1897

Book-keeping: A course of lectures on bookkeeping, with special reference to joint stock companies

Lawrence Robert Dicksee

BOOK-KEEPING.

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The first of a series of six lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, Jan. 6, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.CA.

In dealing with so extensive a subject as bookkeeping in the limited time prescribed by the present course of lectures, it becomes necessary for me either to leave unmentioned many points of considerable importance which would be particularly useful to you as company secretaries, or else to assume a certain amount of preliminary knowledge of bookkeeping on your part. I take it for granted that I am justified in assuming *some* such knowledge, but it is a very difficult matter for me to fix the precise amount, so that upon the one hand I may not be occupying time needlessly upon elementary matters with which you are already well acquainted, while on the other I do not commence my course so over the heads of some of my audience that it is impossible for them to derive that benefit from this course of lectures which is hoped for. Under these circumstances I have decided, at the risk of appearing tedious to the better informed of you, to commence absolutely at the beginning, but to cover the earlier part of the ground very quickly. By this means I hope that even those of you who know very little of bookkeeping may not be deterred from continuing your attendance on account of the course being too advanced, while, should my preliminary remarks not be exhaustive enough to enable you to obtain that grasp of the fundamental principles of bookkeeping which is so essential for the proper comprehension of its later developments, I may be allowed to suggest that between this lecture and the next you might with advantage study the first two parts of my "Bookkeeping for Accountants' Students," which I think will give you all the information you require and perhaps a little more. On the other hand I venture to think that even those of my audience who are already capable bookkeepers will not really be wasting their time if they bear with me to-night while I deal briefly with the fundamental principles underlying every system of bookkeeping by double entry. Bookkeeping may be defined as the science of correctly recording in books transactions involving the transfer of money or money's worth. In so recording these transactions it is necessary (1) that the record be so explicit that at any subsequent time the exact nature of the transactions may be readily perceived (2) that the transactions should be so classified that at any time the total result of such transactions, or any particular series thereof, during any given period may be readily ascertained, (3) that the amount of labor necessarily involved be reduced to a minimum.

These various points are in reality all vital and all equally important, and it is therefore very necessary that the student should bear them constantly in mind if he wishes to follow the why and wherefore of a good system of bookkeeping.

Having now ascertained to a certain extent the nature of the records it is necessary for us to make, let us turn our attention to the things in which we make the records, viz , the books.

It goes without saying that the same

books are not always equally suitable for the record of all kinds of transactions, or, in other words, that different kinds of business each require a different set of books, in fact it is frequently desirable that businesses of the same kind should have their accounts kept differently, in order to meet some slight variation involved by a different class of trade. But in all cases the books are kept for the same purpose, the record of transactions involving the transfer of money or money's worth, and consequently vary in matters of detail only, the ruling principle being the same in all.

Books, then, are divisible into two great classes:—

1. Books of Account or Financial Books.

2. Memorandum or Statistical Books.

Let us deal with Books of Account first.

The first book of account ever used was probably a mere record of transactions entered as they occurred, and consequently in chronological order, being, in fact, little more than a memorandum book. A very few moments' consideration will show that as soon as these transactions became either very numerous or very varied in their nature, a mere chronological record would be all but useless, and some method of classification became absolutely necessary.

This being perceived, it became the custom to sort out the various transactions into their several classes, and to re-write them in another book, the Ledger, under separate headings, keeping each class of transaction under its proper heading, and referring to such heading whenever any information was required upon that class of transaction.

We may consider that bookkeeping itself dates from this time, for books of account, properly so called, hardly existed before this period, while all that has been done since has been to follow up and improve upon the lines thus indicated, and the complexity of modern bookkeeping is due to the multiplicity of detail required by the growth of modern commerce, rather than to any radical alteration of the principle of the original design.

The two books I have named are in fact the only books of account in use even at the present time, the first, called the Journal or "Daily Register"—so called because it contains a record of each day's transactions in some form or other—still retains all its ancient functions, and although in the course of centuries it has been found convenient to divide the book into sections, and call the various parts Sales Book or Day Book, Invoice Book or Purchase Book, &c. yet in fact they are really so many journals, and to this day in all Continental houses of business, and even in some English ones, all transactions are carried through some form of Journal, although subsidiary books are often used to record the fuller details.

The second book I have named is the Ledger, so called because in that book the entries of all the transactions are laid or stored up for future reference.

Most businesses have also a Cash Book, but it will save you a great deal of confusion at a subsequent period if at this early stage you learn to regard the Cash Book as neither more nor less than an account in the Ledger, bound up separately for the sake of convenience.

The Ledger, as I have already said, contains a record in classified form of transactions involving the transfer of money or money's worth. Thus, if I sold John Smith goods to the value of, say, £20, there would be a page in my ledger headed "John Smith," showing that he was my debtor for £20, on account of goods sold to him. When he paid me, say, £10 on account, that £10 used to be subtracted from the £20.

JOHN SMITH.

			£	s.	d.
1460.					
Jan. 1.	Goods sold him	....	20	0	0
" 20.	Cash paid by him	....	10	0	0
			£10	0	0

and the difference showed the amount still owing by him. It was very soon found, however, that there were too weighty objections to this manner of proceeding: 1. The bookkeeper was always liable to add instead of subtracting, and vice versa, in which case the error would not be specially obvious. 2. Without reading the whole account, it would not appear whether John Smith owed the money to me or I to him To meet this difficulty each ledger account was divided into two. Upon one side were placed the items for which he was my debtor, and upon the other side—the Contra account—those items for which he was my creditor, the balance being readily ascertainable at any time by adding up the two sides and striking a balance.

Dr. JOHN SMITH. *Contra.* Cr.

1500.		£	s.	d.	1500.		£	s.	d
Jan. 1.	To goods	20	0	0	Jan. 20.	By cash	10	0	0

At first sight you may possibly have some little difficulty in seeing how, when Smith owes me £20, he becomes my creditor upon payment of £10; but in bookkeeping, as in many other things, we must examine each transaction by itself as it arises, the time to set one off against another being after they have been placed side by side in the Ledger.

Now that the Ledger had been separated into two sides, it became necessary to distinguish in the Journal upon which side of the Ledger each transaction should appear, and thus two columns soon found their way into the Journal, one for sums to be placed on the Dr.—debtor—side of the Ledger account, and one for the Cr.—creditor—side.

JOURNAL.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.

