ACCOUNTING AND BANKING

.

LONGMANS' COMMERCIAL SERIES

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ACCOUNTING AND BANKING

BY

ALFRED NIXON, F.C.A., F.S.A.A., F.C.I.S.

PRINCIPAL OF THE MUNICIPAL SCHOOL OF COMMERCE, MANCHESTER LECTURER IN ACCOUNTING AND BANKING

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GENERAL

PREFACE

In the preparation of the present volume, my object has been to provide a comprehensive and practical text-book, at a moderate cost, to meet the requirements of the following :---

1. Business men, for whom it is hoped that the volume may serve as a clear and practical guide to the various commercial matters in which they are closely concerned, viz. business methods and the organization of accounts, banking, cheques and bills, partnerships and joint stock enterprise, income tax regulations and accounts.

2. Candidates for the valuable certificates in Accounting and Banking, and in Advanced Bookkeeping, awarded by the Society of Arts and the London Chamber of Commerce.

3. Candidates for the professional examinations of-

- (a) The Institute of Chartered Accountants;
- (b) The Society of Accountants and Auditors (Incorporated);
- (c) The Chartered Institute of Secretaries; and
- (d) The Institute of Bankers.

4. Teachers of the subjects named, who will readily appreciate the value of the numerous examples selected from those met with during an extensive professional practice, and of the 240 carefully graded questions on the text, mainly taken from recent papers of the various examining bodies.

In dealing with the principal branches of commercial and financial activity, I have endeavoured to avoid technicalities, and have preferred to adopt a plain business-like style in explaining the underlying principles and the essentials of the various classes of accounts considered.

The order and method of treatment follow the plan adopted by me with conspicuous success in lecturing during the past twenty years to large classes of business men and accountancy

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PREFACE

students. During that period I have gained an intimate knowledge of the special difficulties and requirements of such students, and I have not unreasonable confidence that the knowledge and experience thus acquired will be valuable to the readers of the present work.

I desire to express my indebtedness and thanks to the several members of my staff who have rendered assistance, and to Mr. H. Lysons, Chartered Accountant, of Manchester, for the Building Society Accounts.

As in the working of so many examples I cannot hope to be entirely free from errors, I shall deem it a favour to be informed of any inaccuracy that may have escaped notice. I would also invite readers who may be uncertain as to the treatment of matters dealt with, to communicate with me for the explanation of any difficulty they may encounter in working the exercises.

ALFRED NIXON.

MUNICIPAL SCHOOL OF COMMERCE, MANCHESTER.

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ACCOUNTING AND BANKING

CHAPTER I

ORGANIZATION OF ACCOUNTS

Cash—Goods—Bills—Stock Book—Reconciliation Statement—Self-balancing Ledgers.

To Alfred Nixon, Esq., Victoria Buildings, Manchester.

ミソ

Portland Street, Manchester. January 2, 19-.

DEAR MR. NIXON,

As you are doubtless aware, I have resigned my position with Messrs. Sharp & Co., and commenced business on my own account at the above address.

As I am anxious that my accounts shall be kept on the right lines, I should be glad if you would give me an early call to arrange terms for the organization of the accounts, and the yearly audit of the books.

I am,

Yours faithfully, A. READER.

в

At the interview with Mr. Reader on the next day, satisfactory terms were arranged, and the particulars of the character and the probable scope of his business operations ascertained.

The following is an outline of the recommendations made to suit his particular requirements as a trader, giving and receiving credit, and with but a moderate turnover :---

1. Goods

(a) Purchases authorized by printed and numbered order forms, of which carbon or press copies are to be kept for

reference; these orders to be signed by responsible persons only, and a general supervision on quantities and prices to be maintained by the principal.

Invoices received to be checked in regard to quantities, quality, price, extensions, and additions, and initialled by persons dealing with these points. Passed invoices to be fastened in Guard Book.

(b) Sales. Orders received to be filed for reference; as goods are delivered invoices to be made out, and checked by junior for copying in special press book, or entering into Sales Day Book.

(c) Returns and Allowances to be noted by debit or credit notes, and particulars to be entered in outward or inward Returns Book, as the case may be.

(d) Trade Discount, being a special allowance on goods, quite apart from the payment of the account, to be deducted from invoices of purchases, and deducted from sales in the Sales Day Book.

2. CASH TRANSACTIONS

(a) Money received. No receipts to be given on invoices or statements, but only acknowledged by the firm's printed receipts from counterfoil receipt books bearing printed consecutive numbers. All cash received to be paid into the bank forthwith.

Notice to be given on business forms that cheques be made payable to the firm, and crossed to the firm's bankers, and that only a printed receipt will be an acknowledgment of payment.

(b) Money paid. All accounts to be paid by crossed cheques, and vouchers for such payments to be placed in Voucher Guard Book in the order of entry in the Cash Book. Prior to payment all statements to be carefully checked with the ledger accounts, and rate of discount supervised.

(c) All Cash Discounts to be entered in the Cash Book, and full advantage taken of favourable terms—remembering that $2\frac{1}{2}$ for three months means at the rate of 10 per cent. per annum.

(d) Petty Cash to be kept on the Imprest system, *i.e.* the amount to be advanced to the petty cash clerk, sufficient to enable him to make small payments, and a cheque to be drawn

each week, or month, for the total; thus restoring the petty cash advance to its original amount.

(e) Salaries to be certified, and a cheque drawn each week for the total sum, or for each monthly salary.

(f) Monies drawn out by Mr. Reader on account of profits to be paid by cheque, and charged to a Drawings' Account.

8. BILLS OF EXCHANGE

(a) Receivable to be numbered in consecutive order of receipt and full particulars entered in Bills' Journal. If discounted, discount to be entered in discount column of Cash Book, and the net proceeds in bank column.

(b) Payable to be numbered consecutively and careful supervision maintained of dates of payment; and that in accepting care be taken to prevent heavy engagements coming on any particular date.

4. GENERAL

(a) Ledgers to be kept posted up to date, and proved on self-balancing principle. Cashier and clerks dealing with cash not to post into ledgers.

(b) Sales Ledger. Accounts-due Book to be entered up each month, and supervision kept over accounts overdue.

(c) Purchase Ledger. Statements from creditors to be checked on receipt, and differences inquired into and rectified.

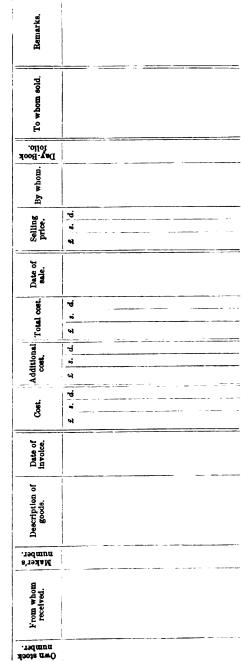
(d) Bank Pass Book to be made up frequently, and checked with Bank Account in Cash Book.

(e) Petty Cash and Wages Books to be overlooked by principal, and initialled to certify that in order.

(f) Stock Book to be kept in Dr. and Cr. form, particulars of dates, names, description of goods, prices and references to invoices and Day Book entries. Occasional check to be made by responsible persons of quantities in stock, as shown by the book.

The following is the ruling of the Stock Book suitable for this business. For each particular class of goods several pages may be reserved, so that the quantities on hand of any description, or special quality of merchandise may be readily ascertained or checked.





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STOCK BOOK



ORGANIZATION OF ACCOUNTS

Reconciliation Statement.—As the Bank Account should be reconciled with the Pass Book at frequent intervals, it will be well to give an example of a Reconciliation Statement entered in the Cash Book, say, on January 31 :—

Balance as per Add chequ									•	•		•	•	•	£ 940	s . 0	d . 0
								•	•	•	·£ 35 60					-	_
															95	0	0
Deduct ch	eane	s d	Ira	wn	bu	t n	ot 1	ore	sen	ted				£	21035	0	0
2000000	-							•			2	10	0				
	Y.										125	0	0				
											240				367	10	0
As per balance	in (as	h I	300	k	•			•						£667	10	0

Let us take the case where on December 31 the Cash Book shows an overdraft at the bank, and the Pass Book the reverse—

	e to Dr. of l ld cheque n														£ 520 30	0	d. 0 0
De	duct chequ	88	not	pr	ese	nte	d–	-							550	· 0	0
	-			-							8.						
	Watts .									422	10	0					
	Cooper.									110	0	0					
	Brown .																
										776	5	0					
			Le	88	•	•	•	•		550	0	Ō					
			Ba	lan	ice	of	•	•	•	£226	5	0	(to l p	Cr. er (of ba Cash I	ink Boo	as k.

Self-balancing Ledgers.—Instructions were given that each Trade Ledger should be self-balancing. To do this a Memorandum Account of aggregate or total postings should be drawn out each month to prove that the balances of that particular ledger have been extracted correctly, and as a test upon the accuracy of the postings and additions. In this way errors are localized, and each ledger clerk made responsible for his own blunders.

ACCOUNTING AND BANKING

SALES OR DR. LEDGER

·						£						£
Dec.	1.	To	balance			4500	Dec. 31.	By	cash			2425
			sales .				••		discounts			
•			transfers				,,		bills receiva			
		"					,,		returns .			
							,,		bad debts			
							,,		balance .			
					-	£7725					-	£7725
					_						_	

The amounts included in the above are the month's totals from the various books, representing it may be thousands of postings made by the clerks from the record books.

The balance is the proved amount on November 30; the Day Books and Returns Books give the totals of the sales and returns; Cash Book of the total receipts and discounts; the Bills Receivable Book of acceptances received; and from the Journal are the bad debts and the transfers from other ledgers.

				Pu	RCH	ASE OR	CR. LED	JER				
Dec. 31.	•, •, ,,	cash discount . bills payab returns . balance	le	• • •		99 2400 115	,, 31.	,,	balance . purchases transfers			2730
					-	£8955					-	£8955

In this example it will be noticed that transfers from the other ledgers, for which usually a Transfer Journal would be kept, may be on both sides of the account.

QUESTIONS AND EXERCISES

- 1. How would you deal with inward invoices?
- 2. How would you enter and deal with an allowance made on goods sold?
- 3. What special points should be noted in regard to cash receipts and payments?
- 4. Distinguish between trade and cash discounts, and state the method of entering in the record books.
- 5. What do you consider a good method of keeping a petty-cash book?
- 6. Describe any special points in the drawing and accepting of bills.
- 7. Draft a form of Stock Book, stating the particulars usually given.
- 8. What is a Bank Reconciliation Account? Give an example.
- 9. What is the object of keeping self-balancing ledgers?
- 10. Give an example to show the check maintained on a debtor's ledger.

CHAPTER II

DOUBLE ENTRY ACCOUNTS

Preparation for Audit—Trial Balance—Profit and Loss Account— Balance Sheet.

It is the end of the year, and Mr. A. Reader is anxious to know to what extent his trading during the past twelve months has been profitable or otherwise, and also to have placed before him a clear and correct statement of his financial position. At a preliminary call the following instructions are given to the book-keeper to facilitate the audit :—

(a) Postcards to be sent to trade creditors asking for statements of accounts to December 31 inclusive, and thus enable Ledger Accounts to be checked by them.

(b) Bank Pass Book to be made up and reconciled with Bank Account in Cash Book.

(c) Stock-in-trade to be listed, priced, extensions made and certified by responsible persons.

(d) All outstanding charges, such as rent, rates, commissions, etc., to be entered in the books; or a detailed list made out to allow of provision being made for same in the accounts.

(e) A list of bad and doubtful debts.

(f) Unsettled accounts in the Trade Ledgers to be ruled off, and the balances carried down to the next period.

(g) The arithmetical accuracy of the additions and extractions of the balances to be proved by means of a trial balance. All entries to be in ink.

Early in the New Year the following trial balance is furnished :---

TBIAL BALANCE

December 31, 19-

										D	r.		Cr		
Trade debtors										£ 3775	s . 0	d. 0	£	8.	d.
" creditors													3240	0	0
Bank										1			226	5	0
Petty cash .	•	•	•		•	•	•			15	0	0		_	-
Purchases .	·	•	·	•	•	•	•	•	•	35,403	10	Ŏ			i i
Sales	•	·	•	•	•	•	•	•	•,	00,200		ľ	83,425	5	0
	·		'n.	ġ.					<u></u>	1300	0	0	00,120	Ű	0
Salaries (includ				age	I B	Balls	iry,	2.0	<i>,</i> (vi	240	ŏ	ŏ	;		
Rent, rates, and	i ta	xes	•	•	•	•	•	·	•					1	1
Insurance .	•	•	•	•	•	•	•	•	•	60	0	0	i i		
Fixtures.	•	•	•	•	•	•	•	•	•	480	0	0			ł .
Discounts .			•					•					160	0	0
Stable stock .									•	' 70	0	0			
" expenses									•	60	0	0			ł
Bad debts										120	0	0			1
Bills receivable	١.				÷					3750	0	0			1
" payable		•	·	•	•	-						-	4240	0	0
Interest	•	•	•	•	•	•	•	•		18	0	0		-	1.0
Loan account (ຕຳ			、'	•	•	•	•	•		-	ľ	1000	0	0
Loan account (0. 1	Jou	uer	<i>.</i>	•	·	•	•	•				3000	ŏ	١ŏ
Capital	•	•	•	•	•	•	·	•	•				3000	U	U
										£45,291	10	0	£45,291	10	0

Norg.-The amount of the stock on hand, December 31, £4024.

The trial balance is a list of balances of all open accounts in the ledger, including the cash and bank balances from the Cash Book, which in practice is regarded as a ledger account for cash transactions.

Inspection of the trial balance shows an equality of the debit and credit balances, and therefore that we may rely upon the arithmetical accuracy of the books. We have now to make certain adjustments and bring into account the value or cost of the stock on hand, and then proceed to the preparation of the statements furnishing the informations desired by Mr. Reader.

The accounts we intend to supply are-

(a) Profit and Loss Account.

(b) Balance Sheet.

The Profit and Loss Account is a concise statement of the expenses and charges of the business for the period, entered on the debit side of the account; and the gains and profits of the period entered on the credit side; the balance if to the credit indicates profit, to the debit a loss.

It is advisable that there be a separation of the account into two parts: the first, Trading Account, showing the gross profit the difference between the buying and selling prices; and the second part showing the net profit—the amount left after taking into account all expenses of distribution, counting-house expenses and fixed charges, such as interest on capital, depreciation, etc. A third division may also be made to include profits and income received apart from the ordinary business, as dividends from investments, profits from dealing in shares, and the disposal of the balance, as in the transfer of an amount to reserve and the distribution of the balance to the partners. This will be illustrated more fully in Company Profit and Loss Accounts.

CLASSES OF ACCOUNTS

Prior to the preparation of the Profit and Loss Account let us examine the items in the trial balance with the view of understanding the accounts and making any necessary adjustments. It should be noted that we have to deal with two classes of accounts, which may again be subdivided as follows:—

1. Personal.

- (a) Drs.—Accounts showing the indebtedness of persons to the firm.
- (b) Crs.—Accounts showing the liability of the firm to persons.

2. Impersonal.

- (a) Real—Accounts representing values, as cash, fixtures, premises, stock.
- (b) Nominal—With either debtor or credit balances; opened to give information concerning the profits, expenses and losses of the business, such as discounts, interest, commission, bad debts, etc.

A knowledge of this classification of accounts is of value in understanding the essential difference between single and double entry bookkeeping; in the former, personal accounts only are to be found; whilst in the latter, in addition to the personal, the impersonal accounts are necessary for the completion of the double entry. As typical illustrations note the following—

1. Bought from Brown & Co., goods £50.

- In single entry Brown & Co. would be credited, and no other ledger entry made. In double entry in addition to the credit to Brown & Co., Purchases Account would be debited, the item probably being included in the total purchases of the month.
- 2. Bought fixtures from Smith, value £70.
 - A credit to Smith in single entry; in double entry an additional entry of a debit to Fixtures Account.
- 3. Brown & Co. allow a discount of 50s.
 - Single entry only a debit to Brown & Co., completed in double entry by a credit to Discount Account.

4. Paid salaries, £15.

A credit to the cashier in single entry, completed in double entry by a debit to the Nominal Account, salaries.

The Balance Sheet and Profit and Loss Account may be regarded as giving: the one, a statement of capital amounts, and the other revenue items; and therefore it is well that, in the preparation of them, we should have a clear understanding of the important distinction between capital and revenue.

As this will be dealt with later, it will be sufficient to indicate the points of difference between the two.

The capital in a business is represented by fixed and circulating assets, such as premises, machinery, plant, horses and carts, cash, stock-in-trade. These may be converted one into the other without any change in the total value, as cash into machinery or additional premises and plant, in which cases the transactions would be those affecting capital.

Expenditure for carrying on a business, as salaries, rents, expenses of distribution, etc., for which outlay there is no increase of value in the assets, are revenue items.

The account showing the gross and net profits of the concern is actually a Revenue Account, but as this term is a general one, other distinctive names are adopted, as Profit and Loss, Income and Expenditure. In regard to the capital items, revenue charges have frequently to be made; as losses on the sale of assets, repairs to fixtures, plant, and premises, which reduce the capital item cash, without adding to the value of the fixtures or plant; the allowance for depreciation on these fixed assets is also a revenue charge.

Proceeding to the accounts in the trial balance, we find that although certain bad debts have been written off during the year, yet provision must be made for certain other bad and doubtful debtor balances, of which at present the exact amount cannot be ascertained. So that the Profit and Loss Account of the period may bear this loss, and the balance sheet show the debtor balances at a true value, we think it well to make a provision or reserve of 5 per cent. for bad and doubtful debts. An ascertained or estimated amount for discounts on both Dr. and Cr. balances might also be provided, but in this instance, as the totals are very similar in amount, we may neglect this adjustment. As a charge against profit and a reduction of the value of fixtures and stable stock, we allow for the wear and tear of these wasting assets a depreciation of 10 per cent. We find that the payment made for insurance extends into the following year, and therefore, on apportioning the amount, we carry £20 as an asset to the next period, thus reducing the insurance charge for the present year. As, on inquiry, we find that there is £25 due and unpaid for interest on the loan, this must be included in the liabilities.

Invested in a good security, Mr. Reader's capital would have produced probably 4 per cent., it is usual, however, to charge the business for the extra risk with 5 per cent.; in this way showing what may be considered the actual profit of the trading after allowing interest on the capital invested.

CLOSING ENTRIES

Although the adjustments closing the nominal accounts may be made direct from Ledger Account to Ledger Account, it is preferable to make closing entries through the Journal, and so keep a record of final adjustments together in a clear and readily accessible form. JOURNAL

December 31st,	19—	Dr.		(Cr.	
1	£	5.	d.	£	s.	
Profit and Loss A/c. Dr.	188	15	0			Į.
To Bad Debts Reserve A/c.	l'			188	15	
(Being 5°/ _o on Dr.	1					
balances)	1			1	1	ł
Profit and Loss A/c. Dr.	55	0	0			Ĺ
To Fixtures A/c.				48	0	ļ
"Stable Stock A/c.			i '	7	0	ł
$(bcing 10^{\circ}/_{\circ} depreciation)$	1					
Prepaid Insurance A/c. Dr.	· 20	0	0			ţ.
To Insurance A/c.	1.		Ι.	. 20	0	ŝ
(for insurance paid in	1		i i			Ĺ
advance)				1		
Interest A/c. Dr.	25	0	0	1	ĺ	l
To C. Lender		1		25	0	
(For 6 months' interest at	1			1		ł
5°/。)	1	1 -			1	ł
Interest A/c. Dr	150	0	0	1	ł	1
To A. Reader, Capital A/c.		i.		150	0	i
(12 months' interest at	1			į		
5 °/ ₀)	1					
Trading A/c. Dr	35,403	10	0			ł
To purchases				35,403	10	l
Sales A/c. Dr	33,425	5	0		l	l
To Trading A/c.				33,425	5	'
New Stock A/c. Dr	4024	0	0			ļ
To Trading A/c	- C.			4024	0	Ì.
Profit and Loss A/c. Dr.	1 9 53	0	0			1
To salaries				1300	0	'
"rents, rates, and taxes .	+		I .	240	0	i.
"stable expenses		,		: 60	0	l
"bad debts		1		120	0	ļ
"insurance				40	0	Í
, interest		1	! '	193	0	ł
Discount A/c. Dr	160	0	0	1		
To Profit and Loss A/c.				160	0	ł
Profit and Loss A/c. Dr	9	0	0			ł
To A. Beader, Capital A/c.		1	1	9	0	
(transfer of net profit)	1		1			

TRADING AND PROFIT AND LOSS ACCOUNT

December 31st, 19-

Dr.	De	ecemi	ber S	31st, 19—	C	r.	
To purchases	£ 35,403 2045 £37,449	s. 10 15 5	d. 0 0	By Sales	£ 33,425 4024 £37,449	s . 5 0 5	d. 0 0
To salaries	1300 240 60 120 188 40 193	0 0 0 15 0 0	000000000000000000000000000000000000000	By Gross Profit ,, Discounts	2045 160	15 0	0
, depreciation- fixtures	48 7 9	0 0 0 15	0 0 0 0		£22 05	15	0

. . .

BALANCE SHEET December 31, 19—

Dr.				-	1990		Taxellage 01, 10-		5	1	i
Liabílitice.	4	**	ų.	ધ		ę.	Arects. £ 2.	4		ъ 	
To sundry oreditors				3240	0	0	By sundry debtors 3775 0 0				
"bank				226	ů	0	Less reserve of 5 per cent. for			-	
" bills payable				4240	0	0	bad and doubtful debts 188 15 0				
" Loan Account								3580		•	_
C. Lender	1000	0	0		·		"bills receivable	3750	0	-	_
Six months' interest	25	0	0				" petty cash.	-	15 0	•	_
		- -	T	1025	0	0	"stock on hand	4024	+		_
" capital—							" prepaid insurance		20 0		_
January 1	3000	0	0				"fixtures 480 0				
Interest	150	0	0			-	Less depreciation 48 0 0				
		Î	T		_	-		432		0	_
	3150	0	•				" stable stock 70 0				
Profit and Loss Account	6	0	0				Less depreciation 7 0 0				
			1	3159	•	0			63	000	-
		••••									
			્ય	£11,890 5		0		£11,890		5	

DOUBLE ENTRY ACCOUNTS

Let us study the structure of the balance sheet more closely. There is a difference of opinion among accountants as to the placing of the liabilities and assets on the left- or right-hand side, some few maintaining that the assets should be on the left, and the liabilities on the right, just as they are in the Ledger Accounts, the balance sheet being regarded by them as a summarized statement of the ledger. The almost general practice, however, is to follow the *pro forma* example given in the Companies Acts (Table A.), and the Councils of the Institute of Chartered Accountants and of the Society of Incorporated Accountants follow this precedent, viz. liabilities on the left and assets on the right.

The question is also raised as to the use of the terms Dr. and Cr.; some maintaining that as the sheet is but a summary of assets and liabilities, it should not be made out in Dr. and Again we have the authority of the two bodies of Cr. form. accountants and also of the form given by the Companies Further, there seems to be good reason for regarding the Acts. balance sheet as a Ledger Account of the firm, debited with its liabilities or responsibilities, and credited with the assets which it is calculated would discharge these liabilities. As will be seen later, the statement of affairs in bankruptcy charges the estate with its liabilities, and shows on the right-hand side the value of assets estimated to pay so much in the £ in settlement of the liabilities; the shortage being the deficiency to be explained by the debtor.

It will be noticed that there is a certain arrangement in the order of stating the items of this account.

Floating assets and liabilities, by which we mean those which are of a temporary or fluctuating character, such as Trading Accounts of which settlement is expected within the next month or so, and of bills receivable and bills payable, most of which will mature and must be paid within three or four months; then the stocks, often varying with the state of the market or dependent on the season of the year.

Following these we find the fixed assets, such as fixtures, plant, stable stock, premises which would not, except in the case of the winding-up of the business, be regarded as being realizable for the ordinary settlement of trade liabilities.

The account of Mr. A. R. as a capitalist and investor of

DOUBLE ENTRY ACCOUNTS

money in the business appears as the last of the creditors, and the useful inner column is given to place before him at a glance the ups and downs of his financial interest in the concern, and, if the latter, whether the result of trade losses or of excessive personal drawings, in other words extravagance, or of both.

QUESTIONS AND EXERCISES

- 11. How are outstanding trade expenses dealt with at stock-taking?
- 12. State the principal instructions given to the bookkeeper in preparation for the audit.
- 13. What is the object of the trial balance?
- 14. Give an example of a Profit and Loss Account.
- 15. What is meant by gross profit and net profit?
- 16. Classify the different kinds of accounts in double entry.
- 17. Distinguish between capital and revenue items.
- 18. What is meant by "closing entries"? Give examples.
- 19. Discuss the form of the Balance Sheet.
- 20. From the following trial balance prepare Profit and Loss Account and Balance Sheet.

		Dr. Cr.
Capital		4800
Drawings		1000
Fixtures and Fittings		250
Wages		450
Bills receivable		500
Reserve for bad debts		110
Trade expenses		100
Stock, January 1, 1902		900
Purchases		5000
Rent		150
Sales		8000
Debtors		3000
Creditors		1200
Cash		700
Discounts		60
Lease		2000
	£	14,110 £14,110

TRIAL BALANCE FOR JUNE 30, 1902

The stock on June 30, 1902, was $\pounds 500$. Increase the reserve for bad debts to $\pounds 250$, write $\pounds 1000$ off Lease Account, and provide for depreciation of fixtures and fittings at the rate of 10 per cent. per annum.

CHAPTER III

SINGLE ENTRY ACCOUNTS

Conversion to Double Entry—Errors of Commission, Omission, and Principle— Forms of Trial Balance—Arrangement of Books for Sectional Balancing— Adjustment Account.

WANTED an Accountant to square up firm's neglected books, for balance sheet purposes and annual audit hereafter. Address, N. 125 at the printer's.

Such was a recent advertisement in the front page of the *Manchester Guardian*, which revealed the difficulties of the advertiser when an urgent demand was made by his bank or his creditors for a balance sheet.

Just another instance of the many firms who suffer financially and are worried personally owing to badly kept or neglected account keeping.

Whilst not making the acquaintance of N. 125 we have had experience of surprising accounts, from which it was difficult to evolve order. Lest such should come before the student let us deal with a case or two.

1. A business in which the principal acts as cashier, the entries of receipts and payments being made in the Cash Book by him, but the Cash Book neither balanced nor posted. Entries are made direct to the ledger from invoices or statements received and sent out, and cash entries made to the accounts in a haphazard way; accounts ruled off showing a shortage on the cash side. Stock not taken or checked, no Profit and Loss Account, nor statement of assets and liabilities drawn out for several years past. Only peremptory income tax demands compelled the preparation of accounts and our being called in to deal with the affairs. To save expense, the preceding twelve months' business only was dealt with. The Ledger Accounts were checked by books, creditors' statements, Bank Pass Book and Cash Book entries, and omissions and errors rectified in the ledger. Omissions and errors in the Cash Book were entered and corrected, including items for wages and trade expenses, and the deficiency of cash charged to the principal as drawings, causing him to realize the importance of balancing the Cash Book regularly. Then followed the preparation of a statement of assets and liabilities, the balance being taken as capital. Instructions were given for the proper keeping of record books, and arrangements made that each month double entry postings, and checking of the entries should be made.

2. Here the books are kept by single entry, and the last statement, wrongly named a balance sheet, is in the following form :--

BALANCE SHEET-J. SLOWE

December 31, 1905.

					By debtors	
•	•	•	•	•		
					" fixtures	
	•	• •			· · · · · · · · · · · · · · · · · · ·	, bills receivable

PROFIT AND LOSS

Jan. 1. To capital .	•	•	Dec. 31. By capital .		
", " balance			", "drawings.		•
Profit					

The account is merely a statement of assets and liabilities compiled from various sources, bills from the Bill Book, bank balance from the Pass Book, Drs. from the Sales Ledger, Crs. from the Purchase Ledger, and fixtures at an estimated value. There has been no check in the way of double entry upon the transactions, and the balances of customers' accounts are assumed to be correct. As no nominal accounts have been kept no particulars are afforded of the various expenses, and the profit is taken to be the increase of capital since the last statement, plus the principal's drawings; so that if on January 1 the excess of assets over liabilities was £2150, and the statement on December 31 showed the surplus to be £2400, and the drawings to have been £450, the profit would be stated as £700. Mr. Slowe finds later that, owing to the following omissions, he has been working at a loss, and that his capital is much reduced by the following errors :—

- 1. Omission of an acceptance which has been debited to the creditor but not taken into account in the bills payable.
- 2. Invoices not credited for goods taken into stock.
- 3. Accounts received not entered in Cash Book although posted to Drs. Accounts.
- 4. Rent owing, not included in liabilities.
- 5. Cheque paid to a Cr. debited, but, owing to the cheque not having been presented, the bank balance entered incorrectly.

As he is afraid there may be other errors, we are instructed to deal with the period's transactions on the double entry principle, and then furnish the Profit and Loss Account and Balance Sheet on that system. If we have the initial stock, or the period to be dealt with dates from the beginning of the business, then our task is fairly simple, consisting in analyzing the ledger debits and credits for the totals of purchases, sales, returns, allowances and discounts, and checking the Cash Book entries with the ledger postings. For the expenses and capital receipts and payments, the Cash Book will also require analyzing. Confirmation of the ledger balances should also be obtained from creditors' statements and accounts rendered to debtors. Bills receivable discounted would be checked by the Pass Book, and those on hand with the Ledger Accounts.

We find the commencing statement and year's summary of transactions to be :---

STATEMENT OF ASSETS AND LIABILITIES

January 1, 1905

		£	£
To creditors		12,320	By trade debtors 18,500
" bills payable		1,400	, bills receivable 3,600
"bank		1,100	" cash 70
" outstanding rent		150	"stock
" capital			,, fixtures and fittings 540
-			
		£36,17 0	£36,170

During the year the following transactions take place :---

SINGLE ENTRY ACCOUNTS

						£
Discounts are allowed to customers	•		•			230
Goods are bought for						16,000
Rent and rates are paid by cheque						450
J. Slowe draws out by cheque						500
Trade expenses are paid by cheque						650
Wages are paid out of cash	•			•		1,100
Customers' accounts are received in	Ca	sh				19,000
Goods sold amount to						21,200
Bills are drawn on customers for .						4,900
Customers' bills are paid at bank .						5,400
Creditors are paid by cheque						26,320
Creditors' bills are paid in cash .						1,800
Cash is paid to bank						16,150
The firm accepts bills for						2,000
Bad debts						250
Stock at December 31, 1904, is .						14,000
						,

From this we may journalize and post as follows, and then, after making the usual adjustments for depreciation and bad debts, proceed to the preparation of the final accounts. For the new year instructions will be given to open the necessary impersonal accounts for the adoption of double entry.

JOURNAL	
1905.	£ £
	18,500
Bills received	3,600
Cash	70
	13,460
Fixtures and fittings	540
To trade creditors	12,320
,, bills payable	1,400
"bank	1,100
" rent	150
" capital account	21,200
-	
Being statement of assets and liabili- ties at this date £	36,170 £36,170
ties at this date	
ties at this date £. Dec. 31. Sundry debtors. Dr	21,200
ties at this date	21,200 21,200
ties at this date	21,200 21,200 19,000
ties at this date	21,200 21,200 19,000 230
ties at this date	21,200 21,200 19,000 230 4,900
ties at this date	21,200 21,200 19,000 230 4,900 250
ties at this date	21,200 21,200 19,000 230 4,900

ACCOUNTING AND BANKING

						£	£
Sundry creditors. Dr.						28,320	
To bills payable							2000
,, bank							26,320
Bills payable						1,800	•
To cash						•	1,800
Rent and rates. Dr						450	•
Wages. Dr						1,100	
Trade expenses						650	
To cash							1,100
" bank							1,100
John Slowe-drawings.						500	-,
To bank						••••	500
Bank. Dr						5,400	000
To bills receivable .				•	•	0,100	5,400
Bank. Dr				•	•	16,150	0,100
To cash						10,100	16,150
New stock. Dr						14,000	10,100
						13,000	14 000
To Trading Account	٠	•	•	•	•		14,000

After posting the above to the respective Ledger Accounts, we find the Trading and Profit and Loss Account and Balance Sheet to be as hereunder.

TRADING AC	COUNT AND P	BOFIT AND LOSS ACCOUNT	
Dr.			Cr.
	£ 8. d.		£ 1. d.
Jan. 1. To stock	13,460 0 0	Dec. 31. By sales	
Dec. 31. " purchases .	16,000 0 0	"stock	14,000 0 0
", " Profit and Lose	3		
Account.	5,740 0 0		
د	£35,200 0 0		£35,200 0 0
Dec. 31. To Rents and		Dec. 31. By Trading Ac-	
Rates Account	300 0 0	count	5,740 0 0
" " Discount Ac-			
count	230 0 0		
", " trade ex-			:
penses	650 0 0		
" " Bad Debts			
Account	250 0 0		
,, ,, Wages Ac-			
count	1,100 0 0		
" " Capital Ac-	-		
count (Profit)	3,210 0 0		
	£5,740 0 0		£5,740 0 0

- -

-

SINGLE ENTRY ACCOUNTS

BALANCE SHEET OF JOHN SLOWE AT DECEMBER 31, 1904

Dr.	Liabilit	ies		As	Assets							
" Capite	Account . payable al Account d profit		£ 7,470 1,600	By Cash Account ,, Bills receivable ,, Sundry debtors ,, Stock ,, Fixtures and fitt	• •	•	• • •					
Ded	luct drawings	500	23,910 £32,980				i	£32,9 80				

In many cases of faulty or neglected bookkeeping, in order to save expense, or because no reliable data can be furnished, our instructions may be to convert the books into double entry from the date of being called in. This will mean the preparation of a statement of assets and liabilities from any accounts that have been kept, and from information obtained from the principals; the journalizing of such statement, and the opening of the accounts for the items contained in the statement. Of course, adjustments of the capital and the accounts concerned may subsequently have to be made, as knowledge of errors in such statement comes to hand. Instructions will be given to open the requisite Nominal and Real Accounts, and of the methods of posting, say, monthly totals to them.

Errors of Principle.—Few errors of omission or commission, when entered in the Record Books or posting mediums, would escape detection in Double Entry Accounts; but errors of principle, that is, the incorrect treatment of revenue and capital items often occur owing to imperfect knowledge of the distinction between the two. For instance, the trial balance may be arithmetically correct, and yet serious errors of principle exist in the books. We cannot do better than instance a few, and deal with their correction.

The books of Messrs. William Jones & Co. were balanced as on December 31, 1903, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2481 6s. 4d. The following mistakes had been made by the bookkeeper during the year :---

(a) A gas engine costing £450 had been debited to "Purchases Account " instead of to " Machinery and Plant Account."

- (b) An amount of £15 12s. 8d., received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly opened account under the same name, and was included amongst the "sundry creditors" in the balance sheet.
- (c) A cheque amounting to £10 4s. 8d., which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.
- (d) Goods amounting to £52 1s. 4d. had been returned by R. Robinson, on December 30, 1903, and were taken into stock, but the entries recording the return were not passed through the firm's books until January 4, 1904.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit?

				DI.				
(a)	1903. Dec. 31	Machinery and Plant A/c. Dr. To Profit and Loss Adjust- ment A/c (To adjust amount for gas engine purchased debited to Purchases A/c in error)	£ 450	8 . 0	d. 0	£ 450	s. 0	d. 0
(b)	39	 G. Smith. Dr	15	12	8	15	12	8
(c)	••	B. Brown. Dr. To Profit and Loss Adjust- ment A/c. (Returned cheque debited to Allowances A/c in error)	10	4	8	10	4	8
(d)	, ,,	Profit and LossAdjustment A/c. Dr. To New Stock A/c (For returns by R. Robinson taken into stock but not entered through books till Jan. 4, 1904)	52	1	4	52	1	4

JOURNAL

Dr.

Cr.

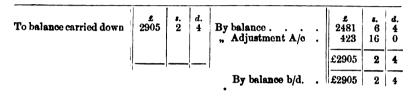
NOTE.—Another method of adjusting the last item would be to debit Profit and Loss Adjustment Account and credit R. Robinson, but this would necessitate the entry of the returns which was passed through the books on January 4, 1904, being written back.

SINGLE ENTRY ACCOUNTS

PROFIT AND LOSS ADJUSTMENT ACCOUNT

To Stock A/c	£ 52 423	s. 1 16	d. 4 0	By machinery and plant ,, G. Smith ,, B. Brown	£ 450 15 10	s. d. 0 0 12 8 4 8
	£475	17	4		£475	17 4

APPROPRIATION ACCOUNT



Want of Agreement in Trial Balance Totals.—Very fortunate does a bookkeeper consider himself to be should his trial balance agree at the first extraction of the balances. In the event of disagreement, he is much concerned in discovering the difference quickly and with the minimum of trouble. Should self-balancing ledgers be adopted the difference is localized, as if the Trade Ledgers prove, the errors are to be looked for in the Impersonal Ledger.

Another method of checking is the preparation of the trial balance by an analysis of the entries and postings in the ledgers. thus :--

	Dr. Cr.														r.
Folio.	Debit balances.	Sales.	Sundry debits.	Transfers.	Cash and discount.	Total.	Credit. balances down.	Credit balances.	Purchases.	Cases.	Credits.	Transfers.	Cash.	Total.	Debit halances down

Dr.

23

Cr.

The totals check the opening balances of the last balance sheet, and also the current period's sales, purchases, cash and discount, transfers, etc.

Should these methods not be effective, and there be a difference, we should consider how such an amount would be likely to occur. Assuming that the self-balancing of the Trade Ledgers proves their accuracy, then we must turn to the Impersonal or General Ledger Accounts. Let us first check the opening balances from the last balance sheet, then the extraction of the trial balance items, taking care that, as often happens, a debit balance has not been placed in the credit column and Check the Journal transfers, and inspect carevice versâ. fully such items, as 5s. 10d., lest they be entered as £5 10s., and observe that badly written figures are taken correctly. Careful inspection should be made lest any erasures or crossings out have been made since the checking, and also that the correction of errors and the making of transfers have been properly done.

Of importance in adopting self-balancing ledgers is the arrangement of the record books to suit this system.

In a business such as Mr. Reader's in Chapter I., when three ledgers are in use, Drs., Crs., and Impersonal, the arrangement is simple.

For the Drs. Account the Sales, Returns and Bills Book monthly totals would be taken, and for the Crs. Account the Purchase, Returns and Bill Book monthly totals entered. The Cash Book, to save analysis, should contain separate columns for the Drs. Ledger on the Dr. side and for the Crs. Ledger on the Cr. side to furnish the monthly totals of Cash Book postings to such ledgers.

Another modification to suit Departmental Accounts, and to serve as a check on two or three ledgers, is as shown in the form of Sales Book below, which will indicate the variation in the other books.

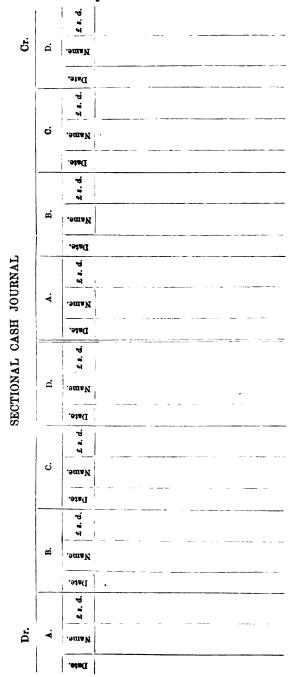
Name and particulars Price. Ledger Detail. Total. Mantles of poods. Department.	Feita Town Country Department. Lødger.	- Cr. Felta Dr. Towns Dr. Country t. Account. Ledger Account. Ledger Account. Impersonal Balance Book Balance Book
	Dress Materials Department,	Cr. Dress Ma- terials Account. Impersonal
Artice and porticulars Price. Petati. Total.	Mantles Department.	Cr. Mantlee Account. Impersonal
A Rease and particulars Price. Relies Detail.	Total.	osted to
Active and particulars Price. Itelest O poods. Price. [Ledger O poods. Price. [Ledger Price. [Ledger Pric	Detail.	totals po
Acome and porticutars Price of goods. Particutars Price Acome and porticutars Price Acome and porticutars Acome and acome acome acome Acome acome acome acome acome Acome acome acome acome acome Acome acome acome Acome acome acome acome Acome acome acome Acome acome acome Acome acome acome Acome acome Acome acome acome Acome acome A	Ledger folio.	and the
A Mame and particulars of poods. Pay Book would he rul	Price.	 ed off
1 ki	Name and particulars of goods.	 The Day Book would be ruled off and the totals posted to
P S S S S S S S S S S S S S S S S S S S	Order Book folio.	ie Day

SALES JOURNAL

25

SINGLE ENTRY ACCOUNTS

Also Cash Journal analysis as in the case of a bank.



26

Where the magnitude of the business compels the keeping of sectional ledgers, literal or numerical; the columnar books would be impracticable. Therefore separate Day Books for each ledger, an analysis of Cash Book entries, and a Transfer Book is the plan adopted in some houses. The more general system is for each clerk responsible for the keeping of a particular ledger to keep a Posting Journal into which all the various items, debits, and credits, for entry in his ledger are entered for posting.

	Date.				Dr. Goods.	Cr. Cash and discount.	Cr. Bills.	Cr. Returns,
January 1 , 2 , 3 to 31	• •	otals	•	:				
Add.—Tran ledgers. Balance in 1 31.								
Deduct.— T ledgers.	'ransf	ie rs t o	ootl	her				

CHECK	JOUI	SNAL
-------	------	------

This balance should agree with total balance extracted from ledger itself.

Adjustment Accounts.—Another method recommended in regard to sectional balancing is to keep in each Trade Ledger a General Ledger Adjustment Account into which the details of the respective Drs. and Crs. made in the personal accounts are entered, thus completing the double entry for that ledger thus—

GENERAL LEDGER ACCOUNT

Sept. 30.	To cash and discount	Sept. 1. By balances
"	"returns	" 30. " sales
17	" bills receivable credited to sun-	debited to sun- dry persons in
	dry persons in detail	detail

In the General Ledger a separate account is kept for each ledger as follows :---

"A" LEDGER ACCOUNT

Sept. 30.	То	balance	•	•	•	•	Sept. 30. By cash and discount
,,	,,	sales .	•	•	•	•	,, ,, returns
							", ", bills received

In this way the ledger will include within its pages the materials for a trial balance of its entries, and thus made selfbalancing. For example, take the sales for the month entered in the "A" Ledger; in that ledger the various persons are debited with the items making up the total, and that total is credited to the General Ledger Adjustment Account. In the General Ledger the total will be debited to "A" Ledger Account and credited to Sales Account; so with bills, cash, etc.

It will be perceived, however, that the Check Journal, previously described, takes the place of the various Adjustment Accounts just referred to; also that where but two or three ledgers are proved by aggregate postings made by the principal in the General Ledger, the Adjustment Accounts are usually unnecessary.

QUESTIONS AND EXERCISES

21. How does the statement of a firm's affairs in single entry book-keeping differ from one prepared by double entry?

22. How is the period's profit ascertained by single entry?

23. Describe the method you would follow in preparing the final accounts from a badly kept set of books.

24. Outline the method of converting a set of single entry accounts into double entry form.

25. Distinguish between errors of omission, commission, and principle, and give examples of each.

26. In case of disagreement of the trial balance totals how would you proceed to discover the error or errors?

27. Give an example of a departmental Purchase Book, showing rulings for self-balancing ledgers.

28. Explain what is meant by Adjustment Accounts in sectional balancing.

29. The following errors are found in a trader's books. Explain how you would remedy them, and what will be the consequence from the standpoint of accuracy in the accounts if this is not done.

(1) £100 paid for rent is debited to a creditor's account.

(2) £3 discount allowed to a customer is posted to the Dr. of petty cash.

(3) The payment of a creditor's bill for £500 is posted to his debit.

(4) £30 received from sale of a boiler is credited to goods sold account.

30. The undermentioned errors were made by the counting-house staff in the books of Messrs. Black and Brown during the year ended December 31, 1904.

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- (a) On June 30 a builder's charge for the erection of a small shed amounting to £198 was analyzed in the Purchases Journal under the head of "Repairs," and posted to that account.
- (b) On July 1 a cheque for £18 2s. 4d. received from James Smith was dishonoured, and was posted to "Allowances Account."
- (c) On August 12, the total of the previous month's wages was debited to "Manufacturing Wages Account." During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141.
- (d) On December 28 goods to the value of £64 were returned by Francis White, and were taken into stock, but the returns were not entered in the books until January 2, 1905.

How would you adjust these errors, and how would they affect the annual accounts for the year ended December 31, 1904?

CHAPTER IV

PARTNERSHIP

Definition—Partnership Agreements—Novation—Working Rules of Partnership —Drawings Accounts—Balance Sheet—Goodwill, and its Treatment in the Accounts.

OUR next client, Mr. Serge, the buyer in a large department of a Manchester warehouse, is anxious to negotiate a partnership in a sound concern, introducing a good connection and a fair amount of capital. We have investigated several openings offered to him, finding in one case that his capital would only have postponed bankruptcy, and in another that the character and habits of the principals were such as to prevent his entering into so important and responsible a relationship as partnership. Ultimately a sound business and satisfactory principals are met with, and terms arranged. It is wise that these terms should be embodicd, and the interest of each partner should be safeguarded by the provisions of a Partnership Agreement or Deed.

The following are the main points to be considered for inclusion in the document :---

(1) Names of the partners, and style of the firm.

(2) Term of partnership.

(3) Place of business, and the nature of the business to be carried on.

(4) Signing of cheques and bills.

(5) Capital of the firm, and contributions by each partner.

(6) Rate of interest on capital.

(7) Advances by the partners, and rates of interest thereon.

(8) Limit of drawings, and rate of interest to be charged thereon.

(9) Division of profits and withdrawal of same—half-yearly or yearly balances.

(10) The keeping of books of account, and employment of accountant.

(11) Salaries or remuneration to partners for services.

(12) Notice of retirement of any partner.

(13) Conditions to prevent a retiring partner from competing with the firm.

(14) Term for repayment of capital in case of death of a partner; rate of interest to be allowed.

(15) Arrangements for the purchase of goodwill in the event of dissolution.

(16) Final resort to arbitration in case of disputes between partners.

Definition.—Remember the definition that partnership is the relation which subsists between persons carrying on business in common with a view of profit, and that the following classes of partners are liable to third parties :—

1. The active partner is one taking the everyday working share in the management of the business.

2. The sleeping or dormant partner is one who has money invested in the business, but whose name does not appear, and who takes no active part other than that of a controlling influence over the other partners.

3. Nominal partners are those who, without having any actual interest in the business or profits of a partnership, allow their names to appear prominently in the designation of the firm, or who hold themselves out as partners to others.

In regard to the last, it is only just that any one representing himself to be a partner of a firm, and so inducing those who have given credit to the firm on such reputation, should be made liable for holding himself out to be a member of the firm. In legal terms such a person is held liable as a partner by estoppel, *i.e.* stopped by his conduct from denying himself to be a member of the firm. This principle of "holding out" may render a retiring partner liable if he neglects to give notice of retirement from the firm; such notice is usually given by advertisement or circulars to the creditors, notifying the change in the firm.

As a new partner is interested in the value of the assets of the firm, he may very properly insist upon a valuation of the assets of which he is taking a joint share, or ask that the book debts be guaranteed, so that, in the event of losses on Dr. balances, the result of business done prior to his becoming a member of the firm, his capital would not be charged with any portion of such loss. Also, if Crs. balances should be understated, the correction should not affect the profit of the period in which he is concerned.

In the case of "Serge and Cheviot," the interests of the former have been safeguarded by the provision at the commencement of a reserve for contingencies of £2100—a sum agreed to by the partners as covering any probable loss on the assets.

As Mr. Serge replaces a retiring partner, both are concerned in the matter of liability to the creditors of the old firm.

This is set forth as follows :---

Novation.—The incoming partner is not liable to creditors for the old debts of the firm he has entered, except by novation —the technical term for the contract of substituted liability, by which agreement between the parties concerned the creditor discharges the old firm from its liability and accepts the new firm as his debtor, the new firm accepting the responsibility. In this way a retiring partner is released from the claim and the new partner made liable along with the firm for the debt.

As many business men are content to carry on this business relationship, quite unconcerned as to the absence of written agreements, frequently finding out to their cost the seriousness of such a blunder, we give the working rules of a partnership, in the absence of an agreement modifying them.

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

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

- (a) In the ordinary and proper conduct of the business of the firm; or
- (b) In or about anything necessarily done for the preservation of the business or property of the firm.

3. A partner making, for the purpose of partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent. per annum from the date of the payment or advance.

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

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

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

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PARTNERSHIP

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

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

PARTNERSHIP ACCOUNTS

Leaving the consideration of these important legal points, let us proceed to the preparation of the Partnership Accounts from the trial balance placed before us. (For Adjustments, see p. 37.)

December 31,	1902.					
	£	8.	d.	£	8.	d.
S. Serge, Capital Account (Jan. 1, 1902).	•			20,000	0	0
C. Cheviot " " .	•			18,000	0	0
Machinery and Plant Account	12,000		0			
Freehold premises	26,200	0	0			
Sundry creditors	•			27,600	0	0
Bills Payable Account				4,800	0	0
Reserve Account (for contingencies)				2,100	0	0
Fixtures and Fittings Account	7,200	0	0			
Mortgage on Premises Account				9,000	0	0
Wages Account		0	0			
Sales Account.	•			90,460	0	0
Purchases Account	62,077	0	0	-		
Bankers' Account				4874	0	0
Cash Account	. 940	0	0			
Stock Account (Jan. 1, 1902)	21,820	0	0			
Salaries Account	1,100	0	0			
Carriage "	2,132	0	0			
Interest and Discounts Account				86	0	0
Rates and Taxes Account	502	0	0			
Insurance Account	382	0	0			
Office Expenses Account	. 208	0	0			
General Trade Expenses Account	2,080	0	0			
Repairs Account	. 674	0	0			
Interest on Mortgage Account	. 225	0	0			
S. Serge's Drawing Account (including						
interest)	3,535	0	0			
C. Cheviot's Drawing Account (including						
interest)		0	0			
Sundry debtors	17,020	0	0			
	£176,920	0	0	£176,920	0	Û
				-		

TRADING AND PROFIT

TRADING

Dr.

•

1902. January 1 . December 31	To stock on hand	£ 21,820 62,077	s. d. 0 0 0 0
" "	", wages . ", balance "gross profit" carried down to Profit and Loss Account.	15,860 20,153	0 0
		£119,910	0 0



PROFIT AND

1 902.		£	8.	d.
December 31	To Salaries Account.	1,100	0	0
,,	"Carriage Account	2,132	0	0
,,	"Rates and Taxes Account	502	0	0
,,	"Insurance Account	382	0	0
,,	"Office Expenses Account	208	0	0
**	"General Trade Expenses Account	2,080	0	0
**	, Repairs Account	674	0	0
,,	,, Interest on Mortgage Account	225	0	Ó
,,	" reserve for interest on Mortgage Account		-	
	" (half year)	225	0	0
,,	" 5°/, reserve for bad and doubtful debts	851	Ő	ŏ
	" Interest on Capital Account— £ s. d.	001		
,,	5°/ S. Serge 1000 0 0			
,,	C. Cheviot			
		1,900	0	0
	" Depreciation Account—	1,000	v	i V
	$10^{\circ}/_{\circ}$ machinery and plant 1200 0 0			
۰,	$5^{\circ}/_{\circ}$ fixtures and fittings . 360 0 0			
	$0 /_0$ instantos and intrings . 500 0 0	1,560	0	0
	" balance "net profit" carried down to Profit	1,000	U	U
**		0 100	•	0
	and Loss Appropriation Account	8,400	0	0
		£20,239	0	0

Dr.

PROFIT AND LOSS

1902. December 31 "	To reserve fund . " Capital Account – S. Serge, half share C. Cheviot, half share	•	•	£ 840 (3780 (3780 (3780 (d. 0 0 0
			I	£8400 (0

AND LOSS ACCOUNT

ACCOUNT

Cr.

1902. December 31 "	By sales " stock on hand	i.	•	•	•	•	•	•	•	•	£ 90,460 29,450	s. 0 0	а. 0 0
											£119,910	0	0

LOSS ACCOUNT

 1902.
 By balance Trading Account

 20,153
 0
 0
 0
 0
 0
 0
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APPROPRIATION ACCOUNT

Cr.

By balance Profit and Loss Account, "net profit"	8400	s. 0	d. 0
	£8400	0	0
	By balance Profit and Loss Account, "net profit"	£8400	£8400 0

Cr.

BALANCE SHEET,

As at December 31st, 1902.

Dr.

F								0	Cr.	
	To bills payable	•••	£ 4,800 27,600 4 874	-000			17,020 0 0	8 940	40	- 5
		9,000 0 0 225 0 0		, , , , , , , , , , , , , , , , , , ,		debts 85 debts 85 , Machinery and Plant Ac-	851 0 0	16,169	•	•
	" Reserve Account	2,100 0 0 840 0 0	9,220	> <		count	12,000 0 0 1,200 0 0	10,800	0	0
	"Capital Account— S. Serge · · · · · · · · · · · · · · · · · · ·	20,000 0 0 3,535 0 0	0 4.0 *70	>		nises Account tings 7, reciation	7,200 0 0 860 0 0	26,200 6,840	0 0	• •
	Plus interest	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	9 97 197	•		"stock on hand · · · ·	•	29,450	•	•
	" Capital Account— O. Cheviot Less Drawings Account	18,000 0 0 2,965 0 0	642,12	>			- A. and			
	•	15,035 0 0 900 0 0								
	,, haif shate net	3,780 0 0	19,715	0	0					
			0 0 668'063	0	0			£90,309	0	0

ACCOUNTING AND BANKING

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Adjustments

In consultation with the partners, the following adjustments are made prior to the division of profits.

1. Interest on partners' capital at 5 per cent. per annum.

2. Annual depreciation of machinery and plant at 10 per cent., and on fixtures and fittings at 5 per cent.

3. Provision for bad and doubtful debts at 5 per cent.

4. Provision for half-year's interest on the mortgage at 5 per cent. per annum to December 31, 1902.

5. Ten per cent. of the net profit (if any) to be carried to the reserve fund.

Stock was agreed as being, on December 31, of the cost value of £29,450.

A copy of these accounts is handed to each partner, who, by way of acceptance of the accuracy of the statements, signs the balance sheet entered in the private ledger of the firm.

Comparison of the balance sheet with that of a sole trader (p. 21), shows the main difference to be the giving of the particulars concerning each partner's capital, showing at a glance the additions or deductions to or from his capital in the business during the year.

We also notice that in place of the definite salary charged by Mr. Reader for his services in managing the business, the present partners have withdrawn considerable sums on which interest has been charged, as agreed by the partners. Inasmuch as interest is credited to capital, it is only fair, in view of unequal drawings, that interest should be debited on the sums withdrawn; there must, however, be an agreement to that effect.

In the Drawings Account an interest column is frequently provided for the interest calculations, and the total carried to the outer cash column at the end of the period, thus—

A. DRAWINGS ACCOUNT

				Inte	eres	t to l)ec. 31	•			
					£	8.	d.	L.	8.	d.	
Jan.	31.	To cash			2	5	10	50	0	0	Dec. 31. By transfer to
Feb.	28	"			2	1	8	50	0	0	Capital Account
March	ı 31	,,			1	17	6	50	0	0	-
And s	o on	to Dec. 3	31								
		Interest	•	•					—		

Should there be credits of cash to the account, interest would be allowed on such sums. In the above example the withdrawals have been equal amounts drawn at the end of each month; frequently, however, the amounts and sums vary considerably, necessitating calculations of interest for the number of days to December 31.

GOODWILL

The introduction of Mr. Serge's capital, connection, and services was considered sufficient inducement to admit him as a partner to the firm. It will readily be understood, however, that in arranging a junior partnership with an old-established concern, the question of a consideration for goodwill will arise.

Goodwill is the value placed upon the name, connection, and the income-earning power of the business. The basis of valuation varies so much that it may be said to resolve itself into a matter of bargaining. One year's share of the profits taken on the average of the last three years; or the sum may be fixed upon as a proportional part of from two to five years' profits.

The value of goodwill, carrying as it does the connection of a firm, is evidenced to a retiring partner in the fact that on relinquishing his share of it, he is debarred from calling upon or circularizing the firm's customers, thus rendering the work of establishing another business a difficult and risky one.

Let us consider the following instances met with in practice :---

1. "X.," an accountant, takes into partnership "Y.," and shows the latter that had he been in partnership with him during the last three years, his share of profits would have averaged £300 per annum. Therefore, he requires a premium of £600 as a cash payment for the prospect of entering a business with this income presumably assured, and with the possibility of its being increased.

No entry would be needed in the firm's books, the £600 being paid direct to the banking account of "X."

2. (a) In the event of cash being needed in the business, as in the case of a solicitor financing clients, or a trader short of capital, then it would be advisible for "Y." to insist upon the sum being paid, along with the capital he introduces, into the bank. The entry in the firm's books would be-

Bank Dr. £600 "X" Capital Account . . . £600

(b) The admission of a junior partner, "C.," who agrees to contribute £2000 capital and to pay £900 to "A." and "B." for a one-third share of the profits.

As "A." and "B." have divided profit equally, the £900 would be entered :--

> Bank Dr. £900 "A." Capital Account . . . £450 "B." , , . . . £450

3. On entering into partnership with L. and M., N. objects to the payment of cash for goodwill, additional to £5000 introduced by him as capital, but agrees to allow L. and M. to take credit in the assets for £1000 for such goodwill. The entry would be :—

Goodwill Acc	ount				Dr.	£1	100	0
" L." C	apital	Ac	cou	int		•		£750
" M."	,,		"					£250

The two having divided profits in the proportions of threefourths and one-fourth, the agreement with "N." being one-third interest in the business, he will be entitled on realization to onethird share of any appreciation of the goodwill. For instance, in the event of selling to a company for £2800, his share of the profit would be £600. On the other hand, should the goodwill, on winding-up the concern, be valueless, one-third of the loss, £333 6s. 8d., would be borne by "N." To guard against the latter eventuality he might be able to arrange with the old partners that any such loss would be charged to them only.

The following examples will illustrate the treatment in the accounts :---

EXAMPLE 1

Red, White, and Blue agree to dissolve partnership. White and Blue retiring and Red taking over the goodwill on the basis of two years' profits, calculated on an average of the previous

ACCOUNTING AND BANKING

five years, less 10 per cent. The result of the five years' trading has been-

											£
1896	Profit	•				•	•				2400
1897	,,	•					•				1680
1898	Loss										950
1899	Profit				•						1120
1900	"	•	•	•	•	•	•	•	•	•	1060

The capital of each partner before the figures are adjusted is as follows:---

Red.	White.	Blue.
£3100	£2900	£1280

Prepare General and Personal Accounts, showing the result of the dissolution.

G	oodwill Acco	nnt	. Dr					•		£ 1911	8. 12	d. 0		£	8.	d.
10	To Red (Car				<u>ن</u>	:	÷	:	'		1 ~~	Ň		637	4	0
	"White		,,			:	÷	1			1			687	4	ŏ
	"Blue		,, ,,			÷					ĺ.			637	â	÷ŏ
- O	Raising good	will	, and	cred	itin	e to	081	rt-			1		,		-	Ŭ
+ •	ners equally								1			1	ì			1
	to contrary.	΄ Vι	alue a	s pe	r ag	ree	nen	t).								ł
C	ash. Dr.	•	•	•••				· .		5454	8	0				
	To Red (Caj							• '					<u>5</u>	154	8	, 0
(1	Being amoun White and I	it l Blue	b roug l a).	nt i	i to	pa	y o	ut				1				
V	White. Dr.	•								3537	4	0				
B	Blue. Dr.					•		•	į	1917	4	0	i.			
	To cash .		•							1		1	5	454	8	0
398.	To loss		£ 950	s . 0	d. 0		18	96.	Bv	profit		24	£ 400	Ö	d. 0	
898.	To loss . ,, balance	•	950 5310	0	u. 0 0		18 18	96. 397. 99.	,, ,,		 	10 11	400 580 120	-	0 0 0	
898.			950	0	0		18 18	397.	,,	,, ,,	· · · ·	10 11	400 580 120 060	0 0	0 0	
398.		y	950 5310 £6260	0	0		18 18	397. 399.	,, ,,	,, ,,	· ·	10 11 10	400 580 120 060 260	0 0 0 0	0 0 0 0	
398.	,, balance Balance a	f s al	950 5310 $\varepsilon \overline{6260}$ bove	0	0		18 18	397. 399.	,, ,,	,, ,,	· ·	10 11 10 £65 5)55	400 580 120 060 260 310	0 0 0 0	0 0 0 0 0	
398.	,, balance Balance a Average p	s al profi	950 5310 $\varepsilon \overline{6260}$ bove it .	0 0 0 0	0 0 		18 18 19	897. 899.	,, ,,	,, ,,	· ·	10 11 10 £65 	400 580 120 060 260 310	0 0 0 0 0		
898.	,, balance Balance a	s al profi	950 5310 $\varepsilon \overline{6260}$ bove it .	0 0 0 0	0 0 		18 18 19	897. 899.	,, ,,	,, ,,	· ·	10 11 10 £65 	400 580 120 060 260 310	0 0 0 0	0 0 0 0 0	
398.	,, balance Balance a Average p	s al profi	950 5310 $\varepsilon \overline{6260}$ bove it .	0 0 0 0	0 0 		18 18 19	897. 899.	,, ,,	,, ,,	· ·	10 11 10 £6: 5)53 10	400 580 120 060 260 310	0 0 0 0 0 0 4		×

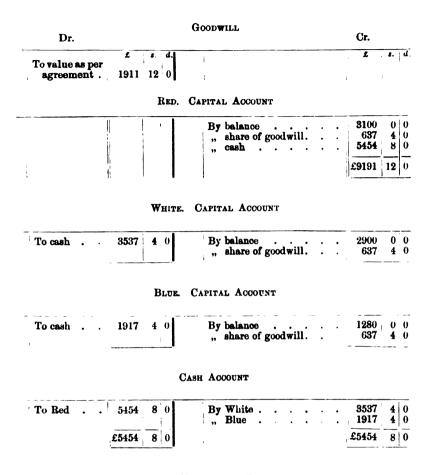
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JOURNAL

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PARTNERSHIP



EXAMPLE II

Q., E., and D. are equal partners, with capital of £1200, £1300, and £1400 respectively. They decide to admit S. into equal partnership upon payment in cash of £1250 for one-fourth share of the goodwill, and £1500 as his capital, which sums are to remain in the concern. The liabilities of the firm are £2100, and by arrangement the assets, consisting of stock £2000, book debts £3200, horses, carts, etc., £300, and plant £500, are to be subjected to an all-round depreciation of 5 per cent. A Goodwill Account which has not previously existed is also to be raised in the books.

ACCOUNTING AND BANKING

Q., E., AND D. JOURNAL ENTRIES

Cash. Dr	£ 1250	J .	d. 0	£	8.	d
	1200	U	U		1	
To Q., one-third share of purchase of goodwill				410	10	
by S. \ldots \ldots \ldots \ldots	I			416	13	9
" E., one third share of purchase of goodwill						
by S	, į			416	13	- 1
" D., one-third share of purchase of goodwill	• · ·					
by S				416	13	. 4
Cash. Dr	1500	0	0			ι.
To S., Capital Account				1500	0	O
Goodwill Account. Dr	5000	0	0			
To Q., one-fourth share of good will	'		!	1250	0	0
"E., " " "				1250	0	0
"D., " " "				1250	0	0
"S., " " "			! !	1250	0	0
Protit and Loss Account. Dr	300	0	0			l
To stock	!			100	0	0
"book debts	(160	0	¦ (
"horses, carts, etc				15	0	i C
"plant			' !	25	0	0
(Discount on assets agreed upon)	1			!		
Q., Capital Account. Dr	100	0	0	I.		
Ĕ., ,, ,,,	100	0	0	ł.		
D., ", ", ",	100	0	0			
To Profit and Loss Account				800	0	10
(Share of loss consequent on revaluation of assets)		1	1			1 7

CASH ACCOUNT

Dr.	_					Cr.	
To amount received from S. in payment for good-	£	s .	d.	By balance carried down	£ 2750	s. 0	а. 0
will (one-fourth) To S., Capital Account .	1250 1500	0 0	0				
	2750	0	0		£2750	0	0
To balance	£2750	0	0				

GOODWILL ACCOUNT

To agreed amount trans- ferred to Capital A/cs	£ 5000	s. 0	d. 0	By balance carried down	£ 5000	s . 0	d. 0
	£5000	0	0		£5000	0	0
"Balance b/d	£5000	0	0	ļ			

PARTNERSHIP

Q. CAPITAL ACCOUNT

Dr.

-

To Profit and Loss Account ,, balance c/down	£ 100 2766	s. 0 13	d. 0 4		balance cash goodwill	•	•	£ 1200 416 1250	r. 0 13 0	d. 0 4 0
	£2866	13	4					2866	13	4
				,,	balance		• 1	£2766	13	4

E. CAPITAL ACCOUNT

To Profit and Loss Account , balance c/down	100 0 0 2866 13 4	By balance . 1300 0 0 , cash . . 416 13 4 ,, goodwill . 1250 0 0
	£2966 13 4	2966 13 4 , balance . £2866 13 4

D. CAPITAL ACCOUNT

To Profit and Loss Account " balance c/down	100 2966	0 13	0 4		balance cash . goodwill		1400 416 1250	0 13 0	0 4 0
;	£3066	13	4				3066	13	4
				,	balance	•	£2966	13	4

S. CAPITAL ACCOUNT

 To balance c/down	2750	0	0	By cash 1500 0 , goodwill 1250 0	 0 0
ł	£2750	0	0	2750 0	0
				" balance £2750 0	0

Q., E., D., AND S. BALANCE SHEET.

Sundry Liabilities 2,100 0 0 Stock 1,900 0 Capital £ s. d. Stock E Book debts 3200 0 0 Horses, carts, etc. 2855 0 Plant 2750 0 0 Good will 5,000 0 Cash 2750 0 0 0	Liabilities.				Assets.	, i	1
Q. 2766 13 4 3,040 0 E. 2866 13 4 Horses, carts, etc. 285 0 D. 2966 13 4 Plant 475 0 S. 2750 0 0 Goodwill 5,000 0	•		0	0	Book debts 3200 0 0	1,900	0
E. 2866 13 4 Horses, carts, etc. 285 0 D. 2966 13 4 Plant. 475 0 S. 2750 0 Goodwill 5,000 0		34				3,040	0
D. 2966 13 4 Plant 475 0 S. 2750 0 0 Goodwill 5,000 0		34	1		Horses, carts, etc.	285	0
	D. 2966 1	34	1 i			475	0
	8. 2750	0 0	1 1		Goodwill .	5,000	0
		11,350	0	0	Cash	2,750	Ó

Cr.

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Example III

C. enters into partnership with A. and B., and arranges to pay £2000 for goodwill, the cash to be left in the business, and introduce £8000 as capital. A. and B. are equal partners, and the following is their balance sheet :—

						£		£
Creditors						2,400	Debtors, after allowing for dis-	
Reserve .		•	•			2,200	counts 1	1,400
Capital of	A.					20,000	Cash	900
- ,,	B.		•	•		9,650	Stock	9,450
							Plant and machinery	3,000
							Freehold property	9,500
						£34,250	£3	4,250

A. and B. agree to allow £1000 of the reserve to remain as a provision for bad debts, to allow 5 per cent. off the plant and machinery, and 1 per cent. off the freehold property.

After making the necessary adjustments, placing £1000 of the goodwill to A. and B. respectively, and also the balance of the reserve after charging the provision for debts and depreciations, the balance sheet of the new partnership will be—

BALANCE SHEET

						£	8.		£
Creditors						2,400	0	Debtors	11,400
Reserve .						1,000	0	Cash	10,900
Capital of	A.					21,477	10	Stock	9,450
- ,,	B.					11,127	10	Plant and machinery	2,850
,,	C.	•	•	•	•	8,000	0	Freehold property	9,405
						£44,005	0		£44,005

Although these instances have been given of the treatment of goodwill, it should be stated that, as goodwill is generally considered an unsatisfactory asset in a firm's accounts, it is preferable that the incoming partner should make a cash payment to the other partners' private accounts; or add it to the partners' Capital Accounts in the business, debiting cash with the same. The question of the value of the goodwill would then be left over until a dissolution or winding up of the partnership.

The following is an example :---

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PARTNERSHIP

EXAMPLE IV

On January 1, 1906, B. becomes partner with A. in a business which had been carried on by the latter. A.'s assets on that date were valued for the purpose of the partnership as follows:—

Premises and	pla	nt										z 2500
Stock												
Book debts .												1250
Cash at bank	•	•	•	•	•	•	•	•	•	•	•	250

and his trade liabilities taken over by the partnership amounted to £1750. B. pays into the bank £3250, of which it is agreed £750 shall be credited to A. as the purchase price of one-half the goodwill.

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				£	8.	d.	£	8.	d,
Premises and plant. Dr				2500	0	0			
Stock					0	0			
Book debts				1250	0	0			
Cash at bank				250	0	0			
To Trade liabilities							1750	0	0
"A.'s capital	•	•	•		_		4200	0	0
				£5950	0	0	£5950	0	0
Cash. Dr				3 250	0	0			
To sundries—A.'s capital							750	0	0
B.'s ,,							2500	0	0

BALANCE SHEET

January 1, 1906

Dr.							Cr.	•
	2	8.	d.			£	8.	d.
To creditors	1750	0	0	By debtors		1250	0	0
" Capital Accounts—A.				" cash at bank		3500	0	0
	2500			"stock		1950	0	0
				" premises and plant	•	2500	0	0
	£9200	0	0			£9200	0	0

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QUESTIONS AND EXERCISES

31. Define partnership.

32. Distinguish between the different classes of partners.

33. Give instances of persons interested in the profits of a business without involving the liability of partnership.

34. Give an example of a Partner's Drawing Account showing interest calculations.

35. Define novation, goodwill.

36. What are the working rules of a partnership in the absence of an agreement?

37. Mention the manner in which goodwill may be dealt with in the accounts.

38. Give an example of a partnership balance sheet showing the Partners' Capital Accounts.

39. Smith, Brown and Robinson enter into partnership, as equal partners, for the purpose of purchasing the successful business of Peter White, who is retiring.

The business was taken over as on January 1, 1905, as it stood, upon the basis of the last balance sheet which was as follows :—

Peter White-

BALANCE SHEET

December 31, 1904

To Capital Account . ,, sundry creditors . ,, Reserve Account for depreciation .	20,540 3,218 608	0	а. 0 0	By leasehold factory . ,, machinery and plant ,, Patents Account . ,, sundry debtors ,, stock on hand ,, difference in books	8,200 600 1,560	0 0 0 0	0 0 0
£	24,366	0	0		£24,366	0	0

The purchase price of the business as a going concern was agreed at $\pounds 25,000$, which amount was duly paid to Peter White.

Cash was paid into the new firm's banking account by the partners as follows:-Smith, £12,000; Brown, £10,000; Robinson, £6000.

Before opening the books of the new firm it was agreed (a) to write off the difference in the books; (b) to transfer the Reserve Account for depreciation to Machinery and Plant Account, and to write off a further $\pounds 200$ as depreciation; and (c) to write off $\pounds 200$ from Patents Account.

Make the entries necessary to record the above transactions in the books of the new firm, and prepare a balance sheet disclosing the position of Smith, Brown and Robinson upon commencing business.

CHAPTER V

TERMINATION OF PARTNERSHIP

Dissolution—Statement of Accounts—Exceptions to Partnership Liability— Insurance to provide for withdrawal of Capital—Realization Account— Treatment of Deficiency of Insolvent Partner.

PASSING from the consideration of entering into partnership, we now deal with the termination of that relationship.

Subject to agreement, every partnership is dissolved, as regards all the partners, by the death or bankruptcy of any partner; at the option of the other partners, in the event of any partner suffering his share of the partnership property to be charged for his separate debt; by the Court in such cases as lunacy, fraud, etc. Termination may also take place by effluxion of time, and if the partnership has not been entered into for a fixed term, on the giving of proper notice by any partner to the others, as by reason of business or personal differences between the partners, or of declining business and continued losses.

The rules observed, subject again to agreement, in settling accounts between the partners are as follows :---

(a) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and last, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(b) The assets of the firm, including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order :--

- (1) In paying the debts and liabilities of the firm to persons who are not partners therein.
- (2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.
- (3) In paying to each partner rateably what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Unless carefully provided for in the partnership articles, the settlement of the Partnership Accounts in the winding up usually presents considerable difficulty. In such cases as the death, the expulsion, or the withdrawal of a partner, the fact of the continuance of the business by the other members of the firm, or its being wound up finally in settlement of the claims, will of necessity have an important bearing on the interests of the partners.

In continuing the business, the value of the retiring partner's share has to be ascertained. This often involves a consideration of the present value of the assets and the valuation of goodwill. Property, plant, and fixtures may have been written down excessively, and goodwill probably not appear in the accounts; or, on the other hand, wasting assets may not have been depreciated sufficiently, and allowances may have to be made for bad and doubtful debts, and for claims against the firm. An executor, or the representative of a retiring partner would, in the former event, doubtless insist upon the necessary adjustments being made prior to the settlement; whilst in the second, the continuing partners would probably claim a correction of the accounts to prevent their interests suffering by taking over inflated assets.

It would be well to note here that section 42 of the Partnership Act, 1890, provides that—

"Where any member of a firm has died or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with its capital or assets without any final settlement of accounts as between the firm and the outgoing partner or his estate, then, in the absence of any agreement to the contrary, the outgoing partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since the dissolution as the Court may find attributable to the use of his share of the partnership assets, or to interest at the rate of 5 per cent. per annum on the amount of his share of the partnership assets."

Let us assume the following statement to be placed before

us as the basis of an adjustment between "X.," "Y.," and the executors of "Z.," a deceased partner :---

	Book value.	Agreed value.
	£	£
Premises	2600	3000
Plant	1250	1500
Office furniture	Nil	50
Goodwill	Nil	1500

To give effect in the accounts to the above, Premises and Plant Accounts would be debited with the increases in the values and accounts opened for office furniture and goodwill, and Capital Adjustment Account credited with the total; the final Journal entry, on the supposition that profits are divided equally, being—

,								£	s .	d.	£	8.	d.	
Capital	Adju	stment A	Accoun	t.	Dr.	•	2	200	0	0				
Ťo "	X." (Capital A	ccount	ι.							733	6	8	
,, "		- ,,												
,, "			"											
	For a	one-third valuation	share	to	eac									

If, however, X. and Y. insist upon certain assets being written down, and a reserve being made against the loss on realization of the book debts, we might have a considerable reduction of Z.'s capital, which would possibly result in the winding up of the business, or a resort to arbitration. Cases such as these impress upon us the necessity of agreements setting forth very clearly the procedure to be followed in the event of a change in the firm.

Another important consideration is the payment of a retiring member's share. The immediate withdrawal may in many cases seriouslycripple the financial resources of the firm, and thus reduce their trading possibilities, hence the desirability of a clause in the partnership agreement for allowing a reasonable time for the payment of the sum, say by quarterly amounts extending over one or two years, or even for its retention in the concern as an investment. In both cases interest would be allowed for the convenience.

EXCEPTIONS TO PARTNERSHIP LIABILITY

Bearing on this it may be noted that partnership liability does not follow by reason only of the receipt of a share of the profits of a business, particularly in the following cases :---

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(a) The receipt by a person of a debt or other liquidated amount, by instalments or otherwise, out of the accruing profits of a business.

(b) A contract for the remuneration of a servant or agent of a person engaged in the business, by a share of the profits of the business.

(c) A person, being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner.

(d) The advance of money by way of loan to a person engaged or about to engage in any business, on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

(e) A person receiving, by way of annuity or otherwise, a portion of the profits of a business in consideration of the sale by him of the goodwill of the business.

An important feature in regard to cases (d) and (e) is, that in the event of the bankruptcy or insolvency of the borrower of the loan or the purchaser of the goodwill, the lender of the money and the seller of the goodwill are not entitled to recover their claims until the other creditors for valuable consideration have received payment in full; in other words, they are deferred creditors until the estate pays 20s. in the £. Should, however, such a one hold collateral security, he is entitled to realize the same on account of his loan.

Insurance as provision for withdrawal of Capital

To guard against the serious inconvenience likely to result from the withdrawal of capital owing to the death of a partner holding a large interest in the concern, some firms very prudently effect a joint insurance on the lives of the partners to provide funds to pay out the share in such an event. The charging of the premiums would be a matter of arrangement between the members of the firm. As an illustration, consider the following problem given in an accountant's examination recently :----

A firm of merchants, A., B., and C., to provide against dislocation of business in the event of the death of any one of the partners, take out a policy for £3000 upon their joint lives. The premium, £150 per annum, is charged as a business expense. After seven years' payment, C. dies. Assuming they are equal partners, you are required to adjust matters between them after receipt of the amount of the policy.

In the absence of a more definite statement as to the agreement between the partners concerned, the following methods of dealing with the question might be placed before the student :---

1. Assuming all the money received goes to the survivors-

Cash or bank. Dr					£	s .	d.
To A., Capital Account					1500	0	0
"B. " "					1500	0	0
Being amount of policy receiv	red o	on death	of	C.			

2. If the cash goes equally to A., B., and the executors of C.--

Cash or bank. Dr					£	s. d	ι.
To A., Capital Account					1000	0	0
"B. ", "							
" executors of C.					1000		

3. If it is intended that the amount should go to the surviving partners after crediting each partner proportionately with the amount of the premiums paid—

						£		8.	d.	£	s .	d.
Cash or bank. Dr					3	000)	0	0			
To A., Capital Account										350	0	0
										350	0	0
" C. " "										350	0	0
Being refund of prei	miu	ms	pa	id o	on j	join	t	poli	сy			
To A., Capital Account										975	0	0
"B. ", "										975	0	0
Being balance due to after refunding tionately the amo	οA. to	an eac	nd 1 2h	В., ра	the rtn	er er	rv pi	ivo: ropo	rs, 0 r-			

In the third case, interest on the premiums paid might also be taken into account.

Realization of Assets

Coming now to the accounts in the winding up of the business, we find the final settlement to be shown by—

(1) The Realization Account.

(2) Cash Account.

(3) The Partners' Accounts.

Of these only the first need be explained. The Realization Account is charged with the assets as stated on the Cr. side of the balance sheet (the cash balance being entered in the Cash Account), and also with the expenses of realization; whilst on the Cr. side are entered the sums realized for each asset; the balance which is profit or, more frequently, loss on realization being transferred to the Partners' Capital Accounts in the proportions in which profits of the trading have been divided.

Now for examples to illustrate the method of dealing with partnership settlements.

Example I

Messrs. Black and White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on December 31, 1903. At the close of the year their balance sheet was as follows :---

BALANCE SHEET

December 31, 1903

To B., Black Capital A/c ,, W., White ,, ,, ,, Sundry creditors	960	0	0 0	By lease	220 840 2060	0 0 0	0 0 0 0
ł	E4490	0	0	٤	E4490	0	0

The lease and fixtures were disposed of for £2700, and the cash duly received. The book debts were collected, and realized £752. The stock was sold by auction and produced £1340 after payment of commission and expenses. The sundry creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87.

As bookkeeper to the firm, prepare whatever accounts may

be necessary to show the result of the realization and the amount receivable by each partner.

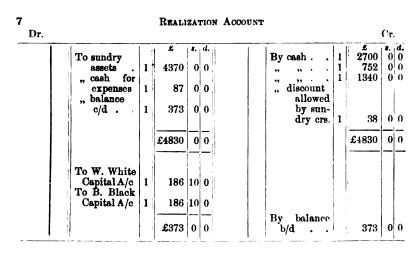
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			I	Dr.			Cr	
	Realization Account Dr. To sundries—	7	£ 4370	s . 0	d. 0	£	8.	
	Lease Account Fixtures Account	1 2			1	1250 220	00	
	Sundry debtors	3	ł			840	0	
	Stock (Being transfer to realization account of sundry assets for disposal)	4			!	2060	0	
· · · · ·	Cash	6	2700	0	0			
1	To Realization Account (Being cash received for lease and fixtures)	7			1	2700	0	
	CashDr. To Realization Account (For cash received on account of book debts)	6 7	752	0	0	752	0	
	Cash Dr. To Realization Account (For net proceeds on disposal of stock by auction)	6 7	1340	0	0	1 34 0	0	
	Sundry creditors Dr. To cash	5 6 7	480	0	0	442 38	00	(
1	Realization Account Dr. To cash	7 6	87	0	0	87	0	(
	Realization Account Dr. To B., Black Capital Account "W., White Capital Account (Transfer of profit on realization 'of assets, etc.)	7 8 9	373	0	0	186 186	10 10	

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LEDGER

Dr.			LE	Cr.			
1903. Dec.	31	To balance .	£ 1250		1903. Dec. 31	By Realiza- tionAccount	£ s. d. 1 1250 0 0
2			Fix	TUBES	Account		
Dec.	31	To balance .	220	0 0	Dec. / 31	By Realiza- tionAccount	1 220 0 0
;			Sundry	DEBT	ors Accou	INT	
Dec.	31	To balance . 1	840	0 0	Dec. 31	By Realiza- tionAccount	840 0 0
:			ST	ock A	DOOUNT		
Dec.	31	To balance .	2060	0 0	Dec. 31	By Realiza- tionAccount	1 2060 0 0
i		;	Sundry	Credit	TORS ACCO	UNT	
······		To Cash Ac- count	480	0 0	Dec. 31	By balance .	480 0 0
3			с	ASH A	CCOUNT		
Dec.	31	To balance . " Realiza- tion A/c—	120	0 0		By sundry crs ,, expenses	1 442 0 (1 87 0 (
		lease and fixtures Book		00		"Balance c/d .	4383 0
		Stock .		0 0			
		"Balance	£4912	0 0			£4912 0



8

B. BLACK'S CAPITAL ACCOUNT

190 4 .	To balance c/d	3236	10 0	1903. Dec.	31	By balance . ., profit on realiza-		3050 0 0
	1) 1] 1]					tion of assets .	1	186 10 0 £3236 10 0
						By balance b/d		3236 10 0

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W. WHITE'S CAPITAL ACCOUNT

To balance o/d	1146_10	0	Deo.	31	By balance. "profit on realiza- tion of assets.	1	960 186		0 0
		_					1146	10	0
					By balance b/d		1146	10	0

SUMMARY

Cash.	Dr. E	Balance	• •		•••	•	•	•	•	•	£438 3	0	0	
B. Black	k's C	avital /	Account	. Cr. 1	alance	• .					£3236	36 10		
W. Whi														
											£4383	0	0	

Example II

A. and B. carried on business in partnership for several years, dividing profits, two-thirds to A., and one-third to B., the original capital of £900 having been provided in those proportions. On the death of A., C. was appointed to realize and distribute the assets. The last balance sheet was dated September 30, 1902. A. died March 31, 1903. The amount realized was £3000. There was due to creditors £1000; for rent, rates, and other liabilities, £200; costs and expenses in relation to the windingup of the business, £100. The Partners' Accounts were—A.'s Capital Account, £600; Current Account in credit, £750; B.'s Capital Account £300; Current Account in credit, £700.

Set out the partners' Ledger Accounts, credit A. with interest at 5 per cent. on ± 50 for half a year, and make out a final statement and adjust the partners' accounts, showing the balance payable to each. Income tax not to be taken into account.

