

1888

Question book of book-keeping containing all the questions and problems in the subject given at th first fifteen New York examinantions for state certificates with full answers, solutions, and entries

C. W. Bardeen

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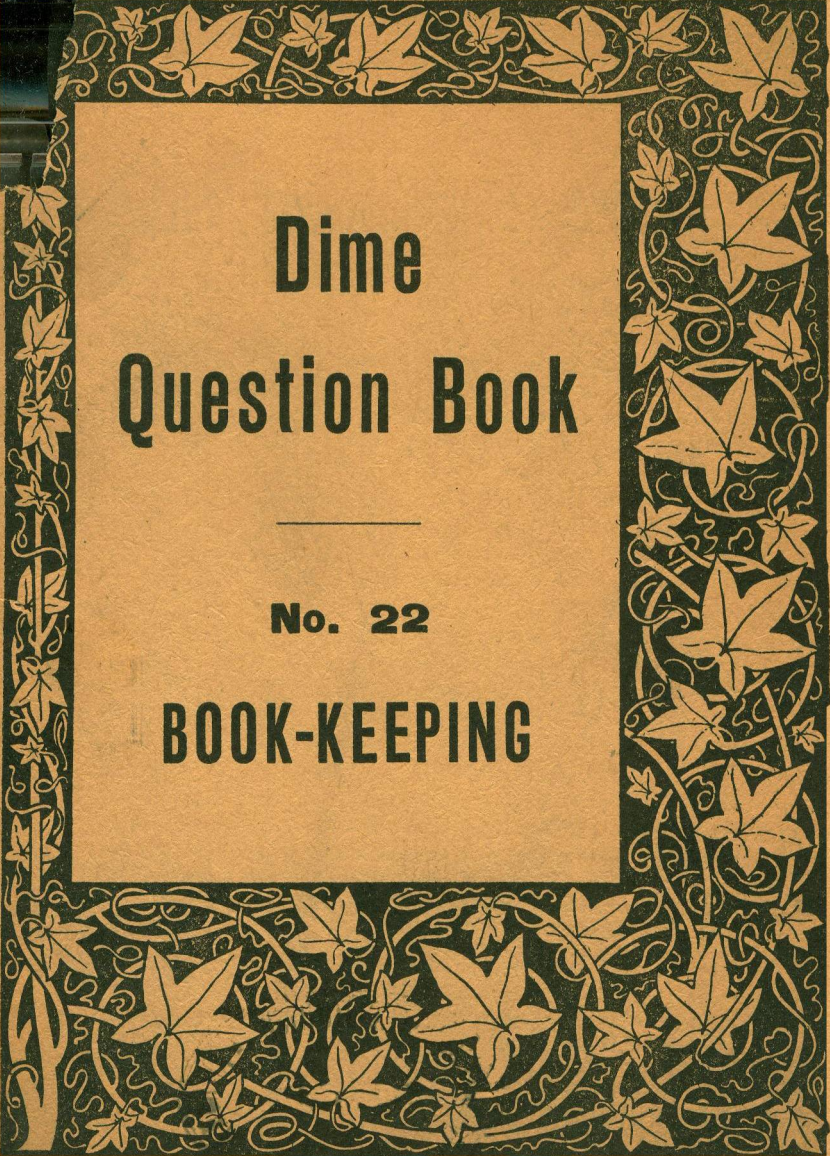
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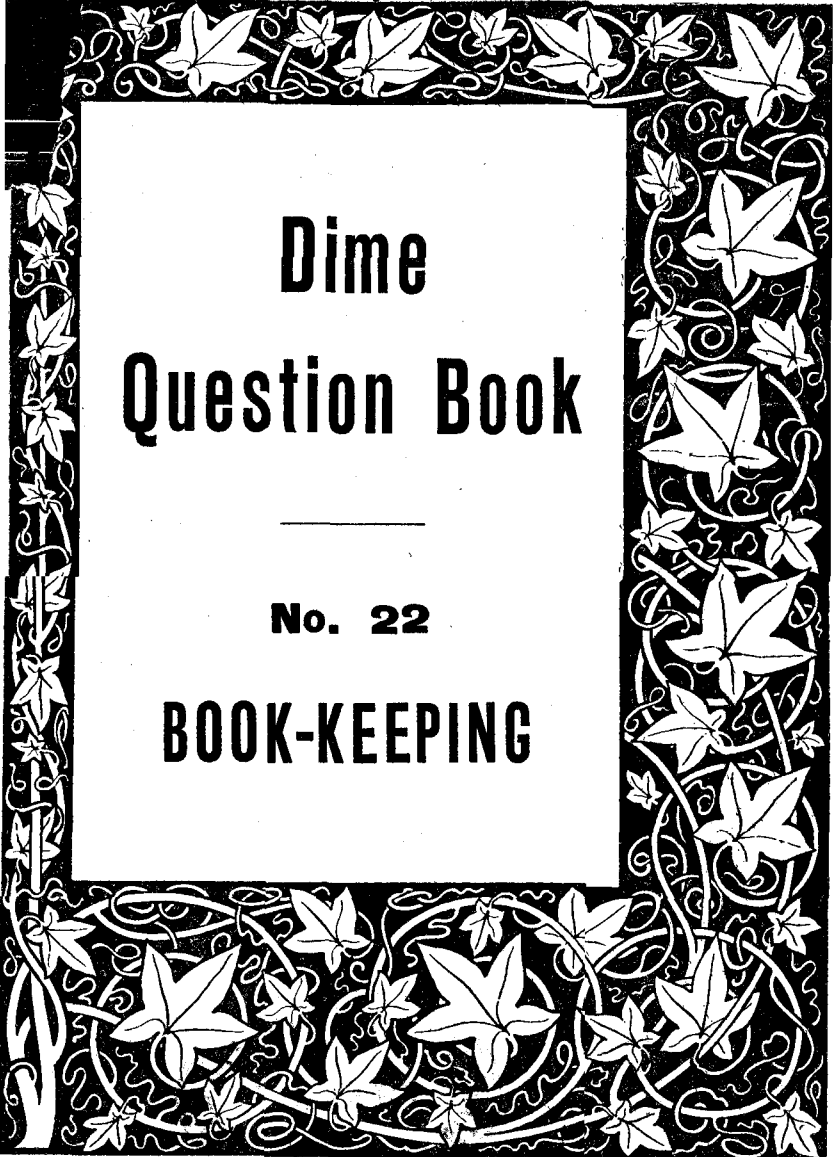
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**Dime
Question Book**

No. 22

BOOK-KEEPING

A decorative border with a repeating pattern of stylized leaves and vines, surrounding the central text area.