By this time it will be perceived that bookkeeping had already become a matter of some little complexity, and doubtless, at that remote period the errors made by the bookkeeper were a source of considerable annoyance and loss; it was, therefore, but natural that men should begin to see if they could not devise some means by which such errors should become self-evident. Then, doubtless, they asked themselves what was the exact nature of the transactions they recorded in their books, and arrived at the conclusion that the transactions they recorded were, as I said at the outset, transfers.

Let us ask ourselves what is a transfer? A transfer is a "conveyance of anything from one person or place to another." A transfer thus—and, consequently, the class of transactions with which we deal in bookkeeping—involves a two fold act. If I pay John Smith £20, he, receiving the cash, is my debtor, but my Cash Account, being so much the poorer, is—so far as that one transaction goes—my creditor. Thus I am enabled to record this one transaction on both sides of my Ledger, and if I record all my transactions on both sides of my Ledger you will readily see that, if at any time I add up each side of my Ledger, the total amount on the Dr.

side must come to the same sum as the total of the Cr. side. Here at once we have a check, for if there be a mistake it is unlikely in the extreme that the two sides will agree.

At first sight, however, the advantage seems to be more than compensated by the extra labor, for certainly it nearly amounts to keeping the books twice over. But notwithstanding this, no subsequent discovery has caused us to abandon the principle of double entry thus founded. Upwards of 400 years have now elapsed since the first treatise on Double-Entry Bookkeeping was published, but although many modifications and improvements have been made since then, by means of which the amount of labor involved has been enormously reduced, the fundamental principle of double entry has remained unchanged. I may, however, go further, and say it is only in English-speaking countries that any serious attempt has been made to lessen the extra labor involved by double entry, and, bearing in mind that "the whole is equal to the sum of its parts," attempt a form of classification in the Journal by which a vast number of small entries in the Ledger may be obviated.

My preliminary remarks upon books would not be complete without some reference, even at this early stage, to the second class of books which I have mentioned, namely, Memorandum or Statistical books. Some such books as these are generally to be found in every enterprise of any importance, but particularly so in connection with joint stock companies, where the Register of Members, the Register of Transfers, and other similar books come under this category. The great distinction between Statistical and Financial books is that the latter form an integral part of the system of double entry, while the former do not; their object being merely to provide further detail in connection with the records contained in the Financial books.

As my immediate object is merely to give you a general, although necessarily a superficial, idea of the scheme of double-entry bookkeeping, it is unnecessary for me to go into further detail in this matter at the present moment, and I will therefore, revert to a consideration of the Financial books, and especially of the Ledger, which, I need hardly remind you is *the* book, and try to convey to your mind a rough idea of the general principles upon which a balance sheet is prepared.

A balance sheet is a statement showing upon one side the assets of the person or firm in question, and on the other side, the liabilities.

If the assets exceed the liabilities, the surplus is the capital of the person or firm, and is entered on the liabilities side, so that the totals of both sides may agree. On the other hand, should the liabilities exceed the assets, the difference is called a deficiency, or capital overdrawn, and is entered on the assets side. At first sight this may appear somewhat strange. "If I have a capital of £1,000," the student says, "how can it appear on the liabilities side; surely it is an asset?" True, but we must always remember to look upon the business as something quite apart from the person or persons to whom it belongs. The business has a surplus of £1,000, which belongs to its owner, therefore that owner is a creditor of the business for £1,000.

It will thus appear that the business makes no distinction between its owner and any other creditor. Those of you who have experience of Scottish mercantile law, which recognizes the existence of a firm as something distinct from its individual partners, will doubtless grasp the situation more readily.

In the case of joint stock companies, however, I anticipate that none of you will have much difficulty in appreciating that from a bookkeeper's point of view at least, paid up capital is a liability of that company towards its shareholders. It is important, however, that even at this early stage I should point out to you a very material difference between the accounts of a joint stock company and the accounts of a trader or private firm. The former is necessarily of somewhat artificial construction, governed by numerous Acts of Parliament, and these provide that the amount of capital contributed by the proprietors shall be fixed at the outset, and remain fixed throughout the company's career, except in so far as it may be increased or reduced by the means duly appointed by the Legislature. These questions of the increase and reduction of a company's capital we shall have to consider upon a subsequent occasion, but in the meantime I should like to point out to you that, subject to these considerations, the capital of a compaay is unalterable, and any profits which it may earn, or losses which it may incur, are not allowed to affect the amount of its capital. Leaving on one side those few companies which may be formed for scientific, artistic or social purposes, not for the acquisition of gain, it may be stated in general terms that the primary object of every joint stock company is to earn profits for distribution among proprietors, therefore the aim of the accounts of every company should be to disclose what profits have been made that are available for this purpose, for it is very strictly laid down in the Companies Acts that such profits only are divisible, and that anything in the nature of a return of capital is not allowed. A company's accounts are therefore so stated as to show upon the face of the balance sheet the amount of undistributed profit which may be available, or, in the event of there being a loss, the aggregate amount of that loss as it stands at the date of the accounts. These, however, are points which it is only necessary for me to deal with in general terms at the present time, as I shall have to go into them very much more fully later on, when I come to consider the question of dividends, etc.

Now, inasmuch as the ledger contains in a classified form a record of all the transactions, it is obvious that from the ledger we can at any time readily ascertain both the assets and the liabilities of the business. That is to say, the ledger keeps a continuous record of the amount owing to the business, the amount owing by it, of the property belonging to it, and of the excess of assets over the liabilities. If the latter at the end of any period is greater than at the commencement of that period, the difference will be the profit made during that period, assuming, of course, that no fresh capital has been brought in or withdrawn during the period. Similarly, if it has become reduced, there will have been a loss.

In taking out a balance sheet from the ledger, however, we find numerous accounts that represent neither assets nor liabilities, but sources of expense or of income. In this connection the following rules will be found most useful:

1. When an item is on the left-hand, or Dr. side of the ledger—
   - (*a*) If the amount will eventually be received it is an asset.
   - (*b*) If the amount will not eventually be received it is a loss.

2. When the item is on the right-hand or Cr. side of the ledger—

(*a*) If the amount will eventually have to be paid it is a liability.

(*b*) If the amount will not eventually have to be paid it is a gain.

This rule never fails, but of course the question as to whether an amount will eventually be received or not requires a knowledge of the facts of a particular case for its correct disposal; and even then may be a point of much difficulty; in fact, this is one of the difficulties of correctly reporting upon the affairs of any business, for, because A owes B £100, it does not in the least follow that B will ever receive his £100 from A. If he does eventually receive it, of course it was one of B's assets, but if not B must look upon it as a loss.