Dr.	Rea	Cr.					
	£				£	8.	đ.
To book value of assets.	3550	U	0	By proceeds of sale of			
" costs of realization .	100	0	0	assets	3000	0	0
" A.'s Account interest	1	5	0	" A. two-thirds of loss	434	3	4
				"B. one-third	. 217	1	8
	£3651	5	0		£3651	5	0

Слзн	ACCOUNT

1-

Dr.														Ľ	<i>.</i> г.	
To assets .		•	£ 3000		а. 0	By	cred	ito	r 8	•			£ 1000	. 0		
							,,	rent,	, et	c.				200	0	0
							,,	costs	3.	•				100	0	0
							,,	A.						917	1	8
							,,	В.	•	•	•	•	•	782	18	4
				£3000	0	0								£3000	0	0

D.

Dr.			A.'	s Ao	COUNT	c	r.	
		£	8.	d.	<u></u>	£	8.	d.
To two-thirds of	loss on				By capital	600	0	0
realization		434	3	4	" Current Account	750	0	0
" balance down		917	1	8	,, interest, six months at			
"	• • •				5 per cent. on £50.	1	5	0
		1351	5	0		1351	5	0
To cash		£917	1	8	By balance .	£917	1	8
Dr.			B.'	s A	CCOUNT	C	r.	
		£	s.	đ.		£	8.	
To one-third loss o	n reali-				By capital	300	-	0
zation		217	1	8	" Current Account	700	0	0
" balance down	· · ·	782	18	4				
		1000	0	0		1000	0	0
To cash		£782	18	4	By balance .	£782	18	4

Deficiency of Insolvent Partner

We have now to consider the case of one of the partners of a firm being unable to make good his deficiency of capital and contribute to the loss resulting from the realization of the firm's assets. A decision of Mr. Justice Joyce in the case of *Garner* v. *Murray* is to the effect that the proportions of the solvent partners in the deficiency are to be brought in and credited to the Deficiency Account, and the insolvent partner's share of deficiency is to be left standing to the debit of the Deficiency Account. The balance sheet should then show on the liabilities side the solvent partners' Capital Accounts, and on the assets side the Cash, being the proceeds of realization, together with the insolvent partner's share of deficiency and the debit to him. The Cash should then be divided rateably between the solvent members of the firm.

However, considerable discussion has recently taken place on this legal reversal of the custom which previously obtained of charging the solvent partners with the insolvent partner's deficiency in the same proportions as profits were divided, that is, in considering the loss resulting from a partner's failure to

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make good his debit in the same manner as a loss arising from an ordinary trade debtor—this interpretation being thought to be the correct and just one in accordance with section 44 of the Partnership Act. The opinion is very largely held that the latter view is correct, and that the principle laid down in the above case will not be maintained. In view of the former being a legal decision, the two methods of the treatment of the account are given in the following example :—

Example III

A., B., and C. are equal partners. Their balance sheet at a certain date was—

B. "	••		1000	0 0	0 0	£ a. d Book debts . . 1200 0 0 Stock . . . 1100 0 0 Plant 700 0 0 C., Capital Account )))
			£3500	0	0	£3500 0 0)

C. is insolvent and cannot bring anything more into the partnership. They decide to wind-up, and dispose of the assets for $\pounds 1900$, and the expenses of realization amount to $\pounds 100$. Close the accounts of the firm.

Method adopted prior to Garner v. Murray REALIZATION ACCOUNT

To sundry assets . " expenses	 	£ 3000 100	0	0	By cash " deficiency c/d					0
	5	E 310 0	0	0			£	3100	0	0
To deficiency b/d .		1200	0	0	By A. one-third " B. one-third " C. one-third	•	•	4 00	0	0
	£	E1200	0	0			£	1200	0	0

BALANCE	SHEET	(after clos	e of Realization	Account)
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	,.	•	•	600	0	0	Cash			
			ł	£2700	0	0	£	2700	0	0



TERMINATION OF PARTNERSHIP

As C. cannot contribute anything, the debit on his Capital Account is divided between A. and B. in the same proportions as they divided profits as between themselves. After doing this and paying off the creditors the balance sheet is—

А., В.	Account "			Ó	0	•	•	•	•	•	•	•	£ 1300			
			£1300	0	0							•	£1300	0	0	

and the cash is divided accordingly.

Following Garner v. Murray decision

(1) A solvent partner is not liable (qy. as a partner) to contribute for an insolvent partner who fails to pay his share.

(2) Contributions due from solvent partners for losses and deficiencies should be actually brought in (not charged in account).

A. and B. must therefore each bring in £400, and only C.'s share of the deficiency goes to the balance sheet.

BALANCE SHEET (after close of Realization Account)

A., Capital Account . B. ", ", . Creditors	2000 1000	0	0 0	£ Cash		d. 0
	£3500	0	0	£3500	0	0

Pay creditors, and it gives the following :---

A., Capital Account . B. ,, ,, .			0	0			0	0
	1	E3000	0	0		£3000	0	0

Divide the cash between A. and B. by way of dividend of 14s. in the \pounds , *i.e.*—

A. 3688 ths of £2100 = £1400 B. 3888 ths of £2100 = £700 £2100 59

QUESTIONS AND EXERCISES

40. State when, if ever, an outgoing partner of a firm is entitled to share in the profits of the firm, made after the dissolution of the partnership.

41. In preparing the accounts of a partnership firm, enumerate the various points to which you should give special attention in order to safeguard each partner's interest.

42. What are the rules for the distribution of assets in a final settlement of accounts between partners?

43. In the absence of an agreement state the rules for settling accounts between partners on dissolution.

44. Discuss methods of making provision for the withdrawal of capital from a partnership concern.

45. Give examples of the usual accounts provided in the winding up of a partnership business.

46. Discuss the settlement of a loss where one of the partners is a debtor to the firm, and is insolvent.

47. X., Y., and Z. are in partnership, their respective capitals being £1500, £1200, and £800. The partnership articles provide for interest on capital at 5 per cent. per annum, and profits and losses to be divided in the proportion of X. one-half, Y. one-third, C. one-sixth. A. has lent to the firm £1000 at 6 per cent. interest, and B. £500 at the same rate. Interest on capital and loans is paid up to date. It is decided to dissolve partnership on June 30, 1905, on which date the assets of the firm were as follows:—

							£
Machinery and pla	ant	•					2,000
Loose tools, patter	rns,	etc					1,000
Stock in trade .							
Sundry debtors .							4,500
						£	10,000

The liabilities (in addition to those to partners) were-

Sundry creditors Bank creditors										
Duik cicultors	·	•	•	•	•	•	•	•	•	£5000
										20000

The business was sold as a going concern, subject to the following allowances off the book values : machinery and plant, 10 per cent.; loose tools and patterns and stock, 20 per cent.; book debts, 15 per cent.; but also subject to the payment of £600 for goodwill.

Prepare a realization account, and show what was the result to each partner.

48. A., B., and C. were equal partners in business for several years. A. died December 31, 1903. The articles of partnership provided that on the death or retirement of any one of the partners, the goodwill should be taken into account. The balance sheet at the date of A.'s death was as follows :----

TERMINATION OF PARTNERSHIP

										£		
Cash at bank												
" in hand						•				23	17	2
Debts due to	the fir	m							•	22,022	19	0
", "by	the fir	m							•	8,086	15	2
A., Capital Ac	count									9,982	18	0
В. "	,,									5,000	0	0
С. "	,,	•	•	•	•	•	•			5,000	0	0

B. and C. arrange for D. to come into the firm and bring in as capital $\pounds 10,000$. The goodwill is, by agreement, to be valued at $\pounds 4500$, and the new firm takes over the business in equal shares, and pays out to the estate of A. the whole value of his share and interest.

Prepare from the above a balance sheet and a statement showing the amount due to A.'s estate, and draft a balance sheet of the new firm as it should appear at the commencement of its operations January 1, 1904.

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CHAPTER VI

JOINT STOCK COMPANIES

Classes of Shares—Conversion of Shares into Stock—Memorandum and Articles of Association—Prospectus—Section 12, Companies Act, 1900—Company's opening entries—Statistical Books—Profit and Loss Account and Balance Sheet—Forfeited Shares—Profits prior to Incorporation.

FROM the last chapter we learnt somewhat of the uncertainty of arranging satisfactory partnerships, and of the responsibility and liability of partnerships; also of the difficulty and delay in withdrawing the capital invested therein. In view of these points, it is hardly to be wondered that the principle of limited liability has met with so much favour among investors of both small and large sums. The advantages of limited liability ease of realizing his holding, that is, turning his shares into cash, statutory regulations in regard to the books of account and the conduct of business—all give confidence to the intending shareholder, who, in the careful selection of a sound undertaking, may feel reasonably sure of a fair return on his investment.

Before dealing with the accounts of a joint stock company, let us consider some of the various points of which we should have a knowledge.

Joint stock means joint capital, and the company is the association of a number of persons who contribute or engage to contribute certain proportions or shares of the capital.

Most companies are registered with limited liability, *i.e.* that the shareholder cannot be called upon to pay more than the unpaid amount on his shares: so that the holder of fifty £10 shares in such a company, on which £6 per share has been paid, has no further liability than the £200 unpaid. In some cases, as in the finding of money by a few persons, who are taking the preliminary steps for the purchase of a patent or a business with a view to selling again, the company may be

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limited by guarantee, *i.e.* that each person undertakes to subscribe a certain proportion of the total sum guaranteed. It will readily be understood, that companies with unlimited liability involve so much risk, that they are not viewed with favour by investors.

A company may be registered by special Act of Parliament, e.g. railway, tram, and similar undertakings requiring special powers; but industrial and commercial companies are begun, carried on, and ended under the Joint Stock Companies Acts of 1862-1900.

Any firm or partnership of more than twenty members (in the case of a banking business, ten) carrying on any business for gain, must be registered under the Companies Act; and no company can consist of less than seven persons.

The capital of a joint stock company is divided into certain fractions or parts of the total sum, such division of interest and, it may be, liability, being termed shares, generally of $\pounds 1$ or $\pounds 5$ each.

Shares may be of various classes :----

Ordinary, giving no special advantage or privilege in regard to the sharing of profits or the distribution of capital in the event of winding up the company.

Preference, carrying with them a prior claim to a fixed share of the profits, say 5 or 6 per cent., and, it may be, also to capital when distributed.

Cumulative Preference, giving the shareholder the power of claiming upon future profits for any shortage in the payment of his dividend during the current period.

Preference shares carry with them this cumulative claim if the articles provide so.

Deferred, in which the claim upon the distribution of profits is waived until the ordinary and preference shareholders have received certain dividends.

Founders', which are practically deferred shares allotted to the promoters or the few who have had the trouble and expense of working some patent or speculative undertaking to a successful issue.

Guaranteed, on which a stated dividend is guaranteed to be paid for a fixed term of years (usually by the vendor of a business taken over by the company). In further explanation of the above distinctions let us take the following instances :---

A., wishing to float his business, feels doubtful about securing the minimum subscription (the number of shares, stated in the prospectus, to be applied for to allow of an allotment). He therefore offers the following inducements to encourage investors: share capital, in £1 shares, of £100,000 divided into 40,000 6 per cent. cumulative preference shares, preference in respect of profit and capital, 40,000 ordinary shares, and 20,000 deferred shares to be allowed to him as part of the purchase money, and on which no dividend is to be payable in any of the five following years until 10 per cent. has been paid to the ordinary shareholders, the first appropriation of profits being to the preference shareholders.

As an alternative proposal, A. might have guaranteed the payment of the dividend during a limited number of years to either or both classes of shareholders, but this would be undertaking so much as to probably raise suspicions in the minds of investors, and cause them to leave the speculation severely alone, •thus defeating the vendor's object in offering such favourable terms.

As an illustration of founders' shares, a fairly common form a few years ago, take the case of a patent financed by a small syndicate of ten members, who set a value of £10,000 upon the patent and their work and expenses. They ask for additional capital of £50,000, and agree to accept founders' shares for the £10,000, stipulating to defer any claim on profits until 6 per cent. has been paid on the £50,000 ordinary shares, after which the balance is to be divided equally between the two classes of shares. This appears a satisfactory arrangement until such time as a disposable balance of £10,000 appears in the Profit and Loss Account giving a return of £3500 on the founders' shares, and raising their market value to an extraordinary sum.

Conversion of Shares into Stock.—If authorized by its articles, a company may convert its fully paid shares into stock, which enables the holding to be dealt with in multiples of $\pounds 1$, or as may be provided by the articles of the company. As an instance, we may mention Coats, Ltd., who on the $\pounds 10$ shares reaching in 1898 a price of $\pounds 75$ sanctioned their shares being converted into stock.

The use of the term "stock" merely denotes that the

company has recognized the fact of the complete payment of the shares, and that the time has come when those shares may be assigned in fragments, which, for obvious reasons, could not be permitted before. The stock shall still be a qualification, *e.g.* of directors, who must possess a certain number of shares, and that the meetings shall be of persons entitled to this stock who meet and vote as shareholders, in the proportion of shares which would entitle them to vote before the consolidation into stock.

It may be mentioned that such stock may again be reconverted into shares.

POWERS AND REGULATIONS OF COMPANY

In place of the partnership agreement which, in the last chapter, we found embodied the arrangements for carrying on the business and the contract between those sharing the profit or loss, we have the following to set forth the powers and regulations of the company.

Memorandum of Association in which the objects of the company are fully set forth, and the powers of the company defined. It must contain the following particulars :---

1. The name of the company with the addition of "Limited" as the last word of the name.

2. The situation of the registered office.

3. The objects of the company.

4. A declaration that the liability of the members is limited.

5. The amount of capital and the number and value of the shares into which it is divided.

Articles of Association.—As the affairs of the company are managed by the directors, acting for the shareholders, it is important that there should be certain regulations or working rules for the management of the company, these being given very fully in the articles of association. Small companies frequently adopt those known as Table A of the Companies Act of 1862 (revised in 1906), with or without modifications; larger companies usually adopt special articles.

The articles may be altered by a special resolution passed in a general meeting, but must not contain anything illegal or go beyond the powers of the memorandum to which the articles are subject.

The memorandum and the articles of association are signed

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by seven persons called the subscribers, who are the first members of the company.

Prospectus.-After these preliminary notes upon company work, we may now proceed to deal with the floating of the business of a firm whose accounts we have audited for several years past. In consultation with the solicitors the prospectus is prepared. This, in compliance with the Companies Act of 1900, must be dated, signed by the directors, and filed with the Registrar of Joint Stock Companies, before being issued. It must include a copy of the memorandum of association, and give the names of the signatories, and among other particulars state the names, descriptions, addresses, and qualifications of the directors; the minimum subscription on which the directors propose to proceed to allotment; the particulars of shares, and consideration for shares issued as fully or partly paid, or otherwise than for cash; the names and addresses of the vendors and the particulars of the purchase money, specifying the amount for goodwill; also the disclosure of all material contracts.

The object of these regulations is to prevent intending shareholders being misled, either by misrepresentation in the prospectus or important omissions from it. The minimum subscriptions having been paid, the memorandum and articles filed with the Registrar of Joint Stock Companies, together with a statutory declaration of compliance with the requirements of the Act, and of course the payment of the requisite fees, the certificate of incorporation is granted, and the company commences business.

A further safeguard of the interests of the shareholders is provided by section 12 of the Companies Act of 1900, giving those interested an opportunity of inquiry into any matters affecting the formation of the company. Note specially that by paragraph (3) the auditors must certify as to the allotment of shares; the cash received in respect of such shares; and to the receipts and payments of the company on capital account.

SECTION 12 OF THE COMPANIES ACT, 1900 (63 & 64 VICT., CH. 48)

12. (1) Every company limited by shares and registered after the commencement of this Act shall, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company, which shall be called the statutory meeting.

(2) The directors shall, at least seven days before the day on which the meeting is held, forward to every member of the company a report, certified by not less than two directors of the company, or, where there are less than two directors, by the sole director and manager, stating—

- (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) An abstract of the receipts and payments of the company on capital account to the date of the report, and an account or estimate of the preliminary expenses of the company;
- (d) The names, addresses, and descriptions of the directors, auditors (if any), manager (if any), and secretary of company; and
- (e) The particulars of any contract the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

(3) 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 on capital account, be certified as correct by the auditors (if any) of the company.

(4) The directors shall cause a copy of the report, certified as by this section required, to be filed with the registrar forthwith after the sending thereof to the members of the company.

(5) The directors shall cause a list, showing the names, descriptions, and addresses of the members of the company, and the number of shares held by them respectively, to be produced

at the commencement of the meeting, and to remain open and accessible to any member of the company during the continuance of the meeting.

(6) The members of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company, or arising out of the report, whether previous notice has been given or not; but no resolution of which notice has not been given in accordance with the articles of association may be passed.

(7) The meeting may adjourn from time to time, and at any such adjourned meeting any resolution of which notice has been given in accordance with the articles of association, either before or subsequently to the former meeting, may be passed, and the adjourned meeting shall have the same powers as an original meeting.

(8) If default is made in filing such report as aforesaid, or in holding the statutory meeting, then, at the expiration of fourteen days after the last day on which the meeting ought to have been held, any shareholder may petition the Court for the winding up of the company, and upon the hearing of the petition the Court may either direct that the company be wound up, or give directions for the report being filed, or a meeting being held, or make such other order as may be just, and may order that the costs of the petition be paid by any persons who in the opinion of the Court are responsible for the default.

SHARE CAPITAL ENTRIES

The company previously referred to is formed with a registered capital of £20,000, divided into 6000 6 per cent. cumulative preference shares of £1 each (preferential in regard to both dividend and capital), and 14,000 ordinary shares of £1 each; 5s. per share is payable on application, 5s. on allotment, and the balance by equal instalments in two and three months after allotment. The vendor is allotted 5000 ordinary shares, and paid £4000 cash for the assets and goodwill of the business. All the preference shares and 4000 of the ordinary shares are applied for and allotted. The entries regarding these transactions appear in the books as hereunder :—

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JOINT STOCK COMPANIES

-			
Jan. 1. Purchase Account. Dr.		£ 9000	£
To vendor	• • • • • •	3000	9000
Purchase of sundry as	sets and goodwill		0000
as per schedule.	8		
Bank. Dr		2500	
To Ordinary Share Cap	ital Account. Cr.		1000
" Preference Share Ca			1500
Being 5s. per share a			
6000 preference shar	68		
4000 ordinary "			
Bank. Dr		2500	
To Ordinary Share Capi	tal Account. Cr.		1000
,, Preference Share Ca	pital Account.		1500
Being 5s. per share on a	allotment		
6000 preference shar	68		
4000 ordinary "			
Bank. Dr		2500	1000
To Ordinary Share Capi			1000
"Preference Share Ca			1500
Being 5s. per share—1s		2500	
Bank. Dr To Ordinary Share Capi		2000	1000
" Preference Share Ca			1500
Being 5s. per share—2n			1000
Vendor. Dr	u can on, coo.	9000	
To Ordinary Share Capi	ital		5000
" bank			4000
Being allotment of 5000			
and cash payment f			
goodwill and assets of			
Dr. PUBCHASE	ACCOUNT		Cr.
£			
To sundries 9000			
Veni	OR		
£			£
To ordinary shares	By Purchase Acc	ount	9000
. Ordinary Shi	RE CAPITAL		-
	By cash, applica	tion.	1000
		ent	1000
	,, ,,	1	
	,, ,, 100 cm		1000

""" 2nd .,

"vendor 5000

1000

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CUMULATIVE PREFERENCE SHARE CAPITAL

Dr.

							O I.
							£
By	cash.	, application					1500
,,	,,	allotment					1500
,,	,,	1st call .					1500
97	,,	2nd " .	•	•	•	•	1500

<u>n</u>-

BANK OR CASH ACCOUNT

		£	8.	đ.		£	8.	d.
To applications :	Ordinary shares	1500	0	0	By vendor.	4000	0	0
·· ··	Preference "	1500	0	0	•			
" allotments :	Ordinary "	1000	0	0				
,, ,,	Preference,	1500	0	0				
" 1st call :	Ordinary "	1000	0	0				
, 1st ,,	Preference .,	1500	0	0				
" 2nd "	Ordinary "	1000	0	0				
"2nd "	Preference "	1500	0	0				

Another method of dealing with the opening entries is to open separate application, allotment, and call accounts which are afterwards transferred to the Share Capital Account. In this way over-applications, transfers from the application to the Allotment Account and arrears of the various payments are shown without interference with the Share Capital Account.

Example I

A company offers for subscription 250,000 shares of £1 each at a premium of 2s. 6d. per share, payable 5s. on application, 7s. 6d. on allotment, and the balance one month after allotment. In response to the offer, applications were received on October 1, 1905, for 300,000 shares. The company went to allotment on the following day, when applications for 10,000 shares were declined and the deposits received on application returned, applicants for 80,000 shares received only half the amount of their respective applications, and the excess of their deposits was applied towards payment of the amount due on allotment. The remainder of the applications were allotted in full.

Let us make the Journal entries for these transactions :---

JOINT STOCK COMPANIES

JOURNAL

		Dr.	Cr.
1905 Oct. 1	Cash	£ 75,000	£
	To Application Account		75,000
" 2	Application Account Dr. Allotment Account Dr. To Share Capital Account Dr. " Premium or Shares Account	62 ,50 0 93,750	125,000 31,250
	(Being allotment of 250,000 shares —5s. per share on application and 7s. 6d. per share on allotment)		01,200
"	Application Account Dr. To cash Dr.	2,500	2,500
	(Being application money returned on 10,000 shares declined)		
,,	Application Account Dr. To Allotment Account	10,000	
	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares)		10,000
" 5	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares) Cash Dr.	83,7 50	
" 5	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares)	83,7 50	10,000 83,750
	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares) Cash Dr. To Allotment Account	83,7 50 125 , 000	83,750
" 5 No v . 2	(Being amount received on application for 40,000 shares declined, but carried to reduce amount due on allotment of other shares) Cash Dr. To Allotment Account		

The financial books of the company will be similar to those hitherto in use and such as are kept by a private firm with a well-planned system of accounts. It is, however, compulsory upon companies to keep certain statistical books. These are—

> Register of Members, or Shareholders' Register. Register of Mortgages or Charges. Register of Directors and Managers. Annual List of Members and Summary Book. Minute Book.

72 ACCOUNTING AND BANKING

In addition the following subsidiary books are met with in the offices of most companies :---

Application and Allotment of Shares' Book. Call Book. Register of Transfers.

REGISTER OF MEMBERS AND

Name: Smith, John.

Address and occupation: 440, Austin Friars, London, E.C. Corn merchant.

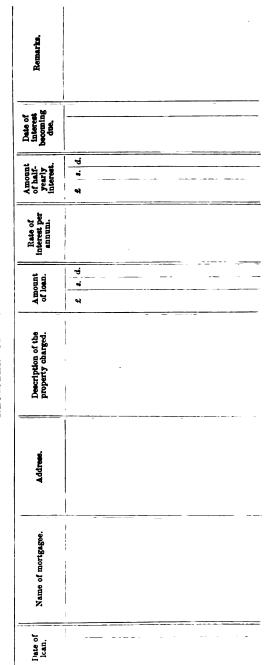
D	r.		Sha	res acqu	ired.					Dr.	Cash payable	on sha	.res.		_
Number of allotment.	Number of transfer.	Date of allotment or entry of transfer.	Number of shares allotted or transferred.	Distinctive numbers	(inclusive).	Transferor's follo, if so acquired.	Total value of shares held.		Date when called.	Description of payment or number of call.	Amount per share.	Total amount.		.	
1		1902. Jan. 11	150	From 1	То 150	· _	£ 150	s .	d. 0	1902. Jan. 3	Applica-	s. d.	e.	s.	d.
		Jan. II	100	•	100	1	100	Ū	v	, 11 Mar.10	' tion and >	50	37	10	0
					1			1		NUBL.IU	First call	50	37	10	0
					l	-			1						1
			1	1	i	-					1				
						:								1	
													ļ		
			ł	1			1					1		I	
			ł							1			1		
										1					

Dividends Book. Seal Register. Agenda Book. Share Certificate Book. Also books in relation to debentures, vide Chapter VII.

SHAREHOLDERS' LEDGER

Date of entry as a member : January 11, 1902. Date of ceasing to be a member :

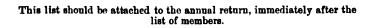
	Cash paid	on sha	res. Cr.		Cr.				
Date when due.	Date of payment.	Cash book folio.	Amount.	Number of transfer.	Date of entry of transfer.	Number of shares transferred.	Distinctive number (inclusive).	Transferee's folio.	Total value of shares trans- ferred.
1902. Jan. 3 " 11 Mar. 10	1902. Jan. 3 ,, 13 Mar. 15	1 4 32	£ s. d. 18 15 0 18 15 0 37 10 0	18	1902. Apl. 5	100	From To 1 100	23	£ s. d. 100 0 0



ACCOUNTING AND BANKING

REGISTER OF MORTGAGES

Number of }											
" TH	E COMPAN	NIES ACTS	5, 1862 то 1900."								
Names and Addresses of the Persons who are the Directors											
			Limited,								
on the	day of	190 .									
(Pursua)	nt to Section 19, St	ab-section 1 (b), of	The Companies Act, 1900.)								
	NAMES.	l l	Add resses .								
		1									
		Signature									
Date		Description									
		(i.e.)	Manager or Secretary.)								



•

Certific

"THE COMPANIES ACTS, 1862 to 1900."

FORM E

As altered by the Board of Trade pursuant to Section 71 of the Companies Act, 1862.

Stamp of Be юuld

Summary of Capital and Shaws

07

BOOTH BROWN,

LIMITED,

made up to the Twenty Second day of October, 1906.

(Being the Fourteenth Day succeeding the 8th day of October, 1906, when the First Ordinary General Meeting in the Year was held.)

Nominal capital, £30,000 divided into • $\begin{cases} 10,000 \text{ pref.} \\ 20,000 \text{ ord.} \end{cases}$ shares of £ • $\begin{cases} 1 \\ 1 \end{cases}$ each
Total number of shares taken up to the 22nd day of October, 1906 (Which number must agree with the total shown in the list as held by existing members)*
Number of shares issued subject to payment wholly in cash 14,460
Number of shares issued as fully paid up otherwise than for cash . 10,000
Number of shares issued as tury paid up to the the that of
Number of shares issued as partly paid up to the extent of} Nil
There has been called up on each of (000 profession of the start of th
† There has been called up on each of 6000 preference shares £1
", ", ", 8460 ordinary ", 15s.
, , , , , , £
t Total amount of calls received, including payments on application £12,345 and allotment. Total amount (if any) arread to be considered as paid on 10,000
and allotment
ordinary shares which have been issued as fully paid (otherwise £10,000
than in cash) \ldots \ldots \ldots \ldots \ldots \ldots \ldots
Total amount (if any) agreed to be considered as paid on)
shares which have been issued as partly paid up to the extent £
shares which have been issued as party part up to the catomaga-
of per share
Total amount of calls unpaid.
Total amount (if any) paid on § shares forfeited £ Nil
Total amount of debt due from the company in respect of all
not and obarges which require registration under the
mortgages and charges which require registration under the Companies Act, 1900, or which would require such registration
Companies Act, 1900, or which would require such registration
if created after the amendment of that Act

NOTE,—A list of the names and addresses of the directors must follow the list of members. Banking companies must also add a list of all their places of business.

Where there are shares of different kinds or amounts (s.g. preference and ordinary, or £10 and £5), state the numbers and nominal values separately.
 † Where various amounts have been called, or there are shares of different kinds, state them

separately. ‡ Include what has been received on forfeited as well as on existing shares. || State the aggregate number of shares forfeited (if any).

(3) The Return must be signed, at the end, by the Manager or Secretary of the Company.

-, 190, and of persons who have held shares therein at any time since the date of the last return, showing their names and addresses, and an account of the day of_ Limited, on the List of persons holding shares in shares so held.

	JOINT	STOCK	COMPANIES
	Remarks.		
-	• Number ferred since the dates trans- ferred since the date of ferred since the date of ferred since the date of ferred since the date of the last return by per- beid by some who are still mem- bene berst be memberst	Date of registra- tion of transfer.	
res.	Particular ferred a the last bons wh	Number.†	
Account of shares.	s of shares trans- tince the date of t return by per- no are still mem-	Date of registra- tion of transfer.	
	Particular ferred f the las sons wh bers.‡	Number.†	
	 Number of shares held by existing members 	at date of return.†	
	Occupation.		
Name, addresses, and occupations.	A ddress.		
Name, addresse	Christian name.		
	Surpaine.		
	Folio in register ledger contain- ing par-		

* The aggregate number of ahares held, and not the distinctive numbers, is to be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the summary to have been taken up. † When the shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be

shown separately.

The date of registration of each transfer should be given, as well as the number of shares transferred on each date. The particulars should be placed opposite the transferse, and not opposite that of the transferse, but the name of the transferse may be inserted in the remarks column, immediately opposite the particulars of each transfer.

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APPLICATION AND

Number of letter.	Applicant's name.	Residence.	Trade or profession.
10	Smith, John	440, Austin Friars, London, E.C.	Cork Merchant

CALL

First call of five shillings per share, made March 10, 1902, payable

Name.	∆ ddress.	Occupation.	Share ledger folio.	Number of shares held.
Smith, John	440, Austin Friars, London, E.C.	Cork Merchant .	1	150

REGISTER OF

	Number	TRANSFERORS.						
Date.	of transfer.	Folio in register of members.	N a me.	Address,	Occupation.			
April 5	18	1	Smith, John .	440, Austin Friars, London, E.C.	Cork Merchant			

ALLOTMENT BOOK

Date of application.	Date of allotment.	Number of shares applied for.	Number of shares allotted.	Folio in register of members.	Remarks.
Ja n. 2, 1902.	Jan. 11, 1902.	150	150	1	
		2			
1		i		•	
			1		

BOOK

at once, making amount paid up on each share ten shillings.

Total amount of call.				Date Paid.	Cash book Interest. folio.		Interest.			Remarks.
-	£ 37	s. 10	d. 0	March 15	12	Days.	£	<i>s</i> .	d.	
		-					1			

TRANSFERS

	Number of				
Name.	Address.	Occupation.	Folio in register of members.	shares transferred.	Remarks.
Brown, William.	486, Bond St. London, W.	Hatter .	23	100	

	SHARE CERTIFICATE BOOK
CERTIFICATE No.	CERTIFICATE No. REGISTERED No.
REGISTERED No.	
TRADERS LIMITED	NERS LIMIT
Cumulative Preference	TREPORTED UNDER THE COMPANIES CON D
Shares	CAPITAL £20,000
Nos. to	DIVIDED INTO 6000 6% CUMULATIVE PREFERENCE SHARES OF Z 21 EACH AND 14,000 ORDINARY SHARES OF 21 EACH.
issued to	The Preference Shares are entitled to a fixed Cumulative Preference Dividend of Six per cent. Z per annum and rank before the Ordinary Shares in RESPECT OF CAPITAL.
	This is to Certify that
	of is the Registered Proprietor N
	unbered to
of	<i>ч</i> .
	day of19
Date19	Directors.
Directore' Signatures	Countersigned Secretary. Norn.—No France of the above Shares can be Regulared without the production of this Certificate.

DIVIDENDS BOOK

Name of share- holder.	Preference shares.			dinary pares.		eferred hares.	Total.	Income tax deducted.	No. of war- rant.	Net amount of warrant.	Date cleared.
	L. fo.	Amount.	L. fo. —	Amount.	L. fo.	Amount.					

In the above case separate ledgers are kept for each class of shares. When only one ledger is kept one ledger folio column only is needed.

Example II

Let us now deal with the following exercise :---

Prepare from the following ledger balances on December 31, 1902, of William Pearson & Co., Ltd., Profit and Loss Account and Balance Sheet.

The adjustments to be made are-

A provision of 5 per cent. for bad and doubtful debts.

Depreciation of 10 per cent. on Machinery and Plant Account. $\pounds 1000$ to be taken to the reserve fund.

The nominal capital consists of 50,000 shares of £1 each.

		£
Share Capital Account (issued 30,000		
with 10s. per share called up) .		15,000
Unpaid Calls Account		150
Cash in hand		190
Sundry creditors		1,960
Sundry debtors		3,640
Cash at bank		1,150
Reserve fund		4,000
Machinery and Plant Account		6,000
Mortgage Debentures Account (45 d	ebentures of £100	
each at 5 per cent. interest).		4,500
Freehold premises		11,500
Stock (Jan. 1, 1902)		8,800
Manufacturing wages		12,450
Salaries		1,230
		G

ACCOUNTING AND BANKING

8	48 395
Rates and taxes	
	111
	98
Sales	350
Trade expenses	382
Repairs	174
Purchases	300
Unpaid Dividends Account.	252
Bad Debts Account	191
Office expenses	24
Interest paid on debentures	225

Stock was taken as on December 31, 1902, and was valued at £6820.

MESSRS. WM. PEARSON AND CO., LTD.

December 31st, 1902 TRADING, AND PROFIT AND LOSS ACCOUNTS

Cr.

£ s. d. 62,850 0 0 d. £ 8. 8,800 0 0 To stock, Jan. 1st, 1902 . By sales . " purchases 41,800 0 0 " stock on hand . 6,820 0 0 " wages . 12,450 0 0 . 395 0 0 " carriage and cartage. " Profit and Loss A/c c/d . 6,225 0 0 £69,670 0 0 £69,670 0 0 To salaries 1,230 0 0 By Trading A/c b/d 6,225 0 0 48 0 0 " rents and taxes 111 0 0 " discounts . . " insurance . . 98 0 0 . . 382 0 0 " trade expenses . " repairs . . 174 0 0 . . . " bad debts . 191 0 0 " office expenses 124 0 0 . , debenture interest $(5^{\circ}/_{\circ})$ 225 0 0 paid . . . " reserve bad debts-5°/o on £3640 . 182 0 0 " depreciation on plant, etc.— $10^{\circ}/_{\circ}$ on £6000 . . . 600 0 0 " balance c/d . . 2,956 0 0 £6,273 0 0 £6,273 0 0 1,000 0 0 By balance b/d . . To reserve fund . 2,956 0 0 " amount available for dividend 1,956 0 0 £2,956 0 0 £2,956 0 0

Dr.

STOCK COMPANIES JOINT

÷ 00 0 0 0 5 ... 00 0 0 0 11,500 6,820 3,458 1,340 5,4004 00 00 00 00 00 1150 190 009 900 3640 182 Sundry debtors Less reserve for bad debs . Machinery and plant . Less 10°/o depreciation Assets. Freehold premises Stock in trade . Cash at bankers in hand . : ÷ 0 000 00 000 00 • 0 **4**,500 1,960 252 5,0001,95614,850 બ 00 00 • 0 0 ÷ • 0 • 0 00 0 50,000 30,000 15,0001504,000 1,000 • બ $45 \text{ of } \pounds 100 \text{ each at } 5^{\circ}/_{\circ} \text{ interest per annum}$ 3 • . g To nominal capital, 50,000 shares • • Liabilities. Mortgage Debenture Account-Profit and Loss Account . • Unclaimed dividends Called up capital . Less calls in arrear . Jan. 1, 1902 . Dec. 31, 1902 . Sundry creditors Reserve fundeach.

MESSES. WM. PEARSON AND CO., LTD.

December 31st, 1902

BALANCE SHEET

D.

0

0

£28,518

0

0

£28,518

The example just given, being a first exercise on Company Accounts, is but a simple one, and therefore we must consider other items that may need setting out in a companies Profit and Loss Account and Balance Sheet.

A division of the Profit and Loss Account showing the amount disposable and the appropriation of same is furnished thus—

APPROPRIATION ACCOUNT

To transfer to reserve		By balance from last account . ,, P. and L. Account	£ 1200
net profit	340	brought down .	6800
" 6% dividend preference shares	2400	5	
"10% "ordinary shares			
Balance, carried forward			
	£8000		£8000
•	20000	-	
		By balance . :	£1260

In regard to the Capital Account in the balance sheet, particulars should be set out of-

(a) Registered, authorized or nominal capital, as fixed by the memorandum of association, together with the number, class, and amount of each share.

(b) Subscribed or issued capital, being the total amount allotted to members of each class of shares.

(c) Called up capital, stating the amount called up on each class of share and the total.

For instance, a company registers its nominal capital, which authorized sum it must not exceed, as £100,000 in shares of £1 each; and issues 80,000 of such shares upon which 15s. per share is called or paid up: were the shares divided in 40,000 preference and 60,000 ordinary, the particulars of each class of shares would be given.

Calls paid in advance would be added to, and calls in arrears would be deducted from, the called-up capital, and then the balance carried out in the effective column as the total sum actually received or considered as paid.

In this way the shareholders, intending shareholders, and also the creditors of the company, may have a complete statement of the share capital. If, as in the case of a bank, there is considerable uncalled capital, the uncalled capital may be regarded as a reserve to meet further demands upon the resources of the bank. For instance, the X. & Y. Bank, Limited, with a subscribed capital of £10,000,000, of which £2,000,000 only has been called up, has in case of requirements an eight millions sterling of resources.

We may also notice that in a partnership the net profit or loss is, as a rule, transferred to the capital accounts of the partners, whereas in a company balance sheet the profit appears as an item available for distribution as dividend to the shareholders, or to be dealt with as may be recommended by the directors and decided by the shareholders in general meeting: if a loss, the amount appears on the credit side of the balance sheet.

Forfeited Shares.—It may happen that an allotment of shares may be made to a speculator or allottee, who is unable to meet the calls upon him. In case of such default power is usually held by the directors to forfeit such shares, which may again be re-issued to some other applicant, and that too at a discount not exceeding the amount paid on the shares by previous holders.

On forfeiture we have to make certain adjustments in the accounts. Thus, suppose A. B., to whom twenty shares of $\pounds 5$ each have been allotted, and on which he fails to pay the last call made upon him, has his shares forfeited, our entries would be—

A. B. Dr.	
To Forfeited Shares Account.	
Cash paid on shares forfeited as per resolution ofth.	•
Share Capital Account. Dr.	
То А. В.	
Amount called up on forfeiled shares, as, e.g.—	

Dr.

1904		£	8.	d.	1904		£	8.	d.
Ja n. 1	ToApplication and				Jan . 1	By Cash. Appli-			
Feb. 1	Allotment A/c ,, 1st Call A/c .	20 20	0	0		cation	10	0	0
May 1	"2nd "	20	0	ŏ		ment.	10	0	0
Dec. 1	"3rd " .	40	0	0	Feb. 5	" lst call	20	0	0
1905 Dec. 31	Transfer to For-				May 5	" 2nd call	20	0	0
Dec. 51	feited SharesA/c	60	0	0	1905 Dec. 31	Transfer to Share			
		•••	-			Capital A/c .	100	0	U
		£160	0	0			£160	0	0

A. B. (SHAREHOLDER)

Cr.

ACCOUNTING AND BANKING

Dr.	FORFEITED SHARES ACCOUNT		C	r.
, I	£ s. d. 1905 Dec. 31 By transfer from A.B.	£ 60	s. 0	d. 0
Dr.	SHARE CAPITAL ACCOUNT		C	r.
1905 Dec. 31 Toforfe A. B	ited shares, 100 0 0	£	8.	d.

The amount standing to the credit of Forfeited Shares Account will be treated as a reserve and placed on the Dr. side of the balance sheet, subject to any discount allowed on the re-issue of the shares.

As most students experience difficulty in dealing with the entries involved in the forfeiture of shares, we give a fuller illustration in the following :—

EXAMPLE III

The Weyside Company, Limited, was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 ordinary shares of £1 each, and 100,000 6 per cent. preference shares of £1 each.

The whole of the preference shares and 52,000 of the ordinary shares were offered for public subscription, payable, in both classes of shares, as follows :---

2s. 6d. pe	r share c	m	application.
28. 6d.	,, ,	,	allotment.
5s. 0d.	,, ,	,	January 15, 1905 (first call).
58. Od.	,, ,	,	February 15, 1905 (second call).

The balance as and when required.

The whole of the shares offered to the public were applied for and allotted in due course.

The balance of the ordinary share capital was issued as fully paid to the vendor as part purchase price of his business.

Five hundred ordinary shares applied for by John Smith, upon which the application money only had been paid, were subsequently forfeited in accordance with the articles of association.

Let us pass the entries necessary to record the above transactions through the books of The Weyside Company, Limited, and show how they would appear in the company's Balance Sheet.

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JOINT STOCK COMPANIES

JOURNAL

1905. Jan. 2	Sundries— Dr.	£	s .	d.	£	s .	d.
jun. 2	To Ordinary Share Capital Account Application Account (ord.shares) Allotment Account "," (For amount due up to and including allotment of 52,000 ordinary shares.)	6,500 6,500	0	0 0	13,000	0	0
37	Sundries— Dr. To Preference Share Capital Ac-		2		25,000	0	0
	count. Application Account (preference shares)	12,500	0	0			1
	Allotment Account (preference shares)	12,500	0	0			ļ
	(For amount due up to and including allotment of 100,000 preference shares.)			-			
,,	Vendor— Dr. To Ordinary Share Capital Account (For allotment of $48,000$ ordinary shares of £1 each as fully paid up in part payment of purchase money.)	48,000	0	0	48, 000	0	0
15	First Call Account (ord. shares) Dr. To Ordinary Share Capital Account (For call of 5s. per share due this day on 52,000 ordinary shares.) .	13,000	0	0	13,000	0	0
,,	First Call Account (pref. shares) Dr. To Preference Share Capital Ac- count	25,000	0	0	25,000	0	0
	(For call of 5s. per share due this day on 100,000 preference shares.)						
Feb. 15	Second Call Account (ord. shares) Dr. To Ordinary Share Capital Account (For call of 5s. per share due this day on 52,000 ordinary shares.)	13,000	0	0	13,000	0	0
73	Second Call Account (pref.shares) Dr. To Preference ShareCapital Account (For call of 5s. per share due this day on 100,000 preference shares.)	25,000	0	0	25,000	0	0
June 30	Ordinary Share Capital Account Dr.	3 75	0	0			
	To sundries— Allotment Account (ord. shares). First Call Account ". Second Call Account ".			1	62 125 125	10 0 0	0 0 0
	Forfeited Shares Account (For forfeiture this day as per resolu- tion of the Board of 500 ordinary		•		62	10	0
	shares, standing in the name of John Smith, on which 15s. per share had been called up, but only £62 10s. (i.e. 2s. 6d. per share) had been received.)						

Dr.	APP	LICATION	ACC	OUNT (Ordinary Shabes)		С)r
1905 Jan. 2		L E	8.	-		£ 6 ,5 00	8.	
	APPL	ICATION A	10CO	UNT (P	BEFERENCE SHARES)	1	
1905 Jan. 2	To Pref. Share Cap. A/c			1905 Jan. 2	By cash	12,500	0	
	ALL	OTMENT A	CCO	UNT (0	RDINARY SHARES)	u	'	1
1905 Jan. 2	To Ord. Share Capital	6,500		1905 Jan. 7 June 30	By cash	6 ,4 37 62	10 10	
		£6,500	0	5	Cupitur .	£6,500	0	-
	ALLO	TMENT A		_ 'NT (Pr	EFERENCE SHARES)	<u> </u>	1	1
1905 Jan. 2	To Pref. Share Capital	12,500	0 0	1905 Jan. 7		12,500	0	
	FIRE	ST CALL A	CCO	UNT (Oi	RDINARY SHARES)	14	1	l
1905 Jan. 15	To Ord. Share Capital	13,000	0 0	1905 Jan. 20 June 30	" Ord. Share	12,875	0	
		£13,000	0 0		Capital .	125	0	
i		<u> </u> ;	- 1-	ļ	1	£13,000	0	
1905	FIRST		COU	NT (PRE	FERENCE SHARES)	•		
	To Pref. Share Capital	25,000	0 0	1905 Jan. 20	By cash	25,000	0	
	SECON	ND CALL	ACCO	UNT (O	RDINARY SHARES)		,	
1905 Feb. 15	To Ord. Share Capital	13,000	0 0	1905 Feb. 20 June 30	By cash " Ord. Share	12,875	0	(
		£13,000	0 0		Capital .	125	0	(
l	S EGONT	· · · · ·				£13,000	0	(
1905	BECONI		voou		EFERENCE SHARES)			
	To Pref. Share	11		1905		1	1	

JOINT STOCK COMPANIES

]0									
Dr.	ORD	INARY SE	IAR	E	CAPIT	AL	ACCOUNT		Cr	•.
1905		£	. 8.	d.	1905	1		£	8.	Ī
une 30	To sundries .	375	0	0	Jan. 2	Bv	sundries .	13,000	0	
	" balance c/d	86,625	0	0	., 2	_,	vendor .	48,000	Ō	
					,, 15		First Call			
							A/c (Ord.)	13,000	0	
		i			Feb. 15	, ,,	Second Call			
							A/c (Ord.)	13,000	0	
		007 000		1-		1			-	
		£87,000	0	0				87,000	0	l
		•			June 30	,,	balance b/d	£86,625	0	
	PREFI	ERENCE S	HA	RF	CAPIT	FAL	ACCOUNT	r		
		1	1		1905					i
					Jan. 2	By	sundries .	25,000	0	
					,, 15		First Call		-	ł
'			·				A/c (Pref.)	25,000	0	ļ
				1	Feb. 15		Second Call			ļ
							A/c (Pref.)	25,000	0	
I										•
ł	1	l.	I					£75,000	0	ļ
			V	EN	DOR					
			1	: 1		1		1.1.1		
1905	To Ord Share									
	To Ord. Share	48 000	0	0						
	To Ord. Share Capital	48,000	0	0	•				1	
	Capital	48,000 FORFEITE				ACO(OUNT			
	Capital				ARES 1 1905 June 30	By	Ord. Share			
	Capital				1905	By	-	62	10	
	Capital	FORFEITE		3H	1905	By	Ord. Share	62	10	
Jan. 2	Capital]	FORFEITE		3H	1905 June 30	By	Ord. Share	62	10	
Jan. 2 1905 Jan. 2	Capital J To Applic. A/c (Ord. shares)	FORFEITE 6,500		SH H	1905 June 30	By	Ord. Share	62	10	
Jan. 2 1905 Jan. 2 ,, 2	To Applic. A/c (Ord. shares) " Applic. A/c (Pref. shares)	FORFEITE 6,500 12,500	2D 8 CAS	3H 0 0	1905 June 30	By	Ord. Share	62	10	
1905 Jan. 2 ,, 2 ,, 7	Capital To Applic. A/c (Ord. shares) , Applic. A/c (Pref. shares) , Aluot. A/c . (Ord. shares)	FORFEITE 6,500		SH H	1905 June 30	By	Ord. Share	62	10	
Jan. 2 1905 Jan. 2 ,, 2	Capital To Applic. A/c (Ord. shares) ,, Applic. A/c (Pref. shares) ,, Allot. A/c .	FORFEITE 6,500 12,500	2D 8 CAS	3H 0 0	1905 June 30	By	Ord. Share	62	10	
1905 Jan. 2 ,, 2 ,, 7	Capital To Applic. A/c (Ord. shares) ,, Applic. A/c (Pref. shares) ,, Allot. A/c . (Ord. shares) ,, Allot. A/c . (Pref. shares) ,, First Call A/c	FORFEITE 6,500 12,500 6,437	D 8 CAS 0 10	SH 0 0 0	1905 June 30	By	Ord. Share	62	10	
1905 Jan. 2 " 2 " 7 " 7 " 20	Capital To Applic. A/c (Ord. shares) , Applic. A/c (Pref. shares) , Allot. A/c . (Ord. shares) , Allot. A/c . (Pref. shares) , First Call A/c (Ord. shares)	FORFEITE 6,500 12,500 6,437 12,500 12,875	2D 8 CAS 0 10 0 0	SH 0 0 0 0	1905 June 30	By	Ord. Share	62	10	
1905 Jan. 2 ,, 2 ,, 7 ,, 20 ,, 20	To Applic. A/c (Ord. shares) , Applic. A/c (Pref. shares) , Allot. A/c (Ord. shares) , Allot. A/c , (Ord. shares) , Allot. A/c , (Pref. shares) , First Call A/c (Ord. shares) , First Call A/c (Pref. shares)	6,500 12,500 6,437 12,500 12,875 25,000	ED 8 CASE 0 10 0	3H 0 0 0	1905 June 30	By	Ord. Share	62	10	A CALLER OF A CALL
1905 Jan. 2 ,, 2 ,, 7 ,, 20 ,, 20	Capital To Applic. A/c (Ord. shares) ,, Applic. A/c (Pref. shares) ,, Allot. A/c . (Ord. shares) ,, Allot. A/c . (Ord. shares) ,, First Call A/c (Ord. shares) ,, First Call A/c (Pref. shares) ,, Sec. Call A/c	FORFEITE 6,500 12,500 6,437 12,500 12,875	2D 8 CAS 0 10 0 0	SH 0 0 0 0	1905 June 30	By	Ord. Share	62	10	A DESCRIPTION OF A DESC
1905 Jan. 2 " 2 " 7 " 7 " 20	To Applic. A/c (Ord. shares) , Applic. A/c (Pref. shares) , Allot. A/c (Ord. shares) , Allot. A/c , (Ord. shares) , Allot. A/c , (Pref. shares) , First Call A/c (Ord. shares) , First Call A/c (Pref. shares)	6,500 12,500 6,437 12,500 12,875 25,000	CAS	SH 0 0 0 0 0	1905 June 30	By	Ord. Share	62	10	And and a second s
1905 Jan. 2 ,, 2 ,, 7 ,, 20 ,, 20 ,, 20 ab. 20	Capital To Applic. A/c (Ord. shares) , Applic. A/c (Pref. shares) , Allot. A/c . (Ord. shares) , Allot. A/c . (Ord. shares) , First Call A/c (Ord. shares) , First Call A/c (Ord. shares) , Sec. Call A/c (Ord. shares) , Sec. Call A/c	6,500 12,500 6,437 12,500 12,875 25,000 12,875	ED 8 CAS 0 10 0 0 0 0 0	SH 0 0 0 0 0 0	1905 June 30	By	Ord. Share	62	10	and the second s

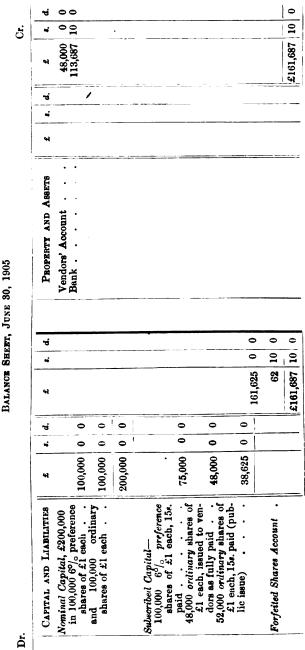


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THE WEYSIDE CO., LTD.



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Profits prior to Incorporation.—A matter frequently requiring to be dealt with in the purchase of a concern by a company, is the question of profit earned prior to its incorporation. For instance, a company begins business on April 1, but the agreement of purchase with the vendors includes profits made from January 1. At the end of the year, assuming the profit for the twelve months to be £3000, part of this doubtless belongs to the period, January 1 to March 31. These three months' profits must not be distributed as dividend, as it has not been made by the company, it is really part of the purchase. We must first ascertain the amount-not necessarily a fourth of the year's profits, but to be computed on the turnover or trade of the business, so that if the year's trade amounted to £30,000, on which the Profit and Loss Account shows a 10 per cent. profit, and the turnover for the first three months is £10,000, £1000 would be taken as the profit made prior to the company taking the business. As to the disposal of this £1000, there are varying methods. It may be a reduction from the goodwill, or may be utilized to write down preliminary expenses; generally, however, it is placed to the credit of a Reserve Account; but remember, that as such sum does not form part of the company's trading profits, it must not be distributed to the shareholders as dividend.

EXAMPLE IV

The North London Engineering Company, Limited, was registered on January 1, 1903, with a nominal capital of £100,000, in ordinary shares of £1 each. It had power to issue £15,000 mortgage debentures of £100 each, bearing interest of 4 per cent. per annum. It took over on that date an existing engineering business and commenced manufacturing. Stock was taken and the books balanced, and accounts prepared annually; and at the close of 1904 stock was taken and valued at £14,250. The following adjustments were necessary before closing the accounts :

(a) Depreciation to be written off plant and machinery at the rate of 10 per cent., and off Patents Account at 20 per cent.

(b) The half-year's debenture interest due on December 31 to be passed through the books.

(c) A 5 per cent. provision for bad and doubtful debts to be made.

ACCOUNTING AND BANKING

Make such adjustments and prepare a Trading Account, a Profit and Loss Account, and a balance sheet from the following balances (December 31, 1904), after carrying £1500 profit to the Reserve Account:—

LEDGER BALANCES (December 31, 1904)

		~ ``			~		•		•		£
hare Capital Account and 10s. per share	(60,00 miled	ta∪ ∕an	lare	8 (ota	£l	ea	ch	168	ued	30,000
and 103. per suare	caned	սբյ	·	•	·	•	•	•	•	•	300
npaid Calls Account .											900
atents Account											320
ash in hand	• •	•	•	•	•	·	٠	•	٠	·	
undry creditors	• •	•	·	•	•	٠	•	·	•	•	4,095
undry debtors	•••	•	•	•	•	•	•	•	•	•	7,240
eserve Account											8,500
lachinery and Plant Ac											12,480
lortgage Debenture	" ·	•	•	•	•	•	•	•	•	•	
reehold Buildings	" (Jan	uar	y 1	l , 1	904	4)	•	•	•	24,000
tock Account (January											17,200
lanufacturing wages .											
alaries Account			•						•		2,400
arriage "	• • •									•	560
ates, Taxes, and Insura											252
ales Account											121,580
rade Expenses Account											721
epairs Account											240
ents Receivable Accou	nt .										374
urchases Account											84,604
npaid Dividends Accou											58
ortgage Debenture Int											180
rovision for auditors' fe											75
ad Debts Account											578
iterest payable and bar											
dditions to buildings d											
oldfast Bank, Limited											
ad Debt Reserve Accou	unt, Js	inua	ry	1, 1	190)4	•	•	•	•	321

Dr.	1.10/						Cr.	
To stock at January 1, 1904 , purchases , manufacturing wages , carriage (taken as	£ 17,200 84,604 22,100	s. 0 0 0	d. 0 0	By sales ,, stock on hand	•	£ 121,580 14,250	s. 0 0	d. 0 0
,, gross profit c/d .	560 11,366	0 0	0 0					
	£135,830	U	0			£135,830	0	0

TRADING ACCOUNT

JOINT STOCK COMPANIES

PROFIT AND LOSS ACCOUNT

2,400 252 721 240 180 180	0000	a. 0 0 0 0 0	By gross profit brought down . "Rents Receivable Account	£ 11,366 374	s. 0 0	d. 0 0
721 240 180	0	0	"Rents Receivable			
721 240 180	0	0		374	0	0
240 180	0	Ō	Account	374	0	0
180	0				i	
		0				i
		0				1
180		1				
180						
180					İ	1
	' 0	0			1	
	1				•	i i
75	0	0			1	
578	0	0			i i	i -
		1			• •	
138	0	0	,			
	1					
						1
	1		1			
41	0	0				
		-			'	
						i I
.248	0	0				
.,	-	Ĩ				
					' I	ĺ .
180	0	0				1
-50		Ĵ	1			ļ.
5.507	0	0	i i		.	
			1			_
.740	0	0	1	£11.740	0	0
	41 1,248 180 5,507	1,248 0 180 0 5,507 0	1,248 0 0 180 0 0 5,507 0 0	,248 0 0 180 0 0 5,507 0 0	248 0 0 180 0 0 5,507 0 0	,248 0 0 180 0 0 5,507 0 0

APPROPRIATION ACCOUNT

.

To transfer to Reserve	£	8.	d .	Bybalance from Profit	£	s .	d.
Account	1500 4007	0 0	0 0	and Loss Account	5507	0	0
	£5507	0	0	By balance	4007	0	0

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ACCOUNTING AND BANKING

				As at	ĥ	čemb	As at December 31, 1904		
Dr.								Ċ.	1
To nominal capital, 100,000 ordi-	£ 1000001			બ		÷.	By freehold buildings 24,000 0 0	*	÷
Lesued capital, 60,000 ordinary		> ' <	<u> </u>				· · ·	9	0
less calls in arrear	30,000	00	0	29,700	0	0	$\begin{array}{ccccccc} n & \text{depreciation } 10\% & \cdot & \cdot & \cdot & 1,248 & 0 & 0 \\ n & \text{annerv dattors} & & & & & & \\ \hline & & & & & & & \\ \hline & & & &$	•	0
Authorized issue of 1500 mort- gage debentures of £100 each	15,000	-				,	id and doubt- 362 0 0	-	-
900 mortgage debentures of £100 each.	000501	>	 >	9,000	0	ō	metents 0,010 0 0,010	0 01000	> (
Unpaid dividends Unpaid dividends Holdfast Rank				180 78 78	000	000	Cash in hand	000	
Sundry creditors Reserve Account	8,500	0	0	4,095	0	0	· · ·	>	
Added this year	1,500	•	•	10,000	0	•			
count, amount available for dividend				4,007	Э	0			
				£61,240	•	0	£61,240 0 0	0	0

THE NORTH LONDON ENGINEERING COMPANY, LIMITED

BALANCE SHERT

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QUESTIONS AND EXERCISES

49. Name the different classes of shares, and distinguish between each class.

50. What is meant by the conversion of shares into stock?

51. What is the memorandum of association of a company? What particulars must it contain?

52. What are the articles of association of a company? How may they be altered or added to?

53. What is the business of the statutory meeting of the Companies Act, 1900?

54. What are the statutory books required to be kept by a company? Briefly explain their uses.

55. Set out fully the particulars in regard to share capital that may be given in a company balance sheet.

56. How would you deal in the accounts with forfeiture of shares?

57. In pursuance of a resolution passed by the directors of the A. B. Company, Ltd., on April 30, 1906, 10,000 shares of £1 each were allotted to sundry persons, payable as follows :---

2s. 6d. per share on application.

5s. ", " allotment.

5s. first call, June 30.

7s. 6d. second and final call, due August 31.

Assuming all these to have been received by the company, show the entries required to be made by the secretary in the books.

58. After the books of a company have been closed for the year, there are balances on the following accounts :---

Reserve Account.

Calls paid in advance.

Insurance premiums paid in advance.

Profit and Loss Account.

State whether they should be debit or credit balances.

CHAPTER VII

JOINT STOCK COMPANIES—continued

Borrowing of Money—Classes of Debentures—Debenture Stock—Examples of Debenture Issues—Forms of Debenture and Stock Certificate—Forms of Books dealing with Debentures—Entries for Issue of Debenture Stock— Treatment in the Accounts of Expenses of Issue—Issue at a Discount— Debentures to Bankers—Redemption of Debentures—Reduction of Capital with Examples.

DEBENTURE AND DEBENTURE STOCK

A JOINT stock company usually includes in its memorandum power to borrow money and to charge its assets and resources for the repayment of principal and interest. The following clause is included in the memorandum of A. Company, Ltd.: "To raise, or borrow, or secure the payment of money, in such manner and on such terms as may seem expedient, and in particular by the issue of debentures or debenture stock, whether perpetual or otherwise, and charged or not charged upon the whole or any part of the property of the company, both present and future, including its uncalled capital."

Although the security given by a company may be in various forms, as, for instance, a mortgage of certain parts of its property: an equitable mortgage, as in the deposit of title deeds to a banker; the security usually takes the form of debentures.

Debentures acknowledge or create an indebtedness, and are usually securities given by a company under seal to cover the repayment of principal and interest to the debenture holders.

The debentures may be—

(a) Simple or naked debentures containing no charge against the company's assets, the holders being in the position of ordinary creditors.

(b) Containing a floating charge, which means an equitable security upon the assets of the company.

(c) Mortgage debentures charging the property of the company; usually secured by a trust deed which invests the trustees for the debenture holders with important powers should necessity arise.

Debentures are usually payable to the registered holder but may also be payable to bearer, in which case they are negotiable. It is important to note that the Companies Act, 1900, requires the registration of debentures within twenty-one days of the creation of the mortgage or charge.

As the terms "debenture" and "debenture stock" are frequently used in an uncertain fashion, a word of explanation is needed. The former is a document given by the company under seal as acknowledgment or security to the debenture holder; whereas debenture stock is a term applied to the liability or debt itself. The term "debenture stock" is more properly used to describe loan capital, generally secured by a trust deed mortgaging the property and assets of the company to individual trustees, or to a debenture corporation for the benefit of the stock holders. Whilst debentures are only transferable, similar to shares, in the amounts of the debentures; debenture stock may be dealt with in fractions of stock, in amounts as small as £1.

It may be said that in issuing perpetual debenture stock the liability of the company is more that of an undertaking to pay an annuity rather than as a liability to repay a loan. For instance, the purchaser or holder of a $\pounds 10004$ per cent. debenture stock expects to receive from the company an income of $\pounds 40$ per annum, and yet have power to transfer his holding.

The shareholder is only entitled to dividend from profits; and in the event of a winding-up to a return of capital after the settlement of liabilities; and may even be called upon to find uncalled capital to satisfy the claims of debenture holders. The debenture holder claims his interest quite irrespective of profits being made, and should default be made in payment of such interest or other events happen, as set forth in the debentures, may enter into possession of the security, and probably have priority of claim on the entire property and assets of the company; not only over the shareholders, but over the ordinary creditors. In fact, cases often occur where the entire assets are taken over for the benefit of debenture holders, and shareholders and creditors left with nothing.

The following are instances of debenture issues; in each case prospectuses were sent to likely investors, applications received and allotments made, as in the case of dealing with share capital. The advantageous position of the debenture or stock holders in regard to the security for the payment of principal and interest, as compared with that of the shareholder for his profits and holding, will readily be appreciated from a study of the particulars given.

We would point out that each issue varies in its terms; these and the rate of interest depending very largely on the standing of the company, the character of its operations, and the security offered, as well as upon the state of the money market at the time of issue.

Whilst the first three are issued at par, No. 4 is at a premium of £2 per cent., and No. 5 at a discount of £5 per cent.

1. £25,000 $4\frac{1}{2}$ per cent. debentures in sums of £100 each; redeemable at par on January 1, 1915; interest paid halfyearly on January 1 and July 1, secured by a floating charge upon the whole of the company's assets. The instalments of the debenture payable £10 on application, £15 on allotment, £25 in three months after allotment, and £50 in six months after allotment.

2. £120,000 $4\frac{1}{2}$ per cent. debenture stock redeemable on July 1, 1925, at £105; the stock when fully paid to be transferable in multiples of £1; secured by a specific mortgage to trustees upon landed properties and by a floating charge upon all the other assets of the company, but not including its uncalled capital for the time being.

8. £200,000 4 per cent. debenture stock, redeemable at £105 during twelve years by annual drawings, guaranteed as to principal and interest and premium by Messrs. Security & Co., Ltd.

4. £500,000 4 per cent. first mortgage redeemable debenture stock at £102, secured by a first mortgage in favour of the Debenture Corporation, Limited, as trustees, of all the lands, buildings and premises of the company, and in addition thereto by a floating charge. 5. Issue of 1000 £100 $4\frac{1}{2}$ per cent. debentures at £95 repayable on January 1, 1915, secured by a charge on the whole of the undertaking, including uncalled capital.

The following is the form of debenture as in Case 1:---

DEBENTURE BOND FOR ONE HUNDRED POUNDS

No._____

Issued under the authority of the Articles of Association, and pursuant to a resolution passed by the Directors of the said Company on the 18th day of December, 1905, to issue Debentures to the nominal amount of £25,000.

WHEREAS

of

has advanced to the said Company the sum of One Hundred Pounds sterling, on condition that the said Company will repay the same to him, his executors, administrators, or assigns, at the time hereafter mentioned, with interest thereon in the meantime at the rate of $\pounds 4$ 10s. per centum, per annum, by equal half-yearly payments on the 30th day of June, and the 31st day of December in each year :--

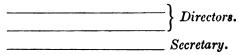
NOW THESE PRESENTS WITNESS that in consideration of the sum of One Hundred Pounds sterling paid to the said Company by the said the said Company hereby binds itself, its successors, and assigns, to pay to the said his executors, administrators, or assigns, the principal sum of One Hundred Pounds on the 31st day of December, 1915, and also to pay interest thereon in the meantime, at the rate of £4 10s., per centum per annum, half-yearly on the 30th day of June, and the 31st day of December in each year, until payment of the said principal sum, and for the due payment of the said principal sum, and the interest thereon, the said Company hereby charges its undertaking and all its property receipts and revenues whatsoever and wheresoever, both present and future during the subsistence of this Debenture, provided always that the said Company makes default for a period of six calendar months in the payment of any interest hereby secured, then the

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principal sum hereby secured shall thereupon become payable on demand to the said his executors, administrators, or assigns.

AND the said Company hereby declares that the whole of the said Debenture Loan, or such part thereof as may be issued, and the interest thereon, shall be and remain a first charge on the undertaking and property of the said Company, and the receipts and revenues aforesaid, and that the holders of the said Debenture Loan or such part thereof as may be issued, shall be entitled as between themselves and the said Company, and also as among themselves *pari passu*, and without any priority or preference one over another.

IN WITNESS whereof we, the undersigned, being two of the directors of the said Company, on behalf of and for the said Company, have to this Debenture set our hands and seals, the seal of the said Company being also affixed, and the same being countersigned by the secretary of the said Company, on the day of 1906.



Hereunder is also an example of stock certificate held by stockholders, as in Case 4.

Stock Certificate No. Deb. 4500 "A." Amount of Stock. £100.

THE BLANK COMPANY, LIMITED

SHARE CAPITAL, £750,000

In 250,000 6 per cent. Cumulative Preference Shares of £1 each, and 500,000 Ordinary Shares of £1 each.

ISSUE OF £500,000 "A" DEBENTURE STOCK.

Bearing interest at the rate of 4 per cent. per annum, payable 1st January and 1st July.

Issued under authority of Articles Nos. 55 and 56 of the Articles of Association, and a resolution of the Directors passed the 1st day of October, 1903. THIS IS TO CERTIFY that Alfred Nixon, Esq., F.C.A., of S1, Victoria Buildings, Manchester, is the Registered Holder of £100, One Hundred Pounds, of the above "A" Debenture Stock, which stock is constituted and secured by trust deed dated the twenty-fifth September, 1904, and made between the BLANK COMPANY, LIMITED, of the one part and the Debenture Corporation of the other part, and is issued to and with the benefit of the provisions contained in that deed.

Given under the Common Seal of the Company this Twelfth day of September, 1905.

	 Director.	
	 Secretary.	

N.B.—The Company will not register a transfer of any stock without the production of the certificate relating to such stock, which certificate must be surrendered before any transfer, whether of the whole or any portion thereof (being a multiple of $\pounds 1$), can be registered, or a new certificate can be issued in exchange.

FORMS OF BOOKS AND ENTRIES OF ISSUE.

Having now acquired a knowledge of the leading points in regard to these securities, upon which an enormous loan capital is raised by companies, let us turn to the entries dealing with the issue. We find that they correspond with those made in regard to the allotment and calls of Share Capital Account, given on p. 78.

We should also keep the following books :---

1. Numerical list of issue of debentures, giving in consecutive order the particulars of debentures issued.

2. Debenture Ledger for each debenture-holder, showing particulars of the holding, of interest due and paid.

3. Register of debenture stock, giving-

- (a) The names, addresses, and descriptions of the holders for the time being of the stock.
- (b) The amount of stock held by every such person.
- (c) The date at which the name of every such person was entered in respect of the stock standing in his name and every part thereof.
- 4. Transfer Debenture Register.

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NUMERICAL LIST OF ISSUE OF DEBENTURES

Date of issue.	No. of bond.	Amount.	Bate of interest.	Interest payable in each year.		Interest payable in each year.		Interest payable in each year.		Folio in debenture ledger.	Date repayable.	To whom issued.

Charges and mortgages will be entered in the Register of Mortgages and Charges, as mentioned on p. 74.

In the balance sheet the full particulars of the debentures in regard to the authorized amount, the number issued, and the rate of interest will appear on the liabilities' side of the balance sheet.

The treatment in the accounts of debenture issues is of the first importance, and therefore must be our next concern.

Example I

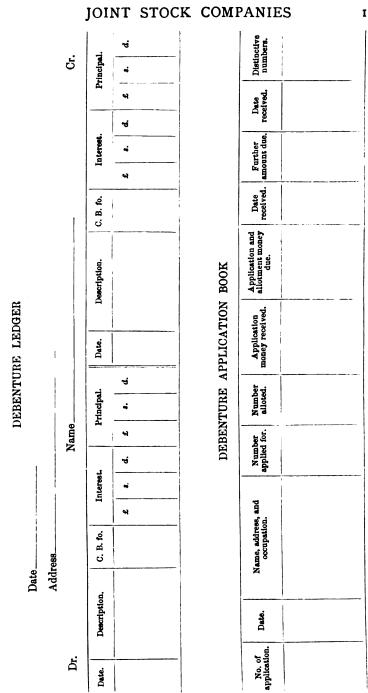
A company issues $\pounds 30,000$ 4 per cent. debenture stock, $\pounds 20,000$ of which is issued to the vendors in part payment of purchase money. Of the issue to the public—

10 per	cent.	is	payable on	n application.
4 0	,,		"	allotment.
25	"		••	first call.
25	"		"	second call.

The cash and journal entries would be as follows :---

JOURNAL

Var Jana Da								20	£			£
Vendors. Dr.								z 0,	000)		
To debenture stock .											2	20,000
Application and Allotmer								5,	000)		
To debenture stock .		•	•	•	•	•	•					5,000
First Instalment Account	. I)r.					•	2,	500)		
To debenture stock .												2,500
Second Instalment Accou	ınt.	Dr	•					2,	500)		
To debenture stock .		•	•	•		•	•					2,500
	C.	лзн	Bo	OF	C							
												£
To Application and Allot												5000
" First Call Account, d												
"Second "	,	,	•	•				•••	•	•	•	2500



Ι.		n i
	debenture held.	
	debe	બ
		ખં
	Jount	
	٩٣	મ
	Cert. No.	
	Folio.	
Debentures acquired.	Date of No. of From whom transferred. Follo. No. transfer.	
	No. of transfer.	
	Date of allotment or transfer.	
	ri Fi	ન
	Amour	vi
	◄	બ
med.	Cert. No.	
or redee	Folio.	
Debentures transferred or redeemed.	To whom transferred. Folio. Cert. Amount.	
	No. of transfer.	
	Date of registration.	

Fee Paid. By whom transfer left. Amount transferred. ÷ . 41 Folio in register. Occupation. Transferce. Address. Name. Occupation. Transferor. Address. Name. Folio in register.

Date.

Registration No.

Cons. No.

TRANSFER DEBENTURE REGISTER

REGISTER OF DEBENTURE HOLDERS

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Expenses of Issue.—As many issues are underwritten—that is, debenture trust companies or firms guarantee the whole or part of the issue for a consideration—brokerage is paid for securing subscriptions, and as usually there is a heavy cost for printing and advertising, the expenses amount to a considerable sum. This is apportioned over a period of years, and in Case 1, where the debentures are repayable in ten years, each year's revenue account might well be charged with one-tenth of the cost of issue. The balance sheet will show the adjusted amount on the credit side as expenses of debenture issue.

Issue at a Discount.—In Example 5, where for each £100 debenture only £95 cash is received, the discount of £5 per cent. would be considered as an expense of issue, and would be treated as just described. In this case the £5000 would have to be provided at the end of ten years, which might be done by charging revenue with £500 per annum, and reducing Expense of Issue Account each year by that amount.

An important point is the statement in the balance sheet of the liability on the debentures. This liability is £100,000, and should be so stated on the debit side of the balance sheet; whilst the £5000, or the balance to charge to revenue, should be included on the credit side as expenses of issue. This we consider preferable to the statement amongst the liabilities of £95,000, even though a note be made that the debentures are repayable at £100,000; the note is easily omitted, and the full liability would not then be disclosed.

Debentures to Bankers.—As security for overdrafts and advances made to a limited company, bankers frequently secure themselves by holding debentures of such company. In such cases the fact of the bank having been given debentures in this way should be stated on the liabilities side of the balance sheet, the bank overdraft or liability being shown, and a note made of the debentures held as security.

Redemption of Debentures.—Referring to the issues of debentures given on p. 98, we notice that the repayment of No. 3 is by annual drawings and others at a fixed date. At the expiration of the period renewal may be effected, or a new issue of debentures offered to the public to redeem those due. Lest difficulties should arise in obtaining the necessary funds from a new debenture issue or from additional share capital, to discharge at the end of the period the liability of the debenture-holders, the company may decide to create a fund for the repayment of the debentures. This would probably mean repayment out of revenue, either by an equal annual proportion of profits, or in such amounts as the available balance of revenue account allowed. Such amounts may take the form of a sinking fund, or be invested in good outside securities, as in the example given below.

Another method of preparing to discharge the liability would be to take out a policy with a first-class insurance company for the repayment of the sum at the stated time, and charge revenue account with the annual premiums during the term. Some provision might also be made during the time from the sale of capital assets not required by the company.

The entries in the books for the Debenture Redemption Account would be similar to those for a General Reserve or Reserve Fund; thus—

> Profit and Loss Account. Dr. To Debenture Redemption Fund Account.

Should the debentures be repaid by annual drawings at a premium, our entries would be

	£	£
Debenture Account. Dr	10,000	
To Debentures Redemption Account		10,000 .
Being redemption of 100 debentures of £100		
each, as per resolution of board, dated		
Reserve for redemption of debentures. Dr	500	
To Debentures Redemption Account		500
Being premium payable on redemption of		
100 debentures of £100 each at £105		
Debentures Redemption Account	10,500	
To cash		10,500

Entries will be made in the Transfer Register, and also in the Debenture Holders' Account.

Reduction of Capital.—One of the reproaches levelled against joint stock company enterprise is that many large companies have been over-capitalized, and thus, when bad times came or heavy loss took place, the members of such companies received little or no dividend, and were only able to sell their shares at a heavy loss. Although not contemplated by the Companies Act of 1862, subsequent Acts gave power for a reduction of capital to be carried out if provided for in the memorandum and articles of association.

Should the rights of creditors be affected by the reduction, the sanction of the Court must be obtained; as also in (a) writing off lost capital, (b) reducing the liability of members for uncalled capital, (c) paying off capital out of capital, with the proviso that it may be called up again.

The reduction should be an all-round one, *i.e.* the reduction should be in respect of each share, ordinary and preference unless the regulations give the latter class a preference in regard to capital. In most cases the words "and reduced" must be added for a certain period, depending upon the circumstances, to the company's name.

EXAMPLE II

The following is the Balance Sheet of The Blank Company, Limited, as on December 31, 1902 :--

		BALANCE	Sheet	
To CAPITAL. Nominal: 100,000 prefe- rence shares of £1 each . 100,000 ordi- nary shares at £1 each . Issued: 74,720 prefe- rence shares of £1 each fully paid	£200,000	£	SHEET By Patents Account at cost . ,, Leasehold Works Account ,, Machinery and Plant Account . , count . . ,, sundry debtors . . ,, stock on hand . . ,, advertising Suspense Account . . ,, Preliminary Expenses Account . . ,, Profit and Loss Account . . ,, cash in hand . .	£ 114,663 3,820 4,120 1,241 4,921 2,000 406 1,482 28
of £1 each fully paid . 42,633 ordinary shares of £1 each fully	74,720			
paid	42,633	117,353		
" sundry creditor	8	14,000		
" bank overdraft		1,328		
	4	£132,681		£132,681

The company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction (see p. 110):---

BALANCE SHEET

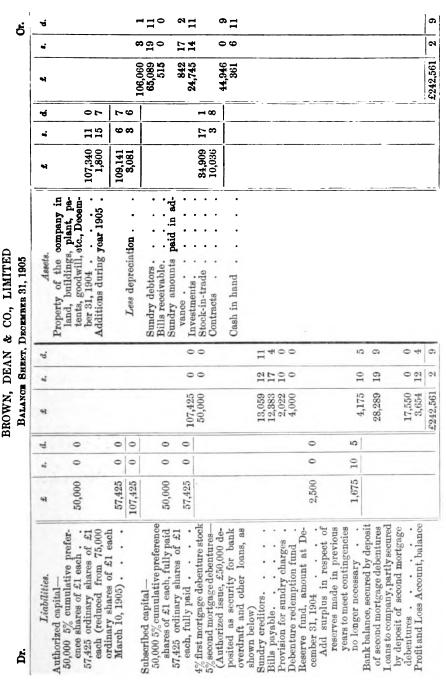
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BALANCE SHEET OF THE BLANK COMPANY, LTD, AND REDUCED December 31st, 1902 Cr.	2 a. d. Property and Assets. 2 a. d. 2 a. By Leasehold Stocks Account . 3,820 0 0 0 Less amount written down . 1,200 0 0	100,000 0 0 Machinery and Plant Account 4,120 0 100,000 0 0 Less 20% written down 824 0	$\frac{200,000}{0} \ 0 \ 0 \ 0 \ 0 \ 0 \ 0 \ 0 \ 0 \ 0 \$	74,720 0 0 3521 0 0 area of 3521 0 0 area of 3521 0 0 area 3521 0 0 area	Marges of £1 Advertising Expenses Account 2,000 0 0 reduced to 37,360 0 0 0 0 0 acree of £1 2,000 0 0 0 reduced to 37,360 0 0 0 0 0 0 acree of £1 Written off 1,482 0 0 0	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	0 0 2 66,839 0 0
SHEET OF THE		0 0	0	0 0 0	0	0	£66,89
BALANCE Dr.	Capital and Liabilities. To capital— Nominal.	100,000 preference shares of £1 100,000 ordinary shares of £1 100,000 ordinary shares of £1 000,000 · · · · · · · · 1 0 000 100,000 · · · · · · · · · · 1 1 000 100,000 · · · · · · · · · · · · · 1 1 000 100,000 10	74,720 preference shares of £1	each, fully paid	Redwood. 74,720 preference shares of £1 each, fully paid, reduced to 10s. each . 42,633 ordinary shares of £1		

---- 4

JOINT STOCK COMPANIES



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1. That the £1 preference shares be reduced to an equal number of fully paid shares of 10s. each.

2. That the £1 ordinary shares be reduced to an equal number of fully paid shares of 6s. 8d. each.

3. That the amount thus rendered available for the reduction of the assets be apportioned as follows :---

The Preliminary Expenses Account, Profit and Loss Account, and Advertising Suspense Account to be written off entirely.

£1200 to be written off the Leasehold Works Account.

£1400 to be written off the Stock Account.

20 per cent. depreciation to be written off the Machinery and Plant Account, and the balance available to be written off the Patents Account. Prepare a balance sheet giving effect to these proposals.

See Balance Sheet on p. 108.

Example III

Notice also in the following illustration of a reduction of capital the following points :---

1. A reduction of ordinary share capital, in which the vendor has accepted the reduction of the nominal amount of the shares allotted to him for the purchase of the business.

2. An issue of second mortgage debentures, issued as security to the bankers and their creditors.

3. Debenture Redemption Fund, included in the investments of the contra side.

4. A Reserve Fund increased by transfer of balances from previous accounts.

See Balance Sheet on p. 109.

QUESTIONS AND EXERCISES

59. Give a definition of debentures.

60. Describe the various classes of debentures.

61. Distinguish between debentures and debenture stock.

62. Explain the meaning of issuing debentures at a discount; at a premium; redeemable at par; redeemable at a premium.

63. Give a list of the books usually used to record debenture transactions.

64. Give an instance of the treatment in the accounts of expenses of issue of debentures.

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65. Debentures are issued to bankers as security for an overdraft. How would you state this in the balance sheet?

66. Discuss methods of dealing with the redemption of debentures.

67. Give instances of the reasons for the reduction of a company's capital.

68. The directors of a company issue debentures at a discount. Describe the entries necessary to record the transactions in the books, and state how the items would appear in the balance sheet, assuming the debentures to be repayable in fifteen years.

69. A limited company offered for subscription 10,000 debentures of £10 each, bearing interest at 41 per cent., and received application-

> 1903, January 18, from A. for 100 debentures. 20 ,, B. ,, 500 ,, ,, C. ,, 1000 21 ,, D. ,, 10 " •• •• " ,,

•• ,, ••

and other applications which brought up the total to 12,500 debentures. Ten per cent. of the amount was payable on application, 40 per cent. on allotment, and 50 per cent. three months after allotment. On February 1, 1903, 80 per cent. of the sum applied for was allotted to each applicant. Rule a form of application and allotment book, and enter therein the particulars in respect of the four cases mentioned above.

70. A private firm sells its business to a company. It has assets --

Land and buildings .										
Plant and machinery Stock										
Book debts										
And it owes .	•	•	•	•	•	•	•	•	•	3,000

The company takes over all the assets and liabilities and pays the firm £90,000 in 2,000 ordinary shares of £5 each, fully paid, 2,000 5 per cent. preference shares of £5 each fully paid, and 20,000 4 per cent. debenture stock, at par, and the balance in cash.

The company's capital is £100,000, consisting of 80,000 ordinary shares of £5 each, 6000 5 per cent. preference shares of £5 each, and 30,000 4 per cent. debenture stock, all of which are issued-the preference shares at a premium of 10s. per share payable on allotment, 10s. a share in respect of both classes of shares is to be paid on application, £2 (in case of preference shares £2 10s.) on allotment, £1 10s. on first call, and £1 on final call, while the debentures are to be paid for :---

10 per	cent.	on	application.
4 0	,,	,,	allotment.
25		,,	first call.
25	,,	,,	final call.

Make the cash and journal entries in the company's books.

CHAPTER VIII

PROVISION AND RESERVE ACCOUNTS

Secret Reserves—Sinking Funds—Calculation of Annual Instalments—Depreciation Fund—Renewal Fund—Suspense Account—Insurance Fund— Premiums on Shares—Reserve Capital.

In the preparation of a balance sheet, we find that in order to give a true record of the affairs of the firm it is necessary to give careful consideration to each item, whether liability or asset, to satisfy ourselves that the amount we enter is not merely figures from the books, but a statement of facts. It is here that the accountant, with his experience and critical faculty, is able to render valuable service in ascertaining, from an impartial point of view, whether all revenue charges have been included, all liabilities taken into account, and such provisions and reserves made as a prudent business man or director of a company ought to make.

PROVISION FOR CHARGES

In previous examples we have seen the necessity of making a provision for bad and doubtful debts and for discounts on outstanding balances. Provision is also made for various charges, such as commissions, wages, rent, and taxes, legal expenses or disputed claims. Each of these provisions would be charged against the profit of the current period. In the balance sheet the provisions on the book debts would be deducted from the Dr. balances on the Cr. side, and the provision for outstanding charges would appear on the liability side. Frequently these provisions are termed reserves; but if so, it should be specifically stated for what purposes the reserve or provision has been made.

Surplus cash invested by many concerns as a deposit account

with the bank, in corporation stock and other securities, is frequently considered by shareholders and even directors as reserve; whereas it is but a change of one asset into another, and may have to be called upon to discharge current liabilities should business requirements demand it.

Reserve Accounts

So much confusion exists in regard to the right application of the terms at the head of our chapter that we may be pardoned in quoting Pixley on the subject—

"Although the terms 'reserve' and 'Reserve Fund' are frequently used in the accounts of companies as though they were synonymous terms, there is a distinct difference between them.

"A reserve is merely the surplus of the credit side of the balance sheet over its debit side, although perhaps the reserve may be divided under such headings as reserve and balance of profit and loss carried forward.

"A Reserve Fund, however, is not merely a surplus shown on the debit side of the balance sheet, but must be represented by special investments, which may or may not be shown distinctly on the credit side of the balance sheet. If, therefore, the reserve is used in the general business of the company it is not a 'Reserve Fund,' although, perhaps, the term might be properly used if some stock used in the ordinary course of the business was specially set aside until reinvested in further stock specially ear-marked.

"The term 'surplus' or 'rest' is a better term to use than 'reserve,' as no one could possibly pretend they were under the impression that such was specially invested."

