses Consolidation Act, 1845, is required by section 9 of the Act to keep a Register of Shareholders. The section is as follows—

Section 9.—“The company shall keep a book to be called the ‘Register of Shareholders’; and in such book shall be fairly and distinctly entered, from time to time, the names of the several corporations, and the names and addresses of the several persons entitled to shares in the company, together with the number of shares to which such shareholders shall be respectively entitled, distinguishing each share by its number, and the amount of subscription paid on such share, and the surnames or corporate names of the said shareholders shall be placed in alphabetical order; and such book shall be authenticated by the common seal of the company being affixed thereto; and such authentication shall take place at the first ordinary meeting, or at the next subsequent meeting of the company, and so from time to time at each ordinary meeting of the company.”

For this book the following columns are recommended—

1. Shareholder.
 - (a) Name.
 - (b) Address.
 - (c) Description.

2. Number of shares held ; with sub-columns if more than one class of shares.
3. Amount paid on each share ; with sub-columns if more than one class of shares.
4. Distinctive numbers of shares held (inclusive).
 - (a) From.....
 - (b) To.....
5. Remarks.

The section is not merely directory, but must be substantially complied with in order to make the Register of Shareholders evidence of a defendant in an action for calls being a shareholder.

SHAREHOLDERS' ADDRESS BOOK.—Every company registered under the Companies Clauses Consolidation Act, 1845, is required to keep a "Shareholders' Address Book." The following is the section of the Act—

Section 10.—"In addition to the said Register of Shareholders, the company shall provide a book, to be called the 'Shareholders' Address Book,' in which the Secretary shall from time to time enter in alphabetical order the corporate names and places of business of the several shareholders of the company, being corporations, and the surnames of the several other shareholders, with their respective Christian names, places of abode, and descriptions, so far as the same shall be known to the company."

For this book the following columns are recommended—

1. Folio in Register of Members.
2. Number of shares held
3. Shareholders.
 - (a) Name.
 - (b) Address.
 - (c) Description.
4. Remarks.

Many companies adopt the plan of having the Shareholders' Address Book with the edges cut, showing the letters of the alphabet so that any name can be easily referred to.

Where there are many transfers the books should be written up day by day, and the name ruled through in red ink when any shareholder has disposed of all his shares. In those cases where persons are continually buying and selling shares, it is as well to leave a

number of spaces after certain names, so as to allow the name to be re-entered in the same place.

This book is particularly useful in the case of a demand for a poll at a general meeting, as the number of votes each shareholder is entitled to can be entered immediately opposite the name, and it can then be afterwards compared with the Register of Members.

REGISTER OF HOLDERS OF CONSOLIDATED STOCK.—It is enacted by section 61 of the Companies Clauses Consolidation Act, 1845, that any company registered under this Act may, with the consent of three-fourths of the votes of the shareholders present in person, or by proxy, at any general meeting of the company, convert or consolidate all or any part of its share capital into a general capital stock. Section 63 then directs that a Register of Holders of this stock shall be kept.

Section 63.—“The company shall from time to time cause the names of the several parties who may be interested in any such stock as aforesaid, with amount of the interest therein possessed by them respectively, to be entered in a book to be kept for the purpose and to be called ‘The Register of Holders of Consolidated Stock.’”

Should there be more than one class of stock a separate register should be kept of the holders of each class.

The name and address of each stock-holder should be written across the top of the page, and the following columns may be used—

1. Date of transfer.
2. Number of transfer.
3. Amount of stock.
4. Date of registration.
5. Number of allotment or transfer.
6. Number of certificate.
7. Amount of stock.

Should the stock be newly issued, or not fully paid up the following additional columns may be used—

8. Date when call due.
9. Allotment number or Journal folio.
10. Amount due.
11. Cash book folio.
12. Amount paid.

REGISTER OF CERTIFICATES CANCELLED AND ISSUED.—This is

a most useful book in the offices of public companies as it is a check on over-issuing certificates of stocks or shares. It should be placed before the chairman, director, or official who checks and signs the certificates.

Each page should have the date of the Board meeting at the top, and should be divided into two parts, the left side headed "Old Certificates," and the right side headed "New Certificates," while the columns under each should be as follows—

1. Distinctive numbers of certificates.
2. Amount of stock, or number of shares.
3. Name.

In the columns on the left-hand side should be inserted the particulars taken from the certificates received from the transferor, while the right-hand side should contain the particulars taken from the new certificates, as when holdings are disposed of they are frequently divided amongst several purchasers, and the names on the right-hand side of the page are, as a rule, more numerous than those on the left-hand side.

Having completed filling in the names of the transferees, it will then be seen how much of the transferors' holding remains unaccounted for, and their names should accordingly be written in with a balance of the stock or shares not transferred, and for which certificates should be written out. The total amounts should then balance, and should a transferor have disposed of all his holding, the transfers of which have not come in for registration, the balance would in due course come before the next Board meeting to be dealt with in a similar manner.

It is the practice of many of the large companies, however, not to issue any certificates for the balance where the whole of the transferor's stock or shares have been disposed of, although some of the transfers may not have been presented at the date of the Board meeting. In such a case the same book can be used by inserting the balances for which certificates are not issued with the name of the transferors in red ink; and when the outstanding transfers are brought forward for registration these red ink balances must (though not represented by certificates), be brought down on the left-hand side under the heading of "Old Certificates." This practice, however, is not to be commended.

· REGISTER OF DEBENTURE STOCK.—A Register of Debenture Stock must be kept in the case of all companies who have issued debenture stock, as prescribed by section 28 of the Companies Clauses Act, 1863, which is as follows—

Section 28.—“ The company shall cause entries of the debenture stock from time to time created to be made in a register to be kept for that purpose, wherein they shall enter the names and addresses of the several persons and corporations from time to time entitled to the debenture stock, with the respective amounts of the stock to which they are respectively entitled.”

The following form of ruling is suggested for this Register—

The name, address, and description of the holder should be placed on the top of the page. On the left-hand side of the page should be, under the heading of “ Stock transferred,” the following columns—

- 1. Date of transfer of stock.
- 2. The number of the transfer deed.
- 3. The name to whom stock transferred.
- 4. The amount of stock transferred.

On the right-hand side of the page should be the heading “ Stock acquired,” and there should be the following columns—

- 1. Date of entry on Register.
- 2. Number of Allotment or transfer deed.
- 3. Name from whom the stock has been acquired.
- 4. Amount of stock acquired.

In designing a Register for a new issue of debenture stock it is desirable to have the following additional columns on the right-hand side of the page—

- 5. Amount payable.
 - (a) Journal folio.
 - (b) £. s. d.
- 6. Amount paid.
 - (a) Cash Book folio.
 - (b) £. s. d.

REGISTER OF MORTGAGES AND CHARGES.—The Companies (Consolidation) Act, 1908, requires that a Register of Mortgages and

Charges shall be kept, and the following ruling will be suitable for a book of this description—

1. Date of creation of mortgage or charge.
2. Amount of mortgage or charge.
3. Mortgagee or person in whose favour the charge is made.
 - (a) Name.
 - (b) Address.
 - (c) Description.
4. Short description of the property mortgaged or charged.
5. Date when mortgage or charge is paid off.
6. Remarks.

REGISTER OF CALLS.—Every new company, and every other company whose capital is not fully paid up, and whose directors have made a call on the shareholders, should, for office convenience, keep a Register of Calls.

At the head of the page the amount of the call per share and the number of shares on which the call is made, and the date on which the call is payable, should be stated.

The following are the columns suggested—

1. Number on list.
2. Folio in Register of Members.
3. Shareholder.
 - (a) Name.
 - (b) Address.
 - (c) Description.
4. Number of shares
5. Total amount due in respect of call.
6. Amount paid.
7. Date of payment.
8. Remarks.

Should a call be made on more than one class of shares, each class should have a separate register, as the practice of inserting extra columns so as to combine calls on two classes of shares in one register is not recommended.

REGISTER OF TRANSFERS.—The Register of Transfers contains the particulars which it is requisite should be registered in connection with a transfer of shares from an existing holder, usually called the transferor, to the purchaser of the shares, usually called the

transferee. The entries should not be made until the transfers are accompanied by the certificate of shares proposed to be transferred and the same have been duly passed by the Board of Directors or a Committee of the Board, or by whatever official may be entrusted by the Board with such duty. The documents must be properly stamped, the full name and description of both transferor and transferee should be inserted therein, and the signature attested by one or more witnesses according to the regulations of the company, and unless these are in order transfers should not be registered.

If there are two or more classes of shares there should be a separate Transfer Register for each class.

The Register of Transfers may have the following columns—

1. The number of the transfer deed.
2. Date when transfer is received.
3. Date of registration of transfer.
4. Folio of Register of Members containing transferor's name.
5. Number of old certificate.
6. Name of transferor.

It is not necessary to insert the address and description of the transferor, as that would be contained in the Register of Members.

7. Numbers of shares transferred.
8. Distinctive numbers of such shares (inclusive).
 - (a) From.....
 - (b) To.....
9. Folio of Register of Members containing transferee's name.
10. Number of new certificate.
11. Name of transferee.
12. Address of transferee.
13. Consideration money payable.
14. Remarks.

REGISTER OF TRANSFERS OF DEBENTURES.—A similar ruling will apply.

DEBENTURE STOCK TRANSFER REGISTER.—When a company has issued debenture stock, a Debenture Stock Transfer Register should be kept, which may contain the following columns—

1. Date of registration.

2. Number of transfer deed.
3. Transferor's register folio.
4. Transferor.
5. Amount of stock.
6. Transferee's register folio.
7. Transferee.
 - (a) Name.
 - (b) Address.
 - (c) Description.
8. Consideration money paid.
9. Remarks.

INVESTMENT REGISTER.—When a company owns many investments it is essential that a proper register of its investments be kept.

At the top of each page the name in full of the security should be written, and the following columns are recommended where the investment is in stock of a railway or other company—

1. Date of purchase.
2. Nominal amount of stock purchased.
3. Cost per cent.
4. Total cost.
5. Nominal rate of interest per cent.
6. Date when redeemable.
7. Date of sale.
8. Selling price per cent.
9. Profit on sale.
10. Loss on sale.
11. Remarks.

If the company is authorised to hold shares in other companies as an investment, the register must of course be ruled so as to show the number of shares purchased and the nominal amount of each share, while in place of the "Nominal Rate of Interest" column might be inserted a column headed "Last Dividend Paid." The column headed "Date when Redeemable" is not required, neither is the column "Selling Price per cent.," but there should be inserted in the place thereof columns showing the number of shares sold and the selling price per share.

MORTGAGE REGISTER.—This book should also be kept by every

company which makes advances by way of mortgages, but must not be confused with the Register of Mortgages and Charges already referred to.

The name of the borrower with his full address and description should be inserted at the top of the page, which should extend right across the book, each mortgagor occupying a full folio. The following columns are suggested—

1. Date of advance.
2. Amount advanced.
3. Date when repaid.
4. Amount repaid.
5. Remarks.
6. Security—This should occupy the whole of the right-hand page.

Under this heading should be entered full particulars of the property securing the mortgage.

About half-way down this page it should be ruled across, and the following columns should appear in the lower half—

1. Date.
2. List of deeds referred to in security.
3. Date.
4. List of deeds referred to in security.

Here should be inserted full particulars of the various deeds which may be comprised in the security, the information respecting which should be given by the solicitor. The columns 3 and 4 are merely continuations of columns 1 and 2. It is desirable to have these deeds recorded, as the company is responsible for their safe custody so long as the loan may continue. As it is frequently the custom to allow periodical payments to be made by mortgagors, any amount paid off in this manner should be entered in column No. 4, "Amount Repaid," and the date in the previous column.

There might also be printed on the bottom four lines of page 1 in the left-hand corner the following—

1. Term of mortgage.
2. Rate of interest.
3. Dates when interest payable
4. Dates when principal payable.

REGISTER OF POLICIES.—Although it is quite impossible in a work of this nature to include books of register for every description of business carried on by companies, still, as there are so many companies transacting insurance business of various classes, it may be useful to give a form of Life Assurance Company's Policy Register, and a Policy Register which would act as a guide for designing a register to suit any other class of insurance.

The following columns are suggested for the Policy Register of a Life Assurance Company—

1. Number and date of policy.

The numbers should be printed leaving space for from four to six policies on a page ; this leaves room for the date of the policy to be written underneath the number without requiring a separate column.

2. Assured and life assured.

Here should be entered the name and address of the assured and also, should he have assured a life other than his own, the name of that person and his address.

3. Class.

4. Term of policy and how premium payable.

5. Age and date of birth.

6. In this space, which should occupy the rest of the left-hand folio, should be entered particulars of the sum assured, the premium, and particulars of any bonus, such as the year of declaration, its cash value, its reversionary value, and any reduction there may be made in the policy.

7. Endorsements.

In this column would be entered particulars of any special conditions endorsed on the policy.

8. Valuations.

9. Notices affecting title.

10. Agency.

11. Remarks.

The following columns would be applicable to a register for any other than a Life Assurance Company, with special columns added to suit the particular class of insurance carried on by the company.

1. Number of policy.

2. Date of policy.
3. Name of assured.
 - (a) Address.
 - (b) Occupation.
4. Sum assured.
5. Annual premium.
6. Date when premium payable.
7. Agency.
8. Date when policy lapsed or expired.
9. Notices to be sent to.
10. Remarks.

DIVIDEND BOOK—A Dividend Book should be kept by every company, which may first of all be commenced on loose sheets of paper, and when completed bound up, or a book may be prepared designed to last a certain number of years, according to the number of shareholders in the company. In any case the following ruling may be adopted—

1. Consecutive number.
2. Folio in the Register of Members containing the name of the shareholder.
3. Shareholder.
 - (a) Name.
 - (b) Address.
4. Number of shares or amount of stock.
5. Total dividend payable.
6. Income tax thereon.
7. Net amount of dividend payable.
8. Remarks.

Care should be taken in writing up this list where the shares stand in more than one name, and the Articles of Association enact that the dividend warrants shall be signed by the shareholder whose name is first on the list. His name should then be the only one inserted. In the case of executors or trustees, the company should have the requisite authority from the joint holders to whom the warrant is to be sent, and when obtained, the name of that person should be the one entered in the "Dividend Book."

REGISTER OF DIRECTORS AND MANAGERS.—A Register of Directors and Managers is required to be kept for companies

working under the Companies (Consolidation) Act, 1908. Section 75 enacts that this Register shall contain the names, addresses, and occupations of its Directors or Managers; and it further enacts that a copy of such Register be sent to the Registrar of Companies, who shall be notified from time to time of any change that may take place in the Directors or Managers.

Every Director or Manager of the company who knowingly or willingly authorises or permits default in complying with this section incurs a penalty not exceeding £5 for every day during which this default continues, and the company itself may be fined a similar sum.

The following should be printed either at the top of each page or across the book—

“ Names, addresses, and occupations of the persons who are
 “ Directors or Managers of the Company, Limited, on
 “ the day of 19 .”

There should be three columns underneath, headed respectively—

1. Name.
2. Address.
3. Occupation.

Whenever a change takes place a new page should be filled up so that the last page entered up in the book complies by itself with the requirements of the Acts. A copy of the last page should be annexed to the annual return immediately after the list of members.

REGISTER OF PROBATE OF WILLS AND CONFIRMATIONS.—A Register of Probate of Wills and Confirmations should be kept. On the death of every shareholder, before the shares can be transferred or dealt with in any way, probate of the will, or, if the shareholder has died intestate, letters of administration must be produced at the offices of every company in which he is a shareholder. The probate may be registered at once, or be left with the Company a reasonable time, such as twenty-four or forty-eight hours, for that purpose.

For this Register the following ruling is recommended—

1. Date on which the probate or confirmation is left at the office of the company.

2. Shareholder.
 - (a) Name.
 - (b) Address.
 - (c) Description.
3. Distinctive numbers of shares held.
 - (a) From.....
 - (b) To.....
4. Date of death.
5. Date of will.
6. Date of probate or confirmation.
7. Executor or Executors.
 - (a) Name.
 - (b) Address.
 - (c) Description.
8. Name of person lodging probate or confirmation.
9. Usual signature of Executor or Executors.
10. Names of the officials of the company examining and registering the probate.

SEAL BOOK.—A Seal Book should be kept in which should be entered a full list of all agreements and other documents to which the seal of the company is affixed. In the case of companies where the seal is only affixed occasionally to documents, the sealing of such documents should be authorised by a minute, and the director who affixes the seal should have produced to him the minute authorising his sealing of the documents.

The Seal Book should be ruled with the following columns—

1. Date of sealing.
2. Particulars of documents sealed.
3. Initials of director or directors sealing.
4. Remarks.

In the case of companies transacting a business which requires the affixing of the seal continually, such as an insurance company whose policies are issued under seal, then it is not necessary for authorisation to be given by the Board for sealing documents of this nature, but the seal should never be affixed to a policy without the director having by his side the Register of Policies, which should be checked by him at the time of affixing the seal to each policy.

MINUTE BOOK.—The Directors' Minute Book, if properly kept,

is practically a record of the transactions of the Directors. The Minute Book is compiled from what is known as the "Agenda," which is a statement laid before the Chairman of each Board Meeting of the business proposed to be transacted, a duplicate being in the hands of the Secretary. On both these agendas the two officials record their own notes as to how each matter has been dealt with. After the meeting the Secretary, or other official whose duty it may be, writes up the Minute Book, which should always commence with the date of the meeting, the name of the presiding member of the Board, the names of the other Directors present, the Secretary, and any other official attending the Board, and the presence of any person who may be present at the Board or attends specially at the request of the Directors, such as the Solicitor or Engineer. The next entry in the Minute Book should record the fact that the minutes of the previous meeting have been read, and either signed as correct, or signed with any alterations inserted which may be approved by the Board, when the Chairman has asked the usual question of the Directors if they approve of the minutes being signed as correct.

It may not be out of place here to mention that, although the word "confirm" is frequently applied to minutes of a previous meeting being approved as correct, the term is not strictly accurate. The only real question, whatever the form put by the Chairman to the Board may be, is as to whether the minutes as read are a true and faithful record of what actually took place at the last meeting. The chairman does not ask his co-directors to confirm them, as no confirmation is necessary, and in fact there is no power to alter them except by a resolution passed at a subsequent meeting absolutely undoing what has been passed at the meeting in question.

After stating that the minutes of the previous meeting have been signed, either with or without alteration, the Minute Book should then record the state of the banking account, and in some companies the amount of its investments. The minutes sometimes state the balance of the petty cash in the hands of the cashier. To what extent details of this nature are entered in the Minute Book depend entirely upon the instructions of the Board.

There should then follow in precise form notes of the various discussions which have terminated in resolutions, which have been either passed or rejected, but mere conversation which does not

result in a resolution should not be recorded unless it is deemed of sufficient importance to depart from the usual practice.

Any agreements entered into by the Directors and special instructions given by the Directors should be recorded in the Minute Book.

In the case of a new company the allotment of its shares must be most carefully entered, as must also any further allotments.

In many companies it is the practice to keep an index to the principal resolutions passed, and this practice is very necessary in the case of companies whose minutes are voluminous.

Where the business of the company is of sufficient importance to require the Board being divided into committees, it frequently happens that the committees keep their own Minute Book or Books.

A Minute Book should also be kept of the transactions which may take place at the meetings of the shareholders. In the case of companies registered by special Acts of Parliament it is the practice to read these minutes to the following meeting of shareholders, but it is not the practice in the case of companies subject to the Act of 1908.

CHAPTER VI

THE CONSTRUCTION OF BOOKS

BEFORE commencing to construct any special books for recording the transactions of a partnership or a corporation, whether such books are to be incorporated in the system of Book-keeping or whether they are intended to be registers or statistical books, it is necessary that the constructor should ascertain if the concern is governed as to its constitution either by public or by private Acts of Parliament. In the case of companies working under the Companies Acts, 1908-1917, usually known as "Limited Companies," as also in the case of companies registered under the Companies Clauses Consolidation Act, 1845, and subsequent Acts, special books are prescribed, and in the case of some of these books the particulars to be entered therein are also prescribed. The rulings of many of these books have already been given in the previous chapter.

In the case of many companies registered under private Acts of Parliament, books are prescribed by such private Acts which are additional to those referred to in the public Acts with which such private Acts are always incorporated, and consequently any reference to registers or other books which are mentioned in any of the Acts previously mentioned, have necessarily to be taken into consideration by the constructor.

It is quite impossible in a work of this nature to prescribe for every class of financial or commercial concern a complete set of books, but in order to give a general idea of what is meant by construction in Accountancy as applied to books of account and of registry, a number of examples are now given. These, if carefully studied, will, it is trusted, enable anyone acquainted with the principles of Book-keeping to apply such principles in conjunction with those here laid down, and be thus enabled to design a system of

books for the correct account-keeping of a commercial or financial concern, whether owned by a single individual, a firm, a public company, or a corporation.

For the purposes of the student wishing gradually to understand the theory of construction, it has been deemed advisable not to place in alphabetical order the names of the various businesses which will be referred to, but to commence with those which are thought to be the simplest examples. Those who may wish to find the ruling of a book suitable for any special business or profession can, if any books in relation to such a business have been dealt with in this work, ascertain the same on reference to the index.

At the same time it must be understood that the specimens given are principally intended to teach the art of book construction, and not to prescribe a complete system of Book-keeping for every class of business. A work such as this could not, having regard to the multitudinous classes of businesses and industries, be contained in a hundred volumes. There is scarcely an industry which is not already represented in the Book-keeping world by one work at least, as a reference to the Catalogue of the Library of the Institute of Chartered Accountants in England and Wales will show. Many of the early examples in the following pages will be applicable to a number of classes of business, which are either not referred to at all, or for which a specimen of some special book may be given.

It must also be understood that in the following pages it is not intended to prescribe a set of books for recording all the transactions of the businesses or concerns referred to, but only to give examples of construction of one or more special books, it being understood that they have to be supplemented by whatever other books may be required for the purposes of completing the system of Book-keeping by double entry.

The forms given in Chapter VII relating to Cost Accounts may also be studied with advantage.

HOUSEHOLD ACCOUNTS.—One of the simplest forms of account-keeping is that for a private household where it is desired at the end of any given period, such as a year, to show under suitable headings the classification of the expenditure, and in those cases where the income is not derived from a single source, such as from a salary or professional earnings, or from interest on investments, a Statement

of the income in abstract form is also a desirable document to annex to it.

It is here assumed, where the head of the household is engaged in business, or is a professional man, as also where he is a landed proprietor, that the books of account connected with his business, profession, or estate are kept independently of the household accounts, and that the household is supplied by remittances from the business account and that such remittances and interest on investments (if any) are the sole sources of income to be accounted for in the household accounts.

The most convenient method to adopt is for cheques to be drawn on the business account for round sums and paid into the private banking account, and for the income from Investments whether from a marriage or other settlement, or from private investments, to be either collected by the bank, or the dividend warrants should be paid into the bank as and when received.

Two Cash Books should be kept, one to record the transactions with the bank, and the other to record the details of the household expenditure in those sums considered too small for which to draw separate cheques. The amounts for making these household disbursements will of course be derived solely from cheques for round sums drawn on the private Banking Account.

The Bank Cash Book may be ruled with the following columns—

On the left-hand or Income side—

1. Date.
2. Particulars.
3. Interest and dividends on investments.
4. Income from Marriage Settlement.
5. Name of the householder, or " Fees (or drawings) from business account," or whatever heading may be selected.
6. Paid into Bank.

The right-hand or Credit side should be ruled with columns with headings according to the greater or less detail the householder may require to show in his periodical Statement, and the following are given as examples—

1. Date.
2. Particulars.

3. Rent, rates, taxes, insurance (fire, burglary, accident, workmen's compensation, etc.).

4. Tradesmen's Accounts.

This is assuming that the householder does not wish to show separately the accounts of the butcher, baker, milkman, etc., if so, separate columns must be ruled.

5. Laundress.

6. Heating, lighting and water.

7. Travelling and amusements.

8. Children's clothes.

9. Wine and spirits.

10. Tuition.

11. Medical attendance.

12. Life Assurance Premiums.

13. Furniture, plate, linen, etc.

14. Builder for repairs.

15. Husband's personal expenditure.

16. Wife's personal expenditure.

17. Club and society subscriptions.

18. Charity subscriptions.

19. House Cash Book.

In this column will be placed the cheques for round sums such as £10 or £20 paid to the wife or housekeeper, to be accounted for in the House Cash Book.

20. Drawn from Bank.

In this column would be entered the total of each Cheque drawn.

These columns should be added up and continued until the end of the period at which it is desired to make out a statement into which the total of each column can be carried, with the exception of the total of the House Cash Book.

The House Cash Book should be ruled as follows—

On the left-hand side—

1. Date.

2. Amounts received.

The items in this column will consist solely of cheques for round sums drawn on the Banking Account.

The credit side of this House Cash Book should be ruled with the same columns as that of the Cash Book with the exception that the "House Cash Book" column will not appear, and should it be the invariable rule to pay the rent, rates, taxes and insurance, life assurance premiums, coal bills, electric light company and gas company's bills, water rate, and tuition accounts by cheque, these columns may, of course, be omitted.

At the end of the year a statement can be drawn up from these two books in the form shown in Chapter XII.

An ordinary Cash Book may be used instead of a specially ruled House Cash Book, and the wife or housekeeper be supplied with a round sum as a floating balance out of which to make daily payments. When the greater part of this round sum has been expended, an abstract can be made of the expenditure in accordance with the headings of the columns in the Bank Cash Book, and a cheque drawn for the total thus restoring the floating balance. The amount of the cheque will be entered in detail in the Bank Cash Book under the proper columns and the total in column (19).

BARRISTERS.—One of the most simple forms of account books in connection with professional or business transactions is that required by a Barrister. His professional income, however numerous his clients may be, can only require one ledger heading and his expenditure requires very little analysis.

The only book which a Barrister need keep with special rulings is a "Register of Fees," and in designing a book for this purpose it must be borne in mind that whereas in mercantile concerns all amounts to be collected are payable by customers who purchase goods, in the case of a Barrister the fees in nearly all cases are paid not by the client himself, but by the Client's Solicitor, and therefore it is necessary to keep a record both of the Solicitors who are the real clients of the Barrister, and the clients of the Solicitors who are also described as the Barrister's clients. The following form of ruling for a "Register of Fees" may be adopted—

1. Date.
2. Solicitor's name.
3. Client's name or Cause.
4. Ledger folio.
5. Fee.
6. Clerk's fee.

7. Total fee.
8. Date of payment.
9. Amount paid.
10. Ledger folio.
11. Remarks.

In the case of a large practice, a Clients' (Solicitor) Ledger should be kept and the fees should be debited to the Solicitor's Account with a note of the lay client's name and cause, so that at any time both the Barrister and the Solicitor may know the exact financial position between themselves. Where the practice is a small one and a Clients' Ledger is not kept the ledger folio columns (4) and (10) need not appear in the "Register of Fees."

There is this peculiarity in connection with a Barrister's practice, that the client pays the fee of the Barrister's clerk, and not the Barrister. In some instances, especially in the case of those who have not an established practice, a minimum salary is paid by the Barrister himself, which is supplemented by the clerk's fees paid by the clients.

CHARTERED ACCOUNTANTS.—The Books for recording the transactions of a Chartered Accountant come next in sequence of simplicity to those required to be kept by a Barrister.

The fees of Chartered Accountants are frequently agreed with the clients prior to or subsequent to their being earned, but for those audits or investigations where it is impossible to form an estimate of the time likely to be occupied, a statement of the fees is delivered, such fees being based on the time occupied, the scale varying according to the class of work done, and in the case of clerks, according to the class of clerks employed. In Court cases, where the fees are usually settled in Judge's Chambers, such as for acting as a Receiver in Chancery, for acting as Liquidator of a Company, or as Trustee in Bankruptcy, the fees are frequently a percentage on the assets realised and on the assets distributed by way of dividends. Occasionally a percentage is paid by way of fee in consideration of obtaining a partner who purchases a share in the goodwill of an established business, or for obtaining money on mortgage, or for other purposes.

Whether the fee is arranged beforehand or not, it is the practice of Chartered Accountants, and of all persons in their employment,

to keep diaries, in which the time employed on each matter is recorded ; and these diaries are analysed so as to bring under the name of each client or matter the time occupied by the Chartered Accountant and the members of his staff. From time to time statements of fees due are made out and rendered to clients, and if a Chartered Accountant wishes to keep a record of these fees in the same book as his cash receipts and payments, a combination of Cash Book and Journal, known as a "Cash Journal," may be employed. This book may be ruled as follows—

On the debit side—

1. Date.
2. Narrative of transaction.—In this column will be recorded the nature of all cash received and paid away, and also short particulars of all statements of fees delivered.
3. Ledger Account.—This column will contain Ledger headings both of personal and impersonal Accounts.
4. Ledger folio.
5. Clients' and other Accounts.
6. Paid to Bankers.—This column will include all the receipts which would be paid direct into the Bank as received excepting such small items which might be received direct by the Cashier and entered direct in the Petty Cash Book.

On the credit side—

1. Cheques on Bankers.
2. Fees.
 - a) Department—This column will only be used where the Chartered Accountant divides his practice into various departments, such as Auditing, Bankruptcy, Chancery, Investigations.
 - (b) Ledger folio.
 - c) Amounts.
3. Clients' and other Accounts.
4. Ledger folio.

SOLICITORS.—The Account keeping of a Solicitor is not of so simple a nature as that of a Barrister or of a Chartered Accountant, especially when the practice is of a litigious nature and the costs have to be prepared with a view to eventual taxation.

The income of a Solicitor is principally derived from the fees

charged to his clients, but in many cases where he acts for certain classes of companies, such as Insurance Companies, Banks, Building Societies, etc., his income may partly, and in some cases principally, be derived from the fees paid to him by the parties who have dealings with his clients and not by the clients themselves.

The fees may be derived from any of the following sources—

1. Professional advice.
2. Conveyancing, such as drawing of Wills, Leases, Marriage and other settlements, Conveyances for sale of property. Contracts, Agreements, etc.
3. Litigious work, such as acting for a plaintiff or a defendant in an action at law.
4. Procuring loans either on mortgage or other securities.
5. Fees payable by persons other than the Clients.

(a) In the case of a Bank, preparing on behalf of the Bank the Deeds securing them in respect of loans made to customers, which charges are always paid by the Bank's customers.

(b) In the case of an Insurance Company, preparing on behalf of the Company the necessary Deeds to secure moneys advanced on mortgages, and in some cases on loans on the Company's policies, or a guaranteed loan accompanied by policies, which the Insurance Companies nearly always require to be taken out in connection with such loans. These costs are always paid by the persons obtaining the advances from the Insurance Companies.

(c) In the case of Building Societies, preparing the Deeds, securing to the Building Society the property on which the Society makes its advances, to be paid as a rule in periodical instalments of principal and interest until the loan shall be paid off. These fees are also paid by the borrowers.

Solicitors frequently act as Agents for Insurance Companies of various descriptions from which they receive a commission for introducing their clients, but in those cases it is not usual, nor indeed proper, to make any charge to the client.

Many Solicitors keep the records of their cash transactions and

of their business done in a Cash Book, Journal, and Ledger, together with a few special forms of books corresponding with Day Books. Many adopt a special form of Cash Book, based on what is known as Kain's system of Book-keeping for Solicitors. This system has however to be thoroughly understood, otherwise confusion is likely to result. One of the simplest forms of Cash Book for Solicitors, however, is Kain's combination of Cash Book and Journal, ruled with the following columns—

On the debit side—

1. Date.
2. Narrative of transactions.
3. Ledger Account.
4. Ledger folio.
5. Clients' and other Accounts.
6. Paid to Bankers.

On the credit side—

1. Cheques on Bankers.
2. Costs—with two sub-headings.
 - (a) Ledger folio.
 - (b) Amount.
3. Clients' and other Accounts.
4. Ledger folio.

From a Cash Journal such as the above, which must be procured from the patentee, the Solicitor can follow in a very interesting way his transactions from day to day ; the columns above referred to requiring special notice are the following—

The "Narrative of Transactions" column should contain a short account of the nature of the transaction recorded, such as when a Bill of Costs is rendered to a client there should be set out in a few words the particulars, such as "Fee for making your Will"—"Charges in connection with the sale of property"—"Costs in connection with the Action of yourself versus. . . ."

The "Ledger Account" column will contain the name of the Account in the Ledger to which the entry is to be posted, while the amount to be debited to the client or impersonal account will appear in the column headed "Clients' and other Accounts," and when posted to the Ledger to the debit of the client or impersonal account will have that Ledger folio placed in the adjoining column.

When the money is received it will be described in the "Narrative of Transactions" such as "In settlement of Costs rendered," the name of the Client being entered in the Ledger Account. The amount is entered in the column "Paid to Bankers" and included in "Clients' and other Accounts" on the credit side, and when posted to the credit of the client the Ledger folio will be placed against it, while all payments will have a description entered in the "Narrative of Transactions" column. The Account to which they are to be charged will be entered in the Ledger Account column either against the Client on whose behalf this payment is made, or against the Impersonal Account, such as rent, salaries, office expenses, petty cash, etc., and will be debited to that account under the heading of "Clients' and other Accounts," against which will be placed the Ledger folio when posted to the credit of that Account, while it will also appear in the "Cheques on Bankers" column. From a Cash Journal kept in this manner the balance at the Bankers can always be seen while the total under the Costs column can be added up periodically, such as monthly or quarterly, posted to the Impersonal Account of Costs in the ledger, and at the end of the year will be carried to the credit of Profit and Loss Account showing the total amount of costs delivered during the year.

Should a Solicitor, however, wish to keep a simple Cash Account, he should then have a separate Day Book, in which should be entered the Bills of Costs as delivered, in exactly the same way as a trader would keep account of goods sold. The items will be posted to the debit of the Client while the totals can be posted monthly, quarterly or yearly to the credit of the Impersonal Account of Costs in the Ledger.

The principal difficulty in preparing a Profit and Loss Account at the end of any period, to show the result of a Solicitor's earnings, is to deal with what are known as the "undebited costs." These are costs in respect of work completed but for which the bill has not been rendered, or for work in progress such as an action at law, or for matters only partly completed. Many Solicitors take no account of these, and prepare their Accounts at the end of the year bringing to credit only the work for which they have actually rendered costs; others, after the close of the year, make up Bills of Costs of completed matters, deliver them to their Clients, and

treat them as having been sent in on the date on which they make up their Balance Sheet. Others go carefully through the entries relating to the matters in progress at the date of balancing their books and arrive at the estimated value of the proper charge against their clients, or whoever may have to pay such costs, to date; and carry this estimated amount to the credit of their Profit and Loss Account. This is really the only correct method of arriving at the true result of a Solicitor's practice for any fixed period.

ARCHITECTS.—A diary should be kept, or a rough book of some kind in which interviews and instructions can be recorded in order of date. If preferred, a number of sheets may be kept together in which all details relating to each matter of business should be entered to take the place of a diary, the entries being arranged under the heading by which each matter is known in the Architect's Office. For example—

Earl of Middlesex—London House.

6th July, 19... Attending you at London House when you instructed me to prepare plans for a Ball Room with Bedrooms, etc., above.

7th to 10th July. Preparing a rough plan and sketch; discussing same with you when you suggested certain alterations, and so on, including preparations for tenders for the work done until its completion.

A Register of Drawings and Plans should be kept which may be ruled with the following columns—

1. Number of Drawing or Plan.
2. Date.
3. Client's name.
4. Matter.
5. Description.

A Register of Drawings and Plans sent out should also be kept which may be ruled as follows—

1. Number of Drawing or Plan.
2. Date when sent out.
3. To whom sent.
4. Date of return.
5. Remarks.

A Builders' Certificate Book is useful which should have numbered

counterfoils, from which Certificates given to Builders authorising them to receive payments on account, should be taken.

Guard Books containing specifications, estimates, contracts, etc., should also be kept.

The Register of Contracts should have a page or more kept for each contract, at the top should be entered particulars such as—

1. Number of the Contract.
2. Date of the Contract.
3. Date of acceptance of the Tender.
4. Name of the Client.
5. Description of the building or other work.
6. Date when the Contract is to be completed.

Underneath these the following columns may be ruled—

1. Certificates issued.
 - (a) Number.
 - (b) Date.
 - (c) Amount.
2. Commission.
 - (a) Rate.
 - (b) Amount.
3. Remarks.

A Fees Book or Commission Book should be kept which should contain a record of all fees earned, and it should be entered up from particulars of charges rendered to clients which may be in a specially prepared form, or contained in ordinary letters. In any case, the drafts or press copies of such charges should, when rendered, be kept separately from the letters, so that the Fees Book may be written up at any time from the Guard Book or Press Copy Book. Such Fee Book may be ruled as follows—

1. Date.
2. Name of Client.
3. Particulars.
4. Folio of Guard Book or Press Copy Book.
5. Ledger folio.
6. Amount, or
6. Amount.
 - (a) Details.
 - (b) Total.

MEDICAL PRACTITIONERS.—The foundation on which the Accounts of a Medical Practitioner are based commences with what is technically known as the "Visiting List." There are many forms existing, but perhaps the most useful of all is one kept in a book with a page for each week and two weeks to each opening; the patient's name and address being entered in the first column, while in small columns containing the heading of each day of the month, should be placed the particulars of each day's attendances.

In order to enable the Doctor to jot down his attendances as quickly as possible a recognised system of marks is usually used, the following being the one generally recognised amongst Practitioners—

Visit to be made	\
Visit made.....	/
Second visit same day.....	\times^2
Third visit same day	\times^3
Visit made and medicine to be sent	*
Visit made and medicine sent	*
Consultation (at Surgery)	
" <i>Concilium domi</i> ".....	C/d
" (away)	C
Night visit	N
Special visit	S
Vaccination	Vac
Medicine made up for caller	—
Repeat medicine	R

It will be observed that in the above list are included marks in connection with the issuing of medicine. It is well-known that London Practitioners in the better class neighbourhoods do not send out medicine, only writing prescriptions to be made up at the local chemists. In many parts of London, and almost universally in the Provinces, Medical Practitioners have their own dispensary. It therefore follows that any system of book-keeping must allow for the following sources of income, namely—

Medical Fees.

Fees in respect of appointments, such as with Hospitals, Clubs, Public Vaccination, etc., and Medicines when charged.

As many attendances include medicine, it would be difficult to allocate the receipts on account of medicine separately. For the purpose however of enabling the Medical Practitioner to prepare a satisfactory Profit and Loss Account at the end of any period, it would be desirable for him, by means of the above marks to allocate day by day, when making up his Accounts, a certain proportion which has been received to go to the credit of medicine.

The expenditure will consist of rent of Surgery, if apart from his dwelling-house; horses and vehicles; any annual subscriptions paid to Medical Associations; salaries of Assistants (if any); and expenditure on drugs.

The Visiting List can be carried into the Day Book, as it is not at all advisable to post direct from the Visiting List to the Ledger.

A very useful form of Day Book is to follow the lines of the Visiting List, by having opposite the name of each patient a column headed with the day of the month, in which column should be put the same marks as appear in the Visiting List. This List can be added up lengthways, so that in the column next to the last day of the month will appear the total amount to be charged against each patient, while against this should be a column to contain the Ledger folio, and showing to which folio in the Patients' Ledger the monthly total should be debited.

It is advisable to keep the Patients' Ledger distinct from what one may call the "Private Ledger," in which the Medical Practitioner should merely keep the Accounts connected with his expenditure, and his own capital and drawing accounts. Should he wish to treat such entries on a business footing, this is certainly advisable.

It is also advisable that a Prescription Day Book should be kept, in which should be entered day by day against each patient the amount of medicine supplied and the price to be charged—when charged separately and independently of the Visiting Fee.

No other particulars need be given, as the Cash Book is one of an ordinary form, and of course the Profit and Loss Account and Balance Sheet will be prepared from the Ledgers in the ordinary way.

AUCTIONEERS.—The books to be kept by an Auctioneer are for the purpose of recording the following transactions—

- Sales of specific properties, and
- Sales of miscellaneous properties.

By sales of specific properties is meant a sale where the lots are of sufficient importance to have separate descriptions given to them in a catalogue—such as sales of land or houses.

What is meant as miscellaneous sales is where a great number of articles are sold either for the same client, or for two or more clients, such as pictures, articles of furniture, books, coins, medals, postage stamps, etc.

In the case of specific properties very little account-keeping is required, but in the case of miscellaneous properties a special book has to be prepared which is usually in the following form and is kept by the Auctioneer's Clerk.

In a book of plain paper should be pasted on each page a page of the printed catalogue including the lot number on the left, the rest of the page being occupied with the following ruling—

1. Lot Number.
2. Purchaser's Name.
3. Price Obtained.
4. Number of Receipt.
5. Cash Received.

As many purchasers wish at once to remove their lots, one of the Auctioneer's Clerks is usually in attendance to receive payment ; he of course knows the amount by referring to the marked catalogue kept by the other Clerk, and he will issue a Receipt from a counterfoil book which may be ruled as follows, the ruling being the same on both sides of the perforation so that one can be torn off and given to the purchaser, at the bottom of which a Receipt will be given by the Auctioneer's Clerk. The counterfoils and receipts should both be numbered and should be headed—

Sale on (giving date) (place of sale)

Name of Purchasers.

1. Number of Lot.
2. Details.

If any required, but not usually filled in.

3. Amount.

It is from this counterfoil book that the two last columns in the marked catalogue are filled in, and if many purchases are made by the same person, the same voucher number will appear opposite several lots in the receipt column.

ESTATE AGENTS.—Where an Agent acts for a number of landlords or clients, a set of books should be kept for each client; it is also advisable that a separate Banking Account should be kept for each Estate. When an Estate Agent collects only a few rents for a client it is not necessary to keep a separate Banking Account for these collections, and the entries of the cash received and paid away can be kept in his own General Cash Book. A copy of the Ledger Account of the client, together with any amplifications which may be necessary, will be a suitable Account for him to present to his client when required to show a Statement of his receipts and payments as Agent.

In every case, however, it is desirable that separate Rent Account Books should be kept for each client. For landed estates a rent roll should be kept in the same way as that recommended under that heading; but as in many instances Estate Agents have to collect weekly accounts, a book with the following ruling may be adopted—

1. Name of Street.
2. Number.
3. Tenant.
4. Weekly Rental.
5. Rents received during Quarter.

(a) Folio.

(b) Week ending (here give date).

These two columns to be repeated 14 times, as occasionally the nominal quarter will have 14 weekly entries.

6. Quarterly Rental.
7. Arrears.
8. Total due to—(here give date).
9. Total received for Quarter.
10. Arrears—(here give date).
11. Vacancies.
12. Bad Debts.
13. Folio.
14. Remarks.

LANDED PROPRIETORS.—The income of Landed Proprietors may come from a number of sources, such as rents of farms, houses, cottages, sales of timber and underwood, horses, cattle, and other

stock, royalties from minerals, and other sources which may be sometimes of the nature of businesses. The principal income is, however, usually derived from farms and other rentals. It is the practice for these to be recorded in what is known as a "Rent Roll," and the form for an ordinary Rent Roll may be ruled with the following columns—

1. Number.
2. Name of Tenant.
3. Tenement.
4. Acreage.
5. Annual Rent.
6. Rent due.

(here state whether a quarterly rental due at Lady Day, Midsummer Day, Michaelmas Day, and Christmas Day, or the half-yearly days, which is the custom in some parts of the country, Martinmas, and Michaelmas).

(a) Arrears brought forward.

(b) Quarter's rent or half-year's rent—as the case may be.

(c) Total due.

(d) Remissions and voids.

(e) Cash received.

If the rents are collected quarterly the sixth column together with its five sub-columns can be repeated four times, while in the case of the half-yearly collections twice.

7. Arrears carried forward.
8. Remarks.

CHARITABLE INSTITUTIONS.—It should be the rule in connection with the account-keeping of all Institutions of this nature, that for every subscription or donation received either at the Office or by any collector a receipt taken from a counterfoil book shall be invariably given to the subscriber. From this counterfoil book the Cash book, in connection with the Bankers' Paying-in Book, can be written up and the subscriptions entered in the Register of Subscribers. The object of a Register of Subscribers is to ascertain whether any subscriber is or is not in arrear with his periodical subscription so that should this be the case, he can be written to.