For theoretical purposes, however, we may readily suppose the distinction made. That having been done, the losses and gains are collected into one account usually called the Profit and Loss Account.

In this account the losses will appear on the Dr. side and the gains on the Cr. side, while the difference between the two sides will show the total gain or loss, as the case may be.

As every source of gain or loss has been included in this account, the total gain made during the period under review, as shown by this account—or the total loss, as the case may be—will agree with the corresponding figures upon the balance sheet, and if there is no error in the books it must so agree, and here again we get the check of the double entry. It is here also that the special value of the double entry shows itself, for a very few moments' consideration will show that the question, "How have we made our profit?" is in reality almost more important than the question, "What profit have we made?" As however, the point involved here belongs to accountancy rather than to bookkeeping, I will not pursue it further at the present time.

Before closing my lecture to-night I should like to draw your attention to one or two points which are, perhaps, of more practical importance than anything which we have up the present considered, and which I think may usefully be mentioned at this stage.

The first point to which I should like to draw your attention is the extreme importance which attaches not only to the correct keeping of accounts in general, but also with regard to that part of a company secretary's duties which deals with the minutes, in so far as they affect the accounts of the company. In general terms it may be stated that the following points should be dealt with by a resolution of the directors at their first meeting after the registration of a company:

1. The fixing of a quorum.
2. Nomination of the company's bankers.
3. The method in which checks and bills are to be indorsed and signed on behalf of the company.
4. The appointment of auditors.
5. The appointment of other officers, and the salaries to be allowed to each.
6. The method to be adopted in respect of moneys received at the company's office, in respect of which a resolution should always be passed that the amount be banked forthwith.
7. The circumstances under which the seal of the company shall be affixed to any document.

All these, of course, are general matters, but the like care should be applied to a complete record being kept of any resolution of the Board with regard to any particular matter affecting the accounts of the company, and it is the more important that the Secretary should be precise upon these points, inasmuch as in many cases directors are apt to look upon them as questions of detail with which they personally are not concerned. In particular is it of the greatest importance that all minutes relating to allotments, &c., should be very carefully recorded, but this is a question which I shall deal with more fully at a later stage.

The remaining point to which I should like to draw your attention to-night, is the distinction between fixed and floating assets. In this connection it may be stated in general terms that those assets which a company acquires for the purpose of being fully equipped to carry out the object set forth in its memorandum of association are fixed assets, whereas those which it acquires for the purposes of resale in the course of carrying out the objects for which it was registered are floating assets. It will thus be seen that whether or not a given asset is a fixed or a floating asset will vary very much according to the nature of the business transacted; thus with an ordinary manufacturing business, or with a mining business, the machinery necessary for the purpose of carrying on the ordinary processes is in the nature of a fixed asset, but in the case of an engineering company, whose business it is to manufacture such machines, any that may remain in stock are stock-in-trade, which is a floating asset. Land and buildings with the vast majority of companies are fixed assets, but in the case of a land company they are a floating asset. Ordinarily speaking, investments in other companies or Government stocks, &c., are floating assets, but in the case of a company whose business it is to invest its capital in such securities, they become fixed assets. This, perhaps seems a slight contradiction of the definition which I have given above, as it cannot be said to be a necessary part of an equipment of an investment company that it should invest its capital, rather is it pursuing the ordinary objects of its formation when it does so. The only explanation I can offer for the discrepancy is that it has been held in the courts that in the case of investment companies the investments *are* fixed assets, but no doubt it has arrived at this decision after taking into account the fact that such assets are intended to be held permanently, and are not acquired for purposes of re-sale.

In a few classes of companies, in which the form of accounts is regulated by Act of Parliament, it is specially provided that a separate balance sheet shall be furnished, upon one side of which are to be fixed assets, and upon the other the share and loan capital of the company, the difference between them only being carried forward into the general balance sheet, which deals with the floating assets and liabilities. This modification, although perhaps a little confusing at first, is really a matter of detail upon which we need not spend much time at present, but I should like to point out, even at this early stage, that whenever you find the "Double Account System"—as this system is called—adopted, you will find in conjunction with it that the fixed assets are invariably stated in the accounts at the actual amounts which they have cost, without any deduction being made for depreciation or fluctuation in value. How, if at all, these points are dealt with in the accounts of companies of this description it will, however, be better for us to consider at a later stage, when we discuss the question of depreciation generally.

BOOK-KEEPING.*

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The 2nd of a series of six lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, Jan. 20, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.C.A.

The questions which are before us for consideration to-night are:

The distinction between Capital and Revenue?

What are Revenue Accounts and Trading Accounts?

What is the principle of Adjustment Accounts, by which each ledger of a system of accounts may be balanced separately? and

What means of control can be exercised by the books when the business is carried on, not merely at headquarters, but also at various branches?

I think you will agree with me that, if I successfully cover this programme this evening, we shall have advanced considerably in our knowledge of the science of bookkeeping.

Taking first of all the question of the fundamental distinction between capital and revenue, I would like to call your minds back for a few moments to something which I said to you upon the last occasion. I then pointed out that, in taking out a balance sheet, and trading and profit and loss accounts from a trial balance, which had been prepared from the ledgers, we found some accounts represented assets or liabilities, and others sources of expense or income. I would now like you to look at this from another point of view. Every entry which is to be found on the debit side of a ledger account implies that the owners of the business have expended that amount upon the person or account indicated; while, on the other hand, every entry to be found on the credit side of the ledger, implies that the owners of the business have received from the person or account indicated a benefit to the extent stated. Everything which can find an entry in the books of account entails the receipt or the imparting of a benefit, and what has to be considered later on is, what is the effect, or the consequence, which will result from that receipt or imparting of a benefit; or, on the other hand, what return can be ultimately expected from it?

I pointed out to you also, on the last occasion, that, with regard to benefits imparted, if an equivalent amount will eventually be received they could be regarded as assets, but if an equivalent amount would not be eventually received, they have to be treated as a loss. In many cases, of course, the debit balance standing upon a ledger account will consist partly of the one and partly of the other, and we have to discriminate between the two. That expenditure which it is anticipated will eventually be received is in the nature of capital expenditure, while that which it is expected will not eventually be received is in the nature of revenue expenditure.