On the other hand, Dicksee differs from this view, and maintains that "reserves" are those charges made against profit and loss to provide for estimated losses and probable claims against revenue, and that the term "Reserve Fund" is properly used for the surplus of the credit side of the balance sheet, irrespective of whether the amount be invested in or outside the business.

Much discussion has taken place on this debatable point, but there is no doubt that the business man understands that a

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reserve is a surplus of profits which the directors have thought it well to have as a "nest egg" to guard against the risks of business from which the company may suffer in future years; whilst a Reserve Fund to him implies that such reserve is invested in good and readily realizable security outside the business.

Therefore, to us it would seem advisable, to prevent the present confusion of nomenclature, that when provisions are made of approximate amounts for such charges as doubtful debts, outstanding trade expenses, income tax, depreciation, etc., the term "provision" should be given, as in the balance sheet (page 109), and that "reserve" should be used for amounts distinctly carried forward to cover or minimize the effect of unforeseen disasters that may happen in future years, and that when the term "Reserve Fund" is seen in a balance sheet it may be understood that on the asset side will appear special investments for the corresponding amount.

In expressing these views we must point out in regard to the question of investments outside the business, it is a matter that must be left very largely to the discretion of the managers. If there is a surplus of cash resources, then it would be wise to invest in a safe outside security; but if the operations of the company require this surplus, and it can be used to the advantage of the shareholders, then outside investing cannot be advised.

Obviously to invest a reserve of £10,000 at a three per cent. return, and by doing so be compelled to pay five per cent. for overdraft with a banker, would hardly be considered sound business policy.

SECRET, HIDDEN, OR INTERNAL RESERVES

This term is used to signify that certain assets are undisclosed in the company's balance sheet, or that certain assets appear in that account at less than their actual value. Instances of the former are the omission of fixtures and fittings and even of premises, and of investments appearing at much below their market value, or of plant and fixtures which have been so heavily depreciated as to be much below their present worth, stock-in-trade may be credited at much less than cost or present

market prices, and excessive reserves for doubtful debts made on Dr. balances.

Directors of successful companies frequently adopt the policy of having something up their sleeve, and justify the provision of these secret reserves on the ground that in this way they can meet future contingencies without alarming shareholders by calls upon the Reserve Fund. Judicial sanction has also been given to and accountants cleared from liability in passing such accounts. It must be said, however, that although the directors of such concerns may justify themselves on grounds of business policy, yet it seems as though it were a departure from the sound rule that the balance sheet should be a full and fair balance sheet, and should record facts; further, that present shareholders may to some extent suffer in the receipt of current dividends on the sale of their shares by the fact of such non-disclosure of values belonging to the company.

In a recent case, directors went so far as to make special payments from such a secret reserve without disclosure of such to the shareholders. It was, however, decided by the Court that no such power could be lawfully granted in the articles of association.

SINKING FUNDS

The company on p. 98 has at the end of the period to meet a liability of £6000 premium on the debenture issue. To gradually sink this liability it may be decided to charge Revenue Account with such an amount each year as will, if invested outside the business, produce at the date of payment the sum required. Debentures might also be redeemed by the provision in like manner of such a sum as, with interest, would discharge the liability to the debenture holders. It will thus be seen that a Sinking Fund is one formed by amounts charged against revenue to meet some definite liability of the future, and that to provide the cash to enable this to be done such annual instalments are invested outside the business, so that the investment with interest thereon will enable such liability to be discharged at the fixed date.

As an alternative method of providing the cash for the repayment of the debentures at the due date, a policy may be effected with a first-class company for the amount required at the end of the period, and the annual premiums charged to profit and loss.

A Sinking Fund may also make provision for the replacement of plant and machinery or the renewal of a lease.

The difference between a Reserve Fund and a Sinking Fund is that the former is a prudential setting apart of profits for unknown eventualities that may occur in the years to come, whilst the Sinking Fund is generally a fixed charge against revenue to provide for a definite future liability or the replacement of wasting assets.

A simple illustration of the working of a Sinking Fund is that of the erection of a school by a county council. The total cost is $\pounds 20,000$, and as the expenditure is not merely for the present requirements, but also to serve a generation to come, it is only just that the expenditure should be spread over a lengthy period.

Further, to charge the whole of the expenses in the current year's accounts would mean a serious increase in the rates. Therefore, the money is borrowed for thirty years, and to cover the principal and interest for such period a one-thirtieth instalment, as shown by tables, is charged against the rates yearly, and placed to Sinking Fund Account to accumulate with interest for the discharge of such liability.

Sinking Funds play a prominent part in the financial dealings of many local authorities.

These authorities obtain borrowing powers for their various undertakings as follows :---

- 1. By the Sanction of a Government Department—generally the Local Government Board—who operate under the provisions contained in a Public General Act of Parliament; or
- 2. By a Provisional Order granted by a Government Department and confirmed by Parliament; or

3. By the promotion of a special Act, termed a Local Act. The power to borrow carries with it an obligation to repay the amount borrowed in a certain fixed number of years from the date of borrowing, and to conform to these conditions the local authority usually provides a Sinking Fund.

Sinking Funds—the object of which is to provide out of revenue moneys such sums as are necessary to sink the liability

иб

of borrowed moneys within a certain time—are of two kinds, viz. "non-accumulating" and "accumulating," and the differences between these two are considerable. In the former, the sums paid out of revenue into Sinking Fund each year will be such equal annual amounts as will in themselves be sufficient to redeem the debt at the end of the term of years allowed by the borrowing power, and any income derived from the investment of such equal annual amounts is, as a rule, credited to the fund providing the annual contributions.

An Accumulating Sinking Fund is one which requires the annual setting aside of such equal amounts of revenue moneys as will, when accumulated at compound interest, produce the amount borrowed by the end of the period prescribed in the borrowing power.

As an illustration of an Accumulating Sinking Fund we will take the case of a local authority borrowing under sanction the sum of £2055 for use in connection with its electric light undertaking, such sum to be repaid in ten years from the date of borrowing. When the money has been raised, a series of calculations referring to the Sinking Fund require to be made, and a Sinking Fund Schedule drawn up as follows :---

ELECTRICITY DEPARTMENT

Calculations showing the annual Sinking Fund required to repay a loan of $\pounds 2055$ in ten years, the rate of accumulation being 3 per cent.

Year ending		Annual payments from revenue to Sinking Fund to accumulate at 3 per cent.			Annual interest at 3 per cent.			Annual payments into Sinking Fund including interest.			Total amount in Sinking Fund at end of each year.		
	1000	£	8.	d.	£	8.	d.	£	8.	d.	£	s. 5	d.
March 31	1906	*179	5	2	-	_	-	179	5	2	179	-	2
	7	179	5	2	5	7	7	184	12	9	363	17	11
	8	179	5	2	10	18	4	190	3	6	554	1	5
	9	179	5	2	16	12	5	195	17	7	749	19	0
	1910	179	5	2	22	10	0	201	15	2	951	14	2
	1	179	5	2	28	11	0	207	16	2	1159	10	4
	2	179	5	2	34	15	9	214	0	11	1373	11	3
	3	179	5	2	41	4	2	220	9	4	1594	0	7
	4	179	5	2	47	16	5	227	1	7	1821	2	2
	5	179	5	2	54	12	8	233	17	10	2055	0	0
		£1792	11	8	£262	8	4	£2055	0	0			

Meters.

* Obtained on reference to arithmetical tables re Sinking Funds.

On or before March 31, 1906, the Sinking Fund would be opened by transferring from Revenue Account the sum of $\pounds 1795$, 2d., which amount would be invested as soon as possible in high-class securities at as high a rate of interest as can be procured: the chief financial officer in carrying out this operation aiming to invest, if possible, at a higher rate of interest than the 3 per cent. upon which the Sinking Fund Schedule During the year to March 31, 1907, the interest is based. receivable upon the invested amount of £179 5s. 2d. should be, according to the schedule, not less than £5 7s. 7d.; if less, the Revenue Account has to make it good; if more, the difference is usually carried forward to provide for any future shortages in This income, together with another instalment of interest. revenue moneys amounting to £179 5s. 2d., would be paid into the Sinking Fund, invested, and allowed to accumulate as before. This procedure is continued until March 31, 1915, the date by which, according to the sanction to the borrowing, the full amount of £2055 should be repaid, and the date upon which the Sinking Fund, in accordance with the above schedule, should stand possessed of funds sufficient for the purpose of repaying the debt outstanding.

Some local authorities prefer to use their Sinking Fund instalments in the redemption of loans instead of investing them, and in these cases they are required to make good the interest upon such used amounts to the extent of the amount which would have been produced had the instalments been invested.

The Journal entries for these transactions may be said to be as follows :---

- " Sinking Fund Cash Account. Cr. Revenue Cash Account . . 179 5 2 (Transfer of Cash.)
- " Sinking Fund Invest. Account. Cr. Sinking Fund Cash Account 179 5 2 (Investment of Sinking Fund.)
- " Sinking Fund Cash Account. Cr. Sinking Fund Account (say) 5 7 7 (Interest received on investments—ignoring personal accounts.)
- " Sinking Fund Invest. Account. Cr. Sinking Fund Cash Account 5 7 7 (Investment of interest.)

These entries would repeat annually, except as regards the amounts.

On March 31, 1915, the debt becomes due for repayment,

and the Sinking Fund Investments Account will show a debit balance of £2055, whilst a like figure will be shown on the credit side of the Sinking Fund Account. The investments are then realized, the borrowed money is paid off, and the Sinking Fund Account is closed by transfer to the "Surplus of Assets over Liabilities Account" of the local authority.

The Journal entries consist of the following :---

Dr. Sinking Fund Cash Account. Cr. Sinking Fund Invest. Account 2055 0 0 (Realization of Investments.)

1. d.

- " Mortgagees' Personal Accounts. Cr. Sinking Fund Cash Account 2055 0 0 (Repayment of debt.)

The Surplus Account will appear upon the liabilities side of the Balance Sheet of the local authority.

As explanatory of the method adopted for the calculation of the annual instalment required for Redemption Funds Accounts, we give a short illustration for the benefit of students who may be interested in this branch of accounting.

3 per cent. stock £105,278 redeemable in fifty years.

Required annual instalment to Redemption Fund. Accumulations at 3 per cent.

1.

£0.0088655 set aside annually accumulates at 3 per cent. to £1.

: £0-008655 × £105,278 = 933.34, or £933 6s. 10d. Required annual instalment.

2.

 $\pounds 1$ set aside annually, accumulating at 3 per cent., amounts in fifty years to $\pounds 112.7969$.

What sum will amount to £105,278?

 $\frac{105278}{112\cdot7969}$ = £933 6m. 10d.

3.

The annual instalment of £933 6s. 10d. has been paid into the fund for sixteen years. It is desired to check the correctness of the total accumulations at the end of that period.

£1 annually accumulates at 3 per cent. in sixteen years to £20.1569 .: × this by our annual instalment £933 6s. 10d. = £933.34

Leaving . . £18813.26

Which should be in the fund at the end of the sixteenth year.

Above Calculations by Logarithms.

1. Note.—Multiplication becomes addition. Log. £105.278 = 5.0223376Log. £0.0088655 = $\overline{3.9477032}$ 2.9700408 = No. 93334

93334 becomes $933.34 = \pounds 933.6.9.60$

2. Note.-Division becomes subtraction.

Log. £105.278	= 5.0223376
Log. £112.7969	= 2.0522971
	2.9700405 = No. $93334 = $ £ 933.34
	3.
Log. £20.1569	= 1.3044237
Log. £933 [.] 341	= 2.9700405
	4.2744642

4.2744642 becomes $18813.26 = \pounds 18813.52$.

DEPRECIATION FUND

In previous accounts, we have simply charged profit and loss with the working depreciation, but in the case of manufacturing concerns which have, in view of developments of electrical and engineering progress, to face the possibilities of new inventions and improvements in machinery, and, consequently, the supersession of plant, there arises the question of a prudential depreciation over and above the working one. To meet this, many large concerns form a depreciation fund to cover the risks just described. The annual sum fixed upon is charged against revenue and credited to a depreciation fund account, which will appear ordinarily on the credit side of the balance sheet as reducing the book value of the plant. As will be noticed when we deal with the double account system, this depreciation fund is created to serve as a reserve for the replacement of plant in many undertakings which are compelled to adopt the double account method of dealing with the accounts.

The depreciation fund in such cases appears on the debit side of the balance sheet.

Renewals Fund.—A number of manufacturing concerns and undertakings whose equipment will require replacement at the end of a period, make provision for the replacement of machinery, plant, and equipment by an appropriation from revenue of sums which are invested in outside securities, and allowed to accumulate to provide the cash when required.

EXAMPLE I

Dr.						C	r.
	£	s.	d.		£	s .	d.
Balance at March 31, 1906, carried to balance sheet	11,449	16	4	Balance brought for- ward, April 1, 1905 Interest on invest-	3,092	13	5
CHARLES BIECK	11,110	10		ments Interest on unin-	79	1	2
				vested balance at bankers' rates . Appropriation Ac- count, amount set	7	19	7
				aside for renewals	8,270	2	2
	£11,449	16	4		£11,449	16	4

RESERVE OR RENEWALS FUND ACCOUNT

Insurance Funds.—The payment of heavy premiums, or the difficulty of getting first-class offices to insure against certain risks, frequently leads to the formation of a specific reserve intended to cover, either partially or entirely, the various risks undertaken by insurance companies. One establishment we visit merely invests the premiums previously charged for burglary, plate glass, and profit and loss insurances, and allows the accumulation of such amounts and the interest on them to constitute the insurance fund for these risks. The entries in the accounts are—

Profit and Loss Account. Dr. Insurance Fund. Cr.

for the amount of the premium. For the investment, Investment Account is debited and the Cash credited with the annual payments, and the interest from the investments debited to Investment Account and credited to insurance fund.

Another large firm, instead of carrying the surplus profits to a reserve fund, appropriates a large sum as an insurance fund, and as the revenue account permits, transfers additional amounts, until a reserve of some quarter of a million sterling appears in the accounts as the insurance fund. This, it is important to note, is invested in gilt-edged and readily realizable securities, so that it may be perfectly safe and available in the event of calls being made upon it. It will readily be seen that such an internal insurance fund reduces the charges against revenue very considerably. The entries in the accounts would be similar to those in the case of an ordinary reserve fund—

Profit and Loss Appropriation Account. Dr 10,000	£
To insurance fund. Cr	10,000
Insurance Fund Investment Account. Dr 10,000 To bank	10,000

In this case the return on such investments is credited to the Revenue Account, the insurance fund being increased by direct appropriation from the revenue, when thought desirable.

We also find that steamship companies at times arrange to underwrite part of the risks on their own vessels, in which case an Underwriting Account will be kept, to which will be credited the net amount of the portion of the premiums charged and the risks covered, and in the event of claims the proportion to be borne charged against it. Any credit balances may either be taken to Revenue Account as a profit on the current year's operations, or may be carried forward as a Reserve or Marine Insurance Fund for future operations and risks.

Suspense Account.—This is one opened to place or hang up for a time any items of which the ultimate disposal is uncertain. For instance, payments are sometimes received by post without knowledge of the sender's name, and even cashiers at times omit the name on the counterfoil of a receipt-book. Slight differences in the balancing of books that have been partly audited are also passed to such an account, but this use of the account is reprehensible.

The account also appears in the balance sheet to include expenditure apportioned over a period of years as Suspense Account for advertising, Suspense Account for expenses of issue of debentures, preliminary expenses, for adjustment of income tax charges, and for repairs and alterations, which in a particular year have been unusually heavy. The term "Suspense Account" only, without any explanation, is misleading, and should not appear in the accounts.

Premiums on Shares.—Banking and insurance offices, as also prosperous trading companies, in issuing additional share capital are able to obtain a premium for the shares allotted. Such premium is very properly considered as not being available for profit distribution, but is transferred to the credit of a reserve account or fund; if, however, there are "paper assets," such as preliminary expenses, still appearing in the books, it is considered that such items may properly be cleared off from the Premium Account. The entries for such an issue would be—

Cash. Dr	£ 15,000	£
To application and Allotment Account For application and allotment money of 10s. per share on 20,000 shares, and premium of 5s. on each share.	·	15,000
Application and Allotment Account. Dr	15,000	
To Share Capital Account		10,000
" Premium Account		5,000

Reserve Capital.—In the balance sheets of certain joint-stock banks and other companies this term may be noticed. The power to reserve capital is granted by the Companies Act of 1879, which provides that a limited company may, by special resolution, declare that any portion of its uncalled capital shall not be called up, except in the event of the company being wound up. This reserve capital cannot be charged or dealt with by the directors, and only by leave of the Court, be converted into ordinary capital.

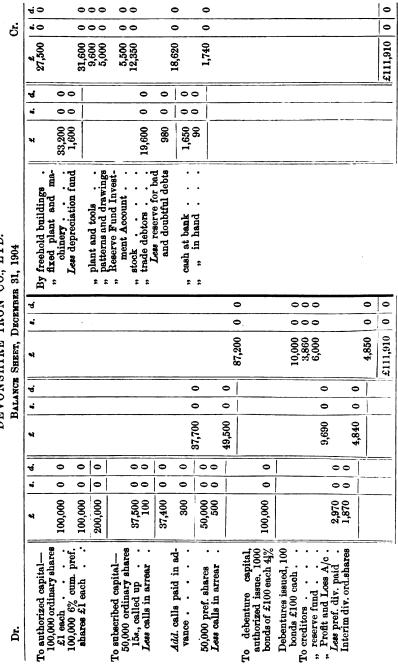
This matter of reserve capital is of great importance to debenture holders, as it has been held that, even though uncalled capital may be included in the debenture charge, this will not include a first claim upon the reserve capital.

As the student may now be expected to have a good knowledge of the distinction between capital and revenue accounts without the aid of a statement in trial balance form, we place before him a statement of particulars from which he may test his knowledge by the preparation of a trial balance and balance sheet, the latter of which is given as illustrating many of the points dealt with in this and the previous chapters.

EXAMPLE II

Authorized Capital—£200,000, divided into 100,000 Ordinary Shares of £1 each and 100,000 6 per cent. Cumulative Preference Shares of £1 each.
50,000 preference shares have been issued, and are fully called up.
50,000 ordinary shares have been issued, and 15s. per share called up. The authorized debenture issue is £100,000.

	£				
Preference share capital paid up	49,500				
Calls on preference shares in arrear	500				
Ordinary share capital paid up	37,400				
Calls on ordinary shares in arrear	100				
Debentures issued-100 bonds of £100 each, bearing interest					
at $4\frac{1}{2}$ per cent. per annum	10,000				
Ordinary shares—calls paid up in advance	300				
Cash at bank	1,650				
" in hand	90				
Trade creditors	3,860				
Trade debtors	19,600				
Stock in hand, Dec. 31, 1904	12,350				
Fixed plant and machinery	33,200				
Freehold land and buildings	27,500				
Loose plant and tools	9,600				
Reserve fund	6,000				
Patterns and drawings	5,000				
Investments on account of reserve fund	5,500				
Reserve for bad and doubtful debts	980				
Depreciation fund for plant and machinery	1,600				
Dividend on preference shares for the year	2,970				
Interim dividend on ordinary shares	1,870				
Profit and Loss Account, balance after paying interim dividend	-,				
on ordinary shares and dividend on preference shares	4,850				
on ordinary starts and arrached on prototonoo shares	-,000				



DEVONSHIRE IRON CO., LTD.

QUESTIONS AND EXERCISES

71. What is meant by Provision Accounts? Give examples.

72. State how Provision Accounts are entered in a balance sheet.

73. Distinguish between reserves and a reserve fund.

74. Explain the terms, surplus, rest, secret or internal reserves, reserve capital, insurance fund.

75. What is a sinking fund, and how does it differ from a reserve fund?

76. Discuss the use of a Suspense Account, and give examples of its use.

77. Distinguish between accumulating and non-accumulating sinking funds.

78. What is meant by a depreciation fund? State its place in the balance sheet.

79. How would you deal in the accounts with premiums on shares?

80. A company has issued $\pounds 20,0005$ per cent. debentures redeemable at par out of profits, at the end of twenty years. State what method should be adopted to provide for such redemption, so that each year's profit may bear its due proportionate burden of contribution.

81. The Turbine Steamer Company, Ltd., owns a fleet of fourteen steamers trading to the Eastern seas. These boats are at present insured in the ordinary way at Lloyds; but the company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal marine insurance fund, and state what entries would appear in the books and annual accounts of the company when the fund was in operation.

CHAPTER IX

INCOME TAX

Persons liable—Classification of Income—Regulations for calculating Profits— Deductions—Abatements—Allowances—Forms of preparing Accounts for the Commissioners—Examples—Change in the Rate—Dividends free of Income Tax—Adjustment Account—Repayment of over-Assessment, section 133—Finance Act, 1907.

In the month of May of each year most business men receive from the local surveyor of taxes a form of return for income tax assessment. The filling up of this lengthy and somewhat complicated form of four pages is to many recipients so difficult and worrying a task as to be frequently postponed, so that at the finish the service of the accountant is required to either make the return or to deal with the correction of an over assessment.

Originally levied as a temporary expedient for furnishing the wherewithal for war expenditure, the tax has become so fruitful a source of revenue that it seems likely to be always with us.

The rate is fixed each year by the Finance Act, better known as the Budget, which is presented annually to the House of Commons by the Chancellor of the Exchequer, who fixes the rate according to the estimated financial requirements of the country for the coming year. The present rate of income tax is, subject to certain exemptions and abatements, 1s. in the \pounds , and the period covered is from April 6 of the current year to April 5 of next year. As its name implies, it is a tax on income, and not merely on profits, and the fact of this distinction being often misunderstood is a frequent cause of error in statements placed before the income tax commissioners, resulting in much trouble and annoyance to those concerned.

Persons liable to assessment :---

All persons resident in the United Kingdom, including foreigners.

All persons not resident in the United Kingdom, receiving income arising in the United Kingdom.

Classification of Income.—By the provision of five schedules, every source of income is meant to be included for taxing purposes. These schedules are :—

A. Income derived from land and properties.

B. Income derived from occupation of lands.

C. Income derived from annuities and dividends from public funds.

D. Income derived from trades, professions, or vocations.

E. Income derived from salaries, fees, etc., from public bodies and companies.

As, in accounting, our main concern is with Schedule D, we need only mention the following points in connection with the other schedules :---

Schedule A.—This is usually known as property tax, and is paid by the landlord, except in the case of cottages to a less annual value than £10, and small weekly and monthly properties, where the owner is assessed. It is usually levied on the tenant, who, after payment of the amount, deducts it from the next payment of rent. The assessment is generally made on the poor-rate valuation, and from this an allowance of one-sixth in the case of houses and buildings, is deducted for repairs, etc. In some instances, where houses and shops may be let at a low rental, the assessment may be higher than the actual rent paid.

Schedule B is a schedule for profits from farming, market gardening, etc., and may be assessed—

(1) As one-third of the gross annual value, under Schedule A; or—

(2) Under Schedule D.

Schedule C.—This arising from the capital invested in public funds is deducted from the payments made by Government officials.

Schedule E.—The tax under this schedule is paid by corporation and government officials, and the officers of public companies, and includes the income from salaries, fees, wages, perquisites, pensions, and other profits. A claim may be made for expenses necessarily incurred in the performance of the duties of the office or employment. The tax is based on the actual salary or income of the year, and not, as in Schedule D, on a three years' average, and an increase of the salary during the year is liable to an additional assessment.

Secretaries of joint stock companies should note that directors, managers, and auditors are included in this schedule, and that managers of departments, secretaries, cashiers, and chief clerks are not entitled to be assessed under the three years' average.

Schedule D.—A memorandum of general explanation and instruction is enclosed of the Form of Return, No. 11A. The following notes are given—

RULES AND REGULATIONS FOR CALCULATING PROFITS FROM TRADES, PROFESSIONS, EMPLOYMENTS, OR VOCATIONS

The tax extends to the profits of all trades, etc., carried on or exercised in the United Kingdom by any person whatsoever, whether a subject of His Majesty or not, and wheresoever residing; and also to the profits of trades carried on or exercised elsewhere than in the United Kingdom, if carried on or exercised by persons residing in the United Kingdom.

AVERAGE

The amount of profits is to be computed on an average of the three preceding years, ending either on the 5th day of April, 1906, or on the date prior thereto to which the Annual Accounts have been usually made up;

- Or, if the trade, etc., has been set up or commenced within three years, on an average, from the period of commencing the same;
- Or, if commenced within the year of assessment, the profits are to be estimated according to the best of your knowledge and belief, and the grounds on which the amount shall have been estimated should be stated for the information of the commissioners.

In computing the profits upon which the average is to be taken— DEDUCTIONS are allowed—

- For repairs of premises occupied for the purpose of the trade, etc., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.
- For debts proved to be bad; also for doubtful debts according to their estimated value.
- For the rent of premises used *solely* for the purposes of business, and not as a place of residence.
- For a proportion, not exceeding two-thirds, of the Rent of any dwellinghouse *partly* used for the purposes of business.
- For the ANNUAL VALUE of any premises occupied by the owner solely for the purposes of business, and not as a place of residence, according to the amount on which duty has been paid under Schedule A.
- For a proportion, not exceeding two-thirds of the ANNUAL VALUE (according to the amount on which duty has been paid under Schedule

A), of any dwelling-house occupied by the owner and partly used for the purposes of business.

For any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, etc.

NO DEDUCTIONS are allowed-

For any INTEREST ON CAPITAL, or for any ANNUAL INTEREST or any ANNUALY or other ANNUAL PAYMENT, payable out of the profits or gains. (The duty on such interest or annual payment should be deducted from the person to whom the payment is made.)

For any sums paid as salaries to partners, or for drawings of partners.

For any sums invested or employed as CAPITAL in the trade or business, or on account of capital withdrawn therefrom.

For any sums expended in improvement of premises, or written off for depreciation of land, buildings, or leases.

For any loss not connected with, or arising out of the trade, etc.

For any expenses of maintenance of the persons assessable, their families, or private establishments.

For any loss recoverable under any insurance or contract of indemnity.

For any sum paid as income tax on profits or gains, or on the annual value of trade premises.

For any premium for life insurance, or for wear and tear of machinery or plant; but ALLOWANCES MAY BE CLAIMED in respect of these items.

In considering the above it will be observed that the deductions allowed are only those necessary for carrying on the business, bad debts, and the estimated value of doubtful debts, rent, and repairs. Of course, the ordinary trade expenses, such as wages, rates, carriage, travelling expenses, fire, accident, and glass insurances, general expenses, etc., will be allowed.

In explanation of the deductions not allowed we may say that interest on capital and salaries to partners, form part of the income of the partners upon which they would be assessable if not acting as principals. Expenses of maintenance and withdrawals of capital or private payments, such as life insurance premiums, voluntary subscriptions, income tax (which includes property tax), are also a personal liability, quite apart from business. The provision of an annuity or a thrift fund, being an investment of capital, can hardly be considered as an expense essential to carrying on the trade. We could hardly expect the allowance of a loss recoverable under an insurance or indemnity.

Expenditure on improvement of premises, premiums for renewal of leases, are taken to be capital expenditure, and for the same reason the depreciation of land, buildings, leases, goodwill, patents, preliminary expenses are not allowed, being losses of capital. In fact all depreciation must be eliminated from the accounts, but the taxpayer may make a claim for the wear and tear of machinery, plant, fittings, and fixtures used in carrying on the business and, in the substitution of new machinery for old, the value of the latter from the cost of the new plant. The rate allowed for depreciation is usually 5 per cent., but this is left to the discretion of the commissioners or surveyors, many of whom consider that the allowance for repairs and replacements is ample.

Most business men consider the disallowance of depreciation or of a concession of 5 per cent., as against $7\frac{1}{2}$ to 25 per cent. charged in the accounts, as being far from fair treatment. For instance, a ten years' lease is purchased for £1000 written off £100 per annum against revenue, making it virtually a rental no allowance, resulting in a loss of £50 during the ten years.

Such payments as chief rents, interest, and mortgages are not allowed to be charged in the profit and loss statement, the reason being that on payment the income tax would or should be deducted from the sums. Bank interest on an overdraft will, however, be allowed as a charge, the bank including the tax in their return of profits.

This calls our attention to the policy of the Government in as far as possible, charging the tax at its source. As we have seen, chief rents and interest are paid less the tax, so also with dividends and debenture interest, which, as a general rule, are paid less income tax. An illustration will help in understanding this.

John Welltodo owns property assessed at $\pounds 900$, upon which he pays tax less $\pounds 150$ deduction for repairs and expenses.

He pays a chief rent of £160, from which he deducts £8 as tax, and also pays mortgage interest of 4 per cent. on a sum of £5000, viz. £200 less tax of £10, and interest on a second mortgage of £2000 at 5 per cent., from which he deducts tax of £5.

In this way the tax authorities receive at first hand the tax of £37 10s., leaving John Welltodo the collection of the tax from the owner of the chief rent and the mortgagees. When this is done J. W.'s net payment of tax is £14 10s. on his net taxable income of £290. Claiming abatement of £160, his actual payment of tax would be £6 10s. As illustrating the way in which the various schedules bring in the different classes of income, note the following :---

A. Pickwick, a corporation official, is financially interested in the following :--

Owner of property.	Assessment under Schedule A, deducted from rents or paid direct.
Joint interest in market garden on his land.	Assessment under Schedule B, probably charged in firm's accounts.
Investments in Consols.	Assessment under Schedule C, deducted in payment of interest.
Holder of shares, and de- bentures, in joint stock company.	Assessment under Schedule D, deducted from divi- dends and interest.
Fees as director of above company.	Assessment under Schedule E, either deducted from fees or paid direct.
Salary as corporation official.	Assessment under Schedule E, paid direct.

Exemption.—When the income of a person from all sources does not exceed $\pounds 160$, exemption from the income tax can be claimed.

Abatement.—From incomes of from £160 to £700 abatement may be claimed as follows :—

£160 to £400	abatement	£160
£400 to £500	"	£150
£500 to £600	**	£120
£600 to £700	,,	£70

It must be observed that remission of income tax can only be claimed in the case of individuals, and not by bodies corporate or incorporate.

An allowance is also made for premiums of life assurance effected in a British office, not exceeding one-sixth of the total income of the taxpayer.¹ This allowance is not to be taken into account in reducing the amount for abatement: thus with an income of £520 and an insurance premium of £30 the tax would be payable on £370. It may be pointed out that no allowance is made for payments made to thrift funds, as in the case of corporation officials, who frequently prefer making provision for later years in this form than in paying premiums on endowment policies in an insurance company.

Inspection of the deductions not allowed will show that the Profit and Loss Accounts prepared for trading concerns frequently

¹ By the Finance Act of 1906, this allowance is also made on premiums paid to legally constituted foreign offices. See p. 370.

include charges against the profits which would not be allowed by the commissioners. The bookkeeper or accountant is, therefore, called upon to submit to the surveyor an amended Profit and Loss Account; this may take the form of a copy of the account in the books showing the adjustments that it has been necessary to make, or an amended account may be prepared in which only the allowed items are included.

Example of Method 1 1904. 19	05.	1906.
Profit as per Profit and Loss Account. Add Interest on capital ,, loans partners' salaries Depreciation, land and buildings and lease lease ,, fixtures ,, fixtures ,, fixtures ,, fixtures ,, fixtures	-	-
Deduct assessment of premises—Schedule Λ .		
Profit 1904 , 1905 , 1906		
3) Annual average Less allowance for de- preciation of plant, ma- chinery, and fixtures .		
Less abatement Life Insurance — Premium		
Example of Method 2		
Dr. Trading Account		Cr.
£ s. d. To stock brought for- Ward	£	8. d.
£	£	

ACCOUNTING AND BANKING

PROFIT AND LOSS ACCOUNT

Dr.							Cr.	•
	£	s .	d.			£	8.	d.
To carriage				By gross profit	• • •			
" rates and taxes				" discounts .	• • •			
"insurance								
"lighting								
" salaries, wages, tra- vellers' commission								
"general expenses .								
" stable expenses								
"repairs								
"advertising								
" bad debts								
"net profit								
	£					£		
	~			Profit 1904				
				,, 1905.				
				" 1906 .				
					:	3)		
T	•			Av	erage			
Less claim for depre		۰.	•••	• • • •				
"abatement.		•	•••	••••				
" life insurance	premiu	ш	•••	• • • •				

The former method, as giving the actual figures in the books, and therefore preferred by the surveyors, is the one usually supplied in practice. As a simple example let us deal with Mr. Reader's Profit and Loss Account on p. 12.

EXAMPLE III

PROFIT AND LOSS ACCOUNT. A. READER

December 31, 1906

											£	8.
Net profit as per account .											9	0
Add A. Reader's salary .									•		300	0
", interest on capital .											150	0
, , loan .											25	0
, depreciation	•	•	•	•	•	•	•	•	•	•	55	0
Less claim for depreciation	1 at	5 p)er	cer	nt.			•		•	539 22	-
Less abatement				•			•	£	12(D	516	10
" life assurance premiu	m.	•	•	,	•	•	•	_	30	0	150	0
											£366	10

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Supposing the partners to have no other source of income, and the profits, on division, such as to enable them to claim abatements, a separate return should be made by each member of the firm. Thus if Johnson & Co., consisting of A., B. and C. Johnson dividing profits equally, make a profit of £1740, each partner on a personal assessment would claim an abatement of £120, that is if such partners' total income is represented by the £580 profit derived from the business.

In making the return for Serge and Cheviot (p. 34), it will be noticed that as the premises are owned by the firm no charge is made against profit and loss for rent. As an assessment for the premises has been made and tax paid under Schedule A, deduction will be allowed for such assessment. When, however, premises are occupied by the taxpayers, a rental for such occupation is considered to be a personal expense, and an amount of not more than two-thirds of the assessment allowed as a deduction from or charge against profits, the other third being regarded as the rental for the beneficial ownership.

EXAMPLE IV

SERGE AND CHEVIOT

December 31, 1902

														£
By	profit as	per Prof	it an	d I	089	3 A	ccc	oun	t.				•	8,400
Add int	erest on m	ortgage		•		•					•		•	450
,, int	terest on c	apital .	•					•						1,900
" de	preciation													1,560
,, re	serve fund													840
	come and													350
	assessmen claim for		nise								•	•	•	13,500
"	,,	machin			dр	lan	t							
"	,,	fixture			•									
,,	"					0-					_			

EXAMPLE V

Let us now prepare the statement for the North London Engineering Company (p. 93).

ACCOUNTING AND BANKING

	£	£	£
To profit as per Profit and Loss Account			5507
Add mortgage debenture interest		360	
,, depreciation of machinery, 10 per cent.		1248	
" patents written down		180	
·· •			$\frac{1788}{7295}$
Deduct rents received	1200 200	374	
		1000	
			1374
			5921
Probable allowance of 5 per cent. for depre-			
ciation of machinery			624
			£5297

EXAMPLE VI

A. B. makes profits in his business for three years, in arriving at which $2\frac{1}{2}$ per cent. depreciation on buildings, and 10 per cent. on machinery have been charged, as well as interest on loans, income tax, property tax on the premises, which are his own subject to a chief rent, repairs of premises, and salary of himself each year; while in the first year the balance of a lease of premises previously occupied by him, and the cost of removal to his present premises, had to be borne. His life is insured, in respect of which he pays annual premiums.

Make out his income tax returns without figures.

			lst year.	2nd year.	3rd year.
Net profits separate accounts		•	•	-	•
Add interest on loans	•	•			
"income tax		•			
,, salary of A.B	•	• •			
" property tax paid	•				
" depreciation of buildings	•	•			
" " machinery .	•	•			
" balance of lease of premises.					
,, cost of removal 1	•	• •			
Deduct allowance for wear and					
machinery					
" annual value of premises					
" life insurance	•				
$,,$ abatement \ldots \ldots	•	•			

Change in Rate of Tax.—Another point to notice is that in the event of a change in the rate of income tax, say from 1s. to ' If a compulsory removal, this item would probably be allowed.

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10*d*., allowance has to be made in the deductions from dividend and interest receipts and payments, thus a year's dividend to the 31st December of the year in which the reduction had taken place, would have the tax deducted at the rate of 1s. from January 1 to April 5, and at 10*d*. from that date to December 31.

Dividends free of Income Tax.—Occasionally companies declare dividends free of income tax, which means that the tax will be paid by the company, and charged to revenue account. A 10 per cent. dividend free of income tax, practically means that the shareholder receives $10\frac{1}{2}$ per cent. dividend. For example, a £10 payment of dividend means approximately 10s. tax (1s. in the £), the 10s. being paid by the company.

Adjustment Account.—In the case of joint stock companies, the income tax transactions are somewhat complicated, owing to—

(a) The deduction from dividends and debenture interest of income tax.

(b) The three years averaging of profits.

(c) The adjustment of Profit and Loss Account to satisfy the income tax commissioners in regard to depreciation, etc.

(d) The charge being made in advance.

It is, therefore, necessary to open an Income Tax Adjustment Account in order that revenue may be charged with the proper amount, and that the correct statement of the liability, or otherwise, may appear as a Suspense Account in the balance sheet.

For example, the assessment on a company for 1906-7, on the three years' average, is £300. Accounts are made up to December 81, 1906, and dividends paid, from which £220 is deducted as tax. We therefore have, say, £60 to charge against 1906 accounts, and £20 to carry forward in suspense for the tax January 1 to April 5, 1907.

Inc	ome Ta	X ACCOUNT	
To commissioners	£ 300	By Dividends Account 2 " Rent and Taxes Account, or	£ 20
		Profit and Loss	60 20
1907. Jan. To balance carried down	£300 20	£ã	00

Although it is common knowledge that, in spite of all the care given by the surveyor of income tax in obtaining correct returns, many who are liable escape the tax or pay less than they should, yet others neglect to claim the return of sums deducted from their income in the forms of interest and dividends, when a little trouble in filling up the forms that may be obtained at the surveyor's office would enable them to have the tax refunded. For example, a lady in receipt of income from investments of £140 per annum, has £7 deducted in various sums on payment to her. She is ignorant that this would be refunded on taking the necessary steps, and so her income is diminished by £7.

Repayment of Over-Assessment, Sec. 133, Income Tax Act, 1842.¹—Increased competition and other adverse causes may place a business on the down grade, and thus it may happen that, on making the return on the three years' average, the profits of the current year fall below the amount so ascertained and paid. Relief is given by sec. 133 of the Income Tax Act, 1842, as amended by sec. 6 of the 1865 Act, which provides that on application to the authorities, the taxpayer may claim repayment of the sum paid in excess. It is provided that should the actual profit of the current year be less than the assessment, based on the average of the three previous years, a new average may be made of the actual profit of the current, and the amounts of the two previous years; and repayment may be claimed of the tax paid in excess, *i.e.* on the difference between the old average and the new average, unless the actual profit of the year exceeds the latter sum, in which case tax will only be refunded on the difference between the profit earned and the old assessment.

Example I

1903. 1904. 1905. £2000 £1600 £1200. Average £1600 for 1906-7 assessment.

The profit for 1906 turns out to be but £1100, therefore, taking advantage of sec. 133, we find—

1904. 1905. 1906. £1600 £1200 £1100. Average £1300.

And as the tax has been paid on £1600, claim may be made to recover the tax on the over-assessment of £300, viz.—

1600. Assessment for 1906 on average of 1903-5.

1300. Average of actual profit for 1906, and the two previous years.

£300

¹ Repealed by the Finance Act of 1907. See p. 140.

Notice that in this case that the claim can only be made on the difference between the first and second averages, and not on the difference of the actual profit of 1906 and the old average.

Should it be desired to take advantage of sec. 133, there should be no delay, but immediately on the accounts being made up, notice of the claim should be given to the surveyor.

Example II

In the month of June, 1902, A. B. and Co. made return of profit for income tax assessment under schedule D, for the year ending April 5, 1903. The amount was £9000, being the average of the three years ended December 31, 1901, namely: 1899, £9000; 1900, £10,000; and 1901, £8000. The assessment was duly made, and the tax on £9000 paid in January, 1903. Some months later, when the accounts for the year 1902 were made up, the taxable profit for that year was ascertained to be £6900. State what adjustment and relief A. B. and Co. are entitled to, and how such relief is to be obtained; also state what difference it would have made in the amount of the relief if the profits of the three years ended December 31, 1901, had been: for 1899, £13,800; 1900, £6200; 1901, £7000.

In the first case, repayment may be claimed of tax on £700, the differences between the new and the old averages. In the second instance, as the actual profits will be found to exceed the new average, the original assessment would stand, and therefore no claim could be made.

This is according to the Act, but in practice it will generally be found that the surveyors will allow either the difference between the new average and the old, or between the figures of the actual year and the old average, whichever is in favour of the Inland Revenue. Thus referring to the above example—

				0	ld average. £			1	New average. £
1899					13,800	1900			6,200
1900					6,200	1901			7,000
1901	•	•	•	•	7,000	1902	•	•	6,900
					3)27,000			3)	20,100
					9,000			-	6,700

it will be seen that the actual year of assessment (1902) is higher than the new average, and that therefore the difference reclaimable is between £9000 (*i.e.* the old average) and £6900, the actual profits for the year, viz. £2100.

The Finance Act of 1907 repeals sec. 183 of the Income Tax Act of 1842.

The Act also introduces a new feature by allowing an abatement of 3d. in the £ on the amount of *earned* income in cases where the total income from all sources does not exceed £2000. This is additional to the abatements given on p. 132 and to the allowance on life insurance premiums.

A tax-payer claiming the above abatement must prove before September 30th that his income from all sources does not exceed £2000, and satisfy the surveyor as to the amount of *earned* income on which he claims the allowance.

Another point to notice, is that employers are required to make a return giving the salaries of all employees liable to the tax.

Assessments may be amended and penalties recovered within a period of three years.

Further, it is provided, that until it is possible to take a three years' average, the estimate of profits will be based on the actual profits of the preceding year.

QUESTIONS AND EXERCISES

81a. Give one example of income included in each of the schedules under which the tax is collected.

82. What is property tax? Who usually pays it? and on whose behalf?

83. Give a list of the deductions not allowed in computing profits.

84. What difference may it make to an employee if assessed under Schedule E instead of Schedule D?

85. State the abatements allowed on incomes under £700.

86. X. has been for some years receiving from a private firm a salary of £520 per annum. He owns £1000 worth (nominal) of each of the following: 4 per cent. railway debentures, 3 per cent. Australian Government Stock, $2\frac{1}{2}$ per cent. Consols, laundry company shares paying $9\frac{1}{2}$ per cent. free of tax. What should he return as his income for assessment, and why?

87. The Z. Co., Ltd., shows the following profits for the years 1901, 1902, 1903, viz.: $\pounds762$, $\pounds520$, $\pounds660$. These figures include $\pounds60$ per annum interest on reserve fund invested, and are arrived at after charging for the respective years—income tax, $\pounds15$, $\pounds20$, $\pounds18$, depreciation of plant, $\pounds250$, $\pounds220$, $\pounds200$, rent and rates paid $\pounds280$ per annum, insurance $\pounds40$, and debenture interest $\pounds350$ per annum. Prepare the return for assessment for the year 1904-5, after agreeing upon $\pounds175$ depreciation with the surveyor.

88. Give the nominal account for income tax as you would enter it in the

company's ledger, showing how much would be debited to Profit and Loss Account for 1904.

89. Adjust for income tax (Schedule D) purposes the Profit and Loss Account of Messrs. Robert Sawyer and Sons, timber merchants, set out below, and show the amount assessable for tax. The profits for the years 1902 and 1903, upon which tax was payable, were agreed with the Inland Revenue Surveyor at \pounds 2304 and \pounds 1858 respectively.

PROFIT AND LOSS ACCOUNT

	£		£
To salaries	920	By balance from Trading Ac-	
"bad debts	425	count	5430
, interest on capital	1050		
" income tax	56		
,, depreciation on plant			
at 10 per cent	780		
" loss through cashier's			
embezzlement	108		
" reserve for bad debts—			
December 31, 1904 £870			
" " 1903 720			
	150		
" annuity to G. Sawyer,			
sen	350		
,, profit for the year			
carried down	1591		
	£5430	£	5430

90. The accounts of the Witney Woollen Company showed the following results :---

Profit for	the yea	r 1903	•			•					•	7250
"	"	1904	•			•					•	6220
,,	,,	1905	•	•	•	•	•	•	•	•		4460

These profits included three years' income received from investments £850, from which tax had been deducted, and there had been charged three years' income tax £1200, and three years' depreciation of machinery, £1600. The buildings are the property of the company, and are assessed under Schedule A at £550. Prepare the account for assessment under Schedule D for the year 1906-7, assuming an admitted allowance for wear and tear of £400.

91. A client takes stock once in eighteen months, and his business profits for two of these periods (after withdrawing a management salary of £250, and charging interest of £400 per annum upon his capital) are £1800 and £2200, such profits including £100 per annum on debentures. Prepare his return for income tax.

92. From the figures below for the year ending December 31, 1904, of a firm consisting of three partners, make up the return for income tax, showing clearly how you arrive at same, and stating your reasons.

The profits for the years ending December 31, 1902 and 1903, were £1020 and £875 respectively.

ACCOUNTING AND BANKING

c

	£
Gross profit	2475
Rent, rates, and fire insurance	150
Wages	325
Partners' salaries	200
Commissions paid	50
Discounts received	25
Bank interest	20
Life insurance premium on the joint lives of the partners	50
Bad debts written off	225
Reserve for bad debts	100
Interest on capital	150
Interest on loans	50
Dividends on consols	20
Insurance against bad debts	70
Discounts and allowances, debit balance	40
	80
	•••

92a. From the following Profit and Loss figures for three consecutive years prepare in proper form an account for submission to a surveyor of taxes. The closing stock is £1000.

	1903.	1904.	1905.
Purchases	£10,000	£9,000	£8,000
Cottage rents received	100	100	100
Profit on shares sold	200		
Stock, January 1	4,500	5,000	1,200
Life premium	40	40	40
Rent and rates	250	220	230
Salaries	4 0 0	510	510
Income tax	60	50	50
Gas and water	30	35	40
Depreciation of machinery			
10 per cent	500	500	500
Stable expenses	200	180	190
Proprietor's drawings	800	500	650
Sales	12,000	15,000	11,000

92b. Jones and Robinson turned their business into a limited company on January 1, 1904, as Jones, Robinson and Company, Limited.

The profit for the year ended December 31, 1904, was £3000, after charging interest on debentures, £400, interest on loan, £150, income tax, Schedule A, $\pounds 50$, Schedule D, £225, directors' fees—William Jones, £500, Thomas Robinson, £350, and John Jackson, £150.

The profits for the year 1902 and 1903 of the old firm were agreed with the surveyor of taxes at \pounds 3000 and \pounds 4500 respectively, and it was arranged to consider the business as a continuing one.

What should be the amount of the company's assessment under Schedule D for the year 1905-6?

92c. State the principal features of the Finance Act of 1907 in regard to income tax.



CHAPTER X

DEPARTMENTAL, AGENCY AND BRANCH ACCOUNTS

Departmental Books and Trading Accounts—Departments—Shops—Manufacturing Concerns—Foreign Branches—Examples of Consignment and Current Accounts—Agency Accounts with Examples—Ascertainment of net Profits on Departments.

In visiting many large establishments we are interested in finding how admirably the account keeping is designed to give the maximum of information with the minimum of time and trouble in regard to the extensive and complicated operations of the capitalist. One warehouse we visited has its twenty or more departments, each under its responsible head, who practically carries on a business in regard to the trading in the particular class of goods of which he has special knowledge.

Again, we have the capitalist who controls the business of, it may be, fifty retail shops in various parts of the country; and another principal who has financial interest in branch establishments on the continent, the colonies, or in the United States. Then late years have seen huge amalgamations and combines of special branches of industry and trade with enormous capitals.

Let us first consider, in a general way, the manner in which the accounts are framed to deal effectively with the essentials of the subdivisions and extensions. Taking the ordinary case of a house with but a few departments, we find in use, as dealing with the goods, the columnar Day Books and Returns Books in which purchases, sales, and returns are analyzed and posted in monthly totals to the respective departmental accounts.

	Invoice		Description of Goods.	Ledger Folio.		Dep	artme	nts.
Date.	No.	Name.	Goods.	Folio.	Total.	A .	В.	C.
				1				

EXAMPLE OF PURCHASES OR SALES DAY BOOK

The principal modification of accounts as compared with those of the previous chapters is that the Trading Account will show the profit or loss of each department; whilst the departmental accounts give the volume of business, and the stocks of each branch of the trade, and further we notice that the subsidiary books have been adapted to answer these purposes.

At another neighbouring establishment, where over twenty departments are in active work, we discover that each department is expected to keep a set of subsidiary books—Purchases, Sales, Returns, and Stock Books; the postings to the personal accounts being made in the general office.

In many concerns it is usual to make an apportionment of the general expenses, and of special charges to the departments, and to charge interest on the capital employed in the particular branch. In this way the principal ascertains the net profit or loss on each branch, whereas in the method above described only gross profit was shown.

In retail establishments doing a large cash business each department is debited with the purchases made for it, charged with a percentage of profits expected to be made, and credited with the sales; the taking of stock serves to check the supervision on the goods, and shows whether or not the fixed profit has been made by the department, thus—

GLOVES

To stock at selling price. ,, purchases. By cash sales. ,, stock at selling price.

Much the same method is adopted in the case of a number of branch shops, which practically are departments not limited to DEPARTMENTAL, AGENCY, ETC., ACCOUNTS 145

the one roof. Here, however, the expenses of the shop in the shape of rent, rates, wages, stable expenses, and depreciation, and it may be interest on the capital employed, will be charged against the branch, and thus each manager enabled to show the net profit or loss on his branch.

Manufacturing concerns departmentalize the different processes of manufacture, each section being charged with materials and stores, productive wages, apportionments of rent, rates and taxes, fuel, illuminating power, etc., and also the percentage for establishment charges; and credited with its output of finished parts or work, and the transfers to other departments at a standard rate or the market price.

FOREIGN AND COLONIAL BRANCHES

Foreign trade is conducted in a variety of ways, and is complicated by the question of currency entering into the accounts. Perhaps the simplest case is that in which a merchant ships to an agent a consignment of goods to be sold on his account and risk. As an example take the following:—

Richard Random and Sons shipped goods to Paul Gold, their agent at Cape Town, on September 1, 1904, and sent therewith a pro forma invoice for £578 (goods £500, freight £60, and insurance £18). On October 28, 1904, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realized £460, and deducting expenses £10 and commission £25, he enclosed draft at three months for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On November 2, 1904, he sent home another Account Sales, which showed that the balance of the consignment had realized £320, which, less £8 expenses and £10 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons.

The Consignment Account might show the following :--

ACCOUNTING AND BANKING

1904. Sept.	1	To goods , freight		s. 0 0 0			28	By acceptance, net proceeds ,, stock	£ 425 280	8. 0 0	1.5
Oct.	30	" Profit and Loss A/c .	127	0	0						
			£705	0	0				£705	0	0
		To stock from above Profit and	280	0	0	Nov.	2	By acceptance, net proceeds.	302	0	0
		Loss A/c .	22	0	0						
			£302	0	0				£302	0	0

CONSIGNMENT ACCOUNT

Or as an alternative-

CONSIGNMENT ACCOUNT

1904.			2	8.	d.					£	8.	d
Sept.	1	To goods	500	0	0	Oct.	28		Sales,			
•		"freight.	60	0	0			P. G	old	460	0	0
		"insurance .	18	0	0	Nov.	2	" A/c.	Sales,			1
Oct.	28	, expenses and						~ P. G	old.	320	0	0
		commission	35	0	0					1		
Nov.	2	" expenses and								1		
	-	commission	18	0	0							
		Droft and		-	1							
		Loss A/c .	149	0	0							
		How Heet			Ľ						1-	.
			0							10000		1
			£780	0	0					£780	U	0

P. GOLD

1904. Oct. Nov.	28 2	'To A/c Sales "A/c Sales	£ . 46 . 32 £78	000	0	1904. Oct. 28 "28 Nov. 2 "2	"expenses and commission	£ 35 425 18 302 £780	0	0
-----------------------	---------	-----------------------------	--------------------------	-----	---	---	-----------------------------	-------------------------------------	---	---

If, however, frequent consignments are made, and as is usually the case, drafts drawn on account of the shipment to enable the consignor to negotiate the bills, a Current Account would be kept for the agent in which interest debits and credits would be made on the various items. EXAMPLE CURRENT ACCOUNT

BROWN AND CO., MANCHESTER, IN ACCOUNT WITH MESSRS. DOVAR AND CO., BOMBAY

•

Days. Numbers.	120 64 50 1242		1476
Days.	60 10		
		e	es es
Capital.	$\begin{array}{c c} \mathbf{f} & \mathbf{f} \\ \mathbf{f} & \mathbf{f} \\ 200 & 0 \\ 500 & 0 \\ 145 & 0 \\ 145 & 0 \end{array}$	•	•
5	140 140 145 145	17 0	£1002 0
	••••	•	
	May 1 By acceptance May 15 ", " June 20 ", ", June 30 ", balance of Nos	" balance .	
	$\begin{smallmatrix}&1\\15\\20\\30\\30\end{smallmatrix}$		
	May M ay June June		
Days. Numbers.	612 619 245		1476
l)ays.	180 144 114		
	- ೧೦೦೦ ಣ		ŝ
Capital.			•
ວື	$\begin{array}{c} \mathbf{f} \\ \mathbf{f} \\ \mathbf{g} \\ $	1	£1002 0
	To Account Sales.		
	8861		
	Jan. Feb. Mar.		

Formula for calculation of Interest :---

 $\frac{1242 \times 5}{365} = \frac{1242}{73} = \pounds 17.014 = \pounds 17\ 08.\ 3d.$

148		ACCOUNTING	iΑ	ND B	ANKING		
		908141 91	0	10 %	•		d. 11
	с.	*°54081 888	12	12	0	Ċ.	-=
		$\begin{smallmatrix} 1 \\ 6 \\ 0 \\ 1 \\ 1 \\ 6 \\ 2 \\ 0 \\ 1 \\ 1 \\ 2 \\ 1 \\ 0 \\ 1 \\ 1 \\ 2 \\ 1 \\ 1 \\ 1 \\ 1 \\ 1 \\ 1 \\ 1$	£227	187 112	£300		£ 137
		03 003 00 E	•				
		Annas. 5 1 12 3 2 10 2 10	61				
<i>tr</i> dinia		Rupees. 904 11 15 13 13 13 2434 2434	3414			Cyprus	
EXAMPLE ROSE WATER AND CO., CONSIGNMENT ACCOUNT, per <i>Burdinia</i>		By duty paid by agents " landing charges " cartage and removal. " telegrams " conna 1°_{\circ} on " conn 227 12 0 " balance (net proceeds)	Ex. at 1/4	1903 June 14 By bank	The balance to be carried to a further consignment, as below.	ROSE WATER AND CO., CONSIGNMENT ACCOUNT, per Cyprus	1903 Sept. 25 By balance down
EXAMPLE	PERFUMERY	1903.		1903 June 14 Sept. 25	a furthe	WNÐISN	1903 Sept. 25
EJ	PE	11.04 11.55 11.04 7.11	0	171	n nied to	COI	
		.4.026118	12	11 8	0 0	со.,	-
AND C		7 4 8 3 3 3 8 4 6 6 7 4 7 4 8 9 3 8 1 8 9 3 9 3 9 7 4 7 4 9 9 7 4 9 7 7 4 9 7 7 4 9 7 7 7 7	£227	162 137	£300 nce to b	AND	
TER		Р 9.00000 8.0000	•		he bala	ATER	
E WA		Annas. 13 15 15 14 14 7	5			SE W	
ROS		Rupees. 745 1402 466 464 218 115	3414			RC	
		To A coount Sales	Ex. at 1/4	To net proceeds b/down Balance down			
	Dr.	1903. Ap. 21 May 19 June 17 June 17 June 17 Sept. 22		1903	-	Dr.	

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DEPARTMENTAL, AGENCY, ETC., ACCOUNTS 149

Firms with an extensive foreign trade will establish branches abroad, each branch keeping its own accounts, of which summaries of the transactions are forwarded periodically to head office, say in London or Manchester.

In the branch books the Remittance Accounts and Head Office Accounts will show, the one all remittances made to England, and the other the summaries of the business and the stocktaking adjustments, and state the balance of capital due to the head office. Corresponding to this in the London books a Remittance Account and a Branch Account will be kept. Examples, furnished later, will give ready understanding of the branch and head office account keeping.

Agency Accounts.—Very similar to the preceding is the account keeping for agencies, of which the two following instances may serve as illustrations :—

Home Trade Agency in which the agent holds stock for his principal, sells the goods and collects accounts, charging a *Del Credere* commission on the sales for which he guarantees the proceeds. Stock books are kept by the agent giving particulars of receipts and sales of goods, and showing the balance of stock in his warehouse belonging to his principal. Advice sheets are forwarded of sales and receipts, and at fixed times cheques and bills remitted for the latter. In the principal's books the agency is charged with sales and credited with remittances, and the commission charged against a Commission Account; the stock at the agency is considered as forming part of the general stockin-trade, the amount being shown by the Memorandum Stock Book kept at the head office.

Another instance is that of a *Buying Agency* for an American house, the agents carrying out instructions as to buying, dyeing, finishing, and forwarding of the goods, and settling for the purchases from remittances cabled from the States placed to the agent's credit at the bank.

In this case the head office requests ----

(a) A statement showing all receipts and payments, and the final balance confirmed by the bankers.

(b) An account showing purchases and expenses and the shipments made to the head office and the final stock in Manchester; the balance representing the net cost of the buying agency, viz. $\pounds 430$ 3s. 9d.

(c) The balance sheet confirming (a) and (b).

MESSRS. YANKEE AND CO., Receipts and Payments Account for

190			£	8.	d.	£	s. 11	d.
Jan. Dec.	1 31	To cash in bank , amounts received during the year from New York	15,900	0	0	128	11	6
		various bills of ex- change	13,151	10	6			
		., amounts received for sundry cash sales of				29,051	10	6
		fents, etc.				16	5	10
				, ,		£29,196	7	10

MANCHESTER BRANCH TRADING ACCOUNT AND PROFIT

190 Jan.	5.	To stock on hand	£	8.	d.	£ 137	s. 7	<i>d</i> .
Dec.	31	" purchases Less returns " packing, etc		18 6 15	$\frac{1}{1}$	26,803	12	0
		,, pattern cards	28 121	16 13	6 4	382	5	7
						27,323	4	7
		,, loss from above ,, salaries and wages ,, rent, rates, and taxes . ,, fixtures ,, bank charges	253 658 107 60 9	$\begin{array}{c} 0\\7\\7\\3\\16\end{array}$	$2 \\ 0 \\ 7 \\ 6 \\ 7 \\ - \\ - \\ - \\ - \\ - \\ - \\ - \\ - \\ -$	£1,088	14	10

MESSRS. YANKEE AND CO., NEW YORK,

Liabiliti	es.	£	8.	d.	£	δ.	d.
To trade creditor	8	1,498	9	3		•••	
" creditors for	expenses.	85	15	9			1
"Yankee and office, balance 1, 1905 "remittances 2 Less shipments 2	£ s. d. 9,051 10 6	106 4,525	0	11	1,584	4	11
Less loss on trad	ing	4,631 4 3 0	8 3	4 9	4,201	4	
	1	·			4,201	- 4	'
	1				£5,785	9	6

1905.		£	8.	d.	£	8.	d.
Jan. 1	By outstanding accounts				159	17	7
Dec. 81	"purchases of goods.	26,916	18	1	11		
ł	Less returns to manu-						
	facturers	113	6	1			
		26,803	12	0	ļ		1
	Less discounts	648	14	6	ľ		
		26,154	17	6		I	
	Less unpaid accounts,					1	
	December 31, 1905 .	1,498	9	8			ł.
i					2 4,6 56	8	6
	By packing expenses	171	7	3			
	" pattern cards	23	9	3			
	" cables, consul fees, etc.	121	13	4	316	9	10
	" branch management ex-				910	י י	10
	penses-						
	Salaries and wages.	658	7	0			
1	Rent, rates, and taxes .	87	7	8	r -	,	1
1	Fixtures.	60	3	6	1	1	ì
1					805	18	2
!	"balance in bank		1		3,257	14	0
		1			£29,196	7	10

MANCHESTER BRANCH ACCOUNTS THE YEAR ENDED DECEMBER 31, 1905

AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1905

1905. Dec. 31	By shipments to New York Less returns	24,538 12	^{8.} 7 4	d. 9 8	£	8.	d.
	" sundry cash sales .	24,526 16	3 5	1 10	24,542	8	11
	"stock on hand				2,527	15	6
	" loss on trading				27,070 253	4 0	1
					27,323	4	1
	" discounts " bank interest " net loss on business .				646 12 430	0 10 3	44
	,,				£1,088	14	10

MANCHESTER BRANCH BALANCE SHEET, DECEMBER 31, 1905

	Assets. By cash in bank ,, stock on hand and in hands of bleachers,		£	3 .	đ.	£ 3,257	•. 14	d. 0
	hands of bleachers, dyers, etc.					2,527	15	6
							1	
	1							
!	l	-				£5,785	9	6
							-	

From this preliminary treatment it will be realized that as a business extends, it soon becomes an absolute impossibility for the proprietor to exercise the personal supervision over each section of the business, which was probably the first cause of its satisfactory results and progress, and he must gradually depute more and more of the detail work to others, until the time comes when he is obliged to hand over entire sections of his business to various managers, his own time being fully occupied by general supervision and directions.

It is just at this stage that we have been asked by our client, Mr. Worker, to alter his accounts in such a way that he can see that each of his managers, who have recently been given sole charge of three of his principal departments, is producing satisfactory results. The fourth and smallest he retains himself, but wishes to be assured that the other three do not suffer by reason of allowing a considerable portion of the work to be done by others. He has throughout kept his books on the double entry system, and has asked us to arrange that his present accounts shall be disturbed as little as possible, to allow of the detailed results of each department being ascertained separately. Many of his customers buy from more than one of the departments, and desire their statements, as before, to appear in one account only.

The first point with which we are concerned is that of purchases. The newly appointed departmental managers have full power to deal with their sales and purchases, but before placing any contracts or orders exceeding £100 are instructed to consult Mr. Worker.

With regard to goods inwards, after the quantities are checked by the receiver of the goods and initialled by him, the price and general detail of the invoice is passed by the manager, who also initials it, and then calculations and additions are examined by the office staff and initialled once more, and the invoice, after being passed by Mr. Worker himself, is ready for entry. The Purchases Analysis Book contains the same rulings as before, except that instead of having one column only for the goods it now contains four, headed respectively, "Goods Dept. A," "Goods Dept. B," "Goods Dept. C," and "Goods Dept D." In this way the total goods purchased for each department is ascertained.

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The sales also require to be similarly subdivided, and if the circumstances will permit, may be invoiced out, preferably by means of carbon books from each department, and then these sales are entered in a Sales Summary Book with a special ruling to set out—

Consecutive		Description of	Onentity	Posting	т	ota	1				۰I)ej	pari		ent	8.		
invoice No.	Name.	Description of goods (optional).	(optional).	Posting folio.	am	amount.		•			B			C			D	
			·		£	8.	d	2	8	. d.	£	8	. d .	£	3.	d.	£	s.]e
		1	1						1	İ		ł						
											l		+		1			
												1						

The date in this case, where there are numerous transactions every day, would appear at the head of each page or in the body of the page only, though if preferred a special column could be made in the book to record this.

The totals of the sales and purchases would then be posted to the nominal ledger, separate accounts being, of course, used for each department. By analyzing the stock under similar headings it will be easy to ascertain the gross profit for each department, in the same way as the Goods Account or Trading Account gives the gross profit for the entire business.

To ascertain the net profit for each department, it is then necessary to charge the various expenses incurred by each. The method of doing this varies in almost every case, but Mr. Worker's business is a typical merchant's business, and after discussion with him we decide to apportion the expenses on the following basis :---

Rent, rates, taxes, lighting, heating, etc., to be charged on the cubic space occupied by each department, which we find to be A 30 per cent., B 25 per cent., C 20 per cent., D 15 per cent., office and management 10 per cent.

Wages and travellers' salaries and expenses on behalf of any special department are charged against that department, and also all other direct charges which can be divided on that

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basis, under which head we include carriage inwards, and, if included in the price of the article, carriage outwards.

Insurance is debited in the same proportion as the estimated average stock, which we arrange shall be treated as A 40 per cent., B 30 per cent., C 10 per cent., D 20 per cent.

Horsekeep and stable expenses cause considerable discussion, but after keeping time accounts for two months which were taken as a fair average this was divided into A 50 per cent., B 10 per cent., C 35 per cent., and D 5 per cent.

Discounts were found to vary in the different departments. All purchases were subject to 4 per cent., but the sales discounts were as follows: A 4 per cent., B and C 2½ per cent., D 3 per cent. These, therefore, were charged against the various departments on their actual sales, any discounts forfeited owing to late payment going to the General Profit and Loss Account.

Bad debts were charged against the various departments incurring the same.

Office expenses and management charges were in this instance debited against the departments in proportion to the turnover, though in many cases this is not fair, as usually one or more sections require, owing to the extra detail involved, or the relatively smaller amount of the transactions, a much greater amount of clerical work proportionately than the others.

Interest on capital was also charged against each department. The estimated amount of capital invested was ascertained by adding the average stock to the average book debts, and deducting the average amount of liabilities owing by each. This figure, therefore, gave the approximate amount invested in each, and interest at 5 per cent. was calculated on the same.

Having at the commencement of the year laid down these general instructions and principles, we were further asked at the end of the period to deal with the figures which had been taken out in the ordinary trial balance of December 31, and to let Mr. Worker know the result of each section and the general result of the whole.

The turnover for the different departments had been as follows: A £100,000, B £80,000, C £20,000, and D £50,000.

The trial balance, after we had made what we considered necessary adjustments during the audit, finally appeared :---

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									Dr.	Cr.
									£	£
Department A, gro	8 8 P	orol	fit					۰.		15,000
"В,	,,	,,								8,000
" C,	,,	,,								5,000
	,,	,,								9,000
Discounts received			٠.							8,000
,, allowed									8,000	•
Debtors (net)									51,000	
Creditors (net) .									,	34,600
		·			÷	·	÷	÷		5,000
Stock	•			•	•	·	•	•	36,000	0,000
Fixtures	•		·	•	•	·	•	•	1,000	
Rent, lighting, etc.			:	•	•	•	•	•	3,000	
Wages, travelling							•	•	19,280	
	-					•	•	•	•	
	•		•		•	•	•	٠	100	
Horsekeep, etc			٠	·	•	·	•	•	1,800	
Carriage		٠	•	•	•	•	•	•	2,100	
Bad debts	•		•		•	•	٠	•	320	
Office and manage			-			•	•	•	2,000	
Interest Account.	•	•	•	•	•	•	•	•	3,000	
Managers' salaries			•	•					2,000	
Loan										20,000
Capital										25,000
-										
								£	129,600	£129,600

From these figures we prepare the following accounts to show the net profit on each department.

•

.

	Total.	•	£	o	<u>م</u>			Tutal.	A	8	o	-
lighting, etc. ¹ .	£ 3,000	900 9	£ 750	£ 600	£ 450	Dec. 31	By gross profit A	ચ	ء 15.000	બ	બ	બ
sa, travelling, etc.	19,280 100	7,730	3,944	2,486 10	5,120 20					8,000	5.000	
•	1,800 9 100	900	180	630 200	90			87,000				9,000
•••	8,000	4,000	2,000	200	1,500		" Discount.	8.000	3.400	2.800	600	1.200
ebts and manage-	320	120	10	130	(9)		:					
•	2,000	920	736	184	460					•		
•	3,000	1,200	1,100	300	400							
	2,000	650	550	300	500					_		
brofit	3,400	940	1,000	260	1,200							
	£45,000 18,400 10,800 5,600 10,200	18,400	10,800	5,600	10,200			£45,000 18,400 10,800 5,600 10,200	18.400	10.800	5,600	0,200

PROFIT AND LOSS ACCOUNT FOR YEAR ENDING DECEMBER 31, 1906

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BALANCE SHEET

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	December	31, 1906			
Liabilities.			Assets		
£	£				£
Trade creditors (net)	34,600	Fixtures	•••	• •	. 1,000
Bank overdraft	5,000	Stock	• •	• •	. 36,000
Loan creditor	20,000	Sundry debtors	• •	• •	. 51,000
A Worker, Capital					
Account—					
Balance per last					
Account 27,000					
Less drawings . 2,000					
25,000					
Add profit 3,400					
Aug pront 0,400	28,400				
	£88,000				£88,000
	·				<u> </u>

When one has to deal with manufacturers' accounts for the purpose of ascertaining the profit or loss on each department the process naturally becomes more complicated, for in addition to the raw materials purchased for each department, and the wages and special expenses, very frequently finished goods ready for sale in one department are used in another department for raw materials.

For example, a chemical manufacturer manufacturing, say, ten separate and distinct chemical products, each of which is treated as a department in itself, will find that many goods which are bought for, or may be manufactured by, one department, are used as raw material in another department.

To treat these departments fairly it is therefore necessary to record these transactions, which may either be dealt with as an ordinary sale by Department A, and a purchase of raw material by Department G, by cross entries through the books; or if such items are of frequent occurrence, a special book will be used to record them, which will set out the department giving and the department receiving, together with the date, and the nominal account in each department which has to be debited or credited respectively.

The price to be charged will usually be laid down by the authorities, the usual principle is that where the goods are not manufactured by the department giving the same, that they are

to be transferred at cost. This often arises in the case of a department which uses very largely a particular raw material, and on account of the quantity used, is able to buy on advantageous terms. If other departments also use this commodity, but in much smaller quantities, they will usually be instructed to buy it from the first department at cost price. Where goods are used by a second department as a raw material which are manufactured by the other, the usual practice is to transfer the said goods at the ordinary selling price, so that a fair profit is allowed to the seller for the goods produced. Care should, however, be exercised, especially just before stocktaking that the selling department shall only transfer sufficient for the immediate requirements of the others; for since stock is always priced at market or cost, whichever is lower, the manufactured article would be taken into stock by its own department at cost, whilst the same goods after transfer would be reckoned at the increased price when held by the others, and might in that way be used to show a fictitious profit for the transferor, whilst it would not affect the transferee in any way, since it would be valued at the price debited to him.

In a manufacturer's business it will be necessary to further subdivide the Purchases Analysis Book. When dealing with a trading concern we saw that one column was usually sufficient for each department for goods bought, but now we have many commodities specially obtained for various sections of the business, which all require separate headings. For instance, each manufacturing department will probably need the following columns—raw material, carriage (this usually being a very important item in a manufacturing concern), packing (where the different portions of the business use varying kinds, qualities, and quantities), etc., in addition to the ordinary expenses columns which are applicable to all businesses.

The wages question here, as elsewhere, must necessarily be put upon a sound basis, varying with the method of payment in vogue for each department. If based upon time, the ordinary processes for dealing with the arrival and departure of the men will be governed by the office; if, however, piece work is the rule, the system of passing the goods must be clearly and distinctly laid down, and the quantities received from each hand or gang will be checked and recorded in the wages sheets for

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purpose of payment. In either case the wages books must be prepared in such a way that by means of analysis or classification the wages payable by each department may be distinguished at a glance, and the correct debit to each duly ascertained and treated accordingly in the books.

The question of repairs and depreciation is a subject of importance in manufacturing departments, and a clear and distinct system should be laid down in regard to it. Where each has its own machinery, it is desirable, and usually not difficult, to apportion these charges directly to the section to which they belong. In many places, however, there are arbitrary rules laid down to cover these charges in what are considered fair proportions over each department using machinery.

The same remark applies to fuel or power, though in this case it is hardly ever accurately ascertained for each department; many firms adopting the simple rule of debiting the charge in proportion to the production of each, though one can see at a glance that this is a very rough and ready way of ascertaining what is or is not a proper charge.

Bad debts are also debited to the different manufactures according to the actual amounts lost, whilst the other items, viz. the indirect expenses including rent, rates, taxes, gas, water, office and general expenses, etc., will be charged proportionately over the whole in such a manner as the proprietor thinks fair; for, unfortunately, the departmental managers will hardly ever be persuaded that their special charge is not heavier than facts justify.

However, if these directions are generally followed and applied carefully to each particular business, the main object of showing the manufacturer what each section is earning will be attained satisfactorily.

QUESTIONS AND EXERCISES

93. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz., "Mantles," "Dress Materials," and "Felts." There are two sales ledgers in use, viz. "Town" and "Country," and each ledger is kept upon the self-balancing principle.

94. Give an example of the Profit and Loss Account of a branch shop.

95. Distinguish between profits on purchase and selling price.

96. Give instructions to a client with regard to the accounts required for a branch shop.

97. Briefly describe the method of dealing with the departmental accounts of a manufacturing concern.

98. Give an example of a Consignment Account.

99. What is a Current Account? Give an example.

100. Describe the method of apportioning trade expenses against departments.

101. A wholesale firm has several retail branches which it supplies with goods. The branches regularly pay in all their receipts (through the bank's branches) into the main account, notify same to head office, and send monthly an abstract, showing how much has been paid on Ledger Account, and how much for cash sales, also amount of credit sales and discounts, and total of debtors' balances. State precisely what accounts should be opened in the head office books to register these transactions so far as material for Profit and Loss Accounts, giving short illustrations to show how they should be brought into general agreement in preparation for audit.

TRIAL BALANCE

December 31, 1903

	£	£
Head Office Adjustment Account		1574
Coal sales		1750
Sundry debtors	640	
Horses, carts, etc.	280	
Salaries, rent, and expenses	620	
Cash in hand	78	
Coal from head office (as invoiced)	1748	
Sundry creditors		42
	£3366	£3366

The stock of coal at Maidstone on December 31, 1903, was valued at £984.

Prepare a Profit and Loss Account showing the result of the working of the Maidstone branch for the year ended December 31, 1903, and draft the entries necessary to incorporate the above figures in the head office books.

CHAPTER XI

BRANCH ACCOUNTS

Foreign Exchange—Foreign Account Keeping—Final Entries in Head Office Accounts.

It is proposed, in this chapter, to deal with the "Wholesale and Retail Trading Company," who, in addition to owning a large central establishment, consisting of their central warehouse and head offices, possess several branch houses with power either to buy or sell for cash or on credit, and some shops who sell for cash only. They are also thinking of opening another house, which will have power to buy and sell, and will also be allowed to have its own banking account and conduct the whole of its separate financial arrangements.

Their present arrangements are as follows: The shops which have power to sell only are supplied from the central warehouse and are debited with these goods at the selling price. The books kept at the shops are: a Petty Cash Book, a Cash Book, a Summary Book, and a Stock Book. The Petty Cash Book will be kept on the imprest system. and all expenses and other outgoings of the shop will be entered in this book. The first entry will be a debit for the cheque received from the head office. and each week or month, according to the arrangement, which depends upon the amount of the cash required, the branch will forward to the head office a statement of its expenditure, and will receive a cheque for that amount from them, which will therefore bring the cash balance back to its original figure. The takings are entered in the Cash Book, and are paid gross into a local bank for the credit of the head office, or in places where this arrangement does not exist are sent direct. The Summary Book is really the ledger account with the head. office, and credit is given for all the goods sent to the branch, whilst any returns, allowances for damage, breakages, shorts,

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etc., are debited together with the cash takings sent to the head office. Stock is taken periodically, and is entered as the balance of the account in the Summary Book, which should then balance, any difference meaning, of course, that (in the case of a deficiency) so much stock or money has been lost by error or leakage.

The head office records these transactions by having the following accounts in their books for each branch: (1) a Furniture and Fittings Account; (2) a Cash Account for the petty cash; (3) a Goods Account; (4) an Expenses Account, for such expenses as may be paid direct by the head office: and (5) a Profit and Loss Account. The first account will be debited with all the original capital expenditure and all subsequent additions, and is credited with depreciation, which is debited to the branch Profit and Loss Account. The second of these accounts is opened by the debit posting of the cheque for the branch petty cash, and is credited with the totals expended as supplied by the branch return. These items are debited to the branch Expenses Account. either by means of a contra item to the Expenses Account, or by means of a special journal known as a Branch Expenses Book, the form for which is given later in this chapter. The balance of the account represents, of course, the petty cash balance in hand at the branch. The Goods Account is a copy on the opposite sides of the account of the Summary Book kept at the branch, and the balance of the account will represent the stock in hand at the branch at selling price. The Expenses Account will be debited with all the expenditure made from the head office on behalf of the branch, and also with the items transferred from the Petty Cash Summary through the Branch Expenses Book. This account will be closed by halfvearly transfers to the Profit and Loss Account. The materials for the profit and loss figures are obtained from the foregoing accounts as described above, so far as the debits other than goods are concerned. The credit side is made up by means of special books, the principal of which are a Branch Sales Book and a Branch Returns Book. The first of these books records all goods sent to the branches, and like an ordinary transaction of a sale is debited to the Branch Goods Account for the individual branch supplied, and is credited to a "Sales to Branches Account" in monthly totals. The Branch Returns Book is a record of the debit notes sent by the branches, and the monthly

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total of this is debited to the "Sales to Branches Account" and credited to the individual "Branch Goods Accounts" in detail. The net amount of the goods supplied to each branch, as ascertained by its goods account, is at the end of the half year credited to the Branch Profit and Loss Account; the contra item to the debit is made up in one of two ways. The first of these is to ascertain the average gross profit made on all goods sold through these retail branches over the ordinary wholesale price, and to debit the Branch Profit and Loss Account with the estimated wholesale price by deducting this average gross profit from the goods they have purchased during the half year, and by debiting the amount so deducted to the "Sales to Branches Account." The stock on hand must also be reduced to the wholesale price by debiting the Profit and Loss Account of the branch with the average profit which has been added to the stock on hand by taking it at selling price, or by dealing only with the goods actually sold, as shown in the example. this sounds rather complicated to any one who has not had actual experience of this class of business; but if the specimen account for the shop branch is carefully followed, it should be quite easily understood. The second method of dealing with this section of the accounts is to ascertain the actual-wholesale price of the goods supplied to each shop, and enter in extra columns added to the Branches Sales Book and the Branches Goods Accounts, by means of which the actual profits added are ascertained and dealt with instead of the estimated average profit as previously explained.

In the specimen accounts dealt with below, it is assumed that the system in vogue is based on the assumption that the warehouse adds 5 per cent. to the cost, to ascertain the ordinary wholesale price, and that 25 per cent. is added to this figure for the retail profit. The items are those required for one of the branches, and for simplicity the entries at the head office are recorded as if only one branch existed.

The transactions are for the half year ended June 30.

Jan. 1	Branch A, which has been fully equipped during the preceding half year, receives this day, goods $\pounds 300$, cash $\pounds 10$, and commences business.	£	J .
"6	Cash is received from the branch on account of sales	50	0
33 37	On the manager's request the expenses cheque is sent for	10	0

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	L 8.	,
Jan. 6	Further goods sent	I
" 7–31	Goods forwarded to Branch A	
	Cash ,, ,, ,,	
))))))))	Cash received from branch on account of sales	
,, ,, ,, ,, ,, ,, ,, ,, ,, ,, ,, ,, ,,	Head office pays the rent of Branch A for the quarter	
maren oo	ending March 31	
June 30	Head Office pays the rent of Branch A for the quarter	
	ending June 30	
	Head Office pays the rates of Branch A for the half-year	
<u> </u>	ending June 30 18 0	
FL 1 \	During these dates the branch has received goods 2015 0	
$\left. \begin{array}{c} \text{Feb. 1} \\ \text{to} \end{array} \right\}$	cash 200 0	
June 30)	And has remitted on account of sales	1
	There was at the branch at date, cash	
June 30	Goods at selling price	

The goods supplied to the branch were purchased from sundry creditors by the head office for £2000, to which was added 5 per cent. (equals £100) for the latter and 25 per cent. (equals £525) for the branch.

BRANCH A, GOODS ACCOUNT

Dr.		DRANCH	л, с			Cı	•
1906 Jan. 1 ,, 6 ,, 8-3 Feb. 1 t June 30	»}	E Branch sales 1 , 5 30 280 2015) 0) 0	1906 Jan. 6 ,, 7-31 Feb. 1 to June 30 June 30	By Cash " " " stock carried down By Branch Profit and Loss Ac- count, being loss of stock on ac- tual stocktaking		10 10
July 1	To balanc	£262	5 0 2 10			£2625	0

The debits of the above account are posted in detail from the Branch Sales Book, the totals of the book being credited to "Sales to Branches Account." The first three credit items come from the Cash Book, the fourth from the actual stock sheets, whilst the fifth is the difference between the two sides. •

Dr.			Br	AN	сп	A	Petty	Сазп Асс	COUNT	Cr.
1906							£	1906		£
Jan. 1	To cash						10	Jan. 6	By Branch Expen	868
,, 6	"						10		Account	. 10
,, 7–31	"						25	Jan. 7 to)	By Branch Expen	ses
Feb. 1 to							200	June 30	Account	. 230
June 30	} "	•	•	•	•	•	200		"Balance	. 5
							£245			£245
July 1—7	Fo balanc	9	•	•	•	•	5			

The debits are posted from the Cash Book in the ordinary way, whilst the credit is transferred from the Branch Expenses Book, a form of which appears later.

BRANCH	А	Expenses	Account
--------	---	----------	---------

£	1906			£
	June 30. By Bran	hch Profit	and	
40				33
40		•		
18				
240				
			-	
£338			£	,838
) 0	June By sales per 30 the Goods			
		9695 A		
	1000 50000		2362	10
0				
, v				
: 0				
-				
0				
-				
	40 40 18 240 £338 PROFIT 0	June 30. By Bran 40 40 18 240 £338 PROFIT AND LOSS ACCOUNT 5. 0 June By sales per 30 the Goods Account Less stock	June 30. By Branch Profit 40 Loss Account . 40 18 240 £338 PROFIT AND LOSS ACCOUNT 2. 30 June) By sales per 30 June Goods Account 2625 0 Less stock 262 10	June 30. By Branch Profit and 40 Loss Account 40 18 240 £338 £ PROFIT AND LOSS ACCOUNT 2. June) By sales per 30 the Goods Account 2625 0 Less stock 262 10 2362

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The figure credited to Goods Account is taken from the Branch Goods Account, and the contra is the £1890 on the other side of the same account, being the estimated cost to the branch, and the balance is debited to the "Sales to Branches Account" to write back the overcharge made at head office in order to check the branch takings.

Dr. PURCHASES ACCOUNT (Head Office)									
			£				£		
Jan. 1 to June 3 Being cost o by head offi Branch "A.	f goods bou ce and sent	ght	2000	June 30. 1	By Profit a Account		2000		
	SAL	ES TO	BRAN	CHES ACCO	UNT				
I OO M I		£	8.	T. 14.	D	Durah	£		
June 30. To E	t and Loss				By goods. Sales Boo		2625		
		470	10	June Ju.,	Dales Doo	n	2020		
	unt	472	10						
coun	Ē	62	10				•		
To Prof	it and Loss								
Acco	unt	2 090	0						
	;	£2625	0				£2625		

The figure credited to Suspense Account is the profit charged on goods sent to the branch at retail selling price, but not yet sold, viz. £262 10s. This amount is made up by the following calculation: Goods costing the head office £100 have 5 per cent. added for the head office profit; it therefore equals £105, to which is added 25 per cent. for the branch profit, equals £26 5s.—total £131 5s. It therefore becomes a simple proportion, based on the equation that if £131 5s. selling price equals £100 cost price, then £262 10s. selling price (stock at Branch A) will equal £200 cost, the difference £62 10s. being credited as stated to a Suspense Account, so that no profit shall be taken on unsold goods.

SUSPENSE ACCOUNT

June 30. By Sales to Branches Account . . £62 10s.

This account is closed on July 1 by transferring it back to the new "Sales to Branches Account."