Dime
Question Book

No. 22

BOOK-KEEPING

Hanson's Commercial Handbook

The remarkable increase of commercial requirements even for teachers of other subjects makes timely this comprehensive manual.

PART ONE is devoted exclusively to bookkeeping. No attempt is made to revise any particular system, but instead the various parts are treated separately. This method facilitates the use of the work advantageously with other treatises on the subject, and enables the student to devise a system that will meet his requirements. That the application of the information set forth may be fully comprehended, a series of transactions have been appended for illustrative purposes.

Discretion is employed in selecting common branches of arithmetic that are perplexing to the average person, for PART TWO. The various operations are designed to be sufficiently simple to be readily understood without knowledge from any other source.

A most essential feature of the business world is given due consideration in PART THREE. Only such subjects as are thought to be of the most practical use are discussed, and it is believed a careful study will inspire a thorough knowledge of business correspondence.

In PART FOUR will be found advice and information valuable to all. These include estimates and compilations for farmers and mechanics, giving the "short cuts" found most practical, essential points of commercial law, and hints that every bookkeeper will find useful. Here will be found many of those devices that make the arithmetic lesson interesting, and insure accuracy as well as rapidity.

Throughout the fundamental thought has been to present the subject treated simply, clearly, and in due perspective, so that the teacher using the book for self-help may find it easily comprehended and its lessons firmly fixed.

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—NO. 22, DIME SERIES—

QUESTION BOOK
OF
BOOK-KEEPING

CONTAINING ALL THE QUESTIONS AND PROBLEMS IN THIS SUBJECT
GIVEN AT THE FIRST FIFTEEN

New York Examinations for State Certificates

WITH FULL

ANSWERS, SOLUTIONS, AND ENTRIES

BY

C. W. BARDEEN

Editor of the School Bulletin



SYRACUSE, N. Y.

C. W. BARDEEN, PUBLISHER

1910

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PREFACE.

The twenty-one numbers already published of the *Dime Series of Question Books* have led to inquiries for similar books in many other subjects, but especially in *Book-Keeping*.

It seems to be widely felt that its general principles and methods should be known to pupils in our common schools without the formality of a "Commercial Course," and that a little manual like this may give to a well-grounded arithmetic class just about the instruction and familiarity with forms required for practical purposes.

There is also a special demand for such a book to aid teachers in preparing for examinations for licenses, the higher grades of which now call for questions in this branch. To ensure completeness, all the questions in book-keeping given at the first fifteen New York examinations for State Certificates have been inserted and fully answered. A comparison with the Civil Service examinations of the United States and of New York State shows that all important points are here sufficiently treated to cover any questions likely to be given. The Key is on pages 72, 73.

In regard to forms of entries book keepers are not agreed, but those here given correspond with what seems to be the most usual practice. The principles are of course the same in all, but each book-keeper may follow his own notions as to details. The forms here given would be anywhere accepted as correct, and usually, I believe, as the best. I have consulted all the leading works on the subject, but have not followed any one of them closely enough to make special acknowledgment necessary.

Syracuse, March 29, 1888.

C. W. BARDEEN.

BOOK-KEEPING.

1. What is the object of Book-keeping?

Book-keeping is the systematic recording of financial transactions. They must be *recorded* because the memory is untrustworthy; they must be recorded *systematically*, so that there may be no mistake as to what the record means.

Certain simple forms have been generally agreed upon and are universally understood. Hence the importance of a knowledge of these forms on the part of all who do business, even in a limited way. As a practical department of arithmetic book-keeping might well be taught in all the public schools.

2. For what is a person Debtor to you?

A person is my debtor for articles I sell him or labor I do for him, for which I am not paid at the time.

Thus if I agree to pay my board each Saturday night, I am at the end of the week *debtor* to my landlady for one week's board.

3. For what is a person Creditor to you?

A person is my creditor for articles he sells me or labor he does for me, for which I do not pay at the time.

Hence every Debtor implies a corresponding Creditor, and *every Debit involves an equal Credit*. In the case mentioned above, my landlady is my *creditor* for one week's board.

In personal accounts, the debits show what is paid or sold *by* us; the credits what is paid or sold *to* us.

4. What is a Bill of Goods, or Invoice?

When goods are sold, it is customary to render to the purchaser a Bill of Items, or Invoice, that there be no misunderstanding as to qualities, prices, and full delivery.

Thus (a) on Feb. 24, John Doe sold to James Richards 25 yards of super-ingrain carpeting at 85 cents a yard; 6 square yards of floor oil-cloth at $62\frac{1}{2}$ cents a yard; 98 pounds of roller-process flour at \$7.50 a barrel; 5 bushels of potatoes at 44 cents a bushel; $3\frac{1}{2}$ gallons of astral oil at 15 cents a gallon. The bill would be made out as follows:

SYRACUSE, N. Y., Feb. 24, 1888.

JAMES RICHARDS,

Bought of JOHN DOE.