The same remarks apply with regard to the credit side of the ledger, or the credit balances therein; these are all prima facie in the nature of benefits received. If there will not eventually have to be a corresponding amount paid in respect of these benefits they are profits, or revenue, or income. If, on the other

*The first of these lectures was published in the May Journal.

hand, they are benefits received which are of a temporary nature, and which will eventually have to be met by payment of an equivalent amount, they are in the nature of liabilities or capital receipts. Those amounts which are capital receipts or payments go to the balance sheet; those amounts which are revenue receipts or payments go to the profit and loss account, or revenue account, as it is sometimes called. In this connection, however, I would like to guard against any misconception as to what I mean by "receipts" and "payments." Ordinarily speaking the term is only used when cash actually passes, but here I am not using it in this restrictive sense, I am using it with regard to *benefits*, whether they take the form of cash or anything else. Another limitation which it is necessary for me to add in this connection is with regard to those companies that keep their accounts upon what is called the Double Account system. I have just mentioned to you that all debit balances which eventually will be received are capital expenditure, and all credit balances which eventually will have to be charged are capital receipts. I use the terms "Capital expenditure" and "Capital receipts" in this connection for want of a better name, but I hope that you will not confuse them with the distinction between the capital account and the general balance sheet of a "double-account" company. Everything that occurs in both these is in the nature of a capital receipt or a capital expense; and the distinction in the double-account system is not between the capital and revenue (for that distinction has to be observed in every set of accounts), but between fixed and floating expenditure and fixed and floating receipts. That is to say, it is merely a subdivision, which for present purposes we can afford to disregard. If the capital account and the general balance sheet of an ordinary double-account undertaking were amalgamated into one balance sheet, they would be neither more nor less than an ordinary (single-account) balance sheet prepared in the usual way.

I hope that by this time you will have begun to gather my idea of the general distinction between capital and revenue. The transactions which are continually going on in a company, or any other undertaking, are of two classes, or a combination of those two. The one class is a mere *transfer* of assets from one person to another, carrying with it a corresponding liability for the person who has received the asset to repay its equivalent to the first person. This class of transaction affects only the balance sheet, and in no way the profit and loss account. It is what we may call a "capital" transaction. On the other hand, there are several classes of transactions which involve the payment of a certain sum from one person to another, which will not eventually have to be repaid. These last are "revenue" items; that is to say, they affect the profit and loss account alone. Many transactions, of course, partly affect the balance sheet and partly affect the profit and loss account.

I take it that you are now sufficiently acquainted with the general theory of double entry for it to be unnecessary for me to enlarge very much upon this point, but I should like for the sake of clearness to give you one single example; it is this:—

Supposing in the balance sheet of a company, as it stands at present, the stock-in-trade is stated as being £500; then, supposing it sells £100 of this stock for £120, there is, of course, a debit to the purchaser to that amount. In practice £120 is also credited to the sales account (or the stock account or goods account as the case may be,) in each case the general principle being the same, that eventually it comes to the credit of the trading account. But what, strictly speaking, takes place is this, that the actual stock account has to be credited with £100 in respect of assets which have been parted with (which is a capital item), while the £20 is a benefit received—from a bookkeeping point of view without any corresponding consideration—which will not have to be again returned, and is therefore a revenue item. Numerous other examples of composite transactions, involving both capital and revenue, will doubtless readily occur to you; but I do not think I need stay to enlarge upon them at the present time.

What is really of more practical importance in connection with this distinction between capital and revenue is with regard to more unusual items, such as whether a certain expenditure in improvements may be taken as being a capital item, or whether or not a part of it ought to be written off at once as revenue. Here, again, the same principle applies. We are entitled to treat as capital expenditure anything which directly increases the value of our assets; but anything which, after we have spent it, does not really place us in a better position than the position which was shown by the books as they previously appeared must be treated as a revenue item. That is to say, supposing we have a building worth, say, £1,000, and we afterwards spend money in the improvement of that building which comes to £200, then if the building, as it subsequently stands, is really worth £1,200 to us, we may treat the full amount as capital expenditure; but if, on the other hand, the building is only worth £1,100 to us, the mere fact that its value has been increased at least £200 by the expenditure of that amount does not, in itself, justify us in debiting the building account for this £200; or, at all events, it does not justify us in doing so unless at the same time we write off £100 in respect of the excess of the original amount at which the value stood over the actual value at that time.

Passing from this point I should like to draw your attention to the fact that the object of all balance sheets is to show the real financial position of a company as at the date of that balance sheet, while the object of all trading, profit and loss, or revenue accounts is to show the result of its transactions during the period covered in such manner as may be most useful to those who are concerned in its finances. The consequence is that balance sheets do not, (or at least should not) vary very much in their essential form, although they may vary in details; but, on the other hand, the revenue and other similar accounts, will vary very materially according to the nature of the transactions which have occurred. Shortly speaking, undertakings may be divided into three classes:—

(1) Manufacturing undertakings,
(2) Trading undertakings,
(3) Non-trading undertakings;

by which latter I mean those undertakings which are not engaged in a manufacture or a trade.

In manufacturing undertakings it is usual to group the various revenue items in various sections, on account of the great value of such grouping to those persons who are concerned in the management of the undertaking. The first section, which is usually called the Manufacturing or Trading Accounts, contains on the one side those items which have contributed to the cost of manufacturing the goods in question, and on the other side the gross proceeds which have been realized on such manufacture, these figures being, of course, modified by any difference in the start and the close of the period. The next section, which is generally called the Profit and Loss Account, brings down upon the credit side the gross profit upon the actual manufacture, and details upon the debit side the cost of distribution and various financial expenses in connection therewith; any further sources of income appear to the credit of this account, and the result is the actual net profit which may have been earned.

In the case of a private firm of manufacturers, this profit is carried direct to the capital accounts of the various proprietors in the proportions which have been agreed upon between them; but in the case of a company, the profit cannot be allocated until a general meeting has been held, and the shareholders have decided what is to be done with it. The balance is therefore carried forward, or in practice transferred to another account, which is usually called the "Profit and Loss Appropriation Account," or the "Net Revenue Account" or some such similar name. It stays upon this account until the shareholders have decided what dividend is to be declared, and what amount is to be carried to the reserve, when the necessary entries are made, and any balance which is left upon the account to be carried forward to next year is actually left upon this account in the Ledger, so as to form a starting balance to which the next year's profits are added in due course. I shall have something further to say to you with regard to the form of accounts and the mode of making the necessary entries for the payment of dividends, &c., at a later stage in our present course.