Dr.		Head	01	FFI	CE	Profit	AND	Loss	S ACCOUNT		Cr.
June 30.	Ton	nrchases				£ 2000	Jun	a 30.	By Sales to	Branches	£
• • • • • • • •	-• P		•	•	•		• •		Account		2090

Stock will stand in the balance sheet as £200, being the balance of Branch A Goods Account, less the credit balance of unearned profit on the stock as shown by the Suspense Account.

These figures for the sake of simplicity are drawn as if no other transactions took place at the head office but those which relate to Branch A, and the sundry creditors and cash are omitted, as they call for no special comment. This is what is known as the multiple shop system, and is applicable particularly to all retail businesses which do not make their own purchases.

The Branch Expenses Book, if used, might take the following form :---

BRANCH	A

	Posting folio.	Total.		Wages.			Carriage.			Postage and stationery.				velli	ng.	Sundries.				
Jan. 6 ,, 13 etc. etc.	(To credit of Cash Account Branch "A")	£ 10	s . 0	đ. 0	£ 5	s . 6	d. 0	£ 2	s . 15	d. 0	£	s . 9	d. 0	£ 1	s . 0		Paper for packing		s . 10	d. 0
		240	0	0	186	15	0	82	8	0	8	2	0	3	10	0	Per ana- lysis	14	10	0

Credit these totals to Branch A Expenses Account, to amalgamate with expenses paid by head office.

In dealing with any question of this sort, whether in practice or in an examination, it must be remembered that adding 25 per cent. to the purchase price is not the same as deducting 25 per cent. from the selling price when the cost price of stock is required. Obvious as this seems, it is surprising how often it is overlooked in the hurry of an "exam."

We now come to deal with those branches which, though they buy independently of the head office and sell on credit, yet do not deal with any cash other than for small cash sales and their own current expenses. These need very little special bookkeeping. Stock and expenses may be kept in a similar manner to that described above, and returns are made of the sales and purchases which are made on credit, and the ordinary accounts will be kept at head office of these items.

Finally, in this chapter we have to consider how to advise our clients with regard to the new branch they propose to establish which is to conduct its own business in every way but for the general supervision from the head office.

The first point is to have a good office staff capable of dealing fully with all ordinary matters of account, and this has been already arranged. The instructions we give relate only to the special work caused by the branch.

We advise the keeping of special accounts for goods bought or sold between this branch and the other branches, or the head office, as if, in fact, they were ordinary outside customers. The money passing between the branch and head office means another account if numerous items occur, though, this is not necessary, for the entire transactions may be worked through the Head Office Adjustment Account in the Branch Books, and the Branch Z Adjustment Account kept in the head office books.

This account records any item for which no other contra exists at the branch, and exactly how it is made up will depend upon where the branch authority begins. If, for instance, the head office before the branch has started has furnished or fitted up the place, and desires that all the accounts should be kept at the branch, the opening entry will be a debit to Furniture and Fittings and a credit to the Head Office Account in the books of the branch. If the cash transactions passing between them are few in number the next entry will be a debit in the Cash Book posted to this account for the opening cheque sent by head office, and so on.

In the mean time full accounts are kept at the branch for all transactions, needless to say, by double entry, Personal and Impersonal Accounts both being kept, and at the end of the half-year the branch prepares its Profit and Loss Account in the ordinary way, transferring first the balance of the Head Office Goods Account and any other accounts kept between the two to the Adjustment Account. To this account is also transferred the balance of the Profit and Loss Account, and a Balance Sheet is prepared showing the balance of the Head Office Account as a liability.

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Copies of the Profit and Loss Account, Balance Sheet, and Adjustment Account are then sent to the head office to be dealt with there. At the head office a Branch Adjustment Account is kept to correspond with the similar account at the branch, and on receipt of the final accounts from the branch the two Adjustment Accounts are compared, and any difference is looked into, and if due to goods or cash in transit a suspense is created and the two sets of accounts are then ready for amalgamation by striking out the balances shown by each Adjustment Account and adding the various figures of assets and liabilities together.

The following is the Balance Sheet and Adjustment Account sent from the branch on June 30 :---

	HEAD OFFICE ADJ	USTMENT	Acc	OUNT	
Dr.					Cr.
June 30	£ To balance	Jan 1	Bv	furniture and fit-	£
June Do.		· · · · · ·	DJ	tings	
		"	,,	cash	
		" 31	• •	,,	800
		Mar. 15	•	" , , , , , ,	300
		, 31	"	,,	100
		May 15	"	,,	250
		June 30	"	balance of Goods	
				Account	980
		,,	"	Profit and Loss	
				Account	370
	£5000				5000
		July 1	"	Balance	£5000
	BALANCE SHEET, B	BRANCH Z,	Jo	ne 30	
Dr.	Liabilities.			Assets.	Cr.

		•						•
To Sundry creditors	<u> </u>				£ 655	By Furniture	£ 500	£
" Head office						Less depreciation .	25	
"	•	•	•	•				475
						"Stock		3520
						" Book debts Less reserve for	1640	
						discounts	41	
								1599
						"Bank		61
								
					£5655			£5655

ACCOUNTING AND BANKING

The final trial balance at head office after closing the nominal accounts appeared as follows :---

	Dr.	Cr.
	£	£
Sundry debtors	3,800	
Reserve for discount on same	•	90
", "bad debts		200
Creditors		1,820
Reserve for discounts	40	•
Stock	3,250	
Branch Z Adjustment Account	5,055	
Furniture	1,280	
Bank	620	
Profit and Loss Account		1,935
Capital		10,000
- -	£14,045	£14,045

The difference in the Adjustment Account proved to be a lot of goods valued at £55 sent from the head office on June 29, which had not been received until July 8 at the branch. This item had therefore to be added to stock on hand in the combined balance sheet which is now prepared.

BALANCE SHEET, JUNE 30

Dr.	Liabilitie	.		Assets.		Cr.
		£	£		£	£
To Credit	ors	2,475		By Furniture		1,755
Less re	serve for dis-			,, Stock		6,825
coun	t	40		"Book debts	5,440	
			2,435	Less reserves for		
,, Profit a	and Loss Ac-		•	discount and bad		
coun	t		1,935	debts	331	
,, Capital	1		10,000			5,109
				"Bank		681
			£14,370			£14,370

On the principle that a business which is not progressing is losing ground, the "Wholesale and Retail Trading Company" very shortly after opening the Z branch decided to start a branch in Paris, and wished the general conduct of the business to be on similar lines. They also asked that we would make any adjustments we considered necessary in the books, and explain the method of dealing with Foreign Exchange in general.

Of course the question of variation in the rate of exchange is comparatively trifling between the two countries, each having a gold standard, because it stands to reason that no one will pay

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more in Paris, for instance, for a draft on London than it would cost to forward the actual specie properly insured. Where, however, the other country has a silver or a paper currency this variation immediately assumes considerable importance, since the price of silver varies continually, and apart from the question of the demand for drafts there is the intrinsic value of the silver to take into account and convert into English gold in the first place. Whilst, where a paper currency is used a still lower figure is given for it, because in this case it is uncertain when such paper will be converted into gold or silver, and therefore capable of being used outside the country of issue.

The next point to consider is the law of the land in which you propose to open your branch with regard to accounts. Most foreign countries have some regulations as to what books must be kept, and the manner of recording the transactions. In France, for instance, the law requires that a summary of all transactions shall be entered through the Journal, which therefore becomes the posting medium for every transaction. This book has in the first instance to be produced to a public official, who examines it to see that it is duly paged, none missing, etc., and then stamps it as correct, and anything requiring legal proceedings, in which accounts are concerned, must be proved from the Journals with the official *visa*.

Though naturally this considerably adds to the work of a bookkeeper when all items go through the Journal, it may be a help to balancing the Ledger. The usual method in France is to add the Journal in one total to the year end, and to extract the Ledger Accounts to show the total debit and credit postings of each account, and not the balances only as in England.

					 Total p	ostings.	Balı	Ince.
					Debit.	Credit.	Debit.	Credit.
1. E. Zola					Fr. 8562·15	Fr. 8562·15	Fr.	Fr.
2. Balzac	•	•	•	:	10620.50	9415-25	1205 [.] 25	
					Fr.198756.25	Fr.198756.25	Fr.53654·10	Fr.53654·10

TRIAL BALANCE

December 31.

The assistance in balancing arises from the fact that in France all the books are officially opened *through the journal* each first of January, and as all postings pass through the Journal, the grand total of the Journal for the year amounts to the same as the total columns of the Ledger as shown in the trial balance; and, therefore, supposing an error of 100 francs existed in the trial balance, it could be seen by comparison with the Journal whether the error arose on the debit or the credit side, or whether both sides were in error.

Remittances may be made either by cheque or by the Paris house buying in Paris a draft payable in London, or by London sending a bill of exchange through in the ordinary way.

In the case of our French branch, it is necessary, of course, to keep the books according to French law, and the Journal therefore becomes an official book through which all our entries must pass. Apart from this, the system of bookkeeping is practically the same as for the English branch, save that it simplifies matters very much if all fixed assets are treated at the head office. Any necessary purchase made by or through the branch being charged to head office as soon as convenient. We are first invited to deal with the Branch Accounts, after the June audit is completed. At that time the amount to the debit of "Paris Branch Account" is £1197 2s. 9d., which inquiry at Paris shows to be the difference between the assets, viz. fittings, etc., £300, stock £1471 3s. 2d., and the liabilities in France £574 5s., and we are informed all is ready to commence trading forthwith.

Fixed Assets.—In regard to the fixed asset of £300, we should suggest its being transferred at once to the head office books, at the actual rate ruling at the time of purchase. Although some authorities advise the retention of the fixed assets in the branch books, it seems preferable, having regard to the fluctuations of exchange and the charging of depreciation, to treat this class of expenditure in the manner set out above; as being a simple, and, at the same time, an accurate method of dealing with capital expenditure on branch houses.

In our company's transactions at June 30, the rate of exchange was 25 francs 20 centimes to each pound sterling. On December 31 the rate was 25.12 francs, whilst for the six months the average had been 25.15 francs. During the half

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year goods had been sent out from the head office amounting to $\pounds 1293 \ 1s. 9d.$, and remittances had been received from the branch on account of the same to the extent of $\pounds 800$. These remittances as and when received are credited to a special account, which sets out the value of the remittance both in francs and pounds, and is transferred to the Branch Account only at the half year end.

There are still two classes of items not yet dealt with at the branch, one of which is the floating assets, and the other the profit and loss items for the period. The first of these is converted into sterling at the rate ruling on the day on which the Balance Sheet is made up, since if the branch were to be closed the floating assets must be turned into cash, and the local liabilities (that is those payable in francs) deducted and the balance in hand remitted, and such remittance would, of course, be at the rate ruling on that day. The profit and loss items are turned into currency at the average rate ruling for the period, since they were transactions covering the entire period.

On December 31 the French books were therefore duly closed and a Profit and Loss Account taken out, which showed a profit of 6044 francs, which converted into sterling at the average rate of exchange amounted to £240 6s. 3d.

The French trial balance and a copy of their Profit and Loss Account were then sent across to England, and were there converted into sterling on the lines which have been already laid down. The trial balance appeared as follows :—

	Dr.	Cr.	Rate of Conversion.	D	r.		Cr.		
	Fr.	Fr.	Fr.	£		d.	£	8.	d.
Sundry debtors	26415		25 ⁻ 12 (Dec. 31) .	1051	11	0			
Stock Remittance Ac-	31840		25·12 (Dec. 31) .	1267	10	4			
count Profit and Loss	20121		Actual realization	800	0	0			
Account .		6044	25.15 (average) .		1		240	6	3
Creditors		18332	25 [.] 12 (Dec. 31)				729		6
Head office		55084	Actual	1			2190	4	6
Cash in hand .	1084		25 [.] 12 (Dec. 31) .	43	3	0			
	Fr.79460	Fr.79460		£3162	4	4	£3160	6	3

PARIS TRIAL BALANCE

December 31

PARIS BRANCH,

July 1 Dec. 81 "	To balance at date ,, goods sent to Paris during half-year ,, Profit and Loss Account, being profit at branch subject to depreciation of fixtures ,, profit on exchange	£ 1197 1293 240 1	s. 2 1 6 18	ď. 9 9 3 1
		£2732	8	10
"	"balance	1632	8	10

Dr.

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FINAL TRIAL BALANCE,

			Head office.			Р	aris.		Z		
Debtors Stock Branch Z Paris Furniture Bank Paris furniture	••••••	••••••	 £ 4,321 3,142 4,840 1,632 1,216 310 285	s. 0 0 0 8 0 0 0	$ \begin{vmatrix} d. \\ 0 \\ 0 \\ 0 \\ 10 \\ 0 \\ 0 \\ 0 \end{vmatrix} $	£ 1051 1267 	<i>s</i> . 11 10 3 	d. 0 4 	£ 1629 2914 451 496 	s. 0 0 	d, 0 0 0 0
			£15,746	8	10	2362	4	4	5490	5	0

BALANCE SHEET,

Capital . Creditors . Profit and Loss	Accourt	1 t	•	•	•	•	•	£ 10,000 5,020 1,896	s. 0 0 8	<i>d</i> . 0 6 10
								£16,916	9	4

Dr.

BRANCH ACCOUNTS

ACCOUNT

July 1	By Furniture Account w	ritte	n o	at o	f F	ren	ah	£	8.	d.
	books							300	0	0
Dec. 31	" Remittance Account							800	0	0
••	"Balance						•	1632	8	10
								£2732		10

DECEMBER 31

Cr.

	Head	Head office.			ris.		Z			
Creditors Head office	£ 3,640 —	s . 0	d. 0	£ 729 1632	s. 15 8	d. 6 10	£ 650 4840	s. 5 0	d. (
Bad debts reserve	210	0	0		-	-		-	-	
Capital	10,000	0	0	-	-	-	_	-	-	
Account	225	6	8	-		-		·	-	
Z Profit and Loss A/c. General Profit and	672	0	0	—	-		-	-	-	
Loss Account	999	2	7	-	-	_	-	-	-	
	£15,746	8	10	2362	4	4	5490	5		

DECEMBER 31

Furniture Stock Debtors Less reserve	•	•		•	£ s. 6 7001 11 210 0 0		s. 5 10	d. 0 4
Bank	•	•	•	•		. 6,791 849 £16,916	11 3 9	0 0 4

Cr.

This amount is credited to the "Profit and Loss on Exchange" at the time the French figures are incorporated with the English, and so the balance of the latter is preserved.

The head office then entered the Profit and Loss Account into their books, crediting the General Account, and debiting the Paris branch with the profit. The accounts were then closed in the usual way and amalgamated with the branch Balance Sheets. It must, of course, be remembered that the Paris profit is subject to depreciation of the fixed assets, which are now kept in the head office books only, and that the Paris bookkeeper must transfer the balance of his Profit and Loss and Remittance Accounts to the Head Office Account.

The head office entries for Paris, and the final entries are shown on pp. 174, 175.

Although for simplicity no interest on capital is shown in the above accounts, it must be remembered that the same principle applies here as was described in the treatment of departmental accounts and the interest charged on capital invested in each, and that the profit as shown in the branch books should be debited with the depreciation of the fixed assets, which appear in the head office accounts only, and also for the interest on the money which is sunk in the foreign branch, whether in the form of fixed or floating assets.

The above example shows the working of a foreign branch having full control to buy and sell; but, of course, many cases arise where accounts of such a nature are unnecessary. For instance, the case of a mining company receiving its expenses in full from England, and sending home direct the ore raised. In a case of this sort, all that is necessary is to forward home an Analyzed Cash Account showing the expenses and such statistical returns as may be required by the authorities. In such a case the question of foreign exchange will scarcely enter into the matter, the ore will be sold and treated in English currency entirely, and the payments made in the foreign country will, of course, be converted into sterling at a rate to cover the remittances from England on the general lines laid down earlier in the chapter.

QUESTIONS AND EXERCISES

103. Show how you would combine the Balance Sheets and interchanging accounts of a concern having separate trading centres in London, Liverpool, and Manchester.

104. Explain in detail how you would deal in an English merchant's books with fluctuations in exchange resulting from transactions with his branch establishment in Bombay.

105. The following is the trial balance of the Calcutta branch of a London house on December 31, 1905 :--

	Dr.	Cr.
Stock on hand, December 31, 1904	Rs.	Rs.
	5,000	
	30,000	
Sales		45,000
Sundry debtors	10,000	
Sundry creditors		7,000
Bills receivable	3,000	.,
Bills payable	.,	2,000
Wages and salaries	9,000	2,000
Rent, rates, and insurance.	2,000	
	1,500	
General expenses	600	
Fixtures and furniture	2,000	
Cash at bank	13,000	
Cash in hand	400	
London office	400	19 200
		13,500
	67,500	67,500

Rate of exchange, December 31, 1905, 16.

Average rate for 1905, 15.

Rate December 31, 1904, 141.

Calcutta Branch Account in London books, £896 10s. 6d.

Convert the above figures into sterling for inclusion in head office books, and state the principles which guide you in doing so.

106. In the case of an English registered company, having works situated in a foreign country, where the rate of exchange is subject to violent fluctuation, what is the correct rate to adopt in the case of :---

(a) Fixed assets at the works.

(b) Any additions thereto during the year.

(c) Revenue items.

In the audit of the accounts of such a company where a large figure appeared therein in respect of "difference in exchange," what steps would you take (if any) in regard to the verification thereof?

107. A London company, owning a mine in India, receives monthly cash statements, in Indian currency, from its local manager. How would you pass these returns into the company's books, and effect the necessary conversion into sterling? Illustrate your answer by means of rulings of the book or books you would suggest, and enter therein six imaginary transactions.

108. Messrs. Knox and Hammer, of Manchester, opened a branch house in

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Barcelona, to which place Mr. Hammer proceeded as managing partner, with a salary of £250 per annum, and two-thirds of the net profit of the Barcelona trading, and one-third of the Manchester profit. Manchester supplied Barcelona with cash £1000, which was repaid during the twelve months' trading ending December 31, 1900. Manchester also kept the Barcelona house supplied with goods. At this date, the affairs of the Barcelona business stood as follows: Sundry creditors, £530; stock-in-trade, £900; book debts, £1943; balance in bank, £380; bills payable, £183; premises, fixtures, etc., £980; profit, £600 (after charging Mr. Hammer's salary). Make up the Barcelona Balance Sheet at this date, including the liability to Manchester on Goods Account.

CHAPTER XII

THE ACCOUNTS OF INSTITUTIONS AND SOCIETIES

Receipts and Payments Accounts—Income and Expenditure Accounts—Balance Sheets—Fees and Subscription Registers—Tramways' Revenue Account with Percentages of Charges.

In the presentation of the Accounts of Institutions and Societies, we find considerable variety of form, and often uncertainty as to the right method of treatment. One placed before us is as follows :—

INCOME AND EXPENDITURE ACCOUNT

Dr.	Septer	mber	1, 1	904,	to August 31, 1905		Cr	•
1904.		£	8.	d.	1905.	£	8.	<i>d</i> .
Sept. 1.	To balance in				Aug. 31. By advertising .	14	7	6
•	hand	22	10	0	, rent, rates,			
1905.					etc	50	2	6
Aug. 31	To fees, 1st term	325	0	0	" cleaning		0	
0	" 2nd "	228	10	0	" salaries		12	10
	" 3rd "	295	7	6	" stationery .		10	0
	" subscriptions	27	7	6	" school exes.			
	" stationery .	90	3	6				
	" commission .		12	0		817	16	1
	,,				" balance	171	14	5
		£989	10	6		£989	10	6

The impression meant to be conveyed by the above statement is, that as at the commencement there was only a balance of cash of £22 10s. 0d., and at the end a bank balance of £171 14s. 5d., the increase of £149 4s. 5d. was the profit for the year. This difference we find is due to the fact that the first term's fees include the arrears from July, 1904, and the third term's fees include some paid in advance.

The statement is merely a Receipts and Payments Account, *i.e.* a summarized statement of the year's cash tranactions, commencing with the balance in hand from the previous period, and showing the cash in hand at the end.

On making inquiries, we find that included in the amounts are receipts and payments which have reference to the previous

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and next year's operations, and that several liabilities belonging to the current twelve months are not included, as Rent, and Booksellers' Accounts. The account, therefore, is not an Income and Expenditure Account, but one of receipts and payments, and should be headed so. The confusion has arisen owing to the idea with some officials that cash received is income, and cash paid expenditure. What those concerned wish to know is whether the year's operations have resulted in a gain or a loss. This it is the object of the Income and Expenditure Account to show, and therefore that is the form of account we would present (see opposite page).

This account, which also furnishes the figures of the preceding year for the purposes of comparison, includes all income belonging to the period under review, whether received or not, and also includes expenditure or charges belonging to the period, whether paid or not; the balance representing the profit or loss on the year's operations.

It will be observed that it corresponds in form to the Profit and Loss Account of a trader, and to the Revenue Account of a non-trading concern; charges against profit being entered on the debit side, and profits on the credit side; whereas in Receipts and Payments Account the items are placed as in a Cash Book, receipts on the debit, and payments on the credit sides. A columnar Cash Book will be used, providing separate columns for the separate heads of income and expenditure, and at the end of the period adjustments will be made by the inclusion of outstanding accounts and liabilities, such adjustments being transferred as balances to the next period (see p. 182).

Subsidiary to the Cash Book, the Fees Book would be kept, showing the accounts due for each term and payment of same.

FEES	REGISTER
Dece	mber, 1906
FIR	ST TERM

Name.	Fees.	Extras.	Stationery.	Total.	Date received.	No. of receipt

Same for second and third terms.

Dr.					For the	year	onde	For the year ended August 31, 1905				ő
		19(1903-1904.		190	1904-1905.		130	1903-1904.	190	1904-1905.	
		910		d.	4		d.,	Term.	s. d.	43	·*	ď.
Advertising	• •	 64 50 19		° 11 °	84.28	- 00 10	0 10 0	Fees	2 18 8 8	251 31	10	06
Preliminary expenses	• •	 Loo		000	1000		0	riptions	0	80	0	0
Salaries	•••	 44	133	0.00	223		2010	Total for term £285	0 8	$\pounds 290$	18	6
Bank charges Bad debts Legal charges Balance, being profit .		 1 10 53		0011	10 10 25		0000	April- Prin- Frances	16 11 12 6	274 24 8	16 18 17	9 4 9
								Total for term $\ldots \ldots \ldots $	0 3	£308	12	2
								$\begin{array}{cccccccccccccccccccccccccccccccccccc$	13 0 12 8 15 0	287 11 9	15 9 2	6 1 9
								Total for term $\ldots \ldots $	0 8	£308	2	10
								Summary for year- Fress of the stationery	$\begin{array}{c} 11 & 6 \\ 5 & 11 \\ 7 & 6 \\ 5 & 10 \\ 10 & 0 \\ 10 & 7 \end{array}$	814 12 26 30	12042	94000
		£824	11	4	£883	-	10	£824	11 4	£883	1	10
		_	_	-		-		Stationery account— Sales · · · · · · · · · · · · · · · · · · ·	16 8 1	67 55	16 9	8 4
								Profit	5 11	£12	5	4

INCOME AND EXPENDITURE ACCOUNT

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Societies deriving most of their income from subscriptions would keep a Subscription Register, arranged alphabetically for reference, and for checking the published list. As the subscribers generally continue their subscriptions for a number of years, the register is ruled to give the particulars for, say, five years.

SUBSCRIPTION REGISTER

WAREHOUSEMEN AND CLERKS' SOCIETY

	1	906.	19	07.	1	908.	1	909.	1	910.
Name and Address.	Amt.	Date received.								
		;				. 1				t

COLUMNAR CASH BOOK FOR SOCIETY

Cr.

Dat	e.	Name.	Voucher number.	Total.	Adver- tising.	Rent, rates, etc.	Salaries.	General expenses.	Printing, station- ery, etc.
July to June	1 30	By sundry payments (detailed).							
		Add: Outstanding charges, June 30,1907 (detailed).							
		Deduct : Outstanding charges, July 1, 1906.							_
		Deduct pay- ments in advance.							
		Net expendi- ture for the year.							

ACCOUNTS OF INSTITUTIONS AND SOCIETIES 183

Another form of presenting the accounts of the various voluntary societies, in one of which many of our readers may take an active part, it may be as treasurer or secretary, is shown by the financial statement of a dramatic society given on pp. 184, 185. Here we have a good arrangement of the receipts and payments with the cash balances adjusted at the end. The short Revenue Account, in which the outstanding accounts and the net surplus of the season are shown, completes the accounts, which admirably illustrate the difference in form and in the information given by a Receipts and Payments Account, and a Revenue Account.

An excellent example of the accounts of a society is furnished by those of the Council of the Institute of Chartered Accountants, of which the account given on p. 186 is an abridged copy.

The Revenue Account, abridged, of the Tramways Department of the West Ham Corporation (see p. 187) supplies the committee with the useful information of an analysis of cost and of income, and is an admirable example of such accounts.

In regard to the annual accounts of hospitals, the form given on p. 188 is an outline of the one prescribed for hospitals participating in the Hospital Saturday and Sunday Funds, from which it will be noticed that income and expenditure items are entered on the same sides as receipts and payments.

Societies and institutions derive much of their income from trust moneys and other funds, upon which the extent of their operations are largely dependent. It is therefore essential that a balance sheet should be presented to the members and subscribers to show the various investments and assets and the net accumulation of funds, to which would be transferred the balance of Income and Expenditure Account of the year.

As examples we give (on p. 189) the Balance Sheet of the Society of Accountants and Auditors (Incorporated), and (on pp. 190, 191) the 1905 accounts of the Chartered Institute of Secretaries.

ACCOUNTING AND BANKING

THE ORPHEUS AMATEUR Accounts for

Receipts.		£	8,	đ.	£	8.	d.
President and Vice-Presidents.	: :	$\begin{array}{c} 15\\ 20 \end{array}$	15 0	0 0	0.5		
Performances—					35	15	0
Sale of tickets-"H.M.S. Pinafore"-							
$620 \begin{cases} 50 \text{ at} & 7 & 6 & . & 18 & 1. \\ 120 \text{ at} & 5 & 0 & . & 30 \\ 200 \text{ at} & 2 & 6 & . & 25 \\ 250 \text{ at} & 1 & 0 & . & 12 & 1. \end{cases}$. d.						
120 at 5 0 30	0 0						
620 200 at 2 6 25	0 0				1		
(250 at 1 0 12 1	0 0						
		86	5	0			
Sale of tickets-"The New Boy"-	0 0						
86 at 5 0 21 1	0 0						
672 197 at 2 6 24 1	2 6						
$672 \begin{cases} 44 \text{ at } 7 & 6 & . & . & 16 & 16 \\ 86 \text{ at } 5 & 0 & . & . & 21 & 16 \\ 197 \text{ at } 2 & 6 & . & . & 24 & 16 \\ 345 \text{ at } 1 & 0 & . & . & 17 \end{cases}$	5 0						
79 1	7 6						
	o o						
		98	7	6	184	10	c
Sundries-					184	12	6
Sale of costumes		10	4	6			
" music		15	18	4			
" refreshments (unsold at perfe	orm-					5.1	
ances)	• •	1	4 5	8			
Members' fines	• •		5	0			
	• •				27	18	0
Total receipts on account of season 1903					248	5	6
Balance—cash in hand, season 1903					15	0	0
					0000		0
					£263	5	6

REVENUE

Expenditure Payments	•				£.	8	d.	£ 212	s. 2	d. 2
Sundry creditors- Blue Danube String Band	1				15	15	0			
Outstanding accounts for re	efre	shm	ents,	etc.	19	10	0	35	5	0
Balance, 1903-4	•	•	• •	d.				3	3	10
Cash in hand		36	s. 12	a. 10						
Debtors	•	1	16	0						
		38	8	10						
Less creditors	•	35	5	0						
		3	3	10				£250	11	0

Audited and found correct, I. TICKEM.

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Dr.

ACCOUNTS OF INSTITUTIONS AND SOCIETIES 185

Cr.

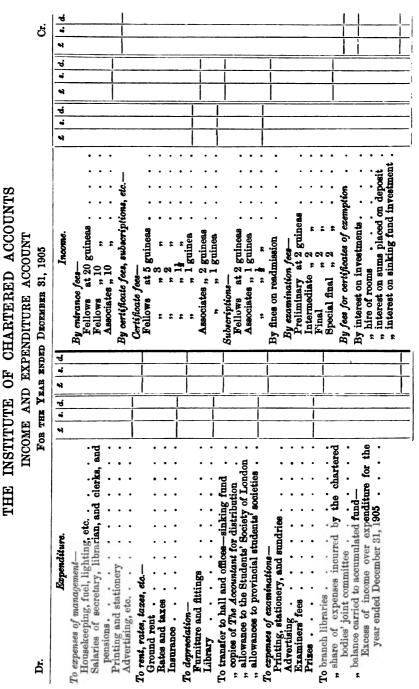
DRAMATIC SOCIETY Season 1903-1904

By	Payments. Donations—					£	8.	d.	£	8.	d
Бу	"Orpheus" cot at Hospital Lifeboat Fund	: :		:	:	50 15	0 15	0 0	65	15	0
73	Performances— Hire of scenery					20	0	0			
	Hire of costumes Purchase of costumes .		555	s. 5 10	<i>d.</i> 0 0						
	Purchase of music Hire of music		7		0	30	15	0			
	Hire of rooms for rehearsals Professionals' fees	3.				$ \begin{array}{c} 21 \\ 3 \\ 15 \end{array} $	10 3 15	0 0 0.			
	Train and cab fares Hire of Public Hall				:	20 10	0 10	0	121	13	(
"	Sundries—										
	Carriage	: :		• •	:	8 13 1	14 0 9	7 0 4			
	Disbursements				•	1	10	3	24	14	5
	Total payments on account of								212	2	-
	Payment of outstanding ac 1902-3 Balance—cash in hand, seaso				son				$\begin{array}{c} 14\\ 36\end{array}$	$\begin{array}{c} 10 \\ 12 \end{array}$	1
									£263	5	-

ACCOUNT

By	Income. Receipts		£	8.	đ.	£ 248	s . 5	đ. 6
"	Sundry Debtors— Fee for sub-letting room Members' fines	•	1	1 15	0	ı	16	0
	Balance 1902-3-Cash in hand Less sundry creditors.	•	15 14	0 10	0 6		9	6
					1	£250	11	0

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	COUN	COUNTY BOROUGH OF WEST HAM	DROI	DGH (OF W	/ES	Е	HAM				
Dr. REVI	NUE AC	L INDO	E HO	HE YR	AR END		W	REVENUE ACCOUNT FOR THE YEAR ENDED MARCH 31, 1906		υ I	5	
Kaponditure	Average per car								A verage per car			
ELECTRIC CARS	mile.	બ			4	-	- 9		nile.	4		6
Traffic expenses		929	12	1				Lines worked by council— 1 Traffic revenue 11	11-062	96,538	8	
Waren of motormen and conductors	2-525	22,034	-41	01				advertia-				
Wares of other traffic employees	_	2,277	10	5				-	0-235	2,051	9	0
Cleaning and oiling cars	0-293	2,659	12	0					11.297	98,589 14	14	80
Other expenses sanding, checking, uni- forme. licences, etc.	0-449	8,922	9	0								
	3.635		! 	8	31,723	4 11	Ξ	HORSE CARS				
Balaries of general officers and staff	0-135	1,181		6	-			Lines not worked by conneil-				
Rents	640.0	686	13 1					Traffic and sundry revenue and	and			
Rates and taxes	0-159	1,384	1	10				route mileage	•	1,793	5	ŝ
Compensations	202.0	1,/02		0								
Other expenses stationery, water, fire in-	0-181	1,583	2	7				ELECTRICITY DEPARTMENT				
surance, preverse, guarantees, even		3	1			¢	Ċ	Acknowledgment at 0.095 per unit,	mit,			
	0.756			.	6,398	מ	2	paid by electricity department for	for			
way, electrical equipment, carts, tools, buildings, etc.	0-729				6,363 11		10	COLEMENTS		16	13	2
Ромег ехрепяса										_		
Purchase of current for the year Add adjustment previous year	1.589 0-028	13,872 243	10	00								
	1.617		 	14	14,115 1	17	0					
Proportion of cost of car shed	0-375			8	3,268	0	1					
Total amount of working exnense	011.2					0	-					
Balance carried to Net Revenue Account .	711			88	02,009 38,405	0						
				£100	£100,474 13	1	80		<u></u>	£100,474 13	13	30
							1					

ACCOUNTS OF INSTITUTIONS AND SOCIETIES 187

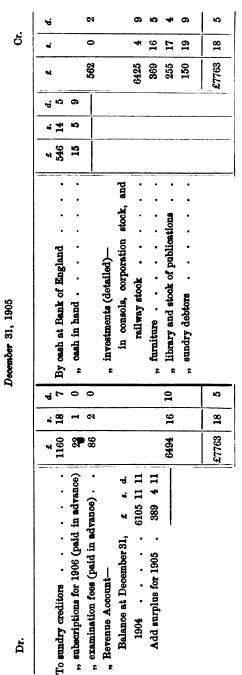
INC	COME AN	D EXPEN	DITURE	INCOME AND EXPENDITURE FOR THE YEAR ENDING DECEMBER 31, 1906	ING DE	CEMBE	R 31, 190	6	
Income	Receipts for ver	Receipts for year	Receipts for year	Remandliness	Analysis.	yeis.	Expenditure	Expenditure Expenditure Expenditure	Expenditure
	ending 1904.	ending 1905.			Hospital.	Nurses.	ending 1904.	ending 1904. ending 1905.	ending 1906.
A. Ordinary- i. Annual subscrip- tions				A. Maintenance— i. Provisions (detailed)	ъ з З	و . د			
Donations Boxes				ii. Surgery diapensary (detailed)	(In- petients)	(Out- patients)			
Fund				iv. Establishment					
iv. Hospital Saturday Fund				charges (detailed) v. Bent			_		
				vi. Salaries (detailed). vii. Miscellaneous ex-					
Income tax re- turned									
vi. Nursing institution vii. Patients' payments viii. Other receipts				tailed) ii. Finance					
Total ordinary income				Total ordinary expenditure					
B. Extraordinary— Legacies				C. Extraordinary- i. Repairs fi. Building improve- ments					
				Total extraordinary expenditure					
	-	_	-		-	•	-	-	

Name of Hospital

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ACCOUNTING AND BANKING

ACCOUNTS OF INSTITUTIONS AND SOCIETIES 189



BALANCE SHEET

ACCOUNTING AND BANKING

THE CHARTERED

INCOME AND

From September 1, 1904,

Expendi	tur	е.						£	8.	d.	£	8.	d.
o General Expenses-													
Rent, etc								819	1	4			
Office charges .							. 1	125	10	2			
Salaries	2							789	0	0			
Printing and station	ATV		1					148	2	0			
Travelling expenses	ur j		•	•	•	•		19	18	4			
Travening expenses	•	•	•	•	•	•	•	10	10	-	1901	11	10
" expenses of examination	na										98	10	11
" expenses of examination	118	•	•	•	•	•	•				454	0	10
" journal expenses .	•	•	•	•	•	•	•				254	16	4
, year book	•	•	•	•	•	•	•				181	19	9
" lecture expenses, etc.	•	•	•	•	•	•	•					16	
, maintenance of library		•	•	•	•	•	•				16		0
" legal expenses " depreciation on furnitu	•	۰.		;	•	•	•				9	0	0
" depreciation on furniti	ire	and	1 00	ooks	3.	•	•				50	10	6
" branches	•	·	•	•	•	•	•				2	5	0
											2969	11	2
" balance, being excess penditure, carried to	of	in	ce	ne she	ove et	re	x-				794	9	3
											£3764	0	5

BALANCE

At August

Dr.							_			A. A.	uyuoo
Fo Capital Account— Entrance fees Subscriptions compou	nded .	:	:	;	•	£ 2022 276	s. 6 3	<i>d</i> . 0 0	£ 2298	s. 9	<i>d</i> .
" prize fund " library fund " sundry creditors	::	:	:	•					77 32 223	$ \begin{array}{c} 10 \\ 17 \\ 2 \end{array} $	0 6 5
" Income and Expenditur Balance from last acco	e Accor					4703	3	11	2631	18	11
Balance, as above .	• •	•	•		•	794	9	3	5497	13	2
÷.											
									£8129	12	1

We have examined the above Accounts with the books and vouchers of the confirmed by their certificate, and we have verified the investments.

Dr.

ACCOUNTS OF INSTITUTIONS AND SOCIETIES 191

INSTITUTE OF SECRETARIES

Expenditure Account

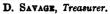
to August 31, 1905

J August 31, 1303													Cr.	
	Inc	.	6.									2	8.	d
By subscriptions received ,, interest on investments ,, examination fees	•	•	•	•	•	•	•	•	٠	•	•	3326 154	2 12	1
, interest on investments	•	•	•	•	•	•	•	•	•	•	•	283	12 4	1
												£3764	0	

Sheet

31, 1905

_							л.
	By Investments (at cost)-	£	\$.	d.	£	8.	d.
	 £783 L. & N. W. Rly. 3% Perpetual Deb. Stock £615 L. & S. W. Rly. 3% Consolidated 	863	14	8		-	
	£615 L. & S. W. Rly. 3% Consolidated	710	1.5	11			
	Deb. Stock	718	15	11			
	£400 National War Loan, 23%	392	1	0			
	£500 New Consolidated Stock, 21%	468	9	10			
	£1000 Local Loans, 3%	1002	11	0			
	Stock . £1075 4s. 3d. 23% Guaranteed Irish Land	2000	0	0			
	Stock	1000	0	0			
	"furniture, etc. (less depreciation) "library books, etc. (less depreciation)				6445 375 105	$ \begin{array}{c} 12 \\ 2 \\ 19 \end{array} $	5 6 7
	" sundry debtors and debit balances				123	7	0
	" cash—						
	At Lloyds Bank	1075	6	5			
	In hand	4	4	2			
			_	_	1079	10	7
					£8129	12	1



^

Institute, and we certify them to be correct. The cash balance at the bankers is

BLANK & Co., Honorary Auditors.

QUESTIONS AND EXERCISES

109. Distinguish between a Receipts and Payments Account, and an Income and Expenditure Account.

110. Give an example of an Income and Expenditure Account.

111. Name the books you would recommend for the accounts of a society.

112. Outline a form of Annual Accounts for a small hospital.

113. Into what accounts of a charitable institution would you bring legacies, donations, annual subscriptions, and life subscriptions?

114. Frequently so-called Balance Sheets are exhibited, particularly by charitable societies, whereas really they are only Cash Accounts. What further is necessary to make them complete Balance Sheets, showing the true financial position?

115. The following is an abbreviated statement, presented to subscribers and friends by the management of an important public charitable institution, and bearing an auditor's certificate.

FINANCIAL STATEMENT

January 1 to December 31, 189-

	£	£
To banker's balance	370	
"receipts, donations, etc	4,629	
""M" building fund	793	
"£470 Consols sold	460	
To trust funds—		
Receipts	8,828	
Dividends		
£2,449 Consols sold	•	
To dividends on Consols and Turkish 4 per cents.		
By grants		4,740
By salaries and general charges		1,677
"£459 Consols bought		450
By trust funds—		
Grants		2,715
£11,323 Consols bought		11,109
By banker's balance		107
	£20,798	£20,798

There is no other account published, but at the foot of the statement, and independent thereof, and without the signature of the auditor, there is a note stating that there are investments amounting respectively to £100,588 10s. 7d., and £20,254 6s. 2d., and that there are unpaid grants amounting to £12,595.

Give your opinion as to this form of account, and state briefly in what way you would have presented the accounts.

CHAPTER XIII

MANUFACTURING

In addition to ordinary trading results, manufacturing companies want to know the result of their labour in the actual processes which they work, and their accounts are accordingly devised for this purpose.

For bookkeeping purposes they may be broadly divided into three classes—businesses manufacturing one special class of goods of such a nature that the cost of each article cannot be ascertained; businesses making several classes of goods, where each class or section is worked on the lines of a separate department; and, thirdly, concerns where the cost of each article made or job completed is ascertained separately. The first of these classes may be said to include most concerns (especially as the second is only an extension of it), and it is to this section that it is proposed to devote this chapter.

The third class alluded to comprises the accounts of such trades as builders, engineers, etc., where, as a rule, the contracts are of considerable size, and frequently goods are purchased exclusively for one particular contract.

The difference between these companies and trading concerns consists, of course, in the fact that the latter buy goods, which they receive into their warehouses and subsequently sell again in the same condition, whilst the former buy what is usually called raw material, which, after passing through certain processes, is sold in an entirely different form. The chances of waste and peculation, therefore, are considerably increased, and to guard against this it is very desirable that as

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Classes of Accounts—Wages—Stores—Trading or Working Account Depreciation: Method of Treatment in the Accounts—Profit and Loss Account and Costing.

full a check as possible shall exist on the goods used during the various stages of manufacture.

Another point of difference is the large amount, when compared with the turnover, which has to be paid out as wages. This is paid to many men from whom it is unusual to get a receipt or acknowledgment, and it is therefore necessary to have a thoroughly good system to deal with the matter, especially as the payment is, of course, always made in cash.

WAGES

The two principal bases on which wages may be paid are time work and piece work. With regard to the former, most of the large concerns have some mechanical process to record the arrival and departure of the men. This will probably take the form of a registering clock for arrival and departure, though other systems, such as metal checks, etc., are also in vogue. The times are then taken for each man, and the number of hours he has worked are duly entered in the Wage Book, which also contains the rate per hour, or more usually the rate per standard week of so many hours, which varies according to the trade and the part of the country in which the works are situated.

These entries are then carefully checked by another clerk to prevent, as far as possible, collusion, and the calculation of the wages due is then made, extended, and finally checked by another clerk, the total amount is entered in the book, and signed by all who have calculated or checked any portion of the work. A cheque is then drawn for the exact total, and the wages of each employé put into a numbered box or an envelope, ready for payment when the time comes. As all these processes take time, it is usual for wages to be made up, say, to the Wednesday night prior to payment on Saturday, so that the company has always two days' wages in hand.

Where overtime is paid for at an extra rate, such as time and a quarter, time and a half, etc., it is usually entered in a coloured ink, and a special column provides for the allowances made at the end. To avoid writing the names every week, a Wages Book is frequently ruled to deal with several weeks on one opening, or, if this is impracticable, many pages are cut short on the extreme edge to allow the names which appear on the first page to do duty for several weeks.

MANUFACTURING

FORM OF OVERTIME PASS

)		·		Dej
Date.	Entered factory.	Commenced work.	Stopped work.	Left factory
			i	

to be lifted by the watchman when employees leave the factory, forwarded to the dept. for foreman's O.K., and to fill in portion of pass marked.* To be returned to the Cost Dept. by 8.30 the same morning.

* The above employee worked	Issued by
hrs. overtime, as stated	Foreman.
above, on †work.	Lifted by
Foreman. † State whether day, piece, or premium work; also if any exceptions are to be made to the regular, 14, 14, and double time allowance.	Watchman.

The following may serve as a simple form of Wages Book where the working is done entirely on the time system :---

Wed. Overtime Total. Rate. Amount. Subs., etc. Thur. Fri. Sat. Mon. Tues. No. Name. 10 10 54 408. 2 0 0 Jones, John 10 4 10 10 1. 2 2 2 2 Smith, Wm. 2. $\overline{10}$ 10 10 10 10 2* 64 36s. 2 2 8 4 3. Robertson, Jas. 30 0150 10 10 10 278.

* Extra allowance for overtime at the rate of time and a quarter.

Where "subs" or payments made during the week under special circumstances are allowed and are fairly frequent, it is advisable to have a special column for them after the "amount" column, and then two additional sets of columns, one for " balance to pay" and the last one for remarks.

Piece work, if the work is remunerated on that basis, is certified by the foreman, and checked, or, at any rate, tested in total by other means, and the Wages Book is altered according to the circumstances. It will be found in practice that some workers are dealt with on a time basis even where the piece work is in general use, and in any case the time of "coming and going" is always recorded to see that the men are getting the full work out of the machinery.

Clock No.

Week ending.

STORES

The next question which must be dealt with is that of stores and the method of entering them in the books. Stores Journals, inwards and outwards, and a Stores Ledger are generally used to record these.

The Stores Inwards Journal will be ruled to show the date received, description of stores received, from whom received. quantity, price, and amount, together with reference folios to the "Goods Received Book," if this is kept, and to the Stores The Stores Outward or Stores Issued Book varies Ledger. according to the business and the methods of management. In some cases it simply states date, request number, to whom issued, for what purpose, description, quantity, price, posting folio, amount. The request number is kept for the purpose of recording the consecutive number of the counterfoil slip from the book given to each foreman. These slips serve the double purpose of being at once the receipt for the storekeeper and are also the vouchers against the foreman. For, if the system is satisfactorily carried out, the stores used by the various foremen will be extracted and compared with each other, and also with what is considered the standard for the class of work such foreman may be engaged upon. The book may have special columns to deal with different departments or, as shown in the next chapter, to deal with the different jobs on the works in special businesses of the description dealt with in that chapter.

We next come to the Stores Ledger, which, as its name implies, is simply a summary of the two previous books classified under various suitable headings of materials and stores used in the process of manufacture.

		of mat other d		ption_				JOEN	,				
Dr.				•								_	Cr.
Date.	No. of invoice.	From whom bought.	Description.	Journal folio.	Quantity.	Ртсе.	Amount.	Date.	To whom issued.	Quality.	Follo.	Quantity. Price.	Amount.
-			-	1			£ s. d.						£ s. d.

STORES LEDGER

Every time the books are made up, and at such other intervals as may be prescribed by the management, stock is taken of all these various classes of goods and they are duly recorded in the Stores Ledger, the accounts are ruled off, and the balance of stock on hand is brought down for the purpose of reopening the Stores Ledger accurately. Any difference between the opening stock and purchases on the one hand and the deliveries and closing stock on the other is entered in red ink, and such differences are reported at each stocktaking to the manager, and perhaps also to the directors, who, in case of a serious discrepancy, will take such steps as they think necessary.

Another difference between manufacturing companies and trading concerns is the method of stating their final accounts. The latter, in the case of a private firm, will state their Profit and Loss Account as a single account, or will divide it into two parts, known respectively as the "Trading Account" and the "Profit and Loss Account." The former consists simply of a summary of the "Goods Account," and sets out the sales and purchases, with the adjustment of stock, whilst the latter consists of all other expenses. In the case of firms manufacturing the account is always divided into at least two parts, the first of which, frequently termed "Working Account," deals with the cost of manufacture, but contains more items than appear in the Trading Account before referred to. What precisely does appear in the Manufacturing Account varies with different firms. Some give the total expenditure connected with the work, including raw materials, wages, stores, fuel, rent, rates and taxes of the works, salaries of works managers, etc., on the ground that all expenses of manufacture must go into this account, and this as a theory seems correct. Many, however, hold that it is preferable as conveying more information to the owner if the debits charged against this account consist only of such items as directly vary with the quantity of work turned out, that is to say, raw material, wages, stores, carriage inwards, and in some cases fuel, leaving out those items which are for a fixed amount whatever the production may be. Since the division is a matter of opinion, for examination purposes it is best to deal with the items in the way with which you are most familiar, at the same time pointing out the reason and advantages of the different methods if asked as to the division of the account.

Depreciation

Another question which seriously enters into this class of accounts is that of depreciation, and to deal with that it will be well just to glance at the different assets one sees in a balance sheet. They may be roughly divided into fixed, floating, and wasting assets. *Fixed assets* are those by means of which the business is carried on, and include land, buildings, plant, machinery, etc. *Floating assets* are the actual loose assets by which the business is continued, and which vary in their nature and amount from day to day. This class includes cash, stock, book debts, etc. "Wasting assets" is a term applied to certain assets which from their nature become, as regards their present purpose, absolutely valueless, by mere effluxion of time or exhaustion. The principal assets of this nature are leases and mines.

In order to ascertain exactly what profit we have made, it is usual to value our floating assets on certain bases, whilst the values of the fixed assets are still taken at the amount at which they appeared in the last balance sheet, save for "depreciation," which is an amount charged against the profit of the company to reduce the fixed assets to their realizable value, when, from various causes, they cease to be of use to us in carrying on our business.

The rate of depreciation and method of dealing with it will depend upon the estimated life of the asset, its value, if any, when it has ceased to be of use to the manufacturers, the amount and regularity of the repairs or renewals necessary during its lifetime, and also the question of interest on the capital expenditure.

There are several different processes by means of which the asset may be reduced to the required figure. The first of these is the writing of depreciation off the original figure, and may be illustrated by the example of an asset costing £100, and expected to last twenty-five years, with no residual value, in which case £4 per annum would be charged to Profit and Loss Account, and credited to the asset. This method is used principally for assets which do not require heavy repairs, nor extensive renewals, alterations, or additions. It will be seen that a uniform amount is charged each year against the profits, and all repairs will, of course, also be debited as and when they occur to the same.

The second method is that of writing a fixed percentage off the diminishing value each year, once more charging all repairs and partial renewals against profits. Supposing, for instance. our asset has cost £100 and is expected to last twenty-five years, when its value for breaking up will be £7, it will be necessary to write off 10 per cent. per annum; so that the first year depreciation will be £10 on the cost of £100, leaving our asset in the balance sheet at £90; the second year our depreciation will be £9, leaving an asset of £81, and so on. By this method it will be seen that the earlier years bear a much higher charge for depreciation than the later years; it is, therefore, largely adopted where the asset is of such a nature that repairs will be heavier as our asset grows older, and is the usual system of dealing with machinery and other assets of that nature, especially where there is at the end of the period an appreciable residue in the shape of scrap metal, etc.

Another plan is to revalue the asset periodically, using one of the above methods (usually the second) in the interval. This is frequently done where the asset, though in its nature a fixed asset, is of a fluctuating character, such as loose tools or utensils, or where its life cannot be stated with any degree of certainty, such as a horse. It is not suitable for other classes of assets, since the charge to profit and loss frequently varies, and it includes in the revaluation fluctuations of value which are not desirable in a fixed asset. Suppose, for example, a machine cost you £50, and two years later, owing to an increase of wages and materials used, the same machine would cost £65, and yours, having been in use, was valued at £52, no one with sound financial views could possibly argue that your machine had suffered no depreciation, and that you had made £2 profit.

Depreciation may also be provided by a sinking fund. This is frequently done in the case of leases, especially where it will be necessary to buy a new lease, or pay a substantial premium for the renewal of the old lease. On this system such a sum is debited to Profit and Loss Account each year, and invested outside the business to accumulate at compound interest, as will provide sufficient to renew the lease or buy another without disturbing the floating assets.

Certain assets, however, are not considered to be liable to

ACCOUNTING AND BANKING

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depreciation either from their nature, such as land, or on account of legal decisions, such as goodwill, leaseholds, and mines (where the company is specially formed to work them), single ships, etc.

COSTING

To come now to the more practical details of the business books and accounts, these, of course, will follow the ordinary double entry routine, with the additional impersonal accounts to record the special classes of assets and expenses. The distinctive portion of the accounts to a manufacturer basing his costs on a unit of manufacture will only commence after the ordinary final accounts have been prepared.

In businesses where everything is worked on the question of weights, such as the cotton trade, additional columns will be provided in the Purchase Analysis Book and the Sales Day Book to record the weights, and from these columns and the various expenses as ascertained from the Profit and Loss Account the figures in use in the cost accounts will be prepared.

It will thus be seen that cost accounts are an addition to the ordinary double entry bookkeeping, and are more of the nature of statistical returns.

The ordinary accounts are carried on in the usual way each year until its close, and then full stock of all floating assets must be carefully taken and priced according to the standard rules; that is, they must be priced at cost or market price, whichever is lower at the time of stocktaking. The stock must be carefully divided over the various headings-Finished Goods and Goods in Process, Raw Materials, and the different classes of stores in hand. Comparisons of the Stock and the Stores Ledgers must be carefully made, and finally the various stocks and stores must be credited to the accounts concerned, and debited to Stock Account. Reserves must be carefully made as in all other concerns, and after the depreciation and other special questions have been settled, the Profit and Loss Account and Balance Sheet may be prepared, and the various figures and calculations added to show the details of cost.

MANUFACTURING

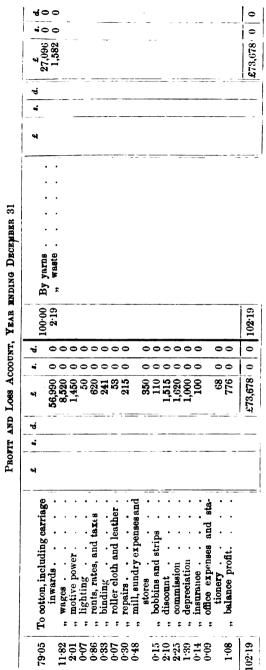
We give below, from "Advanced Bookkeeping," a form showing in outline a cost sheet, with comparative columns, of a spinning department in a textile mill; also a statement of production of yarns and cloth and stock at the end of the period.

Anal	ysis of	cost	for t	he v	veek en	nding-					Corr	last	year	r.	riod
	Weight spun this week.		pend ure,		Cost.	Weight spun this year.		pend ure.		Cost.	Weight.	Ex	pend ure.	li-	Cost
Motive power Materials for manu- facture Machinery materials Gas Repairs—wear and tear Sundries Freight Wages Other wages Other wages Depreciation Rates and taxes . Discount Commission and brokerage		£	8.	d.			£	5.	d.			£	8.	<i>d</i> .	

Ya	n span.			Cloth woven.	
	Counts of yarn.	Total.	Counts of yarn. Pleces.	Weight. 호	Value.
Yarn spun this week . Previous to this week Add bought yarn used this week . Add bought yarn used previously . Less yarn sold this week . Less yarn sold pre- viously .					£ 8. d.

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ACCOUNTING AND BANKING



THE BLANK SPINNING COMPANY, LTD.

MANUFACTURING

QUESTIONS AND EXERCISES

116. State briefly what you consider the principal points to be observed in arranging a system of bookkeeping for a manufacturing concern.

117. What is a "Cost Account"? Give a specimen of a Cost Account suitable for use in some manufacturing business with which you are acquainted, giving both the ruling of such account, and also entering not less than six, and not more than twelve, items of cost relating to that particular manufacture.

118. What books, in addition to the ordinary books of account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide?

119. Define fully the meaning of the term depreciation, and explain by illustration its treatment in the books of a limited company carrying on business as engineers and iron founders.

120. Sketch a system of maintaining a check on manufacturing wages.

121. How are stores entered and checked?

122. What is meant by "Working Account?" State the charges usually included in it.

123. Distinguish between fixed, floating, and wasting assets.

124. Describe various methods of dealing with depreciation in the accounts.

125. Outline a monthly statement of cost.

CHAPTER XIV

MANUFACTURING—continued

Terminal Cost Accounts-Wages-Materials-Stores-Plant Issued-Incorporation of Cost with General Ledger System-Costing outside the General Accounts.

THIS chapter is intended to deal with that class of manufacturing concerns which is referred to in the last chapter as group three, and includes those businesses which are able to ascertain the cost of each article produced in the work by means of cost accounts usually opened for each job obtained. It includes engineers, builders, contractors, etc., and the accounts generally are popularly known as "Terminal Cost Accounts."

The Cost Accounts under this system include practically the whole of the revenue accounts, and may be a separate system altogether, or may form an integral part of the ordinary double entry system. If the former system be adopted, the costing section should be put upon a double-entry system to provide the test of accuracy which exists under that class of accounts; if the latter, it should be arranged so that all the items forming the direct costs should be made a self-balancing section within the general accounts.

The accuracy of the accounts is an assistance to those who have to prepare future estimates, and since in businesses of this description the more important work is only obtained after a tender has been made by various competing firms, the importance of this can scarcely be overestimated.

Wages.—To deal with the variations of the detailed work alluded to in the last chapter, the first point to consider is wages. These may be divided, in the first instance, into wages payable at the works and those payable outside. The latter depend very much on the class of business carried on. A builder, for example, will pay the greater part of his wages away from his office, and also the wages of men engaged on erecting the machinery or structure in respect of which the contract is made. This division of the wages does not call for any particular attention, as special subsidiary wage-sheets are sent to the place where the work is going on, and in many cases a temporary office will be used. The clerk responsible will send for the exact amount of wages, or, if he is further away, will obtain a cheque for a round figure of sufficient size to cover the wages and other out-of-pockets, and as soon as the exact amount is ascertained, will send particulars of his payments, which will be forthwith entered as being incurred on the particular order.

The other wages are entered by the workmen on time-sheets, showing the job and class of work, and also the amount of wages earned on each item of work done on the various jobs. These sheets are compared with the Wages Book, and are then ready to be analyzed under the various jobs to be dealt with by our costing system, in the manner to be described later. Any unproductive work is, of course, analyzed in a similar manner, so that the total of the summary under the various job numbers will agree with the total wages paid as per the Wages Book.

Materials.—The raw materials, which were in the last chapter treated throughout as "stores," may also be subdivided into materials purchased for special jobs (which we shall call in this chapter "direct materials"), and materials which are purchased for any order which may require them (here alluded to as stores).

Direct materials will be entered in the Purchase Analysis Book in a special column, which will have columns ruled to show the job number, folio in Cost Ledger, and also, if so desired, columns for quantities. These are analyzed under various jobs, or may be posted direct to the debit of the various contracts in the Cost Ledger.

Stores.—With regard to the stores the treatment is different. In the last chapter it was recommended with a view of preventing pilfering that a full system of Stores Accounts should be kept, consisting of Journals for Stores Inwards and Outwards, and also a Stores Returned Book, but such accounts were not absolutely necessary, however desirable. Under the present system,

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however, Stores Accounts become a necessity, and the ruling of the journals must be modified to show, not only the stores issued, but also the work for which such stores are required. A specimen ruling for these books is—

Date.	Requisi- tion number.	Order number.	Description.	Quantity.	Price.	A	Amount.		Amount.		Amount.		Amount.		Stores ledger folio.	Cost ledger folio.	Remarks.
						£	8.	d.									
	•				1												
											i i						

The ruling for the Stores Returned Book, which is to record stores which have been returned to stock after having been requisitioned for various contracts, is similar to the above, but the entries are, of course, reversed in the ledger. For the Stores Inwards Book the same particulars will be recorded as were set out in the last chapter, and the ruling of the Stores Ledger will also be the same.

Expenses.—The treatment of unproductive work and of the establishment and office expenses still remains before we can ascertain the total cost of any particular contract, and these will be debited to the cost of a contract by charging a percentage on the total wages of each job; or, alternatively, a smaller percentage on the labour and a percentage on either the materials or the "works cost," which includes labour, materials, and the first percentage.

COST ACCOUNTS

We have set out above the details necessary to obtain the information to furnish our accounts, and can now give a continuous record of the bookkeeping required to set out the cost of each contract. As previously stated, this can be taken as an integral part of our double-entry system or treated as entirely separate. If we deal with the earlier method first, we shall make the Cost or Contract Ledger the centre of a self-balancing system. An account will be opened in the ledger for every piece of work obtained.

In the General Ledger System, accounts will be opened for all the usual nominal accounts and a Cost Ledger Adjustment Account, and in this system the following will be a summary of the method of treating the principal accounts where it differs from the ordinary methods of bookkeeping.

Wages (which have been debited from the Cash Book as usual) will be credited from the Wages Analysis Book with all productive wages, and the Cost Ledger Account debited with the same figure.

Direct materials will be treated in the same way from the total of that column in the Purchase Analysis Book.

Stores will be similarly treated from an analysis of stores issued, which agrees with the monthly totals of that book; whilst the stores returned are debited to the Cost Ledger Account and credited to stores.

There will also be various expenses which are chargeable directly against various jobs, such as travelling expenses, etc., which can be posted in the first instance to "expenses chargeable" and periodically analyzed, and this account will be credited and the Cost Ledger Account debited with the total.

Particulars of the percentages charged to the various contracts to cover indirect expenses can be debited also to the Cost Ledger Account and credited to an "Indirect Expenses Account," and the credit balance of this account should be sufficient to at least equal the various debit balances remaining in the General System.

In the Cost Ledger System the items will, of course, be reversed: thus the General Ledger Adjustment Account will be credited and the various contracts debited with the total amount of wages chargeable, and so on, to show the total cost of each job.

The Sales Book will follow the ordinary ruling, with weight columns if usual in the particular trade, and two posting folios, one for the ordinary Sales Ledger and one for the Cost Ledger, the latter being credited with the amount.

The total of sales at the month end in the General System

will be credited to Sales Account, and the same amount subsequently debited to sales and credited to the Cost Ledger Account, the monthly total being also debited in the Cost Ledger to the General Ledger Account, the credits having been previously credited in detail from the Sales Day Book. The entries are, in fact, the exact converse of direct materials.

Presuming for simplicity the unlikely case of all contracts on hand being just completed at the year end, the Profit and Loss Account can be prepared by extracting from the Cost Ledger the various balances of the accounts for each contract. If it is desired to raise a Profit and Loss Account in the usual form, it can be obtained from the General Ledger by extracting the balances of the various nominal accounts after excluding all transfers to the Cost Ledger System.

The Cost Ledger will be finally closed by transferring the balances to the General Ledger Account, whilst in the latter system the Cost Ledger Account will be debited with the net profits and Profit and Loss Account credited. The adjustment of the indirect expenses—that is the difference between the actual cost and the percentage charged against the contracts will also appear.

The majority of firms, however, prefer to keep their Cost System entirely separate, and this can easily be done by omitting the various transfers in the General System as set out above and providing a special Nominal Ledger for the Cost System, debiting wages, stores, direct materials, etc., in that book instead of the General Ledger Adjustment Account. In this case the total of these accounts will be compared and agreed with the corresponding figures in the General System, and at the year end a separate Profit and Loss Account will be prepared from the Cost Accounts alone, which should approximately agree with the profit shown by the General System.

In some trades special books are used for outside work to deal with "plant issued" and "plant returned," which are charged to the contracts involving this class of work, the figures in each case being based on a valuation made at the time, and therefore charging each contract with its own depreciation on that section of capital expenditure. This, however, does not call for further explanation.

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CONTRACTS IN PROGRESS

The question of contracts in progress now demands attention, and may be divided into those which are so nearly completed that a fair estimate may be made of what will be necessary to complete the entire work, in which case it is valued at its selling price less the amount reserved, and the profit carried to the accounts as if it were completed.

Contracts which have only just been started are usually taken into stock at the amount of cost, including, of course, the usual percentages to cover the expenses.

If any contract is divisible into different sections which under the agreement may be charged out separately, it is perfectly safe to charge out any portion of the contract which is so divisible as if it were a distinct contract. Whichever plan is adopted, however, with the contract in progress is a practical rather than an accountancy question, and the estimate of the amount required to complete the contract, if the first method should be so used, can only be very roughly checked by the office, if, indeed, it can be checked at all. The office, however, should go carefully over all charges incurred since the books have been closed which should be debited to contracts in progress, or for which no invoice may have been received, such as carriage, etc., and see that due provision is made for these items in the estimate.

On Cost

Another point calling for fuller discussion is the question of the percentage charged to cover indirect expenses. The principal sub-headings of these expenses are rent, rates, taxes and insurance of works, motive power, repairs, upkeep and depreciation of machinery and plant, works salaries, and other direct expenses of the works, all of which may be classed as works expenses; and the office and financial expenses, which include stationery, office salaries and expenses, directors' and general manager's salaries, interest, discounts, bad debts, etc.

These charges, as previously explained, are provided for in the Cost Account by a debit which may be based on the number of hours expended, the amount paid for labour, or the total cost of the job, or a combination of all of these methods. In case it is desired to use the first method, columns will have to be added to the Analysis Book and Cost Ledger to show the time spent on each job; but most firms prefer to deal with all these expenses by a charge on labour only, or alternatively by that and a further percentage on the total cost. Possibly on account of its simplicity, the method most usually adopted would appear to be a charge on the cash paid for labour only. The rate to be debited will be based on previous years' experience, as no general rule can be laid down for any one firm, the charge varying in every case for the different classes of business and the circumstances of each manufacturer. The term of "on cost" is given to cover this percentage.

PATTERNS

In addition to the other expenses which we have previously dealt with, the patterns for the various machines or portions of a machine must be debited against the job using them. If the pattern is made specially for any job, it is usually debited to it, unless there is every reasonable probability that it can be shortly used again for a "repeat" or similar work. The method of charging stock patterns varies considerably. In the first instance, the total cost should be ascertained as if it were an ordinary job, and the cost dealt with according to its estimated life. This will depend, however, not on any length of time, but on the frequency of its use. It is also complicated by the fact that, owing to being seldom required, some of the patterns may become obsolete before they are worn out. The system adopted in some firms is to charge a fixed percentage of the original cost of all general patterns against all orders on which such patterns are used. This percentage will be at such a rate that a considerable margin is left over to provide for the patterns which cannot often be used. For example, suppose a particular class of patterns will serve for between fifteen and twenty times and cost £28. Very likely each contract for which this pattern was used would be charged with $\pounds 2$ 16s., or ten per cent. of the cost for use of the pattern, and supposing this particular pattern were used seventeen times, this would leave a margin, after writing off the original cost, of seven times £2 16s. or £19 12s., a surplus which would cover the loss on a pattern of similar cost which, owing to lack of orders, could only be used three times. In order to do this without numerous transfers, it is usual, after fixing the charge for each pattern, to transfer the cost to a "Patterns Account" which covers all the patterns, and against which the charge for every pattern used will be oredited.

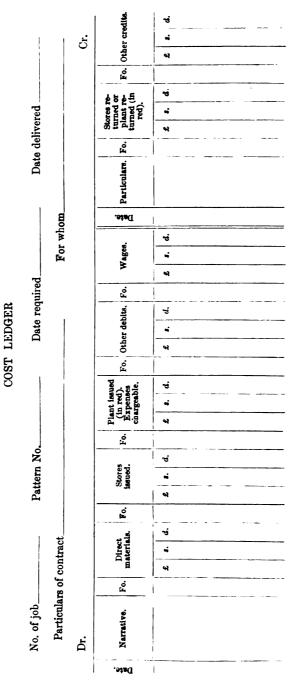
It will also be seen that if the useful pattern of which we have spoken in the last paragraph is still required, a second can be made more cheaply than the first, since there will be no designer's wages to charge in the second cost account for the new pattern, as the old design is, of course, applicable, but the charge of £2 16s. will still be debited against contracts making use of it.

MACHINES FOR STOCK

The only remaining point which it is proposed to deal with before we come to the final summaries is the question of machines or parts of machines which are in regular use, and which are manufactured for stock whenever there is a little time to spare from the specific orders. Each job for stock will be given a consecutive number as if it were an ordinary contract, and a separate ledger account is opened for it in the Contract Ledger; but when it is completed, the total cost, including, of course, the percentage for indirect expenses, which has been added, the contract is credited and a Stock Account debited with the total cost. When the opportunity arises to sell the machine, the price will be credited to Stock Account through the ordinary Sales Book, and the profit thus brought into account. If, however, it is not a machine, but only a portion which is to be used as part of another, the ordinary selling price will be charged for it, and a special transfer made from stock to the contract for which it is being used, as a "direct material," such amount being entered in that column in the contract account in red ink, so as not to interfere with the balancing of direct materials in the Contract Ledger, with the "Direct Material Account" in the General Ledger.

We have now explained the general principles of the cost system, and have to show the reconciliation between the two 212

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systems. The Cost Ledger will be ruled to show at a glance the various classes of expenditure incurred on any particular contract—for example, see p. 212.

From this ruling it will be seen that it is particularly easy to make a full extract of the Cost Ledger, to show the actual amount or value of all charges made against each contract, and that is our course when we come to the end of our financial period.

The form of such analysis will vary according to particular views and requirements of each individual business. The example on p. 214 is a specimen.

The method of using the analysis requires a little explana-The amount of balance brought forward includes those tion. items which were valued in the last balance sheet at cost only, not taking into account those contracts which were treated as being completed, subject to a reserve. The next five columns are simply extracted from the Ledger in the ordinary way; the indirect expenses column is, of course, the amount debited in the Ledger by way of the percentages before referred to, and the succeeding column is for contracts which are nearly completed at the year end, where an amount is reserved and carried down as a liability to finish the same. Our next column, "Total cost," is simply an addition of the preceding figures. The next is the total amount charged per the Sales Book, together with the reserves brought from last year for the contracts nearly completed at that date. The remaining columns are selfexplanatory.

The additions of the various columns dealing with materials and expenses other than labour, should agree with the debit balance of these accounts in the general system after the stock on hand has been credited to the respective accounts. The difference between the wages as shown on these sheets and the debit to wages in the general system should agree with the amount of unproductive wages in the summary of wages, and will have to be written off as an indirect expense. From the General Ledger System, the ordinary Profit and Loss Account will be prepared after entering the reserves for uncompleted contracts, etc., to correspond with the amounts already dealt with in the Cost Ledger.

The profit or loss, as shown by the sheet extracted as above,

	e.
eing tring Profit.	•
Balance, being manufacturing .ose. Profi	બ
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Amount of contract charged out.	भ
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Description Description	

ANALYSIS OF COST LEDGER

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ACCOUNTING AND BANKING

should, subject to the adjustment of indirect expenses, agree with the Profit and Loss Account as prepared from the General Ledger.

If, during the year, capital extensions have been executed by the concern's own workmen, a special account will be kept of this, and the cost price will be debited to machinery or the other accounts involved and the Cost Ledger Account closed. The repairs executed will also be treated as a special outside job and the total debited to repairs and treated as an ordinary indirect expense, as mentioned above.

As candidates in the Accountants' examination are frequently required to draft a form of Cost Sheet, we append the following outline form suitable for engineering works.

FORM OF COST SHEET

No. 99. Date]	Nix	on	&				ne for worth	Manchester.
Fitting													
Turning													
Planing													
Shaping													
Forging													
Models												.•	
Castings													
Wrough													
Steel .													
Brass .													
Stores													
010108	•	•	•	•	•	•	·	•	•	•	•	•	
		То	tal	pri	m	0 CC	st		•	•		•	
Fixed ch	arg	ges	per	r ce	ent	. or	ı p	rin	ne c	ost	•	•	
								P	rofit	•	•	•	
Day bool	k		•			•	•						
•								W	eigl	nt	•	•	

QUESTIONS AND EXERCISES

126. Give an example of a Stores Issued Book.

127. Discuss the methods of dealing with establishment charges, and the calculations for same.

128. Describe how the cost system may be incorporated in the General Ledger Accounts.

129. Explain how contracts in progress should be treated in the accounts.

130. How are capital extensions and repairs executed in the works dealt with?

131. Define "on cost," and state the principles on which you think it ought to be apportioned.

132. The directors of the Old Time Spinning Company decide to entirely replace their plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. A. B. and Co., amounting to £8850.

The old Machinery and Plant Account stood in the books of the company at $\pounds 5400$. There was also a depreciation fund in the books, the accumulated credit balance of which amounted to $\pounds 1050$. Some of the materials composing the old machinery were found to be in good condition, and Messrs. A. B. and Coagreed to take over shafting, etc., valued at $\pounds 550$, for use again; whilst the remainder was put up to auction and realized $\pounds 1200$ (net).

Make the entries necessary to record these transactions in the books of the Old Time Spinning Company, and state how you would deal with the balance of the old "Machinery and Plant Account."

133. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (a) to wear and tear, as in the case of machinery; (b) effluxion of time, as in the case of a building erected upon leasehold land?

What methods do you favour for providing such waste, and why? State briefly what entries would be required to carry your suggestions into effect.

134. The Sherbourne Iron Furnace Co., Ltd., has a registered capital of $\pounds 150,000$, divided into 150,000 shares of $\pounds 1$ each; 120,000 shares, upon which 10s. per share has been called up, have been issued and subscribed. Owing to default by non-payment of calls, 100 shares, upon which $\pounds 5$ have been received, have been forfeited in accordance with the articles of association.

On September 30, 1905, the stock in hand was taken, the value of which, certified by the managing director, was as follows :---

•	-										£	8.	d.	
Pig iron								•			16,045	0	0	
Limestone .														
Coal and coke			•								900	0	0	
Iron ore, etc.	•	•	•		•	•	•		•	•	1,128	0	0	

The Ledger balances on September 30, 1905, set out below, were extracted from the company's books, after all the necessary trade reserves and depreciations had been adjusted.

Prepare a "Furnaces" (or Working) Account, showing the cost of the pig iron produced, a Trading Account and Profit and Loss Account for the year

MANUFACTURING

ended September 30, 1905; and a Balance Sheet as on that date, after carrying £2000 to the Dividend Reserve Account:---

LEDGER BALANCES (September 30, 1905).

•••	£	8.	đ.
Freehold Premises Account	23,400	ö	õ
Furnaces, Fixed Plant, and Utensils Account	24,920	0	0
Locomotives and Rolling Stock ,,	7,411	0	0
Reserve Account.	2,000	0	0
Share Capital Account	59,950	0	0
Wages (Furnaces) Account	8,724	0	0
Bills Payable "	120	0	0
Limestone Stock "	122	0	0
Coal and Coke Stock Account	1,400	0	0
Iron, Ore, etc., ", ",	1,006	0	0
Pig Iron ", "	26,272	0	0
Coal and Coke Purchases Account	27,227	0	0
Limestone ,, ,,	3,320	0	0
Iron Ore, etc., ", ",	14,467	0	0
Sundry debtors	7,257	0	0
Profit and Loss Account (credit balance)	7,822	0	0
Sales Account	86,873	0	0
Rates and Taxes Account	1,297	0	0
Repairs and Renewals of Furnaces, etc., Account .	2,500	0	0
" " Rolling Stock, etc., Ac-			
count	1,221	0	0
Office Salaries and Sundry Wages Account	1,728	0	0
Travelling Expenses Account	237	0	0
Insurance (Fire and Employers' Liability) Account	385	0	0
Law Charges Account	233	0	0
Forfeited Shares Account	5	0	0
Sundry Creditors	5,604	0	0
Bad Debts Account (debit balance)	9	0	0
Dividend " (paid March 31, 1905, on			
account of the year ended September 30, 1904)	5,995	0	0
Bank Overdraft	1,981	0	0
Cash in hand	224	•	0
Carriage Account (inwards)	2,000		0
,, ,, (outwards)	3,000	0	0

CHAPTER XV

STATISTICAL RETURNS

Overdue Book Debts—Cash Summaries—Ledger Balances—Approximate Trading Accounts—Diagrams and Curves in regard to Turnover and Expenses—Dealings in Debenture Stock—Prices of Cotton and Bank Rate.

Accountance has, within the last few years, included within its scope the preparation of statistical returns, furnishing particulars of the utmost service to proprietors and managers of all classes of undertakings; for instance, in regard to the comparative statements of production, turn-over, expenses, and out-goings.

One reason for this is the growth of large businesses, either by development or amalgamation, and the increasing keenness of competition. It is an impossibility for directors of a big concern to exercise a proper control over it without more frequent statements of expenses than is furnished by periodical Profit and Loss Accounts and Balance Sheets, which always involve a certain amount of dislocation and inconvenience.

In the various chapters dealing with cost accounts certain aspects of statistical returns are seen, more particularly in that relating to colliery accounts, since the cost sheet in that class of account is prepared periodically and frequently.

The nature and scope of these returns will naturally vary with every individual case, since each will require different information, which depends on the nature of the supervision and the inside knowledge possessed by those to whom it is submitted, and also on the materials from which we must form our figures.

For instance, the first section to deal with under this heading consists of book debts. With regard to the nature of the information to be recorded in the report, it will be decided by the internal system in the office itself. Let us suppose that each month, when the statements are sent out, the names and

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amounts are recorded in a "Statements Book," consisting simply of a space for the ledger folio and name, and then various money columns reserved for the month due, and as the amount is paid, it is simply crossed out by a pen mark. If this system is in vogue, it forms the material for our first book intended for submission to the head of the office, whether he be head bookkeeper, cashier, secretary, or accountant. It may be, however, that no "Statement Book" exists, then the ledgers may be self-balancing and checked monthly, in which case overdue accounts are specially marked on the balances abstracted. Finally, if neither of these systems exists, each ledger clerk must submit a list of the overdue accounts in the ledger under his control.

This list should be entered in a special "Overdue Accounts Book," ruled to show all necessary particulars.

Folio.	Name.	A mount.		Date due.	Date paid.	Cash.			Discount.			Allowance.			Remarks.	
		£	s .	d.		_	£	8.	d.	£	s.	d.	£	8.	đ.	
				i 1							 	1				1
i	l	1									 ,			;		

The remarks column would contain any particulars necessary to show why the account was not paid, or the method of finally dealing with the transaction. It might contain notes to the effect of "Dispute as to quality," "Items claimed to be returned and disputed," "Empties not returned," particulars of securities held, if any, or in more unfortunate cases, "Receiving Order made Oct. 15," "Deed of Assignment, Nov. 25," "Composition of 10s. offered, Dec. 11."

These accounts would be carefully gone into, and probably special letters or statements sent, by the secretary, and would be submitted to the board for instructions as and when arranged. They may decide to settle the dispute, or sue the debtor, or, in one of the two latter cases quoted, decide to assent to the deed of arrangement or otherwise. It is, of course, entirely a matter of internal arrangement when, how, and for what purpose these

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lists shall be given to the board. They may be submitted when, say, two months overdue, to allow the secretary time to clear them up, if possible, or authority may be given to the secretary to assent to arrangements with insolvent debtors apart from bankruptcy; but periodically this book, or a summary from it, should be submitted to the board or the proprietor, as the case may be.

The next statement to be prepared for the board would be a summary of cash receipts and payments for the month, which would naturally appear in as simple a form as possible. To this would be added a summary of the available balances and funds expected to be received during the current month, and a further statement of the liabilities to be met during the same period, which might suitably appear in the following form:—

CASH SUMMARY FOR MONTH ENDING MAY 31

		£	£
To opening balance			By creditors
"sundry debtors			" expenses (detailed as required)
" other receipts	•	•	,, other payments
			"balance
			
" balance brought down.			" creditors payable in June .
" bills receivable in hand	•	•	" current expenses
" debts due during June	•	•	

To this might be added the summary of the personal accounts if the ledgers were self-balancing; and in fact, even if they were not, an approximate statement in a similar form is useful for both debtors and creditors.

SALES LEDGERS ACCOUNTS

£	£	
May 1. To opening balance .	By cash	
"31. "sales	"discounts	
,, ,, other debits	- " returns and allowances	
	"bad debts	
	" other credits	

In addition to these, if Stock and Stores Accounts are kept, approximate monthly trading accounts can be submitted to the board by use of the particulars obtained from the Stores Ledger.

STATISTICAL RETURNS

E	STIMATED TRADING ACCOUNT FOR MA	Y £	s. d.
Sales 1		-	
Diffe	rence in stock (add increase, deduct decrease) .		
1	Estimated gross profit		
Percentage on turnover.	Expenses for month— Wages, per cash summary and adjustments. General expenses per cash summary and Purchase Book Stationery and office expenses per cash summary and mary and Purchase Book Monthly proportions of standing expenses— Rents, rates, and taxes Gea, coal, and insurance Directors' fees Balance, being estimated net profits	٤	s. d.

If desired columns may also be added to show the trial figures under the same headings for the full year to date, with corresponding figures for the previous month or for the corresponding month in the previous year.

In the case of manufacturing companies the statement will naturally be rather fuller, and may be rendered in a complete form by means of additional columns, all of which depend, of course, on the care and accuracy with which the stores accounts and the reserves and estimates are kept.

MONTHLY STATEMENT FOR THE BLANK MANUFACTUBING CO. For Period ending May 31

Sales for month Stock at May 31	• •	•	•	•••	•	•	•	•	•	•			
Less stock at M Production fo	•			•••			•	:	•				
	0	penin	ng "	Pu	rcha	ses.		losin			sump r Cos		Percent age.
Direct expenses— Raw material (subdivided as required) General stores (subdivided as required)	£	8.	d.	£	8.	d.	£	£ s. d.		£ 8, d.			
		ash		R	eser	ve.		s ope	ning e.				
Wages	£	8.	d.	£	8.	<i>d</i> .	£	8.	đ.				

The statement of the indirect expenses will be similar in manufacturing and trading concerns, and does not therefore require repetition. In the same way particulars may be given of each department or branch (if any) when so desired by the management. The special returns supplied by branches and described in the chapters relating to them may also be submitted, and are properly included under our heading of Statistical Returns.

All the statements which we have so far prepared for our board meeting, as will be seen, are in the nature of bookkeeping; returns, that is to say, are prepared principally from books of account, and in many cases are balanced off and worked up as if they were integral parts of our double entry system; and indeed all particulars have been furnished in the above forms for the preparation of an approximate Balance Sheet, if one were required. But there are other forms of returns which are very useful and are employed in many trades, which come under an entirely different description, and amongst these we must include and deal with diagrams and curves.

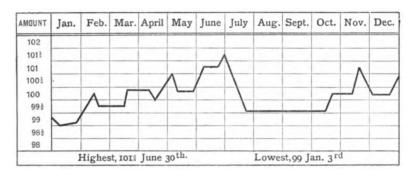
These statements are of much service to limited companies to show the fluctuation taking place on the market with regard to their own shares or debentures, or to record the fluctuations of the raw material or average selling price of any article which a concern may deal in or manufacture, where such commodities have a standard market price which governs the sale or purchase thereof. The form may perhaps be most simply described as that of a weather chart, such as appears in many daily papers, and may indeed prove a very true "weather chart" to any company except the favoured few which are always at "set fair."

The use to which these charts may be put is endless. For instance, a statement may be prepared to deal with the total sales of a trading concern for a number of years, all of which may, by appearing in different coloured inks, or by a different kind of mark, be represented on one chart, so that the managers can see the full turnover done for many years past in comparison with each other. In the case of sales it is an advantage to have two charts running, one dealing with the sales of each month only, and the other dealing with the total sales for the full period of the year to the date mentioned at the head of the chart.

STATISTICAL RETURNS

Three forms of this class of return are given below, from which it will be easy to see the method of preparing and dealing with them.

STATEMENT OF DEALINGS IN THE COMPANY'S DEBENTURE STOCK FOR THE YEAR

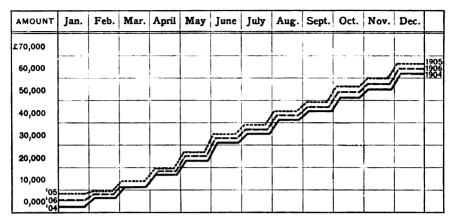


PARTICULARS OF TURNOVER FOR THE VARIOUS MONTHS ENDING DECEMBER 31, 1906

AMOUNT		-	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
£6,000													
5,500					ſ				1.			/\	
5,000			/					5	$\mathbb{N}_{\mathcal{I}}$,	
4,500	1905	·	/						\downarrow				
4,000	1906 1904		r—								1		
3,500	}												
3,000													

			SOM	MARY				
			1904. £		1905. £		1906. £	
Highest		Nov.	5,902	June	5,829	June	6,007	
Lowest		Jan.	4,106	Jan.	4,710	Jan.	4,420	
Average			5,110		5,429		5,192	
Total			61,427		65,146		62,304	

PARTICULARS OF TOTAL TURNOVER AT VARIOUS MONTH ENDS



The same information may, of course, be put into statistical form if so desired, but the information for a series of years will come out more clearly in a diagram where general tendencies rather than exact figures are required to be noticed and examined, which makes this method particularly suitable for shares, cost of raw material, sales, or any one class of income or expenditure, though, of course, it is quite unsuitable for any detailed or complex statement. Charts may, of course, be prepared if desired to show the rise or fall of percentages of expenses, etc., or may be very useful as a means of comparison as to any two classes of income or expenditure, though they are not suitable for more than two different classes if intended in any way to be worked together, though the following table will show how they can be satisfactorily used even in this respect where so desired.