25 yds. super-ingrain carpeting	@ .85	\$21 25
6 sq. yds. floor oil-cloth	“ .62 $\frac{1}{2}$	3 75
98 lbs., $\frac{1}{2}$ bbl., roller-process flour	“ 7.50	3 75
5 bu. potatoes	“ .44	2 20
$3\frac{1}{2}$ gals. astral oil	“ .15	53
<i>Total,</i>		\$31.48

(b) On March 4, John Doe sold James Richards 4 lbs of tea, at \$1.00 per lb.; March 7, 3 bbls. of flour, at \$5.00 per bbl.; March 10, 25 lbs. of sugar, at 10 cts. per lb., and 10 yds. of cassimere, at \$2.00 per yd.; March 12, he paid me \$8.00; March 14, his daughter Jane bought 10 yds. of calico, at 12 cts.; 50 yds. of sheeting, at 10 cts; and a pair of gloves, at \$1.25; March 20, he paid \$10.00.

(c) On April 2, John Doe sells Jacob Smith, 3 barrels of diamond A sugar weighing 275 pounds, 293 pounds, and 264 pounds net, at $51\frac{1}{2}$ cents per pound; 1 chest of Japan tea weighing 56 pounds, at $41\frac{2}{3}$ cents per pound, and 5 sacks O. G. Java coffee weighing 112 pounds each, at $22\frac{1}{2}$ cents per pound. He pays \$50 cash, and gives a bankable note at 4 months for the balance.

These bills would be:

SYRACUSE, March 20, 1888.

JAMES RICHARDS,

Bought of JOHN DOE.

March	4	4 lbs. tea.....	@ \$1.00		\$ 4 00
	7	3 bbls. flour.....	" 5.00		15 00
	10	25 lbs. sugar.....	" .10	2 50	
		10 yds. cassimere.....	" 2.00	20 00	22 50
	14	10 yds. calico, (per Jane).....	" .12	1 20	
		50 " sheeting.....	" .10	5 00	
		1 pair gloves.....		1 25	7 45
			<i>Total,</i>		\$48 95
March	12	Cash,		8 00	
	20	"		10 00	18 00
			<i>Balance,</i>		\$30.95

SYRACUSE, April 2, 1888.

JACOB SMITH,

Bought of JOHN DOE.

		3 bbls. diamond A sugar, 275, 293, 264=832 lbs. net, @ 5 $\frac{11}{16}$ cts.	\$ 47 32		
		1 chest Japan tea, 56 lbs. " 41 $\frac{3}{8}$ "	23 17		
		5 sacks O. G. Java coffee, each 112=560 lbs.----- " 22 $\frac{1}{4}$ "	127 40	\$197 89	
		<i>Cash,</i>			50 00
			<i>Balance,</i>		\$147.89

Received payment by note due Aug. 5.

JOHN DOE.

5. When and by whom should a bill of goods be Received?

A bill of goods should be received by the seller or his authorized representative at the time payment is made.

In running accounts a Monthly Statement is often rendered giving the amounts of the purchases of each day

without the items. In such cases it is sufficient that this statement be receipted, the original bills being retained as vouchers.

6. What Memorandum is made at the foot of a bill of goods sold (*a*) when the bill is paid in cash; (*b*) when a note is given in payment; (*c*) when the bill is not paid?

In the bills given in Question 4, the memoranda would be as follows:

(*a*) Received payment,

JOHN DOE.

(*b*) Received payment by note due Aug. 5.

JOHN DOE.

(*c*) Received payment.

The last memorandum (*c*) is customary, but is often omitted, especially with regular customers.

7. What is an Entry?

An entry is the record of a purchase or a sale in a book kept for this purpose.

When each one of several articles, or lots of articles, bought is named separately, each such specification is called an Item.

8. What Details should every entry include?

To be complete every entry should give the name of the person with whom, the kind of transaction, the date, the items, the amount, and memoranda of any unusual agreement as to time given, discount for cash, etc.

Thus, suppose John Doe entered the first sale in Question 4 thus:

Sold Richards goods for \$31.48.

It would be difficult for him to remember the items, or to establish in Court *from the record* that it was *James Richards*, that the date was Feb. 24, 1888, or that the amount was not paid at the time.

9. What is the Day-Book?

The Day Book, or Blotter, is generally the *Book of Original Entry* of business transactions, and hence in case of litigation *is the only book admitted as evidence in court.*

Hence it is important that the entries should be made at once, and should be complete enough to recall every essential detail.

10. What are the Sales-Book and the Invoice-Book?

Sometimes, instead of a Day Book for all transactions, a Sales Book is used for recording all sales, and an Invoice or Purchase Book for recording all purchases. The latter is often a large scrap-book into which the original invoices are pasted.

11. What is the Form of Day-Book entries?

There is no established form, and the only important requirement is that the language be clear and unmistakable.

Thus the statement given for making out a bill in the illustration (a) under Question 4 would be a legal and sufficient day-book entry. Experienced book-keepers, however, would prefer to put the statement into conventional form, more readily grasped and carried by the mind, as follows:

Feb. 24	Sold JAMES RICHARDS				31	48
	25 yds. super-ingrain carpeting--@	.85	21	25		
	6 sq. yds. floor oil-cloth-----"	.62½	3	75		
	98 lbs., ¼ bbl., roller process flour--"	7.50	3	75		
	5 bu. potatoes-----"	.44	2	20		
	3½ gals. astral oil-----"	.15	53			

12. If a debit entry is made a credit entry in the Day-Book, or *vice-versa*, how is the mistake corrected?

It may be corrected by erasure and correction, or by entering double the amount on the opposite side.

13. When may an erasure be made on books of account?

As seldom as possible, and only with such memoranda as may show clearly what the original entry was.

Many accountants use the eraser as freely as they do the rubber, and erase every trifling error, both on the journal and ledger, making it impossible to ascertain what the original entry was. This is sometimes an exceedingly dangerous practice, especially when books are brought into court to be used in evidence. Even though the book-keeper may have a clear recollection of a transaction which has been partially erased, unless his recollection is supported by collateral evidence an opposing counsel may make use of such a fact with damaging effect. A case in point recently occurred in a bankruptcy proceeding. A party who had attempted to prove his claim without the books of the firm was compelled to produce them in court. Entries had been made by him to suit the case, and the party swore that he made them on or about the date indicated by the entries. Trial-balance-sheets made some two years subsequent to the date so indicated showed that the entries could not have been made at that time. The crime of perjury was clearly established. A further examination of the books showed a number of erasures, both on the journal and ledger, which were, without doubt, honestly made; but, as the book-keeper could not recollect the original transactions, and as the principal was proved guilty of altering the books in one transaction, he was held guilty of all.