The best form of Subscribers' Register is that of a book with an

index, like an Address Book. In constructing it an estimate should be made, based, if possible, on previous experience as to the number of pages that should be allowed and cut for each letter. In the case of a very large Society this book may be in several volumes and should have a vowel index. Each page of this Register will be ruled in columns, the first containing the name of the subscriber, followed with a series of cash columns with the years printed at the top of each column, and if the book is folioed instead of paged, it will last at least more than double the number of years, provided that the changes in the subscribers are not very numerous. Should the subscribers vary much in number and change frequently, it is advisable to have a book made to last for not more than, say, five or six years.

HOSPITALS.—With the object of inducing Hospitals and kindred institutions to adopt a uniform system of Accounts, Sir Henry Burdett, K.C.B., whose labours on behalf of hospitals are well known, designed a Cash Receipts Book ruled with the following columns—

1. Date.
2. Per.
3. Name.
4. Annual Subscriptions.
5. Donations.
6. Boxes.
7. Hospital Sunday and Congregational Collections.
8. King Edward's Hospital Fund and other Special Funds.
9. Workpeople's Contributions.
10. Hospital Saturday Fund.
11. Entertainments.
12. Invested Property.
13. Probationers' Fees and Nursing Institution.
14. Patients' Payments.
15. Other Receipts.
16. Total.

CLUBS.—In constructing a set of Accounts for a Club, the designer must first of all make himself thoroughly acquainted with the nature of the Club and the class of business which is carried on in its coffee and other rooms.

A Register to show the payments of Members' Subscriptions can be kept in the form suggested under the heading of "Charitable Institutions" while for the purposes of recording the daily takings of the Coffee Room of a West End Club, or of other Clubs carrying on a similar kind of business, a book in the following form may be adopted. For the business done at luncheons and dinners there should be a separate book—

1. No. of Bill.
2. Name of Member.
3. Dinners (or Luncheons).

In this column would be placed the amount received for food including table money.

4. Wines.
5. Liqueurs and Spirits.
6. Teas and Coffees.
7. Minerals.
8. Bottled Ale, Beer, Cider, etc.
9. Sundries.
10. Total Amount of Bills.

With the exception of the first two columns, the remaining columns are cash columns representing the takings in respect of each Member and placed opposite his name.

These columns can be added up each day and the totals carried into a monthly Abstract Book with a page for a month and a line for each day; or the takings may be treated in other ways according to the wish of the Committee, having due regard possibly to the magnitude or smallness of the transactions.

It will be found very useful in Club accounting to have an Invoice Book in columnar form in which each invoice as it comes in can be entered, to be posted at once to the personal account in the Tradesmen's Ledger. The amount of each invoice should be entered at once, and eventually when necessary split up in the columns opposite the name of the tradesman under headings to correspond with the details which the Committee ultimately wish to show in their Profit and Loss Account.

The following form can be taken as an example—

1. No. of Invoice.
2. Date.

3. Name.
4. Ledger folio.
5. Total.
6. Wines.
7. Liqueurs.
8. Ales.
9. Minerals.
10. Cigars and Cigarettes.
11. Fuel.
12. Lighting.
13. Printing and Stationery.
14. Library.
15. Newspapers and Periodicals.
16. Repairs and Maintenance.
17. Linen, Glass, and Plate.
18. Cards.
19. General Expenses.
20. Rent, Rates, and Taxes.

One or two additional blank columns may perhaps be found useful, should it be decided later on to have some other subdivisions.

The totals of the columns can be posted monthly, quarterly, or yearly to the credit of the Impersonal Accounts, and from thence be carried to the credit of the Profit and Loss Account.

Stock Books should be kept of all wines, spirits, and liqueurs in bottle, and the best way to construct a Stock Book of this nature is to have a separate one for wines, another for liqueurs and spirits, and another for bottled ales. These will be ruled in narrow columns with the name and number of the bin of bottled wines, the name of liqueurs and spirits, and have printed on the side, leaving the requisite space, "Stock on Hand," "Added," "Consumed," at intervals down the pages.

The Book will therefore commence with the stock on hand at any given period. On the next line will be placed any goods as they come into stock, then the addition of stock on hand and the amount added, and underneath, opposite the word "Consumed" the consumption say of the week, which when deducted will give the stock on hand, this operation to be continued until the date on

which the accounts are made up and the stock taken, which should practically agree with the stock shown in this book.

It is also very useful under each "Consumed" to have a cash column running across the page in which the cost price of the wine consumed can be placed, which cash column is of course altered each time the balance is brought down to the new stock on hand. In this way, at the balancing day when the Accounts are made up the book should agree with the stock as taken. This book also affords a means of checking the stock and the money value placed upon the stock.

A Petty Cash Book in columnar form is also very useful in a Club, which may be ruled with the following columns—

RECEIPTS.

1. Amount.

This should consist solely of cheques drawn for round sums on the General Banking Account.

2. Cash Book folio.

3. Date. (Used also for payments.)

PAYMENTS.

1. Particulars.

2. Total.

3. Provisions.

4. Servants' beer allowance.

5. Wages.

6. Postages.

7. Stationery.

8. Cleaning and Repairs.

9. Newspapers and Periodicals.

10. General Expenses.

About half-a-dozen extra cash columns may be left so as to allow of such details being given for other items which are paid for out of Petty Cash.

HOTELS.—Practically everyone is familiar with the class of business transacted by a Hotel, and may therefore be presumed to be acquainted with the details necessary to construct a Register of the amount of business done. This may be carried out by means of a book usually known as a "Visitors' Ledger" from which the Bills are made out. The best plan is to have a book ruled with a

column for each room, and therefore this book has usually to be very elongated in form to allow of a sufficient number of columns being shown in the two pages of each open division to contain the entries relating to each bedroom and sitting-room. In the case of a large Hotel this is impossible, and a number of pages have to be in use at the same time.

On the left-hand side of the page will be a column headed "Ledger Accounts" and there should be printed underneath this column a line for each of the headings such as the following—

1. Brought forward
2. Sitting-rooms.
3. Bedrooms.
4. Coals.
5. Baths.
6. Lighting.
7. Breakfasts.
8. Luncheons.
9. Dinners.
10. Teas, etc.

There would then follow the names of as many wines, spirits, etc., as the Proprietor wishes to open Ledger Accounts for.

These may then be succeeded by—

- Cigars.
- Billiards.
- Washing.
- Paid out.

A number of blank lines should be left for anything special that may occur. The rest of the book should be ruled with columns as already described, each headed with the number of the room and underneath the name of the customer occupying it, and the total at the bottom of each column will be the amount charged to the customer each day including the amount brought forward. From this book the Bills can be made out at any time. The final column should be used for totals, and the sum of the totals taken across should equal the sum of the totals at the bottom of each column.

For the purpose of showing the business done by the Hotel, a Takings Book may be constructed, in the first column of which

should be the date, allowing a line for each day of the month, leaving a space between the seventh and eighth day for additions, should the proprietor wish the total to be added up weekly. A sufficient number of columns should follow according to the number of Ledger Accounts the proprietor wishes his takings divided into, and the headings of these columns will practically be the same as those in the first column of the Visitors' Ledger just referred to. The totals of each column will be posted either weekly or monthly to the credit of the impersonal Accounts, from which they will be taken to the credit of the Profit and Loss Account.

SCHOOLS.—For the purpose of keeping a record of the various extra subjects taught to each pupil and for the other items which are to be charged in his account at the end of each term, the following ruling may be followed in constructing a "Register of Pupils' Fees"—

1. Pupil's number.
2. Surname.
3. Christian name.
4. House, or Dormitory
5. General fee.
6. Extra Languages.
 - (a) French.
 - (b) German.
 - (c)
7. Music.
 - (a) Vocal.
 - (b) Piano.
8. Drawing.
9. Dancing.
10. Fencing.
11. Gymnasium.
12. Laundry.
13. Medical attendance.
14. Pew Rent.
15. Tradesmen's Accounts.
16. Disbursements.

Here would follow any necessary additional columns or the same would be inserted in their proper place.

17. Total Term's Account.

18. Arrears from last Account.
19. Total.

DAIRY WITH BRANCHES.—The details referring to the following books and statistical returns may be studied for the purposes of designing books of a similar nature which would be applicable to other businesses with branches, other than dairies.

- General Ledger.
- Weekly Cash Returns.
- Weekly Summary of Cash received and paid at Branches.
- General Cash Book.
- Weekly Ledger Balance Book.
- Gross Profit Statements.

GENERAL LEDGER.—This book is divided into as many sections as there are Branches to be dealt with, with an additional section for such Accounts as are common to all concerns, such as—Capital Accounts—Head Office Expenses—Salaries, etc., and in the case of companies—Debentures Account—Directors' Fees Account—Transfer Fees, etc.

WEEKLY CASH RETURN.—One of these Returns should be received weekly from each Branch containing particulars of the receipts of the Branch on one side, and particulars of the payments of the Branch on the other side. It should be ruled with two cash columns and arranged under the following headings and sub-headings—

On the Receipts Side.

Amount received for goods.

- Monday.
- Tuesday.
- Wednesday.
- Thursday.
- Friday.
- Saturday.

Other Receipts.

- Deposits.
- Plant.
- Horses.
- Cows.
- Sundries.

On the Payments side.

Wages.

Milk—Cash purchases.

Provisions—Cash purchases.

This of course refers only to provisions which are purchased for resale.

General Expenses.

Forage.

Commission.

Canvassing.

Repairs.

Shoeing.

Coal and Coke.

Stationery.

Paid to Bank.

Here should be left space showing the details of each separate banking according as to whether the payments are made daily, twice a week, or weekly.

The total receipts for the week are entered on this Return, and payments made at the Branches should, with the exception of those for wages be only of a petty cash nature ; all other Accounts should be forwarded to the Head Office for payment. The balance of the cash received less these payments should be banked daily or two or three times a week according to the nature of the business, and on Monday morning the balance of the previous week's cash should be paid into the Bank and duplicate paying-in-slips, signed by the Bank Cashier, should be forwarded to the Head Office every Monday morning.

It should here be explained that in order that this system may be satisfactorily carried out, it is desirable that the Bankers of the concern should have a branch near each *depôt* so that the cash as paid in at each branch may be at once passed to the credit of the Head Office Banking Account. It is thus possible on each Tuesday morning, for example, to ascertain that the payments to the Bank, as represented by the paying-in-slips, have been properly accounted for and later on to verify them with the books at each branch.

These Weekly Cash Returns should be entered in a book called "The Weekly Summary of Cash" received and paid at Branches

as they are received at the Head Office, and the following is a ruling which may be adopted for this book—

On the Receipts side—

1. Week ending.
2. Amount received for sale of goods.
3. Rents received.
4. Sundries.

In this column are entered any special receipts, such as deposits, sales of plant, horses, and cows.

5. Total.

On the Payments side—

1. Wages.
2. Cash Purchases.
 - (a) Milk.
 - (b) Provisions.
3. General Expenses.
4. Forage.
5. Commission.
6. Canvassing.
7. Repairs.
8. Shoeing.
9. Coal and Coke.
10. Sundries.
11. Paid to Bank.
12. Total.

At the end of the quarter, half-year, or year, when it is required to make up the Accounts, this book is added up and the totals can be reconciled with the cross casts. The totals can then be posted into the Accounts in the General Ledger.

GENERAL CASH BOOK.—The rulings of this book may be as follows—

On the debit side—

1. Date.
2. From whom received.
3. General Ledger folio.
4. Details of cash received.
5. Total thereof paid into Bank.

On the credit side—

1. Date.
2. Voucher number.
3. To whom paid.
4. Bought Ledger folio.
5. General Ledger folio.
6. Discount.
7. Details of cheque.
8. Amount of cheque.
9. Branch.

and as many cash columns as there are Branches to contain payments for milk and provisions etc., for each Branch.

10. Sundries.

In this column should be included payments other than those for payment of milk and provisions.

The debit entries of this book are, with the exception of certain items which may be received at the Head Office, principally composed of amounts banked by the Branches week by week, and should at any given period agree with the summary of the totals banked by the various Branches.

It may happen that there is no branch of the Company's Bankers in the district where a particular depôt is situated; in such an event it is the custom to pay the cash into another Bank and transfer the same once a month, or at an earlier period to the Banking Account at the Head Office. In such cases an additional cash column should be provided on the debit side in which the details of the payments to this outside Bank are entered, and when the total is transferred to the Head Office Account, the total of this column is entered in the column containing the total paid to Bank.

At any given period, when it is desired to make up the Accounts of the concern, the totals of the cheques drawn in respect of milk and provisions are debited to the particular branches, and it is also necessary to analyse the discount column. Cheques other than for milk and provisions are entered in the sundries column and posted in detail to the debit of the particular branch. The gross profits of the various branches as shown by their respective Ledger Accounts should agree with the summary of gross profits (after allowing for

cash discounts) made at the branches week by week as ascertained from the weekly returns referred to later on.

WEEKLY LEDGER BALANCE BOOK.—Week by week the Branches should send to the Head Office sheets containing a summary of the customers (or rounds) Ledgers, these should be filed until the end of the financial period and then bound in a book. The rulings for this book may be as follows—

On the debit side—

1. Number of round.
2. Arrears of debt.
3. Sales of milk.
4. Sales of provisions, etc.
5. Transfers.
6. Total debit.

On the credit side—

1. Cash received.
2. Allowances.
3. Transfers.
4. Balance of debt.
5. Total credit.

The Transfers column is made use of should a customer dealing with one branch remove and continue his custom with the same Dairy concern but at another branch, which would take over his indebtedness, if any, from the old branch, also in respect of the transfer of a debit from one "Round" to another at the same branch which may be occasioned by re-arrangement of the "Rounds."

These sheets show whether the ledgers have been properly kept and balanced each week. It is important to note whether the total cash received agrees with the amount shown as having been received for goods in the Weekly Cash Return sent by each branch to the Head Office.

GROSS PROFIT STATEMENTS.—Week by week each branch should send a Statement of their trading to the Head Office, showing the amount of gross profit made upon the sales of milk and other goods, and also that the quantities of milk have been accounted for. It is sometimes the custom, in order that the Manager of the Branches shall not know the amount of profit that is being made,

for the branches to send special sheets to the Head Office so that the Gross Profit Statements can be prepared there. The ruling for these sheets may be as follows—

1. Milk.

- (a) Names of Farmers.
- (b) Number of barn gallons purchased.
- (c) Price.
- (d) Number of quarts.
- (e) Amount.
- (f) Particulars of sales.
- (g) Number of quarts sold.
- (h) Amount of sales.

2. Provisions.

- (a) From whom bought.
- (b) Amount of purchases.
- (c) Particulars of sales.
- (d) Amount of sales.

It is important here to ascertain that the amount taken credit for both milk and provisions agrees with the amounts appearing under these headings in the Weekly Ledger Balance Book referred to.

LAUNDRIES.—In addition to the washing department of a Laundry, the business consists also of collection, custody, and re-delivery of the customers' goods.

In connection with the book-keeping, apart from the washing department, it must be borne in mind that the practice which probably commenced when the women employed were unable to read, of all goods on arrival being marked with a private mark, still continues, and it has been extended by using various coloured cottons, not merely to show to which customer the goods belong, but also in many cases to show on which day the goods are collected and returned. In large Laundries therefore it is the custom to keep a Register of Marks which should contain the following columns—

- 1. Customer's name.
- 2. ,, address.
- 3. Mark.
- 4. Remarks.

The washing is collected from the customers by vans which in the case of large Laundries have their own districts. Each vanman should keep a Journey Book for each journey, which is usually described as "First," "Second," "Third etc., Journey," and the time at which the vanman starts and returns from each journey should be entered.

Each Journey Book is made up in the Office, and against the name of each customer should be entered his address, mark, the details of goods short delivered on the previous occasion, the numbers of the hampers to collect and (if it is the practice for the vanman to collect the money) the amount due, also any special instructions to be given to the vanman. Should the vanman collect money, he should be provided with a proper counterfoil form of Receipt Books, and these Receipt Books should be used on alternate days so that the one not in use may always be kept in the Office for the purpose of check.

The vanman should enter in the Journeys Book particulars of hampers collected by him and any remarks or complaints which may be made to him personally as to missing goods or goods returned, etc.

It is the universal practice for the goods sent to be washed to be entered by the customer either in a blank book, or in the case of large Laundries, in specially prepared books, these books being handed to the vanmen with the hampers. It is very advisable, in the interests of the Laundry, that the list made out by the customer should be entered in a duplicate book to be kept in the Laundry itself, and the articles when received in the Laundry should be immediately checked against this Laundry Book, and a note should at once be sent into the Office should there be any difference between the list as checked and the list as contained in the book. The list as checked should then be made to agree with the actual number of goods as counted.

The goods are then sent into the Sorting Room where they are counted over and are entered in the Sorting Book, which may be ruled with the following columns—

1. Mark.
2. Customer's name.
3. Condition of articles.
4. Shorts.

5. Excesses.
6. Correct.
7. Date.
8. Sorter's initials.

In many Laundries there is an additional column showing the hour at which the sorting is completed.

If the articles are in good condition, the sorter merely places in the "Correct" column the initial "C"; but should any article be damaged, the details of such damage is written in the "Condition of Articles" column, or should anything be missing it is entered in the "Shorts" column.

After the goods are washed they are forwarded to the Packing Room, in which will be found a special place or rack for the goods of each customer; these having been sorted they should be attended to by two packers, one to examine the articles to see that the mark is correct, and marking the customers' Washing Book to show that they have all been received from the Laundry, while the other packs the articles in the hamper placing therein the customers' Washing Book; the goods are then ready for delivery. One of the packers then enters the particulars in what is known as the "Packing Book," which should be ruled with the following columns—

1. Mark.
2. Customer's name.
3. „ address.
4. „ number of hamper or description of parcel.
5. Particulars of shorts.
6. Correct.
7. Amount to be charged.
8. Packer's initials.

Very careful particulars should be kept of all goods sent, as with reference to "shorts," these may arise from many causes, such as carelessness of the customer, careless marking, careless checking, errors in the Packing Room, stealing either on the journey or in the Laundry, etc., and for this purpose a book may be kept with the following columns—

1. Mark.
2. Customer's name.
3. „ address.

4. Particulars of the articles short, or claimed as short.
5. Where entered from.
6. Date of collection from customer.
7. Date when ultimately returned to customer.
8. Remarks.

A Register should also be kept of the hampers, when provided by the Laundry.

Should the Laundry undertake Hotel or Club work, special Accounts have to be kept, as in these cases work has to be done very expeditiously, necessitating in some cases deliveries three times a week or even daily.

BUILDERS.—The principal work of a Builder is the erection of buildings, while his subsidiary work consists of maintenance of buildings of his own erection and of those erected by others, such as repairs or additions; there is also, as a rule, combined with this business periodical decoration and plumbing and other general work.

Buildings are usually erected by contracts which are obtained by means of tenders based on plans and specifications prepared by Architects, and a proper recording of all tenders and the actual result of such tenders when accepted, is of the utmost importance in connection with a Builder's book-keeping.

One of the statistical books therefore to be kept by a Builder is one which may be described as a "Register of Tenders," and this may be in the following form—

1. No. of Tender.
2. Date of Tender.
3. Client's name.
4. Architect's name.
5. Particulars of contract.
6. Estimated cost.
 - (a) Breaking up.
 - (b) Excavating.
 - (1) Wages.
 - (2) Material.
 - (c) Bricklayers.
 - (1) Wages.
 - (2) Material.

- (d) Masons.
 - (1) Wages.
 - (2) Material.
- (e) Joiners.
 - (1) Wages,
 - (2) Material.
- (f) Plasterers.
 - (1) Wages.
 - (2) Material.
- (g) Sundries.
- (h) Profit.
- (i) Total.

7. Result.

Note :—In this column either put “ Accepted ” or the name of the successful competitor.

8. Actual cost.

- (a) Breaking up.
- (b) Excavating.
 - (1) Wages.
 - (2) Material.
- (c) Bricklayers.
 - (1) Wages.
 - (2) Material.
- (d) Masons.
 - (1) Wages.
 - (2) Material.
- (e) Joiners.
 - (1) Wages.
 - (2) Material.
- (f) Plasterers.
 - (1) Wages.
 - (2) Material.

9. Total profit or loss.

10. Remarks.

BREWERS.—The books used in connection with the Brewing Department of a Brewery, including those required to be kept by the Excise Authorities, have to contain so many entries referring to brewing and other technical and general knowledge, that it would be

impossible to set out any forms for these books—interesting though they are—without occupying too much space for explanation. The different classes of trade carried on by Brewers also makes it impossible to suggest rulings suitable for their books of account. There are many forms of Day Books which could be suggested for these different classes, but it is thought better to merely suggest one which is suitable for an ordinary Brewer who has a tied and private trade, including the sale of wines, spirits, etc.

Where a large trade is done in a number of different Ales and Stouts, the form suggested would again not be suitable, as a separate Day Book should be used to record the sales of the various kinds of Ales and Stouts with a column for each class of Ales, Stouts, etc., brewed. For the ordinary trade above described, the following columns may be used—

1. Date.
2. Folio.
3. Customer's name.
4. „ address.
5. Particulars.
6. Price.
7. Amount.
8. Ales.
 - (a) Barrels.
 - (b) Tied.
 - (c) Barrels.
 - (d) Free.
 - (e) Barrels.
 - (f) Private.
 - (g) Total Barrels.
9. Wines and Spirits.
 - (a) Tied.
 - (b) Free.
 - (c) Private.

10. Minerals.

11. Cigars.

12. Bushels.

13. Malt.

14. Corn.

and other columns, if necessary.

Should it be wished to show the subdivisions of the minerals sold, a separate Day Book for minerals should be used.

Brewers as a rule employ travellers to collect the outstanding debts, and the following ruling may be adopted for a traveller's Cash Book—

1. No. of Receipt.
2. Date.
3. Customer's name.
4. ,, address.
5. Date of invoice paid.
6. Ledger folio.
7. Amount to be credited.
8. Tied Customer's Ledger
9. Free ,,
10. Private ,,
11. Rents Ledger.
12. Loans Ledger.
13. Private Ledger.
14. Cash allowance.
15. Discount.
16. Net Cash received.
17. Credit Notes allowed.
 - (a) No. of Credit Note.
 - (b) Credit Book folio
 - (c) Amount.
18. Expenses.
 - (a) Date.
 - (b) Particulars.
 - (c) Amount.
19. Cash paid in.

WINE MERCHANTS.—After the many examples already given of constructing forms of books, the only one which can be usefully suggested in connection with a Wine Merchant's books and which requires any special thought on the part of the constructor, is the book of the head cellarman for recording goods sent out of the cellar to customers, to members of the firm, or as samples for tasting, which are so frequently required in a Wine Merchant's business.

The Cellarman's Day Book may be ruled with the following columns—

1. No. of order.
2. Customer's name.
3. „ address.
4. Wine.
 - (a) Description of wine.
 - (b) No. of bin.
 - (c) Dozen.
 - (d) Bottles.
5. Spirits.
 - (a) Description of spirit.
 - (b) No. of cask or bin.
 - (c) Gallons.
 - (d) Bottles.
6. No. of cases.
7. No. of jars.
8. Nature of conveyance.

MINES.—For the purpose of showing the wages payable to the men in the underground workings of a Mine and to what accounts such wages should be charged, Pay Sheets are used which are constructed with columns on the following plan—

1. Number.
2. Name.
3. Nature of occupation.
4. Daily wages.
 - (a) Sunday.
 - (b) Monday.
 - (c) Tuesday.
 - (d) Wednesday.
 - (e) Thursday.
 - (f) Friday.
 - (g) Saturday.
5. Number of days employed.
6. Loading.
7. Sinking.
8. Winzes.

9. Drifting.
10. Stopping.
11. Mill.
12. Surface.
13. Construction Account.
14. Rate per day.
15. Amount earned.
16. Deductions.
 - (a) Cash on Account.
 - (b) Stores.
 - (c) Medical attendance.
 - (d)
17. Total Deductions.
18. Amount due.
19. Signature of Miner.
20. Remarks.

COLLIERIES.—In constructing the books for a Colliery, one of the objects to be borne in mind is to ascertain the output and the disposal of coal, its cost and profit thereon. Daily returns should be made out and a statement should be prepared in the Office from such returns, either weekly, fortnightly or monthly according to the size of the Colliery and its output. The following ruling is suggested for this statement—

1. Date.

A line for each day of the week, fortnight, or month.
2. Coal raised.

(a) Seam	}	giving name of
(b) Seam		each seam of
(c) Seam		coal.
(d) Total raised.		
3. Restings from previous day.
4. Total to be accounted for.
5. Own consumption, Waste, etc.
 - (a) Colliery consumption.
 - (1) Engines, boilers, etc.
 - (2) Gas Works.
 - (3) Workmen and Officials.
 - (4) Total.

- (b) Transferred to departments.
 - (1) Coke ovens.
 - (2) „ „ Workmen.
 - (3) Railways.
 - (a) Locomotives.
 - (b) Workmen.
 - (4) Brick Works.
 - (5) Farms.
 - (6) Total.
- (c) Waste.
- (d) Total.
- 6. Balance, being available coal.
- 7. Disposal thereof.
 - (a) Sold.
 - (1) Description of coal.
 - (2) „ „
 - (3) „ „
 - (4) „ „
 - (5) Total sold.
- 8. Resting at end of day.
- 9. Total.
- 10. Difference.
 - (a) Surplus.
 - (b) Deficit.

GAS UNDERTAKINGS.—Whether owned by Companies or Municipal or other Corporations the account-keeping so far as it relates to the manufacturing and sale of gas is the same. Messrs. Brearley and Taylor in their *Work on Gas Companies' Book-keeping* recommend the following columns for the Ordinary Rental Book—

1. Bill No. (Meter Register folio).
2. Name of Street followed by names of consumers.
3. House number.
4. Present quarter's index.
5. Previous quarter's index.
6. Consumption.
7. Price per 1,000 cubic feet.
8. Amount.

9. Meter rent.
10. Stove rent.
11. Burner maintenance.
12. Arrears brought forward.
13. Total to be collected.
14. Cash collected.
 - (a) Date.
 - (b) Customer's Cash Book folio.
 - (c) Amount.
15. Bad Debts.
16. Remarks.

In the same work the following columns are suggested for the Purchases Book, Columns 1 to 23 being headed " Reserve Account " and columns 24 to 26 headed " Capital Account."

1. Date.
2. Creditor's name.
3. Particulars.
4. Invoice number.
5. Ledger folio.
6. Total amount of invoice.
7. Weight of coal.
 - (a) Tons.
 - (b) Cwts.
8. Coal and expenses thereon.
9. Purifying materials.
10. Repairs and maintenance of Works and Plant.
11. Repairs and maintenance of Mains and Services.
12. Repairs and maintenance of Meters.
13. Repairs and maintenance of Stoves.
14. Repairs and maintenance of Public Lamps (including renewal of mantles).
15. Rent, Rates and Taxes.
16. Stationery and Printing.
17. General Establishment Expenses.
18. Stock of new Meters.
19. Stock of new Stoves.
20. General Stock.
21. Coke.

22. Sulphate of Ammonia.
23. Sundry items.
24. New Buildings and Plant.
25. New Mains and Services.
26. Land and sundry items.

ELECTRIC LIGHTING COMPANIES.—It is evident that each Company must keep a proper record of the consumption of Electric Light by each customer, from which his Accounts can be rendered each quarter, and also any particulars of other charges in respect of rentals of meters, fittings, etc., also whether previous accounts have been paid ; the amount of payment, and the date when paid ; and the following form is suggested as a Register of Consumers' Lighting Accounts—

1. Number.
2. Customer.
 - (a) Name.
 - (b) Address.
3. Units consumed.
 - (a) at d.
 - (b) at d.
4. Total.
5. Average price per unit.
6. Net Charge.
7. Rental.
 - (a) Meters,
 - (b) Fittings,
 - (c)
8. Fees.
9. Total amount of present Account.
10. Arrears.
11. Total amount owing.
12. Particulars of payment.
 - (a) Date.
 - (b) Number of receipt.
 - (c) Amount paid.
13. Allowances.
14. Arrears carried forward.
15. Remarks.

BUILDING SOCIETIES.—There are two kinds of Building Societies which are known respectively as “Terminating” and “Permanent,” but the former are practically now very little in use, and it is not necessary to refer to any special method of book-keeping which might apply to them.

The principal income of a Building Society is derived from the payments of Members on their shares, and these are usually received monthly, for the reason that Building Societies are mostly patronised by persons who are not, as a rule, possessed of sufficient means to purchase shares or debentures in Government Securities or the better class of financial or commercial corporations.

Other income is derived from the instalments paid periodically by those Members who have borrowed from the Society for the purposes of acquiring their own residences, or houses, purely as an investment.

There is also an income from the investments in Trustee Securities, in which nearly all well-managed Building Societies have a small portion of their funds invested, together with the minor income received from Entrance Fees, sale of Rules, and Fines, which are charged to Members who do not pay their periodical instalments within the stipulated time.

The funds thus acquired are principally employed in making loans to Members for the purposes already indicated, the Society taking a first mortgage on the houses thus acquired by the Members, which they hold until the repayments are completed.

The Account-keeping proper of a Building Society practically commences with a rough or counter or subscription Cash Book, in which are inserted the receipts only, and for the purpose of recording these items properly the book may be constructed with the following columns—

1. Name.
2. Entrance fees.
3. Rules.
4. Fines.
5. Particulars.
6. Ledger folio.
7. Subscriptions.
8. Repayment of advances.

9. Deposits.
10. Interest on arrears.
11. Total.

Frequently a separate Cash Book is used for deposits, in which case the columns for deposits would be omitted from the subscription Cash Book.

The totals of this Subscription Cash Book should be entered daily, weekly or monthly according to the practice of the office, in a General Cash Book. This may be ruled with the following columns—

On the Receipts side—

1. Date.
2. Name.
3. Particulars.
4. Ledger folio.
5. Rents and Sales Ledger.
6. Temporary Advances Ledger (for repayment of interest).
7. Entrance and Transfer fees.
8. Nominal Ledger.
9. Subscription Ledger.
10. Advances Ledger.
11. Deposit and Loan Ledger.
12. Bank.

On the Payments side—

1. Date.
2. Name.
3. Particulars.
4. Ledger folio.
5. Rent and Sales Ledger.
6. Nominal Ledger.
7. Subscription Ledger.
8. Temporary Advances Ledger.
9. Deposit and Loan Ledger.
10. Bank.

and any other columns which may be requisite having regard to any special additional business carried on by the Building Society.

For the ordinary Ledgers there is no special ruling prescribed

but it is advisable that Ledgers for keeping the accounts of investors and also for keeping the accounts of depositors should be kept separate.

A Register of Shareholders must also be kept and this may be ruled with the following columns—

1. Ledger folio.
2. Surname.
3. Christian Name.
4. Occupation.
5. Address.
6. Number of Shares.
7. Consecutive number of Shares.
 - (a) from.
 - (b) to.
8. Remarks.

A Register of Mortgaged Properties should also be kept, this may be ruled with the following columns—

1. Date of Advance.
2. Name of Borrower.
3. Amount advanced.
4. Situation of Property.
5. Ground Rent.
 - (a) Per annum.
 - (b) Paid to.
6. Insurance.
 - (a) Office.
 - (b) Amount.
 - (c) When due.
7. General Remarks.

INDUSTRIAL AND PROVIDENT SOCIETIES.—In these Societies Shares may be either transferable or withdrawable and are as a rule paid in instalments. Members are subject to fines and deductions should they fail to comply with certain rules of their Society. When dividends or interest are paid on the Shares the amount may either be withdrawn by members or may be applied towards paying off their Shares. All the above transactions are necessarily entered in separate books which are of a simple nature, and also in each member's Pass Book. To check the correctness of these books

a summary of the Share Capital should be prepared at the date the books are balanced and the Accounts made up. This Summary Book may be ruled with the following columns—

1. Ledger folio.
2. Shareholder's Name.
3. Balance of Share Capital from last Summary.
4. Contributions paid since.
5. Interest and Dividends transferred.
6. Withdrawals.
7. Fines and Deductions.
8. Present claim on Share Account.
9. Interest for the period.
10. Dividend on _____ per £.
11. Dividend and Interest.
 - (a) Withdrawn.
 - (b) Transferred to Share Account.

BANKS.—The business of a Bank principally consists in receiving either direct from their customers, or collecting on their behalf from other sources, money upon which their customers are entitled to draw by means of cheques or other instruments to the extent of such balances and make use of the accumulations of the balances to such an extent as is consistent with there always being sufficient money in hand to meet claims of financial operations on their own behalf. These operations consist of discounting Bills of Exchange, lending money on short notice, either to their customers or outsiders on safe securities, and the collection of income derived from the investment of certain of these balances, as well as of the capital of the Shareholders, or private partners, as the case may be. There are other sundry sources of income, such as the interest received on overdrafts, and on loans to customers on their securities. A very important branch of Banking consists of receiving money on deposit for which the Banks pay interest to the depositors and lend out this money at a higher rate on approved securities. These are the principal facts which have to be borne in mind when constructing the books of account of a Bank.

When customers pay direct into a Bank they generally do so by means of a paying-in slip, or transmit by letter. In the case of remittances in letters, the official opening the letters passes on the

cheques or dividend warrants with the form which corresponds with the paying-in slip, and therefore, the commencement of the book-keeping of a Bank may be said to be the entry of the details of such slips in the books of the Bank.

The first book therefore will be a Register of the cash received, and frequently known as "The Receiving Cashier's Cash Register" of which one is kept by every Receiving Cashier. This Register should therefore contain—

Name of the Customer.

The amount of coin received.

The number of Bank of England Notes (dividing them of course under their various denominations) including the numbers of such notes.

Cheques either drawn on the Bank itself or on other Bankers.

Coin.

Total.

The slip is then passed on to a clerk at another counter where its contents are analysed and entered in an Analysis Book under—for example—

Name of Customer.

House.

Cheques of another customer of the same Bank or transfer arranged in the Bank itself by order of an official.

Bank of England.

Town clearing.

Walk, or cheques for collection in person not passed through the Clearing House.

Country clearing.

Branch and Sundries.

Country Notes entered in the name of the London Bank, who is the Agent for the Country Bank.

Total.

DISCOUNT HOUSES.—The following books, amongst others, require special construction—

A "Bill Committee Book" for the use of the Directors and the Managers may be ruled as follows—

1. Date.

2. Tenor of Bill.

3. Rate of Discount.
4. Name of Customer.
5. Amount of Bills already under Discount.
6. Number and amount of Bills offered.
7. Number and amount of Bills accepted or discounted.

In the Discount Department the discounted Bills are entered on the date of receipt under the names of customers or persons tendering the Bills in a "General Discount Book" with columns for—

- Discount allowed.
- Amount of Bills discounted.
- Number of days due.

The Bills are also registered in another book under the name of the Acceptor with columns for—

- Name of Customer.
- Date Bill falls due.

Accounts are opened in the name of the Customers in a "Discount Bill Book" giving particulars of each Bill discounted and which may be ruled as follows—

1. Date Discounted.
2. Name of Acceptor.
3. Name of Drawer.
4. Date Bill falls due.
5. Amount of Bill.

These Accounts will of course be credited with the proceeds of the Bills on the date of maturity.

The daily totals of the Bills discounted as per the Discounts Bill Book will be entered in the "Discount Ledger" also under the name of the Customer who will be credited per contra with the proceeds of the Bill at due date. The balance of the Customer's Account in the Ledger can be verified with the balance of his Account in the Bill Book.

The Bills discounted are then entered in "Calendars" under the dates when they become due. These Books have columns for—

1. Date discounted.
2. For whom discounted,

3. Folios.
 - (a) Bill Book.
 - (b) Bill Ledger.
4. Acceptor.
5. Amount of Bill.
6. Remarks.
7. Paid or re-discounted.
8. Date paid or re-discounted.

The Bills under discount are frequently sent out to depositors of large amounts as a security for such deposits, this would be entered in the Remarks Column.

The accumulated totals under the accumulated dates show in the Amount Column the same total as the Bills Discounted Account in the General Ledger. In the same way the accumulated totals of the Paid or re-discounted Column (No. 7) should agree with the total Bills re-discounted as shown in the General Ledger, and the balance between the two Accounts should show the total of the Bills actually in hand on any day.

The Bills re-discounted are entered in a "Re-discount Book" which will have columns for—

- Date re-discounted.
- Details and total of Bills re-discounted.
- Amount of discount.
- Amount realised.

Ledger Accounts are not opened with the purchasers of the Bills discounted, as the transactions are for cash.

RAILWAY COMPANIES.—The construction of a set of books for a Railway Company could scarcely be contained in a volume of this size entirely devoted to such a purpose, owing to the enormous number of statistical statements that have to be kept. As this work, as previously stated, is only intended as a general guide to principles which when thoroughly mastered will enable any Accountant of experience to design statistical statements, it is only necessary to give a few samples which to a certain extent are generally applicable.

Many companies in addition to Railway Companies, are in the habit of issuing Season Tickets, and therefore a book suitable for recording the issuing of these tickets, would be a guide in

2. Days available for.

This column will only be used if the tickets are available beyond the date of issue, and the limit of the return varies according to the distance.

3. Class.

4. Tickets supplied.

5. Tickets returned unsold.

(a) Adults.

(b) Children.

6. Tickets sold.

(a) Commencing number.

(b) Final number.

(c) First-class.

(d) Second-class.

(e) Third-class.

7. Rate.

8. Amount.

(a) First-class.

(b) Second-class.

(c) Third-class.

(d) Total.

The following is an instructive form for showing the number of tickets issued for each train leaving a local station.

It is the practice for this form to be made up immediately after the departure of a train; the cash taken by the Booking Office in respect of each train should agree with the total of the entries; should there be any difference, it must be noted. It occasionally happens that owing to cash having been received at the Booking Office for a train which follows the one by which the majority of passengers are booking, there is a slight difference, which will of course be balanced by the cash taken for the following train being correspondingly short. The book containing these forms is usually called a "Train Book," and is headed with the name of the local station and the date; the columns will be headed as follows—

1. Stations booked to.

Under this column the hour of the train leaving would be placed, and underneath it a line for each station and the

ordinary tickets issued, a line for the return tickets issued, and lines for special form of tickets issued such as for Excursions, etc.

2. Commencing number of tickets.
3. Closing number of tickets.
4. Number of children.
5. Number of passengers.
6. Class.
7. Rate.
8. Amount.
9. Total of each train.
10. Cash taken.
11. Signature of Chief Clerk.

Each Railway has a certain number of Collectors whose business it is to collect excess fares from passengers while travelling. The following book is one which, with slight alterations, might be designed for any kind of Railway, Tramway, Omnibus, or other Company employing Collectors to collect excess fares.

Each Collector should have his own book and the columns might be ruled as follows—

1. Date.
2. Number of ticket.
3. Number of train.
 - (a) Up.
 - (b) Down.
4. Class.
 - (a) First.
 - (b) Second.
 - (c) Third.
5. From.
6. To.
7. Why charged.
8. Amount.
 - (a) First-class.
 - (b) Second-class.
 - (c) Third-class.
9. Daily total.

Railway Companies and many other Companies receive and deliver parcels, for which a book with the following columns might be used—

1. Date.
2. Where from.
3. Description.
4. Consignee.
5. Consignee's address.
6. Paid on.
7. To pay.
8. Extra or special charges.
9. Signature of receiver.

CHAPTER VII

THE CONSTRUCTION OF COST ACCOUNTS

THOSE who follow Accountancy as a profession have not, apart from their strictly professional duties, the same inducement to become absorbed in its possibilities as falls to the lot of those who practise in almost every other profession. Architecture and Engineering probably provide for those who follow those vocations subjects for consideration of greater interest and more opportunities of intellectual pleasure, than do any of the other professions. Constant change in the law, owing to the passing of new Acts of Parliament and the decisions of Judges, affords opportunities for those really interested in the practice of law to keep themselves acquainted with its latest phases and enjoy intellectual and entertaining conversation with their brother professionals; while the growth of science, the experience of their brother professionals communicated to the medical reviews and newspapers, as well as the special cases of interest which arise in the daily practice of their profession, afford to Surgeons and Physicians many subjects of interest quite apart from their routine work. Notwithstanding the fact that the work of a professional Accountant is very varied, and that the experience acquired by continually being behind the scenes of business and financial operations of every description is ever widening, still, the paths of Accountancy run very much in the same groove, and it rarely happens that there is anything new to chronicle out of the beaten tract.

Within a comparatively recent period, however, the higher cost of labour, the increase in the price of raw materials, and the keen competition in connection with the manufacture of some of the most important articles of consumption, have been the cause of introducing into Accountancy an entirely new branch of the science, and one most interesting to those who have studied its possibilities and opportunities for extension in the many departments of manufacturing industry.

Before the introduction of steam and other motive power into manufacturing processes, each workman frequently performed

every operation in the process of the particular manufacture on which he was engaged even in those establishments where a number of workmen were employed. It gradually, however, dawned on manufacturers that a division of labour by which one man would devote his time to one operation instead of to a number would not only make him more expert in the performance of his particular operation, but would also tend to save time and that consequently the cost of production would decrease.

The competition not only between manufacturers of the same country, but, owing to the quickness and cheapness of transit which has lately come into existence, between those of other countries, has caused this division of labour to be so extended that manufactured goods are now produced at a cost so low as not long ago would have appeared incredible. As a result those who manufacture goods on a large scale are not only gradually driving the smaller men out of the field, but are continually surprising each other at the reduced prices they frequently put upon their products.

These causes have rendered it necessary that for purposes of making tenders, fixing the sale price of their wares, and for other reasons, manufacturers and others engaged in certain classes of commerce shall know as nearly as possible the cost price of each article or class of goods manufactured or put together. It is not enough in these days of competition for a manufacturer or trader to know that in the manufacture and sale of a certain article or on the total sales of a number of establishments, or of a single establishment, or even on the sales of each department of his establishment he is making a profit. It is essential for both that they should ascertain with great exactitude the gross profit they make on each article manufactured or on each article sold, so that they may if desirable and if possible retain only the paying part of their business and either eliminate the non-paying part so as to be able to devote their energies entirely to the former or else endeavour by practising economies, introducing better management, or raising prices, place the unsatisfactory portion of their business on a better footing.

The Accounts necessary to obtain these results have become known as "Cost Accounts," and the construction of these Accounts for manufacturers has lately become a most important branch of Accountancy. The development of the factory system, the immense improvements in machinery and methods of manufacture, and the

great increase of competition already referred to have rendered it necessary for manufacturers in every country to understand thoroughly not only the exact conditions under which they carry on their business, but the exact cost of each article they produce, so that they may appreciate and be able to meet the effect of any alteration in the existing circumstances under which each manufacturer is carrying on his own particular trade.

The introduction of a system of Cost Accounts frequently brings to the notice of an employer of labour some startling facts. He may have been aware that a certain branch or department of his business has been yielding a satisfactory profit, but he may have been ignorant of the fact that the profit would have been larger had he eliminated some of the articles manufactured in that special department. A manufacturer may not be able to control the prices he ultimately obtains for his goods, but he can by careful and economical management control, to a certain extent, the cost of production, and he can also, as a rule, drop the manufacture of non-paying articles and concentrate his attention on those goods which are profitable.

Cost Accounts may be described as a set of Accounts which show clearly the transactions relating to the manufacture of any article with the object of arriving at the exact cost of such article, so that the manufacturer may, for purposes of entering into competition with his rivals, for selling in the ordinary course of business, or for securing contracts, be able to know the lowest price either to sell at or to tender consistently with earning a profit. Should he deem it so desirable, Cost Accounts can enable him to know the exact loss which he is bound to sustain should he for any reason be disposed to trade at a loss.

Cost Accounts are therefore a specially prepared set of Accounts, which need not necessarily be incorporated in the system of book-keeping which may be in force, for the purposes of ascertaining periodically the profit or loss of the concern, and the preparation of a Balance Sheet. Cost Accounts, however, kept on this system are already looked upon as old-fashioned, and the books of every properly designed system of Cost Accounts should dovetail into and be capable of being reconciled with the regular Account Books of the concern.

Cost Accounts practically deal with the actual working and

administration of the factory or workshop, and although affected by it, they are really independent of the commercial records of the purchases and also the recording of the sales, at the same time they are intimately associated with the sale prices. The recording of the sales is an entirely different matter.