טאוד	DESCRIPTION	eriod ofmonti Ending	15 Ending
5,000			
4,000			
3,000	Sales	 	
2,000	Total Expenses Manufacturing Cost		
1,000	Cost Raw Material Wages	 	

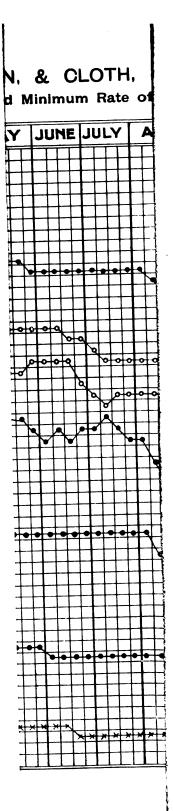
PARTICULARS OF TURNOVER AND EXPENSES



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A similar table is also used to compare the cost and sale prices of various machines where many machines are manufactured of a similar class, but varying grades, for example, bicycles or sewing machines.

Another class of information which can only be treated under this heading, though it can scarcely be described as "statistical," is the information which it is usual to obtain in connection with the standing of any new customer.

The sources of information are various, and may consist of bankers' or traders' references, but more usually the report is obtained from one or other of the numerous trade inquiry offices which exist all over the mercantile world. In houses which usually deal with large accounts it is frequently a fixed rule that no credit shall be given to a new customer until a satisfactory report has been received from one of these offices.

The method of dealing with the information obtained varies in different offices—in some all reports as received are given a consecutive number, and a reference to this number is placed at the head of the ledger account, occasionally with a note as to the amount of credit to be given. Other firms prefer the system of filing cabinets, which will be used with the cards supplied for the purpose, so that all the accounts which have been opened will appear in alphabetical order with the report from the inquiry office and a note as to the promptitude or otherwise of the remittances on previous business.

As illustrative of the usefulness and variety of information which may be included in one chart, we give the annexed specimen of one furnished to the members of the Manchester Chamber of Commerce; for the favour of which we are indebted to Messrs. R. Barbour Bros. of Manchester.

CHAPTER XVI

BANKING

Services of Bank—Relation of Banker to his Customer—Sources of Profit—Bill Discounting—Guarantee of Advances—Advances to Bill Brokers—Opening of Account—Deposit and Current Accounts—Money at Call—The Bank of England and its relation to the Banking World—Government and the General Public—Bank Rate—Bank Note Issues—Bank Returns—Check on Bank charges.

In the various classes of business in which we have been concerned in the preceding pages, the banker has rendered much service. To Mr. Reader of our first chapter he was practically the cashier, receiving and collecting cheques and bills, paying accounts and retiring acceptances, also at a later stage in his business career advancing money in the form of an overdraft to enable him to extend his business operations. Similar service was extended to the partnership concerns whose business we considered. Then when we dealt with joint stock companies, we found that the numerous transactions in regard to share and debenture capital were dealt with by the bankers, as in the receipt of application, allotment, and call accounts, and later in the payments of dividends and debenture interest to shareholders and debenture holders.

Banking is one of the most productive agencies a nation possesses, and it is well that we should realize the immense influence it has upon the commercial prosperity of a country, especially as England may be considered to have the most economical banking system in the world.

To quote what we have said in "Worked Studies":-

"It has been well said that banking is the nervous system of the business world, promoting and controlling the immense volume of our home and foreign trade. Its service to business and commercial men increases in extent and diversity year by year, and one can hardly imagine how trade could be carried on without the assistance of our banking system.

"To enumerate a few of the services for which we are indebted to our bankers—

"(a) The convenience and safety of depositing surplus cash, in many cases with a moderate interest accruing.

"(b) The convenience of making remittances by cheques and drafts.

"(c) The collection of cheques, country notes, dividend warrants, etc.

"(d) The obtaining of circular notes and letters of credit.

"(e) The advantage of making inquiries as to the financial standing of persons desirous of doing business.

"(f) Acting as referees to customers.

"(g) The dealing with the various receipts and payments of joint stock companies.

"(h) The securing of financial assistance by means of overdrafts, the discounting of bills, or advances on shipping documents.

"(i) The acting as exchange brokers, and the placing of branch houses abroad in credit by means of telegraphic transfers.

"(j) The value of bank shares as safe and remunerative investments.

"This enumeration of banking facilities must make us realize how much our trade is dependent for its smooth working and success upon the growth of a system which has its ramifications from our large business centres to almost every town and village in the country, as well as to agencies throughout the world."

It will be readily understood that in fulfilling these various functions the banker will stand in different relations to his customer, in each of which the duties, rights, and liabilities between the banker and customer are separate and distinct. By the economist these relations are set forth thus—

1. As the purchaser from him of money or debts.

2. As his agent, or trustee, or bailee of his money and valuable securities.

3. As the pawnee of the same.

4. As his warehouseman for valuables.

Put briefly, in the first case, which is that of the ordinary

current banking account, the relationship between the two is that of debtor and creditor.

In the second the banker is the agent or trustee of his customer, whose instructions he follows in regard to the disposal of his securities.

In the third instance the banker is the pawnee of securities on which he has made a loan, having the right to sell or charge the securities for the satisfaction of his claim; and in the fourth case, as warehouseman, no property or lien in the deposits passes to him.

To the man of business perhaps the most important of the above functions is the one of lending money, and it is to the banker to whom he has recourse for financial help in the time of need, when liabilities have to be met or additional capital is required for extension of business operations.

Joint stock banks with large paid-up capital and still larger uncalled capital in reserve, with big reserve funds and their affairs managed by influential directors, attract the savings and unengaged cash of thousands of individuals, who are pleased to place surplus cash with bankers with the assurance that it is safe, moderately remunerative, and readily obtainable.

Banks with such enormous funds at their disposal are thus able to finance industrial and commercial firms, and by the difference between the interest allowed on customers' accounts and that charged to borrowers make exceedingly satisfactory profits for the bank shareholders.

Let us inspect the accounts of Barclay and Co., Ltd. (p. 230), and from it form some idea of the magnitude of the transactions and of the income earning power of such companies.

Perhaps the most striking feature one observes is the fact that, after allowing for bad debts, there is a gross profit of over a million sterling upon a paid-up capital of less than three and a quarter millions. In seeking for an explanation of this we find that the bank has deposit and current accounts to the extent of forty-four millions, and in addition a reserve fund of a million and a half, most of the latter being invested in Consols. It will be seen, however, that advances to customers and bills discounted amount to some twenty-six millions, this being the way in which the moneys deposited with them are utilized, and upon which the profits are earned.

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We may, therefore, understand that the sources of a banker's profits arise almost entirely from the lending of money. This takes the following forms :---

1. Overdraft or loans, either with or without deposit of securities.

2. Buying or discounting of bills.

3. Loans guaranteed by third parties.

4. The financing of shipments.

5. Advances to bill brokers and others.

1. In regard to these overdrafts and loans the custom varies amongst bankers; some allow the customer to overdraw to a certain limit and charge interest on the actual amount of overdraft, whilst others charge interest on the loan granted even though the customer does not avail himself to its full extent.

It is usual for the banker to obtain from the customers collateral security to cover or partially cover the risk of the overdrafts and loans. This may take various forms, viz.—

- (a) Deposit of deeds of property owned by the customer, with or without a memorandum of deposit; or a legal mortgage of the property may be given to the banker.
- (b) Deeds of property held by the customer, as mortgagee, or held as security for advances, e.g. solicitors financing builders.
- (c) Bills of exchange.
- (d) Share certificates which may, or may not, be transferred to the nominees of the bank, and notice being given to the company of the banker's lien where the shares are not transferable.
- (e) Debenture scrip accompanied by letter of deposit.
- (f) Dock and warehouse warrants which on endorsement carry a legal title to the goods.
- (y) Insurance policies, regarded as security to the extent of the surrender value, and requiring notice to the insurance company of the charge on the policy.

2. Bill Discounting.—When a banker discounts a bill he becomes the absolute owner of it, taking all the owner's rights and responsibilities. If the bill is dishonoured he has his remedy on it against the acceptor and all other parties who have received notice of dishonour, including the customer who

Dr.	BALANCE	SHI	CET,
Liabilities.	£	8.	đ.
o Current, Deposit, and other Accounts (including balance	l.		
of Profit and Loss).	44,407,970	4	1
, acceptances for customers	161,324	4	7
"capital, viz.—	-		
400,000 shares of £20 each, £8 paid	3,200,000	0	0
reserve fund (per contra)	1,500,000	0	0
	£49,269,294	8	8
Dr.	£49,269,294 PROF		8 AND
Dr.	PROF	FIT .	AND
To salaries and other expenses at head office and branches,	PROF £	FIT	AND d.
	PROF	FIT .	AND
To salaries and other expenses at head office and branches, including income tax	PROF £ 548,397 14,040	FIT . s. 16	AND d. 2
To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000	FIT . s. 16 2 0	AND d. 2 9
To salaries and other expenses at head office and branches, including income tax	PROF £ 548,397 14,040	FIT . s. 16 2	AND d. 2 9 0
To salaries and other expenses at head office and branches, including income tax	PROF ± 548,397 14,040 50,000 25,000	FIT . s. 16 2 0	AND d. 2 9 0
To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245	FIT . 16 2 0 0	AND d. 2 9 0 0
To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245 232,245	FIT . 16 2 0 0	AND d. 2 9 0 0
To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245 232,245	FIT	AND d. 2 9 0 0 0
To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245 232,245	FIT	AND d. 2 9 0 0 0
 To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245 232,245	FIT . 16 2 0 0 12 12 12	AND a. 2 9 0 0 0 0 0
 To salaries and other expenses at head office and branches, including income tax	PROF 2 548,397 14,040 50,000 25,000 232,245 232,245	FIT . 16 2 0 0 12 12 12	AND a. 2 9 0 0 0 0 0

We certify, in accordance with Clause 23 of the Companies Act, 1900, that all our requirements at the Lombard Street office and at the Bank of England, and have examined the securities representcompared the above balance sheet with the balances on the books at the head office, and with the properly drawn up 80 as to exhibit a true and correct view of the state of the company's affairs as LONDON, July 14, 1906.

BANKING

JUNE 30, 1906					(Cr.
Assets.	£	8.	d.	£	8.	d.
By cash in hand, at Bank of England	F 054 100		10			
and with other bankers	5,674,180 5,014,000	8	10 0			
" CASH AT CAN AND MOIT HOUCE		<u> </u>		10,688,180	8	10
"bills discounted				4,689,229	9	10
" investments— (Including £300,271 16s. 0d. se-						
curities lodged for county and						
other public accounts)						
British Government securities and	2,820,069	19	5			
bank stock Metropolitan and British corpora-	2,020,000	10	Ŭ			
tion stocks and bonds	942,113	18	5			
Indian and Colonial Government				i		
securities, including guaranteed	1,816,289	6	1			
British railway debenture guaran-						
teed and preference stocks	1,573,999	9	2			
Other securities	2,149,109	17				
£1,181,071 15s. 3d. Consols at 85.						
£257,731 19s. 3d. local loans						
stock at 97. £253,700 Egyptian 3% Loan at			ļ			
97, guaranteed by the British						
Government	1,500,000	0	0	10.001 500	10	2
1 to success including				10,801,582	10	z
" advances to customers including interest accrued on investments,			1			
etc				21,458,316	7	9
" liability of customers for accept-				161,324	4	7
ances (per contra)	1			92,000	ō	ó
, bank premises and adjoining		i			_	
property				1,378,661	7	6
	11 년	•		£49,269,294	8	8
				<u>.</u>		7
LOSS ACCOUNT						Cr.
				£	8.	đ.
By profit unappropriated on June 30, 1	1905	•		84,790	18	5
" gross profit, after deducting rebate bad and doubtful debts	r 8.11	1,098,892	8	0		
Dad and doubtini debts	••••	• •	•••	1,000,000	-	
				1 1		
				1		
				1		
				ł.		
				£1,183,683	6	5
		ļ	H. GO	SLING DODSWORTH	Direc	tors.

H. GOSLING E. R. DODSWORTH Burectors. as auditors have been complied with. We report to the shareholders that we have verified the cash ing the investments of the bank and those held against loans at call and short notice. We have also detailed returns from the branches, and report that in our opinion it is a full and fair balance sheet, shown by such books and returns. C. F. KEMP. SONS 5 CO C. F. KEMP, SONS & CO. PRICE, WATERHOUSE, & CO. Auditors.

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endorsed it. The latter will not be liable, however, unless he endorsed it.

The entries are as follows :---

Dr. Bills Discounted Account.	Cr. the customer, with full amount of Bill.
Dr. the customer.	Cr. Interest Account with discount.

Payment of Foreign Bills is obtained by the banker-

(a) by negotiation.

Bill is sold to foreign banker or bill broker at current rate of exchange.

If the bill is drawn in sterling, it must bear the "exchange as per endorsement" clause in order to make it readily negotiable.

(b) by collection.

- Bill is handed to banker, who forwards to foreign agent. It is then presented at maturity. The banker is credited and notified, and he credits his customer.
- If the bill is drawn in sterling it is desirable that it should bear the clause "payable at the current rate for bankers' sight-drafts on London," and if it is intended that all expenses in connection with its collection are to be borne by the drawee, the following words in addition, "together with stamps, commission, and postages" or "together with all charges."

Banking Company, Limited.

3. In regard to loans guaranteed by third parties, we think it well to give a specimen of the form of guarantee.

December 1, 1906.

To the

DEAR SIRS,

In consideration that you will have or continue a banking account with the Company, Limited, of in the county of Lancashire (hereinafter called the principal), and make advances to them and give credit to them by discounting bills or otherwise, we hereby jointly and severally

BANKING

guarantee the payment of the balance which may, on the closing of such account, be or become due to you from the said principal individually, or in partnership with any other person or persons to the extent of five hundred pounds.

And we agree that in default of any payment of the balance due on the said banking account by the said principal, you shall be at liberty, if you think fit, to receive and place to the credit of such account all such moneys, whether in the shape of payments, compositions, dividends, or otherwise, as may be recovered from the said principal or from their estate, or from any collateral securities, and after giving credit for the same, the balance that may then remain shall be recoverable under this guarantee; and any liabilities you shall be under by reason of your having put your name to any bills, or in any way guaranteed the same for the said principal, may be reckoned as part of such balance, notwithstanding such liabilities may, at the closing of the account, be outstanding.

And we undertake and agree not to make claim, prove upon, or receive dividends, from the said principal or from their estate, in respect of any sum paid or payable by us under this guarantee, or to pay you the amount due to you in respect of this guarantee, until you have received the full sum due to you from the said principal.

And we hereby further agree to pay interest at the rate of $\pounds 5$ per cent. per annum on the amount owing to you in respect of this guarantee, from the date of your closing the account of the said principal.

And it shall not be incumbent on you to enforce any payment from the said principal or estate, or from any collateral securities, before requiring us to pay the balance due on closing the account, which account you shall be at liberty to close whenever you may think proper. You are at liberty to give the said principal any time or indulgence, and to renew any negociable securities you hold as you may think fit, without affecting our liability under this guarantee; and you shall not be prejudiced by making any arrangement or composition you may think proper with the said principal without first obtaining our consent thereto. And this guarantee is to extend to the firm of the Banking Company, Limited, for the time being, of whomsoever composed, and to the Company, Limited, of whomsoever it may consist, and is to be a continuing guarantee until we give you notice in writing to the contrary.

Dear Sirs,

Yours faithfully,

Witness	to t	he	signature	of all.
Name_			_	-
Address				

4. The financing of shipments has already been dealt with on pp. 149 to 151.

5. Advances to bill brokers, etc. There are three ways in which bankers may advance money to brokers—

(a) From day to day.

(b) For a short period.

(c) Overnight.

(a) signifies that the loan is taken to be running from day to day, so that the banker may recall it at any time he pleases.

(b) where the money is advanced for a definite period, usually for the time between the settling days on the Stock Exchange, when the loan is paid off or renewed, and the rate of interest and amount of security adjusted.

(c) where brokers, being pressed for funds, arrange with their bankers for a loan to be repaid the next day. The rate of interest will depend on the supply and demand for such loans.

BANKING ACCOUNTS

Deposit Accounts represent loans to a banker on which interest is allowed, usually at 1 to $1\frac{1}{2}$ below bank rate. These loans are of three classes—

(a) Sums repayable at call or demand.

(b) Withdrawable on specific notice.

(c) Amounts deposited with the bank for a fixed period.

A deposit account does not represent a specific fund held by the banker in a fiduciary capacity. Such money may be assigned as a whole, and in case of an account withdrawable on demand or at call, and even in other events, would probably be attached by a garnishee order.

Deposit receipts are given to the depositor; these are not negotiable, and their transfer confers no right to the deposit

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account. Such receipts are exempt from stamp duty, unless interest is mentioned, when the receipt would require a sixpenny stamp.

Current Accounts.—This is the usual form of account of which the bank's customers avail themselves, for the balance of which, if in credit, the banker is debtor to his customer, and which, if overdrawn, the banker is a creditor. In opening an account an introduction to the banker would generally be expected, and some information furnished in regard to the business and character of the account, and instructions as to the drawing of cheques.

Accounts of Companies.—In the case of the opening of an account of a joint stock company the banker will require—

(a) Production of certificate of registration.

(b) Copies of memorandum and articles of association.

(c) Certificate of registrar of joint stock companies, showing that the company is entitled to commence business.

(d) Certified copy of directors' minute regarding conduct of the account.

(e) Particulars in regard to authorized signatures.

It is the custom of country bankers to allow a small rate of interest on accounts in credit, and on overdrafts to charge five per cent., or one per cent. above the bank rate.

Commission.—A charge made by the banks for the services rendered to the customers; the rate is a matter of arrangement —at times a fixed annual charge, at others no charge, but in lieu thereof the maintenance of a minimum balance to credit. The usual rate is one-eighth per cent. on the amount of withdrawals or cheques presented, calculated at the end of each half-year, so that if the turnover for December 31 reached £8000, the commission debited to the account by the bank would be £10.

The customer is supplied with a pass-book giving the particulars of debits and credits. The banker requests this to be left for making up, and to be checked by the customer at frequent intervals, with a view to its being a conclusive and accepted record of the transactions between the banker and his customer. This desirable object from a banking point of view may, from various legal decisions, be now considered as good law.

In regard to current accounts, the Statute of Limitations

operates as between any other Dr. and Cr., so that if a customer allowed his account to lie dormant for six years, he would be precluded from taking legal action for the recovery of any balance to his credit in the account.

A current account may be assigned as a debt, but only in its entirety, and not in separate amounts to different persons. Further, should a Cr. take garnishee proceedings, by which he gets an order from the Court to attach a debt owing to his debtor, the effect of the garnishee order served on the bank is to tie up the whole of the customer's credit balance on current account at date of the service, as being a debt due by the banker to the customer; thus a claim of £50 might hang up ten times the amount.

In case of the bankruptcy of a customer, his credit balance belongs to the trustee in bankruptcy, and the banker can be summarily compelled to pay it over to such trustee.

Cash paid into current account is subject to the banker's lien, unless paid in for a specific purpose—as to retire a bill.

A current account must not be closed without reasonable notice by the banker to his customer, and allowance must be made for outstanding cheques.

Although infants may have current accounts and draw cheques, overdrafts, being debts, could not be recovered against them.

BANK OF ENGLAND

The Bank of England has exercised a wonderful influence on the financial history of this country, and although the rise and development of joint-stock banks have, without doubt, weakened its influence, yet it may be considered the pivot upon which the English banking system turns.

History.—The Bank originated in 1694 by forty capitalists subscribing to lend £1,200,000 to the Government at 8 per cent. In return for this service a charter was granted, conferring certain privileges and powers to trade in bills of exchange and bills and to issue notes payable on demand. The charter has been frequently renewed, and the debt has grown until it now reaches a total of over 11 millions sterling.

By the Bank Charter Act of 1844, the note issue was limited

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to 14 millions, upon securities of which the Government debt of 11 millions forms part, and provides that any note issued above that amount must be covered by coin or bullion stored in the Bank. Its management consists of a governor, a subgovernor, and twenty-four directors.

Its distinctive features, as compared with other banks, are-

(a) The only Bank whose notes are legal tender.

(b) The Bank of the Government, which adds largely to its prestige.

(c) Holds the gold reserve of the country.

(d) Fixes the bank rate week by week, and so acts as a financial barometer of the state of the money market.

Functions.—

1. For the Government—it keeps the Government Bank Account, superintends the transfer of Stock (Consols, etc.), and pays the interest on the National Debt.

2. For the coinage-buys gold at £3 17s. 9d. per ounce.

3. For the banks—keeps the reserves of all the larger banks and discount houses.

4. For the public—(a) Issues as required and pays on demand that well-known form of legal tender—Bank of England notes; willingly accepted as money in almost every centre in the world.

(b) As a purchaser of gold.

(c) Acts as banker.

On Thursday of every week a Bank Return is issued in accordance with the Bank Act, and the following is the one for the week ended October 3, 1906.

BANK OF ENGLAND

An account pursuant to the Act 7th and 8th Vic., cap. 32, for the week ended on Wednesday, October 3, 1906 :---

Issue Department

Notes issued .	•••	. 48,776,635	Government debt 11,015,100 Other securities 7,434,900 Gold coin and bullion 30,326,635
	Total .	. £48,776,635	Total £48,776,635

BANKING DEPARTMENT

£	£
Proprietor's capital 14,553,000	Government securities . 15,956,166
Rest	Other securities 34,974,642
Public deposits 9,730,482	Notes
Other deposite	Gold and silver coin 1,298,118
Seven-day and other bills 55,980	
Total £71,332,601	Total £71,332,601

It will be seen that two statements are supplied, one of the Issue Department and the other of the Banking Department, the business of each being kept quite separate.

Before discussing this return we had better outline the conditions under which bank notes are issued by various banks.

Bank Note Issues.—(a) The Bank of England was authorized by the Bank Charter Act of 1844 to issue notes against securities to the extent of £14,000,000, with power to increase its fiduciary issue to the extent of two-thirds of any lapsed country issues. (The fiduciary issue now amounts, under the exercise of this power, to £18,450,000.) For every note issued beyond this amount the Bank must hold coin or bullion, of which silver may form one-fourth part. The Bank, however, holds no silver.

(b) Private banks. These must not exceed the amount of their issue fixed in 1844, *i.e.* the average amount of their issues for the twelve weeks preceding April 27, 1844. The number of partners must never exceed six, otherwise the issue is lost; and the bank must not open an office within three miles of London. A return of the notes in circulation must be made monthly.

(c) Joint-stock banks. Like the private banks the maximum amount of the issue of these banks is the average amount of the notes of such banks in circulation during a period of twelve weeks, as above. Joint-stock banks of issue, registered as limited companies, cannot limit their liability upon their notes; nor can they have an office within sixty-five miles of London. A return of the notes in circulation is required monthly.

(d) and (e) The Scotch and Irish note issues are governed by the Acts of 1845. The maximum circulation is the average of the year ending May 1, 1845. Scotch and Irish banks may, however, exceed their fixed limit, provided they hold gold equal to such excess issue. Notes under £5 are permitted.

In Ireland, if any bank gives up its issue the Bank of Ireland

may increase its issue by the full amount of the lapsed issue. Returns of the notes in circulation and of the coin held must be made.

Licences.—All banks of issue, except the Bank of England, require a yearly licence to be taken out for each place at which notes are issued. Four licences are, however, sufficient to cover all places at which notes were being issued by a banker at the time of the passing of the Act of 1844.

Dealing now with our Bank of England Returns.

Issue Department.—Here we have a statement of notes issued and on the contra side, the Government debt and the item of other securities, which represent the taking over by the Bank of the lapsed power of other banks to issue notes. These two, amounting to £18,450,000, constitute what is termed "The Authorized Note Issue of the Bank." The difference between this and the actual note issue, viz. £30,326,635, must be represented by gold coin and bullion stored by the Bank, and is so shown in the statement.

Banking Department.—To begin with the liabilities side we have—

(a) The proprietors' capital, which consists of stock upon which dividends are paid of about 9 per cent. per annum.

(b) The Rest is the balance of the Profit and Loss Account, and as it is never allowed to go below three millions sterling, it is to that extent considered to be a reserve, primarily for the shareholders, but also for the public.

(c) Public deposits consists of surplus money deposited by the Government, and is practically the National Current Account.

Other deposits form the Bank's liability to the general public, and are made up of the current accounts of other banks, for whom it acts as banker.

Among these are included many country banks, and the whole of the London Clearing Bankers, some thirty in number. In this sum is also included the deposits of wealthy corporations and business houses.

Seven Days and other Bills.—A small item representing bills issued by the Bank in exchange for cash; bills used as a means to make safe remittances.

Turning to the credit side we have-

(a) Government securities, which include consols, exchequer bonds, treasury bills, etc., guaranteed by the British Government.

(b) Other securities, which are represented by Indian and Colonial securities, railway and corporation debenture stock, bills of exchange under discount, and securities deposited by bill brokers and others for advances. This item includes all advances to customers, whether secured or not.

(c) Notes. This amount forms part of the notes issued by the issue department, and shows that the balance of the notes, $\pounds 29,672,960$, is in circulation outside the Bank itself.

Bank Reserve.-We have seen that the notes issued amount to £48,776,635, and that the difference between this and the authorized note issue, £30,326,635, must be covered by gold coin and bullion; as, however, we find that the Bank holds in notes £19,103,675, this sum and the gold and silver coin, £30,326,635, constitute the Bank reserve, a total of £49,430,810. The fluctuations of this reserve are carefully watched in the money market, and as the strength of the Bank's position is measured by the reserve, excessive withdrawals of gold by the colonies, foreign nations, or for home service, or what is termed an active demand, will cause an advance in the bank rate. On the other hand, the accumulation of a big reserve or a sluggish market will result in a reduction of the rate, in order that cheap money may encourage commercial enterprise.

Bank Rate.—This is the rate charged by the Bank of England for discounting first-class bills. The directors, after a consideration of the Bank returns, at their weekly meeting, usually decide whether any change should be made in the rate, which is taken as being the "official standard," or "official minimum," regulating the money rates throughout the country.

The effect of an advance not only checks commercial activity at home, but also attracts money from nations where a lower rate is being allowed. To lower the rate means, not only, as before stated, the encouragement and extension of trade in the country, but also the withdrawal of cash for foreign enterprise.

At the date of the above return the rate was 4 per cent., raised

the following week to 5 per cent., and on Friday, October 19, quite unexpectedly to 6 per cent. The explanation of this exceptional advance is well put in the following passage from the Manchester Guardian :—

"A condition of affairs has arisen which has called for exceptional measures. For months past London, the one free market for gold in the world, has been steadily drained of the precious metal to meet urgent demands caused by prosperous trade and rampant speculation not only in America but also in America within a comparatively short period took Egypt. £12,000,000 of gold from this market, and Egypt fully £4,000,000. It had been hoped that the requirements for both quarters had been satisfied, and although the last Bank return showed a reserve about three millions less than that held a year ago, it was thought that by the Bank obtaining bar gold in the open market, the usual procedure of a diminishing reserve as the end of the year approached might be reversed. At the last moment it became known that upwards of a million sterling more would be required for Egypt, though until to-day the Egyptian banks who arrange these shipments advised the Bank of England that the exports would be insignificant. Coupled with this unexpected demand came renewed weakness in the New York exchange upon London, threatening, if not actual withdrawals from the Bank, at least a demand which would absorb supplies from the Cape, etc., while it was stated that urgent orders were actually received for gold on American account, to prevent the execution of which the Bank took the unusual step of raising their rate on a Friday. Naturally, with a reserve already seriously depleted, the Bank could not afford to lose more gold, even if it could forego the chance of obtaining fresh supplies, so that the decision to go to 6 per cent. was entirely a protective It means a higher value of money generally, and it measure. is, of course, a hardship for merchants and traders throughout the country, but one which must be borne."

As we have previously indicated, the great volume of banking business is carried on by the great London joint-stock banks, and it will therefore be interesting to note the following • approximate statement of the various methods in which their resources are employed, and the average holding usually maintained by them.

Cash in hand, and a	it tl	ie]	Bai	nk	of	Eng	glaı	nd				15 r	oer cent.
Money at call and s	hor	t n	oti	Ce	(le	nt f	to t	oill	br	oke	rs		
and short loans	on	th	e S	Sto	Sk ∃	Exc	cha	nge	9)			10	,.
British Government	; sto	ock							•			10	"
Other investments													,,
Bills discounted . Loans to customers	•	•	•) = 4	
Loans to customers	•		•									} 24	"
Premises, etc												2	,,
												100	"

BANKERS' CHARGES

In the case of overdrawn accounts, the debit for interest for the accommodation amounts to a considerable sum; it is therefore well that the bankers' charges should be checked.

The commission is readily ascertained; being an agreed sum or a percentage on the withdrawals, calculated half-yearly.

In regard to interest, as many bookkeepers find a difficulty in maintaining a check on the charge, we give the following notes. Bankers will furnish particulars as to when interest upon amounts paid to them shall commence. For example, Manchester banks usually give credit as follows :---

Local uncrossed cheques	•	•	from date banked.
Local crossed cheques .	•		from date following day of
			banking.
London cheques	•		two days after banking.
Country cheques		•	three days after banking.

To check bankers' interest reckoned upon the daily balance, a "Bankers' Daily Balance Book" ruled as follows :---

b .	Bankers' da	ily balances.	Number of	Producta.					
Date.	Dr.	Ст.	days.	Dr.	Cr.				
		·							
	ł		,						
	1		:	:					

should be kept in the office.

The balance in pounds is multiplied by the number of days during which it remains at that amount, "Dr." or "Cr.," and placed in the "Products," the net total of which is multiplied

BANKING

by double the average rate of interest—obtainable upon application at your bankers—and the resultant figure divided by 73,000, the quotient being the amount of interest required received or charged—as the case may be.

If interest is reckoned upon the minimum monthly balance, the above principle would require modification accordingly.

QUESTIONS AND EXERCISES

135. State the effect of a garnishee order in respect of a judgment against a customer being served on his bankers.

136. Should the fact that an order cheque is endorsed "per pro" have any influence on the banker who is asked to collect it for a customer?

137. State the obligations of a banker with regard to cheques drawn upon him by a customer.

138. Give a short example of a customer's overdrawn account, during the half-year ended December 31, showing the amount of interest charged, and explain fully how the interest is calculated.

139. A customer passes into his credit, coin, Bank of England notes, cheques payable by the bank into which payment is made, cheques payable by other town banks, and cheques payable by country banks. Explain shortly what entries have to be made in the banker's books to record these transactions up to the point of the cheques being collected.

140. State three different classes of securities accepted by bankers against advances to customers, and briefly describe the formalities necessary in each case between the parties when the loan is effected.

141. Describe briefly the course of action which is usually followed by bankers with regard to funds in their hands :--

(a) In the case of a deceased customer who left a will.

(b) In the case of a deceased customer who did not leave a will.

142. A. B. desires to borrow £500 from his bankers, who undertake to advance this sum upon the security of A. B.'s life policy for £1000 (whole life without profits) in the Established Assurance Company. State the grounds upon which the bankers would consent to make such advance, and what steps must be taken to carry out the transaction efficiently.

CHAPTER XVII

BANK BOOKKEEPING

Cash Section—Bills Section—Securities and Investments—Customers' Accounts —Profit and Loss Section—Branches—"On the Balance "—Rebate.

THERE is no business where absolute accuracy in the books and system is so essential as in banking concerns, since most of their transactions take place in actual coin of the realm, and in paper money and securities representing the same.

In the single chapter which we are able to devote to the detail of bank bookkeeping, it is only possible to give an outline. The difficulty is increased by the fact that the practice of banks in different parts of the country is frequently entirely distinct, and the names for many of the books in use vary considerably.

In the provinces and in the smaller banks, the same cashier will receive and pay out cash; whilst in London a different set is appointed to pay the cash, and usually each cashier at the counter is deputed to deal with accounts of certain letters of the alphabet only.

The following are the principal books of accounts used in a bank.

I. CASH SECTION

1. Counter Cash Book, or Received Cash Book, or Receiving Book.

- 2. Received Day Book or Waste Book.
- 3. Sectional Cash Book.
- 4. Paid Cash Book.
- 5. Coin Balance Book.
- 6. Paid Waste Book.
- 7. In Clearing Book.

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- 8. Country Clearing Books ("Out" and "In").
- 9. Goldsmith's Book.
- 10. Clearing Balance Books.
- 11. Cash Balance Book.

II. BILLS SECTION

- 12. Short Bills Book.
- 13. Bill Journals or Diaries.
- 14. Bills Discounted Book.
- 15. Discount Ledger and Acceptance Ledger.
- 16. Acceptance Book.

III. SECURITIES AND INVESTMENT SECTION

17. Securities Register: (a) General; (b) Customers' Loans; (c) Stockbrokers' or other Short Loans; (d) Standing Orders Book.

IV. CUSTOMERS' SECTION

- 18. Current Accounts.
- 19. Deposit Accounts.
- 20. Loan Accounts.
- 21. Loans Cash Book.

V. PROFIT AND LOSS SECTION

22. Current Accounts Analysis Book (debit and credit), or Short.

- 23. Rentals Ledger.
- 24. Securities sold for customers.
- 25. Securities purchased for customers.
- 26. Salaries Book.

VI. BRANCHES SECTION

- 27. Debit Journal.
- 28. Credit Journal.
- 29. Cheques remitted.
- 30. Cheques received.

VII. THE JOURNAL

For the entry of the summaries in debit and credit form of the various books and registers, thus maintaining a continuous check on the accounts termed "on the balance." The book practically constitutes the aggregate postings account of all the bank's transactions, and may prove from day to day the accuracy of the bookkeeping.

In addition to these books, special records are required in the case of those concerns which have the power to issue notes, which it is not, however, proposed to deal with, as no bank carrying on business within sixty-five miles of London has power to do so, and this necessarily in England confines the privilege to the smaller banks.

I. CASH SECTION

The first book in the list we have given, as its name implies, is used to record the receipts as they are handed over the counter, and frequently in this book an analysis of some description is made. In small banks, and also in most provincial banks, the same tellers both receive and pay cash, in which case books one and four on the list will be amalgamated, and are then frequently treated as subsidiary Cash Books, for the balances of which the tellers are responsible, details of which appear later.

The receipts from the Receiving Book are then analyzed into a Waste Book (No. 2) to show cash received, Bank of England notes and cheques, Clearing House, country clearing, house (that is, cheques payable by our own customers) and branches. From this the debit postings will be made, or, at all events, compared with the entries made in the books—the custom of most banks being to post, as far as possible, from the various original slips, cheques, and dockets, and then to compare these entries with the figures recorded in other books.

The actual paying-in slips will then be handed to other clerks, and will be posted to the credit of the customers and analysed under suitable headings to agree with the various ledgers or sections in the "Sectional Cash Book" (No. 3), or, as some banks call it, the "Sectional Day Book." These three books will therefore show the full double entry for ordinary receipts from the customers, the customers being credited in various ledgers as summarized by the "Sectional Cash Book," whilst from No. 2 the following books or accounts are debited :—

Cash received debited to Coin Balance Book (No. 5).

Bank of England notes and cheques debited to Goldsmiths' Book (No. 9).

Clearing House cheques debited to Clearing Balance Book (No. 10).

Country Clearing cheques debited to Country Clearing Book (No. 8).

House cheques debited to the Current Account (No. 18).

Branch cheques debited to the Branch system (VI.).

In addition to this, there are also cheques drawn on banks which may not be on the Clearing House lists, which will have to be cashed separately, and are settled by a cheque on Bank of England.

Cash paid over the counter will be recorded in the Paid Cash Book (No. 4), and afterwards will be posted from the cheques to the debit of the Customers' Current Account, and credited to the "Coin Balance Book" (No. 5). They will also be analysed as before in a Sectional Book to preserve the balance of the section.

The Coin Balance Book (No. 5) will start with the opening balance of cash and notes in hand for the day, and will be further debited with all cash received from the Waste Book, and also with any cash or notes received from the Bank of England, as shown by the Goldsmiths' Book, and credited with the cash and notes paid away, as particularized in the Cash Paid Book. The balance of this account should represent the cash in hand at the end of the day. The reason for the different treatment of "cash" and "cash and notes," as described above, is that it is the practice of the banks never to reissue a Bank of England note (which are here always referred to as "notes"), but to pay it direct into that bank with any cheques drawn upon it. Therefore as a receipt it is treated differently to cash, whilst if any payments are required partly or wholly in notes, such amount is drawn from the notes in hand which have been received in exchange for a cheque at the Bank of England, and are therefore treated throughout as "cash" in this section.

The Paid Waste Book (No. 6) performs a similar function for payments that the corresponding book on the other side did for receipts.

The In Clearing Book (No. 7) records all cheques which are debited against us in the Clearing House, and the double entry arises by a credit in the "Clearing Balance Book" and a debit against the various customers, branches, agents, correspondents, etc., as set out in the Paid Waste Book. Such postings as before being made from the actual cheques sent in from the Clearing House.

The practice of banks varies greatly with regard to the treatment of these cheques. Some return them, every time the Pass Book is written up, to their clients in the pocket attached to the Pass Book; others return the cheques only at the half-year end, after the balance has been agreed by the customer; whilst still a third section does not return the cheques at all in the absence of a special agreement to do so, and obtaining also an indemnity from the customer. The majority of provincial banks follow this last practice.

The Country Clearing Books (No. 8) provide for cheques cleared on country banks, and do not differ from the other Clearing Books except that such amounts are allowed an additional time, varying according to the distance from London, within which notice of dishonour must be given.

The Goldsmiths' Book (No. 9) records simply the transactions of the bank with the Bank of England, and will consist of the debits paid into that bank as detailed by the Waste Book (No. 2), and the other payments made into the current account kept there. The reason for the Bank of England's cheques being treated differently to others is, that the Bank does not clear "in" through the Clearing House, that is to say, it requires cheques payable by them to be presented to them direct, and not through the Clearing House. The credit side of this account will consist simply of the cheques drawn by the bank on their current account and other payments to be made on their behalf by the Bank of England.

The Clearing Balance Book (No. 10) shows the daily dealings

with the Clearing House, particulars of which have been checked by means of the books already described, and the balance finally shown will be closed by a transfer to or from the current account at the Bank of England.

The daily totals of all the foregoing books, together with the totals of bills matured or collected (outwards and inwards), can now be grouped together, to show the accuracy of our work so far as the actual cash portion is concerned, in the Cash Balance Book (No. 11), the balance of which should, of course, agree with the actual cash, notes, etc., on hand, and this concludes the cash section of our work.

II. BILLS SECTION

Dealing now with the bills section, we have to consider the treatment of the bills receivable from two standpoints, each of which involves different records. Bills receivable which come to the bank's hands, are under one of two headings, . either they are paid into the bank a few days before maturity for collection only, to be credited on the day collected; or they are actually purchased by the bank, in which case they are known as bills discounted. Bills payable may be similarly subdivided between the bills actually accepted by the bank and bills which have been advised and are payable on behalf of customers.

For the sake of simplicity, many banks give credit for bills to be collected as soon as they are paid in, provided that they mature within a few days. They are paid to the receiving cashiers very frequently on a separate slip, and are immediately handed over to the bills department. They are then entered in the "Short Bills' Book" (No. 12), which is ruled to show the full particulars of a bill which usually appear in an ordinary merchant's books, and will be provided with two money columns, the first of which is used to record the amount of bills which will be forwarded for collection the same day, or otherwise treated as cash, whilst the outer column is used to record the amount of such bills that cannot be so treated. With regard to the inner column, the credit may be made forthwith to the customer from the paying-in slip, and the debit will be recorded to the house to which it is forwarded for collection if it is not a

local bill, or otherwise to the Clearing House Account as a bill for clearing, and thus into the cash system. Items recorded in the outer column will be sorted according to the due date, and then entered in a diary which reserves a page for each day and records the number of the bill and the amount to be dealt with as it falls due. A distinguishing note will also be added to show which of the bills have to be forwarded a few days in advance for collection in other towns.

All bills discounted will be recorded in the Bills Discounted Book (No. 14), which shows particulars of the bill as before, the amount, the rate of discount, period of bill unexpired, and consequent amount chargeable. The credit for the nominal amount of the bill should be credited to the customer, and the charges for discounting debited to him, although this is not the invariable custom.

The Discount Ledger and Acceptance Ledger (No. 15) are used to show the total amount of bills discounted for any one customer, so that no more shall be advanced to him than may be considered a suitable amount, and the Acceptance Ledger is a similar book to show the acceptances the bank may hold of any one firm. These books are collateral to the general system, and do not involve any postings in the ordinary books of account.

The Acceptance Book itself is used to record the bills actually accepted by the bank on behalf of its customers.

Bills advised by customer's for payment will be noted in a special diary, and on presentation will be treated in a similar manner to an ordinary cheque.

III. SECURITIES AND INVESTMENT BOOKS

This section of our work may be broadly divided into registers, which give a consecutive number and place to all securities held by the bank, whether its own or held by the bank for customers, and the ordinary Investment Books and Ledgers.

The first class do not enter into the accounting system, and are more in the nature of a directory to the strong-rooms, where the bank's own securities are held, and also its customers' securities. The latter section will include those deposited for safe keeping, and also those given for the purpose of obtaining

an advance from the bank. The Investment Ledgers themselves are, of course, ordinary books of account, and do not call for special comment, following frequently the usual system of other houses holding considerable investments, such as insurance companies.

IV. CUSTOMERS' SECTION

This important section is one in which the greatest differences exist as to practice and variety of treatment and rulings of books and accounts. It is the usual practice of London banks, if a customer should require an advance, to give it to him by means of a separate "loan," which is subject to a standard rate of interest, and always remains fixed at that figure, insisting that the floating balance between him and the bank should be a credit on the current account. The majority of provincial banks, however, allow their customers, requiring such an advance, to overdraw their current account so that such account may be either a debit or a credit, and the interest will be charged not on the fixed amount of the loan, but on the actual debit balance of the current account from time to time.

The form of these ledgers may be that of an ordinary business ledger with debit and credit rulings, or it may appear with a special ruling to show the balances daily on the account.

Date.	Particulars.	Fo.	Dr.	posti	ogs.	Cr.	posti	ags.	B	alanc	e.
			£	8.	d.	£	s .	d,	£	8.	d

If it is the practice of the bank to allow interest on the current account, probably columns will be added to provide for the necessary details of the figure to be charged.

Date.	Particulars.	Dr. postings.			Cr. J	oosting	58 .	Be	lance	•	Days	Product.	
June 30 July 30 Sept. 28 Oct. 8 Dec. 31	By balance . To cheque . By bills . ", interest . To commission , balance .	£ 200 502	s. 0 5 7	d. 0 0 3	£ 320 350 30 2	s. 0 0 0 12	d. 0 0 0 3	£ 320 120 470 500	s . 0 0 0	d. 0 0 0	30 60 10 84	28,800 21,600 14,100 126,500	
	By balance .	702	12	3	702 502	$\frac{12}{7}$	3	502	7	3		191,000	

This method of calculating interest is particularly suitable for recording interest on current accounts, where the rate charged or allowed on the account is liable to fluctuate, as in the case of banks, who usually vary the rate in accordance with the official bank rate. The formula on which it is based is, that the number of pounds in the balance, multiplied by the number of days which such balance stands, and twice the rate of interest charged or allowed, divided by 73,000, equals the amount of interest in pounds.

The example given will show how this works. Our opening credit appears in the books as £320, and this amount is extended into the balance column. On July 30 a cheque is drawn for £200, which is debited against the account, and the entry is then made reducing the balance to £120, and at the same time we fill in the number of days the old balance stood, viz. 30 days, and then multiply that figure £320 by 30 (days) and 3, which is twice the rate of interest which we are allowing on this account, which is $1\frac{1}{2}$ per centum. If any difficulty in remembering this rule is experienced, it can be easily brought back to the mind by thinking of the old school formula. "Principal multiplied by rate per cent., multiplied by time in years, divided by one hundred, equals interest," as will be seen by applying this form to our example :—

 $\frac{\text{Principal } \pounds 320 \times 30 \text{ (days)} \times 1\frac{1}{2} \text{ (per cent.)}}{100 \times 365 \text{ (days in a year)}} = \text{interest}$

Therefore multiply both sides of our compound fraction by two, and we find—

$$\frac{320 \times 30 \times 3}{100 \times 365 \times 2} = \frac{28,800}{73,000}$$

We therefore place the 28,800 in our products' column, and at the year end divide that figure and the other products which are similarly obtained by their common divisor, 73,000.

If the rate of interest should be changed during the halfyear, all that is necessary is to make a break at the date when the change took place: suppose, for example, that up to July 20 the rate of interest allowed was 1 per cent. only, the entry would be made as follows:—

New product as against 28,800 at $1\frac{1}{2}$ per cent. for the whole time 22,400

Difference $6,400 \div 73,000 = \text{\pounds}0$ 1s. 9d., which is exactly (of course) $\frac{1}{2}$ per cent. on £320 for 10 days.

Separate columns are sometimes provided for the debit and credit interests; or if most of the current accounts are in credit, the debits may be entered in red ink.

The current accounts in many large banks are entered in books containing only one account each, the books being kept alphabetically in boxes, each of these boxes being treated as if it were a single ledger. This, of course, does not affect the principle in any way.

Deposit accounts are sometimes treated in the same way, or they may be kept in an ordinary bound ledger. This will probably depend on the nature of the deposit account, and the terms of the deposit, but it does not call for any bookkeeping comment.

Loans accounts will be treated in a similar manner on the opposite side, of course.

The Loans Cash Book, or Loans Register, is generally used in connection with short loans, which are treated in this book on the tabular system. These two books apply more to London banks than to provincial concerns.

V. PROFIT AND LOSS SECTION

In this section we desire to record all those items which go to make our bank profits, and we will therefore deal with these consecutively. The charges made on current accounts by way of interest and commission are the first dealt with by provincial

At the end of the half-year the accounts are all banks. debited with the commission, either at the agreed percentage on the turnover, or at the stipulated amount if a definite figure has been arranged. The interest debit or credit is also inserted by the calculation of the products, for which "ready reckoners" exist. At the time these entries are made, they are entered either in the Current Account Analysis Book, or (in large banks) on sheets which are subsequently bound or otherwise secured in the same way that the Application and Allotment Sheets are bound in the case of a large allotment. From this book or the sheets will be ascertained the full amount of all charges made or interest allowed on every account in the "current" Similar entries will be made for the other items section. charged against or allowed to customers in the various customers' ledgers.

The interest on short loans which appears in the Loan Register will usually be paid by cheque at the time the loan is repaid, and will be posted direct to the credit of Interest Account.

Discounts on bills will appear in detail on each bill as it is entered in the Bills Discounted Book, the daily total being carried to the credit of Discount Account through the Journal.

Rents receivable will be recorded in a special Rental Ledger and Account, from which the credit to Profit and Loss Account will be obtained.

Income from investments will be credited by means of a docket, which will debit an investment in the Investment Ledger, and credit the Income Account as each dividend falls due.

Certain customers also ask their bankers to buy or sell securities for them, for which the banker makes a charge, sometimes on the customer direct, at other times by payment by the broker of a proportion of his commission. These items are, of course, recorded in suitable books, showing the amount payable to or by a customer and broker respectively, and the difference between these items, which is the bank's profit, is posted to the account in the Nominal Ledger.

The Salaries Book (No. 26) is in the ordinary form for such books, and does not call for any special comment.

VI. Branches, in the case of banks, are treated very much

in the same manner as other banks or agents might be treated, excepting for the inclusion at the year end of the profits they have made and the incorporation of their balances with the head office figures, in order to prepare a balance sheet. This portion of the subject is fully treated in other parts of the book, and the student is referred there for the method in which this is done.

The only book on our list which has not been specifically mentioned is now the "Standing Orders Book," which records any periodical payments or collections which have to be made by the bank on account of its customers. This book, like the Securities Register, to which department it belongs, is a statistical book, setting out the particulars of the payment to be made, for whom it is made, to whom, and the amount, and a similar book will record the coupons which have to be collected. In the former case, a docket will be filled in and forwarded to the receiving bank or person, who will present it in the ordinary way with the cheques. The collections will be treated also as if they were cheques, but in this case the clearing regulations, which do not affect the bookkeeping, however, are rather different.

It has previously been pointed out that provincial and London customs frequently differ, and this is chiefly in the treatment of the "tellers," banknotes, and the customers' current accounts.

The first point is when the same teller pays and receives cash. In many banks where this custom prevails, each teller has his own cash book, which will include Nos. 1 and 4 of our list (the Counter Cash Book, received and paid), and will draw on the chief cashier if he runs short of money, or pay to him any surplus over his immediate requirements, as the case may be. Under these circumstances, he balances his own book separately, and his totals are included in the Cash Balance Book, independently of the book kept by the chief cashier.

The London banks, as stated in this chapter, never reissue notes of the Bank of England which come to their hands, but many provincial banks do so. If this system is adopted, the notes paid over the counter are kept distinct from those in hand, and are sorted at the end of the day and a special number is written on each note, which acts as our bank's reference to it for the future. To do this an extra book or books will be

ACCOUNTING AND BANKING

required to record this, and the method of dealing with the notes, as described earlier, will be modified accordingly.

VII. THE JOURNAL

On the Balance.—To maintain a constant check on the balancing of the books, the bank will summarize at the end of each day the whole of its balances in a Journal, the figures in total being dealt with so as to effect the balancing of each separate section. The Journal in this case is usually in a similar form to a Cash Book in a trading concern, and each day will be added and balanced separately. The various columns will show the source of the information, the account to be debited or credited in the General Ledger, appropriate columns for posting and other references, and the amount.

As we have, on pp. 230, 231 already furnished an example of the final accounts of a banking company, we may ask the student to prepare Revenue Account and Balance Sheet from the following statement.

The following items may be taken as representing the position of the bank on January 1, 1905, and its aggregate transactions during the year 1905. Post them to their respective accounts, and draw up a Profit and Loss Account and Balance Sheet.

Exercise

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	T.
Paid-up capital, January 1, 1905	100,000
Undivided profits of 1904	4,658
Liabilities to customers on current accounts, January	
1, 1905	326,3 00
Liabilities to customers on deposit accounts, January	
1, 1905	235,842
Overdrafts and loans, January 1, 1905	287,400
Bills receivable in hand, January 1, 1905	165,200
Investments.	140,000
Cash in hand	24,200
Cash at call and short notice	50,000
Cash paid in by customers on current accounts	2,417,000
Cash drawn out by customers on current accounts	2,356,000
Cash paid in by depositors	664,000
Cash withdrawn by depositors	586,000

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Bills receivable discounted £297,000 Less discount charged thereon 10,500	£
Less discount charged thereon 10,500	000 500
Cash paid out for part of same 6,500	286,500
Balance credited to customers 280,000	000 500
Dille receivable metrus land and sold during the second	286,500
Bills receivable, matured and paid during the year .	257,000
Deposit interest accrued and paid during the year .	6,000
Deposit interest accrued to December 31, 1905, but not	
paid	7,500
Interest received on investments	4,500
Interest accrued on investments to December 31, 1905	3,000
Consols purchased, £100,000 at 95	95,000
India $3\frac{1}{2}$ per cent. sold \ldots \ldots \ldots \ldots	25,000
New premises, cost of freehold	12,750
Colonial bonds purchased	150,000
English railway debentures purchased	100,000
Managers' and clerks' salaries paid	6,950
Directors' fees paid	2,000
Income tax paid	865
Interest and charges debited to customers	24,250
Sundry bank expenses, cheque-books, etc., paid	1,468
Rent, taxes, etc., paid	2,800
Cash advanced on short notice	308,000
Cash advanced on short notice, repaid by brokers .	230,000
Interest received from brokers	,
Rebate on bills discounted	4,975
	1,525
Loss by bad debts written off	2,345
Interim dividend paid shareholders 7 ¹ / ₂ per cent	7,500
Call made of £5 per share on 10,000 new shares \therefore	50,000

Rebate.—As on the discounting of bills, Discount Account was credited with the charge to the customer, it will be readily understood that an apportionment must be made of the discounts which belong to the current and the following periods; for instance, a three months' bill discounted on December 1 should have one month's discount credited to the Revenue Account of December 31 accounts, and the other two months to the next period's profits. Hence we have a Rebate Account, representing discounts to be carried forward as a credit to the subsequent accounts.

Bills accepted for Customers.—Reference to p. 230 will show that the liability of the bank for acceptance of customers' drafts is stated on the debtor side of the balance sheet, and is counterbalanced by the entry on the credit side of a like sum, for which the customers are liable to the bank.

QUESTIONS AND EXERCISES

143. Name the various sections into which bank bookkeeping may be divided.

144. Give an example of a customer's account in a bank ledger.

145. Explain the method of calculating interest on a current account.

146. What is meant by "on the balance"?

147. What is the object of a Rebate Account?

148. After writing up the Profit and Loss Account, the General Ledger balances of the Conservative Bank, Ltd., as on December 31, 1901, were as follows: paid up capital, £1,500,000; cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000; bills discounted, loans and advances, £14,482,000; freehold premises, £380,000; rebate on bills discounted, not yet due, carried to next account, £24,300; reserve fund, £1,200,000; English Government securities, £1,250,000; other Government securities, £520,000; Profit and Loss Account (undistributed balance), £110,680; securities pledged with public bodies, £81,000; Indian and colonial securities, £1,101,000.

On the same date (December 31, 1901) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the bank at \pounds 1,725,420.

Prepare a Balance Sheet as on December 31, 1901.

149. Criticize the following Balance Sheet. State what improvements you would suggest, and your reasons for them.

BANK OF NEW ENGLAND, LIMITED

Liabilitics

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a	~~~	、 •			~~	^	•		~	~~	^			~
Capital (£3,000													h,	
on which £	20 j	per	sh	are) he	us t	eer	ı p	aid	up)	•		2,000,000
Reserve Fund .	•	•								•				500,000
Notes in circula	tion	•												522,750
Bills payable .														770,347
Deposit and Cur	Ten	t A	rcc	our	nts									8,473,421
Other liabilities												•		114,214
Profit and loss	•	•	•	•	•	•	•	•	•	•	•	•	•	53,148
														£12,433,880
					Z	1880	sta							
Coin and each h	alar	000		rith	ha	nk	079							1 303 756

Coin and cash balances with bankers	1,303,756
Bullion in hand and in transit	173,770
Money at call and short notice, bills receivable,	
Government securities and other securities in	
London, etc	2,667,636

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Investments in the colonies, viz.:	£
Colonial government securities .	878,432
Municipal securities	119,953
Other securities	266,201
	1,264,586
Bills discounted	2,276,421
Other advances and securities and del	ots, etc., due to
the bank	3,975,489
Landed property, premises, etc	

£12,433,880

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CHAPTER XVIII

CHEQUES

Definitions and Essentials — Endorsements — Dishonoured — Lost Cheques — Crossed Cheques — Not Negotiable Cheques — Clearing — Circular Notes — Letters of Credit.

ONE of the greatest conveniences of modern banking is the facility afforded in the settlement of accounts and the transfer of debts by means of cheques. First the bearer cheque, then the order, later the crossed and not negotiable cheques have been developments of the banking system of incalculable service to the business world.

By cheques, economy of time and labour and safety of remittance and payment are secured. Week by week millions of accounts are settled without a coin being needed in the settlement of indebtedness. The cheque system is now highly developed, and is one of which we, as Englishmen, may well be proud. We wish to pay a subscription of a guinea, or to pay an account of £500 to a creditor hundreds of miles away, and the useful cheque is an ever-ready instrument at our hand to do the service by transferring the funds available at our banker's to the bank of our creditor, and that, too, with the minimum amount of risk and expense.

Definition.—A cheque is a bill of exchange drawn on a bank, payable on demand.

The essentials to remember are, that it must be an unconditional order and addressed by one person to another, and be payable on demand.

	Manchester, November	r 1, 1906.
To the Union Bank or	MANCHESTER, LIMITED.	14.
Pay Mr. A. Reader Fifty Pounds		
£50 0s. 0d.	ALFRED	Nixon.

Examination of the above cheque will show that it is an order from Alfred Nixon, termed the "drawer," to the Union Bank of Manchester, termed the "drawee," to pay on demand to the order of A. Reader, termed the "payee," the bank being the payer, a specified sum of money.

The above cheque is said to be "in order," *i.e.* all the particulars required by the banker are filled in properly, and on endorsement by the person in whose favour it is drawn (A. Reader) must be paid by the bank, provided sufficient funds, or credit is available.

Dealing with the various points in connection with the cheque, we find that each one must bear a penny stamp, usually an impressed one; but an adhesive one may be used, should occasion occur for the drawer to make out the order on other than the printed forms supplied in book form by the banker. Only the drawer or the banker on whom it is drawn may stamp an unstamped cheque, and not any intermediate holders. Poor Law Guardians and Government departments, and also trustees in bankruptcy drawing on local accounts, are exempt from the stamp duty.

It was until recently a fairly general custom to attach a receipt with the cheque, with the idea of the penny stamp serving for both cheque and receipt; but this is illegal, each requiring a penny stamp, that is, if, in the case of the receipt, the amount is for £2 and over.

Date.—Cheques may be issued (a) undated, (b) dated for a Sunday, (c) post dated.

(a) The holder may insert the date.

(b) A cheque bearing a Sunday's date would be valid, but would not be payable until the Monday.

(c) Post dated, that is, bearing a date in advance of the day of issue. This form of cheque is frequently issued by those who, whilst unable to pay the amount at the time, hand the cheque to pressing creditors as an earnest of their intention to meet their liability on a fixed day. Creditors often find it advisable to accept such cheques.

Such cheques are valid in the hands of a holder, but a banker will refuse payment until the date the cheque bears. Should a post-dated cheque be paid by the banker there would be no penalty, but the cheque could not be debited against the customer until the date of the cheque, which, of course, involves risk on the banker's part.

Amount.--Should the writing and figures differ in regard to the amount, the banker may either return the cheque as not in order, or pay the amount in accordance with the written sum.

If the amount is given in foreign currency the banker is not bound to pay, but should he do so he converts into sterling at the current rate of exchange at the place and on the day of payment.

Payable to.-Cheques may be payable to-

(a) "A. Somebody or Bearer," in which case no endorsement is required.

(b) Payable to "A. Somebody or order," in which case it would require the endorsement of A. Somebody prior to negotiation. Although order cheques are endorsed by the person to whom payable, a banker could be compelled to honour the cheque without such endorsement, in which case he would require a receipt to prove payment.

(c) Payable to self or order, requiring the endorsement of the drawer.

(d) Payable to order, without any name being given, would require endorsement of drawer.

(e) Payable to "Wages or order" would be considered to be a bearer cheque, needing no endorsement.

"Pay A. B." is negotiable. If it is desired to make the cheque payable to a specified person only, "Pay A. B. only" and "not transferable" should be written horizontally.

A. Nixon's account } is transferable.

Should a bearer cheque have the word "bearer" crossed through, the cheque would be regarded as an order cheque. If the word "order" were altered to "bearer," it would require the initials of the drawer to verify the alteration.

All material alterations, as to date, name, order, to bearer, amounts, should be initialled by the drawer, and should there be several drawers, by all of them.

Endorsement.-Endorsements are usually written on the back, but there is nothing to prevent the endorsement being written on the face of the cheque. The endorsement should be in ink, but may be in pencil; should it be by pressed stamp,

the paying banker will require the endorsement guaranteed by another banker.

Endorsements may be either (a) general or blank, (b) special; the former being merely the signature of the person to whom it is payable, and the latter an instruction from the endorser to pay it to the order of another person, as—

> "Pay A. Reader or order." Alfred Nixon.

An individual endorsing a cheque should endorse it as on the face of the cheque, without any courtesy title; thus, a cheque payable to Miss Ann Jones should be endorsed "Ann Jones." In the case of firms or companies, the endorsement should show the authority of the person making the endorsement for the firm, as—

> per pro Johnson & Co. J. H. Williams.

In the case of executors, the signature of one executor for himself and co-executors would be in order, but with trustees the endorsement of each trustee would be necessary.

Frequently, in drawing a cheque the payee's name is spelled incorrectly, in which event the cheque should be endorsed as given, and also with the correct signature; thus, a cheque payable to A. Nickson when A. Nixon was meant, would be endorsed in both ways.

A cheque payable to a married lady's order, as Mrs. John Jones, should be endorsed—

" Ann Jones, " Wife of John Jones."

Should a cheque be payable to an illiterate person, as even yet occasionally happens, it should be endorsed as follows, and the mark witnessed—

> his Arthur × Slowboy. mark

Witness,

Jack Sharp, Bank Street, Bury. The endorsement of a person who unmistakably shows he is not sober should also be witnessed, as also the payment of the money to him.

Dishonour of Cheque.—A banker will stop the payment of cheques upon—

(a) Knowledge of bankruptcy, or act of bankruptcy, in which case the funds are held for trustee.

(b) Notice of drawer's death.

(c) Receipt of garnishee order.

(d) Notice from the drawer authorizing him to refuse payment of the cheque presented.

(e) For want of funds on current account in credit, or exceeding allowed overdraft.

(f) For some informality, or the cheque not being in order.

Indication of the above is given by the banker in various forms, usually-

R/D = Refer to drawer.
I/F = Insufficient funds.
N/S = Not sufficient funds.
Not in order.
Writing and figures disagree.
No effects.
Effects not cleared.
Account closed.

If a cheque has been cut or torn, payment would be generally refused unless evidence is given that it has been accidentally done, and followed by a banker's signature.

It is useful to note that a cheque is paid when the money passes over the counter, and the banker cannot legally demand its return.

Lost Cheques.—In such an event, all parties to it should be advised; the drawer should be requested to stop payment, and the loss advertised. If the payee selects the channel through which the remittance is made, or the ordinary means of communication are made use of, the loss falls upon him, and he must find the indemnity requisite before a new cheque is issued. On a satisfactory indemnity being offered, he can insist upon a new cheque being given to him.

General.—A cheque is not legal tender, but a conditional payment, only suspending the right of action until the cheque

has been presented. It may be added that the cheque is accepted conditionally upon its being met.

Should a cheque be dishonoured in error, the right of action for damages is with the drawer, and not with the holder of the cheque, who cannot sue the banker. With a lost cheque the banker will only accept the instructions of the drawer in stopping its payment.

Crossed Cheques.—So extensive is the use of cheques in the payment of accounts, and so many are forwarded by post, that something safer than the order cheque was found to be essential. This safeguard is supplied in the crossing of cheques. Originating from the Clearing House, the custom is now almost universally adopted by business houses. The crossing consists of two transverse lines written across the face of the cheque, without or with the words "& Co.," or the name of a bank. Such crossing is an instruction to the paying banker that the cheque must only be paid to another banker. Generally, the crossing is made by the drawer at the request of the customer. Cheques are very commonly printed with the addition of the crossing; the holder of an uncrossed cheque usually crosses the cheque for payment at the bank.



The first is termed a general crossing, and means that the cheque may be paid through any banker.

The second is termed a special crossing, and is an instruction that the cheque must be paid to the bank named in the crossing for collection by them.

The third and fourth are also special crossings made to insure the cheque being paid to the account of the person or firm in whose favour it is drawn. Although there is uncertainty as to a banker's liability in disregarding this instruction, the instruction is complied with by the banker.¹

¹ In a recent case, in which a cheque payable to the firm and crossed "A/c payees" had been credited to a partner's private account, the banker was held liable for neglecting the above instruction.

It will be observed that there must be two lines to constitute the crossing, therefore one line would not constitute "crossing."

The name of a banker without the lines would also be recognized as a crossing.

Further, there must not be a double crossing.

In paying crossed cheques to persons who have no banking account, some inconvenience in the way of getting the cheque passed through the account of another firm may be caused; to obviate this, the crossing may be cancelled by the drawer writing across the cheque "pay cash," and adding his signature to the alteration. Of course an open cheque might be issued to prevent this cancelling of the crossing.

Not Negotiable Cheques.—The cheque is a negotiable instrument, that is, one, the property in which is acquired by every person who takes it in good faith and for value. A bearer cheque is transferable by delivery, an order cheque by endorsement and delivery.



By adding to crossed cheques the words "not negotiable," notice or warning is given to any one taking such a cheque that in doing so he has no better title to it than the one from whom he received it, and thus may be liable to refund the amount of such cheque to the person in whose favour it is drawn. Although these cheques are transferred, the intention of making them not negotiable is to limit their being dealt with except for collection by the banker; an ordinary crossed cheque, on the other hand, may be transferred again and again prior to its collection.

By the Bills of Exchange (Crossed Cheques) Act, 1906, a banker crediting a customer's account with a crossed cheque before receiving payment of it is protected by sect. 82 of the Bills of Exchange Act, 1882. This annuls a well-known case in which the bank was held liable to make good the proceeds of certain stolen crossed cheques, on the ground that as these cheques were credited at once to the customer's account the

bank was collecting the money for itself, and therefore not protected by sect. 82. This section enacts that when a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner by reason of having received such payment.

Clearing of Cheques.—Consequent upon the great increase of remittances and payments by cheque, and the growth of joint-stock banking, the bankers found it necessary that in place of sending clerks to the various banks for the collection of cheques, a more convenient method should be arranged. The Clearing House system was therefore established, by which the representatives of each bank meet and exchange the cheques they hold upon other banks for cheques drawn upon them, the difference being settled by transfer notes upon the Bank of England. In this way no hard cash need be used in settlement of the vast number of cheques transferred in this manner. Some idea of the immensity of the transactions may be formed from the fact that the annual turnover of the London Clearing House is given as six thousand millions sterling.

Circular Notes.—To save travellers inconvenience and risk in carrying cash about, many banks issue letters of credit, which are addressed, together with a general letter or order to the bank's agents on the Continent, authorizing them to pay to the order of the traveller certain sums of money. The notes are issued for sums of from £10 and upwards, and are converted into foreign money at the current rate at the time and place of payment.

Letters of Credit.—These instruments are also issued for the convenience of travellers in order to place them in funds at the various centres at which they may call.

They may be either general or special, the former being directed to the bank's foreign agents at the places required, and the latter being directed to some foreign bank.

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EXAMPLE

CIRCULAR NOTE

_____ Bank.

No. _____

LETTRE DE CRÉDIT CIRCULAIRE POUR £10 STERLING.

Londres, ce , 190 .

A Messieurs les Banquiers

désignés dans nos lettres d'indication.

MESSIEURS,

Cette lettre vous sera remise par M. dont vous trouverez la signature dans notre Lettre d'Indication susdite. Je vous prie de vouloir bien lui compter sans frais quelconques la valeur de dix livres sterling au cours à usance sur Londres contre sa traite ci-jointe sur cette banque.

J'ai l'honneur d'être, Messieurs,

Votre très-obéissant serviteur,

GEBANT, Secrétaire.

On the other side—

Londres,

£10.

A sept jours de vue préfix payez à l'ordre de M. dix livres sterling, valeur reçue.

à. ce 190.

The circular notes are accompanied by a letter of indication as follows :---

Londres, ce

1906.

MESSIEURS,

Le porteur de cette lettre, M. pour lequel nous réclamons vos attentions, est muni de nos billets de change circulaires pour son voyage. Nous vous prions de lui en fournir la valeur sur son double acquit au cours du change à usance sur notre place et sans déductions de frais.

Si la ville où il en touchera le montant n'a pas de change direct sur Londres, vous voudrez bien en combiner un avec la Place Cambiste la plus voisine.

Vous observerez que tout Agio sur espèces d'or ou d'argent, et tous frais extraordinaires dans le cas d'un remboursement indirect, doivent être supportés par le porteur et ne peuvent être à notre charge.

CHEQUES

Cette lettre devant accompagner nos billets circulaires doit rester dans les mains de leur porteur jusqu'à leur épuisement.

Nous avons l'honneur d'être, Messieurs,

Vos très humbles et très obéissant serviteurs,

Gerant,

Secrétaire.

The letter of indication must be produced when a circular note is presented for payment, and the holder then endorses it. The firm paying the amount must see that the signature agrees with that on the letter of indication.

LETTER OF CREDIT

		Bank, Ltd. £	
No.	le le le le le le le le le le le le le l		
	Manchester,	190 .	
То			

DEAR SIRS,

Please note that the credit is in force for ______months from date hereof, that each draft must be plainly marked as drawn under the credit, and that the amount of each draft must be inscribed on the back of this letter.

The letter itself should be cancelled and attached to the final draft.

We are, dear sirs, Yours faithfully,

per pro_____Bank, Ltd.

Manager.

Entered.

QUESTIONS AND EXERCISES

150. Give the definition and essentials of a cheque.

151. Under what circumstances will a banker refuse payment?

152. What should be done in the case of a lost cheque?

153. Briefly describe what is meant by the clearing of cheques.

154. State generally what you know of the law relating to crossed cheques.

155. What is the effect of crossing a cheque

(a) with, or

(b) without the words " not negotiable "?

156. How should the following cheques be dealt with by the receiving banker: (a) undated cheques; (b) cheques presented after notice of the drawer's death had been received; (c) cheques dated six months prior to presentation; (d) cheque dated on a Sunday?

157. State whether the undermentioned endorsements of cheques are in order; and if, in your opinion, irregular, explain in what way the endorsements should be amended :---

(a) A cheque drawn in favour of "James Smith, or Order" is endorsed

his "James X Smith" mark.

- (b) A cheque drawn in favour of "Robert Radborn, Liquidator of the Hawk Motor Co., Ltd., or Order" is endorsed "ROBERT RADBORN."
- (c) A cheque drawn in favour of "George Good and Sons, or Order" is endorsed

"George Good and Sons, A.R.C."

(d) A cheque drawn in favour of "Mr. Walter Long's Executors, or Order " is endorsed

per pro " Walter Long's Executors, GEO. R. LONG."

CHAPTER XIX

BILLS OF EXCHANGE

HAVING given consideration to that form of bills of exchange known as cheques, let us proceed with some notes on those which, instead of being drawn on a banker, are drawn by one business house upon another for the settlement of debts, and which are known as drafts and acceptances.

There are two classes of bills-inland and foreign; and the following forms-cheques, promissory notes, and drafts.

Functions of Bills.—1. In its ordinary form, the bill fixes the amount of a debt, and is taken to settle the indebtedness. In this way the creditor has the advantage of having the amount placed in such a form as to make it negotiable or transferable to others, or by discounting may obtain a sum representing its present value. To the debtor or acceptor it is convenient to have a definite time fixed, in which he may provide the necessary funds at maturity. In this way the larger houses enable thousands of shopkeepers and small trading firms to purchase larger stocks, and give the opportunity of turning such goods into cash with which to meet the drafts drawn upon them, payable at from three to six months after the delivery of the merchandise.

2. Our foreign trade owes much to the service of bills. The manufacturer or shipper in exporting draws upon the consignee, or it may be, as per arrangement, upon commission houses in this country, or by hypothecation of the documents, that is, the bill of lading and the bill of exchange, accompanied by invoices and insurance policy, obtains advances from or discounts

Functions—Definitions and Essentials—Stamp Duties—Acceptances—Endorsements—Signature—Presentation — Dishonour — Rights and Liabilities of Parties to a Bill—Accommodation Bills—Case of Need—Acceptance for Honour—Foreign Bills—Entry in the Accounts—Exchange.

the bills with his bankers. The banker, in turn, will forward the documents to his foreign agents, and either receive cash for or satisfactory acceptance of the draft prior to the delivery of the shipment to the consignee.

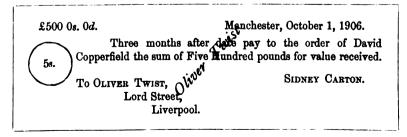
3. Another common form of a bill's functions is to enable the English merchant, immediately on shipment of goods to a Continental house, to draw upon some English firm, at, say, 30 days, as instructed by the foreign purchaser, for the amount of the invoice, and to obtain the proceeds by discounting the bill.

The student will thus realize how largely international trade is dependent upon these debt-transferring instruments in facilitating the settlement of mutual liabilities between the mother country, her colonies, and foreign nations.

As a simple illustration: Cross & Co., of Manchester, ship to Agent & Co., of Antwerp, goods value £500; the latter, to whom A. Merchant, of London, is a debtor, instruct Cross & Co. on shipment to draw upon Merchant for the amount at 30 days. In this way Agent & Co. settle their indebtedness to Cross & Co. by the transfer of Merchant's debt, and thus the London and Antwerp firms are saved the expenses of remittance to and from the Continent, and the Manchester house is a gainer by the arrangement.

Definition.—A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or bearer.

Put shortly, we may say that a bill is an order from one person to another to pay to a stated person on demand, or at a fixed future date, a certain sum of money. These points may be observed to be included in the following draft :---



When completed the above bill will bear three signatures on it, namely, that of—

(a) Sidney Carton, the drawer.

(b) Oliver Twist, the drawee, and, after acceptance, the acceptor.

(c) David Copperfield, the endorser or payee.

The bill may be negotiated or transferred by endorsement, and delivered to another person or firm, and bear the endorsement of each firm by whom it is transferred. In the case of foreign bills, it may happen that the bill bears so many endorsements that a slip called an "allonge" has to be added for additional endorsements.

Should this order not be carried out at the due date, provided that presentation has been made by the holder of the bill at the place named for payment, or if not stated, then at the acceptor's business or private address, the bill is dishonoured. As proof of its presentation and dishonour the bill would generally be noted by a notary, who thus certifies the fact of dishonour; should a public notary not be available, presentation may be certified by some responsible person, whose certificate should be witnessed by two responsible persons. Noting of inland bills is not requisite, but the noting and protesting of foreign bills is essential.

It is advisable that notice of dishonour should be given by the holder to each party and endorser of the bill, so that the claim upon each may be maintained. Usually the holder would claim from the last endorser, as the one from whom he received it; and each endorser upon the previous endorser, and so to the drawer, who in turn would hold the acceptor liable for the amount of the bill and the expenses.

Requisites of a Bill.—The following points in regard to Bills need our consideration.

(a) Stamp.

- (b) Date.
- (c) Place of issue.
- (d) Tenor, or time of payment.
- (e) Amount.

(f) Name and address of drawee.

(g) Name of payee, unless to the drawer's order, or to bearer.

(h) Drawer's signature.

ACCOUNTING AND BANKING

(i) Acceptance, which generally includes where payable.

(a) Stamp.—All bills drawn in the United Kingdom must be drawn on stamped paper. If payable on demand, at sight, on presentation, or within three days after date or sight, a penny stamp. Other bills of exchange and promissory notes of any kind, except bank notes, an *ad valorem* stamp of—

	Not	exceeding	£5	•		1 <i>d</i> .
Exceeding £5 and	, ,	,,	£10			2d.
-	,,	"	$\pounds 25$	•		3d.
	,,	,,	£50		•	6d.
	,,	,,	£75			9d.
	,,	,,	£100	•	•	18.

And for every £100, and also for any fractional part of £100, 1s.

In the case of bills drawn and expressed to be payable out of the United Kingdom, when actually paid, or endorsed, or negotiated in the United Kingdom, the stamp duty is reduced to—

Where the amount exceeds £50 and does not exceed £100-6d. ,, ,, ,, £100, for every £100 or fractional part of £100-6d.

Notice specially that, unlike a draft on demand, which only requires a penny stamp, a promissory note payable on demand requires an *ad valorem* stamp.

If the amount be stated in foreign currency, the stamp must cover the sum, calculated at the rate of exchange on the day of the date of the bill.

Whether the rate of interest is mentioned in the bill or not, the stamp need only cover the principal.

As it happens that bills after being drawn are not accepted, or even presented for acceptance, it may be observed that the amount of the spoiled stamps may be recovered if application be made within six months.

(b) Date.—The date, or what he considers to be the correct date, may be inserted by any lawful holder, but he should advise the acceptor of the date inserted.

A bill may be dated prior or subsequent to the date on which actually made, or to the date of the stamp, and be dated on a Sunday. Although it is irregular not to date a bill, the effect of the omission does not make it invalid. (c) Place of Issue.—This is usually stated on a draft; the bill would be valid even though the place where it is drawn is not specified.

(d) Tenor, or Time of Payment.—This may be at sight, on demand, after date, after sight. On inland bills after date or after sight, there is an allowance of three extra days for payment, termed "days of grace." Thus the bill given on p. 272 would be payable on January 4. No allowance is made for lacking days; thus a three months' bill, dated February 28, would be payable May 31, whilst one dated March 1 would not be payable till June 4; but note that such a bill dated March 31, would be payable July 3.

In the event of a bill being payable on Sunday, Christmas Day, or Good Friday, it is payable on the preceding business day; if on a Bank Holiday, or a Sunday next after a Bank Holiday, then on the succeeding business day.

(e) Amount.—In addition to the statement of a fixed sum, a rate of interest may be included, and as is common in promissory notes, the amount may be payable by instalments, and the balance made payable on default. The amount may be according to rate of exchange indicated or ascertained by the bill. If specified in foreign money, the amount is calculated at the rate of exchange for payments of drafts at the place where the bill is payable and the date it is due, unless drawn up "exchange as per endorsement."

As in the case of cheques, should the words and the figures differ, the former are taken to indicate the correct sum.

(i) Acceptance.—The acceptance is an acknowledgment by the drawee of his assent to the order of the drawer, and may be made by the drawee or his agent. A per pro acceptance binds the drawee only to the extent of the authority given. Acceptances by infants are invalid.

Should the drawee find that the name and address are incorrectly given, correction may be made.

The acceptance may be-

1. General or clean acceptance, which assents without qualification to the order of the drawer, and consists of the signature of the drawee only; or more frequently, with the addition of the place of payment, generally the London agents of his bankers.

2. Qualified, which may be in regard to (a) amount, (b) time,

(c) renewal, (d) payment by instalments, (e) place of payment, and there only.

The holder of a bill may refuse to take a qualified acceptance, and the drawer and endorser are not bound to it without assent.

In the United Kingdom, the holder of a bill refused acceptance is entitled to recover the amount of the bill at once from the prior parties; elsewhere, he can only demand better security for payment at maturity.

Negotiation.—Bills are negotiable, that is, transferable to another person with all the rights and privileges to which the holder is legally entitled, and as with cheques, unless negotiation is restricted, are transferred by delivery, or endorsement and delivery.

The holder may sue without notice to the person liable to pay.

The transferee of a negotiable document is presumed to have given consideration: e.g. holder in due course of a bill of exchange.

A holder in due course takes free from equities, *i.e.* free from any charge upon the instrument, or any taint in title.

Endorsements may precede or follow acceptances, and may be—

1. Blank—the simple name of the person or firm, without any other instructions or limitation.

2. Restrictive—which prohibits the further negotiation of the bill, or which expresses that it is mere authority to deal with the bill as thereby directed, and not a transfer of the ownership thereof.

3. Special—in which the endorser mentions a certain person or persons, and may also state that it must not be transferred (with or without leave to transfer).

Endorsements must be letter for letter as given :

If payable to several persons (not partners), each one must endorse; unless one has authority to endorse on behalf of the others.

A minor may endorse in order to transfer a good title, though not liable on the bill himself.

An executor or a trustee may endorse, but such endorsement is generally guaranteed by his banker.

A forged or unauthorized endorsement is inoperative, and gives the holder of the bill no right to retain it or deal with it.

"Sans recours," *i.e.* "without recourse," is at times added to a signature, and is a notice by the drawer or any endorser of negativing his liability to the holder.

Signature.—Where a person signs a bill in a trade or assumed name, he is liable thereon as if he had signed it in his private name. The signature of the name of a firm is equivalent to the signature, by the person so signing, of the names of all persons in that firm. A forged or unauthorized signature is fully inoperative, and no right to detain a bill, or give a discharge therefor, or to enforce payment thereafter, can be acquired through, or in that signature, unless the party against whom it is sought to retain or enforce payment of the bill is precluded from setting up the forgery or want of authority. A procuration signature only binds the principal when the agent is within the actual limits of his authority.

Presentation.—A bill must be presented for payment on the due date, or recourse is lost against the drawer and endorsers; in the case of cheques, presentation within a reasonable time is allowed.

A bill should be presented at the proper place, viz. :--

(a) At the place specified in the bill.

(b) Where no place is mentioned, at the place of the drawee given in the bill.

(c) Where this is not given, then at the addressee's place of business, or at his ordinary residence.

Where the drawee or acceptor is dead, and no place of appointment is specified, presentment must be made to a personal representative, if such can be found.

Dishonour.—Should a bill be dishonoured, immediate notice must be given of such fact to the drawer and each endorser, in the absence of which the drawer or endorser is discharged.

On the dishonouring of a bill, a holder may recover from any party liable on the bill, and a drawer who has been compelled to pay the bill may recover from the acceptor, and an endorser who has been compelled to pay the bill may recover from the acceptor or the drawer, or from a prior endorser—

(a) The amount of the bill.

(b) Interest thereon from the time of presentment for

payment if the bill is payable on demand, and from the maturity of the bill in any other case.

(c) The expenses of noting, or, when protest is necessary and the protest has been extended, the expenses of protest.

Noting .--- The act of a notary who presents the bill and initials it for identification.

A Foreign Bill Protest.-To draw up in solemn form a declaration of the presentation and the answer received, and to affix the notarial seal. The protest is then universally taken as proof of presentation and dishonour.

Any endorser paying a dishonoured bill acquires the same right against all prior parties, as does also the drawer against the acceptor.

The following terms are met with in regard to bills :---

Retour sans Protet, sans Frais, and sans Compte de Retour, which mean that the endorser does not wish expense to be incurred in case of irregularity.

Parties to a Bill.—The parties to a bill of exchange are the principal and sureties. The principal is the person primarily liable for payment, viz. the drawee or acceptor, prior to acceptance the drawer. The sureties are the persons secondarily liable, *i.e.* liable to pay in default of the principal. These are the drawer and the endorser. Although they are co-sureties towards the holder of the bill, they are not so between themselves, each prior endorser being liable to the subsequent endorser, unless "sans recour."

The Drawer.—The drawer of a bill, by drawing it—

1. Engages that on due presentment it shall be accepted and paid according to its tenor; that if it be dishonoured he will compensate the holder or any endorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

2. Is precluded from denying to a holder in due course the existence of the payee and his then capacity to endorse.

The Acceptor.-The acceptor of a bill, by accepting it-

1. Engages that he will pay it according to the tenor of his acceptance.

2. Is precluded from denying to a holder in due course—

(a) The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the bill.

- (b) In case of a bill payable to drawer's order, the then capacity of the drawer to endorse but not the genuineness or validity of his endorsement.
- (c) In case of a bill, payable to the order of a third person, the existence of a payee and his then capacity to endorse, but not the genuineness or validity of his endorsement.

The Endorser.—The endorser of a bill, by endorsing it—

1. Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or a subsequent endorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

2. Is precluded from denying to a holder in due course the genuineness and regularity in all respects of the drawer's signature and all previous endorsements.

3. Is precluded from denying to his immediate or subsequent indorsee that the bill was at the time of his endorsement a valid and subsisting bill, and that he had then a good title thereto.

The Holder in due course is one who has taken up a bill-

1. Complete and regular on the face of it.

2. Before it was overdue, and without notice that it had been previously dishonoured.

3. In good faith and for value.

4. Without notice of any defect in the title of the person who negotiated it.

Thus, if the holder has taken a bill before it was due, in good faith, and gave value for it, and had no notice of any defects in title, it will be immaterial that the bill was given originally without consideration.

Accommodation Bills.—An accommodation bill is one which has upon it the name of a person who has signed as drawer, acceptor, or endorser, without receiving value, and simply for the purpose of lending his name and credit to another. A person acting thus is an accommodation party, and he is liable, just as any other party, to a holder for value, whether such holder knew of his position or not. He is really a surety, although the holder has recourse primarily against such accommodation party who has accepted; but the party accommodated impliedly promises to indemnify such acceptor if he is compelled to pay the bill, *i.e.* the accommodation party is, on the face of it, the principal debtor, having on payment the rights of a surety against the party accommodated; *e.g.* securities held by the creditor belong to him. An accommodation party is not liable until value is given.

Lost Bill.—In the case of a lost bill, the person who was the holder may claim a new bill from the drawer on giving the latter an indemnity against the one lost.