Whenever it is necessary to erase any portion of a transaction in the ledger and journal, or other original books of entry, the first entry should show what the alteration was. Any alterations or interlineations should be explained as clearly as possible in the entries. Expensive litigations are often avoided by this simple precaution.—*The Book-Keeper*, ii. 104.

14. What is the Journal?

The Journal is the book in which all transactions are

recorded in proper form for entry upon the Ledger; and to *journalize* is so to reduce and enter them upon the Journal.

Thus, John Doe might make on his Day Book or Blotter the following entry:

March 25, James Richards bought 1 bbl. of flour at \$6.25; 25 lbs. of A sugar at 6¼ cents; 2 lbs. of coffee at 26 cents; 4 lemons at 2 cents; 22½ lbs. of butter at 23 cents; and 2½ lbs. of cheese at 15 cents. He paid \$9 on account.

If so entered, it would require to be journalized. But if entered as follows it would be in proper form for carrying to the ledger; and would not require journalizing:

March 25	JAMES RICHARDS, <i>Dr.</i>			1898
	1 <i>bbl. flour</i>		6 25	
	25 <i>lbs. A sugar</i>@6¼ cts.		1 57	
	2 <i>lbs. coffee</i>“ 26 “		. 52	
	4 <i>lemons</i>“ 2 “		08	
	22½ <i>lbs. butter</i>“ 23 “		5 18	
	2½ <i>lbs. cheese</i>“ 15 “		38	
	<i>CR. by cash on account</i>			9 00

If the following were an extract from John Doe's Blotter or Day Book, the journalized form would be as below.

Jan. 1, 1888. Sold John Hart 1 lb. tea at 50c., 4 lbs. tobacco at 65c., 5 yds. flannel at 45c., 1 pair boots at \$2.50, 18 lbs. sugar at 11c., and 5 lbs. of soap at 16c. Same date, sold Hiram Ensign 4 yds. broadcloth, at \$1.75, 1 set crockery at \$7.50, 3 lbs. tea at 65c., and 2 gals. of molasses at 75c. Same date, sold James Cook 15 lbs. of sugar at 12c., 10 lbs. soap at 18c., 12 yds. calico at 9c., 5 lbs. tobacco at 80c., 40 yds. sheeting at 11c., and 5 lbs. coffee at 32c. Same date, sold John Mitchell, per daughter, 15 yds. silk at \$1.75, 15 yds. calico a 9c., 25 yds. carpeting at \$1.40, and 1 pair shoes at \$4.50. Jan. 3. Sold John Hart, 18 yds. sheeting at 10c., 1 pair shoes at \$3.00, 1 broom at 35c., and 2 lamps at 60c. each. Same date, sold Henry Sey-

mour, 1 axe at \$1.25, 1 file at 40c, 20 lbs. of nails at 6c., 1 saw at 50c., and 5 lbs. tea at 55c.

Jan. 1	JOHN HART, <i>Dr.</i>		10 63
	1 lb. tea.....	50	
	4 lbs. tobacco.....@ .65	2 60	
	5 yds. flannel....." .45	2 25	
	1 pair boots.....	2 50	
	18 lbs. sugar....." .11	1 98	
	5 lbs. soap....." .16	80	
	HIRAM ENSIGN, <i>Dr.</i>		17 95
	4 yds. broadcloth.....@ 1.75	7 00	
	1 set crockery.....	7 50	
	3 lbs. tea....." .65	1 95	
	2 gals. molasses....." .75	1 50	
	JAMES COOK, <i>Dr.</i>		14 68
	15 lbs. sugar.....@ .12	1 80	
	10 " soap....." .18	1 80	
	12 yds. calico....." .09	1 08	
	5 lbs. tobacco....." .80	4 00	
	40 yds. sheeting....." .11	4 40	
	5 lbs. coffee....." .32	1 60	
	JOHN MITCHELL, <i>Dr. (per daughter).</i>		67 10
	15 yds silk.....@ 1.75	26 25	
	15 " calico....." .09	1 35	
	25 yds. carpeting....." 1.40	35 00	
	1 pair shoes.....	4 50	
Jan. 3	JOHN HART, <i>Dr.</i>		6 35
	18 yds. sheeting.....@ .10	1 80	
	1 pair shoes.....	3 00	
	1 broom.....	35	
	2 lamps....." .60	1 20	
	HENRY SEYMOUR, <i>Dr.</i>		6 10
	1 axe.....	1 25	
	1 file.....	40	
	1 saw.....	50	
	20 lbs. nails.....@ .06	1 20	
	5 " tea....." .55	2 75	
		122.81	122.81

The word *Journal* is French, and means *daily*, thus corresponding with *day-book*, with which it is still sometimes

used interchangeably. The best usage however corresponds with that here given. Until we come to Double Entry, we shall give the forms of Single Entry, but the changes are readily made to those of Double Entry. The two sets of columns in a Double Entry journal are kept distinct, the left hand, here used for items, being used only for *debits*, while the right-hand are used for *credits*. The sums of figures in both sets of columns must be equal.

When entries in the Day Book are made in systematic form, as shown under Question 11, the Journal becomes unnecessary, and the Day Book is sometimes called the Journal. When Sales Book and Invoice Book are kept, (Question 10), only the footings are commonly entered on the Journal.

15. What is an Account?

An Account is a detached statement of the debits and credits that belong to any individual.

Thus if John Hart calls for and pays his account so far as shown above the statement would be as follows:

SYRACUSE, Jan. 3, 1888.

JOHN HART,

Bought of JOHN DOE.