The case of a trading company is different only in degree from that of a manufacturing company. Here, also, the revenue account is divided into two main sections, the first being mainly directed to showing the actual cost of the goods which have been sold, as against the gross amount which has been received for those goods. The difference, which here again is called the "gross profit," is carried down, and the establishment and financial expenses charged against it, the result being a net profit, which is dealt with as before.

With regard to non-trading concerns, there is usually no occasion for this division of the revenue account into two sections. One account is amply sufficient for all practical purposes in the vast majority of cases, upon the credit side of which will appear the items of income, or profit passed, and upon the debit all the items of expenditure or loss incurred. These, of course, will, under ordinary circumstances, be grouped under convenient headings for the sake of comparison. The net profit will be dealt with in exactly the same way as before, the only fundamental distinction being that in the case of trading or manufacturing companies there are virtually three sections to the revenue account (viz. trading account, profit and loss account, and net revenue account), while in the case of non-trading companies there are only the two latter sections. But of course, you will understand that all these are matters of detail, it being really quite immaterial (so far as the fundamental principles of bookkeeping are concerned), how many sections there may be in the account; as a whole it is a revenue account, and includes all revenue items, whether of income or expenditure; so that the result shows a net increase, or a net decrease, as the case may be.

The next question to which I invite your careful attention to-night is that of Adjustment Accounts, which are introduced into the various ledgers of a system of bookkeeping for the sake of making each ledger self-balancing.

I do not think it is necessary for me to enlarge upon the advantages of being able to locate a clerical error in the balancing of books in the case of a system which involves the use of a considerable number of separate ledgers. No doubt you have all of you had some experience of such extended systems of bookkeeping, and have realized the importance of this for yourselves. The details in connection with adjustment accounts vary under different circumstances, but the general principle is that each separate Ledger should be so arranged as to possess within itself all the necessary materials for a complete trial balance. That is to say, each departmental ledger should contain a "General Ledger Adjustment Account," while the general ledger should contain an adjustment account for each of the departmental ledgers. To the adjustment accounts in the various departmental ledgers are posted *contra* entries for every single entry that occurs elsewhere in that particular ledger; but, of course, these *contra* postings are not made in detail, but in *totals*, as otherwise an enormous amount of labor would be involved. In the same manner the various adjustment accounts which occur in the general ledger each contain the *contra* entries of such other entries as are entered in the general ledger, and which, but for these adjustment accounts, would not have any *contra* entry at all in that particular ledger. Thus the total of the sales is posted to the sales account in the general ledger, the corresponding debit of this entry would be the debit to the customers in the Sold ledger. When "self-balancing" ledgers are used, however, the practice is as follows: The various items are still debited to the customer in the Sold ledger, and the total sales posted to the sales account in the general ledger. In addition, however, the double entry of the Sold ledger is completed by the monthly total of the sales being posted to the credit of the general ledger adjustment account in the Sold ledger; while the double entry of the general ledger is completed by the monthly total of the sales, in addition to being posted to the credit of the sales account, being also posted to the debit of the Sold ledger adjustment account in the general ledger. All other transactions are treated in a similar manner. Where there is a considerable number of Sold ledgers, a separate adjustment account is usually kept for each.

From what I have just said you will see that the entries which occur in the general ledger adjustment account in the Sold ledger will be identical with the entries which occur in the Sold ledger adjustment account in the general ledger; and that, therefore, the balance of these two adjustment accounts will always be the same if the books are correct. But the balance will fall upon different sides, namely, upon the credit side of the account in the Sold ledger, and upon the debit side of the account in the general ledger. If these two balances agree we may feel reasonably satisfied that the postings are correct, provided each ledger separately balances; but, in the event of their not agreeing, it ought to be comparatively a very simple matter to trace the difference, because not only should the *balance* of the two accounts agree, but each separate item should be the same. To make this clear, I have prepared an example of these adjustment accounts which I think you will find quite clear:

Dr. GENERAL LEDGER (ADJUSTMENT) ACCOUNT. Cr.

1896.		£	s.	d.	1896.		£	s.	d.
Oct. 31	To Cash..........	700	0	0	Oct. 1	By Balance..........	1,500	0	0
	" Discount......	20	0	0	" 31	" Sales.....	1,200	0	0
	" Returns	40	0	0	Nov. 30	" "	900	0	0
Nov. 30	" Cash	800	0	0	Dec. 31	" "	700	0	0
	" Discount......	25	0	0					
	" Returns	20	0	0					
Dec. 31	" Cash	600	0	0					
	" Discount......	15	0	0					
	" Returns	30	0	0					
	" Bills receivable	750	0	0					
	" Bad debts.....	50	0	0					
	" Balance down..	1,250	0	0					
		£4,300	0	0			£4,300	0	0
					1897.	By Balance down....	£1,250	0	0

Dr. SOLD LEDGER (ADJUSTMENT) ACCOUNT. Cr.

1896.		£	s.	d.	1896.		£	s.	d.
Oct. 1.	To Balance.......	1,500	0	0	Oct. 31.	By cash..........	700	0	0
" 31.	" Sales	1,200	0	0		" discounts.	20	0	0
Nov. 30.	" "	900	0	0		" returns........	40	0	0
Dec. 31.	" "	700	0	0	Nov. 30	" cash..........	800	0	0
						" discounts	25	0	0
						" returns.... ...	20	0	0
					Dec. 31.	" cash..........	600	0	0
						" discounts	15	0	0
						" returns........	30	0	0
						" bills receivable	750	0	0
						" bad debts.....	50	0	0
						" balance down.	1,250	0	0
		£4,300	0	0			£4,300	0	0
1897.	To balance down..	£1,250	0	0					

Before leaving this question of adjustment accounts as a means of balancing ledgers separately, I should like to call your attention to the following points, which I think will help to clear up any difficulties which you may have experienced in understanding the application of the general principle.

The mere fact that one ledger is divided into two or more books does not *ipso facto* alter its nature. The ledger, as a whole, still records the double effect of each transaction. At any time the sum of its debits will therefore always equal the sum of its credits. Consequently a trial balance of a set of ledgers can always be taken out by abstracting every balance, and the total of the debit balances will always equal the total of the credit balances if the postings are correct. There is thus no difficulty in testing the accuracy of a set of ledgers provided we extract all the ledger balances. On the other hand, when there is more than one ledger, or at all events when there are more than two or three ledgers, we very soon find the number of balances is so large that when the trial balance does not agree it is a very difficult matter to localize the error. Hence it becomes very desirable that we should have some means of verifying the accuracy of each ledger separately, and it is for this purpose that the adjustment accounts are introduced. Incidentally I may mention, however, that they are in practice particularly valuable because by their means trade ledgers (which usually contain the heaviest amount of posting) may be separately balanced, not only when a general balance is being struck, but also from time to time; in practice it is usual for them to be balanced at least once a month, and without adjustment accounts this could not be done without balancing all the books monthly.