Case of Need.—In the negotiation of foreign bills, with a view to preserve the honour of the parties, and to save expense in the event of the dishonouring of the bill, the name of a person to whom the holder may have recourse in case of need may be inserted by the drawer or any endorser. Of course it is at the option of the holder to resort to the referee in case of need, and prior to doing so the bill must be protested for non-payment.

Acceptance for Honour.—If a bill is refused acceptance by the drawee, or it is protested "for better security" after his acceptance and subsequent failure, it may be protested for honour. After protest it should be presented to any "case of need" named on it, and if the case of need intervenes he should accept thus—

Accepted for honour and account of A. B. & Co. (drawer or endorser), with \pounds notarial charges, and will be paid, if regularly presented, when due.

N. Y. & Co.

If the name of the party for whose honour the bill is accepted is not stated, the honour of the drawer is presumed.

Payment.—When a bill is paid, the holder may be compelled to deliver it up to the party paying it.

Foreign Bills.—An inland bill is a bill which is, or on the face of it purports to be—

(a) Both drawn and payable within the British Isles.

(b) Drawn within the British Isles upon some person resident therein.

Any other bill is a foreign bill.

The following are examples of a foreign bill, from which it will be observed that to prevent inconvenience in the non-receipt or delay in reaching its destination, the draft is usually drawn in a set of two or three copies or vias, acceptance or payment of one rendering the others void, and that only requiring to be stamped :—

No. 1. Exchange for \$300. Manchester, April 27, 1906. Ninety days after sight of this our First of Exchange (Second and Third of the same tenor and date unpaid), pay to the order of Nixon & Co., Three hundred dollars, value (N.&Co 1/4, which place to account as advised. Hongkong. Shipping Documents attached to be surrendered on payment. NIXON & Co. To MESSES. WESTHEAD & Co., Hongkong. No. 14127. £500. September 23, 1906. Ninety days after sight, pay this First of Exchange (Second and Third unpaid) to our order the sum of Five hundred pounds sterling, payable at the National Bank of India's drawing rate for (or telegraphic transfer) drafts on London, with interest at six (6) per demand cent. per annum, added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against A. & Co 1267/70. NIXON & CO. To MESSRS. ANYONE & Co., Calcutta. Endorsed.-Pay the National Bank of India, Limited, or order. NIXON & CO.

£103 2s. 6d.

Manchester,

, 190 .

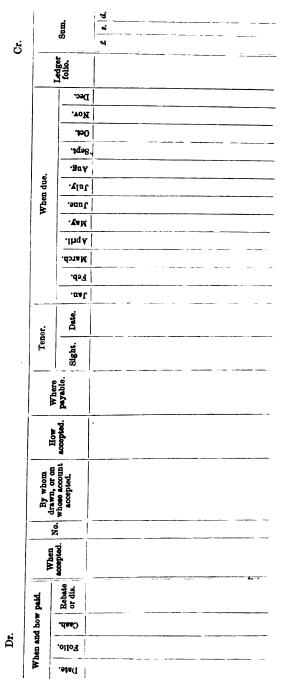
Ninety days after sight pay this First of Exchange (Second unpaid) to the order of the London and Brazilian Bank, Limited, the sum of One hundred and three pounds, two shillings, and sixpence, payable at the Bank's drawing rate on day of maturity for sight bills on London, value in ourselves, which please place to account as per advice from NIXON & Co.

To Messres. Abletopay & Co., Rio de Janeiro.

No 13.

Endorsed.—Pay the London & Brazilian Banking Co. Limited, or order. NIXON & Co. 282

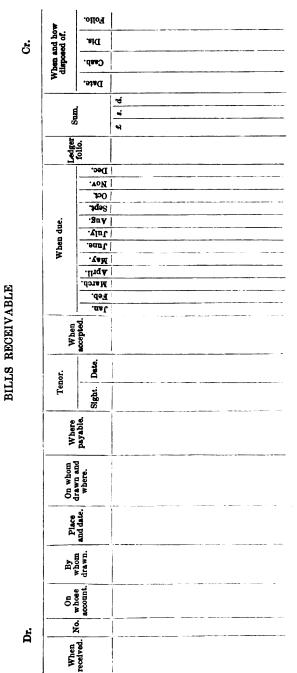
ACCOUNTING AND BANKING



BILLS PAYABLE

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BILLS OF EXCHANGE



They are usually drawn "at sight," or "days after sight," in which latter case the acceptor in accepting adds the date of sighting, from which time the currency of the bill dates.

In addition to the stamp duty of the country of issue, when negotiated in this country, adhesive stamps are affixed in compliance with the Bills of Exchange Act.

We have seen that inland bills need not express consideration, although "for value received" is generally included. Foreign bills, however, should always state consideration as "for value received," "value in account," etc.

In the event of an inland bill being dishonoured either by non-acceptance or non-payment, it is not required that it be noted, except when reference is made "to case of need;" but in the case of foreign bills, it is absolutely necessary that on dishonour the bill be noted and protested, as this evidence of dishonour is required in foreign courts of law.

To summarize the points in regard to foreign bills, they are— (a) In sets.

(a) In sets.

(b) Usually drawn after sight or usance—usance meaning the customary term for which bills are drawn between two countries.

(c) Should be noted and protested on dishonour.

(d) State consideration.

(e) Governed partly by foreign, partly by English law.

Promissory Notes.—A promissory note is an unconditional promise in writing, made by one person to another, signed by the maker, engaging to pay, on demand or on a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person, or to bearer. It resembles a bill of exchange in being negotiable, and it differs from a bill of exchange as to acceptance and as to production when a foreign note is dishonoured, as also in the liabilities of the partics respectively, the maker being primarily liable upon it.

Further, though payable on demand, it needs an *ad valorem* stamp. The amount covered by such notes is very commonly payable by instalments, upon each of which three days' grace is allowed. In the case of several makers, it is usual to make the notes joint and several, and when the note runs "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note

EXAMPLES

	£500	Birmingham, November 1, 1906.
	5s. the	On demand I promise to pay to Herbert Sharp, or Order, sum of Five Hundred Pounds.
	\bigcirc	ARTHUR READER.
·		

$\underbrace{\begin{array}{c} \pounds 500\\ 5s. \end{array}}_{\text{Founds}} \text{Siz}$	Leicester, November 1, 1906. a months after date we jointly and severally promise the order of C. A. Moss the sum of Five Hundred
	B. BLACK. C. WHITE.

Entry of Bill Transactions in the Accounts.—Very careful should be the business man to note fully the particulars of bills drawn, accepted, or endorsed by him. Every bill should bear a distinctive or consecutive number, and be entered in a Bills Journal or Bills Ledger, of which those on pp. 282, 283 are specimen forms.

Some firms adopt the method of keeping separate columns in the Cash Book for bills; those received entered on the debtor side and credited to the customers; those accepted, or paid away, being entered on the credit side, and posted to the debit of those to whom handed. Another form of entry is to treat them as cash, and enter them along with the cheques and other receipts and payments, but this system cannot be considered as satisfactory. In cases where the bill transactions are few, it is usual to enter the particulars in a Memorandum Bill Book, and then to journalize the bill entries, and when the cash is received or paid, to make the entries in the Cash Book.

Let us take a few typical transactions, and make the Journal entries for the same :---

BILLS RECEIVABLE

 (a) Receipt of an acceptance— Bills receivable. Dr. To Personal Account.
 (b) Payment of the above acceptance to another firm— A. firm. Dr. To bills receivable.

(c) Discount of above bill-Bank. Dr. Discount. Dr. To bills receivable. (d) Payment to bank on maturity for collection-Bank. Dr. To bills receivable. (e) Bill dishonoured in case (b)— Person from whom received. Dr. To A. firm. Cr. (f) Bill dishonoured in cases (c) and (d)— Person from whom received. Dr. To cash or bank. (g) Partial renewal of bill-Bill receivable. Dr. (new acceptance). Cash. Dr. To bill receivable (old acceptance).

BILLS PAYABLE

(a) Acceptance of draft-Personal Account. Dr. To bills payable. (b) Payment at due date-Bills payable. Dr. To bank. (o) Payment prior to maturity-under rebate-Bills payable. Dr. To bank. " discount. (d) Receipt of own acceptance from a debtor-Bills payable. Dr. To debtor. Cr. (e) Failure to meet acceptance at maturity-Bills payable. Dr. To personal account.

EXAMPLE I

A. drew upon B., on January 1, 1905, a bill for £1000 at three months, which he discounted with his bankers on January 10. Before the bill became due, B. applied to A. to renew half the bill for a further three months, adding interest at 5 per cent. per annum and cost of stamp, to which A. agreed on B. paying him the other £500 in cash. A. therefore retired the bill for £1000, and drew upon B. as agreed. Make the necessary Journal entries for recording the above tranactions in A.'s books.

BILLS OF EXCHANGE

	£ 8.	d. L	8.	d.
Jan. 1. Bills receivable. Dr	1000 0	0		
То В		1000	0	0
" 10. Cash. Dr		0		
Discount	12 10	0		
To bills receivable		1000	0	0
March . B. Dr	1006 10	0		
To sundries—				
Cash		1000	0	0
Interest		6	5	0
Stamp, cash		0	5	0
". Cash. Dr	500 0	0		
Bills receivable	506 10	0		
То В		1006	10	0

Example II

A. and B. have the following accommodation bill transactions: A. draws on B. for £675 at three months, from January 1, 1906. A. discounts the bill with his banker for £640 on January 1, and pays to B. out of the proceeds £320, which B. pays into his bank. On March 28, 1906, to provide part of the funds to meet his acceptance to A., B. draws on A. for £500 at three months, and discounts the bill with C., receiving therefor £490 in cash, which B. pays into his bank, and through his bank duly provides for his acceptance. Give the entries in B.'s Journal recording these transactions.

1906.	£ 8. d.	£	8.	đ.
Jan. 1.	A. Dr 675 0 0			
	To bills payable	675	0	0
"	Cash. Dr			
	Discount. Dr. (half of £35) 17 10 0			
	То А	337	10	0
March 28.	Bills receivable			
	То А	500	0	0
33	Cash. Dr 490 0 0			
,,	Discount. Dr 10 0 0			
	To bills receivable	500	0	0
	A. Dr 6 17 9			
	To discount	6	17	9
	i.e. A.'s proportion of accommodation			
	discount— $337\frac{1}{4}/490$ ths of £10			
April 4.	Bills payable. Dr 675 0 0			
	To cash	675	0	0

FOREIGN EXCHANGE

We have shown how large a part the bill plays in the discharge of home trade accounts; now we may consider the part

taken by bills of exchange in the settlement of the indebtedness arising from the immense volume of our foreign and colonial trade, which in 1906 reached the enormous total of a thousand millions sterling—imports and exports. When it is realized that the settlement of this vast trade is mainly effected by means of drafts, for the purchase and negotiation of which we have a market of keenly competing bill brokers, it will be understood that "foreign exchange," *i.e.* the buying and selling of foreign bills, is of much import to the merchant.

Put briefly, exchange is the transfer of debts represented by paper; the dealing in which is complicated by the debts being in various currencies, and by the metals of the different countries concerned differing in kind and quality. The prices of the bills are, within certain limits, constantly varying, the fluctuations being due to various causes, but mainly to the variations of supply and demand of the particular drafts required; for instance, if it is desired to remit to Paris, and there is an abundance of French bills in the market, then the sterling money will buy bills representing more francs than it would if there were a scarcity of drafts payable in Paris.

Similar to dealings in shares on the Stock Exchange, bills may be regarded as being dealt with at a discount or at a premium, but rarely at par. The "mint par of exchange" is "the relation between the amount of pure metal contained in the standard coins of the various countries;" thus the intrinsic value of the gold in £1 sterling, as compared with francs, is equal to 25.225 francs. From this we obtain what are termed "specie points," *i.e.* the points at which it is calculated that bullion may be forwarded to settle the debts, and the limit above the higher or below the lower, the rate of exchange rarely passes for demand or short paper.

In the case of Paris, the cost of conveying the bullion to discharge a debt would be about $12\frac{1}{2}$ centimes for each £1; therefore the lower specie point would be 25·125 francs, and the higher one 25·325 francs; in each case the difference between the mint par of exchange (25·225) and the cost of transmission of bullion. When a Manchester merchant wishful of buying cheques or bills on Paris finds that his sovereign will only purchase less than 25·15 francs, he may decide to forward bullion, or the English holder of bills on Paris may obtain francs up to the higher specie point $(25 \cdot 25)$ for his £1; but when this limit is reached, bullion will probably be forwarded from Paris to London; just as in the former case, when the cost of remittance exceeded the lower specie point, there would be a movement of bullion from London to Paris. It must be remembered that what we have said refers to "demand" or short bills or cheques, as should the bills be payable at a future date, then interest will enter into the calculations and affect the "course of exchange," a term meaning the rates of exchange.

To give an example, the price of a bill, other things being equal, oscillates at about its face value, or mint par, the fluctuations being dependent on the supply and demand resulting from the balance of indebtedness between two countries; thus, let us say, we owe to Germany £100,000, while Germany owes us only £80,000, then there will be competition for bills on Germany, and their price will rise; if, however, there are more bills in the country than there are debts to pay, as in the event of our owing to Germany £80,000 and having claims on her for £100,000, then we may expect the price to fall; it will thus be seen that in the latter case a number of bill-holders will be put to expense in obtaining the money for the bills held by them, and, in the other case, traders put to expense in discharging their debts. The value of a bill is also determined by the following factors :—

(a) The time the bill has to run.

(b) The market rate of interest.

(c) The credit of the drawer and of the acceptor or of endorsers.

The price of bills in a particular country is also influenced by the price of bills on other countries; John Bull may pay a debt to Germany by buying a French bill, thus paying the debt owing to Germany by a debt she owes to France. We have so far referred to traders' bills, but in many operations the intervention of the banker is necessary, as, say, in the payment of a German debt by a banker's bill drawn on Chili. These indirect exchange operations are termed arbitrage.

From an inspection of the following exchange rates, the student will notice how the element of time plays an important part in the quotations, bringing into account the consideration of interest for the time the bill has to run, and also the question of money rates at the maturity of the bill.

U

LONDON COURSE OF EXCHANGE

2			On Usance.			Price negotiated on 'Change.				
On		UBRIDE.	January 22nd.		January 24th.					
Paris	•	•	•••••••••••••••••••••••••••••••••••••••	Cheques 3 months cheques 3 months " " " " " " " " "	25·211 25·42 25·43 12·24 12·24 12·26 20·76 20·76 20·76 20·76 20·76 20·76 24·42 25·56 24 24 24 24 24 25·56 4 24 24 25·56 4 24 25·56 24 24 25·56 24 25·56 24 25·56 25·56 26·56 2	25·23 25·47 25·47 12·24 12·64 20·80 20·80 20·80 20·80 20·80 20·80 244 25·614 244 244 245 514 31 25·48 25·48 25·48 20·80	25·22 25·43 25·43 12·2 12·5 20·76 20·7	25-25 25-48 25-48 12-2 20-80 20-80 20-80 24-46 25-61 24-4 24 24 24 25-62 24-4 24 25-62 24-1 24 25-62 24 24 25-7 24 25-7 20-80		
Switzerland	•	•	•	>>	25·55	25 60	25·55	25 [•] 60		

FOREIGN RATES OF EXCHANGE ON LONDON

	Latest dates.	Rates of exchange.	Usance.		Latest dates.	Rates of exchange.	Usance.
Paris Brussels . Amsterdam . Berlin Hamburg . Frankfort . Vienna . St. Petersburg New York . Lisbon . Madrid .	Jan. 25 , 24 , 25 , 24 , 24 , 25 , 24 , 24 , 24 , 25 , 24 , 24 , 24 , 24 , 24 , 25 , 24 , 24 , 24 , 24 , 25 , 24 , 24 , 25 , 24 , 24 , 25 , 24 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 24 , 25 , 24 , 25 , 24 , 24 , 25 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 24 , 25 , 25 , 24 , 25 , 24 , 25 , 2	25·33 12·113 20·51 20·25 20·50 20·48 24·103 94 4·813 523	Cheques. Short 3 months short " 3 months 80 days at sight "	Bombay .	Jan. 23 , 23 , 23 Dec. 28 Nov. 20 , 20 , 20 Jan. 25 , 25 , 25 , 25	154d. 484d. 127 · 274 536d. Bng. Sng. 7 dis. par. " 1/4 1/4 2/21 3/01	90 dys. st " 90 dys. st 60 dys. st. " telegraph transfer transfer "
Italy	" 24		"				

EASTERN EXCHANGE

OUTWARD RATES.—BANK BUYING RATES

January 28, 1907

	60	60 days.		30 days.		Demand.	
India and Rangoon per rupee	s. 1	а. Зქз	s. 1	d. 318	s. 1	d. 41 10	
Hong Kong per dollar	2	21	2	21	2	218	
Japan per dollar	1	112	2	o	2	0	
Straits per dollar	2	31	2	37	2	3	
Shanghai per tael	3	0	3	01	3	01	
Tientsin per tael	3	1	3	ារំ	3	11	

Taking the first quotation, it will be seen that, whereas cheques payable in Paris were paid for at $23 \cdot 21\frac{1}{4}$ per £1 sterling, the purchasers of three months' bills bought them at the rate of $25 \cdot 42\frac{1}{2}$ frances for each sovereign.

In reading the list, it must be noted that quotations in decimals usually mean that the \pounds sterling is the fixed unit of exchange; when the quotation is in pence, it is the equivalent of the standard coins of the countries concerned. Also it should be mentioned that in the case of decimal quotations the lower rate is for first-class bills, the higher for ordinary trade bills; for those quoted in pence the lower is for trade bills, the higher for bankers' bills.

Telegraphic Transfers.—Remittances are also made by telegraphic transfers through the agency of bankers or of "Reuter," by means of which amounts may be cabled from this side to be placed to the credit of the firm concerned—say in Bombay within a few hours, and at a cost the merest fraction of the sum thus remitted.

In conclusion we would point out that as foreign exchange may be regarded as a barometer which guides the merchant and banker in forming fairly accurate ideas of the international situation and of the course of trade between the respective countries, it is important that those interested in foreign trade should closely study current economic, financial, and political events and their influence upon the question of exchange.

QUESTIONS AND EXERCISES

158. What is the definition of an acceptance given in the Bills of Exchange Act, and what constitutes a sufficient acceptance?

159. Explain and illustrate the difference between a general and a qualified acceptance of a bill of exchange.

160. Henry and Co., of London, owing money to George and Co., of New York, and having a debtor, John Bull, in that city, advise the latter of their drawing upon him in favour of George and Co. Draw the bill.

161. What is the effect of altering a bill of exchange in a material part? Mention some alterations which are deemed to be material.

162. Prepare a form of bill dated November 1, 1905, drawn by B. Brown and Co., Ltd., upon and accepted by Henry Jack, of 81, Longley Road, Penborough, jeweller, for payment of £89 10s. at the Northern Bank, Ltd., in London, four months after date.

163. Brown and Co., receiving a large number of bills of exchange from customers, wish to adopt the most convenient method of recording them. What do you recommend? Make rulings, and show the entries in respect of the above bill.

164. Is it absolutely necessary to note and protest a bill of exchange in case of dishonour? State briefly the legal object of noting a bill of exchange.

165. Jones and Co. draw upon A. and Co. for an account of £500, allowing them 11 per cent. discount. At maturity the acceptors borrow from the drawers £100, to assist them in meeting the bill, which is, however, finally dishonoured, Ajax and Co. repaying £70 of the loan. State the Ledger Account in the books of Jones and Co., after the transactions are completed.

165a. Discuss the question of Foreign Exchange.

165b. Explain the following terms :--

Mint Par of Exchange; Specie points; Arbitrage; Course of Exchange.

CHAPTER XX

DOUBLE ACCOUNT SYSTEM

Capital Receipts and Expenditure Accounts—General Balance Sheet—Repairs and Renewal Fund—Companies to which applicable—Accounts of Railway Companies and General Balance Sheet—Single Ship Companies—Tramway Companies.

In dealing with the subject of this chapter, we have to look at the question of a "profit available for dividend" from another As the reader will have seen, up to this point we have, view. at the conclusion of the financial period, written off the balances of the nominal accounts to Profit and Loss Account, and have provided for any depreciation of fixed assets by writing off to this same account an amount considered sufficient to reduce the various assets of this nature to their breaking-up value when the time for this comes. The various assets at their estimated value and the liabilities are then set out in the Balance Sheet, and if the double entry is correct for the period, the balance of the Profit and Loss Account is the same figure as the difference between the assets and liabilities. and on being carried to the Balance Sheet will make the two sides of that account to agree. On examining this method it will be seen that the effect (though more complete and satisfactory in every way) is the same as in the Single Entry system, where all the assets are placed on one side of the account, and the opening capital (after adjustment for withdrawals, etc.) and the liabilities on the other side, and the difference, where the assets give the higher figure, being the profit for the year-the profit in single entry, therefore, is the excess of assets over liabilities and capital, and the same rule applies in double entry, save that a Profit and Loss Account is prepared in addition from the nominal accounts, which must agree with the figure shown as excess of assets.

In the Double Account system, however, the Balance Sheet is divided into two parts: the first of these, consisting of what is known in Railway Accounts as "Receipts and Expenditure on Capital Account," contains on one side the total amount of cash received on account of the shares, debentures, and premiums on the same from the public, and on the other side particulars of the total expenditure to date in respect of the fixed assets, including land, buildings, permanent way, rolling stock, preliminary expenses, etc., all stated at first cost. The second part is called the General Balance Sheet, and contains the balance only of the first part, and then sets out in the statutory form the floating assets and liabilities only together with the balance of the Net Revenue Account-the profit available for dividend in this case being the credit balance of the Revenue Account.

The main differences are, (1) the form of Balance Sheet and statement of the assets; (2) the treatment of depreciation and renewals; (3) the question of preliminary expenses, premiums on shares, etc.

With regard to the first, the foregoing remarks and the subsequent forms should be sufficient explanation. To deal with the second, it must be remembered that all the fixed assets are stated at the original cost, and the only variation of this is to add the cost of any extension of the system to the capital expenditure. Depreciation, therefore, as understood and worked in the accounts of a company using the simple double entry, does not exist. If, however, an expensive lease is included as a fixed asset, a depreciation fund may be raised by debiting revenue and crediting the fund which will appear as a liability in the General Balance Sheet, as will be seen by a reference to the Gas Works Clauses Act, 1871. Apart from this, no depreciation is provided for, but all renewals and repairs of every description are charged against revenue. This rule is supposed to do away with the necessity of depreciation, but it must be remembered that in earlier years there will be comparatively few repairs, and probably no renewals, and that in later years large renewals will make one period compare very unfavourably with the more fortunate half-years when such renewals are comparatively small. To meet this objection, many companies charge from the beginning of their existence an average sum

against revenue, and credit this amount to a "Repairs and Renewals Fund," and after debiting the account with the total expense actually incurred during the period, carry forward the balance as a liability in the General Balance Sheet.

The third question, the treatment of premiums on shares, capital profits, preliminary expenses, etc., is settled by the form of the accounts, which show that all these items are in the nature of capital, and therefore the former cannot be divided as profit, nor is the last written off out of profits; whilst companies keeping their accounts by the single account system, might distribute the former, subject to their articles of association; and, as a matter of sound finance, will probably write off their preliminary expenses against revenue in their early years of trading, usually in three or five years.

This method of accounting was used in the first instance in the case of certain companies which were incorporated by special Acts of Parliament, such as railway, gas, and water companies. As other companies are governed by "Table A," excepting in so far as this document may be excluded or varied by the company's special articles of association, so Parliamentary companies are governed by the Companies Clauses Consolidation Act of 1845, and the various Acts of a similar nature suitable to their own class of business, subject to any variations made by their own special Act. Railway companies, for instance, are governed by numerous Acts, one of which, viz. the Regulation of Railways Act, 1868, in a schedule sets out the form of accounts in which railway companies were to present their half-yearly statements to their shareholders, and for our present purpose we may take that Act as the one which commenced the modern "Double Account" system.

The forms prescribed can be seen in the published accounts of all railways, and many of them are statistical only, the full accounts consisting of—

1. Statement of Capital authorized and created by the Company.

2. Statement of Stock and Share Capital created, showing the Proportion received.

3. Capital raised by Debenture Stock.

- 4. Receipts and Expenditure on Capital Account.
- 5. Details of Capital Expenditure, Half-year ending -----.

6. Return of Working Stock.

7. Estimate of further Expenditure on Capital Account.

8. Capital Powers and other Assets available to meet further Expenditure, as per No. 7.

9. Revenue Account, Half-year ending -----.

10. Net Revenue Account.

11. Proposed Appropriation of Balance available for Dividend.

12. Abstracts, Half-year ending —— (of various expenses, etc.).

13. General Balance Sheet.

14. Mileage Statement, Half-year ending ——.

15. Statement of Train Mileage.

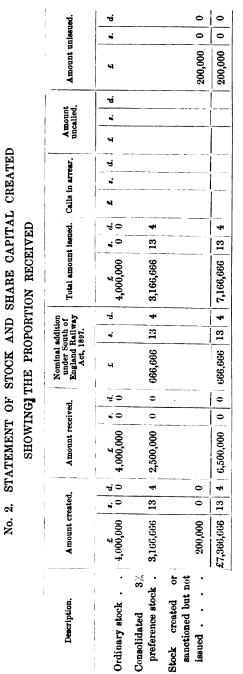
On looking over this list, it may be pointed out that the Balance Sheet is contained in parts 4 and 13, and in certain cases also partially in No. 2 and No. 3, and that the Profit and Loss Account appears in Nos. 9 and 10; beyond that, for bookkeeping purposes, we need not go, whilst for examination purposes (so far as questions have been set up to date) we can further ignore 9 and 10.

Form No. 2 is in use mainly by the older railways which, in earlier days, when money earned a higher rate of interest, issued preference stock carrying rates of interest from 5 per cent. downwards, and later found the varying rates troublesome, and therefore obtained powers under a special Act of Parliament to consolidate their stock. Thus supposing a company had issued at various times the following—

£500,000	preference	stock	carrying	5°/。	interest
1,000,000	,,	,,	,,	$4^{\circ}/_{\circ}$,,
1,000,000	"	,,	,,	8°∕₀	,,

and they wish to convert these to a uniform 3 per cent. consolidated stock, it would be accomplished by issuing to the holders of the two earlier stocks a sufficient amount of the new "Consolidateds" to bring them in a similar income to that which they now enjoy, therefore any one holding £100 stock of each would receive in exchange for the 5 per cent. stock £166 13s. 4d., for the 4 per cent. stock £133 6s. 8d., and for the 3 per cent. stock £100, so that the new capital would be issued thus—

DOUBLE ACCOUNT SYSTEM



ACCOUNTING AND BANKING

£ s. d. £500,000 preference stock 5°/, would equal 833,833 6 8 new stock 1,000,000 **4°**/。 1,333,333 6 8 ,, ,, ,, ,, 1,000,000 3°/ 1,000,000 0 0 ,, ,, ,, ,,

and these particulars would be set out in form No. 2 as shown on p. 297.

It will be seen on reference to No. 4 that the figure of $\pounds 6,500,000$ only is dealt with, so that for the nominal amount of our capital, which under the single account system would appear on the Balance Sheet, we must refer to the statement.

To carry our accounts of the South of England Railway Company to the full extent, we must now set out the Capital Account, which, it will be noticed, bears what seems at the first glance the contradictory heading of receipts and expenditure. On second thoughts, however, we see this heading is correct, since we want to know the actual amounts *received* on Capital Account, as is shown on the Single Account Balance Sheet, viz. "capital called up, less calls in arrear," whilst we also wish to know the amount *expended*, and must include as creditors in our General Balance Sheet all items and liabilities incurred on Capital Account as well as the actual payments.

Another point to be borne in mind by the examination candidate if faced with an account of this description is, that though the official form attached to the Act provides on the liabilities side of the Balance Sheet for a balance of capital receipts, it is no uncommon thing for the company to have expended more than they have received on Capital Account, and therefore to show a debit balance in the Balance Sheet, so causing the balance of Capital Account to appear apparently on the wrong side.

Premiums received on the issue of shares are, in companies of this description, a capital receipt, and must appear as such in the accounts. This, of course, is different from the method employed in the Single Account system, and should be duly noted as such. Permanent loans, that is to say debenture stock, are also capital receipts, and therefore come into No. 4, leaving our General Balance Sheet, No. 13, entirely free for the floating assets and liabilities as mentioned before in this chapter.

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DOUBLE ACCOUNT SYSTEM

S.

ę	6 Total.	બ	6,500,000 1,100,000	207,874			£122,000 £7,807,874
	Amo ceived bali	્ય	20,000 100,000	2 ,000			£122,000
TNUO	Amount re- ceived to Dec. 31, 1906.	4	6,480,000 1,000,000	205,874			£7,685,874
No. 4. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT		By receipte—	Shares and stocks per ac- count (No. 2) Debenture stock (No. 3) . Premiums on ordinary and	preference shares			
D EXPEND	Total.	અ	5,500,620 429,936	5,930,556 1,000,476	800,000	7,7 3 1,032 76,842	£7,807,874
EIPTS AN	Amount ex- pended during half-year, June 30, 1907.	ખ	1, 4 10 9.617	11,027		11,027	
0							
No. 4. REC	Amount ex- pended to Dec. 31, 1906.	અ	5, 499,2 10 420.319	5, 919, 529 1,000,476	800,000	7,720,005	

No. 13. GENERAL BALANCE SHEET

Dr.			Cr.
	£		£
To Capital Account—balance		By cash at bankers, Current	
at credit thereof, per		Account, and at interest	191,654
No.4	76,842	" bills receivable	10,849
" Net Revenue Account—	•	"general stores, stock of	
balance at credit thereof,		materials on hand	75,549
per account No. 10 .	172,014	, traffic accounts due to the	·
"guaranteed dividends and	,	company	110,245
interest payable or ac-		, amount due by post-office	3,678
cruing and provided for	36,997	" balance due from other	
" amount due to Clearing	,	companies	23,817
House	58,135	, sundry outstanding ac-	,
" balance due to other com-		counts	18,640
panies	19,796		•
"sundry outstanding ac-	•		
counts	58,648		
" insurance fund	12,000		
			
£	2434,432		£434,432
	•		,

When a substantial replacement and addition occurs, the method of railways is to charge the cost of replacement in the old style but at modern rates to the Repairs Fund, whilst any increase in the cost above that figure would be considered as capital. Thus a replacement of a station which had originally cost £20,000, and which to rebuild in the same style would now cost £28,000, by a newer and larger one required by the increased traffic, which has cost the company £100,000 in all, would be debited to revenue to the extent of £28,000, less any amount received for the old material, and the balance only charged as additional capital expenditure.

Subject to the Acts of Parliament and to the principles of sound finance, the apportionment of expenditure to revenue and to capital is entirely a matter for the companies, and no question of interference by outsiders need be considered.

When we come to deal with a water company, for instance, we find that in consideration of being allowed a monopoly in a necessity of life for a particular district, the company, by the Acts relating to this class of business, is precluded from paying more than 10 per cent. as a dividend, which 10 per cent. is treated as a cumulative preference dividend would be, that is to say that the company may pay this dividend for every year on each share, and if in early years the rate has been less than that, the company can now make up the deficiency. After paying this 10 per cent. dividend, they are allowed to build up a reserve fund, which, however, must not exceed one-tenth of their capital, and all profits after that must go to reduce the charge which they make for water to their consumers. A double duty thus exists in a company of this class with regard to the repairs and renewals, for with a prosperous company one often sees the officials charging everything possible to revenue, so as not to show so large a profit as to make it necessary to reduce the price.

A similar rule as to maximum profits also governs gas companies, unless, indeed, a smaller maximum than 10 per cent. should be given in the special Act, in which case that lower rate prevails.

Having therefore seen the principle and form of the Double Account system as applied to parliamentary companies, we must now give consideration to its extension to other companies, which have adopted this method of keeping fixed assets and revenue quite distinct.

The most important and usual of these is a Single Ship Company, that is a society owning one ship only, and not a fleet of steamers. Many of these companies are now registered under the Companies Acts, 1862-1900, but many still hold to the old rule of dividing the ship into 64 equal shares. In companies of this class it is usual to charge the first cost of the ship to Capital Account, and after that to keep her in good repair and pay any credit balance of Revenue Account to the shareholders from time to time. In this way, of course, no depreciation is dealt with, and since sooner or later our good ship becomes scrap iron, it follows that the so-called dividends include capital returned; the investor should remember this and set aside out of his dividend such portion as may be capital for reinvestment, using the balance only for income purposes. Some of these concerns insure their ship for what they consider its present value, and state the amount at which it is insured in the accounts. In this case the investor can make his own provision for the day when the company is wound up.

The decision of the courts in the important case of Lee v. Neuchatel Asphalte Co. also led a certain class of mining companies to disregard allowing for depreciation except to a very limited extent. The company was formed to work various asphalte "concessions" for a term of years, in which admittedly the asphalte would outlast the concession, and the Court held that the credit balance of Revenue Account might be distributed as dividend without reference to depreciation. In this matter, however, the concessions had been increased, so that when the case was tried they had actually longer to run than when the company was formed.

Another decision bearing on the depreciation question was that of Verner v. The General and Commercial Trust Co. Here the company was formed for the purpose of buying certain stocks and dividing the income arising therefrom amongst the shareholders; such stocks and shares under these circumstances were held by the Court to be in the nature of fixed assets, and it was therefore held that the credit balance of Revenue Account could be divided, even though the capital value of the stock had fallen below the purchase price, and no reserve had been made to deal with the loss which was bound to arise when realization took place.

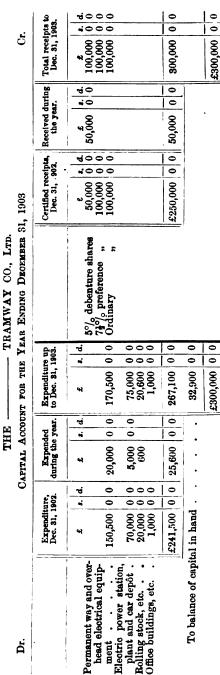
It will thus be seen that the idea of keeping fixed assets and floating assets entirely distinct has, by the various decisions of the Courts, been gradually extending and applied to companies other than parliamentary companies.

Of course, in all companies it is unusual to interfere with any fluctuation of value of such fixed assets as land (Bolton v. Natal Land and Colonization Co.) and goodwill (Wilmer v. McNamara and Co.). These cases allowed dividends to be paid, although it was alleged that assets of this nature had depreciated and no provision had been made for the same.

The true Double Account system may be applied to tramways, light railways, and certain mining companies with satisfactory results, and to certain other companies with legal protection, but not always with such success or with real financial soundness, unless, as has been pointed out in the foregoing remarks, the shareholder is made to understand that his capital or a portion of it is being returned in the form of dividend.

Example of Accounts of tramway company :---





QUESTIONS AND EXERCISES

166. State the objects of the Double Account system.

167. To what classes of companies is the Double Account system applicable?

168. Give an example of a Capital Receipts and Expenditure Account.

169. How may provision for depreciation be made?

170. Distinguish between the Double Account and the Single Account methods of preparing a company's Balance Sheet, and explain in what respects the two methods differ in their effect on the amount of divisible profit.

171. Distinguish between the treatment of premiums received on the issue of shares by a Double Account undertaking, and a Single Account company.

172. From the following particulars write out a Capital Account and Balance Sheet of the Sun Electric Light Company, Ltd., as on December 31, 1900:-

Amou				Amounts on Dec. 31, 1900.								
Dec. 31	, 1091	ø. d.		£	8.	đ.	£	s .	đ.			
42,628		2	Mains including cost of laying	90,211			~					
1,163		8		9,537								
521		-		2,171		6						
021	10	v	Electrical instruments	186		-						
963	3	0		963	-	-						
40,000	-	-	Preference shares, 40,000 £1	000	Ű	v						
40,000	U	v	shares 6 per cent				40,000	0	0			
FO 000	0	0					40,000	U	v			
50,000	U	U	Ordinary shares, 50,000 £1				50,000	0	^			
			shares						0			
			Debenture stock, $4\frac{1}{2}$ per cent.				20,000		0			
			Sundry creditors				7,943	1	7			
			Reserve for depreciation and									
			repairs				2,000	0	0			
			Sundry debtors	10,039	14	2						
			Stores on hand	5,005	12	2						
			Cash at bank	5,500	8	0						
			Cash in hand	27								
			Dividend on preference shares		•	-						
			for half-year to June 30,									
			1900, less tax	1,140	^	0						
			•	1,140	v	v						
			Revenue Account, including									
			£530 10s. balance from Dec.						_			
			31, 1899				4,839	10	7			
				£124,782	12	2	£124,782	12	2			

•

.

				1
Masonic.	Harri			
B/F.	£ s. 5 19 C/F.	E <i>s</i> . 2 11	d. 0 	

Name			No.	Brought forward.			A partments and attendance.			Fires and light.			Break			Billiards.		
Harris			Masonic.	£ 5	s. 19	d. 4	£	8.	d.	£	s. —	d.	£	s .	i.	£	8 . —	d.
Grieve			42		5	6		3	6		-			1			-	
Bolton	•	•	43					_			-						-	
Chances .	•	•	-		-						-						-	
Smoke-room	•	•	-					-			-						-	
Vaults	•	•	-		-			-			-						-	
				6	4	10		3	6					1				

CHAPTER XXI

TABULAR LEDGERS AND ACCOUNTS

Hotel Accounts—Tabular Ledger of a Gas Company—Solicitor's Cash Journal— Perpetual Ledgers—Card and Slip Systems.

WE now have to consider the method of bookkeeping comprised under the above heading, and it will be convenient for the moment to compare this class of ledger with that of the ordinary commercial business, which, up to now, we have been mainly considering. In the latter the Ledger is the book in which, for purposes of convenience, we have collected the items under convenient headings, personal and nominal, which have already appeared in the books of first entry. Tabular Ledgers are, however, themselves, as a rule, books of first entry, and the contra to the Nominal Ledger Account is obtained by adding the money columns in the Tabular Ledger, and by posting these totals direct to the other Ledger Accounts.

They are mainly used in dealing with two distinct classes of transactions. First, in connection with such businesses as hotels, with a large number of casual customers who may require their accounts at any moment, and where there are numerous nominal accounts involved for the credit items. Secondly, where there is a large number of customers with only one item in their account for each period under review; for example, a gas company, a Subscription Ledger for charitable societies, clubs, etc.

The simplest demonstration of the working of this system is to give the form used in an hotel for the Customers Ledger, and here each page represents one day only; and it must also be noticed that in some forms the names of the customers are given at the top of the page, and the headings of such nominal accounts as may be required appear down the page, and in this case the credit postings are made from the cross additions.

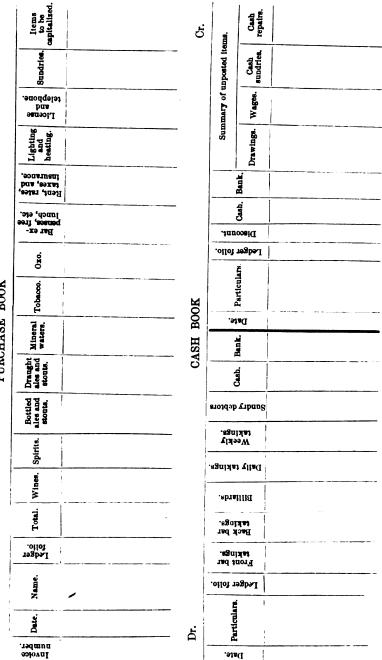
In this case these entries will be entered up direct from the counterfoils handed in by the waiters, and this book itself forms the Sales Ledger, and the balances brought forward at the end of each day are in fact the total of the debtors.

The additions of the other debit columns will be made and the figures for the rest of the month will be entered on the succeeding line, and the final total carried to the next day. At the end of the month the totals of these columns, which, as will be seen, have in this book been debited to the visitors, are posted to the credit of the various Nominal Accounts in the Nominal Ledger, thus completing the double entry. The cash is, of course, debited in the Cash Book, and is credited here, whilst the total of the overcharge and allowance column is debited in the Nominal Ledger.

Though not connected with Tabular Ledgers, it is, perhaps, the simplest to continue the description of hotel accounts. The purchase side of the accounts will be entered as usual by means of a Purchase Analysis Book and a Purchase Ledger; but, instead of invoices, Pass Books will be issued by most of the provision dealers, the monthly totals of each will be passed through periodically, and also columns will be added in addition to the money for quantity, quality, or vintage, and price for the wines, spirits, cigars, etc.

The waiters will have triplicate books for the meals and drinks supplied, one form being handed to the office, one to the kitchen or the storekeeper as the case may be, whilst the third form remains in his book for reference; each of these three are, of course, numbered with the same number. It is hardly necessary to add that Store Accounts are kept of all the wines, etc., of which stock is taken periodically and compared with the balances appearing in the Stock Ledger.

With regard to the stock in the bar, and also usually with the cigars, special requisition forms are filled up as and when required, and these amounts are charged out to the particular bar periodically at selling price, and the bar is credited with all cash payments made by it daily or otherwise to the office; the balance between the two sides of the account representing, of course, the stock in hand at the bar in question,



PURCHASE BOOK

which must be frequently taken and compared with the ledger.

It is also necessary to keep full and complete Stock Accounts of all wines, spirits, cigars, etc., which will record the quantities received as per the Invoice Book on the one hand, and the amounts issued as per the various requisition slips given by the waiters or the request notes from the bars; and the stock should be frequently taken and compared with the books, and any items which do not balance exactly duly reported to the management.

The examples of columnar Purchase and Cash Books given on p. 307 serve to analyze the transactions of an hotel, not letting rooms to visitors.

These special points practically exhaust the peculiarities of hotel accounts, and therefore we will return to the tabular question and give an example of a ruling where the customers are regular and have usually only one transaction of each kind in the period.

The example which we take here is that of a gas company, and a very similar ruling will make it suitable for the rates and taxes payable to the various local authorities, a water company, or any similar institution. In this case the ruling will be repeated to show in one opening four quarters at least, or in the case of rates, etc., payable yearly or half-yearly, to cover two or three years, according to circumstances.

From the form on p. 309 it will be seen that each house is given a consecutive or reference number, which number will appear on the debit note which is produced at the time of payment and jotted down in the Cash Book. The various debits for gas consumed, meter rents, hire of stoves, etc., appear here, which is, of course, the Personal Ledger. Whilst the totals of these various columns are added up, the totals are posted to the credit of the various Nominal Accounts.

The credit side calls for no special comment, though as a matter of fact, the discount column may be discarded if preferred, and the total posted from the Cash Book. The other allowances should be specified, and may be analyzed and posted direct to the debit of the various Nominal Accounts.

With such companies, a special Tabular Ledger will probably also be used to record the deposit required by gas

FORM OF TABULAR LEDGER FOR A GAS COMPANY

QUARTER ENDING MARCH 31

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companies from their customers, which, taking into account their power of cutting off the gas, and in some cases a right of distraint, prevents their bad debts reaching a formidable figure.

Life assurance companies also adopt what is in effect a Tabular Ledger to record the collection of the premiums; but as there is a special chapter dealing with accounts of this nature, the student is referred to such for another form relating to this class of ledger.

When we come to deal with other tabular books, the custom is now so well known and so universal that it is hardly necessary to do more than mention many of the books on this system. The book most frequently met with is the Purchase Journal, which usually contains a reference number to the invoice, which is duly numbered and filed away, and then columns for the name of the supplier, posting folio, total amount, and then the numerous columns for the analysis of the purchases or expenses.

A similar book is also used for the Sales Journal where departments are kept separately, and a reference to the chapter on Departmental Accounts will show a form of that description.

Another book which might come under the heading of Tabular Bookkeeping is the Petty Cash Book when it is kept on the Imprest system, and the posting of these expenses made direct from the Petty Cash Book to the nominal accounts; the corresponding credit appearing in the Cash Book for the cheque drawn weekly or monthly, as the case may be, to reimburse the petty cashier.

The Petty Cash Book, in that case, would appear in a form adapted to the business, of which a specimen is set out on p. 311.

In this case the items amounting to 15s. 4d. have been already posted, and the other items for travelling expenses, etc., are posted to the debit of the various nominal accounts, and the cash paid at the week end—£6 18s. 8d.—is the credit for the whole.

The Cash Book has also undergone tabulation in recent years, and an example of this may be found in the Insurance chapter. Many companies and societies of a somewhat similar nature, such as industrial and provident societies, and building societies, the bulk of whose transactions occur in cash, also use a tabular cash book to save detail in posting.

TABULAR LEDGERS AND ACCOUNTS 311

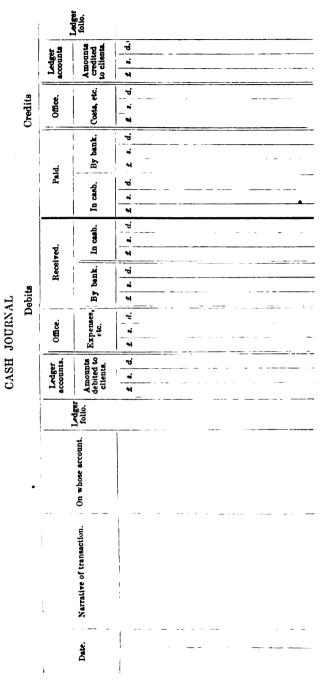
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PETTY CASH BOOK

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Solicitors' Accounts.—Another interesting form of columnar journal is that in very common use in solicitors' offices, viz. Kain's Cash Journal.

The special features are that, additional to the Cash and Bank Accounts, it is the posting medium for all debits and credits to clients, agents and partners, and that under the heading of "office" all profit and loss items find entry.

At the end of the year an estimate of outstanding costs is made, credited to the office and included in the debtor balances; and an estimated sum for outstanding charges (agents' fees, etc.) charged against the office and included among the creditors. The difference between the Dr. and Cr. columns of the office is transferred to the Partners' Capital Accounts, as being the profit or loss of the year.

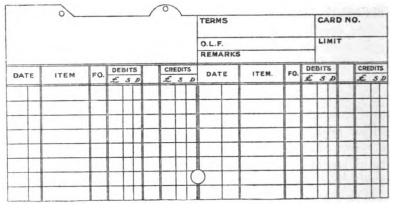
CARD AND SLIP LEDGER ACCOUNTS

At this point it would be well to give a brief description of and mention the pros and cons of the perpetual ledger system of accounts and bookkeeping. We would first acknowledge our indebtedness to the Trading and Manufacturing Company, Limited, for the use of the blocks from which our illustrations are taken.

There is no doubt that the slip and card system as a laboursaving device has come very much to the front during the past few years, and been adopted with great benefit by many leading commercial concerns, not only for correspondence and other business records, but for costing, Day Book entries, etc. The latest development is to apply the method to that book generally regarded as of the first importance—the Ledger.

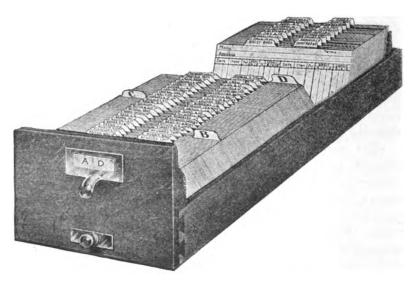
The perpetual card system is one in which the ledger accounts are written on separate cards kept in a special tray or drawer and arranged vertically in alphabetical, numerical, or geographical order. The cards, when not in use, are held in position by a rod passing through a hole in the bottom of the cards. Each card represents an account, and is kept for that account until filled up, when it is removed to a transfer tray and replaced by a new card.

The following is a specimen of a ledger card, reduced size.

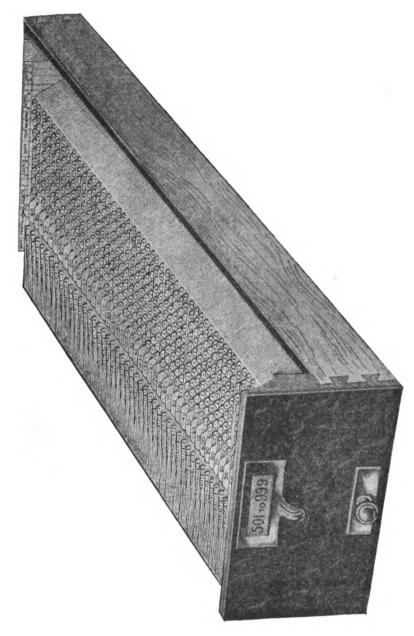


I.EDGER CARD.

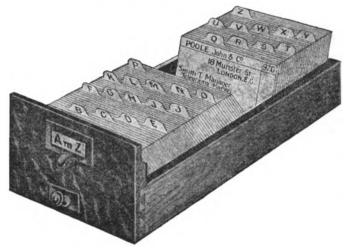
We also give illustrations of a drawer containing an alphabetically arranged set of cards and one with numerical arrangement; the latter also requiring index cards as shown.



DRAWER CONTAINING ALPHABETICALLY ARRANGED CARDS.



THE LEDGER CAND FILED IN NUMERICAL ORDER.



INDEX CARD.

It will be obvious that such a system allows of-

(a) The classification and grouping of the accounts.

(b) The separation and withdrawal of closed accounts.

(c) The distribution of the cards, when numerous, for the preparation of statements, or of extracting the balances for the trial balance.

(d) The saving of time and labour spent in opening new ledgers.

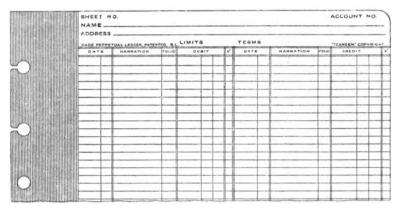
It must, however, be equally apparent that the card system would be strongly objected to by many firms on account of the danger of the cards being withdrawn and not replaced, and the opportunities afforded to business employees of tampering with the accounts by the substitution of false cards. This objection, however, may be considered as practically non-existent by the adoption of the Perpetual Ledger with the slip system. Here the ledger accounts are secured between strong and handsome covers by steel posts, one of which acts as a lock; simply pressing down the covers automatically locking the binders and preventing the removal of any sheet.

Another striking feature is that the index, instead of being loose or contained at the beginning or end, as is the case with the ordinary bound ledger, runs through the Perpetual Ledger, dividing the accounts into alphabetical sections. Further, as

TABULAR LEDGERS AND ACCOUNTS 317

accounts are filled they are removed to a Transfer Ledger, a companion to the one containing the operative accounts.

The following are examples of a ledger account, showing the perforation for the locking, and of a special name and address index sheet.



	ADE PERPETUAL LEDGER PATENTE				E TEANOEN COPY	B.C.F.
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The advantages claimed for the Slip Perpetual Ledger are-

1. The opening of new ledgers dispensed with.—The account is given a certain position and number, which never changes, and so enables the bookkeeper to post, after a time, without reference to the index.

2. Only "live" accounts in actual use.—When the sheet is full, after certifying, the balance may be taken to the "Transfer Ledger," its position and number being exactly the same as in the Current Ledger. Convenience to the clerks for preparation of statements and extraction of trial balance.

3. Facility of audit.—Much of the matter required for the audit will be found in the Transfer Ledger, and therefore Current Ledger will be available to the office staff whilst the Transfer Ledger is being audited.

4. Indexing distributed through the book, thus sectionizing the ledger.—Instead of loose index, or at front or back. To save high numbers, each section commences at number 1.

The book once locked by closing down the covers, it is impossible to remove or insert anything without the key.

To prevent the substitution of one sheet for another the following safeguards may be adopted:--

(a) The paper may have a special watermark.

(b) The firm's name may be printed at the head of each sheet.

(c) Each sheet may be machine numbered, and a register kept of their exact position; or the stock of sheets may be placed under the control of some responsible person, and the issue and balance of sheets subjected to audit.

The only objection to the adoption of the Slip Ledger that need be mentioned is that there is uncertainty as to whether such accounts would be accepted as evidence in a court of law; but in most business houses other records than those in the ledger could, if required, be produced as evidence of any claim.

QUESTIONS AND EXERCISES

173. To what special concerns are tabular accounts applicable?

174. State the advantages of the tabular method of account-keeping in any business with which you are acquainted.

175. Explain the use of a tabular ledger in the case of a gas company.

176. Explain Kain's form of Cash Journal for solicitors' accounts.

177. What special forms of books would you recommend for use in keeping the accounts of a hotel. Give specimen rulings of the two most important of such books.

178. Having been appointed bookkeeper by the proprietors of the White Hart Hotel, Blanktown, you are asked to entirely remodel the system of bookkeeping, and are instructed to submit monthly Profit and Loss Accounts. The hotel contains fifty bedrooms, and does the usual "visitors" trade for a daily average of forty guests. There are also two bars ("parlour" and " the vaults "), a fair "posting" trade, a bus service to and from the station, and an " outdoor" business, partly cash and partly credit, in wines, spirits, and cigars with the surrounding gentry. Submit sketches of the books you would suggest, accompanied in each case by a brief explanation.

178a. Describe the card and slip systems of dealing with Ledger Accounts.

178b. Discuss the advantages claimed for, and the objections raised against the perpetual ledger system.

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CHAPTER XXII

BANKRUPTCY

Arrangement with Creditors—Statement of Affairs and Schedules—Deficiency Account—Preferential Payments—Trustees' Accounts and Statements in Bankruptcy.

ALTHOUGH we have so far confined our attention to solvent concerns, able to pay 20s. in the pound in discharge of liabilities, yet it is a common experience to be called upon to deal with cases of insolvency.

The trader finds that he cannot meet his engagements, and is worried by certain pressing creditors and threatened with legal proceedings. To deal fairly by all his creditors, and with the hope of making favourable arrangements with them to carry on his business, he calls them together, places before them the statement of his affairs, and either he or his friends make an offer of a composition of so much in the pound secured by bills of guarantee, or a deed of assignment.

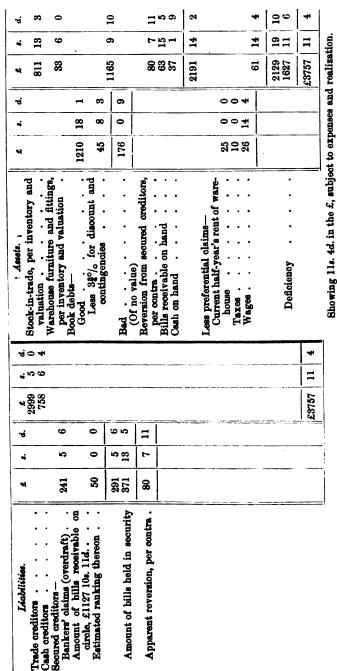
This attempt at arrangement may be fruitless, and on the debtor's own petition, or at the instance of his creditors, the affairs may be wound up by bankruptcy proceedings.

On the next page is a statement of affairs submitted to a meeting of creditors, to whom an offer of 12s. in the pound is made, payable in equal payments in three, six, nine, and twelve months, the payment being guaranteed by the debtor's friends.

Should the attempt to arrange with the creditors fail, they or the debtor may apply for a receiving order to wind up the affairs in bankruptcy, in which event the following forms and schedules would have to be prepared and filed in the Bankruptcy Court.

As candidates in the professional examinations are frequently asked to give the front sheet of the statement of affairs, we place before the student this somewhat lengthy form.

BANKRUPTCY

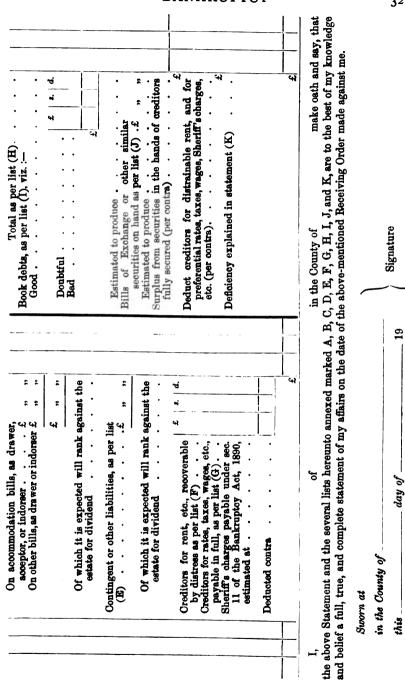


STATEMENT OF AFFAIRS

	The Bankruptcy Acts, 1883 & 1890. STATEMENT OF AFFAIRS. STATEMENT OF AFFAIRS. STATEMENT OF AFFAIRS. Final Edge An the County Court of IN up, carefully and accurately, this Sheet, and the several Sheets A, B, C, D, E, F, R, N, and K, abowing the state of your affairs on the day on which the Receiving Order was made against you, viz.: the day of Such Sheets when filled up will constitute your Statement of Affairs, and must be verified by Oath or Declaration. Distribution Laster and R, aboving the state of your affairs on the day on which the Receiving Order was made against you, viz.: the day of Such Sheets when filled up will constitute your Statement of Affairs, and must be verified by Oath or Declaration. An and K, aboving the state of a constitute your Statement of Affairs, and must be verified by Oath or Declaration. An unsecured Creditors, as per list (R) An extended and estimated by Debor. An unsecured Creditors, as per list (R) An extended the protect of the and transition. Anonented Creditors, as per list (B) An extended to focult for constants of the and transition for constants of the and transition for constants of the and transition for constants of the and transition for constants of the antitute of constants of the and transition for constants of the and transition for constants of the antitute of antitute of active to the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antiticity of the antin the antity of the antiticity of the antiticity of the antitregi	The Bankruptcy Acts, 1883 & 1890. STATEMENT OF AFFAIRS. A to the Country Court of Statement of Meet, and the several Sheets A, B, C, D, E, F, G, H, I, L, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.: the day of "19" J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.: the day of "19" J, and K, showing the state of your affairs on the day on the Receiving Order was made against you, viz.: the day of "19" J, and K, showing the state of your affairs on the day on the Receiving Order was made against you, viz.: the day of "19" J, and K, showing the state of your affairs on the day on the Receiving Order was made against you, viz.: the day of "19" An expense [and must be verified to your the received as per list (A) An under a state of courted # 1, d. An under a state of courted # 1, d. Conductore preserved, as per list (A) [and day on the c	F, G, H, I, I, G, H, I, I, G, H, I,
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ACCOUNTING AND BANKING



BANKRUPTCY

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before me

The sheets referred to by the letters give, in addition to names, addresses, and occupations, the following particulars :----

A. Unsecured Creditors.

Numbered consecutively and in alphabetical order; those whose debts are for £10 and upwards placed first. The amount of the claim, when contracted, and the consideration, are to be stated, and also the particulars of bills of exchange held by the creditor to be given.

B. Fully Secured Creditors.

Particulars of security, estimated value, and surplus, to be stated.

C. Partly Secured Creditors.

Particulars as above, with statement of balance of debt unsecured.

D. Liability for Bills Discounted, etc.

Particulars of bill, and name, address, and occupation of acceptors, and of holder if known, and whether liable as drawer or endorser.

E. Contingent Liabilities.

Usual particulars as with creditors, also stating nature of liability.

F. Creditors for Rent, etc.

Period for which claim is made, amount recoverable by distress, and balance ranking for dividend.

G. Preferential Creditors.

H. Property.

Full particulars, with estimated amounts it may produce.

I. Debtors.

No., name, address, occupation, amount, L.F., whether good, doubtful, bad, estimated to produce, particulars of securities held.

Accounts to be shown as a deduction and not included in Schedule A.

J. Bills of Exchange, etc.

Particulars of bills, with estimated amounts likely to be realized, and of securities held.

K. The Deficiency Account.

By which the debtor sets forth the causes of his insolvency, and accounts for the loss of capital, any profit made, and the deficiency of assets shown by the statement of affairs usually

Income or harden over rigorities on (if any)	Excess of liabilities over assets on the ' day of 19 (if any) ' rising from earrying on business from the ' date of Receiving Order, after date of Receiving Order, after deducting from profits the usual trade scheness Bad debts (if any) as per Sched. "1"? ' 19, other than usual trade expenses, viz. household expenses of self and ' Other losses and expenses, viz. household expenses (if any) affairs (if any) .	i
Total amount to be accounted for ${}^{\bullet}$. ${}^{\varepsilon}$	Total amount accounted for ³ £	-
Norms-1 This date abould be 12 months before date of Receiving Urder or such other time as Official Receiver may have fixed. This Schedule must show when debts were contracted. Add "wife and children" ((1 any), stating number of latter. Here add particulars of other losses or expenses ((1 any) including depreciation in the value of stock and effects or other property as estimated for realization, and liabilities ((1 any).	r or such other time as Official Signature ding depreciation in the value Dated action, and liabilities (if any),	- 190

BANKRUPTCY

contains very interesting material for the public examination of the bankrupt. Heavy household expenses, speculative transactions, which may be Stock Exchange or turf gambling, law suits, embezzlement by employees, heavy bad debts, and trade losses are amongst many of the reasons given.

Reference to the statement will show that creditors are divided into various classes. The amount owing to unsecured creditors, and expected to rank against the estate, is carried out into the effective column; fully secured creditors being set short, and after allowing for the estimated value of securities, the surplus carried to the credit side of the statement, the partly secured creditors will rank with the unsecured creditors for the balance of their debts, after taking into account the value of the securities held by them.

Bills payable are included among the creditors.

Preferential creditors claim upon the estate for full payment, as shown by the deduction in full from the assets on the contraside of the sheet.

Subject to the retention of funds to cover the expenses of administration of the estate, the following are preferential payments in bankruptcy:---

1. Rates due at the date of the receiving order; having become due and payable within twelve months next before that time; and taxes assessed up to April 5 next, before the date of the receiving order, and not exceeding in the whole one year's assessment.

2. Wages or salary of clerks or similar servants, within the four months prior to the date of the receiving order, but not exceeding $\pounds 50$.

3. Wages of workmen or labourers, for time or piece work, within two months before the winding up, but not exceeding £25.

Following the above, the landlord, after the commencement of the bankruptcy, may claim for six months' rent due prior to the date of the bankruptcy.

The contra side needs little explanation, except that there is a separation of the book debts, and the balances that various properties are expected to realize are extended. Of course the balance from secured creditors is included. There is also a deduction for the full amount to which preferential creditors are

BANKRUPTCY

entitled. The statement is completed by stating the deficiency as entered to the debit of the Deficiency Account.

Example I

On December 31, 1903, Lawson & Co., finding themselves in difficulties, call upon us to prepare a statement of affairs from the following particulars :—

	£	8.	đ.
Unsecured creditors	2600	0	0
Cash and bills in hand, face value £85, estimated to			
produce	30	0	0
Book debts. Good	500	0	0
Doubtful £1000; bad £50, estimated to realize .	750	0	0
Creditors partly secured £1200, the value of their security being £800.			
Creditors fully secured, £1900, the value of their security being £2400.	•		
Stock on hand, £850. Estimated to produce	750	0	0
Preferential creditors: Landlord for rent, £270			
(annual rental, £240); manager's salary, £150, for nine months			
	180	Δ	Δ
Estimated value of lease of business premises	100	U	U
Contingent liability in respect to a contract not com-			
pleted, £300			

Prepare statement under the form required by Bankruptcy Acts 1883 and 1890. ACCOUNTING AND BANKING

Re MESSRS. LAWSON AND CO.

STATEMENT OF AFFAIRS, DECEMBER 31, 1903

G ros liabilit			Liabilities as estimated by debtor.	Expect		to	Assets as estimated by debtor.	Expect		
£ 2600	s. 0	d. 0	Unsecured creditors as per list "A"	£ 2600	s. 0	d. 0	Cash and bills in £ hand as per list "C" 85	£ 30	s. 0	rd.
1200	0	0	Creditors partly se- £ cured	4 00	0	0	Book debts as per list "D," viz.— \pounds Good 500 Doubtful 1000 Bad 50			
1900	0	0	Creditors fully se- \pounds cured 1900 Security held by same 2400				1550 Stock on hand . 850	1250 750		0
			Surplus to contra. 500				Estimated worth of lease of business premises .	180	0	0
270	0	0	Preferential creditors as per list "B" £ Landlord's rent 270 Deducted per				Surplus from fully se- cured creditors	500	0	0
			contra, being six months' rent at £240 per annum 120				Deduct preferential cre- ditors as per contra—	2710	0	0
150	0	0	Manager's salary . 150 Deducted per contra 50	150	0		Rent 120 Manager's salary 50	170	0	0
300	0	0	Contingent liability in respect to a contract not completed	300	0		Contingent assets (memo).	2540	-	0
			Contingent liability (memo).				Deficiency	1010	0	0
£6420	0	0		£3550	0	0		£3550	0	0

TRUSTEES' ACCOUNTS

Certain stringent rules of the Board of Trade compel the trustee in bankruptcy to keep and render accounts, and to pay all cash into the Bankruptcy Estates Account at the Bank of England (unless a local account has been authorized by the Board of Trade). The accounts must be audited every six months, first by the committee of inspection, if such has been formed, and then by the Board of Trade. The accounts required at audit are•

RECI

Date.	Particulars.	To	tal.		Drawn fi	rom bank
	To deposit on creditor's petition .	£ 5	s. 0	<i>d.</i> 0	£	8.
	" sale of jewellery surrendered by debtor	10	0	0		
	" sale of shares in public com- panies	736	10	3		
	", Bankruptcy Estates Account being auctioneer's charges . ", amount received from Thomas Booth	230	10	0	18	8
	" Bankruptcy Estates Account . Board of Trade, ad valorem fee .				10	0

The Record Book, containing the minutes and other business dealt with at the meetings of the committee of inspection.

A report on the position of the estate.

The verified copy of the Estate Cash Book.

The instructions for keeping the Estate Cash Book are as follows :---

"Particulars of each receipt and payment should be so fully entered in this book as sufficiently to explain its nature, and in case of payments for rent, rates, taxes, and wages, the period for which the payment is made should be clearly stated.

"All bank transactions, whether with local banks or Bankruptcy Estates Account, should be duly entered in bank columns, save only when local banks are used for purposes of transmission to the Bankruptcy Estates Account, in which case the payments to the latter account alone should appear in the bank columns.

"When a business is carried on, a Trading Account should be kept as a distinct account, and the weekly totals of receipts and payments respectively should alone be entered in this book.

"Distinct accounts are to be kept and rendered of the joint and separate estates."

At the first audit, the trustee also sends a copy of the front sheet and schedules of the Statement of Affairs.

The annexed is a specimen page of an Estate Cash Book.

At the date of declaring each dividend a statement showing the position of the estate is forwarded to the creditors with notice of dividend. An example is given on pp. 330, 331.

QUESTIONS AND EXERCISES

179. Give an example of a full statement of affairs of an insolvent debtor for a meeting of creditors.

180. Prepare an imaginary Deficiency Account for inclusion in a bankrupt's statement of affairs, and as nearly as may be in the statutory form.

181. Give a ruling of an Estate Cash Book kept by a trustee in bankruptcy.

182. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming. Prepare the statement of affairs for submission to his creditors, and a Deficiency Account in the ordinary form :---

Sundry debtors-Good, £1280; doubtful, £2800 (esti-	~
mated to produce £1000); bad, £700	4,780
Sundry freehold houses, etc. (estimated to produce, £2000)	3,300

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e 1890.	en at	NO. 23 of 1905.	IEBODY.	5, on Creditor's Petition.)
The Bankruptcy Acts, 1883 & 1890.	In the County Court of Lancashire, bolden at	IN BANKRUPTCY.	IN THE MATTER OF CHARLES SOMEBODY.	(Under Beceiving Order, dated 12th day of June, 1905, on Creditor's Petition.)

STATEMENT SHOWING POSITION OF ESTATE AT DATE OF DECLARING FOURTH AND FINAL DIVIDEND.

	Estimated to produce, per debtors' state- ment.	to pro	te-	Rec	Receipta.			Paymenta.	ents.	
	 ધ	8. d.	d.	બ		d.		બ	-	ġ
To total receipts from date of re-							By Board of Trade and court fees (including stamp of £5 on petition) · · · · · ·	134	80	0
Cash deposited with solicitor for				×		-				
Denoait on Detition				סינ	••	0	Other law costs 295 1 5			
Cash in hand · · · · · ·	30	Ħ	9	80	=	6	;			
Stock-in-trade	4100	0	0	4307	Z	>	realization 83 II 9	801	18	11
Machinery		0	0	8500	- C	0 0	Ĥ		2	:
eta		•	•	_	>)	mitte of inspection, viz			
Furniture	3434 16	91	1	2555	80	80	12% on £14,960 0s. 8d. assets 2 3 11 10 realized 223 11 10			
Bills of exchange or other similar	4	4 17	2	4	4 16	80	2% on £12,675 17s. 8d. assets Aist-thread in dividand 253 10 4			
Surplus from securities in the		i					-	477	01	61
hands of areditors fully secured 11,595 1	11,595		ŝ	•		>	Special manager's charges	25	4	•

ACCOUNTING AND BANKING

BANKRUPTCY

Receipts per Trading Account . Other receipts				10,511 225	17 0	44	Person appointed to assist debtor under s. 70 of the Bankruptcy Act, 1883 .	5 40	50 50	00	
Total	£39,615	2	S.	26,145	9	9	Other taxed costs	83	18	902	
Less— Deposit returned to petitioner . Payments per Trading Account Other payments by special	5 9,548	0 16	0 10				Cost of notices in <i>caractes and</i> notest papers Expenses of committee of inspection Incidental outlay	15 150 18	15.811	2080	
manager	858	16	10	10,412	13	თ	cidental expenses attending application for release, etc.	ŝ	ŝ	6	
							Total cost of realization . Allowance to debtor for services as manager .	1,828 168	60	40	-
							Purchaser of vacant land, Oak Road, liable to a ground rent of £49 14s. 6d.	1,000	0	0	• • • •
			-				15				
							1st dividend declared of 10s. in 7586 11 9				
								-			
				-			the £ on £15,173 3s. 8d 3034 11 11 3rd dividend declared of 2s in				
							the £ on £15,173 38. 8d 1517 6 4				
							ļ				
•			-				±10,178 38. 800	13,241	7	11	
							The debtor's estimate of amount expected to rank for dividend was nil. A surplus was				
				£15,782	13	တ	expected.	£15,782	13	6 0	
						1	.1				55

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Shares—1000 ordinary shares in the Cable Telegraph Co., valued at par	1,000
secured creditors)	9,450
Loss through the unsuccessful defence of an action at law	5,420
Business expenses	3,200
Creditors—unsecured	16,740
" partly secured	5,420
"fully secured	3,110
Preferential claims for salaries and rent	500
Private drawings	1,200
Samuel Hobson-Capital Account	3,800
Cash at bank	420
Bills receivable, good	800

183. Frederick Milnthorpe, of Corporation Street, Manchester, commenced business on January 1, 1905, as an oil merchant, with a capital of £850.

On December 31, 1906, his books showed the following :---

Sundry debtors, £675 6s. 3d.; sundry creditors, £1988 2s. 6d.; bills payable, £550; loan owing, £1000; stock, £518 7s. 9d.; office furniture, £74 1s. 10d.; rent owing, £100; salaries owing, £25.

Make out a Deficiency Account suggesting how the deficiency has arisen. 184. Prepare from the following figures a statement of affairs of A. B. and Co., to be presented at a meeting of creditors. The date is March 15, 1904.

	£	8.	d.
Debtors as per Schedule I		16	11
Creditors unsecured, as per Schedule II	6,841	3	10
Creditors secured—	•		
J. Jones	2,048	0	0
Security-2810 preference shares in the Z.	•		
Company, Ltd., valued at	2,810	0	0
T. Robinson	17,148		2
Securities-6500 preference shares in the Q.			
Company, valued at	6,500	0	0
Debt due from D. Clyte, valued at	6,262	11	2
Debt due from H. Johns, valued at	1,494		
7350 shares in the Patent Engine Co., Ltd.,	•		
valued at	3,509	0	0
Creditors partly secured—	-,	-	
Bank	332	14	4
A. Brown	8,893	11	2
Securities (three debts) valued at	182		
Landlord for rent.	845	19	6
Furniture and fixtures	254		9
Interest in company to be formed, valued by A. B.		•	-
at	5,000	0	0
	0,000	v	v

185. Green and Smart are in partnership as drapers, and find they are

BANKRUPTCY

unable to meet their liabilities. You are instructed to examine their books, and you find that the liabilities are as follows :---

												£
Trade creditors					•			•	•			3000
Cash creditors-Mrs. Gu	ree	n.										500
Miss St	mai	rt.							•			300
(It is expected that M	ſrs.	Gre	en w	rill 1	not	pre	88	her	cl	ain	ı.)	
James Jones, secured	by	mor	tgage	on	pr	- em	isee	3, t	he	est	ti-	
mated value of which	is	£12	50 [°] .		-							1000
Creditors-												
Wages												50
Rates and taxes .				•								30
Rent (distrainable)												100
And the assets (in add	litic	on to) the	pro	per	ty	m	ortg	ag	ed	to	
				-	-	-						
Jones)—												
Jones)— Sundry debtors—			£									£
			£ 60									£
Sundry debtors-		•	60	0	stim	ate	ed t	юр	roc	luc	e	£ 100
Sundry debtors — Good	•		60	0 0 es	stim	ate	ed t	o F	roc	luc	e	
Sundry debtors — Good Doubtful	•		60 30	0 0 ea 0		ate	ed t	o P	roc		e	
Sundry debtors — Good . . . Doubtful . . . Bad . . .		•	60 30 20	0 0 es 0 0			ed t	o f		,	e	100
Sundry debtors		•	60 30 200 100	0 0 es 0 0 0		,,	ed t	io f	,,	,	e	100 700

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CHAPTER XXIII

LIQUIDATIONS, RECONSTRUCTIONS, AND AMALGAMATIONS

Statement of Affairs – Contributories – Examples of Statement of Affairs and Deficiency Accounts – Statement of Realization of the Estate – Examples of Reconstruction and of Amalgamation.

THE first point to be considered in liquidations is how to commence the proceedings. If the company is insolvent, the creditors will probably arrange the preliminary details by presenting a petition against it, with the result that the court will make a winding-up order for compulsory liquidation after hearing the petition.

However, cases will more frequently happen where the company takes the first step, in which case voluntary liquidation will probably be decided upon; though in this case any creditors or contributories (as the shareholders are called at this stage) may apply to the court that the liquidation shall continue either as a compulsory one, or under the supervision of the court.

For a company to put itself into liquidation on the achievement of its object, or the expiration of time or happening of the event prescribed for its dissolution, an ordinary resolution to that effect only is necessary. If the company cannot carry on its business owing to its liabilities, an extraordinary resolution will suffice, whilst in other cases a special resolution is necessary.

The first point in the accounts of a liquidation matter is the preparation of a statement of affairs, which in a compulsory liquidation is very similar to that prepared in bankruptcy, and is filed with the court in the prescribed form.

If the company is insolvent, but the statement is being submitted to the shareholders only for a voluntary liquidation, no

EXAMPLE

In the matter of the Companies Acts, 1862 to 1900

SPECULATION & CO., Limited, Engineers, Folly Lane, Manchester

Statement of Affairs on February 25, 1906, the date of Extraordinary Resolution to wind up the Company.

Liabilitics.	Ŕ						Azeeta.	
Debts and liabilities, viz	4	•	÷	4		ri °	Property, viz	~i [∞]
Fully secured creditors	32 3 8	12 2	6 9	5	PT	•	imated to re	0000
Estimated surplus (carried to contra)	80	2	0				* *	
Partly secured creditors	67 16	40	120	1				, o
Debentures £3000 0 0 Debenture interest 156 18 6	0166	9	4	01	4	=	Book debts: 58 11 0 Good	
Less estimated value of assets as per contra	3100 1298	9 0	9		ç			
Preferential creditors for rent, salaries,		<u> </u>	Ī	1858	18	•	Estimated to realize	-
and wages, deducted contra	120	14	21				Surplus from securities in mands of fully secured creditors	•
						-	Less preferential creditors as per contra	80 64
							Estimated total net assets, deducted contra	9
•							Estimated deficiency, subject to cost of liquidation	5
			1 44	£2744	19	61	<u>£2744</u> 19	67
N.BThe Nominal Capital of the (Compan	y am(unte	1 to £1	000'0	of w	N.BThe Nominal Capital of the Company amounted to £10,000, of which £8000 was subscribed. No calls unpaid. ALFRED NIXON, CHARTERED AccountART, Victoria Buildings, Manchester. RECEIVER AND LIQUIDATOR.	

LIQUIDATIONS, RECONSTRUCTIONS, ETC. 335

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set form is provided, but something similar to a statement of affairs for a compulsory liquidation will probably be prepared.

In preparing this statement we must put aside our general notions of bookkeeping, for we are no longer dealing with the book-value of the assets of a going concern, but are required to deal with the actual value of the assets belonging to a business which will, in all probability, shortly be broken up at such a price as a forced realization will fetch, and that very likely under the hammer.

Company liquidation accounts and forms correspond so closely with those in bankruptcy that we need only mention the special features.

In the statement just given, the shares were fully paid, and therefore no further claim can be made by the creditors on the shareholders, as would have been the case had the shares been only partly paid.

Should the shares be but partly paid, and the assets be insufficient to meet the liabilities of the company, then the liquidator would make a call to the extent of the uncalled amount, or as much as would enable him to settle the company's obligations.

One of the first duties of a liquidator in the winding up of a company is to settle the lists of contributories, *i.e.* persons liable to contribute to the settlement of the debts and liabilities of the company being wound up. Two lists are prepared, A and B. On the A list all present members are entered, and on the B list all persons who have been shareholders at any time within twelve months prior to the winding up.

Only in the event of the contributions from those on the A list being insufficient to discharge the liabilities of the company will resort be made to those on the B list; and the liability of the B contributory is limited to the amount unpaid on his shares by the corresponding A contributories, and if on the winding up there are debts which were incurred while he was a member.

On our front page of the statement of affairs we have, in addition to the particulars furnished in a bankruptcy statement, particulars of share capital set out in Schedules L, M, and N, which consist of founders' shares, ordinary shares, and preference shares respectively, and giving consecutive number, LIQUIDATIONS, RECONSTRUCTIONS, ETC. 337

register number, name, address, nominal amount of shares held, number of shares held, amount per shares called up, total amount called up; and the deficiency explained in Schedule O.

Such officials of the company as may be required to prepare the statement must sign each sheet, and on the front page appears their affidavit to say that they "make oath and say that the foregoing statement and the several lists hereunto annexed are to the best of my knowledge and belief a full, true and complete statement of the affairs of the above-named company on the day of (the date of the winding-up order)."

To thoroughly explain the method of preparing the statement of affairs, let us assume that we are instructed to prepare such an account for a company against whom a winding-up order was made on June 30, which happens to be the company's year end. The books are duly balanced, and the following is the trial balance at that date :---

EXAMPLE I

TRIAL BALANCE

June 30, 190-

							Dr.	Cr.
Capital Account—							£	£
Ordinary shares							~	
Preference shares		•	·	•	•	•		5,000
Calls in arrear	•	•	•	•	•	٠	-	3,000
0	•	•	•	·	٠	٠	100	
Creditors	•	•	•		•			6,340
Mortgages								4,000
Debentures						-		•
Bank overdraft		•	•	•	•	•		5,000
Agent's commission	•	·	•	•	·	·		1,760
	•	·	·	•	•	٠		40
Preferential creditors	•	•	•		•			300
Debtors							5,631	
Stock							8,620	
Land and buildings							5,000	
Machinery and plant							3,720	
					•	•	•	
and moto necount .	·	•	·	•	•	•	2,369	
						-	DE 110	007.4.4
						æ:	25,440	£25,440

The inquiries which we make show that the calls in arrear are expected to realize $\pounds70$, the stock at a forced realization $\pounds6400$, and of this the agents hold as samples and for small deliveries about $\pounds60$, and the machinery is estimated to produce

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		3n the Digh Court of Justice COMPANIES (WINDING-UP). IN THE MATTER OF THE COMPANIES ACTS, 1862 TO 1900,	the Digh Court of Just companies (winding-UP). ER of the Companies ACT	f Justice NG-UP). No. of 19 ES ACTS, 1862 TO 1900,	
* Insert full name of Company.	ert of	AND IN THE MATTER OF • THE BLANK COMPANY, LIMITED. STATEMENT OF AFFAIRS on the thirtieth day of June, 190, the date of the Winding-up Order. (I.) AS REGARDS CREDITORS	AND TTER OF • THE BLANK COMI n the thirtieth day of June, 190 , (I.) AS REGARDS CREDITORS	KK COMPANY, LIMITED. 1e, 190 , the date of the Winding-up Order. 3DITORS	
Gross liabilities.	bilities.	Liabilities.	Expected to rank.	Asseta. Estim	Estimated to produce.
£ 6340	0 4	H	£ 6340 0 0	 (a) Property, as per list "H," viz.— (a) Cash at bankers (b) Cash in hand (c) Stock-in-trade 	
4040	0	(b) 2 Creations ruly secured (not including debenture holders) as per lits. B. 1040 0 0 Estimated value of securities 5060 0 0		(Estimated cost, £8560)	
		Retineted surplus 1020 0 0 Carried to list "O" 1000 0 0 Palance to contra (d) 20 0 0		 (h) Other property, viz.— (b) Book debts (debtors), as per list "I," viz.— 	
1760	•	(o) 1 Creditor partly secured, as per list "C" 1760 0 0 Less estimated value of 1000 0		Good \ldots \ldots \ldots $3,961$ Doubtful \ldots \ldots $\frac{x}{1187}$ $\frac{a}{1}$ $\frac{a}{1}$ Bad \ldots \ldots $\frac{483}{188}$ 0 0	0
		-		£1670 0 0	

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LIQUIDATIONS,	RECONSTRUCTIONS ,	ETC.	339
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		_	Estimated to rank for dividend	760 0 0	Estimated to produce	295 0 0	0	0
372	0	•	 (d) Liabilities on bills discounted z . d. other than the Company's own accoptances for value, as per list "D" 372 0 0 Of which it is strocted will rank for 		 (c) Bills of Exchange or other similar scourties on hand, as por list "J". Retimated to produce 			
			 dividend. (e) Other lisbilities as per list 2 4. "E". "E". "Of which it is expected will rank for dividend. 		 (d) Surplus from securities in the hands of creditors fully secured (per contra) (b) . (e) Unpeid calls (debtors) as ² ⁴ ⁴. 	20	•	0
		_	() Durburntial Chaditone . 2 4. d.		o pro	70 0	0	0
			O) OF I INIGHTAL CLOUDUR for Indee, marce, wages,		Estimated total assets 12,186	12,186	0	0
300	•	•	deducted contra		Deduct preferential creditors, as per contra (1).	300	0	0
5000	0 0	•	(g) Loans on debenture bonds, as per list "G" deducted contra		Estimated amount available to meet claims of debenture holders Deduct loans on debenture bonds	11,886	•	0
				7100 0 0	secured on the assets of the Company as per contra (g)	5,000	0	0
			liabilities of Company, subject to cost of liquidation		Estimated amount available to meet unsecured creditors subject to cost of liquidation	6,886	0	0
					Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation	214	0	0
£17,812 0 0	0	0	3	£7100 0 0		£7,100	0	0

The nominal amount of unpaid capital liable to be called up is nil, which is [available to meet above deficiency] or [charged to debenture holders], or as the case may be.

340)	ACCOU	NTI	NG AND	DANT			
1	ન્ક						0	0
ŀ							-	
	4						8214	£8214
SE	Estimated surplus as above (if any) subject to cost of liquidation						Total deficiency as explained in Statement "O".	
FORI	70		0	0			0	
BUJ			•	•				<u> </u>
NTRI	બ		5000	3000			214	4
S	ri i		0	•				
DS	4		•	•				· · ·
EGAR	બ		5000	3000			. 900	
(11.) AS REGARDS CONTRIBUTORIES	Capital issued and allotted, viz Founders' shares of £ per share (shareholders).	(a) Issued as fully paid. Amount celled up at £ per share, as per list "L" 5000 Ordinary shares of £1 per share (23 sharebolders).	Amount called up at $\mathcal{E}1$ per share, as per list "M"	 3000 Preference shares of £1 per share . (18 shareholders). (a) Lacued as fully paid. (a) Lacued up at £1 per share, as per list "N" 	(0)	Amount (if any) paid in advance of call . ${\mathfrak L}$	Less unpaid calls estimated to be fre- coverable. $\cdot \cdot	Add denoieney w meet rearrange
		(a) Where capital is issued as party paid up, the form abouid be altered accord- ingly.			(b) Add par- ticulars of any other capital.			