Jan. 1	1 lb. tea.....		50	
	4 lbs. tobacco.....	@ .65	2 60	
	5 yds. flannel.....	" .45	2 25	
	1 pair boots.....		2 50	
	18 lbs. sugar.....	" .11	1 98	
	5 " soap.....	" .16	80	10 63
Jan. 3	18 yds. sheeting.....	" .10	1 80	
	1 pair shoes.....		3 00	
	1 broom.....		35	
	2 lamps.....	" .60	1 20	6 35
				\$16.98

Received payment,

JOHN DOE.

The word *account* is derived from the Latin *computus* (through the French *compte*), a computation, a reckoning.

If Henry Seymour pays his account, but says he does not care for items, the receipt might read thus:

\$6.10. SYRACUSE, Jan. 3, 1888.

Received of Henry Seymour six dollars ten cents in full for goods purchased this day. JOHN DOE.

16. Into what Two Great Classes are accounts divided?

Real Accounts and Representative Accounts.

17. What is a Real as distinguished from a Representative Account?

A Real Account is an account with a person, the balance of which may be collected or must be paid.

A Representative Account is an account with some detail of the business, the balance tending to show whether the business is prosperous, but not representing anything the proprietor can collect or must pay.

In Real Accounts, the debits show all we have trusted to our debtors or paid to our creditors; the credits show all we have been paid by our debtors, or have been trusted by our creditors.

In Representative Accounts the debits generally show all we have had, the credits all we have parted with.

18. What is a Running or Current Account?

A Running Account is a detached statement, continued as they arise, of the debits and credits belonging to any individual.

19. What is the Balance of a Running Account?

It is the remainder left after subtracting the smaller from the larger side. If the debit side is larger the balance

is a Debit Balance. If the credit side is larger, the balance is a Credit Balance.

Hence in running accounts the larger the debit sides, the more prosperous is the business.

20. What is the difference between Settling and Closing an account?

An account is Settled when the debit and credit sides become temporarily equal, as by the prompt payment of a monthly statement. It is Closed when no further transactions are expected, and the balance, if any, is regarded as final, and transferred to some other account.

21. What is the Ledger?

The Ledger is the book in which all the Accounts are kept.

The word *ledger* is Anglo-Saxon, and denotes what *lies still*, and hence means *stationary* book.

It is sometimes made a book of original entry; and is then the only book necessary.

22. What is Posting?

Posting is the transferring of entries from the Journal to the Ledger.

23. How do you Open, Conduct, and Close an account?

An account is opened by writing the name of the individual across the top of the page, or the part of the page appropriated to it, and is conducted by transferring from the journal all the entries pertaining to this individual.

Thus the accounts in the second extract from John Doe's books, Question 14, would stand as follows:

Dr.	JOHN HART,	Cr.
Jan. 1	To <i>Mdse.</i>	10 63
" 3	" " ".....	6 35
Dr.	HIRAM ENSIGN,	Cr.
Jan. 1,	To <i>mdse.</i>	17.95
Dr.	JAMES COOK,	Cr.
Jan. 1,	To <i>mdse.</i>	14.68
Dr,	JOHN MITCHELL,	Cr.
Jan. 1,	To <i>mdse, per</i> <i>daughter</i>	67.10
Dr.	HENRY SEYMOUR,	Cr.
Jan. 3,	To <i>mdse.</i>	6.10

The account of James Richards as shown here from the beginning would be as follows:

Dr.	JAMES RICHARDS,	Dr.
Feb. 24	To <i>mdse</i>	31 48
Mch. 4	" " "....	4 00
7	" " "....	15 00
10	" " "....	22 50
14	" " "....	7 45
25	" " "....	13 98
Mch. 12	By <i>Cash</i>	20 00
25	" " "....	25 00
		8 00
		10 00
		9 00

24. What is the Cash Account?

The cash account is the record of money on hand, received and paid out.

Checks, accepted sight drafts, and whatever may be deposited in the bank as cash, are regarded and entered as cash.

25. In a Cash Account, for what is cash Debited?

Cash is Debited for the amount on hand at the opening of the account and for all sums received.

Thus, the merchant *expects to find* in his money-drawer, or, so to speak, *holds it responsible for*, the amount originally put into it, with the additions made during the day.

Probably in the infancy of book-keeping (if, as many suppose, the first accounts were merely personal, or single entry), this was the first impersonal or representative account invented. The Merchant of Venice had, perhaps, been accustomed to open accounts with persons to whom he delivered or from whom he received valuables. When, one day he received money from the money-lender, Shylock, and put it in his iron box, the thought struck him, "*Cassa* now owes me three thousand more ducats than she did: and I remember that she held five hundred and sixty-three of the yellow beauties yestereen. Why should not *Cassa*, my faithful money-box, have her account upon my *libro-maestro* (master-book, or ledger), like Bassanio, Salerino and other business friends, and receive due credit when she furnishes me her treasure; and when I charge her with the custody of ducats and of sequins I will likewise charge her account." So *Cassa* had her (for its name was feminine) own folio in good Antonio's ledger, and on the one side was inscribed, "The Box must give," and on the other, "The Box must have." Perhaps, observing that as Shylock's account grew heavier on the right side, the left-hand side of the Box account was correspondingly swelled, the Merchant hit upon the grand idea of the equality of resources with liabilities and capital. Possibly he communicated the discovery to that renowned mathematician, Friar Luke di Borgo, surnamed "of the Holy Sepulchre," who embodied in his great work the earliest known treatise on book-keeping, published the same year, 1492, that another Italian made another discovery. Without these two discoveries, where would the *book-keeper* be?

But we are decidedly wandering from our subject in these day-dreams. All we know positively of the matter is, that the account of Shylock was closed by some such entry as this, in the style of those days:

The Usurer SHYLOCK, No. 69 Rialto, Dr.

To PROFITS AND LOSSES . . . 3,000

To return to Cash. The equivalents of *Cassa* in the French, Spanish and Portuguese, viz.: *caisse*, *caja* and *caxa* are used in the same sense. For example: "*Caisse Doit a Divers*," or, as we would say, "Cash Dr. to Sundries," is literally, "Box owes to Sundries"; "*Caja debe Haber par Intereses*"—"Cash Cr. by Interest"—reads "Box ought to have for Interest." *So you see, the idea is to keep an*

account with the money-box; not with the money in the box. The money is the thing for which the cash or box is charged and credited. Whatever of value is entrusted to the receptacle becomes a part of the resources for which it is held responsible, and when it is relieved from the custody of any part it is discharged or credited.—The Book-Keeper, ii. 17.