The main objects of a system of Cost Accounts are the following—

1. To ascertain whether stores purchased have been duly accounted for.
2. To ascertain whether the purchasing has been judicious.
3. To ascertain as accurately as possible the exact cost of a manufactured article for the purpose of enabling the manufacturer to know
 - (a) the lowest remunerative price at which he may enter into a contract to supply such articles, or to sell them in the ordinary course of business.
 - (b) which department of his business is being worked either at a loss, insufficient profit, or a remunerative profit.
4. To enable a manufacturer to compare from time to time the cost of manufacture of certain articles with the cost of manufacture of the same articles at previous periods, and when a difference is known to exist, to enable him to locate where such difference lies, such as in increased or diminished cost of raw material, increased or diminished wages, and generally to ascertain where he is working at a profit and where at a loss.
5. To establish as near as possible, having regard to market fluctuations in prices, a standard of cost for articles usually stocked.
6. To afford a check on the staff—clerks, foremen, and workmen.
7. To stimulate keenness between the various departments of a large concern by means of a comparison showing that one department is being worked to better advantage than another.
8. To ascertain in what direction a manufacturer or trader can best apply his energies and the various resources of his establishment.

Inasmuch as the result of Cost Accounts is to show the actual cost of production of various classes of goods, it follows, when the entire manufacturing departments of any concern are placed on a good system of costing, that the Cost Accounts will ultimately result in a number of Trading Accounts which, when amalgamated into one consolidated Statement, can be checked with the Trading Account, as obtained from the ordinary system of Book-keeping. There will naturally be an error to a greater or smaller extent when comparing the result ; still this comparison is of the greatest advantage to the trader, as he obtains information bearing on the result of the ordinary Trading Account which he could not possibly arrive at from this Account only. Inasmuch as the Trading and Profit and Loss Accounts are prepared solely from the books of account which contain records of facts, any discrepancy that may be discovered when comparing the results shown by these Statements with those obtained from a consolidation of a number of Cost Accounts will nearly always be a balance of errors in the Statement prepared from the Cost Accounts, as they are compiled to a great extent on percentages and estimates.

Before a professional Accountant can design any system of Cost Accounts, he must adopt the same method as I have already laid down for constructing an ordinary set of books of account. He must not only make himself acquainted with the general nature of the business carried on by his client, but where his client is a manufacturer he must make himself minutely acquainted with the process of manufacture.

The first object of a system of Cost Accounts is to obtain what is known as " prime cost," and secondly the " total cost."

In order to ascertain the prime cost of any manufactured article or commodity, the following expenditure has to be ascertained—

(a) Cost of material.

(b) Cost of labour, or in other words, the wages of the actual workmen as distinct from the wages of their superiors.

(c) What are known as " direct expenses " of production.

These direct expenses include the wages of superintendents, foremen, etc., who are engaged in the manufactory itself ; patent fees, if the manufactory is worked under a patent ; and in the case of mines, collieries, etc., either dead rents or wayleaves, or royalties. They also include the rent of factory buildings, rates,

taxes, and insurance relating thereto ; depreciation, renewals, or the general up-keep of the buildings and plant and the cost of lighting and heating and of water supplied to the factory.

After all these expenses have been brought together, they can be apportioned among the various classes of goods manufactured, if more than one, and by further subdivision of these expenses what is known as the "prime cost" of the article or product is then arrived at. The cost of a product, when this term is used in connection with Cost Accounts, is limited to the actual cost of production, and the expenses of selling and distribution must never be included.

For the purposes of finding out what is usually known as the "total cost" of the article or product, there must then be ascertained all the expenses of administration, including salaries of every description, both in-door and out-door ; that is, the salaries of all the Office Staff, including in the case of a company the fees of directors, also the salaries of travellers, collectors, etc., and of any other persons engaged on the out-door work. There must also be brought into account interest on loans, bank charges, allowances for bad debts, depreciation in connection with buildings, leases, and other wasting assets not already charged, when ascertaining the prime cost, depreciation of fixtures in offices, of furniture, etc., and any expenses whatsoever in connection with the sale or distribution of the goods.

It is evident that, for any trustworthy result to be obtained from a system of Cost Accounts, the whole of the expenditure in connection with the manufacture, sale, and distribution of the articles should be included. In order therefore to ensure a correct system of Cost Accounts being constructed it is practically essential that the books of the business should be kept on a thorough system of double entry, so as to guard against the exclusion of any liabilities which ought to be taken into consideration when endeavouring to arrive at the results of the period embraced by the Cost Accounts.

Cost Accounts if they are not intended to be merely memoranda must be in agreement with the system of book-keeping, and should be subject to those checks which are employed to ensure the accuracy of the books of account.

The system of Book-keeping should therefore include a complete classification of the expenditure, and from the costing point of view

it would be difficult to make the subdivision of the items of expenditure too minute. Every business house, no matter how much its transactions may seem to resemble those of other businesses carrying on the same trade, has some special feature of its own, and therefore the setting out of the results of manufacturing and trading, the treatment of the costs of manufacture, and the classification of income and expenditure under suitable headings, require careful consideration before commencing to design a system of Cost Accounts.

It is desirable that where possible the Cost Accounts and all the subsidiary books and accounts relating thereto should be kept in a separate office and under the control of a staff independent of the one which has charge of the principal books of account.

Having explained the theory upon which Cost Accounts are to be prepared, we now come to the constructive part, and for this purpose the following books are suggested—

ORDERS RECEIVED BOOK.

All orders received by the manufacturer and all contracts accepted should be entered in this book in numerical order. In the case of a contractor the greater part of whose work is obtained as a result of tendering and the acceptance of his tenders, a separate book may be kept in respect of actual contracts. In either case, however, the following columns are suggested as specimens—

1. Order number.
2. Date.
3. Customer's Order and Reference number (if any).
4. Customer's name and address.
5. Particulars of Order.
6. Date to be completed.
7. Estimate Book folio.
8. Cost Ledger folio.
9. Day Book folio.
10. Amount.
11. Date of dispatch.
12. Remarks.

In the execution of these orders or contracts, part or whole of the goods required have to be either purchased specially or taken out of stock already in hand. In the latter case the Stock-keeper

should receive a requisition which may be on the following form taken from a "Stores Required" Book.

Each form should commence with the date which should be followed with a requisition in print such as

"The following Stores are required for Contract No. or Department No. ," or other words to suit the case, and the following columns are suggested—

1. Quantity.
2. Description.
3. If not in stock how to be ordered.
4. Date when ordered.

Each Order Form after being filled in should be signed by the foreman in charge of the contract, or an official of the department. The Stores Ledger Clerk would first of all mark in the third column those items which are in stock and the Manager would complete that column by indicating where the other items are to be obtained.

All stores received into the Store-room for which the Store-keeper becomes at once responsible should be entered in a book ruled so as to give particulars, and also the number, weight, or length, according to the class of goods.

A Stores Ledger should also be kept, ruled with headings suitable to the class of goods kept in stock, each class of goods having a separate heading, and to this Ledger should be posted the entries relating to the receipt and delivery out of Stores. The balances of this Ledger should show the number or weight or length of goods in stock at any given time subject to the adjustments for wastage which are always found necessary at periodical stocktakings.

Each page of the Stores Ledger should be headed with a description of the class of goods for which the page is intended and the columns would be of the following nature—

INWARDS.

1. Date.
2. Delivery number.
3. From whom received.
4. Quantity, or weight, or length.

With sub-columns for different sizes.

5. Rate.
6. Amount.

OUTWARDS.

1. Date.
2. Requisition number.
3. Particulars.
4. Quantity, or weight, or length.
With sub-columns for different sizes.
5. Rate.
6. Amount.

On the issue of any goods from the Store-room, the Stock-keeper should enter them in a "Stock Issued Book," which may be ruled with the following columns—

1. Order number.
2. Date.
3. Description of article.
4. Number.
5. Weight.
6. Rate.
7. Amount.
8. Stock Ledger folio.

In many cases the goods have to be specially manufactured, in which case what is known as a "Works Order" will be issued. These orders are as a rule prepared on pages with orders for different departments on the same page, and perforated, so that after being filled in they can be torn off and sent to the various departments.

In the case of a business such as that of a manufacturing engineer, where work has to be prepared from special plans, the first of these orders should be instructions to the Drawing Office asking them to put in hand the Works Order, giving, of course, full particulars, name of customer, etc.

The second should be an intimation to the Accountant that the above Works Order had been issued.

The third should contain a similar notice to the Store-keeper.

The fourth should contain a similar notice to the foreman of the works; while a further form, which should be left in the book until the completion of the work, would then be torn out and issued to the Accountant informing him of the completion of the order, and that any further cost in connection therewith would be chargeable against general maintenance.

As soon as the Accountant has received the first of his notices, he will at once open an Account in the Cost Ledger, which may be ruled with columns such as the following, varying of course according to the special requirements of the business—

1. Date.
2. Special materials.
3. Stores.
4. Castings made in own foundry.
5. Shop Wages.
6. Shop Charges.
7. Out-door Wages.
8. Petty Cash.
9. Salaries.
10. Sundries.
11. Total.

or the Ledger may be ruled with headings dividing the details under Materials, Wages, Indirect Charges, and Total, with sub-headings as follows, each contract or department, or piece of work having a separate Ledger heading—

MATERIAL.

1. Date.
2. Requisition number.
3. Particulars.
4. Quantity.
5. Rate.
6. Folio.
7. Amount.
8. Credits.

WAGES.

1. Date.
2. Particulars.
3. Folio.
4. Amount.

INDIRECT CHARGES.

1. Departmental Charges.
2. Distributing Charges.

TOTAL.

The next item demanding the most careful attention is the

expenditure on Wages, as it is most important that it should be properly allocated.

It is the practice in many factories for every workman to receive, before he commences his daily work, a slip on which is entered his name, number, and the date, and it is his business during the morning to enter on this slip the amount of time taken by him in connection with each Works Order, together with a description of the nature of the work performed by him. On leaving the works for his dinner this slip is left by him with the Time-keeper, and on re-entering the works in the afternoon the same process is gone through, the second slip being left with the Time-keeper on the completion of the day's work. The following morning, the workmen's slips are sent by the Time-keeper into the Accountant's Department and entered into a Time Book. This Time Book should have on the top of each page the name and number of a workman, also the month, and may be ruled as follows—

1. Works Order.
2. Nature of work.
3. Monday.
4. Tuesday.
5. Wednesday.
6. Thursday.
7. Friday.
8. Saturday.
9. Total hours employed.
10. Scale of payment.
11. Amount.
12. Remarks.

In many factories instead of the days of the week proceeding in their natural order from Monday to Saturday, they frequently commence on a Thursday or Friday according to the convenience of the Office for making out each man's Account previous to Pay Day.

The total hours for each man as entered in this Time Book are checked against the Time Book kept by the Time-keeper every week before the total Money Column is filled in.

Workmen are sometimes employed on unproductive work such as repairs to buildings, the erection of new buildings, repairs to plant,

machinery, etc., the erection of new plant and machinery. In such cases the nature of the time occupied should be entered in the Works Order Column (1) under some heading which should clearly show the account to which the wages, which will be ultimately payable to him for such expenditure of his time, should be charged.

A Wages Book has also to be kept which will be entered up from the Time Book. In order to save unnecessary detail, the wages paid from the Time Book are frequently summarised on separate cards, each card containing the wages paid in respect of each Works Order ; or each workman may have a perforated card so that the time on each contract or job can be kept distinct and the card split up.

Instead of cards a " Wages Abstract Book " may be kept with a heading for each week. This book could be ruled with a number of columns, each column headed with the number of the job and having two sub-columns, one for the number of the workman and a cash column for the amount of his wages as taken from the " Time Book." The money columns should be added up and a Summary on each page should be made with three columns—the first to contain the number of each job, the second the ledger folio of the job, and the third the total wages to be debited to each job.

The Wages Book may be ruled as follows—

1. Workmen's number.
2. Name.
3. Hours worked.

Divided into six sub-columns one for each day of the working week, and a seventh sub-column should there be Sunday work.

4. Total hours worked.
5. Rate.
6. Amount.
7. Contract Ledger folio.
8. Amount of each trade.
9. Total of each contract.
10. Deductions.

With sub-columns for each class of deduction such as for Hospital or Doctor, Club, Stores, Fines, Subscriptions to any funds, etc.

11. Net amount payable.
12. Establishment Charges.
13. Remarks.

An analysis should be made of the Wages and an entry based thereon should then be made in the Journal debiting Direct Wages, Repairs, Capital Accounts, if any, properly chargeable with wages, etc., and crediting General Wages, and the Accounts corresponding with the headings in the Deductions column, (10) etc. The amounts debited to Direct Wages and credited to General Wages will balance the entries which will already be in the Ledger.

A separate Wages Book must also be kept for those who work indoors, and the same form may be adopted, but if this is considered unnecessarily elaborate simpler ruling may be employed. It is, however, absolutely necessary that the wages paid in every shop or other department in which it is desirable to distinguish the cost of goods manufactured, must be set out separately.

It is also absolutely necessary in a system of Cost Accounts that the fullest details should be entered showing the materials purchased and used, and in order that this may be done a rigid rule should be kept that orders for goods should not be sent out except on official forms. It is also desirable that all persons with whom the Company or Firm do business should be informed that they are not to accept orders from any officials of the employers, except on official printed forms. It is impossible to prescribe a form which would be suitable for every class of business, and it can therefore only be suggested that every order shall bear the name of the Company or Firm, the Reference number, and a column for the number of articles, another column for the description of the articles, and should the articles only be known by their prices, a column for the prices. As a rule, however, the prices of articles are not usually inserted, when ordering goods, the description being generally sufficient. The order should also contain shipping instructions, if any.

When the goods are for a special Works Order, its number should also be entered on the order. This obviates the necessity of the goods being first of all entered in the Stores Book and then taken from there and charged again to the Works Order. It is not necessary here to describe the process of checking goods, as that does not come within the province of this work.

The Store-keeper should be advised of every order for purchases by being furnished with a duplicate copy of such order. All stores purchased must be treated in one of two ways, the material must be sent either direct to those in charge of a special contract or a special department of the business, or it must be taken into Stores to be consumed as required, and consequently all goods, with the exception of those which are charged direct to a works order, should come under the control of the Store-keeper. It is consequently necessary that this official should keep a book, usually called the "Stores Received Book," which may be ruled with the following columns—

1. Order number.
2. Date.
3. From whom received.
4. Description.
5. Number received.
6. Number short.
7. Weight of goods received.
8. Weight short.
9. Price per unit.
10. Stores Ledger folio.
11. Amount.
12. Remarks.

The goods having been received at the Stores should only be issued therefrom on receipt of a written requisition containing a full description of the articles required. The requisition should be taken from a counterfoil book, should be dated and addressed to the Manager asking him to supply certain goods, and should show to which works order number the same should be charged. The form should be signed by the foreman of the department, or in the case of a multiple shop by the shop foreman, and should be filed by the Store-keeper. The pricing of articles taken out of Stores should be done by the Counting-house Staff.

In practice, however, it is frequently necessary for workmen to be able to obtain goods from Stores on their own requisition, the Store-keeper obtaining the proper forms, later on, in exchange for the workmen's notes.

In many instances it will be found that the foreman does not

know the exact quantity of the goods required from the Store-keeper, in which case it is usual for him to ask for all that may be necessary, and return those not required. Any goods so returned should be accompanied with a "Stores Returned" form, taken from a book with a counterfoil and should be signed by the Store-keeper; and it is advisable that such a form should be of a different colour to the requisition on the Store-keeper. It is also most essential that goods taken out of Store for one works order should never be made use of for another order, unless what may be described as a "correcting slip" be sent to the Store-keeper. For the purpose of recording the details in connection with all goods given out a book should be kept by the Store-keeper usually known as the "Stores Issued Book," which should be written up from the file of the Foremen's requisitions, and the following ruling may be adopted—

1. Date.
2. To whom issued.
3. Works Order or why issued.
4. Description of Stores issued.
5. Quantity.
6. Number.
7. Weight.
8. Price per unit.
9. Stores Ledger folio.
10. Amount.
11. Remarks.

A small book is frequently kept in which is entered an analysis of the stores issued under the headings of the various departments or shops, and the Store-keeper should be required to make periodical returns to the Accountants' Department of Stores received and issued, so that his records may be reconciled with the Stores Accounts in the Books.

The quantity entered in the Stores Issued Book will be the actual quantity and weight counted out or weighed by the Store-keeper, but the price to be inserted varies according to the practice of the owner of the business. In many establishments the price per unit charged is the same price at which the goods were entered in the "Stores Received Book," added to any amount which has

been paid for delivery at the works. There is however one difficulty in connection with this, as owing to the fluctuation in market prices there may be a number of articles of the same description in stock which have not been acquired at the same price. The best plan for the Store-keeper to adopt, when the goods issued are taken from different consignments, is to insert in the "price per unit" column in his "Stores Issued Book" the cost of the oldest consignment on hand, leaving the adjustments to be made at the periodical stock-taking. In the case of goods purchased for special orders no difficulty arises.

The most correct method however of charging Stores which have not been purchased for any particular contract is to affix the price which would have to be paid at the time they are delivered out of Stores, leaving any profit or loss there may be as a result of the purchase in bulk to go to the credit or debit of the General Trading Account. It is true that as a result of treating purchases on this basis the balances in the Stores Ledgers would not agree with the cost price of the stores in hand, but as a matter of fact, owing to wastage, this is hardly ever the case.

One great objection to the charging of each contract with the exact cost price of each class of stores consumed for such contract is that in the case of all contracts obtained as a result of public tenders the estimates are prepared on the basis of the current market prices. When a contract entered into on such a basis has been completed, and the contractor wishing to ascertain the financial result makes his calculation on another basis, he may come to an erroneous conclusion which may lead to his subsequently accepting a bad contract or losing a good one.

For the purpose of debiting each works order with the stores made use of in the execution of such order, a very common custom is for a "Stores Summary Card" to be kept for each order on which are entered, in the Store-keeper's department, the particulars of the stores. These should be priced out from the entries in the "Stores Issued Book," and carried into a total money column for posting purposes.

This Book acts practically as a Day Book and the items therefrom should be posted to a Stores Ledger, of which a form of ruling has already been given.

A Ledger Account should be opened for each class of goods,

and where several stock sizes of each class of goods are in existence, a Ledger Account should be opened for each.

It is most undesirable for the Stores Ledger to be kept by the Store-keeper. As a safeguard against fraud it should be entrusted to the Accountants' Department, or at any rate some official who has nothing to do with the handling of stores.

All Stores received and issued, as shown by the Stores Received and Issued Books, will be debited or credited to their respective Accounts. If they are debited and credited at cost price, the result will be that the balance of each Account will show the quantity and value at cost price of the goods in stock at any given date, subject of course to wastage. Wastage must of necessity occur, as it is impossible for any material or commodity purchased in bulk to be cut up or distributed in portions either in length or by weight without shrinkage of some sort occurring. Loss of this nature must be apportioned as a departmental charge in proportion to the quantity of each class of goods used.

When goods issued from Stores are charged at market price instead of cost price, then at each stock-taking there will be a difference between the balances of the Ledger Accounts and the actual value of the Stock as ascertained from the inventory, and this difference must be treated in a similar manner as wastage by apportioning it as a departmental charge.

When the proprietor of a business is in the habit of making large purchases at those times when he considers the market is likely to rise and charges each portion of such purchases against different contracts or manufacture of different classes of goods, as the case may be, at market prices instead of at cost price, he is able at the end of each year to ascertain whether this habit of his has been attended with successful or unsuccessful results, and be able to come to a conclusion as to the wisdom of continuing, modifying, or discontinuing his practice of the past.

The total of the balances of the money columns should agree with the balance of the Stores Account in the Books of Account in all cases where Stock Book records are incorporated therein.

Where Stores are issued for the manufacture of parts, also for use in the factory, it is essential that these parts should be returned to the Stores, or at any rate that slips should pass before going into the Assembling Room; all necessary adjustments to

show the cost price, including labour, etc., being made from the Cost Account of the Works Order, under which such parts are made.

Many small purchases have frequently to be made which will be charged direct to the works, and it is now the practice for a "Petty Cash Card" to be opened for each Works Order upon which such small expenses can be entered as made. Such card should be ruled with two columns, one for the voucher number, and the other for the amount. The money column can of course be posted to the Ledger Account either weekly or monthly as may be desired.

In those concerns where there are a number of articles partly manufactured in different departments and completed in one special department, such as a piece of machinery which is the result of the fitting together of a number of separate manufactured articles, transfers of the cost price of a partly manufactured article to the department which either partly or wholly completes it take place. These transfers are known as departmental interchanges.

The question naturally arises: Should these transfers be made at cost price from department to department or should a percentage be put on in each department, so as to show at the end of any period whether the working of each department has been satisfactory?

The answer to this question must depend entirely according to the object for which the Cost Accounts are prepared. One object in allowing each department to take credit for a proportion of the profit is to create a friendly rivalry between the various classes of workmen. At the same time a manufacturer may find it worth his while to tender for work or offer goods for sale without trying to make any profit out of some departments so long as he earns a certain minimum gross profit out of the contract as a whole, or on the sale of the finished article, as the case may be.

In every concern there are certain indirect expenses which are incapable of being apportioned directly to each Works Order; this class of expenditure is technically known as "oncost." There are many ways of distributing this expenditure over the various items for costing purposes which practically is always effected by means of a percentage. This percentage may be arrived at by means of past experience when the business is an old established one, or it may be based on the experience acquired in the establishments of other concerns carrying on a similar class of business. Another

method is to make the apportionment in direct proportion to the productive labour employed on each item of output.

Indirect Charges may be classified as follows—

Departmental Charges.

- (a) Rent, Rates, and Taxes of Factory.
- (b) Motive power, cost of lighting and heating.
- (c) Superintendence.
- (d) Unproductive wages.

These include wages of Store-keepers, Time-keepers, Engine-men, Firemen, etc.

- (e) Interest on Capital invested in plant, machinery, tools etc.
- (f) Depreciation and maintenance of plant, machinery, etc.

Administration and distributing expenses.

- (a) Directors' (if any) fees, Salaries of Manager and Clerks.
- (b) Rent, Rates and Taxes of Offices, Show Rooms, Shops or wherever the trade may be carried on.
- (c) Interest on Capital (not included in departmental charges).
- (d) Commissions, Travelling expenses, etc.
- (e) Advertising.
- (f) Discounts and allowances for loss on realisation of debts, etc.

In order to summarise the direct or productive labour in such a way that the total for each department or shop or unit over a given period is easily ascertainable, a Departmental or a Shop Charges Ledger should be kept, one for each department or shop as the case may be. In this Ledger will be entered the departmental charges such as the rent, up-keep, and depreciation for each department or shop, the general works charges which cannot be directly charged to any particular shop, and also the administration and other indirect expenses, as referred to above. In fact all charges with the exception of those for material or productive labour will be recorded in this Book. Each department or shop account will be charged with the cost of superintendence and of all unproductive labour, also the cost of lighting, fuel, and other expenses, all of which costs should be divided as indicated.

Each contract or each piece of work carried out for which the

contractor or manufacturer wishes to ascertain the exact cost or the working of each department or branch of a business will, if charged with its proper proportion of the indirect charges or oncost, show the cost of such portion of the business. When this is properly done the balance of the profits or losses of these separate contracts, departments, etc., will agree with the balance of the Profit and Loss Account as ascertained from the financial books, subject to the adjustment of errors caused by the impossibility of exactly apportioning the cost of purchases and of items of management and other expenditure.

It is not essential that Cost Accounts should be so framed as to work in connection with a system of Book-keeping by double entry as they may be kept on the principles of single entry Book-keeping. When, however, the constructor of a system of costing finds that the books of account already in existence are kept on the double entry system, he should, in the absence of express instructions to the contrary, design the books and forms for the system of Cost Accounts so that they will harmonise with the general Books of Account. If the designing of the entire system of Book-keeping of a new concern or the modification of an existing system combined with the construction of a new set of Cost Accounts is left in his hands, he has a most interesting task before him and one which will give him ample scope for ingenuity in displaying his skill in constructive Accountancy.

CHAPTER VIII

THE CONSTRUCTION OF STATEMENTS OF ACCOUNT TO SHOW FINANCIAL RESULTS

THE culminating point of constructive accountancy is the designing of statements intended to show the financial result of the transactions recorded in the books of account during any stated period. Some of these statements are merely statistical, while others are practically the final entries of a system of Book-keeping by double entry, made in the books when closing them on the selected balancing date.

In the case of many concerns the only form of Statement which it is necessary to place before those interested in its operations is one of Receipts and Payments, which consists of the grouping, under suitable headings, of the items of receipts and payments as shown in the Cash Book. A Statement such as this is a suitable one for presenting, in abstract form, to its members or subscribers the Accounts of a Club, an Association, or a Society which does not include among its transactions any description of trading. In those cases, however, where any purchasing of goods for the purposes of their re-sale at a profit is included in the operations, a Cash Account, or Statement of Receipts and Payments unaccompanied by any other Statement of Account is as a rule of little value.

The ordinary Statements of Account arising naturally out of a system of double entry Book-keeping are those known as a "Profit and Loss Account," or an "Income and Expenditure Account," or a "Revenue Account" conjoined with a Balance Sheet. Each of these three first-named Statements is similar in form, but is subject to the slight distinctions hereafter explained. The Balance Sheet is frequently also known as a "Statement of Liabilities and Assets," and although it is in some instances thus correctly described, it is not always confined to an abstract of such items, as is also subsequently explained, and therefore should not be known by what is frequently, and in fact usually, a misleading description.

Commencing with the first of these statements, the "Cash Account" or "Statement of Receipts and Payments," it is desirable in the first place to explain the difference between a "Cash

Account" and an "Income and Expenditure Account," as these terms are frequently used, even by persons of some experience, as being identical. As already explained, a Cash Account is simply an abstract of cash actually received and cash actually expended during the period embraced by the Accounts, whereas, what is known among professional Accountants as an "Income and Expenditure Account" includes in the income all the revenue which appertains to the period, whether the same has actually been received during that period or not, while the amount included in the expenditure should embrace the whole of the expenses relating to the period, whether the same have or have not been discharged. It follows therefore that Statements headed, as is frequently the case, "Receipts and Expenditure Accounts," and again "Income and Payments Account," are incorrectly so described, "Receipts" and "Expenditure," "Income" and "Payments" not being correlative terms.

A "Revenue Account," a "Profit and Loss Account," and an "Income and Expenditure Account," are Accounts arising out of a system of double entry book-keeping and are, from a book-keeping point of view, practically the same statements. There is, however, a technical difference between them, although this technical difference is not always observed even amongst experienced Accountants.

The terms "Income and Expenditure Account" and "Profit and Loss Account" should only be used where the income is derived from earnings either professional or trading; while the term "Revenue Account," strictly speaking, should be limited to those Accounts embracing the transactions of a concern whose income is derived from property or investments, such as rentals from land or house property, and interest or dividends derived from stocks, shares, debentures, or other investments. The term "Revenue Account" may also be used in those cases where the income is derived from trade products such as dead rents or royalties on minerals or any other class of trade income where the trade is not carried on by the concern of which the Statement of Income and Expenditure is the one under consideration. In all cases where the income is derived from earnings as opposed to what is known as unearned income, the term "Profit and Loss Account" or "Income and Expenditure Account" should be applied to the Statement

which shows the financial result of the transactions, and to be strictly accurate, the former should be applied in the case of traders and manufacturers, and the latter in showing the net income of professional men.

The Statements which have to be prepared for the purpose of showing the result of transactions financial, commercial, or professional, such as the Accounts of a Banker, Merchant, Manufacturer, or other Trader, or of a Barrister, Chartered Accountant, Solicitor, or other professional man, may be in such form as the discretion or pleasure of those who require the Statements may select. In many instances, such as those of a Club, or any voluntary Association, the form of the Statements may be prescribed by rules and regulations. The forms of Accounts of Railway, Gas and Water Companies, Life Assurance Companies, Building Societies, and certain Companies incorporated under public and private Acts of Parliament, are prescribed by statute, while those of Companies working under the Companies Acts, 1908-1917, are, with certain exceptions, in the discretion of the Directors.

When the form of the Accounts is left entirely to the pleasure of those who prepare them, it naturally affords scope for the constructor to show his skill and ingenuity. It must, however, be remembered that the real art in the construction of any form of Accounts, whether to be submitted to a single client or employer, or a body of subscribers, or shareholders, who may be skilled or unskilled in accountancy matters, is to frame them in as simple a form as is consistent with giving all necessary detail so that they may be easily understood. Whatever pleasure an experienced Accountant may have in framing a complicated set of Accounts, he cannot be considered to have performed his work in an artistic manner if such accounts when presented can only be understood by experts like himself, and not by those for whom they are professedly intended to convey full and accurate information of the result of the transactions of the concern in which they are interested, and its financial position at the date up to which the Statements are prepared, should a Statement intended to show the financial position accompany the Cash Account or the Profit and Loss Account as the case may be.

As already explained, a Cash Account is not a statement forming part of the system of Book-keeping, while a Profit and Loss Account is. It therefore follows that as a rule the former is not accompanied

by a Balance Sheet although it may have attached a Statement of Liabilities and Assets compiled from the best available sources of information.

Having given a general description of the various forms of Statement usually presented to those financially interested in various classes of undertakings, by those who are their representatives for the purposes of managing their concern, it is necessary to describe them in greater detail and the method of their preparation.

The simplest form of Account that can be prepared to show the manner in which the money received by an individual, partnership, or association has been disposed of, is one in which is set out on one side the amount of money received during any period, arranged under proper headings, the manner in which it has been applied during the same period, and resulting in a balance which is the cash unexpended at the date up to which the Statement is prepared. This Statement is known either as a "Cash Account" or a "Statement of Receipts and Payments."

This Account or abstract of receipts and payments is, as already stated, frequently but erroneously described as an "Income and Expenditure Account," or "Receipts and Expenditure Account," and occasionally, but not so frequently, an "Income and Payments Account."

Accounts of Receipts and Payments cannot properly be known by any of these terms for the reason that among Accountants an "Income and Expenditure Account" includes on the Income side income which appertains solely to the period, whether received or not, and on the expenditure side the expenditure appertaining to the same period, whether the articles whose cost is included among such expenditure have been paid for or not, and consequently the terms "Receipts and Expenditure" and "Income and Payments," are not correlative.

A Receipts and Payments Account is a Statement which is amply sufficient to show the transactions of those private Societies and small Charitable Institutions, of which there are thousands in existence spread over the country. Such Societies and Charities do not as a rule possess any property, and their Committees merely endeavour to make both ends meet by keeping the payments of each year within the compass of their receipts. A "Receipts and Payments Account" is compiled solely from the Cash Book in which the

receipts are entered on one side and the payments on the other, as described later on, and commences—except in the case of the first year of a Society or Charity—with the balance from the last Receipts and Payments Accounts, followed by the items of receipts collected under a few headings such as “Donations” and “Annual Subscriptions,” while on the other side are set out the payments such as “Rent,” if any, “Rates and Taxes,” “Salaries,” “Wages,” and other items of payment arranged under headings suitable to the operations transacted by the Society.

A Statement to show the total disbursements of a private household, where the daily expenditure is accurately entered day by day, is an Account of a description similar to the Receipts and Payments Account of a Society. The simplest way to prepare all accounts of this nature is to settle first of all the headings under which it is desired the payments shall be classified, and which will consequently appear in the Statement when prepared, and by means of paper specially ruled with one of these headings at the top of each column take out the items of receipts and payments one by one. When the items in the Cash Book have been thus exhausted, the totals of these columns will give the amounts to be inserted in the Cash Account, the balance of unexpended cash at the commencement and that at the end of the period being necessarily included. An actual form of Receipts and Payments Account carrying out this idea is given in Chapter XIII.

The financial result of all trading or professional transactions can only be shown by means of a “Profit and Loss Account” or “Income and Expenditure Account,” which terms, as already explained, are identical in meaning but which should not be used indiscriminately. The term “Profit and Loss Account” is the one almost universally applied to a Statement showing the result of the operations of commercial companies, and of firms and individuals engaged in commerce.

The terms “Profit and Loss Account” and “Income and Expenditure Account” appear to be used rather indiscriminately when dealing with the Accounts of professional men, although for them the expression “Income and Expenditure Account” would appear to be more correct. In the case of Land Companies, Trust Companies, and of landed proprietors, the term “Revenue Account” appears to be more appropriate. Whichever term,

however, may be employed, the mode of preparation is, from an accountancy point of view, identical. In other words, this Account must include on the Income side not the actual receipts for the period as in the case of a "Receipts and Payments Account" or "Cash Account," as already explained, but that income which appertains to the period embraced by the Account quite irrespective as to whether it has been received or not. In the same way the Expenditure side must include all expenditure relating to the same period quite irrespective as to whether the items representing such expenditure have been paid for or not. The Account practically forms part of the Book-keeping proper, and, in whatever shape presented, is either an exact, or amplified, or condensed form of an Account which, if the system of Book-keeping is brought to a proper conclusion, at the end of any given period must form one of the Ledger Accounts. The preparation of a Profit and Loss Account is, taken in conjunction with the Balance Sheet, the culminating point of the system of double entry Book-keeping; but it demands knowledge additional to that necessarily possessed by the mere book-keeper, inasmuch as in most cases there has to be introduced into this Account on the Expenditure side sundry items which, not being items of fact, require a considerable amount of thought, and also the assistance of technical knowledge, before they can be inserted in their proper places. These items are reserves or allowances for losses which may possibly arise on the realisation of some of the assets, or for provision against the gradual diminution in value of what are known as "Wasting Assets." These expressions and their relation to Profit and Loss Accounts will however be dealt with later on in their proper place.

The foundation of the preparation of a Profit and Loss Account is the "Trial Balance." Now every work on Book-keeping explains that the "Trial Balance" is practically an abstract of the balances of the Ledger or Ledgers, including that of the Cash Book itself (the Cash Book being practically a Ledger Account when the items in the Cash Book are not posted into a Cash or Banking Account in the Ledger), and it is from this Trial Balance, which is usually the collection of the debit and credit balances of the Ledger arranged in two columns, that the Profit and Loss Account is prepared.

The simplest way of preparing a Profit and Loss Account is to extract from the Trial Balance the figures of the various items which

affect in any way the Statement to be specially prepared to show the financial result of the transactions for the period, and either carry them direct item by item into the Profit and Loss Account, or where it is desirable to group these items under fewer comprehensive headings, to carry them first through the Journal and therefrom post them into the selected headings in the Ledger before transferring them into the Profit and Loss Account under such selected headings. It is therefore apparent that as the items respecting every class of income will be found on the credit side of the Trial Balance, they will be transferred to the credit side of the Profit and Loss Account ; while every item of expenditure which will be found in the debit column of the Trial Balance will be brought to the debit side of the Profit and Loss Account. After these items have been properly extracted, the only ones left in the Trial Balance will be those items which will have to be ultimately taken into the Balance Sheet. These items are either liabilities or assets, or items which on the liability side will in addition to actual liabilities represent the capital of the partners and any surplus or undivided profits, including reserves, if any, have been created, and items which on the assets or credit side will, in addition to the actual property and assets, represent expenditure of the nature of Capital, or such expenditure as it is intended to treat as an asset either temporarily or permanently, and which class of items will be referred to hereafter. There is one item, however, which stands by itself, and which has always to be inserted on the credit side of a Profit and Loss Account, although it very seldom appears in a Ledger Account in the system of Book-keeping, and this is the "Stock-in-trade" of a trading concern. The value assigned to the stock in the warehouse or shop of a trading concern at the close of business on the evening of the day on which the books are balanced is placed on the credit side of a Profit and Loss Account, and is also placed on the credit side of a Balance Sheet, thus maintaining the equilibrium. In other words, this value placed upon the stock is treated as though it was added to the Trial Balance, the amount being placed in both the debit and credit columns.

Having decided upon the items which appertain to the Profit and Loss Account as opposed to those which have ultimately to be transferred to the Balance Sheet, the Accountant who is constructing these Statements has to take into consideration as to whether the

Profit and Loss Account shall be subdivided, or prepared in one single statement. It is the practice in nearly all manufacturing and trading concerns to divide it into at least two statements, the first showing the result of the manufacturing department or of the trading department, as the case may be, known as the gross profit, and the second the result of the working of the entire concern known as the net profit. The net profit is the amount available for division among the proprietors of the concern, subject to there being no deficiency on their previous Profit and Loss Accounts to be made good out of the current or succeeding Profit and Loss Accounts before a distribution of profits can legitimately be made.

With these preliminary remarks, the preparation of the Statement of Account intended to show the financial result of any series of transactions now demands attention. The mode of preparation of an ordinary Receipts and Payments Account has already been explained, but that of a Profit and Loss Account, or whichever of the three names referred to may be the one selected, is dealt with in the following chapters.

CHAPTER IX

CONSTRUCTION OF THE PROFIT AND LOSS ACCOUNT

PART I OR TRADING ACCOUNT

As indicated in the previous chapter, the transactions of any concern may, for the purposes of ascertaining how they have resulted financially, be comprehended in the Profit and Loss Account prepared either in one Statement without any break, or the items may be divided into two separate Statements.

In following the latter plan the first Statement, usually styled a "Trading Account," results in what is known as the gross profit; and the second, which may be styled the Profit and Loss Account proper, commences with the balance brought forward from the Trading Account and results in what is known as the net profit. Again there may be a further subdivision, and such subdivision is to be commended, more especially after the first year of the existence of the concern whose Accounts are under consideration. Into a third part can be carried to the debit or credit side, as the case may be, the balance brought forward from the Profit and Loss Account of the preceding period, and when a credit balance has been brought forward and any distribution of it to the shareholders, or partners, as the case may be, has been made in the interval, the amount will appear on the debit side of this third portion. There will also be carried into this third portion to the credit or debit side, according as to whether the transactions of the period under review have resulted in a profit or a loss, the balance brought from the current Profit and Loss Account.

In other words, assuming that the final results of the transactions of any concern are represented by two principal Accounts usually described as the Profit and Loss Account and Balance Sheet, the former Statement may, for purposes of easy understanding by those not well versed in Accounts, be divided into three distinct portions. These portions may be described as follows—

- (a) Trading Account showing the gross profit for the actual period embraced by the Accounts.

- (b) Profit and Loss Account showing the net profit for the actual period embraced by the Accounts.
- (c) Appropriation Account showing how the net profit of the period and also any balance brought forward from the previous periodical Statement of Accounts has been dealt with.

We will now refer to these Accounts in the above order.

A Trading Account is a Statement prepared to show what is known as the gross profit as opposed to the net profit; and the principal object of ascertaining the amount of the gross profit is to arrive at the conclusion as to whether the manufacturing or trading department, as the case may be, has been by itself properly managed as distinguished from the management of what may be called the distributing and recording parts of the business. Another object is for the purpose of making a comparison with previous periods of trade, which comparison is usually made by contrasting the percentage the gross profit of each of these periods bears to the sales. In some instances where there is a general understanding that a particular trade or business should earn a certain recognised gross profit, it enables the proprietor to ascertain if his business has yielded that average return.

In preparing therefore a Trading Account from the Trial Balance the following classes of items only should be extracted, leaving the remaining balances to be taken later on into the Profit and Loss Account and Balance Sheet.

SALES.—The credit side of the Trading Account usually commences with the sales for the period which should include, assuming that all the transactions connected with the period have been properly brought into the books, all the amounts outstanding due from customers. From this amount should be deducted all returns that have been made by customers of goods which have been included in such sales, but which, because they have not been up to sample, or have not fulfilled the conditions of a contract, or for some other reason have been returned and have been accepted as returns, and have consequently to be allowed for.

Any receipts during the period in respect of goods sold prior to the period will not of course be included in the amount of sales taken credit for if the Accounts for the previous period have been properly prepared, as such sales will of course have been taken

credit for in the previous Trading Account. Should, however, any sales have been omitted from any Trading Account, they must of course be included in the following one, which must be borne in mind should any percentages on them be calculated, such as the percentage the gross profit bears to the sales. In such cases the necessary adjustments should first be made before the calculations are entered upon, otherwise a comparison of the results of the trading of two consecutive periods may be misleading.

STOCK-IN-TRADE AT END OF PERIOD.—The only other item which as a rule appears on the credit side of a Trading Account is the Stock-in-Trade on hand at the date to which the Trading Account is brought. In all businesses accuracy, both in taking the stock and pricing it, is of importance, while in some the value placed upon this Stock-in-Trade is of almost supreme importance and requires the greatest possible accuracy in its ascertainment. Where a large stock is held the least inflation will unduly increase the profits, thereby causing the proprietor of the business, whether a single trader, a firm, or a body of shareholders to believe that the result of the operations is more favourable than it really is. On the other hand, the undervaluation of the stock will unduly decrease the profits shown on the Trading Account, and perhaps be a cause of uneasiness and anxiety when none need exist.

There is also another reason for the desirability of care in stock-taking and pricing the items, namely, that without this accuracy it is impossible to compare the result of each year's trading. For example, should stock be correctly valued at the end of the first and third years and over-valued at the end of the second year, the profits of the second year will be made to appear too high, and the profits of the third year made to appear too low, while should the stock at the end of the second year be under-valued the profits of the second year would appear on paper too low and those of the third year proportionately too high. In either case a comparison of the separate profits of the three years as shown by the Accounts would be valueless, and if any alterations were made in the conduct of the business as a result of this comparison, unfortunate results might ensue.

The taking of the stock is not as a rule included among the duties of the Accountant's department of a business, it being left in the hands of those officials who are more cognisant of the handling of the

stock, and who are therefore better qualified to take it whether by weight, measurement, or number. It is however distinctly part of the Accountant's department in any business, either to place the value on each item of stock and calculate therefrom the total value of each class of goods, or if this is done by others, to check the price of each item and the extensions into the total column.

It is absolutely essential that the value of the stock as inserted on the credit side of the Trading Account should be that of the stock as it exists at the close of business on the evening of the day up to which the Trading Account is prepared, and which is the evening of the date of the Balance Sheet. Should it be impossible to complete the stock-taking between the hour of closing on the one day and the hour of opening on the following morning, and the stock-taking has consequently to be commenced previous to the close of business on the balancing date, the greatest care must be taken that in all cases where there have been sales out of any particular class of goods of which the stock has been taken that the necessary deductions are made from the stock sheets. On the other hand, should any goods not have been received into stock, the purchase price of which goods has been brought into the Accounts and charged against the Trading Account among the "Purchases," it is essential that the value of such goods calculated at the cost price should be added to the Stock-in-trade.

It is most desirable that, except in the case of very small traders, preparations for stock-taking should be made some time previous to the date fixed for the striking of the balances, and that the most careful and accurate instructions should be given, not only to those who have charge of this important duty, but to all subordinates working under them, so as to ensure the greatest accuracy in the weighing, measuring, or counting the stock according to the class of goods dealt in. Instructions should also be given for a line in the stock list to be reserved for every different kind of goods, also one for different sizes or descriptions even for the same kind of goods, and in many cases even for those goods of the same description which have been purchased at separate times.

In large concerns where the stock is taken by a number of officials, the details should be set out on one size of paper, although the ruling may of course vary according to the description of goods, and according as to whether the stock is taken by weight, measurement,

or quantity, so that such stock-sheets can be brought together and either bound or fastened by some other means.

It is also desirable that where possible each item of stock should be independently checked as regards the weight, measurement, or number, and, for the purpose of fixing the responsibility on the right persons, everyone engaged in the stock-taking should be required to initial the sheets they prepare. The same instructions should also be given to those who price the stock, to those who carry out the extensions, and to those who check any of these processes. The stock having been taken, there then remains the pricing of each of the items and this as a rule should be the actual cost price, subject however to the following remarks—

Cost price for such a purpose is not necessarily the bare cost of the material as charged by the invoice, but the price which it has actually cost to place such goods in the possession of the trader. There consequently may be properly added to the invoice price the cost of freight, carriage, duty if any, and in some cases, such as for example that of a wine merchant who holds stock for a considerable time, a certain percentage may be added to the cost price representing interest on the capital employed by the retention of certain stock, for the reason stated later. Now all these matters require very great care, and interest should never be added merely because goods have remained on hand for some time which were really intended for sale at an earlier date, but which have not been successfully disposed of.

In the case of a wine merchant, wines and spirits are intentionally retained in stock, even although sales could be effected sooner at a profit, for the reason that wines, more especially certain classes, appreciate very rapidly in value on account of maturity through age, the appreciation being considerably in excess of the ordinary commercial rate of interest. A sum representing interest should however alone be added to the cost price for the purpose of arriving at the value of the stock to be inserted in the Trading Account, leaving any further increase in market value to be taken credit for as part of the profit when the stock is sold. In other words, credit should not be taken in the Trading Account for any sum in anticipation of the profit which may eventually be made when the goods are actually sold and which profit belongs to the period in which the sale takes place.