ACCOUNTING AND BANKING

3; of	
make oath and say that the foregoing statement and the several lists hereunto annexed marked are, to the best of my knowledge and belief, a full, true, and complete	the foregoing statement and the several lists hereunto annexed marked are, to the best of my knowledge and belief, a full, true, and complete statement of the C
affairs of the above-named Company, on the day of Sworn at	19 , the date of the winding-up order.
in the County of day of 19	
Before me	Signature
A Commissioner for Oaths.	
The Commissioner is particularly requested, before swearing the Affidavit, to ascertain that the full name, address, and description of the Deponent are stated, and	
to initial all crossings-out or other alterations on the printed form. A deficiency in the Affidavit in any of the above respects will entail its refusal by the Court.	•
and will necessitate its being re-sworn.	34

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LISI (2) Deficiency Account where Winding-up Order	r "0." made N	8 0 8	Äg	LIST "O." (2). Deficiency Account. (2) Deficiency Account where Winding-up Order made MORE THAN THREE YEARS AFTER formation of Company.	1
I. Excess of assets over capital and liabilities on the ¹ 30th day of June, 19- (three years before date of	*		ġ.	I. Excess of capital and liabilities over assets on the ¹ 2 a. 80th day of , 1 (if any), as per com-	ਚ
statement of affairs) (if any) as per company's balance sheet	5,810	•	0	pany's balance sheet	
II. Gross profit (if any) arising from carrying on business from the ¹ 80th day of June, 1	20,940	•	0	Salaries and wages 18,000 0 0 0 Rent, rates, and taxes 1,580 0 0 0 Miscellaneous trade expenses . 6,419 0 0 Depreciation written off in com- pury's books 600 0 0 Interest on loans 1,420 0 0	-
III. Deficiency as per statement of affairs	8,214	0	•	III. Bad debts (if any) as per List "1" ³ · · · · 1875 0 IV. Directors' fees from the ¹ 80th day of June, 1 · . 1600 0 V. Dividends paid (if any) since the ¹ day of	000
				VI. Losses on investments realized since the ¹ day of , 1 , exclusive of depreciation written off a shove. viz.	
					0
				plant	•
				IX. Unpaid calls, as per List "K" 100 0 0 Lets: Amount taken credit for in front ablect as estimated to be rea- lized therefrom, as per List "K" . 70 0 0	
				Balance estimated as irrecoverable 80 0	0
Total amount to be accounted for ⁵	£34,464	0	0	Total amount accounted for ^a	•
 Three years before date of winding-up order. This list must show when data was contracted 			1		1

No. C. 38.—Statement of Affairs. Company's Winding up. 115th a.O. 703 This list must abow when dots were contracted.
 Here add particulars of other losses or expenses (if any) and liabilities (if any) for which no consideration recirved.
 When particular are numerous they should be inserted in a separate schedule.
 These figures abould agree.

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Dated

Signature

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£1500. Of the book debts £3961 are considered good, £483 are bad, and the remaining debts are doubtful, and are estimated to produce £295.

The land and buildings are, of course, subject to the mortgage, and the bank hold after that is satisfied a second charge as partial security for their overdraft. The various particulars required for the Deficiency Account are not set out in detail here, but reference to the statement will show how these items have been obtained.

This form of Deficiency Account is used when the company has been trading for upwards of three years; in other cases an amended form is substituted, showing in similar detail the entire transactions of the company since its flotation. The amendment, in fact, is merely the omission of the opening item on each side, which, of course, is not applicable to a new company.

Separate meetings are called of the creditors and the contributories, presided over by the official receiver, and the appointment of a liquidator is discussed, and nominations for the position are given. The court, after hearing the result of the meetings, appoints the liquidator, who then has to give security to the Board of Trade, who have the right to object to the appointment.

Supposing that no such objection is made, and the security is satisfactory, the liquidator must notify the registrar of joint stock companies, and is then in a position to act.

The liquidator having been appointed, the accounts which he keeps take the simple form of a Receipts and Payments Account; which, however, is a formidable-looking book, on account of the numerous analysis columns provided to show at a glance the full receipts or payments under every conceivable heading. The form is as follows:—

	r receipta.				Other pay- ments.		
	Calls, other receipts.				Repay- b ments to contribu- tories.		
					Dividende paid.		
	Receipts from securities held by creditors.			Notice in Incidental for tital credit Payment Dividenda metes or Outsette Incidental for and securities, paid, contribu- and local Including rent, contribution, bortes.			
					tial credit fors (sect. 40) and rent.		
	Property realised.				Incidental expenses, including possession,		
	. 1				Notice in Gaastle und local papers, I	·	
RECRIPTS	Debta collected.		82		Official receiver for re- munera- tion.		
			Payments	Cost of realization.	Charges of auctioneer, 1 accountant, shorthand r writing etc.		
	Drawn from bank.			Cost	I.aw C. costs after after after		
					Law costs of petition.		
	Total.				Board of Trade and Court fees.		
					Paid into bank.		
	Particulars.			-	Total.		
	4 4	19 a 19 19 - 10 1 9			Voucher number (in red).		
	Date.			1	Particu- lars.		
, , ,	Ľ			1	Date.		

LIQUIDATOR'S CASH ACCOUNT

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The liquidator, in addition, where he has carried on the business, must keep a Trading Account, which is also a statement of receipts and payments only—

Dr.			Cr.
Date.	Receipts.	Date.	Payments.
	£ s. d.		£ s. d.
1			

This Trading Account must be audited at least once a month by the committee, or by one of them specially deputed by the others to do this work, and the weekly totals are incorporated with the company's Cash Book in the "other receipts" columns. The Cash Book is audited at least once every three months by the committee, and every six months by the Board of Trade. For the latter, two copies of the Cash Book must be sent to the inspector-general in bankruptcy, one a facsimile of that kept by the liquidator as given above, and the other omitting the various analysis columns on each side, consisting therefore of the first four columns on the receipts side, and the first five on the payments side. This smaller copy, after audit, is placed on the file of proceedings. With these copies the following documents are sent: All vouchers, all allocaturs (certificates as to costs required by law to be taxed by the court), the Record Book (which corresponds to the Minute Book, but contains additional information as to the progress of the proceedings), certain pages of the statement of affairs (only necessary at the first audit), Pass Book (if local bank is authorized), etc.

The entries in the Cash Book will proceed on the ordinary lines, but the following points should be borne in mind: all receipts are to be paid gross into the bank (a local bank if specially authorized, otherwise the Bank of England, Law Courts Branch, Companies Liquidation Account), and the dividends as and when paid appear in one item only in the accounts for each dividend.

The next item involving accounts is in connection with the

statement of the realization of the estate when a dividend is paid, or the liquidator applies for his release. This statement appears in the form shown on p. 347.

This statement is, of course, the natural conclusion of a liquidation, and our accounts, so far as compulsory liquidation is concerned, end here. The accounts relating to voluntary liquidation vary, inasmuch as it is not necessary for them to prepare the statement of affairs, Deficiency Account, Cash Book, nor final statement of realization in the official forms given above, although, as a matter of practice, the principle underlying these forms is usually followed.

In all classes of liquidation, if the winding up is not concluded within one year from its commencement, the liquidator must file with the registrar of joint stock companies, under sect. 15 of the Companies (Winding-up) Act, 1890, a statement in the prescribed form, showing the position of affairs at date, and such statement may be inspected by any person stating himself in writing to be a creditor or contributory or his agent, and such person may take extracts therefrom, or may demand a copy of it, subject to the payment of a reasonable fee.

Under the same section, any moneys appearing from such statement to have been in the hands of the liquidator for six months, representing unclaimed dividends or undistributed assets, must forthwith be paid into the Companies Liquidation Account at the Bank of England. These amounts are repayable to the true owner on the certificate of the Board of Trade that he is entitled to the money.

After the first statement has been rendered, future statements are to be made up at such intervals as may be prescribed, which is at present every six months, until the conclusion of the liquidation.

Having dealt with the liquidation of those companies whose losses have been such as to make reconstruction hopeless, we may now consider companies which, despite records of satisfactory profits and being in a fairly sound position, are compelled, by the force of circumstances, to resort to liquidation.

In order to contrast fully the two methods we will again set out the statement of affairs of the company referred to on p. 337, and deal with it by means of a reconstruction. Finding that they are becoming pressed for money, and the accounts

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	Estimated to pro- duce, per company's statement.	d to pr ompan nent.	<u>ه</u> ال	Receipts.	zi		Paymenta.	Ę,
To total receipts from date of wind- ing up order-	1.500	• c		£ 1.472	;	By Board of Trade and court fees.	£ 308	-0
Stook	6,400 3,961 295			5,065 3,580 310	• • •	0 By Law costs of petition 47 0 0 0 Other law costa	209	0
Land and buildings Total	5,000 £17,156		0 215 4				316	0
", Beeeipte per Trading Account . Other receipte		•••	· · c			Special manager's charges— Persons appointed to assist in preparation of state- ment of diffuse	21	00
Conta of Expendion		>	· · · · · ·	9,965	0	Other taxed osta	8 4 8	000
Net realizations	tributories.	•••	•G	5,262 100	00	zation.	1012	0
						84 preferential	4350	0
						Balance		
			ਪ	£5362	•	0	£5362	•

REALIZATION STATEMENT

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coming out unfavourably, the directors, calling a general meeting of the company, give notice of the resolution to be submitted, which is to the effect that the company shall be wound up on account of being unable to meet its liabilities.

Example II

STATEMENT OF AFFAIRS

Assets.

June 30, 1906

Liabilities.

		2130000		
)	е 6340			Estimated to realize. £
£		Machinery and plant	3720	1,500
4040		•		,
5060		Book debts		0,0 10
		Good		3,961
1020		Doubtful and bad.		•
		£1670		295
1000		Calls in arrears	100	70
		Surplus from creditors		
. 20		.		20
1760				
1000				12,186
	760	Less preferential cre-		•
		ditors		300
300				
5000				11,886
		Less debenture holders		5,000
				6,886
		Deficiency		214
	£7100			£7,100
	£ 4040 5060 1020 1000 20 1760 1000 300 5000	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	£ Machinery and plant 3 £ Machinery and plant 3 4040 Stock 3 5060 Book debts	£ Book value. £ Machinery and plant . 3720 4040 Stock

A meeting of shareholders is held, at which the above statement is submitted, and as a result of the directors' activity, the unsecured creditors finally accept the following scheme: that they shall receive promissory notes for the amount of their debts from the company, carrying interest at 6 per cent. per annum, and one-tenth of the capital to be paid back each year. Any creditor may, however, elect, instead of the foregoing arrangement, to accept twelve shillings and sixpence in the pound, payable within three months. The present shareholders agree to subscribe for at least £3000 additional capital.

The various secured and preferential creditors had, of course, to be arranged with, the former agreeing to let their loans to the

LIQUIDATIONS, RECONSTRUCTIONS, ETC. 349

company stand and hold their present security ; whilst the latter, of course, had to be paid in full at once.

The preference shares were preferential as to capital as well as to dividend, and therefore were in a strong position; but when the creditors had been arranged with on the basis given above, further meetings were held to settle the terms as between the various classes of shareholders. Assets were to be acquired at their book values, except the book debts, which appeared at their realizable value, and the estimated cost of reconstruction amounted to £256. Under these circumstances the preference shareholders agreed to sacrifice £1000, and for each share of their present holding to receive one share in a new company, to be formed to take over the assets as above, such shares to have the same rights and privileges as the present preference shares, and to be issued as fully paid up, the nominal value being thirteen shillings and fourpence per share. The ordinary shareholders were to receive an ordinary share of eight shillings in the new company for each pound share in the old company.

To raise the additional capital it was agreed that £4000 should be taken up by all the shareholders proportionately to their present holding, and that such shares should be of the nominal value of eight shillings, and should rank equally with the ordinary shares already issued. These shares were duly applied for and allotted, and a call of six shillings a share was made on them and duly paid up by all the shareholders.

Creditors amounting to £4900 elected to take promissory notes, whilst the remainder, amounting to £1440, took their dividend, which equalled, of course, £900.

The problem set before us is to show the accounts as they will appear up to this stage in the books of our new company, and the following Journal entries are accordingly made, as the business was agreed to be taken over from July 1. 350 ACCOUNTING AND BANKING

	Dr.	Cr.
July 1. Sundry assets-	-	-
To sundry liabilities—		
Machinery and plant	3720	
Stock	8620	
Land and buildings	5000	
Book debts	5631	
Calls in arrears	100	
To Sundry Creditors Account		6340
"mortgagee		4000
" debenture holders		5000
"bank		1760
"agent		40
" preferential creditors		300
"reserve for bad and doubtful		
debts		1375
"Vendors' Account		4000
"liquidation expenses		256
Being sundry assets and sundry liabilities		
taken over as per purchase agreement,		
dated August 15, and adopted Minute		
Book, folio 7.		
Aug. 15. Vendors	4000	
To Preference Share Capital Account .		2000
" Ordinary Share Capital Account .		2000
Being 3000 preference shares of 13s. 4d.		
each, fully paid up, and 5000 ordinary		
shares of 8s. each, fully paid up, allotted		
to shareholders in old company per		
terms of agreement.		
Application and Allotment Account	3000	
To Ordinary Share Capital Account .		3000
Being 1s. on application and 5s. on allot-		
ment, making 6s. per share payable on		
10,000 shares of 8s. each allotted this		
day per minute book, folio 8.		
Aug. 31. Sundry creditors	540	
To Capital Reserve Account		540
Being amount written off the claims of		
creditors accepting the composition of		
12s. 6d. in the £ (equals 7s. 6d. in the		
£ on £1440).		
Sundry creditors	4900	
To loan creditors		4900
Being creditors accepting promissory		
notes carrying 6 per cent. per annum		
interest on old debt-Capital repayable		
£490 per annum.		
=		

-_

CASH ACCOUNT

Dr.		Cr.
	£	£
Aug. 15.	To Application Ac-	July 1. By balance 1760
	count 500	Aug. 28. ,, agent 40
,, 18.	To Allotment Account 2500	" " preferential credi-
" 19.	To Calls in Arrear	tors
	Account 100	,, ,, liquidation expenses 256
" 31.	To balance 156	,, ,, sundry creditors . 900
	£3256	£3256
		Aug. 31. By balance 156

The various Ledger Accounts are not particularized, as they follow the ordinary company work, but the students should post them for practice to see the manner in which the accounts are dealt with. It will be noticed in the Cash Account the opening item is the overdraft owing by the old company, as it was arranged that the stock and book debts would provide sufficient working capital, and the company did not wish to pay at the rate of 6 per cent. on an overdraft they did not require; but the bank undertook with the new company and the other creditors to allow an overdraft if required, on the understanding that such overdraft should be reduced proportionately with the liability to the other creditors who held the company's promissory notes.

The mortgagee and debenture holders agreed, as before stated, to allow the transfer of the ownership of the assets covered by their security to the new company, whilst the other secured and the preferential creditors were at once paid off, so as to fully release the assets of the company at once and enable them to commence, or rather continue, business with free hands.

Before the passing of the Memorandum of Association Act, 1890, a company frequently went into liquidation to enlarge its powers with regard to the "objects" of the company; but since this Act such a necessity does not often arise, because by that Act, with the sanction of a special resolution and the leave of the court, this may now be done without the formalities and expense of liquidation. Such cases, however, when they do arise do not call for very special comment, as the new company will usually allot identical holdings to the old shareholders, and the opening entries in the books of the new company do not vary from that of any other company which takes over a going concern.

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There is, however, another form of liquidation which arises from the absorption of one successful company by another, in which the closing entries of the liquidating company and the corresponding entries in the books of the new company are required either for examination or for practical purposes.

Example III

In this example the A. Company agrees to purchase the business as a going concern of the B. Company on the understanding that for each share of the nominal value of £10 in the B. Company the shareholders shall receive three shares of £1 each in the A. Company, the market value of which is £3 each, and £6 in cash. The A. Company also agrees to redeem the debenture debt at 110 per cent. and pay the liquidation expenses, which amount to £500.

The Balance Sheet of the B. Company at June 30 last, when the business is taken over, was certified as follows :---

THE B. COMPANY, LIMITED

BALANCE SHEET

Annata

June 30

Tinhilities

TACKAR FLACS.	A158668.
£	£
Capital issued and paid up,	Land and buildings 51,000
10,000 shares of £10 each 100,00	00 Machinery and plant 48,400
Debenture stock redeemable	Stock
at option of company at	Sundry debtors
110 per cent	00 Bank 8,200
Sundry creditors 48,64	12
Reserve Account 15,00	00
Profit and Loss Account 5,00	00
 6010 C	
£218,64	42 £218,642

The closing entries in the books of the B. Company will be---

CASH BOOK

Dr.	Cr.
June 30. To balance 8,200	July 3. By Realization Ac- count 8.200
July 3. ,, A. Co., Ltd 115,000 ,, ,, A. Co., Ltd., for liquidation ex- penses 500	"4. " liquidation expenses 500 " " debenture holders. 55,000
£115,500	£115,500

.

JOURNAL

T 1 0		L	£
July 3.	Realization Account. Dr	218,642	
	To land and buildings		51,000
	"machinery and plant		48,400
	"stock		38,340
	"sundry debtors		72,702
	,, bank		8,200
	Being assets transferred to purchasers.		
1,	Sundries. Dr.		
	To Realization Account		68,642
	" creditors	48,642	•
	"Reserve Account	15,000	
	" Profit and Loss Account	5,000	
	Being liabilities taken over by purchasers.	•	
,,	Realization Account. Dr	5,000	
	To Debentures Account	,	5,000
	Being agreed premiums on redemption.		
,,	A. Company, Ltd. Dr	205.000	
	To Realization Account		205,000
	Being agreed purchase price.		,
,,	Shares Account (A. Company, Ltd.). Dr.	90.000	
••	To A. Company, Ltd.	,	90,000
	Being 30,000 shares of £1 each, valued at		,
	£3 each, allotted to our nominees per		
	agreement.		•
,,	Shareholders. Dr	90,000	
,,	To Shares Account	• •,• ••	90,000
	Being transfer to them of above shares.		00,000
,,	Capital Account. Dr.	100,000	
"	Realization Account. Dr.	50,000	
	To shareholders	00,000	150,000
	To close the company's books		100,000
	To area and comband a poore		

•

•

REALIZATION ACCOUNT

July 3. To sundry assets ,, Debentures Ac- count premium on redemption. ,, Shareholders Ac- count for profit	£ 218,642 5,000	July 3. By liabilities ,, ,, A. Company, Ltd. 2	£ 68,642 205,000
on realization .	50,000		
ł	£273,642	£2 2 _ A	73,642

ACCOUNTING AND BANKING

A. COMPANY, LIMITED

July 3. To purchase price .	205,000				z 115,000 90,000
	205,000			:	£205,000

The Journal entries on the same day in the books of the A. Company are also given.

		£	£
July 3.	Sundry assets (specifying them). Dr	218,642	
	To Purchase Account (B. Company, Ltd.)		218,642
,,	Purchase Account (B. Company, Ltd.) Dr.	48,642	
	To sundry liabilities		48,642
,,	Purchase Account (B. Company, Ltd.). Dr.	205,000	
	To liquidator of B. Company, Ltd		205,000
,,	Liquidator of B. Company, Ltd. Dr	205,000	
	To cash		115,000
	"Ordinary Shares Account		30,000
	" Purchase Account (being profit on issue		
	of shares in part payment)		60,000
	For cash and 30,000 ordinary shares of £1		
	each issued in payment for net assets per agreement, Minute Book, folio .		
,,	Purchase Account (B. Company, Ltd.). Dr.	500	
	To cash for liquidation expenses agreed		
	to be paid		500
,,	Purchase Account (B. Company, Ltd. Dr	24,500	
	To Capital Reserve Account (or premium		
	on Shares Account)		24,500
	Being excess of net assets acquired over lia-		
	bilities and nominal purchase consideration	•	

If the actual value of the assets acquired had not been the amount shown by the books, the purchasing company should have them revalued and shown at the corrected figure. It will be noticed that in the selling company's books the outstanding assets and liabilities which are handed over to the purchasers are dealt with at the book figure, whilst the purchase consideration is stated at its actual or market value. On the other hand, the purchasers in their books state the consideration at its nominal figure, and deal with the assets and liabilities taken over only at the actual amount at which the assets are valued, or the amount which will have to be paid to an outside creditor. Thus to balance the books, the vendors credit their Realization Account with the credit balance of their revenue accounts; whilst, LIQUIDATIONS, RECONSTRUCTIONS, ETC. 7355

as it has not to be paid to any one, the purchasers do not debit their account with this figure.

The question with regard to amalgamation raises many issues already dealt with, but as they hold some points peculiar to themselves we give below an example of this class of work.

Example IV

Let us suppose that three companies which carry on a similar business, in order to reduce competition and cost of production, agree to amalgamate.

Their balance sheets on September 30 were drawn up and showed the following figures.

А.	AND CON	epany, Ltd.		
Liabilities.		Assets.		
· · · · · · · · · · · · · · · · · · ·	£			£
Capital 2000 shares of £10		Land and building		5,000
each	20,000			15,640
4 per cent. debentures redeem-		Debtors		22,450
able at £110 per cent	10,000	Stock		8,920
Creditors	17,800	Bank balance		3,630
Profit and Loss Account	7,840			•
:	£55,640			£55,640
]	В. Сомра	NY, LTD.		
Liabilities.		Assets.		
	£			£
Capital 6000 shares of £5 each	30,000	Land and building		2,100
Creditors	17,640	Machinery and plant .		14,550
Profit and Loss Account	6,220	Debtors		
		Stock		16,020
		Bank	•••	875
٤	253,860	-		£53,860
	C: Bros	з., Ltd.		
Liabilities.		Assets.		
	£			£
Capital Account (25,000 shares		Land and buildings		6,500
of $\pounds 1$ each)	25,000	Machinery and plant .		
5 per cent. debentures re-		Debtors		18,620
deemable at 120 per cent	15,000	Stock		14,010
Creditors	18,060	Bank		2,846
Profit and Loss Account	3,950			,
:	£62,010			£62,010

The following adjustments were made on the balance sheet —A.'s land on valuation was increased to £8000, B.'s stock had been valued on a different basis to the others, and was reduced by £2000, whilst the goodwill of the companies was valued by agreement at £4160, £1780, and £1050, respectively.

The trade creditors were taken over by the new company, but the vendors were left to make their own arrangements with their shareholders and debenture holders. From these figures it will be seen that the purchase prices worked out to A. £45,000, B. £36,000, C. £45,000, which was paid by the allotment of shares and 4 per cent. debentures redeemable at par in the new company in the proportion of two to one, except C. who received £5000 in cash instead of the full quantity of shares, out of which they had to pay their liquidation expenses, which amounted to £125; the other concerns who received no cash being allowed £100 each for the expenses, which covered the cost of the same.

A. and Co. arranged with their debenture holders to issue to them debentures in the new concern to the nominal value of 110 per cent. of their present holding, which left them 30,000shares of £1 each, and £4000 debenture stock to be divided amongst their present shareholders, which was equal to 15 shares and £2 debenture stock for each share of £10 held in the present company.

The B. Company's shareholders received 4 shares of £1 each, and £2 debenture stock for each £5 share, amounting to 24,000 shares, and £12,000 debenture stock in all.

C. Bros., Ltd., received 25,000 shares, £15,000 debenture stock, and £5000 cash. Their debentures were redeemable at 120 per cent., and the holders took in settlement an allotment of the stock for the nominal amount of their holding in C. Bros. and cash £3000. The shareholders were allotted one share in the new company for each share they held in the old concern and one shilling and sixpence in cash, which absorbed £1875 and left £125 cash for expenses of liquidation.

The entries set out in the Journal for the purpose of closing the accounts will appear as follows in the books of A. and Co. Ltd.:--

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LIQUIDATIONS, RECONSTRUCTIONS, ETC. 357

	£	£
Realization Account Dr	. 55,640	
To sundry assets (set out in detail).	•	55,640
For assets taken over by purchasers.		
Sundry liabilities. Dr	. 25,640	
To Realization Account	•	25,640
For liabilities written off to realization.		•
Purchase Account. Dr	. 45,000	
To Realization Account		45,000
Being agreed purchase price.		•
	. 30,000	
Debenture (new company)	. 15,000	
To Purchase Account		45,000
Realization Account. Dr	. 15,000	,
To debentures (being premium payable		
on same)'. \ldots		1,000
To Shareholders Account		14,000
For profit on realization.		
Debentures (old company). Dr	. 11.000	
To debentures (new company)		11,000
For stock transferred.		,
Capital. Dr	. 20,000	
To shareholders		20,000
Shareholders. Dr	. 34.000	,
To shares (new company)		30,000
, debentures (new company)		4,000
" accounting (Tou comband)	•	-,000

For securities given in exchange, 15 ordinary shares and £2 debenture allotted for each share in A. and Co., Ltd.

The liquidation expenses of £100 might be debited and credited to Realization Account from the Cash Book as they are paid by the new company.

From the examples given in this chapter the closing entries of the other two companies may be worked out for practice by the reader.

The opening entries of the new company will largely depend on the manner in which it is intended to keep the accounts for the future. If it is proposed to give full departmental trading accounts, the fixed assets of each branch will probably be kept distinct, in which case the following entries will appear in the Journal.

Sept. 30. Sundry assets. Dr.		
To sundry liabilities—	£	r
Land and buildings (Branch A.). Dr.	8,000	-
Machinery and plant (Branch A.). "	15,640	
Debtors	22,450	
$\Omega(t_{1}, t_{2}) = (D_{1}, t_{2}, t_{2}) + (\Delta t_{2})$	8,920	
D 1	3,630	
	4 ,160	
To creditors	4,100	17,800
"A. and Co., Ltd. Purchase Account		
		45,000
Being assets and liabilities taken over		
per agreement, dated October 29, con-		
firmed Minute Book, folio		
A. and Co., Ltd. Dr.	45,000	
To ordinary share capital		30,000
" 4 per cent. mortgage debenture stock		15,000
Being shares and stock issued to nomi-		
nees in satisfaction of purchase price		
per Minute Book, folio .		
Sundry assets. Dr		
To sundry liabilities—		
Land and buildings (Branch B)	2,100	
Machinery and plant "	14,550	
Debtors	20,315	
Stock (Branch B)	14,020	
Bank	875	
Goodwill (Branch B)	1,780	
To creditors	,	17,640
" B. Co., Ltd. (Purchase Account).		36,000
Being assets and liabilities, etc.		,
B. Company, Ltd. Dr.	36,000	
To ordinary share capital.	,	24,000
" 4 per cent. mortgage debenture stock		12,000
Being shares and stock, etc.		,000
Sundry assets. Dr.		
To sundry liabilities—		
Land and buildings (Branch C). Dr.	6,500	
Machinemy and plant		
Machinery and plant ,, ,,	20,034	
Debtors	18,620	
Stock (Branch C)	14,010	
Bank	2,846	
Goodwill (Branch C) ,,	1,050	40.000
To creditors		18,060
" C. Bros., Ltd. (Purchase Account)		45,000
Being assets and liabilities, etc.		
C. Bros., Ltd. Dr.	45,000	
To ordinary share capital		25,000
"4 per cent. mortgage debenture stock		15,000
,, cash		5,000
Being share and stock, etc.		

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LIQUIDATIONS, RECONSTRUCTIONS, ETC. 359

In addition to the above, the two items of £100 each liquidation expenses of the A. and B. Companies will, of course, require to be paid through the Cash Book, and will be posted probably to Preliminary Expenses Account.

QUESTIONS AND EXERCISES

186. What is meant by B. contributories? What is their liability?

187. Mention the particulars furnished on Schedules L, M, and N.

188. Outline a Deficiency Account in the case of the winding up of a company.

189. In January, 1901, Brown sold a holding of 500 £1 shares, 10s. paid, in the X., Y., Z. Co., Ltd., to Jones. In November, 1901, the company, having in the meantime called up a further 5s. per share, went into liquidation. What would Brown's position be?

190. On December 31, 1900, the trial balance of the books of the A. B. Co., Ltd., after adjustment, was as follows :---

	£	£
Furniture and plant	. 6,174	Capital
Stock		Creditors-
Debtors		Unsecured
" for rent		Preferential—
Calls in arrear		For wages, rents, rates
Cash	. 340	and taxes 1,716
Goodwill	. 9,642	
Preliminary expenses		
Leasehold premises	. 4,224	
Profit and loss	. 18,523	
	£59,132	£59,132

The financial position being unsatisfactory, you are required to compile a comprehensive statement of affairs to submit to a meeting of creditors, and are given the following additional information :—

(a) The contingent liability (not included in the above) in respect of the unexpired period of the lease is estimated at $\pounds 2400$.

(b) Valuations of the following have been obtained, in view of a sale, either as a going concern or by auction :--

	Going concern.	Breaking-up.
	L 1. d.	£ 8 d.
Stock	9536 0 0	7200 0 0
Furniture and plant	5370 0 0	3600 · 0 · 0
Goodwill	4000 0 0	
Leasehold premises	500 0 0	
Debtors	3069 0 0	2800 0 0

The liquidator of the A. B. Company, Ltd., prepared a scheme of reconstruction based on the book values as at December 31, 1900 (particulars of which are set out in the preceding question), which was submitted to and approved by shareholders and creditors. Dates may be disregarded.

The following is an outline of the Reconstruction Scheme adopted :---

(a) New company to be formed under the style of the A. B. Company, 1901, Ltd., and to acquire the assets and goodwill of the old company on the basis of the book values.

(b) Nominal capital, £50,000, viz.: Ordinary shares, 33,332 at 10s., £16,666; preference shares, 33,334 at £1, £33,334.

(c) For each share in the old company the holders to apply for one preference share in the new company, and to receive also (as nearly as possible) one ordinary share, credited as fully paid.

N.B.—33,334 preference shares were allotted and paid for, and 33,332 ordinary shares were distributed.

(d) Unsecured creditors of the old company have offered to them a composition of 10s. in the \pounds , payable on the formation of the new company, or a debenture for the full amount of their debts bearing interest at 5 per cent., and repayable in ten years. One half in value accepted the cash composition, the other half agreed to take debentures.

(e) The lease of the premises to be taken over by the new company with the consent of the landlord.

(f) The liquidation and standing charges, amounting to ± 500 , and all other preferential claims to be satisfied by the new company, to whom the liquidator will hand over all assets, none of which, with the exception of the calls in arrear (which have been paid), it is to be assumed have been realized.

You are requested to draft the Journal entries necessary to open the books of the new company, and record the allotment of capital; and to compile a Balance Sheet setting forth the position as at the date of the allotment of shares.

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CHAPTER XXIV

INSURANCE

Registers—Agents—Advances on Policies—Revenue Receipts—Books— Schedules

THE accounts of companies of this class are exceedingly interesting by reason of the many special points arising in connection with them. In one respect they resemble banks and similar financial houses inasmuch as their dealings consist almost entirely of cash and securities of the class known as "gilt-edged." The accounts are governed chiefly by the Life Assurance Companies Act, 1870. This Act provides for a special form of Balance Sheet, and also requires an actuarial valuation of the net liabilities of the company every ten years if established before the Act, otherwise every five years. Some of the larger companies, however, now make a valuation on their own account annually, or at any rate more frequently than their statutory obligation.

Every company must also publish a Balance Sheet and Revenue Account in the form set forth in the schedules of the Life Assurance Companies Act of 1870; and supply a printed copy of same to every shareholder and policy holder on request being made.

A special feature in the accounts is the use made of "registers" in which are recorded particulars of policies and renewals; such ledgers being, in fact, tabular ledgers for policy holders' premiums.

POLICIES AND PREMIUMS

Perhaps the simplest manner of showing the method of dealing with the accounts is to commence with the issue of a new policy and follow the course of the dealings relating to it through the books. Let us assume that on March 25 a proposal form from Mr. Smith (whose age next birthday is thirty) for an insurance of £1000 and profits payable at death has been accepted at a rate of £2 10s. per cent. per annum. An entry is forthwith made in the New Policies Book to show particulars of the policy, the amount of the present premium and the future premiums, the amount of the present payments being analysed into "Office policies" and "Agents policies," and further columns are also provided in which the date and Cash Book folio for the payments made to the office are entered up, and an Agents Ledger folio for the entries posted to the agents column.

This book thus forms a self-balancing ledger as well as a tabular ledger since the totals of the premiums payable on "New policies (Office)" will be posted to a special account in the Nominal Ledger, debiting a "Sundry Debtors for New Policies," and crediting "Premiums Account."

When Mr. Smith pays his premium the receipt of it will be recorded in the special Cash Book known as the Premiums Cash Book which records the date, policy number, and name of the person from whom it is received, and special money columns for "New policies" and "Renewals," the totals of which are carried each day into the General Cash Book, from which they are posted periodically to the totals accounts for "New policies" and "Renewals" respectively.

If the insurance had been effected through an agent, the premium would have been debited to the Agents' Account in the Agents Ledger, which is itself a subsidiary, self-balancing ledger, details of which we shall see later, and the policy would have been forwarded at once to the agent, who, when he forwarded the remittance, would have deducted his commission and expenses, and such receipt would appear in the Agents' Remittances Book.

In future years Mr. Smith's premium would be entered in the Renewals Book, which is ruled to show the particulars of the policy and the amounts of the premiums for a number of years, each of which would be provided with a date column for the date of payment, and also a remarks column to set out particulars of any policy extinguished with reference to the "Policies Extinguished Book."

The total for each year will be added and posted to the debit

of a totals account for "Debtors for Renewals," and credited to the "Premiums Account."

The cash received on all renewals will be entered in the Premiums Cash Book before referred to, carried to the General Cash Book, and posted from there to the credit of the "Debtors Account."

The "Policies Extinguished Book" will contain particulars of any policies lapsed or matured, together with the amount of the premiums which had been previously charged out, and have now to be written back. The total of these will be debited to Premiums Account and credited to the "Debtors for Renewals." The balance of this latter account agreeing with those items in the Renewals Book which had not been entered as paid, and also agreeing with the receipts which have not been used. As a check on the cashier's department, all items for renewals have formal receipts written out for them by another department which are given to the cashier, and these receipts are handed. when paid, to the policy-holders. All premiums for renewals payable at the office which are not entered as received will. therefore, require to be vouched by the production of these receipts, which are, of course, not countersigned, and will be duly cancelled and recorded in the Policies Extinguished Book.

We have already alluded to the Agents' Remittances Book, which is used to record all items of this nature. The book is ruled to show the date, name of agent, counterfoil receipt number, commission deducted, allowances, amount of remittance, and a total column with a posting folio to the Agents Ledger. The total cash is entered in the General Cash Book, from which it is credited to the "Agents' Account" in total; the commission and allowances being posted direct to the Nominal Ledger.

Special books are provided with the ruling already described to record the "renewals" and "extinguished policies" which have been issued through agents only, of course, in this case whilst the nominal posting still goes to Premium Account, the contra in the Personal Account appears in "agents" instead of "debtors for renewals." The same routine with regard to receipts is observed with the agents as with the cashier. Formal receipts being issued to him for each renewal debited against

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him, which he must countersign and issue in exchange for the premium; any policy not renewed must be reported on and the receipt returned with his list.

INVESTMENTS

We have now to consider the other items of revenue which concern Insurance Companies, the chief of which is the interest or income received from their investments. The investments may for our purposes be broadly divided into three classes. The first of these is the advances which they make on the security of their own policies, which advance, of course, will never exceed the surrender value, and is therefore fully secured. The second class is formed by the freehold and similar property held by them, occupied frequently by their own offices, but also usually containing other suites of offices which are let to various occupiers. The third class consists of other investments, which in the case of an old-established and thoroughly sound concern will consist of securities of the best class, the income from which may be regarded as thoroughly safe and regular in its payment. This latter class is subdivided in the accounts required by law under various headings, such as mortgages within the United Kingdom, investments in British Government securities, railway and other debentures, and debenture stocks, etc.

A special set of books will be used for the first class, setting out, by means of a self-balancing ledger, the advance made on every policy. The interests on these loans are usually arranged to fall on the same day as the premium on the particular policy; but such interests are not recorded in this book, all appearing in a similar book to that provided for renewals, and thus being a tabular and self-balancing system in itself. If the interest is paid always at the same time as the policy, the receipt of it may be conveniently recorded by means of a separate column in the Premiums Cash Book. The total of this column will be credited to the "Debtors for interest on loans on policies," which is an account of the totals only, and worked in a similar manner to that adopted for the "Debtors for renewals."

The ledger itself dealing with the capital accounts of the loans is particularly easy to balance separately, as by reference to the General Cash Book it will be seen that special columns are provided for loans on policies granted and repaid, and in the general system these columns are posted in total only to a "Loans on Policies Account;" the balance of this account must, of course, agree with the balances extracted in detail from the special ledger.

The income from the second class of investment does not call for any special comment, as rental accounts are very much the same whoever the proprietor may be. They can be kept as an entirely separate set of books, and if desired a distinct bank account may be opened, the balance of which is transferred quarterly to the General Account, to cover the income for the period.

The income arising from the other investments is treated in the manner with which our readers should be quite familiar. It is recorded in a special book or books, which are usually subdivided to correspond with the dates when the income will be received. As the return from some of these investments is variable. all cannot be priced out before the dividend or interest warrant is actually received, as in the case of premiums or loan interest, but otherwise the procedure is the same. The "Dividends Book " will contain columns to show the number in the Investment Ledger, particulars of the investment, including name and nature of the security, nominal amount of security, rate of interest or dividend, if fixed, when due (all of which can be filled in periodically), date when received, Cash Book folio, gross amount, deduction for income tax, net amount received. In this book it is best to debit the "Sundry Debtors for Dividend" with the gross income, and credit them with cash paid and the income tax deducted, debiting the Commissioners of Inland Revenue with this latter amount.

The investments themselves will, of course, appear in the special ledger, which is self-balancing, on the "loan principle," though in this case adjustments are frequently necessary on the realization of the various securities as and when they may be realized or changed. It is the invariable practice of insurance companies to build up a very substantial reserve to deal with fluctuations in the money market, which, of course, affect very largely the value of their investments. In this ledger also the company may record the capital value of their land and building investments as well as their other securities.

ANNUITIES

The consideration for annuities is another heading in the accounts which calls for attention, though this is with many companies a very small figure compared with the other items which we have been discussing. Here, of course, the nature of the transaction is quite different to other transactions of an insurance company. Usually a substantial amount is paid to the company, which in return pays to the annuitant an annual sum during his or her lifetime. When the amount is received it is entered into the General Cash Book, in the column for special posting, whilst the payments are made through a separate book ruled with columns to cover a number of years. The annuities will be classified so that all the items payable on the same date can be easily added and entered in one figure in the Cash Book as and when paid.

We have now dealt with the various subsidiary sections and come to the general system, into which it is necessary to collect the various accounts from the numerous details which we have before us.

ACCOUNTS

The first book of this system is the General Cash Book, which is a specially arranged book to minimize the posting as far as possible. A specimen ruling for this important book is given on p. 867.

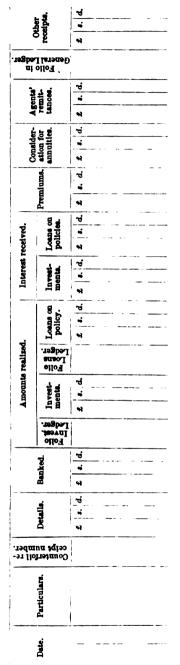
Additional columns may be added if desired, to deal with the question of bonuses, whether commuted for cash, or paid on the maturing or surrender of the policy. The folio columns show which items require to be separately posted, except in the case of investments and loans on policies, in which cases the reference is to the subsidiary ledger.

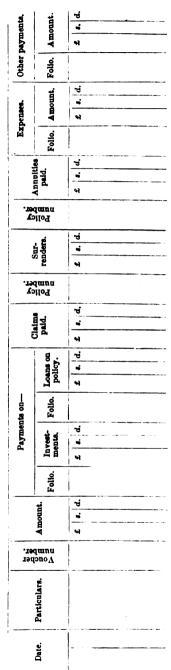
A Petty Cash Book will be kept to deal with all the ordinary items of expenditure paid in cash, which amount to a fairly substantial figure, and which, by means of analysis, are periodically transferred to the appropriate nominal account.

A Journal is also used to record the various transfers, adjustments, and reserves necessary from time to time, and from these books the final accounts are prepared, together with certain

INSURANCE

CASH PAID





CASH RECEIVED

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items entered from the subsidiary books, which have been already particularized, such as income tax and agents' commission.

The forms of these final accounts are, as previously stated, incorporated as a schedule to the Life Assurance Companies Act, 1870; and as these have been made the subject of questions in many examinations, a well-prepared candidate should study the forms and understand them. With the notes included in this chapter, it is hoped that the examples which follow will be readily understood by him.

Every five years a valuation must be made of the company's liabilities and assets, including specially the liability to policyholders and annuitants, after taking into account the premiums which will be received from holders of current policies. This is made up by means of tables showing the expectation of life of the various policy-holders, and after that by mathematical calculation. As, however, this is an actuarial and not an accounting problem, it is not proposed in this volume to go more deeply into the subject. It will, of course, be understood that the actual position of an insurance company can only be ascertained by a statement of this description, and the ordinary accounts are more in the nature of interim statements.

Before leaving the subject of life assurance companies, it may be interesting to note that by special Acts they are required to deposit with the Chancery Court, before they commence business, $\pounds 20,000$, which amount carries interest, and is returnable to the company when the insurance fund, accumulated out of premiums, amounts to not less than $\pounds 40,000$. It is also necessary for any company dealing in other classes of insurance, as well as life insurance, to keep their Life Accounts distinct, and the funds raised by life insurance are only applicable to the requirements of the policy-holders and other creditors of the life department until they have received twenty shillings in the pound.

It will be noticed that in the foregoing notes, life insurance only has been treated, but it is the most important branch of the work, added to which the receipts form the principal part of the insurance company's system, and that is very similar for all classes of insurance.

The question of claims, on account of its greater detail,

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INSURANCE

FIRST SCHEDULE

REVENUE ACCOUNT OF THE ----- INSUBANCE COMPANY FOR THE YEAR ENDED DEC. 31

) i	£ 1,137,856	s .	d. 0	Claims under policies (after deduction of	£	8.	d.
.	1,101,000	ľ	ľ	sums reassured)	70,822	0	0
	92,486	0	0	Surrenders	16,805	0	0
- ;				Annuities	6,211	0	0
	3,422	0	0	Commission	3,822	0	0
•	45,736	0	0	Expenses of management Dividends and bonuses	6,880	0	0
.	43	0	0	to shareholders Amount of funds at end of year, as per second	2,500	0	0
ļ				schedule	1,172,503	0	0
	£1,279,543	0	0		1,279,543	0	0

SECOND SCHEDULE

BALANCE SHEET OF THE ----- INSUBANCE COMPANY ON DECEMBER 31

Liabilities.	£	8.	d.	Assets.	£	8.	d.
Share capital paid up .	100,000	0	0	Mortgage on property			
Assurance fund	1,172,503	0	0	within the United			
Profit and Loss Account	34,620	0	0	Kingdom	317,620	0	0
				Mortgages on property			
Total funds as per first				out of the United			
schedule	1,307,123	0	0	Kingdom	294,115	0	0
Claims admitted but not				Loans on the company's			
paid	8,500	0	0	policies	46,110	0	0
Other sums owing by the				Investments-			
company-	1.100	0	0	In British Government	110.005		
Outstanding expenses	1,420	0	0	securities	110,067	0	0
Outstanding reassur-	9 000	0	0	In Indian and Colonial	00.040	0	0
ance premiums	3,000	0	0	Government securities	33,642	0	0
				In foreign Government	10 000	0	0
				securities	48,220	0	0
				In railway and other debentures and deben-			
				ture stocks	150,314	0	0
				In railway shares (ord.	100,011	0	0
				and pref.).	106,590	0	0
				In house property	84,661	0	0
				In other investments	01,001		1
				-municipal stocks .	80,000	0	0
				Loans on personal se-			
				curity	300	0	0
				Agents' balance	15,020	0	0
				Outstanding premiums	3,843	0	0
				Outstanding interest .	10,692	0	0
				Cash on deposit	10,000	0	0
				In hand and on current			
				account	8,849	0	0
	£1,320,043	0	0		£1,320,043	0	0

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necessarily requires more particular attention in other classes of insurance, which it should be remembered are merely contracts of indemnity—that is to say, on a fire happening, an assured should not receive more than he has actually lost. For example, if a man has insured his stock for £2000, but at the time a fire took place, which completely destroyed it, his stock was only worth £1500, he would only receive the lower figure. On the other hand, the law of average applies, so that if a man held stock worth £2000, but was only insured for £1500, and a fire occurred which destroyed one-half of his stock, he would receive from the insurance company £750 only, and not £1000, as the law would presume that he had accepted the risk for the remaining £500 himself, and that he therefore must bear a proportionate part of the loss.

When a claim occurred it would be duly entered in the Claims Book, which would record particulars of the policy and claim, and further columns would be added to show the amount or manner in which it was finally settled, and the date of the payment of the claim.

The development of insurance in all directions within recent years is a most interesting subject, and now there seems to be no business risk which cannot be insured against.

At this point we may call attention to the fact that allowance will be made by the income tax authorities for the amount paid for life assurance premiums up to, but not exceeding, one-sixth of the net personal income. This deduction was until recently only allowed on the premiums paid to British offices; but, under the Finance Act of 1906, the allowance extends to premiums paid to any insurance company if lawfully carrying on business in Great Britain or Ireland, and this may bring in American offices which transact considerable business in this country.

Further, it may be noticed that life policies are frequently used as securities for advances from bankers and others, or from the insurance company itself. The value of the security mainly depends upon the surrender value, which is of slight amount until, say, three or four years' premiums have been paid.

INSURANCE

EXAMPLE I

After closing the Revenue Account, the trial balance of the Reliable Assurance Society, as on December 31, 1904, was as follows :---

	Dr.	Cr.
Funds at the end of the year	2	305,292
Cash at the bank	11,346	··· , -·-
Mortgages on property within the United	•	
Kingdom	86,146	
British Government securities	46,450	
Loans on reversions	10,000	
Foreign Government securities	25,723	
Railway companies' debentures	15,014	
Sundry creditors		3,089
Railway companies' shares	40,827	
House property	28,519	
Loans on society's policies	21,861	
Agents' balances	4,117	
Claims admitted but not paid		1,000
Outstanding premiums	13,114	
Outstanding interest	1,964	
Furniture	4,300	
	£309,381	£309,381

Let us now prepare the Balance Sheet in the form prescribed by the Life Assurance Companies Act, 1870, which is as hereunder: -

BALANCE SHEET OF THE RELIANCE ASSURANCE SOCIETY ON DECEMBER 31, 1904 Liabilities. Assets. £ £ Assurance Fund . . . 305,292 Mortgages on property within 1,000 Claims admitted but not paid the United Kingdom . . 86,146 Sundry creditors . . . 3,089 Loans on societies' policies . 21,861 Investments-In British Government securities 46,450 Foreign Government securities 25,723 Railway debentures . . . 15,014 Railway shares . . 40,827 . . House property . . 28,519 Furniture . . . 4,300 Loans on reversions . . . 10,000 Agents' balances . . . 4,117 Outstanding premiums . 13,114 1,964 interest " Cash at bankers 11,346

£309,381

£309,381

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Example II

REVENUE ACCOUNT FOR THE

Reserve for unexpired risks brought forward from 1903 . Premiums, less re-insurances	£ 489,066 1,306,180 91,444	11 11 11 11	d. 2 4 8
	£1,886,691	4	2

PROFIT AND LOSS ACCOUNT FOR THE

Balance brought forward from 1903 Deduct—	•	•	•		•	•	•	£ 349,859	s. 9	d. 4
Dividend paid January, 1904 . Dividend paid July, 1904 .	•	•	•		,000 ,000			114,000	0	0
Balance from Revenue Account . Transfer fees	•	•	•	•	•	:	•	235,859 117,909 4 6	9 5 17	4 3 6
								£353,815	12	1

BALANCE SHEET AT

Liabilities.	£	s .	d.
Capital-£2,400,000.	120,000	0	0
240,000 shares of £10 each, 10s. per share paid .	120,000	U	v
N.B2,500 of these shares are held by the office but			1
are not included among the investments.	1,350,000	0	0
General reserve	120.000	ŏ	ŏ
Special reserve	120,000	ŏ	Ŏ
Dividend reserve	42,134	12	ň
Investment reserve	42,101	12	**
Reserved for risks not yet expired, being 40 per cent. of	522,472	0	6
the premium income for the year		19	11
Pension fund	44,496	19	9
Balance at credit of Profit and Loss Account.	243,941	3	9
	2,563,044	17	1
Outstanding losses	123,432	7	2
Agents' balances	13,016	Ó	2 5
Amounts due to other offices for re-insurances	47,251	2	6 3
	1,312	16	3
Bills payable . Reserve for outstanding commission and charges	10,500	0	0
Clerks deposit fund	8,965	17	4
Dividend warrants uncleared	2	Ō	Ō
	£2,767,525	0	9

INSURANCE

YEAR ENDING DECEMBER 31, 1904

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Losses Commission . General expense	•••	•	•	:	•	•	•	•	£21	4,228	6	1i	797,97 6	s. 14	
General expens	58 8	•	•	•	•	٠	•	•	23	4,104	17	0	440.000		
									_						
Reserve for un	exp	ired	ris	ks	at]	Deo	eml	ber	31,	1904,	bei	ng	448,883	8	
Reserve for un 40 per cent. c	exp of p	ired remi	ris ium	ks inc	at 1	Deo ^e .	emi	ber	31, ·	1904,	bei	ng	522,4 72	0	
Reserve for un 40 per cent. c Balance carried	of pi d to	ired remi Pro	ris ium fit s	ks inc and	at 3 om Lo	Deo ^e . ss A	emi .cco	ount	31,	1904,	bei	ng :		-	

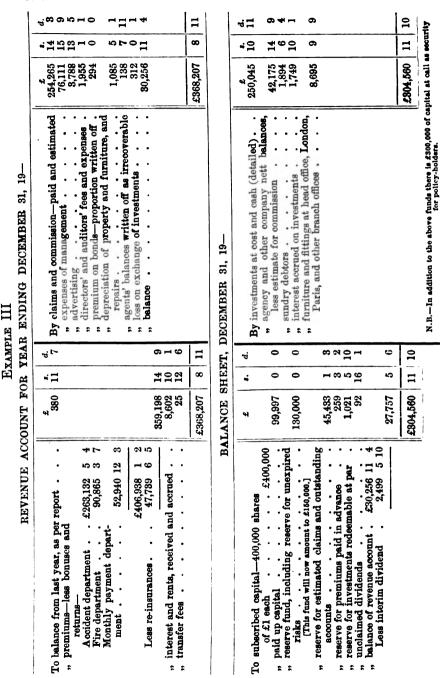
YEAR ENDING DECEMBER 31, 1904

Income tax on profits Loss on exchange Bad debts Carried to general re Carried to pension fu Balance carried to Ba	 Berve	•••	:	•	• • • •	• • • •	• • • •	• • • •	•	£ 4,332 1,510 31 100,000 4,000 243,941	s. 9 5 13 0 0 8	d. 9 4 3 0 9
				-						£353,815	12	1

DECEMBER 31, 1904

Assets.	£	s .	d.	£	s.	d.
Investments :						
Mortgages on property within the						
United Kingdom	181,595	19	6		1	
Mortgages on property outside the				ļ.		
United Kingdom	10,000	0	0			
British Government securities	71,250	0	0			
Indian and Colonial Government se-	•					
curities	51,019	10	4			
Foreign Government securities	131,026					
Railway and other guaranteed, prefer-		-	_			
ence, and ordinary shares and stocks	291,980	19	3			
Railway debentures and debenture	,					
stocks	420,447	9	11			
Other debentures and debenture stocks	., .		_			
and municipal bonds	268,997	10	4			
House property, including premises			-			
occupied by the office	868,254	7	0			
Salvage corps premises	19,143	12	11			
	6,254					
	23,550					
-				2.343.521	4	6
Branch and agency balances				217,332	6	9
Due by other offices .		÷		8,583	8	
Outstanding premiums (since received)				38,797	18	
Bills receivable			:	9.040	14	
Cash on deposit and at bankers, and in hand	a'	:	:	150,249	8	
· · · · ·				£2,767,525	0	1

ACCOUNTING AND BANKING



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The example given on pp. 872, 873 of the annual accounts of one of the oldest companies in the country is of interest as illustrating the provision of a reserve of 40 per cent. of premium income for unexpired risks; and also as including in the Balance Sheet special reserves in addition to the general reserve.

In our third example we give the accounts of a company with accident and fire departments; these may profitably be examined and contrasted with those of a life office, previously given.

QUESTIONS AND EXERCISES

191. Describe the entries made in the accounts for premiums received.

192. What particulars are given in the Agents' Remittance book?

193. State the sources from which an insurance company derives its revenue.

194. State the classes of securities in which investments are made by an insurance company.

195. Give a form of General Cash Book suitable for an insurance company.

196. The Steadfast Insurance Company, Ltd., was registered in 1900, and during that year the whole of the share capital (consisting of 100,000 shares of $\pounds 1$ each) was paid up in full. Submit *pro forma* accounts for the year ended December 31, 1905, in accordance with the provisions of the Life Assurance Companies Act, 1870, and point out wherein the form of prescribed accounts varies from that usually employed by companies registered under the Companies' Acts, 1862-1900.

197. Give a pro forma example of the Revenue Account of an insurance company.

198. What is the average clause in a fire insurance policy?

199. On December 31, 1900, the balances of the General Ledger of the Holdfast Assurance Company were as follows: Funds as on December 31, 1899, $\pounds 1,557,060$; Premium Account, $\pounds 142,000$; Claims Account, $\pounds 70,050$; annuities paid, $\pounds 1,260$; Commission Account, $\pounds 6,032$; Interest and Dividends Account, $\pounds 51,000$; Transfer Fees Account, $\pounds 105$; Surrenders Account, $\pounds 11,201$; Management Expenses Account, $\pounds 18,670$; Shareholders' Dividends Account, $\pounds 2,500$; Claims admitted but not paid Account, $\pounds 7,200$; Sundry Creditors Account, $\pounds 3,980$; mortgages in the United Kingdom, $\pounds 1,201,450$; loans on policies, $\pounds 50,060$. Investments: Government stocks, $\pounds 204,000$; British railways, $\pounds 138,200$; house property, $\pounds 7,500$; agents' balances, $\pounds 12,200$; outstanding premiums, $\pounds 9,200$; outstanding interest, $\pounds 12,040$; cash at bank, $\pounds 16,982$. Prepare Revenue Account and Balance Sheet as on December 31, 1900.

200. An insurance company, having a paid-up capital of £80,000 in 80,000 fully paid-up £1 shares, and a reserve of equal amount, invested in securities to the amount of £150,000, and outstanding balances and casb, £10,000, is absorbed by another company; the consideration being £65,000 in cash, and the allotment of one share of £25 (£2 10s. paid, and standing in the market at £19 per share in the purchasing company) for every sixteen shares of their own company.

Close the books of the vendor company, and show how the transactions will appear in those of the purchasing company.

CHAPTER XXV

COLLIERIES

Capital Expenditure—Royalties—Minimum or Dead Rent and their Treatment in the Accounts—Waggons and the Hire-Purchase System—Cost Accounts.

In this chapter it is proposed to deal with some peculiarities of this class of accounts, and to do this it will perhaps be of assistance to briefly consider the whole circumstances of the business.

The proprietor presumably has obtained either the freehold or a lease of the land and has agreed to pay to the owner of the mineral rights a royalty of so much a ton for the coal removed, and has also spent a considerable amount by way of capital expenditure in sinking the mine and putting it in a position of yielding coal.

This capital expenditure will consist mainly of two classes: the one represented by ordinary tools and machinery, which, on the expiration of the lease, or the giving out of the mineral, could be removed practically without damage or expense, and which, if properly depreciated, should realize a very considerable percentage of the figure at which it appears in the books. This will also include engines, boilers, machinery, pumps, weighbridges, waggons, locomotives, etc., all of which are depreciated in the ordinary manner by a process fixed on their estimated life.

The second class of capital expenditure is that on equipment and plant, which, if it could be removed, would scarcely pay for the expenses connected with such an operation. To this latter class will belong the cost of the mine itself, sinking, ventilating and shafting, pit frames, cages and gear, all the colliery buildings (including probably the majority of the cottages built for the miners), any private tram-lines or railwaylines laid down for the purpose of working the colliery. The depreciation of this section may be treated in many different ways. Firstly, following the usual construction put on the judgment in *Lee* v. *Neuchatel Asphalte Company*, it is probably not necessary, legally, to write anything at all off expenditure of this nature; secondly, if the property is leasehold, it may be written off over the period of the lease if the mine is expected to be in full working order for such period; thirdly, an estimate may be made of the mineral obtainable during the lease (if leasehold), or total estimated output of the mines (if freehold), and such expenditure may then be written off by means of a royalty of so much per ton charged to a depreciation fund, so that by means of this royalty on the estimated output, the total amount originally sunk is written off on the closing of the mine.

It is most essential that all charges in the nature of revenue or replacements should be debited direct to the Profit and Loss Account, and not be treated as a capital addition. This includes the development of the underground working to replace such portions of the mine as are becoming useless, as well as renewals to machinery, etc.

ROYALTIES-MINIMUM RENT

Let us now turn to the agreement with the owner of the mine, and see how and when we are to pay our rent. This agreement follows the lines of many such agreements, and provides that for the whole term a minimum or "dead rent" of £750 per annum shall be paid. It also provides for a royalty of 8d. in the ton on all coal raised, with the proviso that such royalty shall "merge" the dead rent, that is, the royalty or the rent shall be paid to the landlord each year, whichever is the greater; and, further, that if in the earlier years, owing to the mine not being in full producing order, the minimum rent has to be paid, that any amount paid in excess of what the royalty should have been, may be deducted from future royalties payable in excess of the minimum rent during the first ten years of the company's existence.

The following is the number of tons raised during the earlier years of the colliery :---

1906		6,000 tons ea	uals 200 r	oyalty fo	or the year.
1907		18,000 "	600	"	"
1908	•	30,000 "	1,000	"	,,
1909		31,500 "	1,050	"	**
1910		30,000 "	1,000	"	"

As previously mentioned, for the year 1906 the minimum rent of £750 must be paid, but at the year's end, when it is found that the royalty amounts to £200 only, the difference of £550 will be transferred to a "Minimum Rent Redeemable" Account, and will stand as an asset in the books, and any future royalties payable in excess of the minimum of £750 will be credited here instead of to the landlord, whilst any balance remains.

The entries to record the above facts are set out below in Journal form-

1906.	£	£
Dec. 31.	Minimum rent. Dr	,
	To landlord	750
,,	Royalties Account. Dr 200	,
,,	Minimum rent redeemable. Dr 550	
	To minimum rent	750
,,	Profit and Loss Account. Dr 200	l.
	To royalty	200

(Asset in Balance Sheet of December 31, 1905—" Minimum rent redeemable, £550.")

1907.	£	£
Dec. 31.	Minimum rent. Dr)
	To landlord	750
,,	Royalties Account. Dr 600)
,,	Minimum rent redeemable. Dr 150	
	To minimum rent	750

In 1907, therefore, £600 will be debited to Profit and Loss Account, and the "Minimum rent redeemable" in the Balance Sheet will appear at £700. In each subsequent year the entry of the minimum rent, the credit to the landlord, and the transfer of the royalty to profit and loss will be similar, and are therefore not repeated. The other entries are—

1908.						£	£
Dec. 31.	Royalties Account.	Dr.				1000	
	To minimum rent	•					750
	,, minimum rent						250
	(Leaving asset of £4	150.))				

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1909.	÷ £	£
Dec. 31. Royalties Account. Dr	1050	
To minimum rent		750
"minimum rent redeemable		300
(Leaving asset of £150.)		
1910,		
Dec. 31. Royalties Account. Dr	1000	
To minimum rent		750
,, minimum rent redeemable (clos-		
ing the account)		150
" landlord (to whom the surplus		
of royalties in this and all		
future years must be paid) .		100
· · · ·		

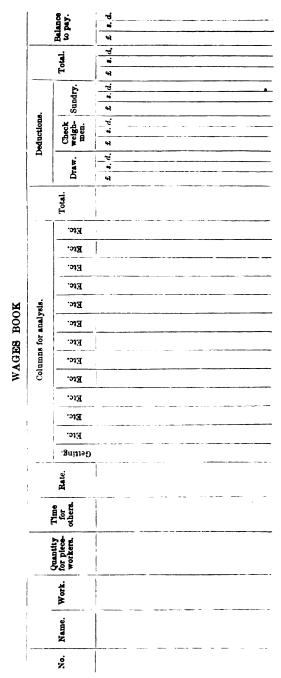
Wages.-The arrangement with the workmen will, in the case of the colliers and much of the underground labour, be piecework, and to save the labour involved in the calculations. the wages are generally made up for a fortnight at a time, the men being allowed to draw a certain amount on account at the alternate week-end. The amount to be paid is ascertained by a weigher on behalf of the owners, and a "check weighman" on behalf of the men, the latter receiving his weekly wage from the miners themselves, a column being provided in the Wage Book. by means of which his wages are deducted from the individual wages at the time of their payment in agreed proportions. For purposes of costing, the wages are analyzed under various headings, the three chief divisions being colliers (subdivided into cutting, timbering, deadwork, etc.), underground labour (subdivided into overmen, roadmen, trammers, doorboys, etc.), and above-ground labour (subdivided into storekeepers, blacksmiths, etc.).

The example on p. 380 is a simple form of Wages Book.

Sales.—The sales of a colliery are usually entered, in weights only until the month end, in a book sometimes called a "Ledger Journal," in which one page is kept for each of the principal customers, who are charged so much per ton loaded at the pit head. At the end of the month a statement is made out showing the various quantities and qualities purchased, and the monthly total of each quality charged out in money for the first time, together with the charge made by the railway company for carriage, and if the coal was sent in the colliery's waggon, an agreed charge per ton for waggon hire.

These will be press copied, and a summary is made in the

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Sales Book, which is in its turn posted to the Ledger. The Sales Book will contain columns for reference to the press copies and to the Ledger, total columns for weights and money, and analysis columns for coal, railway carriage, and waggon hire, the totals of these being posted to the credit of the respective accounts.

HIRE PURCHASE OF WAGGONS

The next point to consider is that of waggons obtained under the "hire-purchase system," and their treatment in the accounts. The agreements usually provide that the purchaser shall pay a fixed sum for the hiring of a waggon for an agreed period, at the end of which time he has the right to purchase it for a nominal sum, the waggon in the mean time remaining the property of the manufacturer.

It will be seen that the instalments paid by the purchaser will include a certain amount of interest, and that the balance of each instalment is really a payment on account of capital. These instalments must, therefore, be apportioned each year as between capital and interest, and the latter must, of course, be written off against the Profit and Loss Account. There will be a further charge against revenue in respect of depreciation, which as a matter of sound finance should be written off each year from the *cash value* of the waggons.

As waggons, when kept in good repair, have a long life, and those supplied by standard makers consist of interchangeable parts constantly being renewed, the waggons may remain good working plant even though not one scrap remains of the original. On the other hand, railway companies often withdraw waggons of an obsolete type, and also put a limit to the extent of repairs. This varying treatment makes the question of depreciation one on which no hard and fast rules can be laid down. The desirability of providing for depreciation may, however, be taken for granted; and therefore we say that the agreed rate should be written off the cash value and not from the balance of the waggon account. It must be noted that in a short period ownership is obtained of the waggons, and that the additional rate paid under this purchase method as compared with simple hiring would be forfeited on failure to keep up the agreed payments; further, that after charging interest and depreciation against revenue there will soon be a considerable sum representing the cash payment value of the waggon.

To show how these items may be treated in the books let us take the following example: A. agrees with the Railway Waggon Company to acquire from them one of their £50 waggons on the hire-purchase system, paying £10 per annum for six years, and then having the right to purchase it for the sum of one shilling. The first instalment is payable on December 31, 1906, being just twelve months after he first obtains possession of it, and he covenants to keep the said waggon in full repair until all the payments under the agreement have been made. Interest is charged at the rate of five and a half per centum on the unpaid balance of capital.

On December 31 A. will receive from the Waggon Company a debit note for the sum of £10, which will be treated with the other invoices through the Purchase Analysis Book, by means of which the "Waggons on Hire-Purchase Account" will be debited and the Railway Waggon Company credited with that amount. As set out above, this figure will include interest for the year on the balance still unpaid of the cash price (£50), which therefore for the first year equals £2 15s., and the remainder, viz. £7 5s., goes towards the capital, which therefore leaves unpaid on January 1, 1907, capital £42 15s. Depreciation will then require to be dealt with, and has for the purpose of this example been charged at the rate of 12½ per cent. on the diminishing value, and therefore for the first year will amount to £6 5s.

The interest and depreciation each year will be credited to the Waggon Account and debited to Profit and Loss Account, and the balance of the former account will then appear on the Balance Sheet as an asset under some such heading as—

> Waggon on Hire-Purchase Account. £1 (Subject to payment of balance of instalments £50 1s.)

For 1907 the annual debit note will come on December 31, and be treated as before. Interest will be charged on the balance of capital for the year (£42 15s.) and will equal £2 7s. for the year, leaving owing on January 1, 1908, £35 2s. on capital account. Depreciation for the year will be charged at £5 9s. 4d., being 12} per cent. on the cash price £50, less £6 5s. written off for 1906.

In the Balance Sheet at December 31, 1907, this asset will therefore stand at £3 Ss. 8d.

The student can work out each year's interest and depreciation for his own satisfaction until the purchase is completed, when the balance of the "Hire-Purchase Account" will be transferred to the ordinary Waggon Account, since it is then the absolute property of the hirer.

The following entries show in Journal form the full transactions for the first two years and the interest and depreciation figures for the whole period, together with the Ledger Account of the "Waggon on Hire-Purchase."

1906.		£	8.	d.	£	8.	d.
Dec. 31.	Waggon Hire-Purchase Account. Dr To Railway Waggon Company, Ltd (Being first instalment of purchase of waggon under the hire agreement of	10		0	10		0
"	Jan. 1, 1906.) Interest Account. Dr To Waggon Hire-Purchase Account . (Being interest at 5½ per cent, per annum on cash price of waggon.)	· 2	15	0	2	15	0
,,	Depreciation Account. Dr. To Waggon Hire-Purchase Account . (Being depreciation for year at 12½ per cent. per annum on waggon under agreement of Jan. 1, 1906, costing £50 cash.)	6	5	0	6	5	0
13	Profit and Loss Account. Dr To Interest Account	9	0	0	2 6	15 5	0 0
1907.							
•	Waggon Hire-Purchase Account. Dr To Railway Waggon Company, Ltd (Being second instalment of purchase of waggon under hire agreement of Jan. 1, 1906.)	10	0	0	10	0	0
"	Interest Account. Dr	2	7	0	2	7	0

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1907	(continued).	£	8.	d.	£	8.	d.
Dec. 3	1. Depreciation Account. Dr	5	9	4			
	To Waggon Hire-Purchase Account .				5	9	4
	(Being depreciation at 121 per cent. per annum (diminishing value) on waggon under agreement of Jan. 1, 1906.)						
"	Profit and Loss Account. Dr	7	16	4			
	To Interest Account					7	
	"Depreciation Account				5	9	4
	(For balance of the latter accounts written off.)						

The Balance Sheet value of the waggon at date will be £3 3s. 8d., subject to the payment of further instalments equal to £40 1s.

	Unpaid balance of capital on January 1.			In	terest year.		dep	ance of alue af reciatio anuary	ter on on		oreciat or yea		Value of waggons on hire- purchase account per balance sheet December 31.			
Dec. 31, 1908 ,, 1909 ,, 1910 ,, 1911	£ 35 27 18 9	s. 2 0 10 10	ď. 0 6 2 6	£ 1 1 1 0	s. 18 9 0 10	d. 6 8 4 6	£ 38 33 29 25	s. 5 10 6 13	d. 8 0 3 0	£ 4 4 3 3	s. 15 3 13 4	d. 8 9 3 2	£ 6 10 16 22	s. 9 16 2 8	d. 6 1 6 10	

SUMMARY OF FURTHER ENTRIES

It is very essential for the proper working of a colliery that store accounts shall be carefully and accurately kept, and that they shall be periodically balanced and checked with the actual stock on hand; but as this presents no special features and the general subject of stores is dealt with in another chapter, it is not necessary to enlarge upon this here.

Nowadays no system of accounting for any trade is considered complete without some reference to Cost Accounts and cost sheets, and the managers of collieries were among the first to realize the usefulness of this branch of work and to prepare statistical returns frequently and periodically to show how much each ton of coal raised was costing, and how that cost was distributed. In collieries these statements are also used as a check on the payment of the wages, since, as previously stated, a very large portion of the wages is paid on the output of coal, and a schedule maintains a check on the opening stock and coal raised as per the wage sheets. Against this is

COLLIERIES

Dr.	WAGGON	UN .	пр	- I	URUHA	SE ACCOUNT		Cı	ſ .
1906. Dec. 31	'To Railway Waggon Co., Ltd	£ 10	s. 0	d. 0	1906. Dec. 31 "	By interest "depreciation "balance	£ 2 6 1	s. 15 5 0	d. 0 0 0
		10	0	0			10	0	0
1907.	"balance	1	0	0	1907.				
Dec. 31	" Railway Waggon Co., Ltd.—Instal- ment	10	0	0	Dec. 31 "	,, interest ,, depreciation ,, balance	2 5 3	7 9 3	0 4 8
		11	0	0			11	0	0
1908.	"balance	3	3	8	1908.				
Dec. 31	"Railway Waggon Co., Ltd.—Instal- ment	10	0	0	Dec. 31 "	"interest "depreciation "balance	1 4 6	18 15 9	6 8 6
		13	3	8			13	3	8
1909.	"balance	6	9	6	1909.				
Dec. 31	" Railway Waggon Co., Ltd.—Instal- ment	10	0	0	Dec. 31	,, interest ,, depreciation ,, balance	1 4 10	9 3 16	8 9 1
,		16	9	6			16	9	6
,, 1910. Dec. 31	" balance " Railway Waggon	10	16	1	1910. Dec. 31	"interest	1	0	4
200.01	Co., Ltd.—Instal- ment	10	0	0	,,	,, interest ,, depreciation ,, balance	3 16	13 2	3 6
		20	16	1			20	16	1
	" balance " Railway Waggon	16	2	6	1911. Dec. 31	"interest	0	10	6
	Co., Ltd.—Instal- ment Purchase price .	10	0 1	000		" depreciation " Waggon Account, being balance	3 22	4	2 10
						transferred . (Value of waggon acquired, less de- precistion to date)	22	8	10
		26	3	6	1		26	3	6

WAGGON ON HIRE-PURCHASE ACCOUNT

Dr

Cr

set the amount of coal sold, for which a column is provided in the Sales Book, and a note made of the deficiency which will invariably exist, owing to an allowance usually made to the married men engaged in the colliery, and to the coal consumed by the concern itself. The percentage which this deficiency

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bears to the output is carefully noted, and often a certain margin is fixed which is never exceeded without a full inquiry being made. Such maximum will vary from 4 to 7 per cent., according to the circumstances of each case.

Probably the best termination to this chapter will be a form of a Colliery Cost Account which we think is self-explanatory.

SUMMARY OF COST SHEET FOR THE FOUR WEEKS ENDING SEPTEMBER 30

THE BLANK COLLIEBY COMPANY

Sales—coal and slack Coal stock—decrease			Tons. 18,600 200	£6045 0e. 0d. £65 0e. 0d.	Average per ton of net production, 6s. 6d.
Total credits	•	•	18,400	£5980 0s. 0d.	

								Average of net pr	Per cent. on ster- ling value of pro- duction.		
	£	8.	d.	£	8.	d.	8.	<i>d</i> .	8.	d.	
Wages: colliers	1562	0	0				1	8.37		1	26.12
" underground .	830	0	0				0	10.83			13.88
" surface	740	0	0	1			0	9.65			12.38
			-	- 3132	0	0	-		3	4.85	
Timber used	420	0	0				0	5.47			7.03
Rails	24	0	0				0	0.31			0.40
Stores: ropes	30	0	0				0	0.39			0.20
" oil	18	0	0			1	0	0.24			0.30
" sundry	17	0	0	1.1.1			0	0.22			0.29
				- 509	0	0	-		0	6.63	
Repairs and renewals ex-								1.1.1	1		
clusive of wages	110	0	0				0	1.43		1	1.84
Horse keep and stables .	137	0	0	1			0	1.79		1.000	2.30
				- 247	0	0	-		0	3.22	
Royalty - freehold and			1					14.00			
leasehold	515	0	0				0	6.72		-	8.60
Depreciation fund	207	0	0				0	2.70			3.46
Other rents, rates, and taxes	410	0	0	1.000	1		0	5.35		1.00	6.86
				1132	0	0	-		1	2.77	
				5020	0	0					
Management expenses .	150	0	0				0	1.96			2.50
Salaries and travelling .	162	0	0				0	2.12			2.71
Office expenses	70	0	0				0	0.92			1.16
rent and insurance .	80	0	0				0	1.04			1.34
Discounts and bad debts .	76	0	0				0	1.00			1.27
Dibootine und bud dobio 1	10	~	0	538	0	0					1 -1
Apparent profit				422	Ő	Ő	0	5.49			7.06
		6	-			-	_		1	0.53	
						_	_		_		
				£5980	0	0			6	6	100.00

COLLIERIES

QUESTIONS AND EXERCISES

201. Discuss the question of depreciation in the case of a colliery.

202. Explain the meaning of minimum or dead rent.

203. How would a minimum rent in excess of royalties be treated in the accounts?

204. Discuss the treatment in the accounts of waggons obtained under the hire-purchase system.

205. Give an example of a colliery cost sheet.

CHAPTER XXVI

BUILDING SOCIETIES¹

Permanent—Terminating Societies—Rights and Liabilities of Members—Mortgages—Annual Statement—Auditor's Report—Termination, Dissolution, and Winding up—Accounts—Cash Book, Ledgers, Final Accounts and Statement.

Classes.—Building societies are of two kinds: 1. Terminating; 2. Permanent. A terminating society is one which, by its rules, is to terminate at a fixed date, or when a result specified in its rules is attained.

The scheme of a terminating society is somewhat as follows :---

The society is constituted by several persons, each subscribing for a certain number of shares. Upon each of these shares a fixed sum is made payable so long as the society lasts. the object being to continue the society until the subscriptions. with the interest that has arisen from their investment, shall have produced such an amount per share as may have been fixed by the rules. As soon as there are sufficient funds in hand it may be noted that advances are made to such members as may desire them, in anticipation of the shares which would be payable to them on the termination of the society; the sum advanced being the amount of the member's share or shares. less a discount for such member's portion of the working expenses. The member who receives the advance executes a mortgage of real or leasehold estate to the society for securing the due payment by him of his subscriptions to the funds of the society. The Starr-Bowkett and Bowkett Societies are both varieties of this class.

¹ For a fuller treatment we would refer students to the standard work by Wurtsburg on building societies, to which, by the courtesy of Messrs. Stevens and Sons, the publishers, we are indebted for the introductory notes of this chapter. It frequently happens that the winner of a ballot does not at the time desire to exercise his rights, and he has the power to offer up his privilege by auction, and sell to the highest bidder, thereby realizing a profit, a portion of which profit the society receives, as stated in its rules.

A permanent society, on the other hand, is a society which has not by its rules any fixed date or specified result at which it shall terminate.

Permanent societies are constructed by the agreement of several persons to take shares of a certain fixed value, on which payment has to be made, either in a lump sum or by instalments, until the full amounts of the shares have been paid up; and the sums so paid generally carry interest. Advances are made to members from time to time, as the funds will permit, on the security of lands or buildings, the money advanced being at a higher rate of interest than that received by investing members or depositors, and usually made payable by equal instalments, composed of principal and interest and spread over a fixed period.

Building societies are classed under the heads of incorporated and unincorporated societies.

The chief difference between an unincorporated and an incorporated society is that in the case of the former loans to the society were really made to the appointed trustees of the society, for which loans the said trustees gave promissory notes, making themselves personally liable for the repayment; whereas in incorporated societies the loans are made to the society itself, the society giving a certificate for the amounts under its seal, giving the lender a claim on its funds.

Also in the case of mortgages to an unincorporated society, they are made to the trustees of the society; but in incorporated societies they are made to the society as a corporate body under its seal. Unincorporated societies are dying out.

The Rights and Liabilities of Members.—The members of a building society are of two classes—those who simply pay their contributions to the society, generally receiving interest in some shape on the amount so paid, and those who borrow money from the society on mortgage. The former are called unadvanced or investing members, and the latter advanced or borrowing members, and their rights and liabilities depend not only on the rules of the society, but also on the contract of mortgage into which they have entered.

For the purpose of raising the funds necessary for carrying on its business, an incorporated society is empowered to issue shares of one or more denominations, either paid up in full, or to be paid by periodical or other subscriptions, and with or without accumulating interest, and to repay such funds when no longer required for its purposes: and it may also issue preference shares. But in the case of every society established, or substituting a new set of rules for its existing rules. since August 25, 1894, the following particulars must be set forth in the rules of the society: the manner in which the stock or funds is or are to be raised; the terms upon which unadvanced subscription shares are to be issued; the manner in which the contributions are to be paid to the society. and withdrawn by the members, with tables where applicable, showing the amount due by the society for principal and interest separately; the terms upon which paid-up shares, if any, are to be issued and withdrawn, with tables, where applicable, showing the amount due by the society for principal and interest separately; whether preferential are to be issued, and if so, within what limits : the manner in which advances are to be made and repaid; the deductions, if any, for premiums, and the conditions upon which a borrower can redeem the amount due from him before the expiration of the period for which the advance was made. with tables, where applicable, showing the amount due from the borrower after each stipulated payment; the manner in which losses are to be ascertained and provided for, and the manner in which membership is to cease. It is obvious, therefore, that the society may raise its funds in a number of different ways, and the rights of the members will vary accordingly.

There is no fixed capital as in the case of a company under the Companies Acts, but shares are issued from time to time as persons are found ready to take them; and, unless so provided by the rules, there is no limit to the number that may be issued. In the case of terminating societies, however, it is unusual for any one to join after the first few months of the society's existence, owing to the number of back payments that will be required in order to place him on an equality with those members who joined at the commencement of the society.

Mortgages to Building Societies.—The principal business of every building society, whether terminating or permanent, is to make advances to its members out of the funds on the security of real or leasehold estate. The form of the mortgage given to secure such an advance depends mainly upon the constitution of the society. It is, in the case of a terminating society, to secure not the repayment of the money advanced with interest, but the due payment by the member of his subscriptions and other contributions to the funds of the society until the full amount of the shares of the unadvanced or investing members is realized according to the rules; and as an advanced member receives by anticipation what the investing members will only receive on the termination of the society, he pays from the time he receives his advance an increased or additional subscription which is called redemption money, but is in reality interest. The mortgage must, therefore, be framed in such a way as to secure the due payment by the advanced member of all his contributions until the termination of the society.

In permanent societies, on the other hand, a mortgage for an advance to a member is usually in the nature of a security for repayment of the advance by equal instalments, composed of principal and interest combined. If the society is incorporated the mortgage is made to the society itself, under its seal; if it is unincorporated the security must be taken in the names of trustees, and it will vest in the society's trustees for the time being without any conveyance or transfer.

The right to receive an advance from an incorporated society cannot now be made to depend on the result of a ballot or any chance or lot, except in the case of societies established before August 25, 1894.

The security for an advance must always consist of real or leasehold estate, whether the society is incorporated or not; an advance on the security of the members' shares in the society is illegal, and directors who make such an advance will be liable for any loss that may be sustained by the society in consequence; and though an advance may be collaterally secured by the personal covenant of the member, or by a charge on property of an unauthorized description, *e.g.* pure personal estate, the validity of the transaction must be estimated as if no such ingredient entered into it. Speaking generally, and subject to such variations as necessarily result from the special nature of these securities, the ordinary law of mortgage applies in the case of a mortgage to a building society by one of its members. At the same time the position of an advanced member of a building society is not quite the same as that of an ordinary mortgagor, and his rights are affected to the same extent, at least, by the contract of membership as well as by the contract of mortgage; and there are, moreover, certain statutory provisions—such, for instance, as the right to reconvey by endorsed receipt instead of by deed which, of course, have no application to the case of an ordinary mortgage.

An advanced member of a building society has the right to redeem his security, the terms of redemption depending on the rules of the society and the provisions of the mortgage deed; but questions of difficulty have sometimes arisen on this point, owing to the want of care shown in framing the rules.

In the case of a permanent society it is easy to ascertain how much must be paid by an advanced member who wishes to redeem his security; but in the case of a terminating society, owing to the impossibility of saying exactly how long the society will last, the calculation is one of some difficulty, and in fact can scarcely be made with perfect accuracy.

A member of a building society, who has executed a mortgage to the society in the usual form to secure an advance, is entitled to deduct income tax on so much of each periodical instalment as is in fact payment of interest; but not on such portion as is payment of principal.

The right to deduct income tax from time to time, as and when mortgage interest is paid, is absolute; and a mortgagor so deducting income tax is acquitted and discharged by statute of so much money as the deduction shall amount to as if the amount had actually been paid to a person to whom the interest was due and payable. The tax should be deducted from each instalment before it is paid, and if this is not done the amount cannot afterwards be deducted from the future instalments. This is the law on the subject, and though the privilege is rarely exercised by mortgagors, refusal to allow this deduction carries a penalty of $\pounds 50$.

A society under the Building Societies Acts cannot advance

money on the security of any freehold, copyhold, or leasehold estate which is subject to a prior mortgage, unless the prior mortgagee is in favour of the society making the advance, and agrees to become second mortgagee, the society having the prior claim.

In a permanent society the total amount received on deposit or loan, and not repaid by the society, shall not at any time exceed two-thirds of the amount for the time being secured to the society by mortgages from its members. An overdraft at a bank would be considered borrowed money.

In a terminating society the total amount so received and not repaid may either be a sum not exceeding such two-thirds, or a sum not exceeding twelve months' subscriptions on the shares for the time being in force.

Annual Statement.-The secretary or other officer of every society must, once in every year at least, prepare an account of all the 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 and outstanding on the mortgage securities (not including prospective interest), and the amount invested in the funds or other securities; and every such account and statement shall be attested by an auditor who publicly practises as an accountant, to whom the mortgage deeds and other securities belonging to the society shall be produced, and such account and statement shall be countersigned by the secretary or other officer: and every member, depositor, and creditor for loans shall be entitled to receive from the society a copy of such account and statement, and a copy must be sent to the Registrar within fourteen days after the annual or other general meeting at which it is presented, and another copy is to be suspended in a conspicuous place in every office of the society.

Auditor's Report.—Every auditor, in attesting any such account or statement, must either certify that it is correct, duly vouched, and in accordance with law, or specially report to the society in what respect he finds it incorrect, unvouched, or not in accordance with law, and shall also certify that he has at that audit actually inspected the mortgage deeds and other securities belonging to the society, and shall state the number of properties with respect to which deeds have been produced to and actually inspected by him.