26. In a Cash Account for what is Cash Credited?

Cash is Credited for all amounts paid out.

The Bank Account is kept in the same way, and is by some treated as a part of the Cash Account, separate columns showing the amount on hand and the amount in the bank.

27. On which side of a Cash Account is the Balance entered?

The Balance of a Cash Account must always be on the Debit side, as it is impossible to pay out more money than has been received. In closing the account, it must therefore be entered on the Credit side to balance the account.

Thus suppose I had on hand this morning \$14.50, and received \$5.00 of Henry Jones, \$3.00 of Julius Smith, \$7.00 of Harvey Lyman, \$1.50 of John Knapp, \$2.00 for a book I sold, and \$1.00 from Frank Hayes. I paid a board bill of \$24.00, a washing-bill of \$4.80, and lent Stephen Root \$3.00. I have on hand \$2.20. My account then stands thus:

Dr.	Cash.		Cr.
<i>Amt. on hand</i>	14 50	Board Bill.....	24 00
Henry Jones.....	5 00	Washing Bill.....	4 80
Julius Smith.....	3 00	Stephen Root.....	3 00
Harvey Lyman.....	7 00	<i>Balance</i>	2 20
John Knapp.....	1 50		
Rec'd for Book.....	2 00		
Frank Hayes.....	1 00		
	<u>34 00</u>		<u>34 00</u>

28. With what must the Balance of a Cash Account always agree?

The Balance of a Cash Account must always be equal to the amount of money on hand. See illustration to Question 27.

29. What is the purpose of a Cash Account?

The Cash Account is necessary to keep record of money received or paid out. Items that have been overlooked or have escaped the memory are often recalled by the failure of the account to balance.

30. What is the Cash-Book?

In a large business, the Cash Account is usually kept for convenience in a separate book, called the Cash book.

31. If a debit entry is made a credit entry on the Ledger, how is the mistake corrected?

It may be corrected by an entry of twice the amount upon the other side. (See Question 13).

32. What is the Index (sometimes called the Alphabet)?

It is a record of the titles of all accounts in the Ledger in alphabetical order, for convenience of reference.

33. What is Book-Keeping by Single Entry?

Book-Keeping by Single Entry is the systematic record, journalizing and posting of all actual transactions with Persons, and of all cash payments and receipts.

34. In Single Entry, what transactions are recorded in a Day-Book?

Only transactions with Persons, involving a debit that can be collected, or a credit that must be paid.

35. What are the books required in Single Entry book-keeping?

The Day Book, Journal, and Ledger, together with the Cash Book, unless Cash is made a Ledger Account.

Sometimes one book is made to take the place of both Day Book and Journal (see page 55), and sometimes the entries of purchases and sales of the Day Book are kept in separate books, called the Invoice Book and the Sales Book (Question 10).

36. What is Book-Keeping by Double Entry?

Book-Keeping by Double Entry is based upon the principle that *Every Debit must have an Equal Credit*. Hence it keeps accounts not only with Persons, but with Property, Profits, Expenses, etc.

37. What is the General Rule for journalizing in Double Entry?

In Double Entry every transaction must be so journalized that it may be in the form, *Sundries Dr. to Sundries*, thus involving an equal credit for every debit.

Thus, under Question 14, the first transaction journalized for a Double Entry ledger would be:

March	25	JAMES RICHARDS, <i>Dr.</i>	13	98	13	98
		<i>To</i> <i>M&se</i> , as per sales book,				
		<i>Cr.</i>				
		<i>By</i> <i>Cash</i> ,	9	00	9	00

Here Merchandise and Cash are respectively credited and debited as though they were persons.

38. State the difference between Single-Entry and Double-Entry Book-Keeping.

In Single Entry only Real Accounts are kept (except with Cash, which is properly a Representative Account).

In Double Entry every entry in a Real Account is balanced by a corresponding entry in a Representative Account.

39. How can you Verify the Ledger in Double Entry?

As every Debit must have an equal Credit, the sum of all the Debit entries must equal the sum of all the Credit entries.

40. What is a Trial-Balance?

It is an addition of the debits and of the credits of the ledger to see if the sums are equal, in which case the books are assumed to be correct. If they prove to be unequal, there is evidence of error somewhere that should be detected and corrected.

The word *balance* means originally a pair of scales, and the trial-balance shows like a pair of scales, whether there is a correct equilibrium between the resources and the liabilities.

41. What is the Balance Sheet?

It is a summary in concise and convenient form of the balances of all ledger accounts, the most important being those of Profit and Loss, and Resources and Liabilities.

In debtor Current Accounts and in Bills Receivable only such should be entered as may fairly be considered collectable. Doubtful credit balances are sometimes debited to a Suspense Account, which is afterward credited with any payments made upon them.

Thus the Balance Sheet for the transactions recorded in Question 47 would be as follows:

Balance Sheet, May 6, 1881.

		5000	Resour's	Liabil's	Losses	Gains
Stock.....		5000				
Cash.....	5000	2500	2500			
Mdse.....	2500	1400	1450			410
Bills Rec....	700		700			
Rich'd Roe	700		700			
	8960	8900	5410			410

Hence the profits are \$410, and the Stock is increased by that amount. It will be noted that the only part of the Mdse. account carried to Resources is the Inventory or amount on hand.

42. What are the books required in Double Entry book-keeping?

Double Entry does not necessarily involve any other books than those required in Single Entry (see Question 35).

42. What advantages has Double Entry over Single Entry?

(1) The trial-balance is an unequalled expedient for detecting errors and ensuring accuracy.

(2) The profits and losses of the business are ascertained, and referred to their proper sources.