Having arrived at the value of the stock in the manner indicated, and having thus ascertained what may be described as the maximum amount at which the stock should be taken credit for in the Trading Account, there then remains for consideration whether, having regard to the fact that for some reason there may have been some general deterioration in the stock, which for accountancy purposes should be taken into consideration, it will be justifiable to take credit in the Trading Account for this maximum amount.

The value of Stock-in-trade varies considerably according to the nature of the business whose Accounts are under consideration. From the previous remarks it has already been seen that part of the stock of a wine merchant increases in value solely on account of age, which matures the wines and renders them more appreciative to the palates of his customers. On the other hand, however, there are many businesses where Stock-in-trade rapidly deteriorates in value when not quickly disposed of. The goods of warehousemen and of those engaged in wholesale businesses where the stocks are subject to fashion, and those of the proprietors of certain classes of retail shops, such as dressmakers, drapers, tailors, outfitters, etc., rapidly deteriorate in value. In many instances goods stocked for the Spring can only be disposed of at a very heavy loss when the Summer has commenced, while the Summer goods not sold at the end of the season have to be cleared at a still greater loss previous to the re-stocking for the Autumn and Winter sales. Some goods may be put away and brought out again in the corresponding season of the following year, while others are saleable all the year round. All these points have to be taken into consideration in arriving at the correct value to be placed upon the Stock-in-trade at the date of the Balance Sheet. There is, however, one inflexible rule in connection with this value that nothing should be taken credit for at a higher price than the trader would be willing at that moment to pay for it for the purposes either of immediate sale or putting it by for a better opportunity of sale later on. Unless these precautions are taken the Trading Account must necessarily be inaccurate, and being inaccurate must consequently be misleading to anyone who may rely upon its figures.

It therefore follows that while "cost price" may be regarded as the basis for arriving at the value to be placed upon the "Stock-in-trade" at the date of closing the books, any ascertained

diminution of the value which has taken place should be dealt with in a businesslike manner.

From the accountancy point of view this can only be effected by deducting the amount of this depreciation from the value of the stock as ascertained by the stock-taking sheets before inserting the amount in the Trading Account. This will as a natural consequence diminish the profit and may be most distasteful to the proprietors, but the constructor of the Profit and Loss Account can only point out that should it not be done not only will a profit be shown which has not been legitimately earned, but that the profit shown on the following Profit and Loss Account will be unduly diminished. Each Profit and Loss Account should show as accurately as it is possible to make it do so the result of the transactions of the period it is stated to embrace.

The items to be charged on the debit side of the Trading Account will naturally be confined to those items of expenditure which should be included before the gross profit is ascertained.

STOCK-IN-TRADE AT COMMENCEMENT OF PERIOD.—In the first Trading Account of a concern this item will not appear, but it would be the first item on the debit side of succeeding Trading Accounts, and the reason is obvious. As the object of a Trading Account is to show the gross profit earned on the sale of goods, the debit side of the Trading Account must be charged with all such goods purchased, and the Stock therefore in the possession of the concern at the commencement of the period is, technically speaking, considered as having been purchased at that moment. As there is no interregnum in the career of a going concern, it must be considered that the Stock has been purchased at the same price as that at which the same concern took credit for it at the close of business the previous evening, up to which time the preceding Trading Account is prepared. The value therefore to be inserted as the first item on the debit side of a Trading Account is the exact figure at which the Stock-in-trade was valued the evening before. The only point for consideration is that supposing after the closing of the books of the previous period any discrepancy should be found either in the stock itself or in the value put upon it, the proprietors of a private concern, or a firm will have to decide as to how they shall deal with this discrepancy. In the case of a company, however, where the Trading Account is published and issued to the shareholders, it is most

desirable that such discrepancy should be set out clearly in the following Trading Account, so that when a shareholder receives the printed statement of accounts previous to the Annual Meeting he may not be confused by seeing a different value put upon the Stock-in-trade at the commencement of the period embraced by the Accounts to that which he saw placed upon the Stock-in-trade in the printed Trading Account made up to the close of the previous period. As the Stock-in-trade at the commencement of the period is practically a purchase, the amount of any errors discovered may be added to or deducted from the "Purchases" in the succeeding Trading Account.

PURCHASES.—Under this heading is included the value of those goods purchased which are intended to be re-sold; that is to say, it should not include the value of any ordinary purchases which are to be used for other purposes, such as any additions to plant, furniture, or the cost of any articles intended to be consumed in the ordinary course of business, such as, for example, packing cases, packing paper, string, stationery, books of account, etc.

In many businesses it may be desirable to separate the "Purchases" under various headings; it is of course at the pleasure of the proprietors of the business or of the Directors if the concern is owned by a company, but the principle remains the same. The only value which it is admissible to charge under this heading is the actual cost at which the goods were acquired, as should there be any diminution in value from such cost price before the time when the books are closed, and the goods remain unsold, this would be dealt with in connection with the stock-taking, as already explained.

As under this heading must be stated the price of all the goods acquired during the period embraced by the Trading Account, there must necessarily be included the amount due to creditors for goods received from them, and which have either been disposed of, or if unsold have been included in the stock-taking.

Should the value of an invoice have been overlooked and not brought into the purchases, and the goods have not been taken into the stock-taking, through perhaps their not having been delivered, the gross profit shown by the Trading Account will not be affected thereby. It would however be quite a wrong proceeding to leave out these items intentionally, and the value of the goods should be included both among the "Purchases" and the "Stock," as

otherwise the consequent omission of the amounts due to creditors would improperly diminish the liabilities shown in the Balance Sheet, although it would at the same time equally diminish the value of the assets.

Should any of the Stock when purchased be subject to a trade discount, it is more correct that this discount be deducted from the total of the "Purchases" than that it should be shown as a separate item on the credit side of the Trading Account, as it is sometimes treated.

WAGES.—The amount charged for wages in a Trading Account should always be shown distinct from the salaries, if any, charged, and is quite independent of the salaries, and occasionally of certain wages included in the Profit and Loss Account. The wages charged in the Trading Account of a manufacturer should be those appertaining solely to the factory, while those charged against the Trading Account of a wholesale or retail trader should be confined to those wages actually paid to the workmen of every class in connection with the purchases and sales department; in other words, those wages which ought properly to be charged before the gross profit is ascertained. There will therefore not be included under this heading in the Trading Account the wages of any official in the general offices where the accountancy, correspondence, etc., is conducted.

SALARIES.—In like manner there should only be charged against the Trading Account of a manufacturer the salaries of any clerks actually engaged in the manufacturing department. The salaries paid to other officials, such as the salaries of the book-keepers, correspondence clerks, or, in the case of a company, those of the general manager or the secretary, should be charged against the Profit and Loss Account. In the case of a trading concern the salaries of any superintendent or superior official whose whole time is devoted to the purchase and sale of goods would be included.

DEAD RENTS.—In the case of collieries, and frequently in the case of mining companies where the undertakers are not the owners of the freehold of the land under which they work, they have to pay a rental to the ground landlord, which consists in many cases of a fixed minimum rental merging into a royalty of so much per ton or other unit of quantity when the royalty multiplied by the number of units taken out of the colliery or mine is an amount in excess of the minimum rent. This minimum rent is usually known as "dead

rent," and should be charged in the Trading Account of the colliery or mine, as it is clearly part of the cost of production. It is possible in the early days of a colliery or mine, especially in those cases where a large amount of development work is undertaken, and before any coal or ore can be obtained for sale, the dead rent has to be paid some considerable time before a sufficient amount is raised to make the owners liable to pay royalty instead of dead rent. In such a case it may be quite a proper and businesslike arrangement not to charge the whole of this dead rent, or perhaps even any part of it, against the operations of the first year or two, but to treat it as a Suspense Account and place the amount thereof on the credit side of the Balance Sheet, as will be explained later on. Should however such dead rent be only recoupable out of royalties within a certain period after its becoming due, and it is not probable that some or all of the dead rent will be thus recoupable, then such dead rent must be charged against the Trading Account.

As a rule dead rent can be recouped out of royalties within a certain term of years, usually five, and therefore if it is fully expected that within this limit of period any dead rent already paid may be recouped out of future royalties, the payments may be deducted from the amount otherwise chargeable in the Trading Account, with the natural consequences that they will be taken to credit in the Balance Sheet.

ROYALTIES.—In nearly all Colliery Companies working in Great Britain, where the concern is not the owner of the freehold, and in many Collieries and Mining Companies worked in the Colonies and abroad, royalties are payable to the ground landlord, for the privilege of removing the mineral below the surface of his land. These royalties are usually calculated on each ton of coal or ore taken out, or occasionally it may be according to some other measurement or unit. Where there is dead rent payable, royalties are usually not charged when the dead rent named in the lease is in excess of the royalty. When the royalties exceed the dead rent, royalty is then substituted for such dead rent, as already explained. In any case, in preparing the Trading Account, the proper amount of royalty to be charged is of course that which is really due to the landlord in respect of the quantity of mineral removed from the mine during the period embraced by the Trading Account, the fact of the produce having been sold or not does not affect the amount.

A return according to the terms of the lease has usually to be rendered periodically to the landlord showing the quantity of mineral raised, and is either accompanied by a remittance, or the landlord renders an account after his agent has agreed the amount with the tenant. The amount therefore to be charged against the Trading Account can, as a rule, be accurately ascertained.

Having brought into the income side all those items which can only properly be taken credit for in the Trading Account, as opposed to the Profit and Loss Account, and having charged the debit side of the Account with the items properly chargeable against such income, the Trading Account can be closed in the manner indicated by the various works on Book-keeping. The balance shown thereon, which should be clearly stated to be gross profit, can then be carried to the credit side of what is in this Work described as the "Profit and Loss Account," Part II, or the "Profit and Loss Account" proper. It rarely happens that a Trading Account ever results in an actual loss, although the gross profit may fluctuate considerably. For the purposes of comparison it is always advisable to ascertain the percentage the gross profit bears to the sales or turnover, so that the proprietors of a business or the directors of a company may, in those cases where the gross profit is either above or below the average, inquire into the reason. Unless the difference can be explained by the fact that prices have been so good as to warrant the belief that the higher gross profit shown is correct, or if they have been so much below the average as to explain the reason for a low gross profit, the difference is probably to be attributed to an error in either the stock-taking or the pricing of the stock at the commencement or the end of the period, and a searching inquiry should be instituted in this direction.

CHAPTER X

CONSTRUCTION OF THE PROFIT AND LOSS ACCOUNT

PART II OR REVENUE ACCOUNT

A Profit and Loss Account is, as already explained, a Statement designed to show the net profit of a concern or, in other words, the profit which is available for the owner, or for distribution amongst the owners of the concern, whether an individual, a firm, or a company, subject to there not being any prior claim on such profits.

Should the proprietors of the business or those who direct the concern on behalf of others wish to show the whole of the transactions in one Statement of Account, the Profit and Loss Account will of course include all the items which would, under the plan recommended of dividing it into at least two Statements, be included in the Trading Account. Should the recommendation of dividing the Profit and Loss Account into two or three sections be adopted, the Profit and Loss Account will naturally commence with the balance brought forward from the Trading Account and which, except under circumstances of extraordinary commercial depression, will be the first entry appearing on the credit side.

The method of preparing this Account, where it is accompanied by a Trading Account, is to extract from the Trial Balance those items which, not representing either liabilities or assets, as referred to hereafter, have not already been taken out and included in the Trading Account. These are then carried either item by item from the Trial Balance or under groups direct to the debit or credit side, as the case may require, of the Profit and Loss Account, or the items may first of all be carried through the Journal and from thence to the Profit and Loss Account. Where a Trading Account is not prepared as a separate document, then all the items in the Trial Balance which have not to be ultimately taken into the Balance Sheet will be entirely exhausted into the Profit and Loss Account.

For the purposes of explaining thoroughly the method of the preparation of the Profit and Loss Account, it will be advisable to refer briefly to the items which most frequently occur in this Statement, and also to those items which appear on the credit side

of the Profit and Loss Account of a company, such as that of an Insurance Company, Building Society, etc., where the business is of such a nature that a Trading Account is not applicable.

PREMIUMS.—The main source of income of all Companies or Associations transacting Insurance business, whether life, fire, marine, burglary, guarantee, accident, etc., is the premiums they receive from insurers, and in preparing the Revenue or Profit and Loss Account care must be taken that there is only included the premiums attributable to the period embraced by the Accounts. Should there have been any omission of premiums which might properly have been taken credit for in the previous Revenue Account, they must of course be brought into the one being prepared, but care must be taken to include all premiums whether received by the Company or to be accounted for by Agents in respect of which policies have been issued prior to the date of the Balance Sheet. At the same time, care must also be taken to exclude any premiums which have been received in advance. In using the term "exclude," it must not be understood that premiums of this nature are to be omitted from the Accounts, it would not be correct Book-keeping for them to be ignored. What is meant to be conveyed here is that such items should be taken to credit in the Revenue Account, and the proportion of the amount not applicable to the period must be ascertained by means of a schedule of such premiums specially prepared and be deducted from the amount taken to credit in the Accounts. This is compulsory in the case of companies which present their Accounts in accordance with the Assurance Companies Act, 1909, and, in other cases where not so deducted, must be taken out on the other side of the Revenue Account and brought into the liabilities side of the Balance Sheet as a reserve.

In referring to premiums received in advance, it must be understood that this expression only applies to such premiums where the risk undertaken in consideration of the receipt of the premiums does not commence until after the close of the period embraced by the Accounts. For example, if a Company or one of its Agents receives in December, or earlier, a premium for an insurance which does not commence until the 1st January of the following year this premium should not be taken credit for.

At the date of closing the Accounts of all Insurance Companies,

there is always a risk current in respect of the unexpired portion of the premium on every policy extant, for this no deduction should be made from the Premium Income, as it is usual to create a reserve which should be included amongst the liabilities in the Balance Sheet, and will be referred to later on.

In a similar way, where a Fire Company, in consideration of its insurers paying in advance the premiums for six years, covers its policy-holders for a period of seven years from that date, the Company should only take net credit in its Revenue Account for one seventh of such premiums for seven successive years.

All Insurance Companies re-insure a portion of their risks in other Insurance Companies, and at the same time accept risks of this nature from Companies conducting a like business.

Premiums received from other Insurance Companies must, in the Revenue Account, be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks and as prescribed by the Assurance Companies Act, 1909, be set out separately in the Revenue Account as "Premiums for re-insurance."

CONSIDERATION FOR ANNUITIES GRANTED.—It is the practice for Life Assurance Companies to receive a single payment in consideration of agreeing to pay a fixed amount periodically to a certain person either for a stipulated number of years, or until the death of the person. In preparing the Revenue Account net credit should only be taken for a proportion of this premium having regard, either to the term of years during which the annuity is payable, or the amount arrived at by an actuarial calculation in the case of a life annuity having to be paid.

INTEREST ON INVESTMENTS.—Interest on investments such as interest on British Government, Indian Government, Colonial Government, and Foreign Government Securities, on the Debenture Stock of Railways and on Debentures of Industrial and other Companies may be taken credit for in the Profit and Loss Account not merely to the extent of that which has been received during the period, but in addition, any portion which may be accrued up to the date of the closing of the books. In the first Profit and Loss Account of a firm or company probably little will have been received, and the greater part of the interest taken credit for will be that which has accrued to date. In order to ascertain the correct amount to take credit for in respect of accrued interest schedules should be prepared

of such investments which bear a fixed rate of interest. The schedule should contain in the first column the name of each investment with a column for the amount of the half-yearly interest, a column for the date up to which the next half-yearly interest is payable, a column for the interest from the date of the last payment to the date upon which the Accounts are made up, a column for the income tax accrued due thereon, and a column for the net balance. The total of this last column is the amount for which credit may be taken. Each of these items will naturally form the matter of a separate calculation, and allowance for the income tax which is always deducted by the Government or Corporation before the interest is paid to the investor should never be omitted.

INTEREST ON MORTGAGES.—Under this heading should be included all the interest on Mortgages held by the concern which appertains to the period embraced by the Profit and Loss Account. For the purpose of arriving at the correct amount a schedule of the mortgages should be prepared and the interest thereon to be taken credit for be ascertained in the same manner as is suggested for ascertaining the amount to be taken credit for in respect of "Interest on Investments."

DIVIDENDS ON SHARES.—Under this heading should be placed the dividends which have been received on investments in the ordinary deferred or preferred shares of companies whether incorporated by Special Act of Parliament or working under the Companies (Consolidation) Act, 1908, also those received on the shares in any society registered under the Building or Friendly Societies Acts.

Dividends on shares in every kind of company are paid on the recommendation of directors put forward in the form of resolutions and passed by shareholders at their periodical General Meetings, with the exception that interim dividends are sometimes paid on the sole responsibility of the directors until such payment has been confirmed either tacitly or explicitly at the following General Meeting. The amount of the dividends is subject to fluctuations except in certain exceptional cases, such as on the preference shares of an old established and flourishing concern, and consequently it is not usual to take credit in a Profit and Loss Account for dividends on the shares of companies not yet received. In the case of some companies where dividends have been actually declared it might be safe to take credit for them although not paid at the date of the

closing of the books. It is not, however, advisable in any case to take credit for any amount in respect of dividends accrued but not declared. At the same time it might be contended that in the case of certain substantial companies it would be quite proper to take credit for some estimated proportion, but questions of this nature will be dealt with when considering the duties of Auditors.

INTEREST AND DIVIDENDS.—For all companies who have to present their Accounts in accordance with the form prescribed by the Assurance Companies Act, 1909, the interest and dividends on their investments have to be brought together under the heading of “Interest, Dividends and Rents.”

SHARES IN OTHER COMPANIES.—This is an item which frequently occurs in the Revenue Accounts of Financial and Trust Companies, more especially of those that are in the habit of promoting companies, or assisting in the promotion of companies by underwriting their shares previous to their being offered to the public by means of a prospectus. In the case of the promotion of a company where the finance company is the vendor to the new company, the consideration is frequently paid for partly in cash and partly in fully paid-up shares, partly paid-up shares being seldom accepted as a portion of the consideration money.

Now for the purposes of the account-keeping of the vendor company the only price that can be assigned to these shares is that referred to in the agreement for sale, which price is almost invariably par. It rarely happens however that shares acquired in this manner are marketable to any extent after the new company has been launched, and under such circumstances it would not be at all proper for the vendor company to take credit for the full par value of such shares without making a reserve for possible loss on their ultimate realisation. It would be even worse to make use of any profit shown, without making such a reserve, and in some cases even with such a reserve, for distribution by way of dividend. The safest plan to follow in the preparation of the Revenue Account of a company transacting business of this nature is to draw it up with double columns placing in one column on the credit side the income represented by shares; the other column showing the income either already received or expected to be received in cash. On the other or debit side should be set out in one column the amount of any portion of such shares which may have been distributed in specie,

and in the cash column the ordinary expenditure of the concern, and only treat as profit available for dividend-paying purposes the credit balance of the two cash columns. As these shares, which have been taken credit for in the Revenue Account in the share column are gradually sold, the amount realised will of course come into the cash column on the credit side of the following Revenue Accounts, while the value of the shares thus disposed of will appear in the share column on the debit side of such Revenue Account at the same amount at which they were taken out of the share column on the credit side.

PROFIT ON SALE OF SECURITIES.—When a concern resells at a profit any securities which may have been purchased out of its surplus income or unappropriated profits, such profit may be taken credit for in the Profit and Loss Account under some such heading as above. Where however any of the capital of the shareholders has been invested in securities, and such securities have been sold at a profit, the profit realised on the sale of such securities should be treated as a profit on capital account and not as an item of revenue. The profit on such sales should consequently be invested when the re-investment of the capital money is made.

PREMIUMS ON ISSUE OF SHARES.—When the directors of a successful company consider it advisable to make a further issue of share capital either for the purpose of extending the business of the company or for other reasons, it is a very usual practice to issue such shares at a premium. In those cases where there is a quotation for the shares, the premium is, as a rule, arrived at by a reference to the market price; when there is no market price the directors fix the premium at their discretion. Unless there is any special provision in the Articles of Association or Deed of Settlement of the company to the contrary it is not illegal for such premiums to be carried to the credit of the Profit and Loss Account, and the profits increased by such premiums are even available for dividend-paying purposes. As a rule, however, directors consider that premiums of this nature should be made use of, firstly to pay all the expenses in connection with the issue of such shares and then to carry the balance either to a separate reserve, or to some other reserve account where it is not likely to be ultimately used for the purposes of distribution by way of dividends. Exceptional income of this nature may very properly be taken advantage

of to reduce either a goodwill account or the amount of any item on the credit side of the Balance Sheet, not actually represented by a realisable asset.

GOODS RETURNED.—The value of all goods which have been debited to the "Purchases," but which for any reason have been returned as not being of the quality expected, or as having been charged at a price in excess of that expected, or because the goods are damaged, or for any other reason, should not be taken to the credit of the Profit and Loss Account, or even of the Trading Account, but should be deducted from the amount standing to the debit of the purchases account.

INTER-DEPARTMENTAL PROFITS.—The business of many manufacturing and other companies is divided into departments, each department being under the control of a manager and staff working under him. The work of some departments consists of the partial manufacture of goods which are subsequently passed into one or more other departments for the purposes of being completed. In order to ascertain whether these departments have been working profitably, it is usual to allot a certain proportion of the amount each manufactured article is expected to have added to it for stock-taking purposes to each department through which it is passed. As a consequence each partly manufactured article as it passes into the hands of the second and subsequent departments is already loaded, to a certain extent, with some amount in addition to the actual labour expended upon it, including perhaps a percentage of the establishment charges.

Now in preparing the Profit and Loss Account of a concern carrying on this class of business, it devolves upon its constructor to satisfy himself that only a proper amount in respect of such profits is taken to credit. If the full amount of the profit which may be expected to be realised when the article is ultimately sold is added, the concern would be taking credit, to a certain extent, for profit in anticipation of sales, so that when the article is sold no profit will really arise on the actual sale. The only satisfactory way therefore of arriving at the proper amount to take credit for in respect of these inter-departmental profits, is to ascertain as nearly as possible what would be the cost trade price of the article if the department purchased it with the object of re-selling it again at the customary profit. There should then be added the percentage

calculated for each department through which it passes on such a scale that when the article finally emerges from the last department it will stand in the books at its estimated purchase price.

TRANSFER FEES.—The Articles of Association of nearly every limited liability company, and the private Acts of Parliament under which other companies are registered, usually contain a clause authorising the directors to charge a fee to cover the expense of registering transfers of shares or stock. In the case of some companies whose shares are quoted on the Stock Exchange, there are very considerable dealings in their shares and the transfer fees come to an appreciable amount, while in others they amount to a merely nominal sum. In any case, however, the fees should be carried to a separate account, and the constructor of the Profit and Loss Account should check the amount standing at the credit of the Ledger Account by counting the number of transfers entered in the Register of Transfers and multiplying the fee allowed for each transfer with the number of transfers. If the amount does not agree it should be verified by counting the transfers themselves which should always be preserved and pasted in a Guard Book.

ENTRANCE FEES.—It is the practice in the leading social clubs and also in many minor clubs, such as County Clubs, Golf Clubs, etc., for members on election to pay entrance fees. Strictly speaking, from an accountancy point of view, such fees should be looked upon as being of the nature of capital and should be placed to a suspense account so that only a certain proportion of such entrance fees would be carried to the credit of Profit and Loss or Revenue Account. In few cases, however, is this done, and it is the general practice for entrance fees to be treated on the same footing as annual subscriptions by taking the whole amount to the credit of Profit and Loss Account.

SUBSCRIPTIONS.—It is of course proper to carry the whole amount of annual subscriptions, for the period to which they appertain, to the credit of the Revenue Account of a club or society, and it is the usual practice to make the financial year end on the date up to which the annual subscriptions expire. Should the date on which the subscriptions expire be a different one to that on which the Revenue Account is made up, then a reserve ought to be made for the proportion of the unexpired subscriptions. In some societies a composition fee is payable in lieu of the future annual subscriptions

In such cases the proper method is to carry these composition fees to the credit of a suspense account and only take credit in each Revenue Account for a proportion such as a fifteenth or a twentieth part, carrying the balance forward to the credit side of the Balance Sheet.

Turning now to the debit side of the Profit and Loss Account, the main object the constructor of this Statement should keep in view is to ensure that the whole of the expenditure which properly appertains to the earning of the income on the credit side, has been charged. Should any item of expenditure be intentionally or accidentally omitted it will have the result of making the accounts for the period too favourable, rendering it possible, in the case of a company, for a higher dividend to be distributed to the shareholders than has legitimately been earned. In the case of a partnership, or of an individual owning a business, it may mislead the partners or him into drawing more capital out of the business for private expenditure than would happen were the statement accurately prepared.

Should the constructor of the statement either on his own responsibility or on the instruction of his client or employer intentionally omit items of expenditure so as to show a higher profit than he knows has been legitimately earned, with the object of defrauding any person by means of such false statement, he commits a criminal offence for which he can be indicted and punished.

In preparing this side of the Profit and Loss Account, the constructor has to exhaust into it all the items which appear on the debit side of the Trial Balance, which should not be left for transfer to the credit side of the Balance Sheet. In order however to ensure that the principle just laid down, that there must not be any omission of items of expenditure, is carried out, the items which usually appear on the debit side of Profit and Loss Accounts must be dealt with *seriatim*.

The first items with which it is desirable to deal are the ordinary expenses of management, such as rent, taxes, rates, salaries, and general office expenses.

EXPENSES OF MANAGEMENT.—In those cases where the details of the Management Expenses are not set out, they are usually collected together under some such heading as this, and in the Assurance Companies Act, 1909, this heading is prescribed not only for the Revenue Account of the Life Assurance business but also for the Revenue Accounts of the Fire, Accident and other branches.

In preparing the Accounts of a Life Assurance Company the following resolution which was passed many years ago at a Meeting of the Council of the Institute of Actuaries as a result of an inquiry made of them by the Board of Trade, has practically been followed in the schedules to the Assurance Companies Act, 1909—"In the opinion of the Council, every expense, of whatever kind, incurred by a Life Assurance Company for the purpose of promoting, carrying on, or extending the business of the company, should, with the exception of commission, be included under the heading of "Expenses of Management" in the Accounts registered in conformity with the Act." It is not however advisable, except in the case of very large companies, for the expenses of ordinary trading companies to be condensed under this heading, since shareholders, as a rule, prefer to see in the Profit and Loss Accounts presented to them greater detail in connection with the expenses of management.

RENT.—To ascertain the amount of rent chargeable is a simple matter, as whether it has been paid or not, the annual rent can, if not known, be easily ascertained by an inspection of the lease or leases of the premises on which the concern is being worked, and should the Profit and Loss Account be for a year, the exact sum named in the lease or leases must be charged. Should however, the rent to be charged be in respect of a broken period of a year—as frequently happens in the first Profit and Loss Account of a new concern—or possibly some amount in excess of a year, the constructor has to satisfy himself that the rent charged is actually calculated to the date on which the books are closed, except that in the case of firms and companies whose books are closed either at the 31st March, 30th June, 30th September, or 31st December, it is not usual to take into account the rent for the day or days that have elapsed since the last quarter day, on which rents are usually due. With this exception the rent should be deemed to accrue *de die in diem* and a calculation must be made from the date up to which the rent was charged in the previous Profit and Loss Account, if any, and in the case of the first Profit and Loss Account from the date when the concern became liable to pay rent, to the date on which the Accounts are made up. The amount included in the Profit and Loss Account in respect of rent not paid before the date of closing the books will, as a matter of Book-keeping, appear in the amount

due to creditors in the Balance Sheet. All questions of this nature should be dealt with when settling the Journal entries which have to be made previous to the closing of the books, and the taking out of the Trial Balance ; but it is more convenient to refer to them when dealing with the Profit and Loss Account, than doing so in any other place, as it does not fall within the province of this work to refer to the theory and practice of Book-keeping up to the taking out of the Trial Balance. In many cases the preparation of the Profit and Loss Account is undertaken from the Trial Balance by a different person to the one who has charge of the Book-keeping up to that point.

In the case of the second and future Profit and Loss Accounts of any concern, if the correct apportionment has been made when drawing up the first one, and the payments for rent are made regularly, the amount to be added to the creditors in every succeeding Balance Sheet, and consequently the balance due for rent shown in the Ledger before drafting the Journal entries, will be the same year by year.

It sometimes happens that the proprietors of a business take larger premises than they can possibly occupy, either with the object of being independent of a landlord, or for the sake of being able to obtain further accommodation for an expected increase in their business at a later period. When the portion of the building not used by the business is let to tenants, it is preferable that the amount charged for rent in the Profit and Loss Account should be the amount payable for rent less the amount receivable from the tenants during the period, rather than that the full amount of the rent should be placed on the expenditure side and the rent received as income on the other side. Unless the rent account is treated in this manner it is impossible, except by means of a special calculation, to make comparisons of expenditure from year to year or to ascertain what percentage the profit bears to the turnover. In any other way the percentages would work out in a wrong manner and consequently give misleading results.

Should the acquisition of a lease prove such an advantageous purchase that the rents received are so high in proportion to the rent paid as to leave the net amount charged against the Profit and Loss Account a sum wholly inadequate having regard to the accommodation reserved for the business, it would be a more proper

way to treat the amounts receivable and payable for rent in a separate statement, and actually charge the Trading or Profit and Loss Account with the rent which would have to be paid were the proprietors of the concern tenants of independent parties from year to year. If the rent account is dealt with in this manner the amount of rent charged in the Profit and Loss Account will be carried to the credit of the Rent Revenue Account.

RATES.—Rates being usually paid in advance, it seldom happens that at the date on which the books are closed there is any amount remaining unpaid. As a rule the Rates have been paid up to a date later than the one on which the books are balanced, in which case, to be strictly accurate, the Profit and Loss Account should only be charged with the actual proportion of the Rates paid up to the date on which the books are closed, leaving the balance in suspense to be carried to the following period. This balance will consequently be taken to the credit side of the Balance Sheet, and is in fact a genuine asset.

TAXES.—The same remarks apply to Taxes, and as these are paid only once a year, whereas Rates are usually paid half-yearly, it frequently happens that the unexpired portion of the Taxes paid may be in excess of the portion applicable to the period expired. There is consequently a strong reason for the proportion hypothecated to the date after which the accounts are made out being carried forward to the credit side of the Balance Sheet and treated as an asset. The demand notes, or, if paid, the collector's receipts for both Rates and Taxes should be inspected by the Accountant preparing the Profit and Loss Account so that the actual date up to which the payments are made can be ascertained and the division between the present and succeeding Profit and Loss Accounts be accurately calculated.

SALARIES.—The remuneration of the clerks who are engaged in the Book-keeping department, or on general correspondence, etc., and in the case of a Company, that of the Secretary and the Manager, should be included under this heading and be kept distinct from the amount paid for wages. The amount to be charged against the Profit and Loss Account should be calculated up to the date on which the books are closed, and if not paid by that date the members of the staff should be included amongst the creditors in the Balance Sheet for the amounts due to them.

There should also be included under Salaries and charged in the Account any additional amount which it may be intended to give the staff by way of bonus, should this be decided upon before the books are closed, so that the following period may not be charged under this heading with any expenditure which properly belongs to the current Profit and Loss Account.

WAGES.—The wages of messengers, housekeepers, and of any persons in a subordinate position, who are paid wages merely in connection with office work, and which wages do not belong to the Trading Account, should be set out under a heading by themselves in the Profit and Loss Account, and not mixed up with salaries, although, of course, should it be desirable to amalgamate them in one item "Salaries & Wages," they may be added together and included in one sum under this joint heading.

When a separate Trading Account is not prepared and the whole of the income and expenditure is brought into the Profit and Loss Account, then the entire amount of the wages both for the counting-house, sales and manufacturing departments, will appear under this heading.

LIGHTING.—Under this heading, or under separate headings if desired, should be included the cost of the lighting of the establishment, whether by electric light or by gas. In those cases where there is a factory or a warehouse as well as a counting-house, it is desirable that both in the case of electric lighting and gas lighting there should be a separate meter or meters in each department, so that the cost of the lighting of the warehouse may be charged in the Trading Account before the gross profit is ascertained, leaving the cost of the lighting of the counting-house to be inserted in the Profit and Loss Account.

The amount to be charged should be ascertained from the demand notes, and care should be taken that any discounts which are allowed either for prompt payment or for any other reason, are deducted if it is proposed to take advantage of them.

WATER.—In the same way the cost of the water used in a factory or warehouse may be separated from the cost of the water used by the counting-house and the former charged against the Trading Account and the latter against the Profit and Loss Account. The amount should always be ascertained from the demand notes and due allowances should be made for any deduction, whether in

consequence of an early payment (if taken advantage of) or in respect of an allowance in consideration of there being an especially large consumption.

PRINTING, STATIONERY, ETC.—Except in the Accounts of Publishers, Newspaper Proprietors, etc., where the cost of printing should be always separately stated, it is usual to combine under the same heading in a Profit and Loss Account the items of printing and stationery, frequently they are included in one account from the same tradesman.

The whole charge for printing and stationery for the period must be charged against the Profit and Loss Account, unless in the printing account there have been charged show cards, hand bills and other items of this description, only part of which have been used and where it is expected that the balance in hand will be made use of at a later period. In such a case it is allowable to value the balance of printed goods on hand either at cost or at some diminished price and take credit for the stock in the Balance Sheet, so as to reduce the charge against the Profit and Loss Account.

In the same way credit may be taken for any stationery in hand and also, when there has been any heavy expenditure on Account books, which may last for years, it is also allowable to take credit for a proportion of such expenditure in the Balance Sheet, and as a result the Profit and Loss Account will only be charged with the balance. It is not, however, usual to go into small matters of this kind, but to fully charge expenditure of this nature against the accounts of the period during which it is incurred, although some of it may be of advantage to the business in future years.

INSURANCE.—Under this heading should be placed the premiums applicable to the period embraced by the Accounts in respect of insurances against fire, insurances to secure compensation payable under the various Employers' Liability Acts and for fidelity guarantees in respect of losses which may be incurred through the defalcations of cashiers, collectors, or other employees. Premiums for insurance against burglary, damage to horses, etc., and practically premiums paid in respect of every class of insurance except that connected with life, or any payment made to an Insurance Company to provide for loss arising through any wasting assets also come under this heading. Premiums in respect of these special insurances should be classified under other headings.

Insurance premiums are always payable in advance, and therefore, as a rule, on any balancing date it will be found that the premiums paid in respect of the various classes of Insurance either expire at that balancing date or else are applicable to a period expiring at a future date. A concern is therefore entitled to take credit for the unexpired proportion of its premiums, thus reducing the charge against the Profit and Loss Account and bringing the balance to the credit side of the Balance Sheet.

ADVERTISING.—The amount to be charged against the Profit and Loss Account in respect of advertising is a matter which often requires consideration before coming to a decision. For many businesses advertising is the great insurer of their success and the money expended during any particular period may yield results for a longer or shorter term, as the case may be, after the period has expired. The method to be adopted for arriving at the amount to be charged against the Profit and Loss Account is to consider the nature of each item of expenditure on advertising and the period for which it may be considered to produce an effect for procuring business, and to charge a proportion against the Profit and Loss Account under consideration, leaving the balance, being the amount which it is considered will yield results after the close of the period, on the credit side of the Balance Sheet to be charged against future Profit and Loss Accounts.

CARRIAGE.—Under this heading will be placed the cost of conveyance of all goods sold, and in some cases of goods purchased, either by railway, ship, or canal, and in some instances also the cartage. It depends, however, upon the nature of the business as to whether cartage should or should not be kept distinct from carriage. The carriage paid on goods purchased for re-sale may be added to the cost price of any such goods which may be in stock at the date of closing the books and be taken credit for in the Balance Sheet under the heading of "Stock-in-trade."

POSTAGES.—No matter how large or how small a concern, the practice of entering every letter in a postage book should be strictly observed, as the temptation to misappropriate money by an employee, of cash entrusted to him for disbursement in postages, is unfortunately often given way to. The Postage Book should be added up and carefully checked by a principal or a director, in the case of a company, from time to time, and the stamps in

hand should be counted and agreed with the balance of the Postage Book at uncertain intervals.

In offices where a large stock of stamps is kept in hand, the value of the stock on the date of the Balance Sheet should be deducted from the amount expended before arriving at the amount to be charged against the Profit and Loss Account and may be taken credit for in the Balance Sheet with the "Cash in hand," or may be stated separately.

DIRECTORS' FEES.—The fees payable to the Directors of a company should be entered in the Profit and Loss Account under a separate heading, and should not be included under the heading of Salaries.

The fees are those payable to the Directors for their services in their capacity as members of the Board and there should not be included under this heading any amount which may be payable to one or more of them for special services rendered or for any remuneration which may be payable to one or more of them for acting as Managing Directors.

Directors' fees are either fixed by the Articles of Association in the case of limited Companies, or by the Deed of Settlement or Private Act of Parliament in the case of other Companies, or in some cases they are voted by the shareholders at their Annual General Meetings. In some companies part of the fees are settled by the Deed of Constitution of the company, leaving the balance to be voted by the shareholders.

When the whole or part of the fees is settled by the particular Deed of Constitution the company may be working under, the constructor of the Accounts must be careful to ascertain that the full amount is included, whether drawn or not. If for some reason or other the Directors may not have drawn their minimum fees, owing to the affairs of the company being in such a condition that they do not feel justified in taking them, they should be asked distinctly whether they intend to claim these fees eventually or to waive them. In the former case the full amount must be charged in the Profit and Loss Account; while in the latter case a Minute ought to be passed by the Board formally waiving the whole or a portion of the fees as they may elect.

Should the fees be dependent upon the profits, then the necessary calculations would have to be made and the amount agreed

with the Directors before charging it in the Profit and Loss Account.

Should the entire fees have to be voted by the shareholders, it is then impossible to insert any amount in the Profit and Loss Account, and therefore a statement should be made on the face of the Accounts showing clearly that the profit is subject to the amount to be voted in respect of the fees to Directors.

Directors are not entitled to receive from the company the income tax on their fees should they be drawing the maximum amount of fees whether authorised by the Deed of Constitution or voted by the shareholders. It is the duty of every person to pay his own income tax, but it is however usually considered that where the Deed of Settlement prescribes that the company shall pay the income tax on the fees of the Directors or where the shareholders pass a resolution to that effect, the Directors may receive it. It must, however, be borne in mind that strictly this is not legal and it is mathematically impossible to calculate the amount, inasmuch as the payment of the income tax is an additional source of income for the Directors and is in itself as much taxable as is the original amount.

REMUNERATION OF A MANAGING DIRECTOR OR MANAGER.—The remuneration of a Managing Director or a Manager is sometimes a fixed salary, sometimes a commission, and sometimes a minimum fixed salary combined with a commission. The commission is calculated sometimes on the turnover, sometimes on the gross profits, and sometimes on the net profits of the concern. In all cases the constructor, before arriving at the amount, should peruse the Agreement with the Managing Director or Manager and also refer to any minutes of the Board on the subject, and when he has arrived at the amount should endeavour to agree it with the Managing Director himself before making the necessary Journal and other entries in the books of account.

Where the Managing Director is paid a salary only, the constructor may enter the amount in the Profit and Loss Account under the heading of "Salaries," and the amount is easily ascertained; but when he is paid a commission, the amount to be inserted requires more care.

In the case of a commission being allowed on the turnover, a deduction should be made from the turnover in respect of all goods that have been returned before the commission is calculated.

If the agreement does not allow of this it has been badly drawn, for to allow a Manager commission on the goods sent out and not make a deduction in respect of the goods returned is to offer a premium on dishonesty.

When the commission is payable on the gross profits, care must be taken that all the expenditure properly chargeable against the Trading Account—as opposed to the Profit and Loss Account—has been included, and it is possible that the Agreement may be so drawn that even the commission is not to be allowed until a deduction has been made in respect of losses by bad debts.

When the commission is payable on the net profits, it is usual to insert in the Agreement words defining the net profits as being those which are certified by the Auditor, making his decision final, and this is a very wise course to be adopted. Where, however, this is not the case, the Accountant in arriving at the amount to be charged in the Profit and Loss Account and passed to the credit of the Manager must ascertain that not only are all the expenses of the business, as charged in the Profit and Loss Account, taken into consideration, but that the necessary deductions in respect of depreciation, estimated loss on realisation of debts, and other items of this nature have been taken into account. It is possible that the Agreement may not allow interest on borrowed money such as on debentures, mortgages, etc., income tax, or remuneration of Directors (in the case of a company) to be deducted before calculating the commission, while in other Agreements the exact nature of the deductions allowed are expressly set out. These points must be taken into consideration by the constructor of the Profit and Loss Account.

COMMISSION.—The amount to be charged in the Profit and Loss Account under the heading of “Commission” requires great care, and the Agreements with travellers or any other officials who are paid commission must be scrutinised, as there are many ways of calculating the amount of commission to be charged.

Should the commission be payable on gross sales, it is possible that under certain circumstances it may be legitimately claimed on goods which may have been returned. When commission is payable on net sales or on sales without the word “gross” being mentioned, it is quite clear that before calculating the commission the value of any goods returned must be deducted before the

calculation is made. Where commission is paid on the gross profit, care must also be taken that all items of expenditure which are properly chargeable against what has been described as the Trading Account have been so charged before the calculation is made. On the other hand, it would be unfair to the traveller or any other employee who is paid by commission payable on the gross profit to have included in those charges any items of expenditure which belong to the Profit and Loss Account and not to the Trading Account.

Should the commission be payable on the net profits, care must then be taken that not only is all the expenditure charged, but there should be included items which will be referred to hereafter, such as allowances for possible losses on realisation of debts, depreciation, and other items.

TRAVELLING EXPENSES.—Before actually charging the total amount which during the period has been debited to the Ledger Account of Travelling Expenses, the constructor should go through them in detail for the purpose of ascertaining whether they are all properly chargeable against the concern, or whether any of them should not be charged personally to some individual. Where in agreements either with the travellers or other employees it is arranged that their salaries include a special allowance for travelling expenses, or that they are to be paid by commission to include all expenses, it is most important that the constructor should satisfy himself that all expenses are borne by the travellers and not by their employers.

In constructing the Profit and Loss Account of a limited liability company, the Accountant must bear in mind that by a decision in the Law Courts Directors are not entitled to charge their travelling expenses in connection with their journeys to and from Board Meetings unless the Articles of Association of the company specially authorise this expenditure, or the shareholders at a General Meeting have passed a resolution to the same effect. It is quite as much the duty of a Director to bear the cost of his conveyance to and from a board meeting as it is incumbent upon a book-keeper or any other employee to pay his expenses in going to and from the place of his daily employment.

REPAIRS AND RENEWALS.—Under this heading should be charged the entire expenditure incurred during the period, for the repair

of buildings, plant, machinery, furniture, etc., and also any amount expended on the renewal or replacement of any property of the concern which does not form portion of the stock-in-trade, or of goods intended for sale in the course of business. Expenditure of this nature should under no circumstances be added to a capital account representing any of the property which may be either repaired or renewed, as to do so would have the result of ultimately carrying into the Balance Sheet an asset at an amount beyond its legitimate value.

Any profit shown by improperly eliminating expenditure of this class from the debit side of the Profit and Loss Account would not be a legitimately earned one. Should however an exceptional amount of expenditure of this description be incurred which is not likely to be repeated for some considerable time, it is, under certain circumstances allowable to what is called "spread" this expenditure over a period in excess of the one embraced by the Accounts, in which case there would only be charged against the Profit and Loss Account of the period the proportion so determined. The question as to what expenditure may be properly spread over a period extending beyond the balancing date is dealt with in Chapter XII, when considering the credit side of the Balance Sheet.

CLAIMS UNDER POLICIES.—This will be the principal item chargeable against the Revenue Account of Insurance Companies of every description, whether of Life, Fire, Marine, Guarantee, Accident, Burglary, etc.

Now every Insurance Company has always in its Office a number of claims which are in process of investigation, and upon which the Board of Directors have not practically adjudicated. There must therefore be included under the heading of "Claims" in preparing the Revenue Account not only claims which have arisen and which have been paid during the period, but, in addition, careful calculation must be made of the amounts which will ultimately have to be paid in respect of those claims notified to the Office but not yet adjudicated upon.

A schedule should be prepared of all outstanding claims, which may be ruled in the following manner—

1. No. of Policy.
2. Name of Claimant.
3. Date of claim.

4. Amount of claim.

5. Estimate of liability expected to rank.

If the Accounts for the preceding period have been properly prepared, there will have been made an allowance of the same description at the close of that period, and which in the ordinary process of Book-keeping will be deducted from the amount of claims paid during the current period. There will then have to be added to the Ledger Account of "Claims" the total amount of column 5 of the above schedule to ascertain the total claims to be charged against the Revenue Account.