Termination, Dissolution, and Winding up.—There appear to be six different ways in which a building society may come to an end: (1) termination; (2) dissolution, in manner prescribed by the rules; (3) dissolution by an instrument of dissolution; (4) dissolution by award of the Registrar; (5) dissolution under sect. 26 of the Act of Geo. 4, c. 56, assuming this section to be applicable to the case of a building society; (6) winding up under the Companies Acts. Of these the first and last apply to both incorporated and unincorporated societies; the second, third, and fourth apply only to incorporated societies; the fifth applies, if at all, only to incorporated societies.

Any incorporated society may also unite with or transfer its engagements to another incorporated society, and come to an end in this way.

The manner in which any incorporated society, whether terminating or permanent, is to be terminated or dissolved must be set forth in its rules.

The object of a terminating society is, as we have seen, to accumulate by the subscriptions of its members and the interest derived from their investment, an amount sufficient to give a stipulated sum to each member, and then to divide the whole amongst them. The length of time required to accomplish this result varies according to the rate of subscription and the degree of success or non-success that attends the societies' operations; but twelve or fourteen years may be taken as about the average period. When the agreed amount has been realized, the accounts of the different members, some of whom will have received their shares in advance, are made up; the fund is divided amongst the members according to their several rights and interests, and the society is at an end.

The rules may of course provide that the society shall terminate on a given date, and the assets be then divided and the society dissolved. But this is not usual; it is much more common for the rules to provide for the society continuing its operations until a certain amount per share has been realized.

In the case of an incorporated society, the Act expressly provides that the society may terminate "upon the happening of

any event declared by its rules to be the termination of the society;" and it defines a terminating society as one which, by its rules, is to terminate at a fixed date, or when a result specified in its rules is attained.

The Act of 1874 provides that an incorporated society may be dissolved in manner prescribed by its rules, and whatever course they point out for effecting the dissolution must be strictly pursued.

The provisions of the Building Societies Acts will, during the dissolution, continue to apply in the case of the society as if the liquidators or other persons conducting the dissolution were the board of directors or committee of management of the society.

The society, if incorporated, may be dissolved by instrument of dissolution with the consent of three-fourths of the members, holding not less than two-thirds of the number of shares in the society, testified by their signatures to the instrument. The instrument of dissolution must set forth—

(a) The liabilities and assets of the society in detail;

(b) The number of members and the amount standing to their credit in the books of the society;

(c) The claims of depositors and other creditors, and the provisions to be made for their payment;

(d) The intended appropriation or division of the funds and property of the society;

(e) The names of one or more persons to be appointed trustees for the special purpose, and their remuneration.

It must be registered in the manner provided for the registration of rules, and will be binding on all the members of the society.

The remaining method of putting an end to a building society is by winding up under the Companies Acts.

When a society under the Building Societies Acts is being dissolved or wound up, a member to whom an advance has been made under any mortgage or other security, or under the rules of the society, shall not be liable to pay the amount payable under the mortgage or other security or rules, except at the time and subject to the conditions therein expressed.

A building society, though it may be wound up under the Companies Acts, is neither a joint-stock company nor a common-law partnership. It is an association of a special kind, formed and regulated under particular Acts of Parliament for special purposes, and the rights and liabilities of the members are to be determined by the particular contract into which they have entered, and which is to be found in the rules of the society.

Unadvanced or investing members are only liable as between the different classes of members themselves to contribute to the assets of the society, to the extent (if any) to which the payments due in respect of their shares are in arrear at the commencement of the winding up. If, however, the society is unincorporated they will be liable to ordinary creditors without limitation of liability, and to loan creditors to the extent of the amounts payable by the unadvanced members under the rules. and they may in some cases be under special liability to preference shareholders. In the absence of special contract, advanced members are entitled to redeem, and so put an end to their connection with the society, by paying up the balances remaining owing on their securities, and are not bound to remain members for the purpose of bearing a share of any losses that may have been sustained by the society. If it is unincorporated, and there are outside creditors, the liability is more extensive.

Members who have given notices to withdraw, which have expired before the commencement of the winding up, and members whose shares are realized or completed at the commencement of the winding up, will, if the rules so provide, be entitled to be paid out of the assets after satisfaction of the outside creditors, and in priority to members who have not given such notice or whose shares are not realized.

After payment of debts and making due provision for priorities of withdrawn and realized shares, the surplus assets are divisible among the unadvanced members according to the interests which existed at the commencement of the winding up.

The Registrar having powers of registering matters in connection with building societies is the chief registrar of friendly societies, and his assistants, any of whom can act. Their headquarters are Central Office, Abingdon St., Westminster.

BUILDING SOCIETIES

ACCOUNTS AND STATUTORY STATEMENTS

The following specimens of accounts and the somewhat complicated statements, which are necessary to be kept and returned by building societies, will require the careful study of the students interested in this branch of accounting. The accounts and forms, with the help of the notes, are selfexplanatory, and therefore need no further description.

BUILDING SOCIETIES' BOOKS.

Advanced Members Ledger									р р.	400-1
Cash Book			•						,,	398-9
Deposit Ledger			•						"	402
Preference Shares Members										
Investment Members Ledger	•	•							.,	400-1
Nominal Ledger		•							•,	402-4
Profit and Loss Account .								•	••	405
Subscription Book									.,	406
Sundry Books	•			•	•	•	•	•	••	406

site	ducti depo bdrav	on		ndries	Su	No. of shares paid off.	Ledger folio.	Nature of sundries.	Name.	te.	Dat
d.	s .	£	d.	8.	£				To balance in bank .	1	1901 Jan.
			11	18	21		G.L.	Bank interest .	" bank " sundry persons (detailed dur-		~
4	1	5	0 3	0 10	600 20		G.L. G.L.	Rules, fines, etc.	ing year) "InvestmentA/c "sundry persons		to
			1	1	304			Income from pro- perties in pos- session, viz.	17 71 77		
			0	4	5618			from borrowers	»» »» »»		}
			6	0	225		G.L.	Insurance pre- miums	yy yy yy	31) Dec.
4	1	5	9	14	6789	£					

(a) The items in the sundries column which appear in General Ledger (credit side), the columns of which are added or to Nominal Accounts at the end of the financial year.
(b) The totals of these columns are carried to the Profit
(c) From Subscription Books.

CONTRA

Dat	e.	Name.	Nature of sundries.	Ledger folio.	Number of ahares ad- vanced.	Sune	irles,		Shar advan		
1901 Jan. }	1	By bank " sundry persons	Commission Management ex-	G.L.		£ 30 530	s. 5 18	d. 6	£	8.	d.
{		,, ,, ,, ,,	Rent, rates, and	G.L.				1		1	
٤		29 29 29 19 27 79	taxes Income tax Subscriptions to Building Socie-	G.L. G.L.		287 91	4 5	4 8			
1		Blank Insur-	ties' Association	G.L.		2	2	0			
*		ance Co " sundry persons (detailed dur-	Insurances	G.L.		225	0	6			
} Dec.	31	ing year) ,, balance in bank							35,79 4	4	0
					£	1166	16	4	85,794	4	0

(a)

(a) As above.

Dedu adv	ction		Preference		ares	D re	eposi ceive	its ed.	Advance paid		ares	Subscri	ption	ns.	Total.		
£	8.	d.	£.	8.	d.	£	8.	d.	£	8.	d.	£	8.	d.	£ 3,329 21	s. 16 18	d. 3
590	15	0	13,400	0	0				35,348	5	1	12,241	19	10	61,586 600 20	$\begin{array}{c}1\\0\\10\end{array}$	303
															304 5,618 225	1 4 0	1
590	15	0	13,400	0	0		-		35,348	5	1	12,241	19	10	71,705	12	-

detail throughout the year, are posted to an analytical and the totals posted direct to the Profit and Loss Account,

and Loss Account.

al.	Tot		est o osits.	Interdepo			Depo withda	ce	est o ereno ares.			res	Prefe sha withd	nt		Inter inver shi		es	Invest shar withdr
s. d. 5 6	£ 30	d.	8.	£	d.	8.	£	d.	8.	£	d,	8.	£	<i>d</i> .*	8.	£	đ.	s.	£
18 4	530																		
4 4 5 8	287 91																		
2 0	2																		
0 6	225																		
$\begin{array}{c}3&1\\12&10\end{array}$	66,772 3,766	5	12	1392	0	0	5215	0	17	969	0	0	4130	11	0	3807	9	8	15,463
12 3	71,705	5	12	1392	0	0	5215	0	17	969	0	0	4130	11	0	3807	9	8	15,463

Cr.

ADVANCED

INVESTMENT

Date	e.		Shares.	Folio.	Gra	nt.		Inte	rest.	l	Tot	al.
1901 Jan.	1	To balances			£ 118,952	s. 1	d. 3	£ 4,886	s. 10	d. 9	£	8. d.
to Dec.	31	vances during year) ,, interest on ad- vances (Detailed in Interest Book No. 1).		Int. book. No. 1	35,7 94	4	0	5,618	4	0		
					154,746	5	3	10,504	14	9		.
1902 Jan.	1	To balances			119,093	19	1	4,886	10	9		

Jan. 1 To cash . <th< th=""><th>Date</th><th>.</th><th></th><th>Folio.</th><th>Inte</th><th>rest.</th><th></th><th>Subscri</th><th>iption</th><th>L</th></th<>	Date	.		Folio.	Inte	rest.		Subscri	iption	L
					-				s. 8	d. 9 5
10,297 8 4 73,091 10	Dec.	31	"DALADCES down		0,490		J	51,028	,	
					10,297	8	4	73, 091	10	2

PREFERENCE SHARES

1901 Jan. 1						r !!			1	1		
to Dec. 31	To cash . " balance	 a down.	•	•	•		£ 969 5 94	s . 17 5	d. 0 11	£ 4,1 30 35,150	e 0 0	d. 0 0
							1,564	2	11	39,280	0	0

400

Dr.

No.

Dr. No.

Dr. No. in Society.

in Society.

in Society.

MEMBERS LEDGER

Date				Shares.	Folio.	F	ine	8.		are		Subscrip	tion	s .	Inter	est.		1	ot	al.
1901 Jan.	1	By cash	(from pro-			£	8.	d.	£	s.	d.	£ 35,348	s. 5	<i>d</i> .	£	8.	d.	£	8.	-
to		" cash	perties in possession)									304	1	1	5,618	4	0			
Dec.	31		nces down .									119,093	19	1	4,886	10				
												154,746	5	3	10,504	14	9	-	-	-
												134,740	-	-	10,301	-	9	-	-	

MEMBERS LEDGER

1 Follo. Date. Interest. Subscriptions. 1901 d. 4 10 £ 7,805 d. 4 £ 60,849 12,241 1. s. 10 19 By balances Jan. 1 to cash interest (detailed in In-terest Book No. 2) Dec. 81 ,, 0 2,492 7 10,297 8 4 73,091 10 2 1902 5 Jan. 1 By balances 6,490 7 57,628 1 5

MEMBERS LEDGER

C -	۹
Ur.	

Cr.

Date.			Folio.	Inte	rest.		Subscri	ptions	۱.
1901 Jan. to	1	By balances		£ 439	s. 3	d. 4	£ 35,880 13,400	s. 0 0	d. 0 0
Dec. 9	31	" interest (detailed in In- terest Book No. 3)		1,124	19	7			
				1,564	2	11	39,280	0	0
1902									
Jan.	1	By balances		594	5	11	35,150	0	0
			·				2 D		<u> </u>

401

Cr.

402

ACCOUNTING AND BANKING

-i 0

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£ 5618

By sundry persons .

1901 Jan. 1 to Dec. 31

. .

-i 0

£ 5618

> To transfer to Profit and Loss Account

1901 Dec. 31

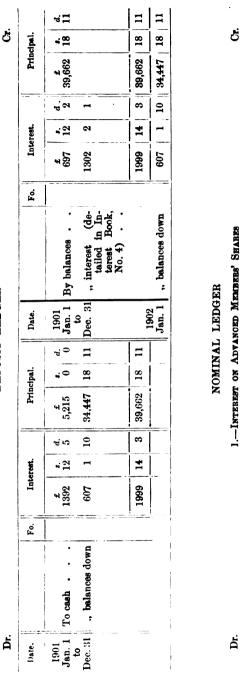
Date.

Date.

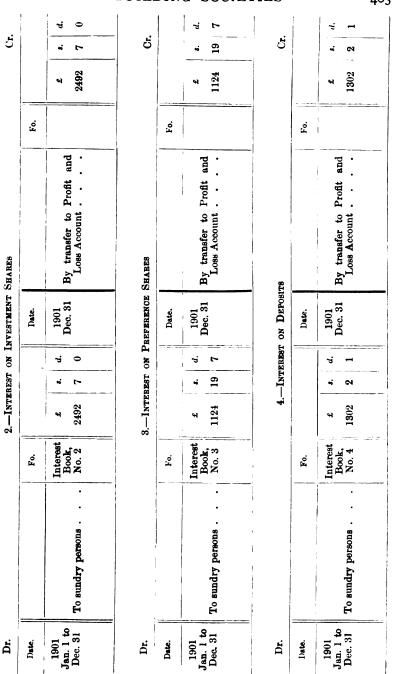
Fo.

Interest Book, No. 1

Fo.



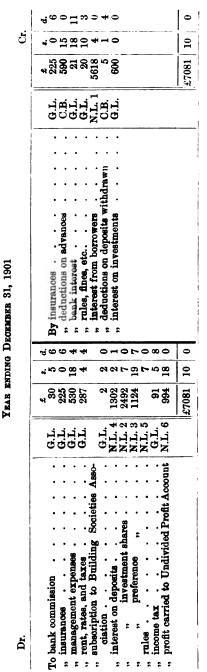
DEPOSIT LEDGER



BUILDING SOCIETIES

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ç		" t	13	0	5		18 20 5	0	0	Ŀ.	Principal.	• •	0	
		•	59	60			ڈ 689 4 994	7889	7889		Prin	ء 15,000	15,000	
						Fo.	- <u> </u>						•	
	Fo.					ŭ					Interest.	4 0	•	
		Account	•••				Account		•		Int	900 8	600	
		088	. H				.088		E		Fo.	1		
ND RULES		By Profit and Loss Account	, balance down				By balance		" balance down			By cash		
5OFFICE FURNITURE, SAFES. AND RULES	Date.	1901 Jan. 1 to	Dec. 31		6UNDIVIDED PROFIT	Date.	1901 Jan. 1 to Dec. 31	0001	Jan. 1	FREEHOLD PROPERTY	Date.	1901 Dec. 31 B	:	
ITURI		ч. О	0	0	DIVID		1.2	01		IOLD		-iC	•	0
FURN		. 0	0	13	n D		* 0	0		REEF	Principal.	*0	0	•
-OFFICE		¥ 09	60	59	9		£ 7889	7889		-	Prin	1 5, 000	15,000	15,000
5												4 0	0	
	Fo.	1			ļ	Fo.					Interest.	. 0	0	
				•			•				Int	¥ 009	600	
							ц. х				Fo.	1		
		To balance .		" balance .			To balance down					To bulance " P. and L. A/o		" balance down
Ľ.	Date.	1901 Ja n. 1		1902 Jan. 1	Ę	Date.	1901 Dec. 31			Dr.	Date.		1000	Jan. 1

BUILDING SOCIETIES



PROFIT AND LOSS ACCOUNT

The following books are in use in addition to the ledgers shown in the detailed accounts :---

- 1. Office Counter Book, giving details of money paid into the society during the month.
- 2. Subscription Books. These sums are posted individually from the Counter Book, to the various Subscription Books (Deposits, Preference Shares, Investment Shares, and Advances) (specimen as under).

Pr og . Si No. Si	hares.	Name.	Ledger folio.	J	anuary.	11 months follow
				£	s. d.	
,			1			
			1			
			l			

The separate amounts are posted to the credit of the members.

* These columns are totalled and posted to Dr. of Cash Account monthly.

3. General Ledger or Analysis Book.

4. Insurance Premium Book.

5. Petty Cash Book.

6. Rent Ledger.

7. Invoice Guard Book.

8. Interest on Advances (No. 1).

9. ", " Investments (No. 2).

- 10. ", " Preference Shares (No. 3).
- 11. " " Deposits (No. 4).

BUILDING SOCIETIES

Form of Annual Account and Statement to be made by a society under the Building Societies Acts prescribed for general use by the Chief Registrar of Friendly Societies, with the approval of the Secretary of State.

Statement of Accounts of theBuilding Society(incorporated 1 , and having its registered chief office orplace of meeting at , in the County of)for its th year, ending theday of19 .

The number of members of the society is

`

					ABII	TTIE	S AND	A88.	G10
To liabilities to holders of share	s, viz.—						£	8.	d .
	Prin	cipal.		Inte	rest.				
Investment shares Preferential shares	£ 57,628 35,150	s. 1 0	d. 5 0	£ 6,490 594	•. 7 5	d. 5 11			
Total	92,778	1	5	7,084	13	4	99 ,862	14	9
o liabilities to depositors and	other cred	litors,	viz	_			55,002	17	0
For deposits payable upon various times of notice, viz.—	34,447	18	11	607	1	10	OF OFF		
fo undivided profit (includin prospective interest), viz.	g reserve	fun	ds, b	ut not i · · ·	neluc	ling	35,0 55 7,889	0	9 2
								i	
						11			
						ļ			

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BUILDING SOCIETIES

ACCOUNT (STOOK ACCOUNT)

By balance due or outstanding on mortgage securities, not including

prospective interest, viz.-

	Principal.			Interest sccrued (not prospective).				
Mortgages from members where the repayments are not upwards of twelve months in arrears and the property has not been up- wards of twelve months in pos-	£	8.	d.	£	8.	d.		•
session of the society— On 68 mortgages where the debt does not exceed £500. On 37 mortgages where the debt exceeds £500 and does	18,098	7	8	660	0	5		
not exceed £1000 On 34 mortgages where the debt exceeds £1000 and does	26,057	18	1	1,122	11	2		
not exceed £3000. On 4 mortgages where the debt exceeds £3000 and does	48,537	18	2	1,896	7	8		
not exceed £5000 On 2 mortgages where the debt exceeds £5000 as shown	14,792	12	2	669	12	6		
by Part I. of the schedule . Total of mortgages available	10 ,39 0	10	4	463	12	0		
under sect. 14 of the Act of 1894	117,877	6	5	4,812	3	9		
On 1 mortgage on property of which the society has been upwards of twelve months in possession, as shown by Part II. of the Schedule	1,216	12	8	74	7	0		
On — mortgages where the repayments are upwards of twelve months in arrear, and the property has not been upwards of twelve months						Ì		
in possession of the society as shown by Part III. of the Schedule Total number of properties mortgaged to the society—		Ni			Na			
146. Total	119,098	19	1	4,886	10	9	123,980	9
By other assets—								
Amount invested in the Fun Amount invested in freehold Deed and book safes . Office furniture Copies of rules	ds property	at 4	%.	15,000 20 30 9	Nil 0 0 13	0 0 0 0		
Cash in bank	•••	•••	•	3,766		10	18, 82 6	5
ł						£	142,806	15

409 Cr.

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£

d.

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THE
OF
OPERATIONS
THE
SHOWING
STATEMENT

YEAR

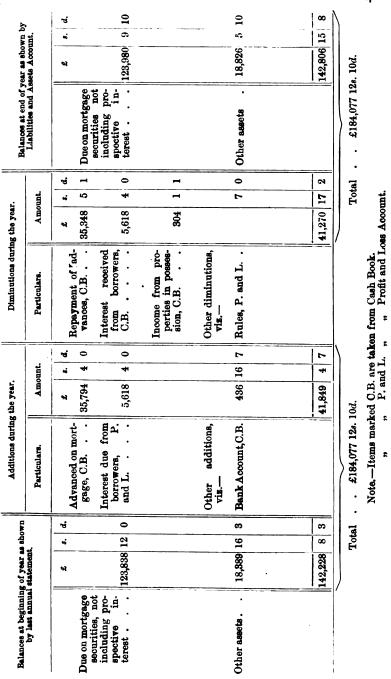
ď, G σ. 3 œ Balances at end of year as shown by Liablittes and Assets Account. 42,806 15 14 0 0 •• 99.862 7,880 35.055 42 . £179,646 6s. 3d. Due to depositors other Undivided profit not including prospective inshare-• creditors . . terest . . bue to holders 8 n d Due • 0 Total 6100 0 5 9 00 5 4 ÷ 10 3 Amount 00 °5 0 2 5 18 4 5 310 2 19 4 Diminutions during the year. 5,215 2,492 1,302 36,839 15,463 3,807 4,130 969 530 1,124 30 91 91 3 ન ncome tax. P. and L. 5 Bank commission, Building Societies ы Pref. shares, C.B. Deposits with-Other diminutions, expenaes, P. and L. Rent, rates, and taxes, P. and L. Interest on investments. P. and L... Interest on deposits, shareholders, C.B. shares, P. and L. interest paid, C.B. interest on pref : Gules, P. and L. drawn, C.B. P. and L. nterest paid . Interest on " Subscription Management Particulars. Association, P. and L. Withdrawals viz. and L. 00 5 0 0 0 ŝ 0 10 --II ÷ 19 0 3 0 18 18 Amount. 19 4 15 2 -2,492 13,400 1,124 5,618 590 5 87,417 Additions during the year. 12,241 1,30288 21 ຊ ન £179,646 6s. 3d. ubscriptions of shareholders,C.B. Pref. shares, C.B. deposits, P. and L. Other additions. Rules, fines, etc., • New deposits . . . Interest added on gages, P. and L. Interest on investvances, P. and L. and deposits, P. and L. added, on mort-Deductions on ad-Bank interest, P. Deductions on investment shares Interest on ", ments, P. and L. • • Particulars. Subscriptions P. and L. P. and L. P. and L. and L. Interest Interest ¶iz.∣ • Total . Balances at beginning of year as shown 0 2 3 સં 94,973 15 40,360 11 2 00 4 by last annual statement. 6,894 142,228 ન • and other creditors . . not including terest . . . share-Due to depositors Undivided profit prospective in-• Due to holders

Items marked P. and L. are taken from Profit and Loss Account.

Note.-Items marked C.B. are taken from Cash Book.

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ACCOUNTING AND BANKING



BUILDING SOCIETIES

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QUESTIONS AND EXERCISES

206. Distinguish between terminating and permanent building societies.

207. State the main difference between an incorporated and an unincorporated society.

208. Discuss the rights and liabilities of investing members and borrowing members.

209. What is the position of a society in regard to advancing on second mortgages?

210. What particulars are to be supplied in the annual statement?

211. Name the various ways in which a building society may come to an end.

212. Name the books suitable for a building society's transactions.

213. Describe the final accounts and statements prepared to show the society's operations for the year.

CHAPTER XXVII

EXECUTORSHIP ACCOUNTS

Estate Duty Account—Estate Duty—Accounts—Legacies—Distribution— Example of Accounts—Definitions.

THE great importance of Executorship Accounts arises from the fact that in these cases the legal owner of the property is very seldom the beneficial owner, and therefore being in the position of a trustee must always be ready to account to those entitled to the property, and if he fails to do so after a reasonable request, may be liable personally for the costs of preparing such accounts and the action in Chancery which may have been taken to obtain them. Another point to bear in mind is, that very frequently there are various interests given to different people under the will, and these interests require to be carefully watched to see that one party does not benefit at the expense of the others. To ensure this a certain knowledge of executorship law is necessary. A familiar example of these conflicting interests is provided by the respective rights of a life tenant (who is entitled to the income only from a certain property for life) and the remainderman, who, after the death of the life tenant, is entitled to the total property as it stands.

An executor is the person appointed by the will to carry out the trusts and provisions of such will. His authority therefore begins at death, but when he is endeavouring to collect the assets, he will find it necessary to have his title endorsed by the court, which is known as "proving the will;" this, indeed, is legally imposed on him, in order that the State may receive the duties to which it is by law entitled on all property passing at the death.

With regard to accounts, then, the first duty of the executor is to prepare his "Estate Duty Account" and submit it to the Probate Division of the High Court. This is a document for which an official form is provided, setting out the full amount of property passing at death on which duty is payable. The form itself must be carefully studied, and should be filled according to the following directions.

Government stocks, and stocks and shares of public companies which are quoted "officially" on the Stock Exchange, are valued at the closing price of the day of death. Usually two prices are given, 100-102, in which case the price for our present purpose is the lower one, plus one-quarter of the difference, that is, $100\frac{1}{2}$.

Other stocks and shares must be valued, usually by the secretary of the company in which the shares are held, and are entered at that price.

Interest and dividends declared or accrued due on such investments are valued at the actual amount payable. In connection with this, it should be noted that when securities are sold on the Stock Exchange, unless quoted "ex div.," the rights to any dividend or interest accruing pass to the purchaser, so for this purpose no apportionment is made of any interest accruing only as it is included in the price quoted above.

Other assets are accompanied by valuations when the actual figures cannot be entered, and any interest accruing on money lent must also be included as accruing from day to day.

When we come to deal with the business belonging to the deceased; if he were a partner in a firm, the Balance Sheet is produced, and his share therein is entered in one figure, whilst if he is a sole trader, his assets are split up under the various headings of book debts, stock-in-trade, goodwill, etc.

Assets in the colonies and in foreign countries, and any donationes mortis causa must also be included, and, in fact, all property real and personal passing at the death.

In subsequent schedules come the deductions, which consist of creditors and funeral expenses.

A summary is then made of all property real and personal, together with the deductions allowed, in order to ascertain the total capital value of the estate upon which duty must be paid.

The estate duty itself is a graduated stamp duty, varying with the value of the estate, and payable at the following rates :---

Estates	under	£100.		•		nil.	
Estates	exceed	ing £100,	but not	exce	eding £500,	, 1 pe	er cent.
	,,	500,	,,	,,	1000	, 2	,,
	,,	1000,	,,	,,	10,000	, 8	,,
	,,	10,000,	,,	,,	25,000	, 4	,,
	,,	25,000,	,,	,,	50,000	, 4 <u>1</u>	,,
	,,	50,000,	,,	,,	75,000	, 5	,,
	,,	75,000,	,,	,,	100,000	, 5 1	,,
	,,	100,000,	,,	,,	150,000	, 6	,,
	,,	150,000,	,,	,,	250,000	, 7	,,
	,,	250,000,	,,	,,	500,000	, 8	,,
	,,	500,000,	,,	,,	750,000	, 9	,,
	,,	750,000,	,,	,,	1,000,000	, 10	"
	_						

, 1,000,000 are at the rate of 10 per cent. on the first 1,000,000, 11 per cent. on the next 500,000, 12 per cent. on the next 500,000, and so on, with a limit of 15 per cent.

In addition to this, the following concessions are made to small estates. Where the gross value of an estate does not exceed £300 or £500, a fixed charge of 30s. or 50s. respectively will clear the estate of all duties of every description, and in the case of estates where the net value of an estate (excluding property settled otherwise than by the deceased's will) does not exceed £1000, such other property is not aggregated with the deceased's estate for the purpose of ascertaining the rate of duty.

This estate duty is payable by the estate, and is chargeable on real and personal estate proportionately, together with interest, as far as duty on personal property, at 3 per cent. from date of death until the payment of the duty. This account must be presented within six months of the death, but in the case of real estate it may be paid by eight yearly or sixteen half-yearly instalments, provided that such real estate is not to be sold, the first instalment to be paid within one year from the death, and the other instalments carrying interest at 3 per cent. per annum from that date.

Having, therefore, delivered this account and paid the duty, we are now able to open the Executorship Books of Account, and the first point to consider is, what books are to be kept.

A Cash Book and Ledger are always necessary, and special books relating to Property Accounts (that is, rentals, etc.), and a Journal may also be used. The Rentals Accounts are indeed desirable where considerable property exists of this nature. in order to avoid unnecessary detail in the main books of account; but the present practice is rather to discard the Journal, since it is admitted on all hands that the full particulars of each transaction should appear in the Ledger, and if these details have already appeared in the Journal, it means extra work. and rather savours of vain repetition.

It is the usual practice to bank all receipts, and make all payments by cheque, and therefore the Cash Book becomes merely a detailed Bank Account. In trust matters, the two columns in the Cash Book are usually reserved, therefore, for income and capital; but in simple executorship matters, where no life interests are involved, they may be treated as "details" and "totals" columns, which method is adopted in this chapter.

With regard to the Ledger, the following accounts should be opened if applicable to any particular case :---

(1) "Capital," "Corpus" or "Estate" Account, all of these terms being used in this connection.

- (2) Income Account.
- (3) An Account for each Investment or Asset.
- (4) An Account for each Residuary Legatee.
- (5) An Account for each Annuitant or Life Tenant.
- (6) An Executorship Expenses Account.
- (7) A Funeral Expenses Account.
- (8) A Testamentary Expenses and Death Duties Account.
- (9) A Legacies Account.
- (10) An Account for Creditors.

The Ledger will then be commenced from the particulars supplied by the Estate Duty Account, and here again the practice varies according to the circumstances of the case. If the estate has to be realized immediately, either for purposes of distribution, or on account of the investments not being in authorized securities, many people prefer to enter the valuation appearing in the account as memoranda only in the books until actually realized; but where a trust is concerned, and many of the assets will be kept in their present form for any length of time, it is better to enter the valuations at once,

and deal with any variations which occur on realization in the ordinary way. This method is frequently used, even where the assets will be promptly realized.

The estate should be realized within twelve months of the death, and the instructions of the will carried out. It must be remembered that in addition to estate duty, which is borne by the estate, there are other duties payable by the beneficiaries out of their own portion of the estate; or, rather, the executor is bound by law to pay these duties before he hands over the legacy, etc., to the legatee. These duties are known as legacy duty and succession duty, the former being charged on all legacies of personal property except leaseholds, whilst the latter is charged on real estate and leaseholds. The rate of duty is the same in each case, and varies with the relationship between the deceased and the recipient.

Husbands and wives pay no legacy or succession duty, nor do lineal ancestors or descendants where estate duty has been paid; where it has not been paid, ancestors or descendants have to pay 1 per cent. The other rates are—

Brother or sister, or their descendants	8]	per cent.
Uncle or aunt, or their descendants	5	,,
Great-uncle or great-aunt, or their descendants	6	"
Other relations, and strangers in blood 1	10	,,

The remaining death duty paid is known as settlement estate duty, and is a duty of 1 per cent. imposed on all settlements made, whereby the property settled passes to certain beneficiaries only after the life interest of other or others.

Presuming the estate to be solvent, the debts, expenses, and legacies will all be paid, and then the residue will be handed over to those entitled. If the residuary legatees, or any of them, are liable for legacy duty, a statement of account must be made up in an official form, known as the "Residuary Account" (No. 3), to enable the commissioners to assess the legacy duty, and after payment of the duty the executor will probably arrange to receive a release under seal from the said legatees.

The following is an example of a simple executorship matter, where no trust or settlement is created by the will. John Smith dies on June 30, leaving the following estate :--

Cash at bank	120
Loan to the firm of John Smith & Co., of which his son	
is proprietor-interest paid to date, and not to be	
charged after the death of John Smith, provided the	
estate is wound up in six months	10,000
Salford Corporation (interest paid to date)-£4000 3 per	
cent. stock valued at par	4,000
Liabilities	

His will directed that after payment of his just debts and funeral expenses, the sum of £1000 shall be paid to his cousin, William Smith, an annuity of £50 a year for life to be paid to his housekeeper, now aged sixty-five, free of tax, and the residue of his estate shall be divided between his son, James Smith, who takes three-quarters of it, whilst the remaining quarter is to pass to his niece, Emma Smith.

His funeral expenses were £120, and the executors accordingly paid duty on July 31 on £13,400, which, at the appropriate rate of 4 per cent., amounted to £536, together with interest for one month at 3 per cent., £1 6s. 10d., the bank granting an overdraft to pay the same.

The executorship expenses came to £78 13s. 2d., and early in August the corporation stock was sold for £4040, less £20 Out of this money the debts and legacy and commission. expenses were paid, and the annuity was purchased from the Government for the sum of £540.

On September 30, James Smith paid £3000 capital, retaining the remaining £7000 as part of his share, whilst on the same day the Residuary Account was prepared, and after legacy duty was paid upon it on behalf of Emma Smith, the estate was duly divided in the proportions named.

The entries in the books appeared as follows :---

£

EXECUTORSHIP ACCOUNTS

5

June 80To Effette Account 120 0 10 July 31By estate duty 5366 0 0 Aug. 10Salton Corporation Stock 24000 0 120 0 0 0 24000 0 solution stock 24000 0 120 0 0 0 24000 0 store 1200 0 0 1200 0 0 24000 0 0 0 1200 0 0 0 24000 0 0 0 0 0 0 24000 0 0 0 0 0 0 Bept. 30 0	EAC	LUTOR	5811	A		NTS	
To Eatste Account \ldots 120 $\stackrel{6}{0}$	0000	• •	••	00	N	990	•
To Estate Account10 Estate Account120 0 0 $July 31$ By estate duty* Salford Corporation Stock 120 0 0 $July 31$ By estate duty* Salford Corporation Stock 120 0 0 101 120 * Salford Corporation Stock 120 120 120 120 * Less commission and ex- 20 4020 0 0 * John Smith and Co. 100 100 100 100 * John Smith and Co. 100 0 0 0 * John Smith and Co. 100 100 100 100 * Sept. 10 100 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 * Mrs. Excordent- 100 100 100 *	-000	• •	> -	••	51 21	8 I 0	•
To Estate Account 120 0 0 July 31 By estate duty * Salford Corporation Stock- £4040 0 0 10 sundry creditors £4000 at 101 £4040 101 £4040 101 #undry creditors	536 536 600	120	202	540 12			£7140
To Estate Account \therefore 120 Estate Account \therefore 120 0 0 0 * Salford Corporation Stock- * 54000 at 101 \therefore 54040 * 4000 at 101 \therefore 54040 * 9000 at 101 \therefore 54040 * 9000 0 0 0 * 9000 0 0 0 * 71140 0 0 0	By estate duty	ty £1	" duty on same	free of tax duty on same .	", executorship expenses		
To Estate Account	July 31 Aug. 31		Sept. 10	6	0.t. 5. Oct. 5.		
To Estate Account	0 e	00					•
To Estate Account	. 0	00					0
To Estate Account	£ 120	4020 3000					£7140
	• •	· · · · · · · · · · · · · · · · · · ·				0 0 V/V :	

CASH BOOK

Dr.

ACCOUNTING AND BANKING

Dr. ESTATE Estimate for probate. Actual. d. 0 d. 0 £ 600 8. 0 £ 600 s. 0 **June** 30 120 õ ŏ 120 0 0 . Oct. 5 • 537 6 10 • 1.594 0 0 2 . ,, 78 13 • •• 11,210 0 0 ,, . £14,140 0 0

JOHN SMITH Estimate for probate. To Estate Account Loan (no in-June 30 terest payable). "Estate Account. 10,000 0 0 ٠ Oct. 5 10,000 Û 0 •

								8.	ALF	ORD
				Estimate	for pro	obate.	1 -			
June 30 "	To Estate Account — £4000 3% stock at par "Estate Account	•	•	4,00 0	0	0	r F F F	4,02 0	0	0

SUNDRY

Aug. 31	To cash	 •	•	•	•	•	•	•	•	•	•	•	•	600	0	0
													- 1			

FUNERAL EXPENSES

Aug. 31	To cash	•	•	•	•	•	•		•	•		•	120	0	0
													ESTATI	ED	UTY
July 31	To cash—Duty "Interest	•	•	•	•	•	•	•	•	•	•	•	536 1	0 6	0 10

6 10 1 | • ||

EXECUTORSHIP ACCOUNTS

ACCOUNT Cr. Estimate for probate. Actual. £ 120 10,000 4,000 а. 0 0 0 d. 0 £ s. 0 0 0 s. 0 0 0 By balance in bank . "John Smith and Co. "Salford Corporation June 30 ĩ20 10,000 4,020 Ō • ,, • . Õ ,, . £14,140 0 0

AND CO.

Sept. 30 Oct. 5	By Cash "James Smith, for debt taken over on account of	3,000	0	0
	residue	7,000	0	0
		10,000	0	0

COBPORATION

Aug. 10	By cash— £4000 stock at 101 . Less commission, etc.	•	•	•	•	•	£4040			-
	· · · · · · · · · · · · · · · · · · ·	•	•	•	·	•		4,02 0	0	0

CREDITORS

								Estimate i	for pro	bate.	
June 30 Avg. 31	By "	Estate "	Account	•	•	•	•	600	0	0	600 0 0

ACCOUNT

									nate fo bate.	r			
June 30 Aug. 31	By "	Estate "	Account	•	•	•	•	120	0	0	120	0	0

ACCOUNT

Oct. 5 By Estate Ac	count .	•	•	•	•	•	•	•	•	•	537	6	10

ACCOUNTING AND BANKING

• LEGACIES ACCOUNT Dr. Actual. d. 0 0 1 £ 950 a. | 0 0 | Aug. 31 To cash-William Smith • • Duty on same. Mrs. H. . . Duty on same. 50 540 • • • • • • • • ,, Õ | Ō Sept. 10 • • • • . • • ,, ٠ 54 0 0 " . 1594 0 0

EXECUTORSHIP

Sept. 30 7	lo caah	• • •		• •			•	•	78	13	2
------------	---------	-------	--	-----	--	--	---	---	----	----	---

JAMES

Oct. 5	To Transfer to John Smith and Co. for debt taken	7000 0	0
"	over by him	1407 10	0
		8407 10	0

EMMA

Oct. 5	To cash Less duty	•	•	•	•	•	•	•••	£2802 84	10 1	0 6				
	"duty on sam									•	-	2718 84	8 1	6 6	
											1	2802	10	0	_

RESIDUARY

Oct. 5 "	To James Smith, three-fourths of residue . "Emma Smith, one-fourth of residue	•	•	8,407 2,802	10 10	0	
				11,210	0	0	

(INCLUDING ANNUITY PURCHASED)

		A	tual.	
Oct. 5	By Estate Account	£ 1594	s. 0	d. 0
		1594	0	0

EXPENSES

												1		
Oct. 5	By Estate Account	•	•	•	•	•	•	•	•	•	•	78	13	2

SMITH

Oct. 5 By Residuary Account	•	•	•	•	•	:	•	•	•	8407	10	0
										8407	10	0

SMITH

Oct. 5	By Residuary Account	2802	10	0
		2802	10	0

ACCOUNT

Oct. 5	By Estate Account, being residue available for dis- tribution	1 1,2 10	0 0	
		11,210	0 0	

In cases where it is at all doubtful whether or not the estate is solvent, the executor should be careful to see that he only pays the debts due by the deceased in their proper order, which is after funeral, testamentary, and executorship expenses of realization and preservation.

1. Crown debts.

2. Debts having priority by statute, e.g. debt due to a friendly society from the officer responsible.

8. Judgments obtained against the deceased and debts due to the court.

4. Specialty debts.

5. Simple contract debts.

6. Voluntary bonds.

The assets must be marshalled to pay these debts in the following order:---

1. General balance of personal estate.

2. Real estate devised for the purpose.

3. Real estate not devised or where devise has lapsed.

4. Real estate devised subject to payment of debts.

5. General legacies.

6. Specific legacies or devises.

7. Personalty over which testator has exercised by will a general power of appointment.

8. Paraphernalia of the widow.

Another variation exists when the deceased has died without a will. In this case the law provides that the court shall appoint an "Administrator" whose position corresponds with that of the executor, and that the real estate shall pass to the heir-at-law, whilst the personal estate is divided in accordance with the statute of distributions, that is—

Where the deceased leaves :---

Widow and children	Widow takes one-third, rest to children.
Widow only	Widow takes the first £500 by the Intestates Act, 1890, and one-half
	the remainder, rest to next of kin.
Children only	All to them equally.
Husband	
Otherwise to next-of-kin or	if dead to their representatives.

An administrator is also appointed if the sole executor is dead, renounces probate, is insane, abroad, or by error none is named in the will. In this case the administrator will distribute the estate as directed by the will.

The following simple definitions will assist those unfamiliar with this class of accounts.

Administrator.—One appointed by the court to administer the estate of a deceased person dying without a will, or where the appointment of an executor has failed.

Devise.-Gift of real estate by will.

Executor.—One appointed by the will to administer the estate of the testator.

Legacy or Bequest.-Gift of personal estate by the will.

(a) General—a pecuniary legacy.

(b) Specific-a particular article; "my gold watch."

(c) Demonstrative—one directed to be paid from a particular fund.

Personal Estate.—All assets of the deceased passing in case of intestacy to the next of kin, and including book debts, stockin-trade, shares, leaseholds, cash, etc.

Probate.—Parchment copy of the will with the certificate of the court attached.

Real Estate.—Assets passing in cases of intestacy to the heir-at-law, and including land of a freehold or copyhold tenure, certain shares, *e.g.* those in the New River Company, Aire and Calder Canal, etc., and certain other assets attached to the land such as forests, animals in a state of nature, etc.

Residue.—Balance of estate after payment of debts, legacies, and expenses.

Testator.—A deceased person who has left a will as opposed to an "Intestate" who has not left a will.

Will.—The legal declaration of a person's wishes as to the disposal of his property after his death.

QUESTIONS AND EXERCISES

214. Give definitions of life tenant, remainder-man, executor, administrator. 215. State how a trustee should value the assets for the Estate Duty Account.

- 216. Enumerate the rates of estate duty on estates from £100 to £25,000.
- 217. What concessions are allowed on small estates?
- 218. Name the books you would advise an executor to keep.
- 219. Give a list of ledger accounts you consider it necessary to keep.
- 220. State the rates of legacy duty.
- 221. Distinguish between the various forms of legacies.
- 222. S. Watson died on November 18, 1903, leaving property as follows :----

														8.		
Policy of insure	ine	ce a	ınd	bo	nu	в.							339	18	0	
Cash at bank																
Cash in hand													10	0	0	
Club insurance													20	17	6	
Consols													461	15	9	
Househo	ld	fur	nit	ure) (v	alu	ıed	for	נק י	ob	ate	at	£20).			

The policy of insurance was left to his daughter Mary, and the remainder to his widow, Amelia Jane.

The executor pays :---

			d.
Undertaker's and burial fees	15	2	6
Stone over grave	7	0	0
Medical fees	6	1	0
Probate, estate duty, etc	19	13	10

The insurance *less* proportion of probate duty, etc., was paid over to the daughter, and of the remainder, consols and cash at bank were transferred to the widow's name, the brokerage on the consols being 6s. 3d.

Draw up the executor's accounts, showing the balance of cash paid over to the residuary legatee. No other expenses.

CHAPTER XXVIII

TRUST ACCOUNTS

Apportionments-Investments-Life Interests-Examples of Accounts

In this chapter it is proposed to treat of those points arising in Executorship Accounts which were not dealt with in the last chapter, and more particularly of those estates where the deceased has left a life interest to one person with remainder to another.

The first difference arising in cases like this is the absolute necessity for the careful apportionment of every penny of income accruing at death between capital and revenue. The Apportionment Act, 1870, provides "that all rents, annuities, dividends, and other periodical payments in the nature of income" shall be regarded as accruing from day to day, and that that portion which has accrued prior to death is capital and that the remainder is income. In practice these calculations should be made on the basis of the respective number of days belonging to each division; but usually in examinations the questions are arranged to allow of monthly apportionments.

The next point to remember is that the entire estate which is made the subject of a settlement or a trust of this nature must be invested as soon as possible in those investments authorized for such estates. These are, firstly, any investments authorized by the will for the particular trust; secondly, in the absence of such directions certain securities set out by law for this purpose.

The law at present in force with respect to these is set out in various Acts, notably the Trustee Acts of 1893 and 1894, and the Colonial Stock Act of 1900.

Amongst the authorized securities are-

Government securities of the United Kingdom; and

Securities the interest on which is guaranteed by Parliament. Indian Government stocks; and

Indian railway securities, the interest on which is guaranteed by the Indian Government.

Stock of the Bank of England and of the Bank of Ireland.

Preference, guaranteed, or debenture stock of British railways which have paid at least 3 per cent. on their ordinary stock for each of the last ten years.

Preference, guaranteed, or debenture stock of British water companies which have paid at least 5 per cent on their ordinary stock for the last ten years.

The stock of any municipal borough having, according to the last census, returns over 50,000 inhabitants.

Provided that in the case of any redeemable stock, such stock shall not be purchased by a trustee within 15 years of the time it is redeemable at a premium, nor shall a redeemable stock ever be purchased at a premium exceeding 15 per cent. of its redeemable price. It is also declared that a trustee is not liable for any loss by reason only of continuing to hold a stock which is not authorized as a trust investment, provided that it was so authorized when he purchased it.

The Colonial Stock Act provides that the trustee may invest in any Colonial stocks registered in the United Kingdom according to the Acts of 1877 and 1892, which further comply with any order the Treasury may see fit to make in the London Gazette for the purposes under this Act.

To return to the question of apportionments, let us take some examples of how this will work out in actual practice. Suppose that William Jones died on September 30, leaving amongst other assets debentures in the South British Railway Company £2000 valued at £110, and bearing interest at the rate of 4 per cent. per annum payable June 30 and December 31; and also 100 shares of £10 each in the International Trading Company, Ltd., quoted at £20 per share. This company makes up its accounts annually at December 31, but is in the habit of paying interim dividends, and has indeed, on August 31 preceding the death, paid an interim dividend to William Jones of £50 on his holding in the company.

Probate is duly registered with the companies in question, and on January 1 the executors received their debenture

interest on the former security for the half year of £40 (ignoring income tax), and on March 8 a final dividend for the year from the trading company of £70.

The apportionment of the interest in the first case is, of course, quite simple. The deceased lived 92 days of the half-year, and that proportion is capital, and a further 92 days (October 1 to December 31) is credited to income, so that exactly one-half of the £40 is capital and the other half is income. In the other case, however, it is not quite so simple. For the entire year a dividend of £120 was paid, and the deceased lived for 273 days of the period (say 9 months), so that three-fourths of the entire dividend must be credited to capital, say £90, of which the deceased himself received £50 paid in August as an interim dividend, and which had therefore already gone to capital by swelling the bank balance at death. Therefore, of the £70 received by the executors £40 is capital (that is three-fourths of £120 less £50) and £30 is income, being one-quarter of the total dividend for the year.

The next point to be borne in mind is the realization of assets which are not authorized investments, and though the railway company has paid rates of dividend on its ordinary stock varying from 8 per cent. to 41 per cent. for the last ten years, and is therefore a trust investment, the ordinary stock of a trading company is not authorized, and so on April 30 the executors sell the shares for a net figure of £19 10s. per share, and invest the money in a further purchase of the debenture stock of the South British Railway, of which they obtain £1500 nominal value, at 110 per cent. plus charges, keeping the balance in hand for the general purposes of the estate. On this conversion of stock arises the point settled in re Duff, deceased, Muttlebury v. Mut-This case decided that where any stock or shares were tlebury. sold in a trust estate, the purchase price was not to be apportioned between capital and income; so that although the £19 10s. undoubtedly carried with it the right to a share of the profits earned between January 1 and April 30, the entire £19 10s. must be treated as capital; but, on the other hand, the interest on the debenture stock, when it is received, will all be credited to income, although on June 30 six months' interest will be paid on a stock which has only been held for two months.

Needless to say the will must be carefully studied to see the

exact terms of the life interest. Such interest may, of course, be a fixed sum per annum, or an annuity, or it may be the right to the entire net income, either till death, or for a term of years, or until the happening of a certain event.

If the interest given is by way of annuity, the executors have the option of buying the beneficiary an annuity from an insurance company, or of paying the same out of the estate. If they adopt the former course, the entry will simply be made in the same way as a legacy, cash being credited and annuities account debited for the cost, which is subsequently transferred from the latter account to the debit of Estate Account. This is probably the best method of dealing with the matter, where the beneficiary is not old, and where no other long trusts are involved which would necessitate the estate being kept open in any case. Where other life interests are given very frequently the annuitant is paid from the general estate, in which case, though not always done, the payment should be apportioned between capital and income.

Very frequently in trust matters the testator allows the trustees to keep his capital in their present investments, and in particular authorizes them to carry on his business. In view of the personal liabilities that he might incur, the trustee cannot be compelled to do this; he should, therefore, carefully consider the position before he finally decides his course of action. He will probably elect to carry it on if it is a very profitable concern, especially if the deceased has left sons to whom he is authorized to sell it when they come of age. He must not. however, use more capital in the business than was in the concern at the time of the testator's death, unless a different amount is mentioned in the will. He is also personally liable to the creditors for any goods he may order, but he is entitled to reimburse himself out of the estate for any payments he may have made up to the amount authorized to be invested in the business.

Another important rule to be borne in mind by the trustee in his apportionment of capital and income, is that by which it is laid down that assets of a wasting or reversionary character must be realized, or treated as realized, for the purposes of the trust (*Howe* v. Lord Dartmouth). Where an asset of this description exists, the best course is to have it accurately valued in the first instance, and charge interest at 3 per cent. on the value and credit it to income, and charge the difference between that figure and the receipts itself as received on account of capital.

In writing up trust accounts, it is necessary to remember that only cash received must be treated as income, the amount accruing due at the date of making up the accounts must never be credited to income account, as would be done in an ordinary commercial business. For the first year, therefore, a beneficiary would never receive the full income, since it must be apportioned as accrued at the time of death, whilst the income which is accruing at the year end is not taken into account. After the first year, of course, it has worked itself straight because, since there was no apportionment in the opening balances, a full year's receipts appear without any diminution.

To illustrate the principles involved, we will take the estate of William Jones, previously mentioned, and set out in full the dealings of his estate for the year.

His will provided that the furniture was to be left to his sister, Mrs. S. Robinson, free of legacy duty, and subject to this and legacies of $\pounds 100$ each to his executors A. B. and C. D., who were strangers in blood, the whole of the estate was to be held in trust for his sister for life, and after her death to her son William Jones Robinson absolutely.

The estate consisted of the following assets and liabilities, as set out by the Estate Duty Account :---

	£
Furniture	500
£2000 4 per cent. debenture stock of the South British	
Railway Company at 110 per cent	2200
Prudential Insurance Co. life policy	1000
100 shares of £10 each in the International Trading Co. at	
£20 per share	2000
H. Smith-Loan on mortgage at 4 per cent	3000
Interest accrued on same	30
	£8730
Liabilities £200	
Funeral expenses 80	
·	280
	£8450
Estate duty at 3 per cent. £253 10s.	~0100
One month's interest on same $12s$, $8d$.	
one mouth s inverest on same 128. ou.	

The following show the executors' transactions on behalf of the estate :---

1906.	£	s .
Oct. 31. Pay the duty and interest and obtain probate.		
Nov. 5. Receive claim under the insurance policy.		
, 30. Pay legacy duty on the furniture at 3 per cent.		
Dec. 31. " the executors' legacies and duty on same.		
" liabilities which amount to	224	0
", funeral expenses, £80, and testamentary expenses	50	0
1907.		
Jan. 1. Receive interest warrant from the South British Railway Co.		
for half-year to December 31 less tax	38	0
, 10. Receive interest from H. Smith to December 31 less tax	57	0
Mch. 3. Receive final dividend for year ending December 31 from		
the International Trading Co. free of tax	70	0
(The Company paid an interim dividend of £50 on August		
31 last.)		
Apr. 30. Receive proceeds of sale of shares in International Trading		
Co., sold at £19 10s. per share net	1950	0
May 5. Pay for £1500 debenture stock in the South British Railway		
Co., bought at 110 per cent. plus charges, £11 7s. 6d.		
10 Der Man Dabinson en sessant of income	75	0
07 Day for 6400 Destances stack in the White Son Clas Works		
Co. at 125 per cent. Charges £3 7s. 6d.		
July 1. Receive interest from the South British Debenture Stock.		
, 10. , , , H. Smith.		
	100	0
" Pay charges for managing the estate	5	5
Prenere statement of accounts at data		
" Trepare statement of accounts at date.		

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ESTATE OF THE LATE WILLIAM JONES

EXECUTORS' ACCOUNTS FOR THE YEAR ENDING SEPTEM-BER 30, 1907

Cash Account. Estate Account	-	•••	•	•	•	•	•	•	•	•	•	•	page 434–5 436–7
Income Account													
Furniture Accou	nt -	• •			•								,,
Prudential Insura				•		•		•	•	•	•	•	"
Sundry creditors										•	•	•	"
Funeral expenses	ι.	•	٠	•	•	•	•	•	•	•	•	•	"
H. Smith. Loan													438-9
International Tra													"
Estate Duty Acco													"
Legacies Account	• •	•	•	•	•	•	•	•	•	٠	·	•	"
Testamentary exp							•	•	•	•	•	•	440-1
Mrs. Robinson							•	•	•	•	•	•	"
White Sea Gas W									•				"
South British Rai							٠	·	•	•	•	•	**
Balance Sheet, Se	pte	mbe	r 3	υ, Ι	190	1	•	•	•	•	•	•	"

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ACCOUNTING AND BANKING

CASH

		In	come	•	C	pital.	
1906 Nov. 5 1907 Jan. 1	To Prudential Insurance Company . " South British Railway Company— Half-year's interest at 4°/ _o on £2000	2	8.	d.	1000	. 0	d. 0
	to Dec. 31						
" 10	Capital (asy 3 months) Income (asy 3 months) , H. Smith, interest on mortgage of £3000 at 4% for half-year ending Dec. 31 £60 Less tax at 1s 	19	0	0	19	0	0
	Capital (3 months)	28	10	0	28	10	0
March 3	" International Trading Co., Ltd.— Final dividend for year ending Dec. 31 £70 Interim paid Aug. 31 50						
	Total for year 120						!
	Proportion capital (9 months) £90 Less received by testator. 50 —				40	0	0
	Income (3 months)	30	0	0			
April 30	"International Trading Co., Ltd.— Sale of 100 shares at £19 10s. each net ,				1950	0	0
July 1	" South British Railway Company— Interest at 4% on £3500 for half- year ending June 30 . £70 0 Less income tax 3 10	66	10	0			
"10	"H. Smith, mortgage interest on £8000 at 4°/o for six months end- ing June 30 £60 Less income tax 3						
	—	57	0	0	0007		
		£201	0	0	3037	10	0
Sept. 30	" balance	20	2	4	50	5	0

Dr.

TRUST ACCOUNTS

ACCOUNT

		Ind	come.		Ca	pital.	
1906 Oct. 31 Nov. 30	By Estate Duty on 8450 at 3°/ _o	£	8. 12	d. 8	£ 253 15	s. 10 0	
Dec. 31	,, Legacies Account— A. B £100 C. D 100 Less legacy duty . 20				180	0	
" " "	" Legacies Account Duty on same . " sundry creditors " funeral expenses " testamentary expenses				$20 \\ 224 \\ 80 \\ 50$	0 0 0 0	
1907 May 5	" South British Railway Company— Purchase of £1500 stock (4°/o de- benture) at 110°/o £1650 0 0 Charges on same 11 7 6				1661	7	
,, 16 97	" Mrs. Robinson on account of income	75	0	0			
" 27	", White Sea Gas Works Company— £400 preference stock (5%) at 125 £500 0 0 Charges on same . 3 7 6 (Dividend payable : April				503	7	
Sept. 30	and October) " Mrs. Robinson on account of income	100	0	0			
"	" Z. and Co., charge for managing the estate	5 20	5 2	0 4	50	5	
		£201	0	0	3037	10	

ACCOUNTING AND BANKING

ESTATE

1906 Sept. 80 1907	To liabilities	£ 200 80	s. 0 0	e 0 0
Sept. 30	"H. Smith, income tax deducted from mortgage interest "International Trading Co., Ltd.—	1	10	0
• ••	Loss on realization	10	0	0
	"additional creditors	24	0	Ō
**	"Estate Duty	253	10	0
**	"Legacies Account—			
**	Furniture £500, and duty £15	515	0	0
	A. B., and C. D.	180	0	0
	Daty	20	0	0
.,	" testamentary expenses	50	0	0
· ,,	balance	7396	0	0
		8730	0	0
				1
			1	

INCOME

1907 Sept. 30 "	To interest on Estate Duty	•	•	•	•	£ 5 195	s. 12 5 2	d. 8 0 4
	 					£201	0	0

FURNITURE

1906 Sept. 30	To Estate Account .	•	•	•	•	•	•			•		500	0	0	
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PRUDENTIAL INSUR

1906 Sept. 30	To Estate Account .	•	•	•	•	•	•	•	•	•	•	1000	0	0
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SUNDRY

FUNEBAL

1906 Dec. 31	To cash	• •	•	•	•	•	•	•	•	•	•	•	•	8	80	0	0	
	1																	

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Dr.

TRUST ACCOUNTS

ACCOUNT

1906 Sept. 30 " " "	By furniture , South British Railway Co., debenture stock £2000 , Prudential Insurance Company , International Trading Co., Ltd., 100 ordinary shares , H. Smith, loan on mortgage at 4%.	£ 500 2200 1000 2000 3000 30	s. 0 0 0 0 0	<i>а</i> . 0 0 0 0
••	" balance	8730 7396	0	04

ACCOUNT

1907 Sept. 30 "	By income to date— "H. Smith	£ 85 30 85	s. 10 0 10	а. 0 0 0
	-	£201	0	0

ACCOUNT

|--|

ANCE COMPANY

1906 Nov. 5	By cash .	•	•	•	•	•	•	•	•	•	•	•	•	•	1000	0	0	
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CREDITORS

1906 Sept. 30 1907	By	Estate	Account	•	•	•	•	•	•	•	•		•	•	20 0	0	0
Sept. 30	"	"	,,	8X	C838	of	cre	dit	ors	ove	r 08	tim	ate	•	24	0	0

EXPENSES

1906 Sept. 80	By Estate Account	0

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ACCOUNTING AND BANKING

H. SMITH. LOAN ON

		Income.	Capital.
1906 Sept. 30 ,, 1907	To Estate Account. Mortgage of £3000 at 4% payable June and December , Estate Account interest accrued to date	£ s. d.	£ s. d. 3000 0 0 30 0 0
1907 Sept. 30	"Income Account	85 10 0	
		85 10 0	3030 0 0
	"balance		3000 0 0

INTERNATIONAL

		Inc	×me.		Car	oit al .	
1906 Sept. 30 1907	To Estate Account for 100 ordinary shares of £10 each at £20	£	8.	đ.	£ 2000	s. 0	d. 0
Sep t. 3 0	"Income Account	30	0	0			
			0	0	2000	0	0

ESTATE DUTY

1906 Oct. 31	To cash, for duty at 3 per cent		I	253	10	0
99	" interest on same	• •	12 8			•

LEGACIES

1906 Nov. 30 Dec. 31 "	To furniture (specific legacy). ,, cash, duty on same ,, cash, A. B. £100, less duty ,, C. D. £100, less duty. ,, ,, duty on above	•	•	•	•	•	•	·	500 15 90 90 20	0 0 0 0 0	0 0 0 0	
								Ì	715	0	0	

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TRUST ACCOUNTS

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Cr.

MOBTGAGE OF "WOODLEA"

		In	come.		Car	pi tal.	
1907 Jan. 10	By cash, interest on same for half-year ending Dec. 31 £60 Less tax	£	8.	đ.	£	8.	d
" 7. 1" 10		28	10	0	28	10	0
Julÿ 10 "	", cash, half-year's interest to June 30, less tax	57	0	0	1 3000	10 0	0 0
		85	10	0	3030	0	0

TRADING CO., LTD.

		Inc	ome.		Cap	ital.	
1907 March 3	By cash, final dividend for year end- ing Dec. 31, 1906 £70 Interim paid August 31 50 Total 120	£	s.	d.	£	8.	d.
" April 80 "	Capital, 9 months	30	0	0	40 1950 10	0 0 0	0 0 0
		80	0	0	2000	0	0

ACCOUNT

1907 Sept. 30 "	By Estate Account "Income Account						•		12	8	253	10	0	_
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ACCOUNT

1907 Sept. 30	By Estate Account .	 •	•	•	•	•	•	•	•	715	0	0
										715	0	0

ACCOUNTING AND BANKING

1907 May 16 Sept. 30	To cash .	•					•	•	75 100 20	0 0 2	0 0 4
									195	2	4

WHITE SEA GAS

1907 May 27	To cash, purchase stock at £125		•	• `			•	•	£500	0	0	4			
	Charges on same .	•	• •	•	•	•	•	•				503	7	6	

SOUTH BRITISH

		Inc	come.		Capital.					
1906 Sept. 30	To Estate Account for £2000 debenture	£	s.	d.	£	8.	đ.			
•	stock 4%, payable June and De- cember, at £110				2200	0	0			
1907 May 5	", cash, purchase of £1500 4% deben- ture stock at 110% . £1650 0 0 Charges on same 11 7 6				1661	7	6			
"	"Income Account, transfer of income to date	85	10	0	{ 					
		85	10	0	3861	7	6			
37	" balance, £3500 stock at 110 and oharges				3842	7	6			

BALANCE SHEET,

Liabilities. To Estate Account. "Mrs. Robinson. Balance of income not drawn	•	•	•	7396 20	0 2	0 4
				£7416	2	4

TRUST ACCOUNTS

EXPENSES Cr. 1907 Sept. 30 £ 50 d. 0 s. 0 By Estate Account . ROBINSON 1907 Sept. 30 By Income Account, being net income to datc . 195 2 4 195 2 4 " balance 20 2 ,, 4

WORKS COMPANY



RAILWAY COMPANY

		In	come.		Cap	oital.	
1907 Jan. 1	By cash, half-year's interest to De- cember 31 $\dots \dots	£	8.	d.	£	8.	d.
July 1	,, capital (92 days)	19	0	0	19	0	0
Sept. 30	Less tax \dots 3100 , balance \dots \dots	66	10	0	3842	7	6
		85	10	0	3861	7	6

SEPTEMBER 30, 1907

						A 8 8 6	sta.												
	South Brit and char White Sea	ges . Gas	Wor	ka (lom	nen	.	÷.	, Ministrational Ministrational	5%				•			3 842	7	6
	123 and	charg	es .											•	•		503	7	6
"	п. ошиц.	1.08	n on	шо	rtge	ige.											3000	0	0
" I	bank	• •	•	•	•	·	•	•	·	·	•	•	•	•	•	•	70	7	4
																	£7416	2	4

QUESTIONS AND EXERCISES

223. What is meant by apportionment, and how is it calculated?

224. Mention a few authorized securities?

225. What is the duty of the trustee in regard to assets of a wasting or reversionary character?

226. Give an example of an Estate Account.

227. Explain, by giving details of each, how the duties of an executor differ from those of a trustee under a will.

228. Prepare from the following particulars, supplying the figures yourself, an Estate Account to be presented to the executors and trustees of the late X. Y. Z.:--

Debts due at death by testator. Debts due at death to testator. Testamentary expenses-costs. duty. " Mortgages on properties. Cash in house. ,, at bank. Leasehold properties. Freehold " Rents due to testator. Investments. Household goods, furniture, etc. Cost of sale of licensed premises. Proceeds of sale of

229. Construct from the following figures a set of executorial accounts, at December 31, 1904, the testator having died on June 30 previous :---

Madras railway worth															5800
Household furn	itu	re	(be	qu	eat	hec	l to	W	ido	W)	•		•		400
Cash in bank										•					780
Cash in house															10
Testator's inter	est	in	pa	rtr	iers	hip) bi	1811	ies	5					9000
(This was paid	ou	t w	rīth	4	pei	t ce	ent.	in	ter	est	on	Αt	ıgu	st	
31, and inve	ste	d iı	n 3	ре	r c	ənt	. C	ons	ols	at	92).	-		

£1000 Great Central Railway 5 per cent. guaranteed stock at 136 (interest received to March 31).

£500 J. & P. Coats £1 ordinary at £5. (Twenty-five per cent. dividend for he year ended June 30 is received on September 30.)

Assume all interest has been received to end of year, and provide annuities of $\pounds 300$ for widow, and $\pounds 100$ for testator's daughter, Mary, the balance of income being divisible between two sons, John and James. $\pounds 120$ has been paid for testamentary expenses.

APPENDIX

TABLE A OF THE COMPANIES ACTS

As revised 1906

PRELIMINARY

1. In these regulations, unless the context otherwise requires, expressions defined in the Companies Acts, 1862 to 1900, or any statutory modification thereof in force at the date at which these regulations become binding on the company, shall have the meanings so defined; and words importing the singular number only shall include the plural number, and *vice versâ*; and words importing the masculine gender shall include the feminine; and words importing persons shall include corporations.

BUSINESS

2. The directors shall have regard to the restrictions on the commencement of business imposed by sect. 6 of the Companies Act, 1900, if and so far as such restrictions shall be binding upon the company.

SHARES

3. Subject to the provisions (if any) in that behalf of the memorandum of association of the company, and without prejudice to any special rights previously conferred on the holders of existing shares in the company, any share in the company may be issued with such preferred, deferred, or other special rights, or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise, as the company may, from time to time, by special resolution determine.

4. If at any time the capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, with the consent, in writing, of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution, passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these regulations relating to general meetings shall, *mutatis mutandis*, apply, but so that the necessary quorum shall be two persons at least, holding, or representing by proxy, one-third of the issued shares of the class.

5. No share shall be offered to the public for subscription, except upon the terms that the amount payable on application shall be at least five per cent. of the nominal amount of the share; and the directors shall, as regards any allotment of shares, duly comply with such of the provisions of the Companies Act, 1900, sects. 4 and 7, as may be applicable thereto.

6. Every person whose name is entered as a member in the register of members shall, without payment, be entitled to a certificate under the common seal of the company, specifying the share or shares held by him and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons, the company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all.

7. If a share certificate is defaced, lost, or destroyed, it may be renewed on payment of such fee (if any), not exceeding one shilling, and on such terms (if any) as to evidence and indemnity as the directors think fit.

8. No part of the funds of the company shall be employed in the purchase of, or in loans upon, the security of the company's shares.

LIEN

9. The company shall have a lien on every share (not being a fullypaid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of such share, and the company shall also have a lien on all shares (other than fully-paid shares) standing registered in the name of a single person, for all monies presently payable by him or his estate to the company; but the directors may at any time declare any share to be wholly, or in part, exempt from the provisions of this clause. The company's lien (if any) on a share shall extend to all dividends payable thereon.

10. The company may sell, in such manner as the directors think fit, any shares on which the company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, nor until the expiration of fourteen days after a notice in

APPENDIX

writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder, for the time being, of the share, or the person entitled, by reason of his death or bankruptcy, to the share.

11. The proceeds of the sale shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale. The purchaser shall be registered as the holder of the shares, and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

CALLS ON SHARES

12. The directors may from time to time make calls upon the members in respect of any monies unpaid on their shares, provided that no call shall exceed one-fourth of the nominal amount of the share, or be payable at less than one month from the last call; and each member shall (subject to receiving at least fourteen days' notice, specifying the time or times of payment) pay to the company, at the time or times so specified, the amount called on his shares.

13. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

14. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of £5 per cent. per annum from the day appointed for the payment thereof to the time of the actual payment; but the directors shall be at liberty to waive payment of such interest wholly or in part.

15. The provisions of these regulations as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of a share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.

16. The directors may make arrangements on the issue of shares for a difference between the holders in the amount of calls to be paid and in the times of payment.

17. The directors may, if they think fit, receive from any member willing to advance the same all or any part of the monies uncalled and unpaid upon any shares held by him; and upon all or any of the monies so advanced may (until the same would, but for such advance, ACCOUNTING AND BANKING

become presently payable) pay interest at such rate (not exceeding, without the sanction of the company in general meeting, 6 per cent.) as may be agreed upon between the member paying the sum in advance and the directors.

TRANSFER AND TRANSMISSION OF SHARES

18. The instrument of transfer of any share in the company shall be executed both by the transferor and transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

19. Shares in the company shall be transferred in the following form, or in any usual or common form which the directors shall approve :---

I, A. B., of

, in consideration of the sum of pounds paid to me by C. D., of

(hereinafter called "the said transferee"), do hereby transfer to the said transferee the share [or shares] numbered

in the undertaking called The Company, Limited, to hold unto the said transferee, his executors, administrators and assigns, subject to the several conditions on which I held the same at the time of the execution hereof; and I, the said transferee, do hereby agree to take the said share [or shares] subject to the conditions aforesaid.

As witness our hands the day of Witness to the signatures of, etc.

20. The directors may decline to register any transfer of shares (not being fully-paid shares) to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the 14 days immediately preceding the ordinary general meeting in each year. The directors may decline to recognize any instrument of transfer, unless (a) a fee not exceeding 2s. 6d. is paid to the company in respect thereof, and (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transfer to make the transfer.

21. The executors or administrators of a deceased sole holder of a share shall be the only persons recognized by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the executors or

administrators of the deceased survivor, shall be the only persons recognized by the company as having any title to the share.

22. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right either to be registered as a member in respect of the share, or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

23. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

FORFEITURE OF SHARES

24. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such call or instalment remain unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

25. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

26. If the requisitions of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

27. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

28. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding,

remain liable to pay to the company all monies which, at the date of forfeiture, were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company shall have received payment in full of the nominal amount of the shares.

29. A statutory declaration in writing that the declarant is a director of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration, and the receipt of the company for the consideration (if any) given for the share on the sale or disposition thereof, shall constitute a good title to such share, and the person to whom the share is sold or disposed of shall be registered as the holder of the share, and shall not be bound to see to the application of the purchase money (if any), nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

30. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

CONVERSION OF SHARES INTO STOCK

31. The directors may, with the sanction of the company previously given in general meeting, convert any paid-up shares into stock, and may, with the like sanction, re-convert any stock into paid-up shares of any denomination.

32. The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations as and subject to which the shares from which the stock arose might, previously to conversion, have been transferred, or as near thereto as circumstances admit; but the directors may from time to time fix the minimum amount of stock transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal amount of the shares from which the stock arose.

33. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the company and other matters, as if they held the shares from which the stock arose, but no such privilege or advantage (except participation in the dividends and profits of the company) shall be conferred by any such aliquot part of stock

APPENDIX

as would not, if existing in shares, have conferred such privilege or advantage.

34. Such of the regulations of the company (other than those relating to share warrants) as are applicable to paid-up shares shall apply to stock; and the words "share" and "shareholder" therein shall include "stock" and "stockholder."

SHARE WARBANTS

35. The company may issue share warrants, and accordingly the directors may, in their discretion, with respect to any share which is fully paid-up, on application in writing, signed by the person registered as holder of the share, and authenticated by such evidence (if any) as the directors may from time to time require as to the identity of the person signing the request, and on receiving the certificate (if any) of the share and the amount of the stamp duty on the warrant, and such fee as the directors may from time to time require, issue, under the company's seal, a warrant, duly stamped, stating that the bearer of the warrant is entitled to the shares therein specified, and may provide, by coupons or otherwise, for the payment of dividends or other monies on the shares included in the warrant.

36. A share warrant shall entitle the bearer to the shares included in it, and the shares shall be transferred by the delivery of the share warrant, and the provisions of the regulations of the company, with respect to transfer and transmission of shares, shall not apply thereto.

37. The bearer of a share warrant shall, on surrender of the warrant to the company for cancellation, and on payment of such sum as the directors may from time to time prescribe, be entitled to have his name entered as a member in the register of members in respect of the shares included in the warrant.

38. The bearer of a share warrant may at any time deposit the warrant at the office of the company, and so long as the warrant remains so deposited, the depositor shall have the same right of signing a requisition for calling a meeting of the company and of attending and voting and exercising the other privileges of a member at any meeting held after the expiration of two clear days from the time of deposit, as if his name were inserted in the register of members as the holder of the shares included in the deposited warrant. Not more than one person shall be recognized as depositor of the share warrant. The company shall on two days' written notice return the deposited share warrant to the depositor.

39. Subject as herein otherwise expressly provided, no person shall, as bearer of a share warrant, sign a requisition for calling a meeting of

the company, or attend, or vote, or exercise any other privilege of a member at a meeting of the company, or be entitled to receive any notices from the company; but the bearer of a share warrant shall be entitled, in all other respects, to the same privileges and advantages, as if he were named in the register of members as the holder of the shares included in the warrant, and he shall be a member of the company.

40. The directors may, from time to time, make rules as to the terms on which, if they shall think fit, a new share warrant or coupon may be issued, by way of renewal in case of defacement, loss, or destruction.

ALTERATION OF CAPITAL

41. The directors may, with the sanction of an extraordinary resolution of the company, increase the capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe.

42. Subject to any direction to the contrary that may be given by the resolution sanctioning the increase of capital, all new shares shall, before issue, be offered to such persons as, at the date of the offer, are entitled to receive notices from the company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. Such offer shall be made by notice, specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of such time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the directors may dispose of the same in such manner as they think most beneficial to the company. The directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the directors, be conveniently offered under this clause.

43. The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise, as the shares in the original capital.

- 44. The company may, by special resolution-
- (a) Consolidate and divide its capital into shares of larger amount than its existing shares.
- (b) By subdivision of its existing shares, or any of them, divide the whole or any part of its capital into shares of smaller amount than is fixed by the memorandum of association, subject, nevertheless, to the proviso contained in the Companies Act, 1867, sect. 21.
- (c) Cancel any shares which, at the date of the passing of the

resolution, have not been taken or agreed to be taken by any person.

(d) Reduce its capital in any manner, and with and subject to any incident authorized and consent required by law.

GENERAL MEETINGS

45. The statutory general meeting of the company shall be held within the period required by the Companies Act, 1900, sect. 12.

46. A general meeting shall be held once in every year at such time and place as may be prescribed by the company in general meeting, or, in default, at such time in the month following that in which the anniversary of the company's incorporation occurs, and at such place as the directors shall appoint. In default of a general meeting being so held, a general meeting shall be held in the month next following, and may be convened by any two members in the same manner as nearly as possible as that in which meetings are to be convened by the directors.

47. The above-mentioned general meetings shall be called ordinary meetings. All other general meetings shall be called extraordinary.

48. The directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists as provided by the Companies Act, 1900, sect. 13. If at any time there shall not be within the United Kingdom sufficient directors capable of acting to form a quorum, any director or any two members of the company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the directors.

PROCEEDINGS AT GENERAL MEETINGS

49. Seven days' notice at the least (exclusive of the day on which the notice is served or deemed to be served, but inclusive of the day for which notice is given), specifying the place, the day and the hour of meeting, and in case of special business the general nature of such business, shall be given in manner hereinafter mentioned, or in such other manner (if any) as may be prescribed by the company in general meeting, to such persons as are, under the regulations of the company, entitled to receive such notices from the company; but the non-receipt of such notice by any member shall not invalidate the proceedings at any general meeting.

50. All business shall be deemed special that is transacted at an

extraordinary meeting, and all that is transacted at an ordinary meeting, with the exception of sanctioning a dividend, the consideration of the accounts, balance sheets, and the ordinary report of the directors and auditors, the election of directors and other officers in the place of those retiring by rotation, and the fixing of the remuneration of the auditors.

51. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. Save as herein otherwise provided, three members per sonally present shall be a quorum.

52. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

53. The chairman (if any) of the board of directors shall preside as chairman at every general meeting of the company.

54. If there is no such chairman, or if at any meeting he is not present within 15 minutes after the time appointed for holding the meeting, or is unwilling to act as chairman, the members present shall choose some one of their number to be chairman.

55. The chairman may, with the consent of any meeting at which a quorum is present (and shall, if so directed by the meeting), adjourn the meeting from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

56. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded in case the resolution be proposed as a special or extraordinary resolution by at least five members, or in any other case by at least two members; and, unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of proceedings of the company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution.

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57. If a poll is duly demanded, it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

58. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

59. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

VOTES OF MEMBERS

60. On a show of hands every member present in person shall have one vote. On a poll every member shall have one vote for each share of which he is the holder.

61. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

62. A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, *curator bonis*, or other person in the nature of a committee or *curator bonis*, appointed by such Court, and such committee, *curator bonis*, or other person may, on a poll, vote by proxy.

63. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid.

64. On a poll, votes may be given either personally or by proxy.

65. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or, if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney so authorized. No person shall act as a proxy unless either he is entitled on his own behalf to be present and vote at the meeting at which he acts as proxy, or he is appointed to act at that meeting as proxy for a corporation.

66. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the registered office of the company not less than forty-eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

67. An instrument appointing a proxy may be in the following form, or in any other form which the directors shall approve :---

The Company, Limited. I. , of , in the county of , being a member of The Company, Limited, hereby appoint , of as my proxy to vote for me and on my behalf at the ordinary [or extraordinary as the case may be] general meeting of the company to be held on the day of . and at any adjournment thereof. Signed this day of

DIRECTORS

68. The number of the directors and the names of the first directors shall be determined in writing by a majority of the subscribers of the memorandum of association.

69. The remuneration of the directors shall from time to time be determined by the company in general meeting.

70. The qualification of a director shall be the holding of at least one share in the company, and it shall be his duty to comply with the provisions of The Companies Act, 1900, sect. 3.

POWERS AND DUTIES OF DIRECTORS

71. The business of the company shall be managed by the directors, who may pay all expenses incurred in getting up and registering the company, and may exercise all such powers of the company as are not by The Companies Acts, 1862 to 1900, or any statutory modification thereof for the time being in force, or by these articles, required to be exercised by the company in general meeting, subject, nevertheless, to any regulations of these articles, to the provisions of the said Acts, and to such regulations, being not inconsistent with the aforesaid regulations or provisions, as may be prescribed by the company in general meeting ; but no regulations made by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such regulation had not been made.

72. The directors may, from time to time, appoint one or more of their body to the office of managing director or manager, for such term

and at such remuneration (whether by way of salary or commission, or participation in profits, or partly in one way and partly in another) as they may think fit, and a director so appointed shall not, while holding such office, be subject to retirement by rotation, or taken into account in determining the rotation of retirement of directors; but his appointment shall be subject to determination, *ipso facto*, if he shall cease, from any cause, to be a director, or if the company in general meeting shall resolve that his tenure of the office of managing director or manager be determined.

73. The amount, for the time being, remaining undischarged of monies borrowed or raised by the directors for the purposes of the company (otherwise than by the issue of share capital), shall not at any time exceed the issued capital of the company without the sanction of the company in general meeting.

74. The directors shall duly comply with the provisions of the Companies Act, 1862 to 1900, or any statutory modification thereof, for the time being, in force, and in particular the provisions in regard to the registration of mortgages and charges affecting the property of, or created by the company, and to keeping a register of the directors, and in regard to sending to the Registrar of Joint Stock Companies an annual list of members, and a summary of particulars relating thereto, and notice of any consideration or increase of capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of directors and notifications of any changes therein.

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 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.

THE SEAL

76. The seal of the company shall not be affixed to any instrument except by the authority of a resolution of the board of directors, and in the presence of at least two directors and of the secretary, or such other person as the directors may appoint for the purpose; and those two directors and secretary, or other person as aforesaid, shall sign every instrument to which the seal of the company is so affixed in their presence.

DISQUALIFICATIONS OF DIRECTORS

- 77. The office of director shall be vacated-
- If he ceases to be a director by virtue of the Companies Act, 1900, sect. 3.
- If he holds any other office of profit under the company except that of managing director or manager.
- If he becomes bankrupt.
- If he is found lunatic or becomes of unsound mind.
- If he is concerned or participates in the profits of any contract with the company.

But the above rules shall be subject to the following exceptions :----That no director shall vacate his office by reason of his being a member of any company which has entered into contracts with, or done any work for, the company of which he is director : nevertheless, he shall not vote in respect of such contract or work, and if he does so vote his vote shall not be counted.

ROTATION OF DIRECTORS

78. At the first ordinary meeting of the company the whole of the directors shall retire from office, and at the ordinary meeting in every subsequent year one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office.

79. The directors to retire in every year shall be those who have been longest in office since their last election; but as between persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

80. A retiring director shall be eligible for re-election.

81. The company at the general meeting at which a director retires in manner aforesaid may fill up the vacated offices by electing a person thereto.

82. If at any meeting at which an election of directors ought to take place the places of the vacating directors are not filled up, the meeting shall stand adjourned till the same day in the next week, at the same time and place; and if at such adjourned meeting the places of the vacating directors are not filled up, the vacating directors, or such of them as have not had their places filled up, shall be deemed to have been re-elected at such adjourned meeting.

83. The company may from time to time in general meeting increase or reduce the number of directors, and may also determine in what rotation such increased or reduced number is to go out of office.

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84. Any casual vacancy occurring in the board of directors may be filled up by the directors, but the person so chosen shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

85. The directors shall have power at any time and from time to time to appoint a person as an additional director, who shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the company at that meeting as an additional director.

86. The company may by extraordinary resolution remove any director before the expiration of his period of office, and may by an ordinary resolution appoint another person in his stead; the person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

PROCEEDINGS OF DIRECTORS

87. The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time summon a meeting of the directors.

88. The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed shall (when the number of directors exceeds three) be three.

89. The continuing directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to the regulations of the company as the necessary quorum of directors, the continuing directors may act for the purpose of increasing the number of directors to that number or of summoning a general meeting of the company, but for no other purpose.

90. The directors may elect a chairman of their meetings, and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the directors present may choose one of their number to be chairman of the meeting.

91. The directors may delegate any of their powers to committees, consisting of such member or members of their body as they think fit. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on them by the directors.

92. A committee may elect a chairman of their meetings; if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting.

93. A committee may meet and adjourn as they think proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the chairman shall have a second or casting vote.

94. All acts done by any meeting of the directors or of a committee of directors, or by any person acting as a director, shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such directors or persons acting as aforesaid, or that they, or any of them, were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a director.

DIVIDENDS AND RESERVE

95. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

96. The directors may, from time to time, pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

97. No dividend shall be paid otherwise than out of profits.

98. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid on the shares; but if and so long as nothing is paid up on any of the shares in the company, dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this clause as paid on the share.

99. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves, which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company may be properly applied, and, pending such application, may, at the like discretion, either be employed in the business of the company, or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

100. If several persons are registered as joint holders of any share, any one of them may give effectual receipts for any dividend payable on the share.

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101. Notice of any dividend that may have been declared shall be given, in manner hereinafter mentioned, to the persons entitled to share therein.

102. No dividend shall bear interest against the company.

ACCOUNTS

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 such receipt and expenditure takes place; and
- Of the assets and liabilities of the company.

104. The books of account shall be kept at the registered office of the company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

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 the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account, or book, or document of the company, except as conferred by statute, or authorized by the directors, or by the company in general meeting.

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.

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.

108. A copy of such balance sheet and report shall seven days previously to the meeting be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder.

Audit

109. Auditors shall be appointed and their duties regulated in accordance with the Companies Act, 1900, sects. 21, 22, and 23, or any statutory modification thereof for the time being in force.

NOTICES

110. A notice may be given by the company to any member either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address, or (if he has no registered address in the United Kingdom) at the address, if any, within the United Kingdom supplied by him to the company for the giving of notices to him.

111. If a member has no registered address in the United Kingdom, and has not supplied to the company an address within the United Kingdom for the giving of notices to him, a notice addressed to him, and advertised in a newspaper circulating in the neighbourhood of the registered office of the company, shall be deemed to be duly given to him on the day on which the advertisement appears.

112. A notice may be given by the company to the joint holders of a share by giving the notice to the joint holder named first in the register in respect of the share.

113. A notice may be given by the company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, in the United Kingdom supplied for the purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

114. Notice of every general meeting shall be given in some manner hereinbefore authorized to (a) every member of the company (including bearers of share warrants), except those members who (having no registered address within the United Kingdom) have not supplied to the company an address within the United Kingdom for the giving of notices to them; and also to (b) every person entitled to a share in consequence of the death or bankruptcy of a member, who, but for his death or bankruptcy, would be entitled to receive notice of the meeting. No other persons shall be entitled to receive notices of general meetings.

115. Any notice, if given by post, shall be deemed to have been served at the time when the letter containing the same is put into the post-office; and in proving the giving of the notice it shall be sufficient to prove that the letter containing the notice was properly addressed and put into the post-office.

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