With regard to the practical working of the adjustment accounts it is necessary that those subsidiary books from which the various ledgers are posted should either be in separate sets (one set for each ledger) or they should be of the columnar order, a separate column being devoted to the postings which have to go into each separate ledger. In practice by far the most convenient way is to have separate day books for each ledger, but with regard to the cash book it is sometimes best to have one of the columnar type, while in other cases separate subsidiary cash books are more convenient. With regard to transfers from one ledger to another, these may be conveniently passed through a transfer journal, and for all practical purposes it will be quite sufficient if the contents of this transfer journal are analyzed at the end of each month and posted to the various adjustment accounts.

The chief difference in the system of bookkeeping where adjustment accounts are used will be with regard to the general ledger. Ordinarily speaking the general ledger is posted up from the totals of the various day books and the general cash book, and in the case of most trading or manufacturing undertakings the number of journal entries will be very few. It is not really necessary that the number should be increased because adjustment accounts are used, as the necessary postings of day book totals can still just as easily be made from the day books direct as through the journal; but as, in employing self-balancing ledgers, we do now have to make two entries in the general ledger itself, it is perhaps desirable that journal entries should be made to enable this to be done.

The remaining point which we have to consider to-night is the means of control which a good system of bookkeeping will enable us to exercise upon the transactions occurring at the branches of a business.

It is here, perhaps, even more than for the fact of enabling us to balance ledgers separately that the principle of the adjustment account is most valuable. You will remember that I pointed out to you just now, in connection with the balancing of ledgers separately, that it was a matter of detail as to whether or not the accounts of an undertaking were kept in one or more ledgers. The same remark applies with regard to the number of branches at which the transactions are carried on. It is a matter of detail how many places of business an undertaking has. Its transactions as a whole are recorded in the books as a whole, and it is quite immaterial whether some of the books are kept, and some of the transactions take place, at a distant part, rather than at the headquarters of the business itself. The great point, however, is that those at the head office naturally want to know what is going on at the branches from time to time, and they want a system of accounts devised which will enable them not merely to check the branches' accounts but also to weave them into the accounts which are kept at the head office. This is done by merely treating the ledgers of each separate branch in exactly the same way as a departmental ledger would be treated; that is to say, in the general ledger at the head office there is an adjustment account called "Branch Account," to which all transactions passing between the head office of that particular branch are posted in the head office books. In the branch books there is kept a similar adjustment account, called the "Head Office Account" to which the branch bookkeeper posts all the transactions occurring between the head office and the branch. The result, of course, is that, if both these adjustment accounts are correct, they will invariably show the same balance, but upon different sides. When balancing time comes, therefore, if the branch remits a trial balance of its ledgers, that trial balance can be woven into the one extracted at the head office by being merely used as an explanation of the balance appearing in the branch account in the head office books. Usually, and indeed almost invariably, this account will appear as a debit balance in the head office books, representing the amount of capital invested in the branch; but this, of course, is modified from time to time, when the branch trial balance comes in, by transfers to and from revenue accounts. For the sake of making this quite clear to you, I have prepared *pro forma* trial balances (in very simple form), of a head office and branch, and an aggregate trial balance showing how these two are amalgamated.

BRANCH OFFICE TRIAL BALANCE.
31st December, 1896.

Sundry Debtors (Sold Ledger Account)....	1,250 0 0	
Sundry Creditors (B't Ledger Account)....	....	200 0 0
Stock (On 31st Dec. 1896)	2,500 0 0	
Head Office Account.	....	4,350 0 0
Cash.....	500 0 0	
Fixtures, &c..........	1,000 0 0	
Trading Acc't (gross profit)...............	....	1,200 0 0
General Expenses....	500 0 0	
	£5,750 0 0	£5,750 0 0

HEAD OFFICE TRIAL BALANCE.
31st December, 1896.

Share Capital Acc't..	....	15,000 0 0
Buildings Account....	2,500 0 0	
Fixtures, &c..........	1,250 0 0	
Branch Office Acc't...	4,350 0 0	
Stock..................	5,000 0 0	
Cash	2,000 0 0	
Gross Profit...........	....	3,000 0 0
General Expenses....	1,000 0 0	
Sundry Debtors......	3,900 0 0	
Sundry Creditors.....	....	2,000 0 0
	£20,000 0 0	£20 000 0 0

AGGREGATE TRIAL BALANCE.
31st December, 1896.

Share Capital Acc't..	....	15,000 0 0
Buildings Account....	2,500 0 0	
Fixtures, &c. Account	2,250 0 0	
Stock Account.........	7,500 0 0	
Cash Account.........	2,500 0 0	
Trading Acc't (gross profits)..............	....	4,200 0 0
General Expenses....	1,500 0 0	
Sundry Debtors......	5,150 0 0	
Sundry Creditors.....	....	2,200 0 0
	£21,400 0 0	£21,400 0 0

There is, however, a further point in connection with these trial balances of branch accounts which I should like to consider with you here. As a matter of fact it not infrequently happens that the branch is in a foreign country, and that, therefore, its transactions take place for the most part in the foreign currency. Then comes in the question as to how these transactions in foreign currency are to be treated at the head office books, for, of course, the trial balance of the branch office will naturally be in the currency in which the transactions have occurred; were it otherwise an enormous amount of labor would be involved.

In order to exemplify this let me assume that the branch accounts, of which I have just given you a trial balance, are in respect of transactions which took place in France, and let me rewrite this trial balance in French currency, viz. :—

FOREIGN BRANCH TRIAL BALANCE, 31st December, 1896.

	Fr.	c.	Fr.	c.	£	s.	d.	£	s.	d.
a Sundry debtors	31,598	0	......	..	1,250	0	0			
a Sundry creditors	......	..	5,050	0	.....	.	.	200	0	0
a Stock	63,196	0	......	..	2,500	0	0			
b Head office	......	..	110,500	0	.....	.	.	4,350	0	0
a Cash	12,625	0	......	..	500	0	0			
c Fixtures	25,400	0	......	..	1,000	0	0			
d Trading account	......	..	30,360	0	.....	.	.	1,200	0	0
d General expenses	13,091	0	......	..	517	8	2			
Exchange account	......	..	......	..	.....	.	.	17	8	2
	fr 145,910	0	fr. 145,910	0	£ 5,767	8	2	£ 5,767	8	2

a. Ex. fr. 25.25 = £1. *b*. At actual rates of exchange at dates of remittances. *c*. Ex. fr. 25.40 = £1. *d*. Ex. fr. 25 30 = £1.