44. How can you change a set of books from Single Entry to Double Entry?

Books kept by Single Entry may be changed to Double Entry by opening upon the ledger such Representative Accounts as are necessary to show all resources, liabilities, profits and losses, and by journalizing and posting the day-book charges accordingly.

45. Explain the application of the terms Debtor and Creditor in Double Entry?

What Costs the proprietor value should be Debited; what Produces the proprietor value should be Credited.

46. What is an Inventory, and how taken?

An Inventory is an itemized list of the amount and cost value of merchandize and other property on hand at a particular date. It is usually taken by going over the stock

and entering each item. If this occupies considerable time, the value of articles sold during inventory from stock not yet inventoried is kept separate and added to the inventory.

In very simple business, it is sometimes possible to make an inventory from the books themselves, by subtracting the number of each article sold from the number purchased. But even then it would be unsafe to balance the books without being assured by inspection that the goods were all on hand.

47. What is the Merchandise Account?

The Merchandise account involves generally the goods on hand and for sale. It is debited with all purchases, and credited with all sales. Before taking a final Balance, the amount on hand as appears by Inventory must be added to the credit side.

Suppose that May 1, 1881, John Doe began business with \$5000 capital. May 2, he bought for cash 500 bbls. flour at \$5 per bbl. May 3, sold 10 bbls. for \$60 cash. May 5, sold John Smith 100 bbls. at \$7, taking in payment his note at the bank for 60 days. May 6, sold Richard Roe 100 bbls. on account.

These transactions will be journalized as follows:

May 1	Stock	Cr.			5000	00
	By Cash		5000	00		
" 2	Mdse	Dr.	2500	00		
	To Cash				2500	00
" 3	Mdse	Cr.			60	00
	By Cash		60	00		
" 5	Mdse	Cr.			700	00
	By Bills Receivable		700	00		
" 6	Mdse	Cr.			700	00
	By Richard Roe		700	00		
			8960	00	8960	00

The ledger accounts will be as follows:

Dr.	STOCK,		Cr.
	May 1, By Cash.....	5000	
Dr.	CASH,		Cr.
May 1, To Stock.....	5000	May 2, By Mdse.....	2500
" 3, " Mdse.....	60		
Dr.	MDSE.		Cr.
May 2, To Cash.....	2500	May 3, By Cash.....	60
		" 5, By Bills Rec.	700
		" 6, By Rich. Roe,	700
Dr.	BILLS RECEIVABLE.		Cr.
May 5, To Mdse.....	700		
Dr.	RICHARD ROE,		Cr.
May 6, To Mdse.....	700		

Now the Mdse. account might be closed by crediting it with the 290 bbls. of flour unsold at cost price, \$1450, which would have a credit balance to be carried to Profit and Loss of \$410. But before so doing the barrels should be counted, to be sure there has been no error.

Sometimes specific accounts are kept with certain departments of merchandize. as, in the book business, with Stationery, Blank Books, Periodicals, etc., in order to estimate the profit of each. Items of Expense, are sometimes carried directly to the Merchandize account, but are oftener carried to a separate Expense account. When goods sold are returned it is better to deduct the amount from the credits of Merchandise, than to charge it to Merchandise that the percentage of profit to sales be more accurately determined.

48. What is the Interest Account?

The Interest Account is Debited with all sums Paid for interest, and Credited with all sums Received for inter-

est, so that the Balance shows whether as a whole Interest is a source of expense or of profit.

Discount is treated in the same way, and is sometimes united with the Interest account.

49. What is the Profit and Loss Account?

The Profit and Loss account is made up of the *Balances of all Representative Accounts*. The Debits therefore show gain in business, and the Credits show losses. The Balance of this account shows whether the business is prosperous, and to what extent.

50. What are Resources, or Assets?

Resources, or Assets, is the general name for all value belonging to the business, such as cash on hand or in bank, bills receivable, debit-balances of running accounts, merchandise, etc. As an account it is Debited with its value at the opening of the books, and after each balancing of the books.

51. What are Liabilities?

Any debt owing is a Liability. Such are bills payable, credit-balances of running accounts, etc.

52. How can you ascertain Net Capital at any time?

By deducting the amount of Liabilities from the amount of Resources.

53. For what is the Proprietor to be Debited in his Personal Account?

For all his personal liabilities which enter upon the books, for all money withdrawn from the business, and for any net loss that appears at the periodical balancing of the books.

Where there is a single proprietor this is properly the Stock account. Where there are two or more proprietors, the balances of their accounts form the the Stock account. Often a second account is kept with the proprietor on which the small accounts he draws out for personal use are entered, the balance being transferred to the regular account.

54. For what is the Proprietor to be Credited, in his Personal Account?

For his original investment, for additional sums put into the business, and for any net profit that appears at the periodical balancing of the books.

In the proprietor's account the credits show all he has invested or gained; the debits all he has withdrawn or lost.

55. What are Bills Receivable?

Bills Receivable are written obligations for which certain specified amounts are to be *received*. The most usual forms are Notes and Accepted Drafts.

When a receipt is given for payment in whole or in part by note, it is usually best so to state. Thus if John Doe sells Richard Roe a gold watch for \$175, and takes \$50 cash and the rest in a promissory note at 3 months, the receipt might read:

Received of Richard Roe, in full for gold watch sold him this day, fifty dollars in cash, and one hundred twenty-five dollars in a promissory note at 3 months.

Syracuse, March 24, 1888.

JOHN DOE.

In like manner the proper receipt for bill (*a*) in Question 4, if paid by note given in Question 60, would be:

Paid by endorsed note at 60 days.

JOHN DOE

56. What are Bills Payable?

Bills Payable are written obligations for which certain specified amounts are to be *paid*. The most usual forms are Notes and Accepted Drafts.

57. How do you Open, Conduct, and Close a Bills Payable account?

An account with Bills Payable is opened by crediting it with all notes and drafts payable by us; is conducted by crediting it with all further notes given, and debiting it with all notes paid; and is closed by taking a Balance, which, if any, is always on the credit side, and represents notes or drafts payable by us outstanding.