To this total may be added the amount of the reserve which it is considered prudent to make for claims likely to arise under the policies in force, but it is far preferable to set this out under a separate heading. In the case of Life Assurance Companies it is not usual to create such a reserve, claims which will eventually arise under policies in force being dealt with in the periodical actuarial valuation.

INTEREST ON MORTGAGES.—The amount to be charged in the Revenue Account in respect of Interest payable to Mortgagees is simple of calculation, it being the total amount of the interest payable on the mortgages quite irrespective as to whether any of it has been paid during the period, or is only partly paid and partly due. Journal entries should be made to bring the exact amount of this interest into the Book-keeping

A schedule should be made of all the Mortgages showing the rate of interest, the annual amount due, and then, if the period is not exactly one year, the calculation of the interest for the period.

INTEREST ON DEBENTURES.—The amount to be charged in the Revenue Account in respect of Interest on the Debentures of a Company can be easily calculated and requires no special comment, except that it is payable quite irrespective of whether profits have, or have not, been earned, and therefore must be charged as a fixed item of expenditure.

INTEREST ON CALLS PAID IN ADVANCE.—The Directors of nearly every company working under the Companies (Consolidated) Act, 1908, are usually authorised to receive from members all or part of the balance unpaid on their shares, whether or not any call has been made on such shares. In preparing the Profit and Loss Account, a

schedule should be made of such calls paid in advance of anticipated calls and the agreed interest calculated thereon. This interest is on a different footing to the dividends paid to shareholders, inasmuch as it has been decided that it is payable out of the general assets of the company, even including its available capital. Consequently, as it is not merely payable out of profits, it is an actual charge against Revenue, and must therefore be included amongst the ordinary expenditure of the company.

LOSS ON REALISATION OF SECURITIES.—Should any loss take place on the sale of securities in which surplus money of a concern has been temporarily invested, or whether a loss has arisen in the ordinary course of the transactions of a Financial or Investment Company whose business it is to buy and sell securities, such loss must be fully charged against the Profit and Loss Account of the period, as it would be quite wrong to set off against such a loss any surplus there may be in the market value of any unrealised securities. It would however be quite legitimate to place the profit made on the realisation of other securities to the credit of this account and thereby diminish the loss shown, as, unless there is anything in the Articles of Association of a company requiring both the profits and losses on transactions of this nature to be separately set out in the Accounts, there can be no objection to merely bringing into the Profit and Loss Account the balance of such transactions.

PROXIES.—The Directors of companies frequently issue proxies to the shareholders so that those who are not present at a general meeting may register their votes on resolutions submitted to the meeting, should a poll have to be taken. These proxies are issued sometimes stamped and sometimes unstamped. For many years, in consequence of a decision given in the Law Courts, that the payment of the cost of issuing proxies was a misapplication of the funds of a company, on the ground that the shareholder who votes by proxy does so for his own convenience solely, and not for the benefit of the company, these expenses were sometimes charged in the Profit and Loss Account and objected to by the Auditors, and sometimes were paid for by the Directors themselves. Fortunately the matter was again brought into the Courts in 1906 when the Court of Appeal held that it was a question whether it was not the duty of the Directors to issue proxies and if it were their duty when their policy was attacked to issue circulars and proxies, they were entitled to be

indemnified out of the funds of the company against any costs thus incurred. They had a positive duty to inform the shareholders of the facts of their policy and their reasons why they might consider that this policy should be maintained and supported by the votes of the shareholders and accordingly the Directors were justified in trying to influence and secure votes. The Court accordingly decided that when Directors acting *bonâ fide* in the interest of the corporation, and not to serve their own interest in any way, issued proxies, then any expenses legitimately incurred might be paid for out of the funds of the company.

DONATIONS TO CHARITIES, ETC.—When during the period included in the Profit and Loss Account donations or annual subscriptions to a hospital or charity of any description have been paid, the constructor, before carrying this item to the debit of the Profit and Loss Account, should ascertain by inquiry, whether this is meant to be a charge against the concern, or whether it should not be borne against the private drawing account of one of the Partners, or, in the case of a company, whether it is a proper charge to be borne by the company. The question as to whether subscriptions of this sort are proper or improper charges against the Accounts of any concern in which others are interested, beyond merely a partner or partners—who of course are at liberty to do what they like with their own money—depends greatly upon the class of business undertaken by the concern. In the case of large Works such as Collieries, Engineering Firms, or Companies employing a number of men, and where accidents occur which are treated by a local Hospital or Dispensary, the contribution to these funds is not merely a proper business expense, but is as much a duty upon a company as it is upon an individual to support institutions of this nature. Unless therefore the constitution of a company prohibits such donations being made, they are a legitimate charge against the Profit and Loss Account.

BAD DEBTS WRITTEN OFF.—It is practically impossible for a trading concern, however carefully managed, not to sustain occasionally a loss in the course of the realisation of its book debts, owing either to the insolvency of some of its customers, or to intentional dishonesty, and the method of arriving at the amount to be charged against the income as a provision for such loss sometimes requires careful consideration. The best plan to be adopted for arriving

at the correct amount is for the constructor of the Profit and Loss Account to go carefully through the list of debtors with the book-keeper, or some other official, and place a mark against all such debtors respecting whom he does not feel absolutely satisfied that they will ultimately discharge the full amount of their indebtedness. He should then prepare a separate list of these doubtful debtors, which list should contain a column for the name of the debtor, and four money columns headed respectively "Bad," "Doubtful," "Amount expected to be realised," and "Amount of Reserves." Where he has good reason to believe that at least some proportion, if not the whole of the amount, will be ultimately received, the full amount of the debt should be placed in the "Doubtful" column, and where he is satisfied that the whole amount is irrecoverable, this should be placed opposite the debtor's name in the column marked "Bad."

Having completed this list, the total of the amount in the column headed "Bad" should be written off by means of a Journal entry to a "Bad Debts Account" in the Ledger, crediting of course the Personal Accounts, and thus eliminating them entirely from the books. The total amount of the "Bad Debts Account" thus debited in the Ledger should be charged in full against the Profit and Loss Account.

The items in the column headed "Doubtful" should then be considered one by one and the amount which it is expected each debt will ultimately realise should be placed in the column designed for that purpose, the balance of the debt being placed in the column headed "Amount of Reserve." The total of this column should be charged in full against the Profit and Loss Account, or it may appear as a separate heading in this Statement and on the debit side of the Balance Sheet as "Reserve for Doubtful Debts," or some similar heading.

Another method is to deduct a percentage from the total amount of the debts considered doubtful, but this is not so satisfactory as to consider each debtor's position. Another plan even less to be recommended is to deduct a small percentage from the total of the amount due from debtors.

PRELIMINARY EXPENSES.—The stamp duty payable on the registration of a company, and all other expenses incidental to its formation, are usually brought together into an Account in the Ledger

headed "Preliminary Expenses," and the following items of expenditure come under this category.

The costs of the Solicitor who registered the company, the costs of the Solicitors to the Promoter and the other parties, if any, who have interests which are ultimately consolidated into the company, the stamp duty on registration, the fees of professional Accountants who may have been called in to make an examination of the books of a going concern, when such is taken over by a company, the costs of Parliamentary Agents if the company has been incorporated by a private Act of Parliament, the fees of any engineers, architects, and other professional men who may have been employed according to the class of company promoted, the expenses of printing prospectuses and any documents which may accompany the prospectus, of printing the articles of association of a limited company, maps, plans, etc., the cost of issuing prospectuses, the commission paid to any person in consideration of his subscribing or agreeing to subscribe whether absolute or conditional for shares in the company, or procuring or agreeing to procure subscribers whether absolute or conditional for any shares in the company, and the amount or rate per cent. of the commission agreed to be paid are respectively authorised by the articles of association and is disclosed in the prospectus showing that the commission paid or agreed to be paid does not exceed the amount or rate so authorised, also any reasonable or lawful brokerage. The stamp duty on the allotment letters and on any contracts or conveyances to which the company is a party are also usually included among "Preliminary Expenses."

In those cases, however, where the vendor or other person has contracted to pay any part of such expenses, the constructor of the Balance Sheet and Profit and Loss Account will of course be careful not to include such expenditure under the heading of "Preliminary Expenses," and if they have been paid in the first instance by the company, he should require the same to be properly debited to the proper person in the books and include him among the debtors when constructing the Balance Sheet.

As a rule, these Preliminary Expenses amount to such a sum that it would press unfairly on the first year's Profit and Loss Account of a new company were they charged direct to that year's accounts, and it is therefore the practice to "spread" this expenditure over a certain number of years, say from three to five, but

it is seldom desirable to exceed this limit. No actual decision in the Law Courts has yet been given as to the legality of this, and probably no test case will ever be taken there, as it is considered that the ordinary mercantile practice of dealing with expenditure of this nature by "spreading" it over a number of years justifies it from a legal point of view. The Directors of a company having settled the number of years over which the Preliminary Expenses may be spread, the constructor of the Balance Sheet can accept the minute of the board as his authority for so treating it in the accounts. He should accordingly divide the amount of the Preliminary Expenses by the number of years agreed upon by the Directors, charging one portion against the Profit and Loss Account of the first year, leaving the balance on the credit side of the Balance Sheet to be extinguished at the end of the prescribed period.

When a "going concern" in private hands is taken over by a new company the shares are occasionally issued at a premium, the premium being made use of to pay wholly or partly for these Preliminary Expenses in order to avoid expenditure of this nature appearing on the credit side of the Balance Sheet, as it is undoubtedly a blot on the Balance Sheet until removed. Although there is no strict rule on the subject, still it may be taken as a commendable practice that when shares are issued at a premium the whole of the premium should be devoted to the extinguishment of the Preliminary Expenses Account should there be any balance outstanding, and not made use of for other purposes. In the case of a subsequent issue of shares at a premium the premium should be first applied to the payment of the expenses of this particular issue. Any surplus left after paying these Preliminary Expenses or the expenses of a later issue of shares may be carried to a reserve account or even taken credit for in the Profit and Loss Account should this not be *ultra vires*.

LAW COSTS.—The constructor of the Profit and Loss Account should ascertain if the bills of the solicitors of the company have been rendered to the date at which the books are closed, and, if not, whether there is any outstanding account, or whether the company is engaged in any litigation at the date of the Balance Sheet. When he is aware there are liabilities to the Solicitor and it is impossible for the Solicitor to deliver a bill of costs, he should obtain an estimate of the probable costs to date so that the amount may be included

amongst the expenditure. Expenses of Parliamentary Agents should also be charged unless they are of such a nature that they can be added to a capital Account.

AUDITORS' FEES.—As a rule the fees of the Auditors charged against the Profit and Loss Account are those referring to the audit of the accounts for the previous period. In many instances, however, it is the practice to include the fee for the audit of the current year's accounts, although the audit of the same may not commence until after the Profit and Loss Account and Balance Sheet have been settled. To this there cannot possibly be any objection, and many consider that it is more accurate to include these fees, even if an estimate has to be made, than to entirely omit them from the Accounts.

INCOME TAX.—It is usual in all financial, commercial, and professional Profit and Loss Accounts to charge the amount paid or payable in respect of income tax amongst the expenditure of such Profit and Loss Accounts as though it were a working expense. To this no objection can possibly be raised, as it ensures the income tax being provided for in a businesslike way, and only treats as profit available for division amongst the shareholders of a company or the partners of a private concern the balance after this tax has been provided for. At the same time it must be understood that the income tax is only a tax chargeable after the profits have been ascertained, and therefore in law it is not a business expense and is not allowed to be so treated when preparing the return to the Commissioners for income tax, which every concern or individual has to make every year. For the purpose of being as accurate as possible an estimate should be made of the income tax payable on the current year's accounts and the balance carried to the credit of the Income Tax Commissioners. If this is not done the first Profit and Loss Account of a concern will have no income tax charged against it and from that time forward will always have practically the amount of a year's income tax omitted from each year's financial statement.

In preparing a Profit and Loss Account, should the constructor discover that the income tax has been paid on the fees of the Directors, he should satisfy himself that the total amount of the fees and income tax do not exceed the total amount of the remuneration prescribed by the Articles of Association. If they do not and the

amount of the fees are voted at the annual general meetings he must be satisfied that the payment of income tax has been authorised by a resolution of the shareholders in general meeting. This is necessary to make the payment legitimate, as it has been decided that it is the duty of Directors to pay their own income tax unless provision has been made in a proper legal way to the contrary.

Having regard to the fact that nearly every class of trade is carried on by joint-stock enterprise, it is quite impossible in a work of this nature to lay down rules showing how every possible item which might occur either on the debit or credit side of a Profit and Loss Account should be dealt with when constructing the Statement.

The general principle, however, which applies to all these items is that the income which has been earned between the opening and closing dates of the Profit and Loss Account should be properly brought to credit, and that nothing should be included which appertains to a future period without such a reserve being made that it would practically have the effect of annulling this credit, and on the other hand that every item of expenditure properly chargeable against such income has been included in the debit side.

There however remain for consideration, before actually closing the Profit and Loss Account and ascertaining whether it results in a credit or debit balance, certain items which have to be charged in respect of what is known among professional Accountants as "Depreciation"; this subject however will be separately dealt with in the following chapter. In the same way the question of reserves to meet probable losses which may arise on the ultimate realisation of debts due to the concern on sales or other income, which have been taken credit for in the Profit and Loss Account, also requires consideration, and this will be referred to in Chapter XII when dealing with the Balance Sheet.

Subject to the above remarks as to any amount to be carried to reserve or any amount to be debited as "Depreciation" in the Profit and Loss Account, there only remains the closing of the Account, and thus ascertaining whether it has resulted in an excess of income over expenditure, which means a profit, or an excess of expenditure over income, which indicates that the concern has been carried on at a loss.

It has already been pointed out that the best method of submitting a Profit and Loss Account, whether of a company, an

individual, or a firm, is to divide it into three portions. The first two portions, being the Trading Account, and the Profit and Loss Account proper, have already been dealt with. The third department is what is usually known as an "Appropriation Account," which should be constructed by first of all transferring either to the debit or credit side the balance brought forward from the previous Profit and Loss Account. To the debit side of this account will be charged any distribution that may have been made in the interval by way of an interim or other dividend to shareholders, or the drawings of an individual or of the members of a firm. There should also be carried into this account the balance showing the net profit or the net loss of the year as shown in the current Profit and Loss Account. The balance of this Appropriation Account will then show either the surplus or unappropriated amount of profit of the concern to the date of closing the books, or the adverse balance represented by the total losses made by the concern to date, or the balance of profit or loss to that date as affected by drawings or dividends which have been paid in excess of the profit. On whichever side the balance may be, it will be carried into the Balance Sheet, thus closing the third division of the Profit and Loss Account.

CHAPTER XI

DEPRECIATION

THE charges against the Profit and Loss Account, or Income and Expenditure Account, or Revenue Account, whichever the statement may be styled according to the class of undertaking it relates to, have so far as they have been already considered consisted of items about which few difficulties arise beyond those of testing their accuracy, and ascertaining as far as possible that none have been omitted. There remains for consideration, in connection with the ascertainment of the true net profit, a branch of accountancy which is not confined to the verification of facts. This branch deals with amounts which have, as a rule, to be charged against the Profit and Loss Account, and which can only be arrived at by taking into consideration a number of incidents, upon which has to be brought to bear general experience, and, in some cases, special technical knowledge. In accountancy language the subject to be now discussed is known as "Depreciation," and if the construction of Profit and Loss Accounts could be carried out without reference to this difficult but interesting subject, Accountancy might certainly be described as one of the exact sciences.

There is scarcely a concern, except such as do not occupy offices of their own and have their affairs administered by someone who finds office accommodation for a fixed annual payment, that is not possessed of buildings, or plant, or machinery, or rolling stock, or at least a lease or office furniture. Most concerns possess either patents, or some class of property which is to a greater or lesser degree subject to deterioration by the mere process of age, or what is familiarly described as "wear and tear." Such properties are known amongst professional accountants as "wasting assets," and it is not considered that the balance of any Profit and Loss Account, whether such balance shows a profit or a loss, has been properly arrived at, unless provision has been made for the gradual diminution in value of assets of this description. It must be evident that to determine the amount to be inserted among the expenditure in the Profit and Loss Account in respect of depreciation is not such an

exact matter as charging this Statement with the actual items already paid or which eventually have to be paid.

Depreciation so far as it relates to Statements of Account affects both capital and revenue.

As affecting capital, it is that amount which is deducted by gradual stages from the Ledger Capital Account and charged against successive Profit and Loss Accounts leaving the balance shown in the corresponding Balance Sheet on the credit side, as representing the value of the wasting asset at the date of the Balance Sheet having regard to its being owned by a going concern. Its value is shown in successive Balance Sheets between the cost at which it was originally acquired and its value as shown on the face of the last Balance Sheet.

As regards revenue, it is the amount which is charged gradually against successive Revenue or Profit and Loss Accounts for the purpose of making an equitable charge against each successive Statement, so as to reduce the various "wasting assets" to the balance of the items representing these "wasting assets" shown on the credit side of the Balance Sheet annexed to the last of such Profit and Loss Accounts.

In every class of manufacture, in addition to the maintenance of any buildings in which such manufacture is carried on, there is a gradual consumption arising through age or from ordinary wear and tear. Again, the introduction of new classes of machinery renders it necessary to replace machinery, which by itself would last for a considerably longer period, but which has become obsolete through the introduction of more up-to-date machinery.

Very many companies have been formed for the purpose of working mines both on freehold and leasehold properties. In the case of a company of this nature owning the freehold, on which its operations are carried on, the period of time over which the mine can be worked is only limited by the amount of ore which can be produced in paying quantities. In the case however of a leasehold mine it is not only limited so far as its leaseholders are concerned by the length of the lease, but in addition the question arises as to whether it can be worked so as to yield profits during the whole of the period of the lease. It is quite evident that before the profit earned during any period by a leaseholder can be definitely ascertained, provision must be made for a return of the capital embarked

in the concern, so that at the termination of the enterprise the capital will be available for employment in other directions. The amount so charged in respect of any of the before-mentioned examples is known as "Depreciation."

The same term is also applied to the amount to be charged against successive Profit and Loss Accounts so as to provide eventually for the return of the capital expended by a patentee in perfecting his patent, or for the return of the price paid for the acquisition of a patent from the original patentee, or some other transferee of the patent.

The term "Depreciation," however, is the one usually applied by Accountants as representing the amount which has to be charged against the Profit and Loss Account in respect of any class of wasting or perishable assets, before the real profit from an accountancy point of view is arrived at. The expression "accountancy point of view" is used advisedly, for the reason that the law on the subject does not, unfortunately, coincide with what may be called the common-sense and practical way of dealing with this important matter. At the same time, the principal case decided in the Law Courts relating to this subject has been much misunderstood.

The case in question is known as "*Lee v. The Neuchatel Asphalte Company*," and is frequently quoted as an authority for it not being necessary, from a legal point of view, to charge the Profit and Loss Account with depreciation on any wasting asset before distributing the profit shown on this statement. The judgment of the Court did not lay down any such principle, and the case may be referred to as dealing not only to a certain extent with the law on the subject, but as affording the reader a very good example of what the term "depreciation" really means.

In July, 1873, the Neuchatel Asphalte Company was incorporated under the Limited Liability Acts, to acquire as from the first day of that month, and on the terms expressed in an Agreement adopted by the Company, a concession granted by the Government of Neuchatel and held by the Neuchatel Rock Paving Company for the exclusive right of getting the bituminous rock and mineral products from the Val de Travers and all the mines, works, business, property, and assets of that Company and also the sub-concessions held by five other companies, and the business, properties, and

assets of those companies. There were other objects authorised by the Memorandum of Association for the Company to carry on, and the consideration which the Neuchatel Asphalte Company was to pay for their concessions and rights was the allotment of a number of Preference and Ordinary Shares to the Vendors as fully-paid, under the above Agreement. The Articles of Association provided that the net profits of the Company should be applied, first of all in paying a dividend at the rate of seven per cent. per annum on the Preferred Shares, then a like dividend on the Ordinary Shares, and, after payment of such dividend, the surplus of the net profits should be divided rateably amongst the shareholders without preference or distinction.

The Directors had power conferred upon them by the Articles of Association, before recommending any dividend, to set aside out of the net profits of the Company such sums as they might think proper as a reserve fund to meet contingencies or for equalising dividends, or for repairing and maintaining the works connected with the business of the Company. The clause in the Articles relating to this expressly stated, however, that they were not bound to form a fund or otherwise reserve moneys for the renewal or replacing of any lease, or the company's interest in any property or concession.

Now this stipulation must be very carefully borne in mind in preparing a Trading or Profit and Loss Account of a company owning a mine or concession, as an extraordinary number of people are under the impression that the judgment of the Court of Appeal in this particular instance has made it law that it is not necessary to charge the Profit and Loss Account of any limited company with anything in respect of depreciation of a wasting asset of this nature. They are forgetful of the fact that this special exemption in the Articles of Association of the Neuchatel Paving Company was of course borne in mind by the Judge who first tried the action, and also by the three Judges of the Court of Appeal, when giving their unanimous judgment. This error is possibly due to the fact that the head-note to this case in the Law Reports, which purports to be an abstract of the decision, is now admitted to be an erroneous one, but even among professional Accountants there are many who, relying on this heading without carefully reading the arguments and the judgments delivered by the Judges, have come to this wrong conclusion.

The plaintiff, who was the holder of Ordinary and Preference Shares, brought an action on behalf of himself and all the other Shareholders, except the defendants, against the Company and the directors, alleging that the value of the concession had become depreciated and a large part of the capital lost, and that there could not be any profits out of which to pay dividends until such loss and depreciation had been made good. He also claimed a declaration that the Company did not, in 1885, earn a profit of £17,140 as shown by the Accounts or any profit available for payment of a dividend, and an injunction to restrain the Company and the Directors from paying a dividend.

The case was argued on both sides by some of the most eminent Chancery lawyers of the present generation, and the arguments of the plaintiff were practically based on the correct accountancy view. The Court of Appeal, however, accepted the decision which had been given by the Judge who first tried the case, in which he made use of the following remarks:—"So long as the Capital remains intact and the current receipts exceed the current expenditure, both according to the general law and under the provisions of these particular Articles of Association, it rests entirely with the Shareholders to decide whether the excess shall be divided among them or set apart as a reserve fund for replacing wasting assets, and the Court has no power to interfere with their decision, however foolish or imprudent it may seem to be."

These last words show that the Judge clearly saw the unsoundness of the principle, although he felt bound to give his judgment according to his interpretation of the law. There can be little doubt that for any individual to embark his capital in a venture similar to that of the Neuchatel Asphalte Company and treat as profit available for spending purposes any surplus shown on a Profit and Loss Account without having made therein a provision for the return of his capital at the end of the lease would be both foolish and imprudent. For a board of directors or any trustee to deal with the capital entrusted to them in this manner without letting their *cestui que trustent* know the effect of treating as income a surplus shown in the above manner would be morally a crime.

The only way to approach the question of the amount to be charged against a Profit and Loss Account in respect of depreciation is to regard it as being as much an absolutely necessary charge

against the income as is any amount actually paid or for which the concern is a debtor in respect of any item of expenditure. It is most important to bear this in mind, for one of the difficulties which is frequently met with by an accountant or book-keeper in preparing the Profit and Loss Account of a limited company, as also in preparing a similar document for a single employer or firm, is that his directors or his principals frequently prefer to first of all arrive at the balance left after charging the actual expenditure, and the amount required to pay the desired dividend, in the case of companies, or for their own drawings in the case of the partners of a firm, or for the private expenditure of an individual. This balance having been ascertained the amount to be written off for depreciation is then settled, and it necessarily follows that it must be something in amount not exceeding the balance. Now this is a thoroughly unsound method of arriving at the amount to be charged against the Profit and Loss Account, and when acted upon frequently results in such an insufficient amount as to place the directors of the company, the principals of a firm, or whoever may be the proprietor of the business, in an unsatisfactory position in times to come, which might not have been the case had the amount written off for depreciation been arrived at in a thoroughly businesslike manner.

Again it must be borne in mind that under certain circumstances those who are actually engaged in the preparation of the Profit and Loss Account of a concern may have no interest whatever in the future of such enterprise. For example, the promoter of a company formed to take over the business of a going concern is naturally anxious, where one of the inducements offered to intending subscribers is the amount of net profit which has been earned by the concern in past years, that these profits shall be shown on the prospectus in as favourable a light as possible. A dishonest promoter goes further than this, and is desirous that the Profit and Loss Account shall appear more favourable than it really is. As it is impossible, without obviously committing a fraud, to omit deliberately known liabilities or expenditure which has actually been incurred and which appear in the books, the most favourable method of presenting an inflated Profit and Loss Account is either to omit entirely the amounts which should be properly charged in respect of depreciation, or else to charge an amount inferior to

that which is known ought to be the proper allowance for depreciation. This, however, will be referred to later on, but it may here be stated that the constructor of the Profit and Loss Account of a company must not think that he is merely under a moral responsibility of satisfying himself that the charge for depreciation is made to the fullest extent, but that he is under a legal responsibility as well.

It is now thoroughly recognised that unless the constitution of a company specially decrees that depreciation need not be taken into consideration when preparing the Statements of Account to be submitted to a general meeting of shareholders, a Profit and Loss Account put forward for adoption which does not provide for this charge, and a Balance Sheet which, as a consequence, takes credit for assets above their known value are misleading statements. For presenting Statements of Account to shareholders upon which dividends are subsequently improperly declared and paid, directors and other officials of a company can be punished.

Quite apart, however, from this point of view, the constructor of a Profit and Loss Account, no matter for whom he may be acting, must look upon depreciation as an item demanding his most careful attention.

The amount to be charged against the Profit and Loss Account under the heading of "Depreciation" can never be arrived at in the same precise manner as can the other charges against Revenue, which are definitely fixed by the amounts either already paid or which have to be paid at some future date. It must always be a matter of estimate, but the estimate can in most cases be arrived at in an equitable manner and be based on reliable data as a result of experience, not necessarily of the concern in question, but of concerns carrying on a similar business. At the same time the special circumstances surrounding each concern must necessarily be taken into account.

It is desirable, where possible, that the assets which are subject to depreciation should be divided into as many headings as possible, so that the method of arriving at the depreciation on each of these assets may be done on a proper basis. In considering these assets item by item, it must be remembered that though there are many ways of dealing with depreciation, which will be first considered before expressing any opinion or recommendation as to the best

method, there should be only one aim in view. That aim should be to bring into the credit side of the Balance Sheet each wasting asset at its correct value from an accountancy point of view, which is, the cost price less the proper amount of depreciation charged against the current and previous Profit and Loss Accounts prepared since the acquisition of the asset. If this is correctly carried out, it will have the effect of ultimately bringing the value of each asset at the close of the period, such as the termination of a lease, the expiration of a patent, or the date by which an asset may be worn out by reason of age, to its value at that date, which of course in some cases will be zero, and the Profit and Loss Account for each period will have been properly charged with a fair and equitable proportion.

The following are methods of dealing with depreciation of assets—

1. Treating the asset as imperishable, and only charging the Profit and Loss Account with any expenditure which may be incurred in maintaining it in its supposed imperishable condition. Practically this treatment should only be applicable to freehold land, but the principle is frequently applied to buildings of a substantial nature erected on freehold land, it being contended that as long as the building is maintained and the cost of maintaining it in its original condition is charged to Revenue, there is no need to write off any amount for depreciation. From a strict accountancy point of view this is untenable, for although there are buildings in existence in first-class condition, which are known to have been erected hundreds of years ago, still they cannot last for ever even as dwelling-houses, and more certainly the duration of existence would be far less in the case of buildings occupied for business purposes. In any case, the exceptions are so few they should not be taken into consideration when dealing with this matter from an accountancy point of view. In the case of a most substantial building estimated as likely to last several hundred years, a small sum should be set aside, if it only amounts to a fraction per cent. It is true that the Settled Land Act and other Acts dealing with estates in the hands of Trustees and Executors allow items of expenditure to be treated as capital outlay which, from an accountancy point of view, is wholly incorrect. Expenditure on new drainage, for example, which at the most cannot last a hundred years, and in some cases not half that period, is actually allowed to be treated as capital

expenditure, the tenant for life, who may possibly be the only person who can enjoy the benefit of such capital expenditure, not being called upon to bear any proportion of this outlay.

Expenditure in maintaining what is known amongst Land Agents as the Mansion House, or principal house on a settled landed estate, is also allowed to be paid out of the corpus of the estate instead of the amount being temporarily advanced out of the corpus, and gradually paid to the trustees of the corpus by the tenant for life over a term of years. This, from an accountancy point of view, is not a scientific method of dealing with estates under the Settled Land Act, and is unfair on those who succeed a tenant for life.

2. Ascertaining the probable value of the asset at the expiration of the time when it will pass out of the possession of the owner either by the effluxion of time or as a result of ordinary wear and tear, and divide the difference between that value and the present value by the number of years which will elapse before that date, charging the proportionate part periodically against the Profit and Loss Account. When a wasting asset is dealt with in this manner no additions whatever must be made to the account representing the original value. This method is a simple division of the money value by the number of years the wasting asset is supposed to last, and is a somewhat rough and ready method of ascertaining the amount of depreciation to be charged; but whatever technical incorrectness there may be at any period during the life of the asset it has the merit of giving eventually a correct result.

3. Starting with the original value on the above basis, but adding to it the cost price of additions made from time to time, and treating the original value in the same manner as in the preceding instance. Whatever balance there may be in the shape of additions, is divided by the number of years which have to elapse before the required date, so as to bring the wasting asset to the sum which it is believed at the end of the time it will be worth, or, if estimated to be worth nothing at that date, to have it entirely written off. In dealing with a wasting asset on this basis care must be taken that the additions to the original value are such as will endure during the unexpired portion of the term of the wasting asset, as if such expenditure will only last a proportion of this term it ought to be placed to a separate suspense account, and such a proportion charged against the Profit and Loss Account as will exhaust the

ledger account representing this expenditure at the expiration of the term which it is expected to last.

4. Adopting what may be described as a scientific method of dealing with the outlay by treating original expenditure as capital in a business capable of earning interest. By this method there has to be ascertained from interest tables the amount which has to be charged annually against a Profit and Loss Account, and written off the wasting assets account in order to exhaust the same at the expiration of the required period, with interest at the required rate per annum. A ledger account is then opened to represent the original expenditure on the wasting asset ; at the end of the first year this account is debited with interest at the required rate, say five per cent., the same amount being carried to the credit of interest account and thence to the credit of the Profit and Loss Account ; the wasting assets ledger account is then credited and the Profit and Loss Account debited with the sum as ascertained from the tables to be written off each year, the balance being brought down. The following period the interest is calculated on this balance, and the process is repeated until the end of the desired period, when the wasting assets account in the Ledger is exactly exhausted. It will be noticed in working out an example, that the interest gradually diminishes, which is correct according to the theory on which this method of depreciation is arrived at, the balance of the wasting assets ledger account supposed to be represented by this amount of capital in the business being also gradually diminished.

5. Making a valuation of the assets at each balancing date and charging the Profit and Loss Account with whatever diminution of value there may be between this valuation and the amount at which it stood in the previous Balance Sheet. Now with the exception of investments and securities, which are either quoted in the Stock Exchange Lists, or of those investments for which although not quoted there is undoubtedly a regular market, this method of dealing with assets is not to be commended. In the case of investments quoted in the Stock Exchange Lists this is the absolutely correct way of dealing with assets in constructing the Balance Sheet of any company or other concern, and it is the recognised way of valuing assets of this description in the Balance Sheets of Banks, Insurance Companies, and in fact of all companies holding investments of this nature. It is not, however, a practice

to be recommended in connection with the assets of ordinary commercial concerns. To value at every Balance Sheet leasehold buildings, plant, machinery, rolling stock of railways, and similar assets of this nature, would be to place the shareholders of a company entirely at the mercy of an unscrupulous board of directors who could practically make out that a concern had made a profit, or a loss, as might suit their own interests. The only proper method of dealing with assets of this nature is on the basis of cost; and after ascertaining from the experience of other concerns possessing similar assets, what is the average life of such assets, to write off such a percentage as will result in there being charged against the Profit and Loss Account the proper amount for depreciation, and leave on the credit side of the Balance Sheet a fair value representing the asset as belonging to a going concern.

6. In place of charging a certain amount of depreciation against the Profit and Loss Account, the practice is sometimes adopted of leaving the asset at its original value on each successive Balance Sheet, and investing such a sum periodically, usually half-yearly or yearly as will, with the interest derived from such investment and itself invested, produce a sum of money which, at the expiration of a certain period, will enable the concern to replace the amount originally expended on the asset in question. The money thus accumulated is called a "Sinking Fund," and as already indicated in addition to the periodical investment of the amount set aside, the interest on the gradually increasing investments representing the Sinking Fund are invested as soon as received so that the fund is benefited to the extent of interest on such interest.

7. Paying an annual premium to an insurance company so as to provide at the expiration of a certain number of years the amount necessary to provide for the estimated depreciation on an asset by the end of that period. In this case the asset is left, during the period in which the premium is paid, on the credit side of the Balance Sheet at its original value, the premium being charged against the Profit and Loss Account.

What is known amongst accountants as depreciation must not be confused with maintenance. The latter term is confined to the expenditure in maintaining an asset at its original figure, and it also includes, from an accountancy point of view, repairs, renewals, and to a certain extent reconstruction.

In dealing with the repairs and renewals, the cost of all current repairs caused by ordinary wear and tear, including the cost of materials and labour, must be charged against the Profit and Loss Account of the period during which such expenditure is incurred. Occasionally a concern is unexpectedly called upon to bear the cost of replacing the wear and tear of some asset which may have occurred over several years, and which has not been properly provided for in previous Profit and Loss Accounts. In such a case it might be considered unfair to charge the Profit and Loss Account of the period with the whole of such expenditure, and consequently it may be spread over a term of years as explained in the following chapter.

No hard and fast rule can be laid down as to the amount of depreciation to be charged in respect of any wasting asset, as it depends upon the condition of the asset when purchased, whether new or second-hand, also on the quality as to whether it is the best procurable or of inferior make, also whether it is subject to fashion, the probability of it being superseded by new inventions, and a number of other considerations.

It will, however, be useful to refer generally to certain assets of a wasting nature, and consequently subject to depreciation, which constantly occur in the accounts of commercial undertakings.

BUILDINGS.—In describing the various methods of arriving at the amount to be charged for depreciation, it has already been pointed out, when explaining the first method, that even in the case of very substantial buildings erected on freehold land, a small sum should be set aside for depreciation, if it only amounts to a fraction per cent. and the matter need not be here further discussed.

The depreciation, however, to be charged against the Profit and Loss Account in respect of buildings erected on leasehold land requires more consideration. The lowest amount which properly can be periodically charged will be such a sum as will provide for a return of the expenditure on the building at the date of the expiration of the lease, when the building will revert to the freeholder. Assuming, however, that the building is of such a nature as not likely to endure the length of the lease, then the amount to be fixed for depreciation must be settled with more regard to the life of the building than to the length of the lease.

LEASES.—When a lease has been purchased it is of course not fair

to charge the cost price of this lease against the income of that year, nor on the other hand will it be proper to treat the lease as an imperishable asset and carry the cost to the credit side of successive Balance Sheets without making any charge against the Profit and Loss Accounts. An amount has therefore to be arrived at which may be properly applicable to the period embraced by the Accounts and charged against the Profit and Loss Account.

The proper way of arriving at this amount is to ascertain what sum can be regularly charged against the Profit and Loss Account, so that each year may bear its proper proportion, with the result that the balance of the original expenditure account when left on the credit side of the Balance Sheet shall at any date represent the value of the lease to the proprietors of a going concern, this is based on the assumption that the price paid was a fair one. The value representing the lease will then remain at a fair value in each Balance Sheet throughout the life of the lease, so that when the lease falls in there will be no balance left on the credit side of the following Balance Sheet of the concern which owned the lease.

As a rule the leaseholder is liable for the dilapidations at the expiration of the lease. Provision should be made for the cost of such dilapidations a few years previously to the expiration of the lease where it is likely to be in excess of an amount which would press unduly on the profits of the year in which the lease will expire.

PLANT AND MACHINERY.—This is a very usual item in the Balance Sheets of manufacturing and mining concerns, and it must be remembered when considering the amount to be charged in respect of depreciation, that both plant and machinery are of an exceedingly variable nature according to the class of business owning it, and there can be no general rule as to the rate to be charged. It is advisable, therefore, for any concern whose business is carried on by a number of departments, each working a different class of machinery, not to take an all-round percentage off the balance it stands at in the ledger, but to deal with the question of depreciation of the plant and machinery in each department.

In arriving at the amount, it should be borne in mind that it is not merely a question as to whether the machinery will last a certain number of years, and that all that is necessary is to write off a sufficient sum to provide for the extinction of the asset at the end

or that term, but the probable result of new inventions must be thought of. Machinery which will perform its functions for a considerable number of years may become quite obsolete before half that time has expired, in consequence of improvements having been effected, or perhaps because a new class of machine has been invented. Another point for consideration is that while a portion of the machinery is in daily use another portion owned by the same concern may be very seldom employed, and it would obviously be incorrect to deduct the same percentage off the ledger balance of these two classes of machinery and charge the amount against the Profit and Loss Account for depreciation.

In considering the amount to write off for depreciation in respect of engines and boilers, other points have also to be borne in mind. Both engines and boilers, if worked at great pressure, cannot last the same length of time as if more gently used. The number of hours they are used must also be taken into consideration, as where double shifts of workmen are employed the engines cannot last as long as where the men work only single shifts. In the case of boilers their term of life will also depend upon whether hard or soft water is used. When the workmen are paid by piece-work, the wear and tear of every kind of plant is heavier than when the workmen are paid by time.

The best method of dealing with workmen's tools is to carry all initial expenditure to a "Workmen's Tools" or "Loose Tools Account" in the Ledger, and write off the same in say three to five years, carrying forward the balance to the credit side of the Balance Sheet. After the initial expenditure incurred has been dealt with in this way, future purchases should, as a rule, be charged direct against the Profit and Loss Account.

The amount of depreciation to be charged in respect of patterns will vary more or less according to the class of business. It is the practice in some businesses to charge the cost of producing patterns direct against the Profit and Loss Account, but where the patterns are those for articles kept in stock, which it is expected may be used in years to come, the cost may be spread over a period.

The control of the books containing the records of the cost of the original purchase of plant and machinery, the amount subsequently expended on its maintenance, and the allowances thereon in respect of the depreciation should be entrusted to the engineer

in charge, and the responsibility should be placed upon him of arriving at the proper amount to be fixed periodically for depreciation on all plant under his control.

A complete inventory should be made and kept up of all plant, machinery, tools, and patterns for each department in those cases where the business is divided into departments, and transfer entries should be made from and to these inventories when any transfers of their contents take place between the departments.

On each balancing date a list should be taken out, on paper ruled with columns, of all the plant, machinery, tools, and patterns, the first column to contain a description of each item followed by cash columns. Opposite each item should be placed in the first cash column either the cost or the price at which the item was taken credit for in the previous Balance Sheet ; the next column should show the amount of depreciation which in the opinion of the engineer ought to be charged against the Profit and Loss Account, and the third column should show the amount which would, as a consequence of the deduction between the value of the first and second columns, be the value to be taken credit for in the Balance Sheet, and would represent the value which, in the opinion of the engineer, it is worth to the owner of the going concern.

Any amount of care, however, in settling the amount thus arrived at, cannot of course guard against the sudden destruction of such value as a result of a new discovery or invention which may make existing machinery useless and necessitate the purchase of new machinery. Should such an event happen it should be faced in a resolute manner, and be taken into consideration in settling the amount to be charged for depreciation against the first Profit and Loss Account constructed after the facts are known.

PATENTS.—In those cases where experiments in respect of a patent are carried out by a concern whose books are being treated, it is usual to place all the cost of the experiments and of obtaining the patent resulting therefrom to a separate account. In those cases also where an existing patent is purchased the cost should also be carried to a Patent Account. Now the life of a patent in England is fourteen years, subject to the payment of certain fees. But many patents are dropped before that time has expired. A patent can only be extended beyond fourteen years by a special application to the Supreme Court, this taking the place of a prayer to the Privy

Council which was necessary before 1908. It is therefore apparent that the cost of a patent should at the outside be written off in fourteen years, or within a shorter period if it ceases to be profitable to work it. The usual plan is to divide the amount standing at the debit of the ledger account by the number of years at the expiration of which it is believed the patent will lapse or become valueless. It frequently happens that as a result of expenditure on advertising during the life of the patent, or as the result of a connection obtained by means of ordinary trade, the concern owning the patent may obtain practically a monopoly of the business carried on by means of the patent at the date of its expiration notwithstanding the fact that others will then be entitled to carry it on without interference. In such cases it is quite impossible to lay down a hard and fast rule that a concern will be doing wrong in retaining on the credit side of its Balance Sheet a certain amount of expenditure incurred after the date of the lapse of the patent. This, however, comes under the heading of one of those many cases which occur in accountancy practice where each must be dealt with on its own merits.

COPYRIGHTS.—The life of the copyright of original literary, dramatic, musical, and artistic work is, except as otherwise provided by the Copyright Act, 1911, the life of the author and a period of fifty years after his death. The amount expended on the purchase of a copyright cannot, however, be dealt with on the same basis from a depreciation point of view, as other assets of a wasting nature, as the demand for a book or piece of music frequently entirely ceases long before the expiration of the copyright. The amount therefore to be charged against the Profit and Loss Account to provide for the extinction of the amount expended on a copyright, is also one which comes under the heading of those cases, each of which must be dealt with on its own merits.

The floating capital of Tramway and Electric Lighting concerns is embarked in material of a very variable nature, and it may be useful to give as examples the usually accepted rate charged for depreciation in the case of these two classes of undertakings, also a proper rate for two other classes of undertakings whose profits should never be arrived at without special attention being given to the amount to be charged for depreciation.

ELECTRIC LIGHTING COMPANIES.—

Accumulators	10 per cent. per annum.
Cables	5 " "
Dynamos	7½ " "
Engines and Boilers	7½ to 12 per cent.
Instruments	7½ per cent.
Mains	5 per cent.
Meters	7½ to 10 per cent.
Motors	7½ per cent.
Tools	10 to 15 per cent.
Transformers	7½ to 10 per cent.
Turbines	7½ to 10 per cent.

The Revenue Account for Electric Lighting Companies prescribed by the Board of Trade form Section H, prescribes that the depreciation charged against the Profit and Loss Account shall be apportioned as follows—

1. Depreciation in respect of leasehold works.
2. Depreciation in respect of buildings.
3. Depreciation in respect of plant, machinery, etc.

TRAMWAYS.—

Cables and Feeders	from 2½ to 5 per cent.
Ducts and Manholes	at 2 per cent.
Electrical Plant at Power Station	at 5 per cent.
Overhead Wires.	

The cost of the new wires should, as a rule, be charged to Revenue, but if it is the practice to charge all this expenditure in connection with the overhead trolley wires to one Account, the rate of depreciation should certainly be from 30 to 60 per cent., according to whether the service is a frequent one or the reverse.

Poles and Rosettes from 21 to 25 per cent.

Rail bonding from 7½ to 10 per cent.

Rolling Stock from 7½ to 15 per cent.

This must vary according to whether the service is a very frequent one or the reverse ; a great deal also depends upon the neighbourhood, and whether it is necessary to maintain the Cars in an up-to-date style, or whether it is unnecessary to pay too much attention to their appearance.

Uniform of Conductors, etc.

It is better to make this expenditure a direct charge against Revenue ; but if this is not done, a depreciation varying from say 33 to 60 per cent. should be charged, according to the neighbourhood and the appearance the men have to present.

HOTELS.—

Furniture	2½ per cent.
Carpets	15 to 25 per cent, according to quality and use of the room.
Electro Plate	10 per cent.
China and Glass	20 to 30 per cent.

THEATRES.—

Cost of Production 30 to 60 per cent. if play running at date of Balance Sheet, and in last period sufficient to bring it to a nominal value. If piece on tour, or arrangements for tour in force, the depreciation need not be so high.

Decorations 15 to 25 per cent.

Structural Alterations. A rate sufficient to replace all outlay at the date of the expiration of the lease.