The only account which it is necessary should be kept in sterling in the branch ledger is the "Head Office Account." This account consists for the most part of a record of transactions between the head office and the branch. It is convenient, however, that the account should really be kept in two sections; that is to say, that the head office account should be dealt with only when the books are balanced, and the current transactions should be posted to a head office remittance account. The advantage of this slight modification of this system is that it becomes very much easier to balance the branch accounts with the head office books when the branch trial balance is received at the head office.

All that remains to be done after these two have been balanced is to convert the trial balance of the branch into sterling, which is most conveniently done by extending the amounts in further columns added to the existing trial balance. There is, however, a general question of principle which it is important for us to recognize before we commence these operations. The conversion of the remittance account and the head office account has already been done, and these items must be extended at the actual figures appearing in the branch books, which also agree with the figures appearing in the head office books. The remainder of the items in this trial balance are of three classes. They are:

1. Fixed assets and liabilities;
2. Floating assets and liabilities; and
3. Revenue items.

The fixed assets and liabilities may safely be taken at the actual figure that they cost in English money; that is to say, they will be extended at the rate of exchange of the day when they were incurred. The floating assets and liabilities must, however, be extended at the rate of exchange ruling at the date of balancing, as this, of course, is the sterling value of these items on that day, and it is a matter of principle that they should be valued upon the basis of a going concern. The revenue items, on the other hand, are the totals of transactions occurring over the whole of the period, and are not figures in respect of any one day; it therefore would not do to convert them at the rate of exchange ruling at the date of the accounts. We should not by this means be getting any proper idea of the effect of the transactions. A far better method is to adopt the average rate of exchange ruling during that period, but many undertakings prefer to adopt what they regard as a normal rate of exchange. This latter has the advantage of continuity between the various accounts, but it is less theoretically correct than the average rate.

I need hardly point out to you that, if more than one rate of exchange is used for the conversion of the various items in the foreign currency, the result will be that the sterling columns of the trial balance will not agree, although the currency columns do agree. The difference must be inserted as being a "Difference in Exchange;" it may be either a loss or a profit, according to the circumstances of the case. It is now possible for us to amalgamate the various items of the branch trial balance with the head office trial balance, and out of the two there can be struck a balance sheet and profit and loss account for the whole undertaking. In many cases it is desirable that this should be supplemented by balance sheets and profit and loss accounts of the various branches and of the head office separately, but this, of course, is a matter which can at all times be easily performed.

I may add that in many cases the transactions which occur at branches are not sufficiently numerous or complex for it to be necessary that any really complete system of accounts should be kept out there, and in some cases (as for instance in mine) it is desirable that the accounts which have to be kept there should be framed upon such lines that they can be kept by one who is not a skilled bookkeeper. This, however, involves the remittance of periodical "returns" to the head office. These returns are, ordinarily speaking, merely in the form of an account of receipts and payments, which are journalized in the head office books in a summarized form, the various items of receipt being debited to the manager, and his payments posted to his credit. When it becomes necessary to balance the accounts, this periodical cash account is supplemented by a statement of outstanding assets and liabilities at the branch, and these are incorporated in the head office accounts by means of journal entries.

When this system is adopted it is, of course, only necessary for a cash book (or perhaps a wages book in addition) to be kept at a branch; but, although very suitable for mining undertakings and others of a similar nature, it is quite inadequate where any trade or manufacture is carried on. In these latter cases it is essential that proper books should be kept upon the spot, and that they should be controlled from the head office in the manner which I have before indicated. With regard to trades, however, there is one other means of control which I should like to point out to you, as up to the present time it does not appear to me to be utilized so much as it might be. It is this: In the case of a wholesale or retail firm employing various depots for the sale of their goods, all of which are purchased or manufactured at the headquarters, if the goods are invoiced out to the various depots at *selling price*, instead of at cost price, then the trading account of the branch should in the nature of things, show *no* balance whatever, either to the debit or to the credit. Any balance which it may show represents either that the goods have been sold at more than the price which it was intended they should be sold at, or that they have been sold at less than that price, or else that there has been a waste. Thus a very useful and reliable check upon the stock may be obtained by the simple method of invoicing the goods to the branches at the selling price.

BOOK-KEEPING.*

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The third of a series of 6 lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, Feb. 3, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.C.A.

The next point to which I wish to direct your attention is the question of tabular bookkeeping.

Tabular bookkeeping is a form of accounts which, perhaps, many of you may as yet have had no opportunity of considering at any length. It is not in very general use, except in a few industries, but with regard to those particular undertakings in which it is adopted, it seems to be practically the only form in which the accounts can be kept without a very enormous amount of labor indeed.

The general principle of tabular bookkeeping is this: An ordinary ledger, as no doubt you will remember, contains a distinct account for each separate person or thing in which transactions occur. All the transactions relating to that particular account are entered therein irrespective of the date. With tabular bookkeeping, on the contrary, the date is the essence of the division of pages and not the name of the account. That is to say, a page, or, as the case may be, a certain number of pages are used for all the transactions during a certain period. The period may be either a day, or three months, or six months, according to the nature of the undertaking, but all the transactions occurring during that period, or at least all those of the particular class which is covered by the ledger in question, are entered upon the one page, or series of pages, dealing with that date. They are entered in tabular form, so that the addition one way represents all the transactions with one person, and the addition the other way represents all the transactions of a particular description. It is a matter of convenience which of the totals is vertical and which is horizontal but probably the usual thing is for the horizontal totals to give the transactions in connection with one person, and for the vertical totals to classify the transactions under the different headings. In the example which I give you now, however, the reverse process is adopted; the vertical columns are the personal accounts, while the horizontal lines are the nominal accounts.

The example which I have selected to put before you to-day, is that of the Visitors' Ledger, or Bar Bill Book, as it is sometimes called, of an hotel. It is probably the most common form of tabular ledger, but it is almost the only one in which the personal accounts will be found in vertical columns. But, as I have said before, it is quite a matter of convenience which way the book is arranged, and I have frequently seen the Visitors' Ledgers of hotels with the visitors' accounts arranged in horizontal lines and the nominal accounts in the vertical columns.