58. How do you Open, Conduct, and Close a Bills Receivable account?

An account with Bills Receivable is opened by debiting it with all notes and drafts payable to us; is conducted by debiting it with all further notes taken and crediting it with all notes paid; and is closed by taking a Balance, which, if any, is always on the debit side, and represents notes or drafts payable to us outstanding.

59. Name Seven Essentials of a Promissory Note.

- (1) The promise must be absolute and definite.
- (2) The promised payment must be of a stated sum of money.
- (3) The payment must not be dependent on a contingency.
- (4) The payee must be designated.
- (5) It must be for a consideration.
- (6) It must be dated on some day not Sunday.
- (7) It must bear the signature of the maker.

All these conditions are met in the following note:

SYRACUSE, N. Y., March 24, 1888.

Four months after date I promise to pay to the order of Harlow Bond one hundred fifty dollars, value received.
\$150. ANDREW BROUTERS.

60. What are the Relations of each of the parties to a Note?

Take this illustration.

SYRACUSE, N. Y., Feb. 24, 1888.

Sixty days after date I promise to pay to the order of John Doe Thirty-one $\frac{48}{100}$ Dollars, value received, at State Bank.

\$31 $\frac{48}{100}$.

JAMES RICHARDS.

Suppose this note has written across the back *Abram Hollister*.

Here James Richards is the maker of the note and promises to pay it. John Doe is the drawee of the note, and is entitled to be paid the amount. By writing his name across its back Abram Hollister becomes an endorser of the note, and thus promises to pay it if James Richards fails to do so.

If John Doe writes his name across the back, the note becomes payable to whoever holds it, and he also becomes responsible for its payment, unless he writes above his name "*Without recourse*" If he writes on the back:

Pay to order of Julius Smith,

John Doe,

he is still responsible for its payment, but it can be further negotiated only by Julius Smith.

61. What is the difference between a Negotiable and a Bankable Note?

Any note including the words *or order* or *or bearer* is

Negotiable; but to be Bankable the date of payment must also be fixed.

62. Describe the course to be pursued to have a note discounted at a bank.

Suppose the note is as follows:

SYRACUSE, N. Y., April 2, 1888.

Four months after date I promise to pay to the order of John Doe One hundred forty-seven $\frac{89}{100}$ Dollars at First National Bank, value received.

\$149 $\frac{89}{100}$.

JACOB SMITH

If John Doe has an account at the State Bank, with agreement that the notes he receives in ordinary business shall be discounted, he has only to write his name on the back of this note, and deposit it in the bank, when it will be credited to his account, less the interest. Otherwise it may be necessary for him to assure the bank of his own and of Jacob Smith's responsibility. Some banks have a certain day in each week on which the officers consider all paper offered for discount, and decide which shall be accepted.

63. What is a Bank Check?

It is an order upon a bank where the maker has funds to pay a certain amount to bearer or to the order of a person named. The form is usually something as follows:

No. 1236.

SYRACUSE, N. Y., March 26, 1888.

To State Bank, Syracuse, N. Y.

Please pay to the order of Julius Smith One hundred forty-nine $\frac{89}{100}$ Dollars, and charge to my account.

\$149 $\frac{89}{100}$.

JOHN DOE.

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<p><i>2d Examination, March 23,</i> 1876.</p> <p>1. 1.</p> <p>2. (a) 9, 11. (b) 21, 23. (c) 30, 28. (d) 32.</p> <p>3. (a) 33, 14, 23. (b) 36, 37.</p> <p><i>6th Examination, Dec. 19,</i> 1878.</p> <p>1. 38.</p> <p>2. 35, 42, 9, 14, 21, 30, 32.</p> <p>3. 23.</p> <p>4. 14, 22, 40, 41.</p> <p>5. 16.</p> <p>6. 47, 48, 49.</p> <p>7. 56, 55, 57.</p> <p><i>8th Examination, July 27,</i> 1880.</p> <p>1. 35, 9, 21, 30, 32.</p> <p>2. 4(b).</p>	<p>3. 4(b), 6.</p> <p>4. 59, 15, 60.</p> <p><i>9th Examination, July 22,</i> 1881.</p> <p>1. 56, 55, 50, 51.</p> <p>2. 35, 9, 21, 30, 32.</p> <p>3. 44.</p> <p>4. 39.</p> <p>5. 47.</p> <p><i>10th Examination, June 28,</i> 1882.</p> <p>1. 35, 9, 21, 30, 32.</p> <p>2. 14, 23.</p> <p>3. 15.</p> <p>4. 15.</p> <p>5. 63.</p> <p>6. 59.</p> <p>7. 62.</p> <p>8. 60.</p> <p>9. 36, 45.</p> <p>10. 37.</p>
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<i>11th Examination, July 11,</i>	5. 28, 27.
<i>1883.</i>	6. 13, 31.
1. 38.	7. 12.
2. 3.	8. 5.
3. 37.	9. 4.
4. 25, 26.	10. 60, 55.
5. 27.	<i>14th Examination, June 29,</i>
6. 41.	<i>. 1886.</i>
7. 59.	1. 35, 9, 21, 30, 32.
8. 60.	2. 15, 7, 22, 19.
9. 62.	3. 2, 3.
10. 55.	4. 25, 26.
<i>12th Examination, July 1,</i>	5. 28.
<i>1884.</i>	6. 4.
1. 2, 3.	7. 62.
2. 34.	8. 20.
3. 21.	9. 61.
4. 22, 23.	10. 22, 23.
5. 25, 26.	<i>15th Examination, August</i>
6. 28.	<i>23, 1887.</i>
7. 53, 54.	1. 1.
8. 15.	2. 2.
9. 6.	3. 52.
10. 59.	4. 36.
<i>13th Examination, June 30,</i>	5. 42.
<i>1885.</i>	6. 9.
1. 15, 7, 2, 3, 22.	7. 60.
2. 35, 9, 21, 30, 32.	8. 46.
3. 42.	9. 14, 23.
4. 29.	10. 1.

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