Having settled the principle upon which any wasting asset should be gradually reduced, it should be rigidly adhered to, and no temptation to lessen the amount in future years in order to meet any unexpected misfortune should be listened to. For example, should machinery have been lying idle in consequence of absence of work with which to keep it going, an excuse for not charging depreciation during that period, however unfortunate the result of the trading may have been through such machinery lying idle, should not be admitted. Although the wear and the tear of the machinery may not have been so great, yet in many instances machinery deteriorates through not being used, and in any case there must be some deterioration while of course any machinery that may depend upon fashion will deteriorate in the same manner whether it may be in use or not.

In prosperous times the proprietors of machinery sometimes think it advisable to charge a greater amount for depreciation than has been settled as the proper rate. To this there can be no objection, but it should never be made an excuse in future years for not

charging the settled amount of depreciation on the ground that the trading of the period has not been satisfactory and that the Profit and Loss Account cannot bear it.

Having ascertained the amount of depreciation, there are two ways in which it may be dealt with in the Profit and Loss Account—the amount may be either deducted from the balance at which the wasting asset appears in the Ledger, leaving the reduced balance to be brought to the credit side of the Balance Sheet, or the full amount may be left on the credit side of the Balance Sheet, carrying the amount charged against the Profit and Loss Account in respect of the depreciation to the liability side of the Balance Sheet as a reserve.

The former is the most usual practice, however, and the most commendable, one reason being that there is more finality about the operation. The depreciation having once been deducted from the asset, leaving the reduced balance on the credit side of the Profit and Loss Account, the transaction cannot, without at some future date actually appreciating the asset, be neutralised in any way. If the amount be carried to a reserve there is always the temptation in times of depression to treat a reserve of this nature as though it were part of a reserve built up by the retention in hand of profits which might have been distributed in dividend, and which it may be desirable to make use of for the purpose of paying a dividend. It is not, in fact, going too far to lay down the principle that the only proper way of dealing with the agreed amount of depreciation is to charge it against the Profit and Loss Account before the profit is arrived at, and at the same time deduct it from the asset in order that this asset may appear in successive Balance Sheets at a gradually diminishing amount. If this is carried out it will have the result that when the date is reached at which it is anticipated the asset will have become valueless, it will have disappeared from the Balance Sheet. It will thus have been gradually diminished instead of having to be suddenly removed, which would be the case were the principle of creating a reserve resorted to.

CHAPTER XII

CONSTRUCTION OF THE BALANCE SHEET

HAVING transferred into the Profit and Loss Account all those items in the Trial Balance which appertain to either profit or loss, whether that Statement has been divided into one, two or three divisions, as may have been selected by the constructor or those instructing him, there should then only remain in the Trial Balance the items which have to be carried to either the debit or credit side of the Balance Sheet.

These items comprise those which are usually known either as "Liabilities" or as "Assets," but which expressions are not strictly accurate, as included in the term "Liabilities," when used in this sense, are not only the amounts due by the concern to its outside creditors, but also those which are due to the proprietor or proprietors of the business in his or their capacity either as single proprietor, or as partners, styled in the case of a registered company, the shareholders. There are also included what may be described as "Impersonal Liabilities," such as reserves or surpluses of various descriptions including the general or unappropriated surplus of the Revenue or Profit and Loss Account. On the other side of the Statement, amongst the so-called "Assets," are naturally included such items as represent actual or tangible assets and also expenditure which may either be represented or not, by any value, including any deficiency there may be on the Profit and Loss Account up to the date of the Balance Sheet.

Statements of Account headed "Balance Sheets" are frequently statements which have no right whatever to be called by such a term. For example, what has already been referred to as a "Cash Account" is in some cases, more especially perhaps in the case of Charitable Institutions or small private Societies, frequently issued to subscribers and others as a Balance Sheet, merely because the receipts of the concern including the balance in hand at the commencement of the period balances the payments shown on the other side of the statement, including the balance in hand at the end of the period.

The term "Balance Sheet" is also frequently used in error amongst commercial and other business men, who are not acquainted with the principles of Book-keeping, when they so describe what is known amongst professional Accountants as a "Statement of Affairs." This document is a Statement prepared as a compilation of facts and figures for the purpose of showing at a given date the financial position of an individual or concern on the supposition that the estate is to be wound up in bankruptcy. In other words, a Statement containing on one side the liabilities due by the concern to outside persons, and on the other side the assets specially priced out at their actual or estimated realisable value, is frequently erroneously described as a Balance Sheet.

Such a compilation is not what is technically known as a Balance Sheet, which, as the name implies, is solely a summary of the debit balances of the ledger accounts arranged under suitable headings on one side, and a summary of the credit balances of the ledger accounts arranged under suitable headings on the other side of the Account, after the elimination of such balances as have already been transferred to the Trading Account, Profit and Loss Account, or Revenue Account, as already described in previous chapters.

Although the accounts representing the assets and those representing the expenditure naturally appear on the debit side of the Trial Balance, being really the debit balances of the ledger accounts, and the accounts representing the liabilities and those representing the capital accounts of the proprietors or shareholders as the case may be appear on the credit side, being the credit balances of the ledger accounts, yet it is almost the universal modern practice in England, in preparing a Balance Sheet, to reverse the sides on which these balances are placed, that is to say, the liabilities are now placed on the left-hand side while the assets are placed on the right-hand side. It may be a matter of regret that this custom has arisen, but to raise any serious objection in a work of this nature to such an established custom would be pedantic. As a consequence, what is known as the liability side of the Balance Sheet is usually referred to as the debit side while the side containing the assets is usually described as the credit side of the Balance Sheet.

Previous to the Accountant or Book-keeper proceeding to construct the Balance Sheet from the Trial Balance there are several matters to be taken into consideration. In the first place, should

the concern be registered under any Act of Parliament which requires the Balance Sheet to be presented in a certain form, the constructor must of course have in front of him the prescribed form. If no form is actually set out as a schedule to the Act of Parliament, or the Deed of Constitution of the concern, then he should draw up the Balance Sheet in the form which, in his opinion, most nearly fulfils the requirements of the Act of Parliament or the Deed of Settlement.

In preparing the Balance Sheet of a partnership, he should of course have regard to the Articles of Partnership, which may contain some instructions as to the form of the Balance Sheet, or at any rate may indicate that certain items of information are to be set out therein.

In preparing the Balance Sheet of a Hospital which enjoys the privilege of receiving grants from any of the Hospital Funds, such as King Edward's Hospital Fund, the Hospital Sunday Fund, or the Hospital Saturday Fund, it would be a great convenience to the Officials if the Balance Sheet which the Accountant may be preparing for the use of the Governors or for issue to the subscribers, be drawn up in the form prescribed by the Committees of these Funds. Unless this is done, the officials will later on have the trouble of recasting the Balance Sheet when preparing it for submission to such Committees for the purpose of obtaining grants.

Again, should the constructor be under no legal or other restriction of the above nature, he should first of all ascertain if his client or employer has any wishes or ideas of his own on the subject of his Balance Sheet, in which case he should endeavour to carry them out. Apart from all these previous considerations, he must in addition have regard to the use which is ultimately going to be made of the Balance Sheet to be prepared by him. If it is intended for the sole use of his client or employer, as the case may be, he may show on the face of it much more detail than might be advisable were it going to be submitted to other persons. In the latter case a grouping of the items under fewer headings would disclose all that need be necessary to present a perfectly accurate Balance Sheet to a Banker who wishes to be satisfied as to his security for a loan or an overdraft, or to a person who is prepared to give credit to a solvent customer.

BALANCE SHEET—DEBIT SIDE.—The Balance Sheet of an individual or firm differs from that of a company mainly in connection

with the stating or setting out of the Accounts representing the capital of the individual, partners, or shareholders. In the case of an individual or a partnership, the Capital Account of the proprietor or the partners is usually a different amount at the close of each Balance Sheet, it being the usual practice to treat as the capital of the owners of a private business that which is the surplus as shown on the Balance Sheet after the discharge of the liabilities. Even in those cases where the capital of the partners in the concern is fixed by the Articles of Partnership; this plan is, as a rule, followed, but in some cases it is the practice for the partners to treat the capital as fixed by the Articles of Partnership, as an amount which should not be altered, and to carry all surplus amounts standing to the credit of the partners, after their periodical drawings on account of profits have been allowed for, to the credit of a separate account, such as the drawing accounts of the individual partners. This latter plan resembles the recognised system of treating the capital account of companies, whether working under the Companies Acts, under the Companies Clauses Consolidation Act, 1845, or other Acts regulating Companies or Societies.

It will be seen from the preceding remarks that in those cases where the capital of the partners of a firm is fixed by the deed of partnership, and in the case of public companies, that even should some of the capital be actually and admittedly lost as shown by the figures in the Balance Sheet, yet the Capital Accounts remain nominally undisturbed, the deficiency being shown on the credit side of the Balance Sheet. In the case of firms where the capital accounts of the partners vary, it may happen that either owing to bad times or the drawings of a partner being in excess of his share of the profits, that the capital at the credit of the capital accounts of some partners appear in the Balance Sheet in the ordinary way on the debit side, while that of another partner or partners may have disappeared altogether, and his or their accounts be represented on the credit side of the Balance Sheet, being the amount of actual indebtedness to his or their own firm.

PARTNERS' CAPITAL.—The usual method of arriving at the capital to be inserted on the debit side of the Balance Sheet to the credit of the partners of a firm, is to carry down the balance of net profit shown in the Profit and Loss Account into a supplementary Statement and entirely appropriate it amongst the partners of the firm

according to the shares agreed upon in the Articles of Partnership. This share is then carried to the credit of the capital account of each partner. The capital account is also, as a rule, credited with the interest on the balance of the capital standing to the credit of each partner at the date of the previous Balance Sheet at the rate prescribed in the Articles of Partnership, and then the amount having been debited with the amount of the drawings of the partner during the period, the balance represents his capital at the Balance Sheet date.

In some cases it is the practice to debit a partner with interest on all amounts drawn out by him calculated from the date of each amount drawn out until the balancing date; this is perhaps the exception rather than the rule. The balance at the credit of each partner's capital accounts having been arrived at in either of the above-mentioned manners, it will be carried to the debit side of the Balance Sheet to the credit of each partner.

Occasionally the Balance Sheet itself contains the record of the transactions just referred to, there being placed under the heading of each partner on the debit side the amount of his capital at the commencement of the period as shown by the previous Balance Sheet; to this should be added the interest to be credited thereon and also his share of the profits, while deducted therefrom would be his drawings during the period and the interest, if any, on such drawings, the balance representing the Capital. This method is to be commended as it shows on the face of the Balance Sheet itself how the capital account of each partner is arrived at.

SHARE CAPITAL.—In setting out the capital of a company, the amount is that which appears on the Trial Balance, but it is customary to give fuller details than the mere amount, one of the best methods being as follows:—In those cases where only a portion of the capital has been issued, the full amount of the authorised capital may be set out in full with a line drawn underneath the amount to show that it is not to be added to the other items on the debit side of the Balance Sheet. Underneath these should be set out the amount of the actual capital and if more than one class of shares have been issued, the amount paid up in respect of each class should be set out as follows. It is assumed the registered capital of the company is one million pounds in fifty thousand ordinary shares of ten pounds each, and fifty thousand five per cent. preference shares

of a like amount, also that forty thousand ordinary shares have been issued and are fully paid up, while only eight pounds have been paid up on thirty thousand preference shares. It is also assumed that there are not any calls in arrear—

Authorised Capital. 50,000 Shares of £10 each and 50,000 five per cent. Preference Shares of £10 each.	£1,000,000 0 0
<hr/>	
To Shareholders' Capital	
40,000 Ordinary Shares of £10 each fully paid.	400,000 0 0
30,000 Preference Shares of £10 each £8 paid.	240,000 0 0
	<hr/>
	£640,000 0 0

Should there be any calls in arrear, it is the universal practice for such calls to be deducted from the total amount of capital issued, for example—supposing 10,000 Ordinary Shares of £10 each of a company to have been issued and the final call to have been recently made of which £20,000 has not been paid up at the balancing date, the entry on the Balance Sheet would be as follows—

To 10,000 Ordinary Shares of £10 each fully paid.	100,000	
LESS Calls not paid	20,000	
	<hr/>	£80,000 0 0

As a matter of strict Accountancy this method of dealing in a Balance Sheet with calls in arrear is not accurate, more especially in the case of a company where there is a deficiency shown on the Balance Sheet. When a call has been made and it has not been especially hypothecated to secure a creditor such as a Banker for a loan, the amount ultimately realised by such call is as much available for the payment of the ordinary liabilities of the company as is the amount to be ultimately received on the realisation of the book debts or amounts due from debtors on bills receivable. It would therefore be better Accountancy were the amount due on calls placed on the credit side of the Balance Sheet. Should any one peruse a Balance Sheet for the purpose of ascertaining how much in the pound an insolvent concern is likely to pay, this fact must

be borne in mind, but at the same time it must be remembered that the Balance Sheet of a going concern is not supposed to be a Statement of Affairs.

There is a clause, which is nearly always inserted in the Articles of Association of limited liability Companies and in the Deed of Settlement of Companies registered under other Acts, authorising the Directors to forfeit the shares of any shareholder whose calls may remain unpaid after a certain period has elapsed, and after the regulations with respect to notices sent to such shareholders have been complied with. The correct way to set out in the Balance Sheet the facts in connection with the forfeiture of shares is as follows—

The amount standing to the credit of the issued Capital should be reduced by the amount which stood to the credit of the forfeited shares and this amount should be set out opposite a sub-heading of the Capital Account by itself, such as—“Amount paid on shares forfeited.” Should these shares at any future time be re-issued at a discount, not in excess of the amount received from the original shareholder, which is as a rule authorised by the Articles of Association or Deed of Settlement, they may be restored to their original position in the Balance Sheet, as if no forfeiture of such shares had ever taken place. Should any profit be derived from the forfeiture and the re-issue of such shares, the profit may be treated as if it were a premium on the issue of shares and added to a reserve account, if any, or it may even be taken to credit in the Profit and Loss Account, unless expressly prohibited by the Articles of Association or Deed of Settlement.

In preparing the Balance Sheet of a Company there is no obligation to show separately any shares, either fully paid or paid up to a certain extent, which may have been issued to the vendors as part or the whole of the consideration for which they sold their interests to the Company, but there can be no objection to this being done. In such a case, there would be set out as a sub-heading to the heading of the Ordinary Capital some such words as “Issued to original vendors fully paid.”

Whether such sub-heading appears or not, it is advisable for the constructor of the Balance Sheet to peruse the Agreement between the vendor to the Company and the Trustee for the intended Company which was adopted by the Company on the allotment of

its shares, so that he may satisfy himself that the proper number of shares were allotted to the vendor and also that the entire arrangements between the parties to this Agreement have been properly brought into the books of account.

DEBENTURES.—For the purposes of augmenting the capital of a company, when it would be difficult to obtain subscriptions for a further issue of shares, or where the total authorised share capital is taken up, or where owing to the fact that the shares have been earning such a high rate of dividend that from the point of view of good finance it is desirable when augmenting the capital of the company to not diminish the present income of the shareholders, it is the practice to issue debentures bearing a fixed rate of interest at the lowest rate at which it is considered the debentures will be taken up when offered.

These debentures can be either secured on any specific property of the company, or they can be secured by a charge, which a company alone has the privilege of granting, namely, a general charge on all the assets of the company. Debentures of this nature are sometimes issued at a premium and sometimes at a discount, but in either case the amount to be inserted on the debit side of a Balance Sheet is the total nominal value of the debentures issued.

The expenses connected with the issue of debentures must under no circumstances be added to the value, but should be treated as described later on in this Chapter, under the heading "Expenses in connection with the issue of Debentures," or some similar heading unless all of the expenses incurred in connection with the issue have been charged against the Profit and Loss Account.

When the debentures are issued at a premium, it is quite proper to pay the expenses connected with the debenture issue out of the premiums, while the balance should be carried to a special reserve, or else added to the ordinary reserve. Unless the Articles of Association of a limited company prohibit this being carried to the credit of Profit and Loss Account, there is no reason why the balance of this premium account should not be so treated and even made available for dividend-paying purposes. This, however, is not considered good finance, although no other reason can be given against it, as, no matter what may happen, the company is never liable to repay the premium obtained for subscriptions in respect of debentures, although frequently a company has the option of

paying off its debentures after they have been in force for a certain fixed period either at par or at a fixed price in excess of the nominal value.

When debentures are issued at a discount, the total amount of the discount is practically an extra cost and expense in connection with the issue of the debentures, and the whole of the discount may be at once charged to Profit and Loss Account, or may be taken off any reserve which may have been previously accumulated out of surplus profits, or it may be treated as a suspense account as described under the heading "Premiums on Debentures issued," referred to later on in this Chapter,

AMOUNT DUE TO MORTGAGEES.—The amount due to those who have advanced money either to a company or any other borrower, which is secured by a mortgage on a part or the whole of the property, should be set out under a separate heading, and should not be included in the amount of indebtedness due to ordinary creditors. The correct Accountancy way of setting out in a Balance Sheet property that has been mortgaged is to deduct the amount due to mortgagees from the account on the credit side of the Balance Sheet, representing the asset mortgaged. This has the effect of taking the liability to mortgagees out of the debit side of the Balance Sheet, and by deducting it from the value of the property mortgaged leaves only on the credit side of the Balance Sheet the value of the property less the amount of the mortgage. The object of this is to let everyone interested become aware of the fact that the asset as a whole is not available for the payment of ordinary debts, but that those who hold the mortgage have a first claim on this asset, and it is not until this claim has been satisfied that the balance, if any, remaining will be available for payment of the unsecured creditors.

In practice, however, this is rarely done either in the accounts of a company, a firm, or an individual, and in the case of firms or individuals who do not publish their accounts, items of this nature can be treated as the proprietors of the concern may please. The accounts of a company should, however, be prepared so that all to whom they are submitted can clearly understand them, and therefore if the amount due to the mortgagees is not deducted from the assets charged, it should be made clear by a footnote affixed to the particulars of the asset on the credit side, that the property is charged

to the extent of the amount set out on the debit side of the Balance Sheet.

CLAIMS ADMITTED OR INTIMATED BUT NOT PAID.—This item appears on the debit side of the Balance Sheet of Insurance Companies of every description, and the constructor of the Balance Sheet should satisfy himself not only that every claim which has been notified to the office and admitted to rank has been taken into consideration, but that the full amount of such admitted claims and all the costs and expenses connected therewith which have to be paid by the Office are inserted among the liabilities. With this object in view, he should draw up a form with the following columns—

1. Date of claim.
2. Name of claimant.
3. Amount of claim.
4. Amount admitted for.
5. Costs and expenses (if any).
6. Total liability.

If the Insurance Company undertakes various classes of insurance, a schedule similar to the above should be prepared for each of the departments and the constructor of the Balance Sheet should go through each list with the Officer who has the best acquaintance with the claims in the various departments, and thus arrive at the amount to be inserted in the sixth column of each of these schedules and eventually the total amount to be carried to the Balance Sheet.

SUNDRY CREDITORS.—Under this heading should be included the amounts due to all creditors of the Company or firm who have not already been included under "Amounts due to Mortgagees," "Debentures," or "Creditors on Bills Payable." In respect of such creditors there is no likelihood of there being any omission from the books, but it frequently happens that amounts due to creditors on open accounts may not be known, and one of the most important duties of the constructor of a Balance Sheet is to satisfy himself that all liabilities are included. Should there be omissions, those relying on his carefulness in this respect may, later on, find themselves liable to be called upon to discharge debts which they had a right to believe had already been provided for.

This position is frequently not only annoying, but sometimes

embarrassing to the proprietor of a business. The omission of liabilities from a Balance Sheet means, as a rule, the omission of items of expenditure which ought to have been charged against the corresponding Profit and Loss Account, with the result that the profits shown thereon appear in excess of what they really are. Those who live up to their income may find a difficulty in providing for unexpected claims out of future profits, when such profits are found to be unduly lowered on the completion of the following Profit and Loss Account through its being charged with the expenditure omitted from its predecessor. It is therefore of great importance that the constructor of the Balance Sheet should be on his guard against any omissions from the list of "Sundry Creditors."

Such omissions are not likely to occur with regard to creditors from whom goods have been purchased for purposes of resale, as unless the system of book-keeping is very deficient, or there has been carelessness in the book-keeping department all invoices of such a nature will have been duly entered and the amount due therefor properly passed to the credit of the personal accounts of the creditors. Such however is not always the case, and the constructor of the Balance Sheet should endeavour to ascertain that there have been no omissions of this description.

Amounts owing for goods purchased not for resale, but intended to be consumed in the ordinary conduct of the business, such as books of account, stationery, circulars, cartage of goods, packing, and items of this nature, including advertising, both in the press and on placards, are very liable to be overlooked except in those offices where a very rigid system prevails. The constructor should, therefore, make inquiries from the heads of departments for the purpose of satisfying himself that the invoices in respect of all management expenditure have been obtained and properly entered in the books of account.

When trade discounts have been obtained they should be credited to the "Purchases" Account and debited to the personal accounts of the creditors before the Trial Balance is taken out.

CREDITORS ON BILLS PAYABLE.—The amount due to creditors in respect of Bills given in payment, whether by a firm, company, or individual, should as a matter of good Accountancy be set out separately on the debit side of the Balance Sheet; at the same time there does not appear to be any valid objection to their being

included under the heading already dealt with of "Sundry Creditors." In order to test the accuracy of the amount, the constructor of the Balance Sheet should check the balance of the ledger account with the details of the Bills outstanding in the Bills Payable Book.

LOANS.—The amount due on loans should be separately stated, more especially in the case of a company, as the shareholders have an undoubted right to know if the business is being carried on by means of the recognised working capital of the concern represented by shares, debentures, or mortgages, or whether this has been supplemented by the Directors having recourse to borrowing. A matter of this sort, however, is a question of management, and should the constructor have express directions from his superiors that he is to include the loans under "Sundry Creditors," he of course has no alternative but to comply, leaving the question to be raised, if necessary, by the Auditors.

In the case of loans from the Bankers, or others to whom some of the assets have been pledged as security, these loans should be set out separately with a memorandum showing the assets upon which they are secured, or else a memorandum should be placed against the asset showing that it has been pledged to the extent of the loan *per contra*.

SHAREHOLDERS' DIVIDENDS OUTSTANDING.—When a dividend is declared by a company, the usual and best practice to adopt, except in the case of very small companies, is for a cheque to be drawn for the full amount of the dividend, and the amount to be placed to a separate account at the Bankers. As the dividend warrants are presented by the shareholders they are charged by the Bankers against the special account and the balance at any period should represent the total amount of the outstanding dividend warrants. A cheque having been drawn on the company's account for the full amount of the dividend, this other banking account is practically outside the book-keeping proper of the company, but in order to make the Balance Sheet strictly accurate, the balance of this account should be included amongst the liabilities under the heading given above, and should also be included on the credit side of the Balance Sheet under the heading of "Balance at Bankers." It may, of course, be set out separately as an asset as well as a liability.

It is very desirable that the dividends warrants which have been

presented should be obtained from the Bankers, be checked in detail, and a list taken of those outstanding, the total of which should of course agree with the balance of the dividend account at the Bankers.

These outstanding dividend warrants should remain in the Balance Sheet until at least twenty years have elapsed, they being in the nature of trust funds, and the constructor of the Balance Sheet should not take them out and write the amount back to the credit of profit and loss without express authority from the Directors, which authority should be made the subject of a minute and entered in the Minute Book.

INTEREST ON DEBENTURES OUTSTANDING.—The same practice should be adopted in the case of interest remaining unclaimed on debentures.

PREFERENCE DIVIDENDS IN ARREAR.—The dividends on preference shares are, like those on ordinary shares, payable only out of profits, and it is now almost the invariable practice when preference shares are issued, to make the dividends cumulative. This means that should the profits of any one year not allow of the whole or even part of the preference dividend to be paid, the dividend in arrear ranks as a first charge on the profits of succeeding years, before any profits are divisible amongst the holders of the ordinary shares.

There are two ways of dealing with these arrears of dividend in a Balance Sheet, one is by treating them as an actual liability and inserting the full amount in arrear amongst the other liabilities, under a heading such as is indicated above. The objection however to treating such arrears in this manner is that no liability to pay actually arises until the profits out of which they are solely payable have been actually earned. As a matter of strict Accountancy, therefore, such arrears are not a liability, and the best way of dealing with them is to calculate the amount, place it on the debit side of the Balance Sheet, but not extend the amount, so as to actually include it amongst the liabilities. Some Accountants content themselves by merely calling attention to the fact that the preference dividend for a certain period is in arrear, without giving the amount ; but this is not a commendable practice.

LIABILITY ON BILLS RECEIVABLE DISCOUNTED.—Bills of Exchange received from customers in discharge of liabilities can either be retained in hand until the due date, when they will be presented for payment, and the money received brought into the Cash Book

in the ordinary way, or, supposing the credit of the drawer and acceptor be good, the bills can be discounted and the proceeds, less the cost of discounting, become at once available for further business operations.

When a Bill is discounted, every party whose name is on the Bill is liable for the full amount, and in the event of the acceptor of the Bill not meeting his obligations, any and all of these parties can in consequence be called upon to pay.

The constructor of the Balance Sheet should therefore go carefully through the list of Bills of Exchange discounted and ascertain whether or not they are likely to be met at maturity. Should there be any reason to believe that any Bills will not be so met, a reserve should be created to provide for such a contingency, and such reserve should be included amongst the liabilities on the debit side of the Balance Sheet, under a heading of "Liability on Bills Receivable discounted" or some similar heading.

AMOUNT DUE ON CURRENT AND DEPOSIT ACCOUNTS.—This heading occurs in the Balance Sheets of all Banks, and in certain cases in the Balance Sheets of discount houses and other financial institutions. The total amount is that of the total credit balances of the Ledgers containing the accounts of customers on current account, and of depositors, and, to be strictly accurate, should there be any overdrafts amongst the current accounts they should not be deducted from the credit balances, but should be brought in by themselves on the credit side of the Balance Sheet under some such heading as "Current Accounts overdrawn."

RESERVE.—In almost every class of commercial undertaking circumstances arise from time to time which it is quite impossible to foresee. A customer of a concern who has been looked upon as of undoubted means and responsibility, and to whom credit has been freely given, may, through circumstances over which perhaps he himself has no control, fail to meet his obligations. The failure of a large and important firm may also be the means of transmitting trouble to others in very far-reaching ways, and the unexpected non-receipt of a remittance from such a firm may cause the failure of smaller firms who were relying on the usual prompt discharge of their debtor's obligation and cause them also to suspend payment. In the same way still smaller firms expecting their remittances are placed in the same position. The loss of a ship, the cargo of

which is not fully insured, may be the cause of an unexpected loss, while a fire or an earthquake may produce the same results. Again, sudden depression in trade will, if not provided against, produce a financial strain which cannot, without due provision, be overcome.

In order to guard against unforeseen occurrences of this nature, which it is recognised may at any time fall upon those engaged in commerce, also upon those whose income is derived from rents, royalties, and even on those relying on professional incomes and incomes derived purely from investments, the prudent man provides means. This provision is known in accountancy under the name of "Reserve."

The term "Reserve" is also applied to a provision to meet claims, which it is certain in the ordinary course of business will be made, but in consequence of a claim not having been made at the date of the Balance Sheet no liability actually exists.

For example, Insurance Companies know that in the ordinary course of business claims must necessarily arise in respect of policies they have issued, the premiums on which they have taken credit for in their Revenue Accounts, but which claims on the date of the closing of the books have not been actually made.

Now the methods of creating a reserve are many, and it is the duty of the constructor of a Balance Sheet to consider the question of the amount to be inserted on its debit side in respect of Reserves, having regard of course to the nature of the business whose Accounts he is engaged upon, and to ascertain that the various reserves which prudence demands should be made are ample.

The method of arriving at the proper amount of reserve in anticipation of book debts not being ultimately collected has already been dealt with in Chapter X.

The question of reserves might quite properly have been dealt with when considering the Profit and Loss Account, and, as a matter of fact, the amount of all reserves must be determined upon before the Profit and Loss Account can be settled. It is, however, more convenient to deal with Reserves when considering the Balance Sheet, as Reserves as a rule are placed among the items on the debit side of this Statement instead of their being deducted from items of revenue on the credit side of the Profit and Loss Account.

From a purely Accountancy point of view, the only proper way

of creating the reserve of an Insurance Company to meet claims which may possibly arise in respect of premiums taken credit for in the Revenue Account is to calculate in the case of every premium the proportion accrued to the date of the Balance Sheet, having regard to the time the premium has to run, and to make a reserve of an amount representing the whole of what may be described as the unexpired proportion of such premium. As a matter of fact, however, this course is never adopted, it being the practice of companies to take only a certain percentage of these unexpired premiums for reserve, and, as already explained, the Accounts of Life Assurance Companies are prepared on a different basis.

In the case of a concern conferring benefits in consideration of a yearly subscription such as a circulating library, a club, or a voluntary society of any kind, there should be created a reserve, to be charged against income, of that proportion of the income which may be considered to appertain to the period from the date of the Balance Sheet to the termination of the subscription. This plan, however, is unfortunately seldom adopted, with the result that many institutions allow too many privileges to their first subscribers in return for their subscriptions. Those of them, therefore, who continue their subscriptions and those who join later may possibly find themselves unable to keep their institution going, which would have been possible had a Balance Sheet with adequate reserves been placed before them in the early days of their venture.

It will be evident from what has been stated that the item Reserve in a Balance Sheet is merely the result of book-keeping entries, but which standing on the debit side of the Statement acts as a sentinel to prevent the amount of that reserve being taken out of the assets on the other side, and distributed as available profit amongst the shareholders or partners of the concern.

RESERVE FUND.—When the amount of any reserve has been arrived at, it is occasionally the practice to guard it specially by investing in a marketable security, not necessarily a trustee security, the exact amount of cash representing the agreed reserve. When this is done the reserve is generally known as a "Reserve Fund," it being possible to point out on the credit side of the Balance Sheet the nature of the securities in which such reserve has been invested. Unfortunately, however, even professional Accountants have not agreed in accepting this definition, although it is difficult

to see any reasonable objection to there being a definite rule on so important a matter.

SINKING FUND.—A fund is occasionally initiated to provide for the gradual return of a certain sum of money at the end of any particular period by investing from time to time a fixed sum, and to invest in addition the interest or dividends arising from the investments of the gradually increasing amount.

A fund created in this manner is known as a "Sinking Fund" and the balance of the ledger account representing this fund is transferred at each balancing date to the debit side of the Balance Sheet under the title of "Sinking Fund," while the investments representing the fund should be placed on the credit side either under a separate heading, which is preferable, or if so desired, may be included among the other investments.

The operation of the "Sinking Fund" is a favourite one among local authorities for replacing the capital expended in their trading and other departments, but is not much used by public companies, still less by firms or individuals.

SECRET RESERVES.—In many companies it is considered prudent by the Directors to create a greater amount of reserve to meet contingencies than they consider is absolutely necessary. At the same time they may also consider it desirable not to inform the world at large of the existence of such a reserve, and in some instances not even to take the shareholders into their confidence. This excess of reserve over and above what may be described as the necessary amount of reserve and concealed in the accounts is known as a "Secret Reserve," and the question is frequently raised at meetings of companies and by writers on financial subjects, both in books and in the press, as to the morality of such a proceeding.

It is argued that where a reserve above what is necessary is charged against the Profit and Loss Account, and brought into the debit side of the Balance Sheet, it follows that as a consequence the profits of a concern are, on paper, unduly diminished, and that the shareholders for the time being are deprived of those profits which they are entitled to receive, and that they have no opportunity of either approving or disapproving, since the fact of the reserve having been created is intentionally withheld from them.

On the other hand, it is contended by directors that although the creation of this reserve may prevent the shareholders receiving

the full amount of dividend they might fairly claim, yet it undoubtedly adds to the stability of their investment, and that as a result many companies have been able to weather severe financial crises to which otherwise they would have succumbed.

This statement is undoubtedly true ; many a company has gone into liquidation and its assets have been distributed with the result that a very small proportion of the shareholders' capital has been returned, while if its directors had followed the policy of creating secret reserves, it might now be enjoying a flourishing existence. It is not the duty of directors to consider specially the interests of individual shareholders, nor even the interests of those who may at any given moment be the shareholders. Their duty is to the company as a corporate body, and to make it a stable and lasting concern, and few professional Accountants or business men of experience will be found who do not approve of the creation of these secret reserves. At the same time, such reserves should only be created with the sole intention of preserving the company as a permanent institution. The practice of merely creating a reserve of this nature in order to lower the dividends and thus cause a fall in the price of the shares so that they can be acquired by those who have made this reserve, and then later on, when the shares are in their possession, distribute as dividend that which ought to have gone to the shareholders whose shares they acquired, is an act of dishonesty on the part of directors which cannot be justified.

CONTINGENT LIABILITIES.—Financial concerns occasionally find themselves in such a position arising out of some transaction that it is possible in certain events they may be called upon to meet an unexpected demand, or in some cases they may be aware that a demand will eventually be made upon them, but which at the date of closing the Balance Sheet has not matured. For example, a concern may hold as investments shares in companies which are not fully paid up, but upon which every call made so far has been paid, and therefore no liability exists in connection with the uncalled capital. As a result however of certain events, an unexpected call may be made, and it is therefore not considered proper when preparing a Balance Sheet for a company holding among its investments shares in limited liability companies which are not fully paid up, still less should it hold shares in unlimited companies, that this Statement should be submitted without a reference being made

thereon to such possible claims. Claims of this nature are known amongst professional Accountants as "Contingent Liabilities," and it is usual, where they exist, to place a note on the debit side of the Balance Sheet calling attention to the fact that such liabilities exist, adding, if such a statement should be correct, that it is not expected that any claim will arise in respect thereof.

Many years ago, at the time of a great financial crisis in London, a number of banking and other financial institutions signed a guarantee to make good any loss which might ultimately arise on a loan made to prevent the bankruptcy of a firm whose transactions were of such magnitude that if it had been allowed to fail a national commercial disaster would have been created. As a result of giving this guarantee, it was thought proper that when these banks and institutions submitted their statements of account to their shareholders they should call attention to the fact on the face of their Balance Sheets. This is now the established practice, and it gives the shareholders the opportunity of asking questions thereon at annual general meetings and the matter can be explained, and if necessary instructions can be given to Directors at the meeting.

BALANCE OF PROFIT AND LOSS ACCOUNT (SURPLUS).—The concluding entry on the debit side of the Balance Sheet of a company is one either representing the surplus of profits or balance of unappropriated profits as shown on the Profit and Loss Account or one which includes this balance. The item is in fact the balance representing the surplus of the credit side of the Balance Sheet over that of the debit side and will, in the case of the first Balance Sheet, consist of the exact balance of profit for the year as brought from the Profit and Loss Account. In future years this balance may represent the exact profit of the year, but it usually represents the unappropriated portion of the profits of a number of preceding Profit and Loss Accounts, and in some cases the total of such balances, after deduction of any losses, and of the dividends which may have been distributed.

In the preceding chapter the suggestion was made that the best form in which to submit a Profit and Loss Account to the shareholders of a company is one whereby it is divided into three portions, the third dealing with any balances brought forward from previous Profit and Loss Accounts, the balance of the current Account and

the appropriations made therefrom. Occasionally, however, these items are dealt with entirely in the Balance Sheet, in which case, in order that the connecting link may be clearly shown on the face of the Accounts between the current and previous Balance Sheets, the entries resulting in the final balance or surplus are set out short in the debit side of the Balance Sheet according to the following example—

Balance brought forward from last year

ADD.

Profit brought from Profit
and Loss Account

DEDUCT.

Amount transferred to Reserve
Interim dividend paid

Balance being unappropriated profit at date

In the case of a Balance Sheet of a firm, this item does not usually appear, as the general practice is to transfer any profit there may be to the credit of the capital accounts of the partners in the private ledger, and in the event of a loss to debit the capital accounts with the same, transferring the balances of their capital accounts to the Balance Sheet. In other words, the real balance or surplus of the credit side of a Balance Sheet over the total of the indebtedness to outside persons as shown on the debit side represents the capital standing to the credit of the partners. Unless therefore the whole of the capital of the partners has been lost, when it will be necessary to show a deficiency on the credit side of the Balance Sheet, there is not, as a rule, any balancing item on either side of the Balance Sheet of a firm or individual representing a deficiency or a surplus.

BALANCE SHEET—CREDIT SIDE.—Turning to the credit side of the Balance Sheet, the items which are there collected from the Trial Balance do not, as already explained, necessarily consist of assets, assuming that the word “assets” is only applicable to those items which represent property or something of a tangible nature. In other words, the items on the credit side of a Balance Sheet consist of real assets including wasting assets, items of

expenditure—which although representing value could not be disposed of for such value or perhaps for any price whatever, yet at the same time are considered to be of value to the concern which has expended this money in its capacity as a going concern—and thirdly, items which represent actual losses about which there can be no pretence whatever that there is any element of value.

It is the insertion of these last-named items in a Balance Sheet which makes this Statement so difficult of comprehension by persons not acquainted with book-keeping, and it is a matter well worthy of consideration whether the term "Balance Sheet" should not be entirely eliminated from the Accounts of companies submitted to shareholders, and some other heading substituted which would not render it necessary for the statement containing the liabilities and assets to have the same totals both on the debit and credit sides. This however opens a very wide question which cannot be here discussed, and the Balance Sheet will therefore be dealt with on the present recognised system under which it is prepared and submitted.

Following therefore the practice which was adopted in dealing with the debit side of the Balance Sheet, the most usual items which appear on the credit side will now be referred to. Every possible item which might appear naturally cannot be considered, but it is hoped that when the principles have been explained in connection with the items chosen, the constructor of any Balance Sheet will be quite able to deal with others which he may come across when drawing up this Statement.

GOODWILL.—This is a very usual item on the credit side of Balance Sheets of companies formed to acquire established businesses, it also occasionally occurs in the Balance Sheets of firms and of individuals, but it is not so usual. Although the incoming partner of an established firm has in many instances to acquire his share in the partnership by purchasing the share of an outgoing partner in the goodwill, yet this is usually treated as a private matter, and the amount paid does not consequently appear in the partnership Accounts. It would however do so in the private accounts of the vendor where he is in the habit of keeping strictly accurate business accounts of his own. In the same way in the case of an individual who is acquiring a business, it is more the practice for him to treat

the amount paid for the acquisition of the business as a private matter outside his business; and although the goodwill of the business may be considerable, yet the amount paid is not usually entered in the business books of the new owner, but is treated as a private purchase outside the business.

Everyone has an idea, more or less, of what is meant by the expression "goodwill," and the foregoing remarks have been based on the assumption of every reader possessing such general knowledge, but in setting out a correct definition of what is meant by "goodwill," a difficulty arises. A part of this difficulty is due to the fact that goodwill is something incapable of a separate existence and the thing itself is frequently mistaken with the means of transferring it. It is clearly property, and it can be disposed of by sale or gift; it may also be mortgaged. Lord Eldon defined goodwill as meaning every advantage—affirmative advantage as contrasted with the negative advantage of the vendor not carrying on the business himself, which has been acquired by an old firm by carrying on its business, everything connected with the premises and the name of a firm and everything connected with or carrying with it the benefits of the business. Lord Lindley described it as being the benefit arising from connection with reputation.

In a later case, Lord Macnaghten said: "What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. . . . For my part, I think that if there is one attribute common to all cases of goodwill it is the attribute of locality, for goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business and the goodwill perishes with it, though elements remain which perhaps may be gathered up and be revived again. No doubt where the reputation of a business

is very widely spread, or where it is the article produced rather than the producer of the article that has won popular favour, it may be difficult to localise goodwill."

This definition of Lord Macnaghten's appears to give very accurately what is really understood by the term "goodwill." As a proof of what Lord Macnaghten means in referring to it being an attribute of locality, it may be mentioned that the goodwill in the case of a public-house passes entirely with the transfer of the premises.

In preparing the first Balance Sheet of a company, the amount to be entered on the credit side in respect of goodwill is the amount which will be found in the Trial Balance, supposing the amount given by the company for the goodwill of the business acquired has been stated separately. This is frequently the case, but if the amount is mixed up with the purchase of other capital assets, such as land, buildings, plant, machinery, etc., the constructor of the Balance Sheet should ask for the Agreement made between the vendor of the company and the trustees on behalf of the company, which Agreement was taken over by the company on its successful flotation. This Agreement will, in most cases, give him the necessary information, but should it not do so, then no separate heading can appear in the Balance Sheet under the heading of goodwill. When the price of the goodwill is given, the amount can then be inserted in the Balance Sheet as an item by itself, or may be mixed up with other items under a suitable heading.

There is little doubt, from a legal point of view, that when a company has been formed for the purpose of acquiring a goodwill, to obtain the necessary purchase price of which the capital of the shareholders was subscribed, it is not necessary to reduce the amount paid to the vendors of the business acquired in respect of goodwill, by charging any sum against the Profit and Loss Account before ascertaining the amount of profit available for dividend-paying purposes.

In other words, the goodwill may remain a constant figure on the credit side of successive Balance Sheets, and although the profits may decline year after year, and the real value of the goodwill in consequence also decrease, yet as long as the profits are sufficient to pay a dividend to the shareholders they may take that dividend, and the Directors cannot be rendered liable for having paid it out

of the capital. In the same way, should the profits of a business increase, whereby the known goodwill may have doubled or trebled in value, it would not be proper to increase the amount of the goodwill on the credit side of the Balance Sheet, and take credit in the Profit and Loss Account for the amount by which the goodwill may be supposed to have increased.

Even supposing this were not the law, it would be difficult indeed to arrive at any other way of treating the goodwill account in the Balance Sheets of public companies. In the first place, goodwill is almost incapable of being valued, and when owners wish to dispose of the whole or a portion of the goodwill of their business, it has, as a rule, to be considered as being worth so many years' purchase of the net profits of the concern, and the number of years' purchase of such net profits varies considerably according to the class of business. There can also be little doubt that when the amount is fixed as between a vendor and a purchaser or between proprietors and an incoming partner, personal considerations in connection with the purchaser are frequently taken into account.

There can also be little doubt that where an established business is taken over by a public company a higher price is paid for the goodwill than would be given by an individual who acquired it for the purpose of carrying it on as a private enterprise. This practice has been condemned by some financial writers, yet there is this to be argued in its favour, that when a private person or a partnership of two or three persons purchase the goodwill of a business they, as a rule, intend to devote their time to it, making it perhaps the occupation of their lives. As a result any monetary gain they may obtain with regard to the purchase may be considered as being divided into two portions, one representing interest on the capital embarked by them and the other representing remuneration for their actual services. On the other hand, those who are parties to the transfer of a business to a public company can justifiably say that shareholders who have not to give any of their time towards the maintenance of the business, and yet are going to receive a return on their capital in the form of dividends, have no right to expect that such dividends shall yield as much as it would to those who, in addition to embarking their money, devote their time to the management of affairs.

Although the law may allow the amount of goodwill to remain

permanently on the credit side of the Balance Sheet of a company, yet it does not appear that there is any legal objection to the Directors, with the consent of the shareholders, reducing the amount of the goodwill by charging a certain sum periodically against the Profit and Loss Account for that purpose. The amount standing to credit in the Balance Sheet in respect of goodwill is always a blot on the Balance Sheet, as are all items in the same Statement which do not represent realisable or tangible assets.

In the case of companies paying a small rate of dividend, it may be difficult for the shareholders to agree to a Profit and Loss Account being charged with anything in respect of diminishment of the goodwill account. Where high dividends are being paid, however, it is distinctly good policy to endeavour to remove the objectionable item of goodwill from the Balance Sheet and have in its place Trustee or easily realisable investments or additional stock-in-trade, when the business is of such a nature that increased stock can profitably be made use of. Should, later on, any misfortune overtake the company it will be greatly to the interest of those concerned to find the liabilities on the debit side of the Balance Sheet, including that of the shareholders' capital, represented by assets which will be able to discharge such liabilities, instead of by items which are of no value except to a flourishing "going concern."

In the event of it being determined that the goodwill shall be reduced, there are many who argue that this should not be carried out by the gradual extinguishment of the goodwill account, but that it should be left intact and a reserve be gradually created to equal it in amount. The objection to this course being pursued is that later on there may be a temptation to make use of this reserve for some other object, even for dividend-paying purposes, while after the goodwill account has been diminished it cannot ever again be written up, or in other words, appreciated. This would be an illegal operation in the Balance Sheet of a company, and an unwise step in the Balance Sheet of a firm or individual.

FREEHOLD LAND.—This does not often appear as an item on the credit side of a Balance Sheet unless buildings are erected thereon, except in the Balance Sheets of Land and Estate Companies, referred to below. It occasionally appears in those cases where land is acquired at the commencement of a company's existence to acquire which land part of the shareholders' capital was subscribed

In such cases the cost price of the land should be the amount taken credit for in successive Balance Sheets. Under no circumstances should it ever be appreciated in value, but should it become evident to the Directors of a company, or the partners of a firm, that there has been such a diminution from its cost, that it is not probable that it will ever be again worth the price it stands at in the books, it would be quite proper for it to be written down at once, or gradually, to its new value by charging the full amount at once against the Profit and Loss Account, or writing it off more gradually.

In the case of companies dealing in land, the Directors will have much greater powers when settling the amount to be taken credit for in the Balance Sheet. Here land is as much an article of commerce as is the stock of a manufacturer, or wholesale or retail tradesman. It is quite proper, therefore, to value the land remaining unsold at the date of the balancing period, carrying any difference which might arise on this valuation, to the credit or debit of the Profit and Loss Account as may be thought proper. The plan of treating all land at cost price, never appreciating it in value until sold, and arriving at the proper proportion to take credit for in the Profit and Loss Account and the proportion to remain on the credit side of the Balance Sheet in connection with each sale, having regard to the area of the land sold and the block of land originally purchased, may if desired be adopted. At the same time, there must be taken into consideration the comparative value of the land remaining unsold, having regard to frontage, site, and other conditions.

BUILDINGS ON FREEHOLD LAND.—The amount to be taken credit for in a Balance Sheet, in respect of buildings erected on freehold land, should be the cost price after deducting the rate of depreciation, already dealt with in the Chapter on "Depreciation." There may, however, be added to this amount in the case of buildings erected by the proprietor of the concern, the fees paid to the Architect, Quantity Surveyor, etc. It is also usual to include the costs of the Solicitor in connection with the conveyance, agreement with the Builders, etc., although, strictly speaking, this cannot be really a legitimate addition to the asset, and ought in correct Accountancy to be charged against the Profit and Loss Account either in the first Account, or at any rate spread over a period not exceeding five years.

GOVERNMENT SECURITIES.—This is a heading occasionally found in Balance Sheets, but it is not one to be recommended, as the position of investors in this class of securities varies considerably according to the standing and position of the issuing Government. When, however, the constructor is required to make use of such a heading, he must be careful to include thereunder only such securities which are either actually issued by a recognised Government, or where the return of the principal and the periodical payment of interest thereon are guaranteed by such a Government. If it is desirable to distinguish Government securities from the other investments, the best plan is to follow the headings found in the third Schedule of the Assurance Companies Act, 1909, and prescribed by that Act to be followed in the case of all companies working thereunder.

BRITISH GOVERNMENT SECURITIES.—Under this heading should only be inserted those securities whose capital and periodical dividend thereon are guaranteed by the British Government.

INDIAN AND COLONIAL GOVERNMENT SECURITIES.—There should only be entered under this heading the securities whose principal and interest thereon are guaranteed by the Indian and Colonial Governments issuing the loans and not guaranteed by the British Government, as otherwise, no matter what their title may be, they ought to be included under the heading of "British Government Securities."

If the constructor is allowed to suggest sub-headings, it will be desirable here to set out the details under the sub-headings of the respective Governments issuing the loans, setting out the amount opposite each Government in an inner column and extending the total to correspond with the principal heading.

FOREIGN GOVERNMENT SECURITIES.—Under this heading should be inserted the securities, the principal and interest of which are guaranteed by Foreign Governments. It is an unsatisfactory heading, as the difference in the capital value of some of these securities varies considerably. In many cases, owing to the high reputation of the Government, their securities stand at a premium, and their dividends are regularly paid. In other cases, although the dividends may be paid regularly, the financial position of the issuing Government is not looked upon as good, and their shares may stand at a discount, and in some instances at a very considerable

discount, there are also instances where Governments have not paid interest on their loans for years. In almost every case, however, the loans of Foreign Governments are quoted in the official list of the London Stock Exchange, and the constructor of the Balance Sheet should compare the values in the ledger accounts of the securities with the prices in the official list and insert the amount in the Balance Sheet at cost price if the cost price is not below the quoted price. If the quoted price of each group falls below the cost price, the quoted price should be taken, and the difference written off against the Profit and Loss Account, or the cost price may be taken credit for and an amount equal to the fall in value be carried to a reserve on the debit side of the Balance Sheet.

In the case of many banks, discount companies, and brokers, also of financial and trust companies, it is the practice to ignore the cost price of all investments when settling the amount to be taken credit for in the Balance Sheet and insert the middle or in some cases the lower price of all investments included in the official list of the London or Provincial Stock Exchanges. This plan is perfectly legitimate; but whichever of the two methods is adopted it must be adhered to, and the directors of a company who adopt one method at some dates, and the other method at other balancing dates, run the risk of being judicially held to have improperly paid dividends out of capital.

SHARES IN JOINT-STOCK COMPANIES.—Except in the case of financial and trust companies, this is not a very usual heading in the Balance Sheet of a company—as trading and other companies whose business is not that of dealing in stocks and shares, as a rule temporarily invest money not available for business purposes in trust securities. Occasionally, however, it is thought desirable for a business to acquire shares in companies doing similar business, and occasionally sub-companies are formed which work in conjunction with the parent company. Whether, however, the shares are held under any of these conditions, or by trust or other financial companies, they may be collected together under the above heading, either with or without sub-headings. In the case of any of these shares not being fully paid up, a footnote should be placed on the Balance Sheet itself stating distinctly the liability which exists in respect of unpaid calls, or at any rate some reference should be made to the fact that such a liability exists.

DEBENTURES IN JOINT-STOCK COMPANIES.—Under this heading should be placed the investments in debentures of companies, and if not fully paid up a similar reference should be made thereto, as suggested in connection with the holding of shares not fully paid up in joint-stock companies.

MORTGAGES.—This is a very favourite form of investment among insurance companies and building societies. In the case of insurance companies, the Assurance Companies Act, 1909, prescribes that mortgages on property in the United Kingdom and those on property out of the United Kingdom are to be stated separately. In the case of building societies, the Building Societies Acts, 1874 to 1894, prescribe that they are to be set out under the following sub-headings, in each case giving the number of mortgages—

Mortgages where the debt does not exceed five hundred pounds.

Mortgages where the debt exceeds five hundred pounds and does not exceed one thousand pounds.

Mortgages where the debt exceeds one thousand pounds and does not exceed three thousand pounds.

Mortgages where the debt exceeds three thousand pounds and does not exceed five thousand pounds.

Mortgages where the debt exceeds five thousand pounds.

No mortgages are to be included under the above five headings where the property has been taken possession of by the building society in consequence of default, or any other reason for upwards of twelve months, as these have to be placed under the following headings—

Mortgages on property of which the Society has been upwards of twelve months in possession.

Mortgages where the repayments are upwards of twelve months in arrear, and the property has not been upwards of twelve months in possession of the Society.

In preparing a Balance Sheet where either of the above or any other restrictions are made as to the setting out of mortgages, the constructor of the Balance Sheet must be careful to place the mortgages under their proper headings, and for that purpose he should prepare schedules of each class of mortgages, from which his totals should be taken.

LOANS.—It is the province of bankers and financial institutions of a certain class to make loans to their customers; it is also the

practice of insurance companies to make loans to their policy-holders on the security of the surrender value of their policies. Except in these cases, the heading of "Loans" on the credit side of the Balance Sheet of a company is an irregular item. In the case of ordinary trading companies and other industrial undertakings, it is not usually within the power of the Directors to make loans. Should however the constructor of the Balance Sheet find that loans have been made, he should set them out under a separate heading and not include them under any other heading such as "Sundry Debtors," which might convey a totally erroneous impression to the shareholders. All loans made by any company working under the Assurance Companies Act, 1909, on its policies of assurance, are required to be set out under a distinct heading on the credit side of the Balance Sheet.

SUNDRY DEBTORS.—Under this heading should be placed the total balance due from the debtors of a company or firm, after the deduction of the amount written off for any loss likely to be sustained on the realisation of the debts, and charged against the Profit and Loss Account as explained in Chapter X. If the instructions there given have been properly attended to, it follows that the amount to be brought into the credit side of the Balance Sheet is, in the opinion of the constructor of the accounts, or of those who settled the amount, to be written off for bad and doubtful debts, that which will be ultimately received by the concern.

BILLS RECEIVABLE ON HAND.—There is no objection to including the amounts due from debtors in respect of Bills receivable under the heading of "Sundry Debtors," but it is more correct to set out the total of these amounts in a separate item. The amount in the ledger should be checked by the constructor with the details of the bills shown to be in hand in the Bills Receivable Book.

AGENTS' BALANCES.—The majority of Insurance Companies of every description employ Agents to obtain insurances for them, and it is almost the invariable practice to pay them by commission. As a rule, the accounts showing the amount of business done during the quarter, or whatever period may be arranged, are sent to each Agent together with a list of those premiums which are renewable on insurances previously introduced by him, accompanied by the renewal receipts in respect of same. In those cases where the insurance is not renewed, the Agent returns the receipt to the

company, so that he may not be charged with the premium in his accounts, as he is responsible for all premiums collected by him. He then completes his own account calculating his commission according to the prescribed scale, and also charging any expenses, should the arrangements of the office entitle him to so charge them. His duty is then to return the account to the offices of the company together with a cheque for the balance after deducting his commission, but whether he pays this or not, the amount of all balances due from Agents at the date of the Balance Sheet as made up must be included under this heading, and the Life Assurance Companies Act, 1870, requires the amount due in respect of Agents' balances to be separately stated. It is in any case proper Accountancy for the amount due from agents of every description, including travellers of a trading concern, to be set out separately, and not to include such balances under "Sundry Debtors," unless the constructor of the Balance Sheet, or his principals, or his clients, so desire.

INTEREST ON INVESTMENTS DUE AND ACCRUED.—In addition to taking credit for interest and dividends actually received during the period embraced by the accounts, it is quite proper to take credit for interest on investments such as on Government Securities and on Debentures in recognised industrial and other sound companies, which pay their interest on debentures regularly, calculated from the date on which it was last paid to the date of the closing of the books. To ascertain this, the constructor of the Balance Sheet should prepare a schedule of all investments of this nature with three cash columns, the third column showing the total amount of interest from the date of the last payment down to the date to which the next payment will be made. In the first column should then be placed the proportion accrued down to the date of the Balance Sheet, and in the second column the proportion appertaining to the period beyond such date. Credit may be taken in the Profit and Loss Account for the total amount of the first column, placing the same amount on the credit side of the Balance Sheet under the above or some similar heading. Allowance should however be made for the income tax, which is invariably deducted before the proprietor receives the interest.

BALANCE AT BANKERS.—This is frequently described as "Cash at Bankers," but it is not such a correct heading, as it is not the practice of bankers to keep their customers' balances especially

earmarked in cash in their vaults, and practically the amount standing to the credit of any customer of a bank is really only an amount due from that bank, in the same way as there is due to the customer the balances from his sundry debtors. The only real difference between these assets is, the customer has the right to call upon his Banker at any period for any portion of the balance of the amount standing at the credit of his account, which he cannot always do from his other debtors, more especially from those where the balances are due in respect of bills of exchange. The balance taken credit for in the Balance Sheet under the above heading is that of the Cash Book, and for purposes of reconciling this balance with that of the Bankers' Pass Book, what is known as a "Reconciliation Statement" should be prepared, making allowances for amounts paid into the bank and entered in the Cash Book, but not yet collected by the bank, and for cheques drawn on the Banking Account also entered in the Cash Book, but which may not have passed through the bank at the date of striking the balance.

CASH IN HAND.—The amount to be included in the Balance Sheet should be that of the balance of the Petty Cash Book, or if there is only one Cash Book containing both the Banking Accounts and the other disbursements, the balance of the office cash columns. The cash balance should be reconciled with the actual cash in the hands of the cashier, and if the constructor of the Balance Sheet finds in doing this that what ought to be cash is represented by any loans by the cashier or payments by him on account, he should, in the latter case, have the Petty Cash Book rectified by including the expenditure under the proper item in the Profit and Loss Account, and thus diminish the balance. In the case of loans, he should include them among the debtors and diminish the cash balance, or if satisfied that they are likely to be received, he may, with the authority of his principals or clients, include them in the cash balance although technically incorrect.

PLANT AND MACHINERY.—The proper amount to take credit for in the Balance Sheet in respect of plant and machinery is the balance of the ledger account or accounts after the amount agreed upon as proper to be charged against the Profit and Loss Account has been deducted. This has been dealt with so fully in the Chapter on "Depreciation" that it is not necessary to further refer to the subject.

PLANT, ETC., PURCHASED UNDER A HIRING AGREEMENT.—In order to avoid an outlay of capital many concerns now purchase plant, machinery, waggons, etc., under what is known as a "Hiring Agreement," by which, after paying a rental for a certain number of years, the article becomes the absolute property of the hirer. To charge the entire annual rental against the Profit and Loss Account of the year in which it is incurred would press unduly on the profits of that year, and it is therefore the practice to charge against the Profit and Loss Account only a portion of this rental, leaving a balance on the credit side of the Balance Sheet, which balance naturally increases each successive Balance Sheet until the expiration of the Agreement. In determining the apportionment between the Profit and Loss Account and the Balance Sheet, the constructor must be careful to bring to credit in these successive Balance Sheets only such sums as will result in the amount standing on the credit side of the first Balance Sheet prepared after the conclusion of the Agreement, that sum which it is estimated will be the proper value at that date of the articles purchased under the Agreement. Unless this be properly carried out, there will appear on the credit side of successive Balance Sheets an asset above its proper value.

There is one objection to dealing with plant in the above manner, namely that if through inability at any time to pay the instalments, the instalments already paid are liable under the terms of the Hiring Agreement to be forfeited, in which event the benefit of such payments are lost. As a natural result, the amounts which up to that date have been treated as assets on the credit side of successive Balance Sheets will eventually prove to be of no value and have to be charged against the following Profit and Loss Accounts. At the same time events of this nature cannot as a rule be foreseen, and where there is no reason to doubt the probability of the proprietors of the concern being able to fulfil their obligations, the method recommended above may be followed.

STOCK-IN-TRADE.—The amount to be included in the Balance Sheet under this heading is the same amount as appears on the credit side of the Trading Account or the Profit and Loss Account, and this has already been dealt with in Chapter IX.

WORKS IN PROGRESS.—In the case of contractors of every description, makers of machinery, builders, and smaller concerns

carrying on any business in which the manufacture of articles intended to be sold forms part, credit may be taken in the Balance Sheet for any outlay both on material and labour in connection with unfinished productions. When any specially manufactured goods intended for sale have been completed at the date of the Balance Sheet, they will of course be dealt with under the heading of "Stock," and it is only the amount expended on partly executed work technically known as "Works in Progress" which should be included under this heading.

The greatest care must be exercised in ascertaining the amount, and for this purpose the constructor should have schedules prepared of all the works or manufactures in progress at the date of the Balance Sheet. These schedules should be ruled with columns showing the cost of material on each piece of work or contract, the amount expended in wages or other labour thereon, and it is also permissible to add a certain percentage for establishment expenses. Where Cost Accounts are in force this of course is easily ascertainable, and in other cases an estimate has to be made.

HORSES.—The only satisfactory method of arriving at the value to be taken credit for in the Balance Sheet in respect of horses used for cartage is to charge the cost price of all horses purchased to a ledger account of "Horses," value the horses in stock at the date of the Balance Sheet, take credit for this amount in that Statement and in the ledger account, and charge the balance of the ledger account against the Profit and Loss Account. Treating the "Horses" account in this way makes it unnecessary to go into any details in connection with profit or loss made on the sale of horses or loss caused by death. Should any amount be recovered from an Insurance Company in respect of losses by death it should be carried to the credit of the ledger account and thus diminish the amount chargeable against the Profit and Loss Account.

OFFICE FURNITURE, FITTINGS, FIXTURES, ETC.—Items of this sort may, as a rule, be included under one heading; the ledger account will originally have been debited with the cost price of the furniture or other articles, and should be diminished periodically by an amount charged against successive Profit and Loss Accounts for depreciation. The constructor of the Accounts should deduct the agreed amount of depreciation, having regard, in the case of furniture to its condition, and in the case of fittings and fixtures to the length

of the unexpired term of the lease, if any, and charge it against the Profit and Loss Account, so as to leave these items in the Balance Sheet at what they may be considered worth, treating them as belonging to a going concern.

RENT, TAXES, INSURANCE, ETC., UNEXPIRED.—It is the practice in many cases to pay rent in advance, while it is the invariable practice for taxes, rates, premiums on insurances, etc., to be prepaid. It is therefore considered, from an Accountancy point of view, proper to take credit in a Balance Sheet for the proportion of any payments of this nature applicable to the time unexpired, and only charge the Profit and Loss Account with the balance which is the proper proportion appertaining to the period embraced by that Statement. For this purpose the constructor of the Balance Sheet should prepare a schedule showing in one column, opposite each item of expenditure of this nature, the total payments made, placing in a second column the proportion represented by the expired time, and in a third column the balance or the proportion relating to the future. The Profit and Loss Account should then be charged with the total of the second column, thus leaving on the credit side of the Balance Sheet the total of the third column.

SPREADING EXPENDITURE.—There now remains for consideration those items which appear on the credit side of a Balance Sheet as the result of expenditure shown in current or previous Profit and Loss Accounts not represented by any tangible assets. These items thus appear in accordance with the theory known amongst professional Accountants as that of "spreading expenditure," which has already been referred to in several of the preceding chapters, but which must now be explained at greater length.

It frequently happens that it is considered desirable by the proprietors of a business, or the directors of a company, to incur a heavy expenditure which, if charged against the Profit and Loss Account of the year in which such expenditure is undertaken, would have the effect of entirely, or partly, extinguishing that profit, which would otherwise be shown on the face of the Profit and Loss Account. When it is considered that such expenditure will only benefit the trade of the period during which it is incurred, then, no matter how unsatisfactory the result may be, the whole of such

expenditure should be undoubtedly debited against the Profit and Loss Account of the period. When, however, it is believed that such expenditure has not only benefited the trade embraced by the current Profit and Loss Account, but will have a beneficial effect on the Profit and Loss Accounts of the following years by influencing business, it is recognised as being a thoroughly sound commercial custom to "spread" this expenditure over a term of years. To "spread" expenditure is to charge the current Profit and Loss Account with that proportion of the expenditure which may justly be hypothecated to the revenue taken credit for therein and leave the balance of the ledger account to which the expenditure has been debited to be carried to the credit side of the Balance Sheet as a "suspense account." The balance thus carried forward is gradually charged against successive Profit and Loss Accounts so that by the time it is believed the effect of this expenditure will have ceased, it will have disappeared from the credit side of the Balance Sheet.

The following examples will better explain this method of spreading expenditure—

PRELIMINARY EXPENSES.—When referring in detail to the expenditure chargeable against the Profit and Loss Account of a company, the items which are properly included among the preliminary expenses incurred in connection with the formation of a public company were explained. It was also pointed out that it is usually considered that it would press unfairly on the first year's Profit and Loss Account of a new company to charge the whole of the expenses direct against that year's Accounts, and that it is therefore the practice to "spread" this expenditure over a certain number of years, say from three to five, leaving the balance on the credit side of the Balance Sheet to be gradually extinguished by charging a proportion against the Profit and Loss Accounts of future years. Now in constructing the Balance Sheet, the balance so transferred to the credit side must be clearly set out on the face of the Statement, and not concealed in some other item, so that it might possibly be mistaken for an asset. It is also strongly recommended that, in addition to its being set out in a manner not to be misunderstood, it should be accompanied by a note to the effect that it is proposed to extinguish this account within a fixed period.

EXPENSES IN CONNECTION WITH THE ISSUE OF SHARES.—When an existing company issues further capital it is put to an expenditure for advertising, printing prospectuses, brokerages, etc., which would press unfairly on the profits of the year in which the issue is made. In this case also it is quite legitimate to “spread” the expenditure, but it should as a rule be limited to from two to five years.

EXPENSES IN CONNECTION WITH THE ISSUE OF DEBENTURES.—When a company issues debentures, the expenses incurred are of the same nature as when shares are issued, but as a rule it is less expensive to obtain capital by an issue of debentures than by an issue of shares. It is therefore legitimate to “spread” the expenditure in the same manner, but to limit the period over which it is thus gradually extinguished.

DISCOUNT ON ISSUE OF DEBENTURES.—A company either in need of money, or seeing its way to make a more remunerative use of money than it would have to pay for the loan thereof, and perhaps also preferring to pay a lower rate of interest, frequently raises such money by the process of issuing debentures at a discount. At whatever price, however, the debentures are issued, whether at a discount or at par, the liability in nearly all cases to the holders of the debentures is the par value, although in some cases it is stipulated that they shall be redeemed at a premium. The only proper method recognised in Accountancy is to insert the total indebtedness to the debenture-holders on the debit side of the Balance Sheet at their par value, with the result that the total amount of the discount must either be charged against the current Profit and Loss Account or be carried to the credit side of the Balance Sheet. It is considered perfectly legitimate to “spread” this amount of discount over a period of say not exceeding five years.

ADVERTISING.—In many enterprises, whether owned by a company, or whether the proprietors are a firm or a private individual, the financial result of the business depends almost entirely on the amount spent in advertising. In many cases, such as those in connection with the introduction of a patent medicine, or a mineral water, practically no revenue of any importance is earned until a very large sum has been expended either by means of advertising in the newspapers or by circulars, and in some instances by sending out a very large number of free samples at a considerable expense.

Heavy expenditure is from time to time incurred by certain companies and firms in connection with the sending of goods to an International or other Exhibition and the maintenance of a stall with clerks and other officials in attendance, accompanied with the expense of a distribution of free samples and a loss on depreciation of stock.

The cost of such advertising, if charged against the Profit and Loss Account of the period when incurred, would not only, in the early years of such concerns as are referred to, prevent any profit being shown on the face of the Profit and Loss Account, but might in addition leave a very large debit balance which would have to be recouped out of future profits before a balance could be shown out of which to pay dividends to shareholders, or to provide for the legitimate drawings of the partners of a firm. The partners of a firm can, however, as a rule, treat expenditure as they may think proper, but even in the case of a company it is usual to consider it allowable to "spread" expenditure on advertising of this nature over a term of years. In many cases it is also the practice to add to this "Advertising Account" in the ledger, additional expenditure on advertising, in which case the amount charged against successive Profit and Loss Accounts will gradually increase, while the balance which will appear on the credit side of successive Balance Sheets will consequently represent the balances not yet extinguished of the expenditure of a number of years. This method of "spreading" expenditure is also considered a businesslike proceeding, but the constructor of the Balance Sheet must bear in mind that before he carries the balance of this ledger account or accounts to the credit of the Balance Sheet, he should go through the items making up this balance representing the balances of previous years. He should not bring to the credit side of the Balance Sheet the balance of any previous year when it is believed the effect of the expenditure of that year has been exhausted. In other words, there should only remain on the credit side of the Balance Sheet an amount representing advertising which it is believed will beneficially influence future business.

MINING EXPENDITURE.—In nearly all mining concerns expenditure is incurred which is to a certain extent of a capital nature, but which it is recognised will not endure during the life of the lease of the mine, and perhaps only a very small portion of it. A shaft may

be sunk which it is known at the time will be available for only a certain term of years—in some mines adits are driven, and in nearly all mines there is a heavy expenditure in driving tunnels. In such cases it is quite legitimate to charge the sinking of this shaft to a suspense account and “spread” the expenditure equally over the following Profit and Loss Accounts. A large amount of timber is also consumed in a mine for the purpose of propping up the earth which has, after a few years, to be replaced owing to decay; this also is another expense which it is legitimate to “spread” over Profit and Loss Accounts of three or more years according to the nature of the mine and the effect of damp or other destroying effects on the timber.

Until the mineral is produced in paying quantities, it is the practice to charge all development expenditure to an Account which may be under one or more headings, the balances of which must from time to time necessarily appear on the credit side of the Balance Sheet. When however the mine has become open and is in full work, the question ought to be considered and discussed as to the probable length of life of the mine, and also the probable time that the expenditure will be made use of in connection with the future mining. To do this properly the expenditure may have to be divided under several headings, some of which may be considered to be applicable to the whole length of the lease of the mine, the effect of some expenditure will only last for a certain number of years, while other expenditure may be thought to have become valueless or may only benefit the mine for a short period. It is the duty of the constructor of the Balance Sheet, whether acting for a public company or private employers, to charge against the Revenue Account the whole of the development expenditure which may be considered to have been exhausted. In other words, that which will not be of any use in future mining operations should be charged, and there should only be left on the credit side of the Balance Sheet the balance which it is believed represents expenditure, the effect of which will be beneficial after the date of the Accounts.

UNUSUAL EXPENDITURE OR UNEXPECTED LOSSES.—If sudden expenditure arises from any unexpected cause such as a fire where the premises or goods have not been sufficiently insured; or an earthquake; or an unexpected loss such as may be caused by the failure of a bank, or any other similar cause which is so unusual

as not likely to be repeated, it is considered legitimate to place such unexpected expenditure or the amount of an unexpected loss to a suspense account and "spread" it over a term of years. There is, however, no justification for treating any item of expenditure or loss in this manner unless it is of a most unusual description.

The method of treating expenditure on leaseholds, plant, and machinery and on what are known as "wasting assets" has already been dealt with, and the amount in such cases charged against the Profit and Loss Account is, from an Accountancy point of view, concerned with "depreciation" of wasting assets and not with "spreading" expenditure, which term is solely applied to expenditure which, although expected to yield profitable results, cannot be represented at any time by a real or tangible asset. Expenditure, therefore, of any nature not indicated in the examples given above, but which it is expected may produce results which will favourably affect future Profit and Loss Accounts, may legitimately be "spread." It is not, however, legitimate to spread it over so long a period that any balance will be found on the credit side of a Balance Sheet after the beneficial effects of such expenditure shall have vanished.

BALANCE OF PROFIT AND LOSS ACCOUNT (DEFICIENCY).—The balance on the credit side of a Balance Sheet showing the surplus of the debit side over that of the credit side, is perhaps the most unsatisfactory item which can be found on the Statement, as it must necessarily represent a deficiency.

This adverse balance is, as a rule, the result of a loss or succession of losses shown in the Profit and Loss Accounts, although it may happen to be a loss arising through depreciation of assets or loss on realisation of assets, and not necessarily a loss on trading. Which-ever way, however, it may arise, it should be met in a straightforward manner, and the constructor of the Balance Sheet should be careful to let the Balance Sheet clearly show what this adverse balance or deficiency really is, instead of showing on the credit side of the Balance Sheet, disguised under some heading as though it were an asset, what is known to be an ascertained loss or deficiency. If thought desirable, the details of this loss can be set out in a manner similar to the following—

Balance brought from Profit and Loss
Account—Loss

ADD

Balance from previous Profit and
Loss Account—Loss

or

DEDUCT

Balance brought from previous
Profit and Loss Account—Profit

ADD

Loss on sale of (here give name of assets)
Balance being deficiency to date.

CHAPTER XIII

PREScribed AND OTHER STATEMENTS OF ACCOUNTS

THE forms of the Accounts to be presented to their shareholders or subscribers by many classes of companies and associations, such as, for example, insurance companies, railway companies, building societies, industrial societies, gasworks, electric lighting companies, charitable institutions, etc., are prescribed by the Act of Parliament under which they are registered. With these exceptions it is left entirely to the directors of companies and the committees of institutions to present their Accounts in whatever form they may please, provided they comply with certain requirements as to the information to be included therein, contained in their Articles of Association or Rules as the case may be.

To set out the forms of Accounts prescribed by the Acts of Parliament regulating the above-mentioned class of companies and associations would take up space far beyond what is possible in this work, and moreover they can each be purchased for a small sum from the Government printers and other sources. It may however be useful to give specimens of a few forms of Accounts, some of which are not so prescribed, which have some bearing upon the remarks in the preceding pages.

HOUSEHOLD ACCOUNTS.—For the purpose of showing the amount received and expended in the management of a private house, a Statement of Receipts and Payments is all that is necessary, provided the Cash Account has been kept in the manner recommended at the commencement of Chapter VI. The following form may be adopted—

On the Receipts side the Income might be analysed under the following headings—

1. Fees from professional account, or drawings from office account, or from whatever source the householder derives his income, if a professional or business man.

2. Interest and dividends from investments.

In the event of both husband and wife having separate investments, the income can be shown under separate headings or sub-headings to the above.

3. Interest and dividends from Trustees of Marriage Settlement.

4. Other Receipts, if any.

On the Payments side the cash expended can be analysed under the following headings—

1. Rent, Rates, Taxes, Insurance (Fire, Burglary, Accident, Workmen's Compensation, National Health, etc.)

2. Tradesmen's Accounts.

These can be subdivided at will under such headings as "Butcher," "Baker," etc.

3. Laundress.

4. Heating, lighting, and water.

5. Travelling and amusements.

6. Children's clothes.

7. Wine and Spirits.

8. Tuition Account for Children.

9. Medical attendance, including Dentist and Chemist's Account.

10. Life Insurance Premiums.

11. Furniture, Plate, Linen, etc.

12. Builder for repairs, etc.

13. Husband's personal expenditure.

14. Wife's personal expenditure.

This is very often a fixed allowance from the husband, either a voluntary one, or in accordance with the terms of a marriage settlement.

15. Clubs' and Societies' subscriptions.

16. Charitable subscriptions,

and any other headings which the parties interested may select for the purpose of showing any particular class of expenditure.

At the foot of this Statement might be a supplementary Statement showing on the Receipts side the balance brought forward from last year and the balance carried down from the first part of the Statement, and on the Payments side the balance carried forward to next year.

HOSPITALS.—Since the creation of the Metropolitan Hospital Sunday Fund, the Hospital Saturday Fund, and later King Edward

VII's Hospital Fund for London, all Hospitals and Dispensaries which wish to participate in the distribution of these several Funds are required to present to the Committees of these Funds their Accounts prepared in a prescribed form. To avoid the unnecessary trouble of preparing two sets of Accounts it is advisable that the Accounts to be issued to subscribers and donors should be in the same form. In constructing, therefore, a Statement of Income and Expenditure and a Balance Sheet for a Hospital or Dispensary, the following forms should be followed—

The Income and Expenditure Account should be ruled with three cash columns both on the income and expenditure side and the income should be set out under the following headings, the details, where details are required, being given in the first column, the second column being used for totals corresponding with the headings. The third column should be used for the total of the ordinary income and the total of the extraordinary income as referred to hereafter.

A. ORDINARY—

1. Annual Subscriptions.

2. Donations—

Setting out total of the donations in one line and total of amounts collected in boxes in a second line.

3. King Edward's Hospital Fund for London.

4. Hospital Sunday Fund—

Opposite this heading should be in the first column the amount of contribution received from this Fund. The same remark applies to the two following items.

5. Hospital Saturday Fund.

6. Congregational collections.

(Apart from Hospital Sunday Fund.)

7. Workmen's collections.

8. Entertainments.

9. Invested property.

(a) Dividends.

Several lines should here be devoted to dividing the dividends into classes, such as "Interest on Government Securities," "Railway Debentures," and other Investments.

- (b) Rents.
- (c) Income Tax returned.
- (d) Interest on Deposit or Current Account.

10. Nursing Institution.

- (a) Private Nurses.
- (b) Nurses' and Probationers' Fees.

11. Patients' payments.

- (a) In-Patients.
- (b) Out-Patients.

12. Other Receipts.

Space should here be left for details of any miscellaneous income.

The total of the ordinary income should be added up and set out in the third column.

B. EXTRAORDINARY—

1. Legacies.

Setting out in detail the amounts received from the Executors of deceased persons.

2. Festivals, Bazaars, etc.

For New Buildings or Equipment, or the Extinction of Debt incurred for such purposes.

For Endowment or other capital purposes.

Any other item of extraordinary income.

The total of the extraordinary income should be set out in the third column, the total of the income should be placed underneath it, and then the balance, if any, being the excess of Total Expenditure over Total Income of the year. These three items added together should agree with the total of the Expenditure side assuming the expenditure exceeds the total income.

The expenditure side should be set out under the following headings—

A. MAINTENANCE—

1. Provisions.

- (a) Meat.
- (b) Fish, Poultry, etc.
- (c) Butter, Bacon, etc.
- (d) Eggs.
- (e) Milk.

- (f) Bread, Flour, etc.
 - (g) Grocery.
 - (h) Vegetables and Fruit.
 - (i) Malt Liquors.
 - (k) Aerated Waters and Ice.
2. Surgery and Dispensary.
- (a) Drugs, Chemicals, Disinfectants, etc
 - (b) Dressings, Bandages, etc.
 - (c) Instruments and Appliances.
 - (d) Wine and Spirits.
 - (e) Sundries.
3. Domestic.
- (a) Renewal and repair of Furniture.
 - (b) " " " Bedding and Linen.
 - (c) " " " Hardware, Crockery, Brushes, etc.
 - (d) Washing done off Hospital premises
(average weekly number of articles).
 - (e) Cleaning and Chandlery.
 - (f) Water.
 - (g) Fuel and Lighting.
 - (1) Coal.
 - (2) Gas.
 - (3) Electric Current.
 - (4) Oil, Wood, etc.
 - (h) Uniforms.
(Nurses', Porters', etc.)
 - (i) Sundries.
4. Establishment.
- (a) Insurance.
 - (b) Renewals and Repairs.
 - (c) Annual Cleaning.
 - (d) Garden.
5. Salaries, Wages, etc.
- (a) Medical.
 - (b) Dispensing.
 - (c) Nursing.
 - (d) Other Officers.
 - (e) Mechanics, etc
 - (f) Porters.

- (g) Domestic Servants.
- (h) Scrubbers.
- (i) Pensions.

6. Miscellaneous.

- (a) Printing and Stationery.
- (b) Postages.
- (c) Advertisements.
- (d) Sundries.

The total cost of maintenance should be placed in the second column.

B. ADMINISTRATION—

I. Management.

- (a) Official Salaries.
- (b) Pensions.
- (c) Official Printing and Stationery.
- (d) Official Postage and Telegrams.
- (e) Official Advertisements.
- (f) Law Charges.
- (g) Auditor's Fee.
- (h) Sundries.

II. Finance.

- (a) Appeals.
- (b) Commission.
- (c) Festivals, Bazaars, etc.

The total cost of administration should be placed in the second column, and in the third column should be placed the total cost of maintenance and administration.

C. RENT, RATES AND TAXES—

I. Rent.

II. Rates and Taxes.

The total of the rent, rates and taxes should be placed in the second column and the total ordinary Expenditure should be placed in the third column.

D. EXTRAORDINARY EXPENDITURE—

I. Interest.

II. Contributions to other Institutions.

III. Festivals, Bazaars, etc.

For New Buildings or Equipment, or the Extinction of Debt incurred for such purposes.

For Endowments or other capital purposes.

The total of the Extraordinary Expenditure should be set out in the third column, the total of the expenditure should be placed underneath it. The excess of total income over the total expenditure should be placed underneath if the income is in excess of the expenditure, and the total should then equal the total of the Income side of the Account.

The Balance Sheet prescribed for King Edward's Hospital Fund for London, the Metropolitan Hospital Sunday Fund, and the Hospital Saturday Fund, to accompany the preceding Income and Expenditure Account, has to be ruled with two cash columns and the liabilities and assets arranged under the following headings—
On the Debit side—

1. Sundry Creditors.

(To include all Tradesmen's unpaid accounts and accrued liabilities.)

2. Loans to Hospital.

(To be detailed.)

3. Capital Accounts.

(a) For Special Purposes.

(1) Hospital endowments.

(2) Other special purposes.

(b) For Buildings and Equipment.

(c) For General Purposes.

(The amounts relating to the details under the above 1, 2, and 3, headings must be set out in the inner column and the total amount under each heading carried out into the second column.)

4. Unexpended Income Balances of Special Funds.

(To be detailed.)

5. Income and Expenditure Account.

Balance at 1st January 19—

Add.

Excess for year to 31st December 19—

Note.—Heading No. 5 will be stated on the other side should the Balance Sheet show a deficit.

On the Credit side—

1. Cash at Bank and in Hand.
 - (a) Generally on account of the Hospital.
 - (b) On account of Special Funds (separating uninvested or unexpended Capital from unexpended Income Balances).
2. Sundry Debtors.
3. Investments on Capital Accounts.
 - (a) For Special Purposes.
 - (1) Hospital endowments.
 - (2) Other special purposes.
 - (b) For Buildings and Equipment.
 - (c) For General Purposes.
4. Investments in respect of Unexpended Income.

(To be detailed.)
5. Land, Buildings, and Equipment of the Hospital (stated separately where practicable).

Expenditure from 19 to 31st December, 19 .

Expenditure during the year ending 31st December, 19 .

In the preparation of the Balance Sheet, if amounts have by due authority been lent to the Hospital out of any of its other Funds to the General Purposes Fund, the loan should appear as a liability on the left-hand side of the Balance Sheet, and as an investment of the Fund on the right-hand side.

The Investments of the Funds should be set out on the Balance Sheet in detail, or should appear in a Schedule, to which reference should be made in the Balance Sheet.

If the Hospital has landed property or estates, their cost and the funds with which they were acquired should be stated in the Balance Sheet. In many cases, however, this is impossible, because the Estates themselves have been given without valuation to the Hospital, or because the necessary information is not now available, in which cases the following note or modification thereof should be placed on the Balance Sheet—

“ The following property is not included in the Balance Sheet—

- (a) The Site, Buildings, Furniture, and Appliances of the Hospital, or
- (b) Landed property and Estates, particulars of which are set out in Schedule page .”

An Account should however be published showing the year's income received from the property, and the expenses of management, collection, etc., leaving a balance to be carried to the Income and Expenditure Account, or to a Special Fund as the case may be.

CLUBS.—The following Income and Expenditure Account and Balance Sheet would be suitable for a Club—

On the Income or Credit side of the Income and Expenditure Account the headings may be—

1. Entrance Fees
2. Subscriptions

If more than one class of subscription they should be divided into sub-headings.

3. Wines

Stock at end of year

Add

Sales for year

Total

Deduct

Purchases for year

Stock at beginning of year

Total

Balance being gross profit

=====

4. Provisions

As a rule the balance is on the expenditure side of the Account owing to the consumption by servants for which no income is received.

5. Spirits and Liqueurs

Details as for Wines

6. Mineral Waters

Details as above

7. Cigars

Details as above

8. Cards

Details as above

9. Billiards

Received for use of tables

10. Baths

11. Rent of Lockers

12. Interest on Bank Deposit

13. Miscellaneous Receipts

On the Expenditure or Debit side the headings are—

1. Rent, Taxes, Rates, and Insurance

Here have sub-headings if required.

2. Establishment

(a) Secretary's Salary

(b) Clerks' Salaries

(c) Servants' Wages

(d) Extra Servants

(e) Liveries

(f) Board of Servants during closing of the Club

3. Provisions

Purchases for the year

Add

Stock at beginning of year _____

Total _____

Deduct

Sales

Stock at end of year _____

Balance being loss _____

The balance of this Account may be said to represent the board of the Servants of the Club; but should by any chance the sales exceed the purchases (after allowing for the stocks at the beginning and end of the year), then this heading will not appear on the Expenditure side, but be placed on the Income side.

4. Fuel

5. Lighting

(a) Electric Light

(b) Gas

(c) Oil and Candles

6. Cleansing

(a) Laundry

(b) Soap and cleaning materials

(c) Chimney Sweep

(d) Window Cleaning

7. Stationery, Newspapers, etc.
 - (a) Stationery
 - (b) Printing
 - (c) Account Books
 - (d) Newspapers
 - (e) Telegraphic News
8. Repairs
 - (a) Builder
 - (b) Plumber
 - (c) Electric and Gas Fittings
 - (d) Kitchen Fittings
9. Furniture, Plate, etc.
 - (a) Furniture
 - (b) Repairs and cleaning
 - (c) New Linen and Repairs
 - (d) Plate
 - (e) Cutlery
 - (f) Ironmongery
 - (g) Billiard Tables
 - (h) China and Glass
 - (i) Kitchen Utensils
10. Library
 - (a) Purchase of books, etc.
 - (b) Bookbinding
 - (c) Circulating Library
11. Interest on Debentures
(if any)
12. Miscellaneous
Under this heading will be put the cost of telephone, ice, working ventilators, hospital subscriptions and medical attendance, etc.
13. Depreciation
 - (a) Lease
 - (b) Furniture
 - (c) Library
 - (d) Plate and Linen, etc.
14. Surplus for year
Transferred to Balance Sheet

The Balance Sheet might be drawn up under the following headings—

On the Debit side—

1. Debentures
(if any)
2. Sundry Creditors
3. Subscriptions received in advance
(if any)
4. Overdraft at Bankers
(if any)
5. Library Account

This should be kept as a separate Account provided a special Library subscription is received from a Member on his election, or a special Library Fund has been raised under any other circumstances.

Balance at beginning of year

Add

Received from Members on election during year _____

Deduct

Expenditure on additions to Library _____

Balance

6. Balance in favour of the Club

Balance as per last Balance Sheet

Add

Surplus on Revenue brought from Income
and Expenditure Account _____

Surplus in favour of the Club

On the Credit side—

1. Lease of Club House
2. Fixtures, etc.
3. Furniture
4. Plate and plated goods
5. Linen
6. Cutlery
7. Library
8. Wines
9. Spirits and Liqueurs
10. Ales

(c) Sheep Sales.

(d) Pig Sales.

5. Valuations.

6. Royalties.

(a) Coal.

(b) Iron Ore.

(c) Other Royalties.

7. Dairy.

The Expenditure or Payments side may be set out as follows—

1. Maintenance and management of the Estate.

(a) Salary of Agent.

(b) Salaries of sub-Agents and Clerks.

(c) Law Costs.

(d) Insurance.

(e) Income and Property Tax.

(f) Tithes.

(g) Permanent Outgoings.

(h) Farms in hand.

2. Agistment, Woods, and Plantations.

(a) Agistments.

(b) Woods and Plantations—Labour Account.

3. Buildings, Improvements and Repairs.

(a) New Buildings.

(b) Repairs to Farms and Buildings.

(c) Draining and repairs to drainage.

(d) Saw Mill.

4. Housekeeping and Establishment Charges.

(a) Household Expenditure.

(b) Stables.

(c) Gardens.

(d) Charity and other subscriptions.

(e) Sundry Expenditure.

5. Game Account.

(a) Wages of Gamekeepers.

(b) Wages of Beaters.

(c) Purchase of Game.

(d) Purchase of food for Pheasants, etc.

(e) Dogs.

6. Allowances.

Here may be set out allowances to Members of the Family.

7. Pensions.

8. Interest on Mortgages, Loans, etc.

9. Valuations.

The Statement will be balanced so as to show the result of the working of the Estate.

MERCANTILE FIRM.—The following Statements represent the Profit and Loss Account and Balance Sheet of a firm carrying on an ordinary mercantile business, dividing the Profit and Loss Account into the two Statements referred to in previous Chapters as the "Trading Account" and "Profit and Loss Account," also the Balance Sheet. The last Statement shows how the net profit divisible between the partners can be dealt with, or the necessary entries can be made in the Journal, merely showing in the Balance Sheet the balance to the credit of each partner after the profits have been absorbed in the Capital Accounts.

Part I. of the Profit and Loss Account or Trading Account may have the following headings—

On the Debit side—

Stock (at commencement of period)	
Purchases	
Wages	
Carriage	
Salaries — (if any can be entirely allocated to cost of production)	
Balance—(being gross profit transferred to Profit and Loss Account)	_____
Total Debit side	=====

On the Credit side—

Sales (less goods returned)	
Stock (at end of period)	_____
Total Credit side	=====

The Profit and Loss Account (Part II if Part I is not described as "Trading Account")

On the Debit side—

Rent
Rates, Taxes, etc.

Salaries
 Wages
 Advertising
 Printing, Stationery, etc.
 Travellers' Commission
 Repairs
 Interest on Loans
 Allowance for Bad Debts
 Discounts
 Depreciation of buildings, plant, machinery, etc.
 Balance—being the net profit for the period
 apportionable as follows—

A. B. $\frac{3}{4}$ th share.

C. D. $\frac{1}{4}$ th „

Total Debit side.

On the Credit side—

Gross Profit brought down

Sundry Income (if any) such as Bank

Interest, Interest on Investments, etc.

Total Credit side

The Balance Sheet may have the following headings—

On the Debit side—

A. B. Capital Account

Balance at commencement of period

Add

$\frac{3}{4}$ ths share of net profit

Deduct

Drawings for period

Balance—being Capital at this date

C. D. Capital Account

Balance at commencement of period

Add

$\frac{1}{4}$ th share of net profit

Deduct

Drawings for period

Balance—being Capital at this date

Sundry Creditors

Creditors on Bills Payable

Loans
 Overdraft at Bank
 Reserve for Bad Debts
 Total Debit side

On the Credit side—

Buildings less depreciation
 Plant and Machinery less depreciation
 Sundry Debtors
 Bills Receivable
 Stock in Trade
 Balance at Bankers
 Cash in hand

Here set out other assets such as Invest-
 ments (if any)

Total Credit side

FORM OF BALANCE SHEET FOR LIMITED COMPANIES.—By Article 81 of the first Schedule of the Companies Act, 1862, usually known as "Table A," in which were set out the regulations for the management of a company limited by shares registered without Articles of Association, it was enacted that a Balance Sheet should be made out in every year and laid before the company in general meeting and that such Balance Sheet should contain a summary of the property and liabilities of the company arranged under the heads appearing in the form annexed to that Table, or as near thereto as circumstances admit.

On the 30th July, 1906, the Board of Trade, under the powers conferred upon them by Section 71 of the 1862 Act, issued a new "Table A," and this new Table came into force as and from the 1st October, 1906. This new "Table A" has, with very slight modifications, been incorporated in the Companies (Consolidation) Act, 1908.

Section 107 of the new "Table A" made the same enactment as to the Balance Sheet, but did not prescribe any form to be followed. The corresponding section of Table A affixed to the Companies (Consolidation) Act, 1908 prescribes that a Profit and Loss Account as well as a Balance Sheet shall be presented to the annual general meeting but does not prescribe any forms. As,

(b) Movable property, distinguishing—

(1) Stock-in-Trade.

(2) Plant.

The Cost to be stated with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss.

3. Debts owing to the Company.

(a) Debts considered good for which the Company hold Bills or other Securities.

(b) Debts considered good for which the Company hold no Security.

(c) Debts considered doubtful and bad.

Any debt due from a Director or other Officer of the Company to be separately stated.

4. Cash and Investments.

(a) The nature of Investment and rate of interest.

(b) The amount of cash, where lodged, and if bearing interest.

Total Credit side. _____

It will be observed, by anyone constructing a Balance Sheet in the above form, that it assumes there is a surplus standing at the credit of Profit and Loss. In those cases where there is a deficiency the remarks in Chapter XII explaining how to close a Balance Sheet apply.

The following shows the Revenue Account of a Mining Company divided into three sections, as recommended in Chapter X.

PART I

On the Debit side—

Stock of Minerals on hand (at commencement of period).

Stores on hand (at commencement of period)

Wages

Royalties

Stores purchased

Balance carried down, being gross profit _____

Total Debit side _____

On the Credit side—

Sales	
Stock of Minerals on hand (at end of period)	
Stores on hand (at end of period)	
Total Credit side	<hr/> <hr/>

PART II

On the Debit side—

Directors' Fees	
Salaries	
Rent, Rates, etc.	
Office Expenses	
Interest on Mortgages	
Interest on Debentures	
Amount written off for Depreciation on Buildings, Plant, etc.	
Bad Debts	
Amount written off Preliminary Expenses Account	
Balance carried down, being the net profit for the period	
Total Debit side	<hr/> <hr/>

On the Credit side—

Balance brought down	
Transfer Fees	
Extra earnings of Wagons (including proportion of instalments paid on Wagons on Purchase Lease charged against Revenue)	
Balance carried down being the net loss for the period	
Total Credit side	<hr/> <hr/>

PART III

On the Debit side—

Balance brought down, being the net loss for the period	
--	--

Balance brought from previous Revenue Account (deficiency at that date)	
Interim Dividend	
Proposed Dividend at per cent. per annum	_____
Balance carried to Balance Sheet, being amount of undivided profit at end of the period	_____
Total Debit side	<u> </u>

On the Credit side—

Balance brought down, being the net profit for the period	
Balance brought from previous Revenue Account (surplus at that date)	
Balance carried to Balance Sheet, being deficiency at this date	
Total Credit side	<u> </u>

The Balance Sheet might be in the following form—

On the Debit side—

Capital	
Authorised issue	
Shares of £ each	
Subscribed	
Shares of each	_____
Less amount uncalled	
„ Calls in arrear	_____
Mortgagees	
Debenture Holders	
Creditors on open Accounts	
„ on Bills Payable	
Shareholders' Interest outstanding	
Balance brought from Revenue Account, being the surplus or amount of Undivided Profit at this date	_____
Total Debit side	<u> </u>

On the Credit side—

Debtors	
Bills Receivable on hand	
Balance at Bankers	
Cash in hand	
Stock of Minerals at cost price	
Colliery Stores	"
Office Furniture	
Purchase of Mine, Buildings, Plant, etc.	
Balance of the Account	
Additions to this Account	_____
Less per cent. written off for depreciation	
Instalments on Wagons, on Purchase Lease, after deducting amount charged against Revenue Account	
Preliminary Expenses	
Balance of this Account	
Less th of original Amount	_____
Balance brought from Revenue Account, being deficiency at this date	_____
Total Credit side	_____

The Forms of Accounts prescribed for Railway Companies working in the United Kingdom, are to be found in the first Schedule to the Railway Companies (Accounts and Returns) Act, 1911.

The Forms prescribed for Gas Companies are to be found in Schedule B of the Gasworks Clauses Act, 1871, but this Schedule is not prescribed for the gas accounts of Urban Sanitary Authorities, special provisions being substituted in their Provisional Orders.

The Form of Accounts for Electric Lighting Undertakings are prescribed by the Board of Trade.

Life Assurance Companies and other companies transacting assurance business are required to present their Accounts in the form prescribed by the Assurance Companies Act, 1909.

The Accounts of Building Societies are to be in the form contained in the Annual Returns prescribed by the Chief Registrar of Friendly Societies, while the same Official also prescribes the form of Accounts for Friendly Societies.

CHAPTER XIV

THE LAW RELATING TO THE CONSTRUCTION OF BOOKS AND STATEMENTS OF ACCOUNT

It has been already mentioned that before commencing the construction, either of the books of account of a concern, or of statements intended to show the result of the transactions contained in such books, the constructor should ascertain whether or no there is any law bearing upon the subject. Should there be, he must be careful to carry out his work of construction in such a manner as to comply with the requirements of the law.

In the construction of the books of account of an individual, whether in his private capacity or as proprietor of a commercial or financial concern, the constructor can take definite instructions from his client or employer, or he may be allowed to follow his own views.

In the case of a firm or a partnership, the constructor can as a rule take his instructions from the members of the firm or partnership, but it is almost the invariable practice for such persons to have their rights *inter se* defined by Articles of Partnership or some Agreement of an equivalent nature. In such event, the document should be supplied to the constructor, who must be careful to comply with the regulations laid down therein with respect to his work. Should he receive instructions from his clients or employers of a nature contrary to any of the clauses contained in the deed, he should be careful to point out how these instructions are in conflict with the terms of the deed, so as to keep himself in a right position having regard to future possibilities.

In the case of private societies, the constructor can take his instructions from the Committee of Management, and in some cases from the Secretary, but in constructing the books and statements of account of public companies and societies registered under any of the Companies Acts regulating such companies and societies he must be careful that all the requirements of the Acts of Parliament are properly complied with.

As already stated, the law governing partnership books of account and Statements compiled therefrom are usually settled by the Articles of Partnership. Lord Lindley in the seventh edition of his treatise on "The Law of Partnership" makes the following remarks with reference to the Accounts when discussing the usual clauses to be inserted in Partnership Articles—

"The object of taking partnership accounts is twofold, viz.—

"1. To show how the firm stands as regards strangers; and 2. To show how each partner stands towards the firm. The Accounts, therefore, which the Articles should require to be taken, should be such as will accomplish this twofold object. The Articles should consequently provide, not only for the keeping of proper books of account, and for the due entry therein of all receipts and payments, but also for the making up yearly of a general Account, showing the then assets and liabilities of the firm, and what is due to each partner in respect of his capital and share of profits, or what is due from him to the firm, as the case may be.

"In order, moreover, to prevent Accounts which have been once fairly taken and settled from being afterwards disputed, the Articles usually declare that an Account when signed shall be treated as conclusive; or not to be opened except for some manifest error discovered within a given time. A provision to this effect is extremely useful, and should never be omitted; but, however stringently it may be drawn, no Account will be binding on any partner who may have been induced to sign it by false and fraudulent representations, or in ignorance of material circumstances dishonourably concealed from him by his co-partners. Where, however, all parties act *bonâ fide*, such clauses are operative; but the usual provision as to manifest errors applies only to errors in figures and obvious blunders, not to errors of judgment, *e.g.*, in treating as good debts which ultimately turn out to be bad, or in omitting losses not known to have occurred. All errors are manifest when discovered; but such clauses as those here alluded to are intended to be confined to oversights and blunders, so obvious as to admit of no difference of opinion.

"Moreover, an Account may be conclusive for one purpose, although not for another, *e.g.*, for the purpose of calculating the profits to be divided so long as the firm is unchanged, but not

for calculating the total amount to be paid to a partner on his exclusion from the firm.

“So, from the fact that nothing is reckoned for goodwill in taking annual Accounts with a view to a division of profits, it does not follow that the goodwill is not to be reckoned on a dissolution of the partnership by the death or retirement of a partner. Nor does it follow that because profits and losses are annually divided equally, the losses on a final winding up are to be divided equally, without reference to the capitals of the partners.”

The clauses in Articles of Partnership referring to the books of account and the statements to be prepared therefrom periodically vary not only according to the class of business undertaken by the partnership, but according to the views of the legal draftsman, the wishes of the partners, and the special circumstances of each partnership. The following clauses relating to the books of account, particularly relating to the capital of the partners and other matters which have to be recorded therein, and the statements of account to be periodically prepared, may however be taken as forms very commonly in use—

ARTICLES OF PARTNERSHIP.—“The capital of the said partnership shall consist of the sum of —————pounds to be made up and brought into the said business by the said partners as follows (here the dates are set out) or as and when required in the following shares ————— pounds by the said A.B. and ————— pounds by the said C.D. Each of the said partners shall at any time hereafter with the consent in writing of the other but not otherwise be at liberty to advance such sum or sums of money by way of additional capital as shall be deemed necessary for carrying on the partnership and the whole of the capital so brought in and advanced by each of the partners as aforesaid shall constitute a debt to him from the partnership and shall bear interest at the rate of five pounds per cent. per annum, which interest shall be paid out of the net profit of the said partnership before the division of such net profits between the partners as hereinafter provided.”

When the owner of an established concern takes a partner the following are very usual clauses in the Articles of Partnership—

“The capital and assets of the said A.B. belonging to the said business at the commencement of the partnership shall be taken

to be of the value appearing in the Balance Sheet of the said A.B. made up to the first day of January One thousand nine hundred and _____ and shall become the property of the partnership, and the value thereof shall be credited to the said A.B. in the books of the firm as being brought in by him as part of his share of capital."

"The Bankers of the partnership shall be _____ or such other Bankers as the partners shall from time to time determine and all moneys and securities belonging to the partnership shall be paid into and deposited with the said Bank."

"All moneys which shall from time to time be received by the partners or any of them for and on account of the partnership shall be immediately paid to the Bankers for the time being of the partnership in the same drafts cheques bills or cash in which the same are received and all disbursements for or on account of the partnership shall invariably be made by draft on such Bankers or through the medium of the cash clerk of the partnership."

"The rent of and expenses of repairs alterations and improvements and insurance against fire of any houses buildings or offices from time to time belonging to or used for the purposes of the said business and all rates taxes assessments and other outgoings for or in respect of the same and the salaries and wages of all clerks travellers apprentices workmen and persons employed in the said business and all expenses losses and damages which shall be incurred in carrying on the same or anywise relating thereto and the interest on the capital payable to the respective partners shall be paid out of the receipts and earnings of the said business and in case of deficiency thereof then by the said partners in the shares in which they shall for the time being be entitled to the net profits of the said business."

"The partners shall be entitled to the net profits of the said business in the shares following that is to say, the said A.B. _____ to _____ equal parts thereof and the said C.D. _____ to _____ equal parts thereof and the net profit shall be divided between the partners as soon after the end of each year of the partnership as the general annual account shall have been taken and settled as hereinafter provided."

"The said partners shall be at liberty by monthly drawings or otherwise to draw out of the said business in anticipation of their

respective shares of profits and to be accounted for at the next yearly division of profits the following sums namely—The said A.B. a sum not exceeding _____ pounds during any quarter of a year and the said C.D. a sum not exceeding _____ pounds in any quarter but in case in any year the amount so drawn out by either partner shall on taking the general account be found to be in excess of his share of the net profits then immediately after such account shall have been taken and settled the excess so drawn out shall be refunded.”

The following clause or clauses to the same effect is occasionally inserted in Articles of Partnership—

“ If the share of either partner in the net profit for any year as ascertained upon taking the general annual account shall exceed the amount which he shall be for the time being authorised to draw out during that year as provided by the last preceding Clause (whether actually drawn out or not) the surplus of such share over and above the amount so authorised to be drawn out shall be retained and added to his share in the capital of the partnership and each partner shall be entitled to receive interest at the rate of five per centum per annum on the sums so retained and carried to his credit as capital but when by addition as aforesaid the capital of the said A.B. shall have reached the sum of _____ and the capital of the said C.D. shall have reached the sum of _____ no further sum shall be added to the capital of the partners respectively without the consent of both partners and any profits over and above authorised drawings in any year may be divided between the said partners as provided by Clause _____ hereof.”

“ On the 31st day of December 190 _____ and on the 31st day of December in every succeeding year during the continuance of the said partnership a proper Profit and Loss Account and Balance Sheet shall be made and taken by the partners and written into a book and shall be audited on behalf of the partners by a Chartered Accountant or a firm of Chartered Accountants to be agreed upon by the said partners and shall be signed by the said partners and each partner shall be bound and concluded by every such Balance Sheet save and except that if any manifest error shall be found in any such Balance Sheet or Profit and Loss Account within— calendar months after the same shall have been so signed by the

partners and shall be signified by either of the partners to the other then and in such cases such error shall be rectified."

As regards the book-keeping of public companies, the following are the Sections of the various Acts of Parliament bearing on this subject—

LIMITED LIABILITY COMPANIES.—This is the ordinary familiar method of describing Companies registered with limited liability under the various Companies Acts comprehended in the title The Companies Acts, 1908 to 1917. The Sections quoted below refer to the Act of 1908.

25.—(1) Every Company shall keep in one or more books a Register of its Members, and enter therein the following particulars—

- (i) The names and addresses, and the occupations, if any, of the members, and in the case of a Company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member.
- (ii) The date at which each person was entered in the Register as a member.
- (iii) The date at which any person ceased to be a member.

The Register may consist of several books, which, by reference from one to the other, supply all the information required.—*Wickersheim's Case*, 8 Ch. 831, 836.

Under certain circumstances it is probable that Allotment Sheets might constitute a Register of Members.—*Ex parte Cammell*, [1894] 1 Ch. 528, [1894] 2 Ch. 392.

If shares are paid, in whole or in part, not in money but in money's worth, the Directors will properly state on the Register of Members that the shares are to the extent of such money's worth paid up, although no money has passed.—*Anglesea Colliery Co.*, 2 Eq. 379, 1 Ch. 555.

By Section 37, sub-sec. (5), on the issue of a share warrant to bearer the Company shall strike out of its Register of Members the name of the member then entered therein as holding the shares or stock specified in the warrant as if he had ceased to be a

member, and shall enter in the Register the following particulars, namely—

- (i) The fact of the issue of the warrant ;
- (ii) A statement of the shares or stock included in the warrant, distinguishing each share by its number ; and
- (iii) The date of the issue of the warrant.

(6) Until the warrant is surrendered, the above particulars shall be deemed to be the particulars required by this Act to be entered in the Register of Members ; and on the surrender, the date of the surrender must be entered as if it were the date at which a person ceased to be a member.

Section 43 prescribes that where a Company under this Act having a capital divided into shares has converted any portion of its capital into stock, and given notice of such conversion to the Registrar of Joint Stock Companies, the Register of Members is to show the amount of stock held by each member instead of the amount of shares and the particulars relating to shares.

26.—(1) Every Company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the Company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the Company.

(2) The list must state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the Company by persons who are still members and have ceased to be members respectively, and the dates of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid up otherwise than in cash, and specifying the following particulars—

- (a) The amount of the share capital of the company, and the number of the shares into which it is divided ;
- (b) The number of shares taken from the commencement of the Company up to the date of the return ;
- (c) The amount called up on each share ;
- (d) The total amount of calls received ;

- (e) The total amount of calls unpaid ;
- (f) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return ;
- (g) The total number of shares forfeited ;
- (h) The total amount of shares or stock for which share warrants are outstanding at the date of the return ;
- (i) The total amount of share warrants issued and surrendered respectively since the date of the last return ;
- (k) The number of shares or amount of stock comprised in each warrant ;
- (l) The names and addresses of the persons who at the date of the return are the directors of the Company, or occupy the position of directors, by whatever name called ; and
- (m) The total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies under this Act, or which would have been required so to be registered if created after the first day of July nineteen hundred and eight.

(3) The summary must also (except where the Company is a private Company) include a statement, made up to such date as may be specified in the statement, in the form of a Balance Sheet, audited by the Company's Auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the values of the fixed assets have been arrived at, but the Balance Sheet need not include a statement of profit and loss.

(4) The above list and summary must be contained in a separate part of the Register of Members, and must be completed within seven days after the fourteenth day aforesaid, and the Company must forthwith forward to the Registrar of Companies a copy signed by the manager or by the secretary of the Company.

(5) If a Company makes default in complying with the requirements of this section it shall be liable to a fine not exceeding five

pounds for every day during which the default continues, and every director and manager of the Company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty.

Every year means a year from 1st January to 31st December.—*Gibson v. Barton*, 10 Q.B. 329; *Edmonds v. Foster*, 33 L.T. 690.

27.—No notice of any trust, expressed, implied, or constructive, shall be entered on the Register, or be receivable by the Registrar, in the case of Companies registered in England or Ireland.

This Section does not apply to Scotland as it is the practice in that country to notice trusts in the transfer and registration of deeds. The official name of the Public Trustee may be entered in the books of a company, under Section 11, sub-sec. (5) of the Public Trustee Act, 1906, but it does not constitute notice of a trust, and a Company is not entitled to object to enter his name by reason only that the Public Trustee is a corporation.

34.—(1) A Company having a share capital, whose objects comprise the transaction of business in a Colony, may, if so authorised by its Articles, cause to be kept in any Colony in which it transacts business a branch Register of Members resident in that Colony (in this Act called a Colonial Register).

71.—(1) Every Company shall cause minutes of all proceedings of general meetings and (where there are directors or managers) of its directors or managers to be entered in books kept for that purpose.

(2) Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

The books containing these minutes are known as "Minute Books." In large Companies it is the practice to keep separate "Minute Books" for meetings of the Directors, for meetings of Committees of Directors, and for the meetings of Shareholders respectively.

93.—(1) Every mortgage or charge created after the first day of July nineteen hundred and eight by a Company registered in England or Ireland and being either—

- (a) A mortgage or charge for the purpose of securing any issue of debentures; or

- (b) a mortgage or charge on uncalled share capital of the Company ; or
- (c) a mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale ; or
- (d) a mortgage or charge on any land, wherever situate, or any interest therein ; or
- (e) a mortgage or charge on any book debts of the Company ; or
- (f) a floating charge on the undertaking or property of the Company,

shall, so far as any security on the Company's property or undertaking is thereby conferred, be void against the liquidator and any creditor of the Company, unless the prescribed particulars of the mortgage or charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the Registrar of Companies for registration in manner required by this Act within twenty-one days after the date of its creation, but without prejudice to any contract or obligation for repayment of the money thereby secured, and when a mortgage or charge becomes void under this section the money secured thereby shall immediately become payable.

Provided that—

- (i) In the case of a mortgage or charge created out of the United Kingdom comprising solely property situate outside the United Kingdom, the delivery to and the receipt by the Registrar of a copy of the instrument by which the mortgage or charge is created or evidenced, verified in the prescribed manner, shall have the same effect for the purposes of this section as the delivery and receipt of the instrument itself, and twenty-one days after the date on which the instrument or copy could, in due course of post, and if dispatched with due diligence, have been received in the United Kingdom, shall be substituted for twenty-one days after the date of the creation of the mortgage or charge, as the time within which the particulars and instrument or copy are to be delivered to the Registrar ; and
- (ii) Where the mortgage or charge is created in the United Kingdom but comprises property outside the United

- Kingdom, the instrument creating or purporting to create the mortgage or charge may be sent for registration notwithstanding that further proceedings may be necessary to make the mortgage or charge valid or effectual according to the law of the country in which the property is situate ; and
- (iii) Where a negotiable instrument has been given to secure the payment of any book debts of a Company, the deposit of the instrument for the purpose of securing an advance to the Company shall not for the purposes of this section be treated as a mortgage or charge on those book debts ; and
 - (iv) The holding of debentures entitling the holder to a charge on land shall not be deemed to be an interest in land.

The Act requires registration, not of the instrument creating the charge, but of the property charged. It extends, therefore, to the case where there is no instrument, such as where the security is created by deposit.—*Smith's Case*, 11 Ch. Div. 579, 585.

When Debentures are issued to bearer it is the practice to register the name of the person to whom each Debenture is first issued. When a Debenture Trust Deed is executed it is the practice to register the Trustees or the persons entitled to the charge.

100.—(1) Every limited Company shall keep a Register of Mortgages and enter therein all mortgages and charges specifically affecting property of the Company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto.

Table A. Article 75.—The directors shall cause minutes to be made in books provided for the purpose—

- (a) of all appointments of officers made by the directors ;
- (b) of the names of the directors present at each meeting of the directors and of any committee of the directors ;
- (c) of all resolutions and proceedings at all meetings of the Company, and of the directors, and of committees of directors,

and every director present at any meeting of directors or committee of directors shall sign his name in a book to be kept for that purpose.

Table A, Art. 103.—The Directors shall cause true accounts to be kept : Of the sums of money received and expended by the

Company and the matter in respect of which receipt and expenditure takes place, and of the assets and liabilities of the Company.

Table A, Article 104.—The books of account shall be kept at the registered office of the Company, or such other place or places as the Directors think fit, and shall always be open to the inspection of the Directors.

Table A, Article 105.—The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to inspection by members not being directors, and no member (not being a director) shall have any right of inspecting any account of book or document of the Company except as conferred by statute or authorised by the Directors or by the Company in general meeting.

Table A, Article 106.—Once at least in every year the Directors shall lay before the Company in general meeting a Profit and Loss Account for the period since the preceding account or (in the case of the first Account) since the incorporation of the Company made up to a date not more than six months before such meeting.

Sec. 107.—A Balance Sheet shall be made out in every year and laid before the Company in general meeting made up to a date not more than six months before such meeting. The Balance Sheet shall be accompanied by a report of the Directors as to the state of the Company's affairs and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a Reserve Fund.

The Companies (Consolidation) Act, 1908, Sec. 281.—If any person in any Return, Report, Certificate, Balance Sheet, or other document, required by or for the purposes of any of the provisions of this Act, specified in the fifth Schedule thereto, wilfully makes a statement false in any material particular, knowing it to be false, he shall be guilty of a misdemeanour, and shall be liable on conviction on indictment to imprisonment for a term not exceeding two years, with or without hard labour, and on summary conviction to imprisonment for a term not exceeding four months, with or without hard labour, and in either case to a fine in lieu of or in addition to such imprisonment as aforesaid: Provided that the fine imposed on summary conviction shall not exceed one hundred pounds.

The Mortgage Debenture Act, 1865.—This Act applies to any company carrying on business under any Act of Parliament as well as under the Companies (Consolidation) Act, 1908, as may be entitled to advance money on the security of land.

Sec. 27.—The Company shall keep a Register, to be called the “ Register of Securities ” in which shall be entered the date of every deed or other instrument registered at the Land Registry for the purposes of this Act, its nature, whether mortgage, grant of annuity, rent-charge, or other security, the amount of the principal money or the amount and duration of the Annuity thereby secured, the tenure, extent, and situation of the property upon which the security is taken, and if there are any charges which take priority of the Company’s security, then the amount of such prior charges.

Sec. 31.—A book containing a list of Mortgage Debentures shall be kept by the Company’s Secretary, and on the issue of any Mortgage Debenture any entry of the number and date thereof, and of the principal money secured thereby, and the name, description, and residence of the person to whom it is issued shall be entered in such book.

GUERNSEY.—With reference to Companies registered with limited liability in the Island of Guernsey, the following Articles taken from the law relating to such Companies apply to the books of account to be kept—

Article 37.—Every Joint Stock Company shall keep a book in which shall be regularly entered, at their proper dates, exact minutes of the proceedings, resolutions and voting of all general meetings, ordinary or extraordinary, of its shareholders, and of all board meetings of its Directors or Managers. These minutes, after having been approved of by the meeting *séance tenante*, shall be signed by the chairman of the meeting, and after having been written in the said book shall be confirmed at the following meeting, the said confirmation, attested by the signature of the chairman of the meeting, and being so signed, shall be received as evidence of what has been done and decided at the said meetings and board meetings.

Article 38.—The Directors or Managers of a Company established under this law shall be bound to keep the following books: a Journal, a Ledger on the double-entry system, and a Cash Book. The transactions of the Company shall be regularly

entered therein daily. They shall likewise keep a book containing, in order of date, a copy of every letter sent by the company.

Article 64.—Every Joint Stock Company shall be bound to keep a Register, called “Register of Transfers,” in which the following particulars shall be recorded—

The names, rank or professions, and the addresses of all and every one of its shareholders since the formation of the Company. And against the name of each shareholder—

1. The number of shares of which he is proprietor or for which he is responsible, with the numbers of such shares, indicating those which have been allotted for cash, and those which have been allotted in whole or in part for a consideration other than cash.
2. The amount paid up on each share and the date of each payment.
3. The date of the inscription of such shareholder’s name on the said Register of the Members or Shareholders in the Company.
4. The date on which such shareholder ceased to be the proprietor of each of the shares recorded against his name.

Every Company which shall omit or neglect to observe the provisions of this Article shall be liable to a fine not exceeding two pounds sterling for each day during which this Article is contravened.

Article 65.—Every Joint Stock Company shall be bound to prepare during the month of January of each year a list of the names, rank or professions, and addresses of all those persons who, on the first day of January of that same year, were shareholders in the said Company, and opposite the name of each shareholder the number of and the numbers of his shares and the amount paid up on each share ; the said list shall contain, further, the following particulars—

1. The amount of capital and the number of shares into which it is divided, distinguishing those which have been issued for cash and those having been allotted in whole or in part for a consideration other than cash.
2. The number of shares issued since the formation of the Company up to the first day of January of the year in which the said list is drawn up.

3. The number of calls made and the amount per share of each call by the company on its members and the total amount of capital which has been called up for payment by means of such calls.
4. The amount received by the said Company on the said calls of capital.
5. The amount still payable to the said Company on further calls of capital.
6. The names and addresses of the persons who at the date of the report, are Directors of the Company.
7. The actual address of the registered office of the Company.

And in cases where, under the Articles of the Company, the penalty incurred by shareholders who neglect to conform to the conditions of payment of the amount of their shares is the confiscation of those shares, the said list shall contain—

- (a) The number of shares which have been declared confiscated.
- (b) The total amount received by the Company on such shares before confiscation.
- (c) The amount received by the Company from the sale of such shares after confiscation.

This list shall be registered in a register kept for this purpose by the Company, and a copy of the same, under the seal of the Company, shall be delivered within the time specified at the commencement of this Article to the King's Greffier and shall remain deposited at the Greffe.

For each list so deposited the Greffier shall be paid a fee of five shillings.

JERSEY.—With reference to Companies registered with limited liability in the island of Jersey, the following Articles taken from the law relating to such Companies apply to the books of account to be kept—

Article 14.—Every Company incorporated under the present law shall be bound to keep a book or Register, in which the following particulars shall be entered—

The names, ranks or professions, and residences or addresses of

every and each of its members or shareholders since its foundation and opposite the name of each shareholder or member—

1. The number of shares of which he is the proprietor of or responsible for, with the numbers of such shares.
2. The amount paid up to the Company on each share, together with the date of each payment.
3. The date of enrolment of his name in the said Register amongst the members or shareholders of the Company.
4. The date on which such member or shareholder ceased to be the proprietor of each of the shares entered opposite his name.

Every Company failing or neglecting to comply with the requirements of this Article shall be liable to a penalty not exceeding Two pounds a day for every day that such failure or neglect shall continue.

Article 15.—Every Company incorporated under the present law shall be bound, during the month of January in each year, to prepare a memorandum containing a list of the names, occupations or professions, and residences or addresses of all persons who, on the first day of January in such year, were members or shareholders in the said Company, and opposite to the name of each member or shareholder the number of shares of which he is proprietor or responsible for, with their distinctive numbers, and the amount which has been paid up to the Company on each of such shares. The said memorandum shall also give a statement of position, containing the following particulars—

1. The amount of the capital of the Company, with the number of shares into which it is divided.
2. The number of shares taken up since the formation of the Company until the first of January of the year in which such list or memorandum is drawn up.
3. The number and amount per share of the calls made on its members by the Company, and the total amount of capital which has been called up by such calls.
4. The total amount received by the Company by means of such calls.
5. The Balance due to the Company on such calls and remaining unpaid.

And in cases where, by the Memorandum of Association, the

penalty incurred by shareholders neglecting to comply with the conditions for payment of the amount of their shares is the confiscation of such shares, the said memorandum shall contain—

6. The number of shares which have been declared as confiscated, the total amount received by the Company on such shares before confiscation, and the amount received by the Company for the sale of such shares after confiscation.

This memorandum shall be entered in a book or Register kept for this purpose by the Company, and a copy of it, under the seal of the Company, shall be sent within the limits of time set forth at the commencement of this Article to the Greffier of the Royal Court, and shall remain deposited at the Greffe Office. Every Company which shall neglect or fail to prepare and register and send to the Greffier a memorandum, in conformity with this Article, shall be liable to a penalty, not exceeding Two pounds sterling a day, for every day it continues to contravene after the thirty-first day of January in any year.

Article 28.—Every Company incorporated under the present law shall be bound to keep a book or Register in which there shall be regularly entered, under its date, the exact minute of the holding and resolutions and votes of every general meeting, whether ordinary or extraordinary, of its members or shareholders, and of all meetings of its Directors or Managers. These minutes shall be signed in such book or Register by the persons who shall respectively have presided over its assemblies and meetings, and, being so signed, shall be received as *primâ facie* evidence of what has been done and decided at such assemblies and meetings.

Article 41.—The Directors or Managers of a Company incorporated under the present law shall be bound to keep the necessary books for the affairs of the Company: a Day Book, a Ledger kept in double entry, a Cash Book, and a Journal; and they shall regularly, day by day, write therein all the transactions of the Company. They shall also keep a book wherein shall be regularly copied, in order of date, an exact copy of every letter sent out by the Company.

The following regulations apply to the book-keeping of Companies registered under various other Acts of Parliament—

The Companies Clauses Consolidation Act, 1845, Sec. 9.—The

Company shall keep a book to be called the "Register of Shareholders"; and in such book shall be fairly and distinctly entered, from time to time, the names of the several Corporations, and the names and additions of the several persons entitled to shares in the Company, together with the number of shares to which such shareholders shall be respectively entitled, distinguishing each share by its number, and the amount of the subscriptions paid on such shares, and the names or corporate names of the said shareholders shall be placed in alphabetical order; and such book shall be authenticated by the common seal of the Company being affixed thereto; and such authentication shall take place at the first Ordinary Meeting, or at the next subsequent meeting of the Company, and so from time to time at each ordinary meeting of the Company.

The Section is merely directory, but it must be substantially complied with in order to make the Register evidence of a defendant in an action for calls being a shareholder.—*East Gloucestershire Railway Company v. Bartholomew*, L.R., 3 Ex. 15.

Sec. 10.—In addition to the said Register of Shareholders the Company shall provide a book, to be called the "Shareholders' Address Book" in which the Secretary shall from time to time enter in alphabetical order the corporate names and places of business of the several shareholders of the Company, being Corporations, and the surnames of the several other shareholders with their respective Christian names, places of abode, and descriptions, so far as the same shall be known to the Company.

Sec. 45.—A Register of Mortgages and Bonds shall be kept by the Secretary, and within fourteen days after the date of any such Mortgage or Bond an entry or memorial, specifying the number and date of such mortgage or bond and the sums secured thereby, and the names of the parties thereto, with their proper additions shall be made in such Register.

Sec. 63.—The Company shall from time to time cause the names of the several parties who may be interested in any such Stock as aforesaid, with the amount of the interest therein possessed by them respectively, to be entered in a book to be kept for the purpose, and to be called "The Register of Holders of Consolidated Stock."

Sec. 98.—The Directors shall cause notes, minutes, or copies.

as the case may require, of all appointments made or contracts entered into by the Directors, and of the orders and proceedings of all meetings of the Company and of the Directors and committees of Directors, to be duly entered in books, to be from time to time provided for the purpose, which shall be kept under the superintendence of the Directors, and every such entry shall be signed by the chairman of such meeting.

Sec. 115.—The Directors shall cause full and true accounts to be kept of all sums of money received or expended on account of the Company by the Directors and all persons employed by or under them, and of the matters and things for which such sums of money shall have been received or disbursed and paid.

The Companies Clauses Act, 1863, Sec. 28.—The Company shall cause entries of the Debenture Stock from time to time created to be made in a Register to be kept for that purpose, wherein they shall enter the names and addresses of the several persons and corporations from time to time entitled to the Debenture Stock, with the respective amounts of the stock to which they are respectively entitled.

Sec. 33.—Separate and distinct Accounts shall be kept by the Company, showing how much money has been received for or on account of Debenture Stock, and how much money borrowed or owing on Mortgage or Bond, or which they have power so to borrow, has been paid off by Debenture Stock, or raised thereby, instead of being borrowed on Mortgage or Bond.

The Assurance Companies Act, 1909, Sec. 3 (s.s. 1).—In the case of an Assurance Company transacting other business besides that of Assurance, or transacting more than one class of assurance business, a separate Account shall be kept of all receipts in respect of the assurance business, or of each class of assurance business, and the receipts in respect of the insurance business, or in the case of a Company carrying on more than one class of assurance business of each class of business, shall be carried to and form a separate Assurance Fund with an appropriate name. Provided that nothing in this section shall require the investments of any such fund to be kept separate from the investments of any other fund.

(2) A fund of any particular class shall be as absolutely the security of the policyholders of that class as though it belonged to a Company carrying on no other business than Assurance business

of that class, and shall not be liable for any contracts of the Company for which it would not have been liable had the business of the Company been only that of Assurance of that class, and shall not be applied, directly or indirectly, for any purpose other than those of the class of business to which the fund is applicable.

BUILDING SOCIETIES.—The constructor of a set of books for a Building Society should ascertain whether there are any regulations in the rules which ought to be attended to by him.

FRIENDLY SOCIETIES.—The following Section of the First Schedule to the Friendly Societies Act, 1896, enacts that the Rules of all Friendly and Cattle Insurance Societies registered under this Act shall provide for—

Sec. 10.—The keeping separate Accounts of all moneys received or paid on account of every particular Fund or benefit assured for which a separate table of contributions payable shall have been adopted, and the keeping separate account of the expenses of Management, and of all Contributions on account thereof.

The following are the Sections relating to the Statements of Accounts to be submitted to Shareholders, contained in the Acts of Parliament bearing upon this subject.

LIMITED LIABILITY COMPANIES.—The Companies (Consolidation) Act, 1908.

Sec. 90.—Where a Company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, or so much thereof as has not been written off, shall be stated in every Balance Sheet of the Company until the whole amount thereof has been written off.

GUERNSEY.—With reference to Companies registered with limited liability in the Island of Guernsey, the following Article taken from the Law relating to such Companies applies to Statements of Accounts to be laid before shareholders.

Article 39.—Every Joint Stock Company shall have annually in this Island a general meeting of its shareholders; the first meeting shall be held within a period which may not be less than three months nor more than six months from the day on which the Company shall have the right to commence business. If the annual general meeting or the first meeting above-mentioned is not held, the Company and each Managing Director, Secretary

and other officers of the Company, who shall knowingly be a party to this default, shall be liable to a fine, at the discretion of Justice, which shall not exceed one hundred pounds sterling.

Article 40.—The Directors shall, at least ten days before the day on which the meeting is to be held, forward to every shareholder in the company a copy of a report of which the original shall have been countersigned by not less than two Directors of the Company, or, where there are less than two Directors, by the sole Director or Manager. The said Report shall state—

- (a) The total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating (in the case of shares partly paid up) the extent to which they are so paid up, and in either case the consideration for which they have been allotted ;
- (b) The total amount of cash received by the Company in respect of such shares, distinguished as aforesaid ;
- (c) The amount of receipts of the Company during the year classified under different heads indicating the sources whence they come, together with the amount of expenses, also classified under different heads, showing the objects for which they have been incurred. If any expenses have been incurred during the year which are not for the needs of the current year solely, but for several years, such expenses may be apportioned over several years, provided that the reasons for this apportionment are clearly stated ; and in such a manner as to strike the actual balance between profits and losses accrued during that year ;
- (d) The names, rank or occupations, and addresses of the Directors, Auditors (if any), Manager (if any), and Secretary of the Company ;
- (e) Particulars of any contract or document, the modification of which is to be submitted to the meeting for its approval, together with particulars of the said modification ;

The Report shall, so far as it relates to the shares allotted by the Company and to the cash received in respect of such shares, and to the receipts and payments of the Company, be certified as correct by the auditors, if any, of the Company.

JERSEY.—With reference to Companies registered with limited

liability in the Island of Jersey, the following Article taken from the law relating to such Companies applies to Statements of Account to be laid before shareholders.

Article 20.—Every Company incorporated under the present law shall be bound to hold in this Island a general meeting of its Members and Shareholders.

The Directors or Managers shall be bound to present to the meeting an Account or Statement of the Receipts and Expenditure of the Company up to the 31st December of the preceding year.

The Account or Statement so prepared shall contain the gross amount of the Receipts of the Company for the year, classified under different headings, showing the sources from which they were derived, also the gross disbursements, classified under different headings, showing the objects for which they have been incurred. If disbursements have been made during the year which are not for the exclusive needs of the current year, but of several years, they can be distributed, provided that the principles of this distribution are clearly shown, and this for the purpose of establishing the true working balance of profit and loss for the complete year.

There shall also be drawn up an inventory of the personal and real estate, and of the Assets and Liabilities of the Company. A Balance Sheet, containing this Account or Statement, must be delivered or sent by post to the Shareholders ten days at least before the holding of the general meeting, and must be formally presented by the Directors to the general meeting of Shareholders. Every Company infringing the requirements of this Article shall incur a penalty not exceeding £3 for each infraction.

The Companies Clauses Consolidation Act, 1845, Sec. 106.—The Directors shall deliver to such Auditors the half-yearly or other periodical Accounts and Balance Sheet fourteen days at the least before the ensuing Ordinary Meeting at which the same are required to be produced to the Shareholders as hereinafter provided.

Sec. 115.—The Directors shall cause full and true Accounts to be kept of all sums of money received or expended on account of the Company by the Directors and all persons employed by or under them, and of the matters and things for which such sums of money shall have been received or disbursed and paid.

Sec. 116.—The Books of the Company shall be balanced at the prescribed periods, and, if no periods be prescribed, fourteen days

at least before each Ordinary Meeting; and, forthwith on the Books being so balanced, an exact Balance Sheet shall be made up, which shall exhibit a true Statement of the Capital Stock, Credits, and Property of every description belonging to the Company, and the debts due by the Company at the date of making such Balance Sheet, and a distinct view of the Profit or Loss which shall have arisen on the transactions of the Company in the course of the preceding half-year; and previously to each Ordinary Meeting such Balance Sheet shall be examined by the Directors, or any three of their numbers, and shall be signed by the Chairman or Deputy-Chairman of the Directors.

Sec. 122.—Before apportioning the profits to be divided among the Shareholders the Directors may, if they think fit, set aside thereout such sum as they may think proper to meet contingencies, or for enlarging, repairing, or improving the works connected with the Undertaking, or any part thereof, and may divide the balance only among the Shareholders.

The Railway Companies (Accounts and Returns) Act, 1911, Sec. 1.—(1) Every Railway Company shall annually prepare Accounts and returns in accordance with the form set out in the First Schedule to this Act, and shall submit their accounts to their Auditors in that form.

(2) The Accounts and returns shall be signed by the officer of the Company responsible for the correctness of the Accounts or returns, or any part thereof, and, in the case of an incorporated Railway Company, by the Chairman or Deputy Chairman of the Directors of the Company, and shall be made up for the year ending the thirty-first day of December, or such other day as the Board of Trade may fix in the case of any company or class of companies to meet the special circumstances of that company or class of companies.

(3) Every Railway Company shall forward six copies of the Accounts and returns to the Board of Trade not later than sixty days after the expiration of the year for which the Accounts and returns are made up, and, in the case of an incorporated Railway Company, shall forward a copy of the Accounts and returns to any shareholder or debenture holder of the Company who applies for a copy.

(4) If any Railway Company fails to prepare or forward, in

accordance with this section, such accounts and returns as are thereby required, the company shall be liable on summary conviction to a fine not exceeding five pounds for every day during which the default continues.

(5) If any Account or return prepared and forwarded under this section is false in any particular to the knowledge of any person who signs the account or return or any part thereof, that person shall be liable on conviction on indictment to imprisonment with or without hard labour for a term not exceeding one year, or to a fine not exceeding one hundred pounds, and on summary conviction to a fine not exceeding fifty pounds.

The Assurance Companies Act, 1909, Sec. 4.—Every Assurance Company shall, at the expiration of each financial year of the Company, prepare—

- (a) A Revenue Account for the year in the form or forms set forth in the First Schedule to this Act and applicable to the class or classes of assurance business carried on by the Company ;
- (b) A Profit and Loss Account in the form set forth in the Second Schedule to this Act, except where the Company carries on assurance business of one class only and no other business ;
- (c) A Balance Sheet in the form set forth in the Third Schedule to this Act.

Sec. 5.—(1) Every Assurance Company shall, once in every five years, or at such shorter intervals as may be prescribed by the instrument constituting the Company, or by its regulations or bye-laws, cause an investigation to be made into its financial condition, including a valuation of its liabilities, by an Actuary, and shall cause an abstract of the report of such Actuary to be made in the form or forms set forth in the Fourth Schedule to this Act and applicable to the class or classes of assurance business carried on by the Company.

(2) The foregoing provisions of this Section shall also apply whenever at any other time an investigation into the financial condition of an Assurance Company is made with a view to the distribution of profits, or the results of which are made public.

Sec. 6.—Every Assurance Company shall prepare a statement of its assurance business at the date to which the Accounts of the Company are made up for the purposes of any such investigation

as aforesaid in the form or forms set forth in the Fifth Schedule to this Act and applicable to the class or classes of assurance business carried on by the Company : Provided that, if the investigation is made annually by any Company, the Company may prepare such a statement at any time, so that it be made at least once in every five years.

The Building Societies Act, 1874, Sec. 40.—The Secretary or other Officer of every Society under this Act shall, once in every year at least, prepare an Account of all Receipts and Expenditure of the Society since the preceding statement, and a general Statement of its funds and effects, liabilities and assets, showing the amounts due to the holders of the various classes of shares respectively, to depositors and creditors for loans, and also the Balance due or outstanding on their Mortgage Securities (not including prospective interest), and the amount invested in the funds or other securities. . .

The Building Societies Act, 1894, Sec. 2.—(1) Every Annual Account and Statement under Section forty of the Building Societies Act, 1874, shall be made up to the end of the official year of the Society to which it relates, and shall be in such form and shall contain such particulars as the Chief Registrar of Friendly Societies may from time to time, with the approval of a Secretary of State, direct, either generally or with respect to any Society or class of Societies. The form of Annual Account and Statement prescribed for general use by the Chief Registrar under this Section, and every alteration of that form, shall as soon as practicable be laid before each House of Parliament, and shall not come into operation until the expiration of forty days from the date at which it is so laid. Provided that every such Account and Statement shall set forth : (The particulars here referred to have already been inserted in Chapter XII, p. 249.)

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