I should like you to very carefully consider this form, because it is not only useful as an explanation of tabular ledgers themselves, but also it will probably help those of you who still have some lingering doubt as to what the system of double entry is, to dispel these doubts at once.

For all practical purposes you will see that this tabular ledger is not only a

FORM OF TABULAR LEDGER.

WEDNESDAY, 3d FEBRUARY, 1897

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Room No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Name.	Smith.		Kidd.			Jones.	Brown		Black.	Thom.	Jupp.	Peck.	Wood.	
DEBITS—	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s d.	£ s. d	£ s. d.	£ s. d	£ s. d.	£ s. d.
Balance brot. forward	15 8 6		4 14 6			9 16 0	9 16 0			4 11 0	4 14 6			
Apartments	5 0					5 0	4 6		12 0	4 0	3 6	3 6	3 6	
Boarders														
Breakfast	2 0					3 0	3 0		3 0	3 0	2 6	2 6	2 6	
Luncheons	2 6					3 0	3 0		2 6	2 0	1 6	1 6	1 6	
Dinners	4 0					10 0	10 0		9 6	1 6	4 0	4 0	4 6	
Dessert and Ices														
Sandwiches														
Tea and coffee														
Soups														
Suppers														
Servants' Board														
Wine						2 6	3 0							
Spirits and Liquors														
Ales, Stouts, &c.														
Minerals														
Cigars														
Newspapers														
Postage														
Paid out														
Washing														
Carriage														
Billiards														
Stationery														
Attendance	1 0					2 0	2 0		1 0	1 0	1 0	1 0	1 0	
Baths	1 0					2 6	2 6		2 0	1 6	1 0	1 0	1 0	
Fire and Lights														
Total	16 4 0		4 14 6			11 4 0	11 4 0		1 10 0	5 4 0	5 8 0	13 6	14 0	
CREDITS—														
Overcharges														
Cash received	15 8 6					9 16 0	9 16 0				4 14 6			
Ledger account			4 14 6											
Balance car. forward	15 6					1 8 0	1 8 0		1 10 0	5 4 0	13 6	13 6	14 0	
Total	16 4 0		4 14 6			11 4 0	11 4 0		1 10 0	5 4 0	5 8 0	13 6	14 0	

16	17	18	10	20
	Daily Total	Bt Fwd.	Car. Fwd.	Folio.
DEBITS—	£ s. d.	£ s. d.	£ s. d.	
Balance brot. forward	49 0 6		49 0 6	
Apartments	2 1 0	53 7 6	55 8 6	
Boarders				
Breakfasts	1 1 6	25 7 0	26 8 6	
Luncheons	17 6	22 9 6	23 7 0	
Dinners	2 7 6	60 0 6	62 8 0	
Dessert and Ices				
Sandwiches				
Tea and coffee				
Soups				
Suppers				
Servants' board				
Wine	5 6	11 4 0	11 9 6	
Spirits and Liquors				
Ales, Stouts &c.				
Minerals				
Cigars				
Newspapers				
Postage				
Paid out				
Washing				
Carriage				
Billiards				
Stationery				
Attendance	10 0	12 10 0	13 0 0	
Baths	12 6	14 9 0	15 1 6	
Fire and Lights				
Total	56 16 0	199 7 6	256 3 6	
CREDITS—				
Overcharges				
Cash received	39 15 0			
Ledger account	4 14 6			
Balance car. forward	12 6 6			
Total	56 16 0			

ledger, but also an analytical Day Book; no other, in fact, is kept, and it is here that so much saving is effected. I need hardly point out that this is a very material saving of time, which is particularly advantageous when the number of items is large, and especially so in the case of an hotel, where it is absolutely necessary that the books should at all times be kept up to date.

There are other uses for tabular ledgers, however, which may perhaps readily occur to you when you consider the distinct limitations which this form of ledger possesses. You will see that, whatever the period covered by one page, or series of pages, if the number of accounts be large, it is particularly inconvenient for more than one transaction of any particular class to be entered during the period, therefore tabular ledgers must be restricted to those classes of business where, however numerous the transactions may be, there is only one of each class during the day, or during the period which is covered by a page of the Tabular Ledger.

Undertakings which answer these conditions, among others, are the following:—

Gas companies,

Water companies,

Rate ledgers of local authorities,

and very often it is convenient to keep the sales ledger of a colliery upon this plan, because, although the number of items during a period is frequently very numerous, they are generally collected into an immediate ledger, where they are only posted in quantities, and at the end of the month, when the statement is made out, the quantities are added and priced according to the contract prices, and then converted into sterling, so that in the Sold ledger itself there is only one item for each month. When this system is adopted, of course a tabular ledger will be found very convenient.

I need hardly add that it is also particularly useful for charitable institutions and other similar undertakings, where subscriptions or other periodical receipts arise.

Before leaving this question I should like to point out to you that the form of tabular ledger which I have placed before you provides for the totals of the various nominal accounts being carried forward from day to day. At the end of the month, however, they will be posted to the nominal ledger, so as to prevent the figures getting too cumbersome by reason of their magnitude. In some cases, however, it is found convenient to post these totals daily into a Summary Book, where they are collected and the weekly or monthly totals conveyed from there to the nominal ledger. There is no material saving of time by using an intermediate summary book, but, on the other hand, it is a very useful book for comparing the takings of the different days and upon the same day in different years.

The next question to which I propose to direct your attention is that of Organization in Accounts, but this I need hardly point out to you is a very important one, upon which the success of any system of bookkeeping very largely depends. You will see what I mean by the term "Organization in Accounts" when I give you the following suggestions as to a system of organization which, with slight modifications, would probably be applicable to any ordinary undertaking.

1. All cash received to be paid into the bank daily without deduction, the cashier to have no control over any of the ledgers.

2. All payments, other than petty cash payments, to be made by check, whatever the amount.
3. The Petty Cash Book to be kept upon the "Imprest System," under the supervision of the cashier. The clerk in charge of the petty cash must on no account be allowed to receive any money for sundry cash receipts.
4. Counterfoil receipt books to be used for all moneys received, and vouchers obtained for every payment.
5. The Cash Book and the Bank Pass Book balances to be verified weekly, or oftener, and the adjustment be recorded in a special "Balance Book," or in the Cash Book itself.
6. All ledgers to be rendered "self-balancing," and all Trade Ledgers to be balanced monthly. A maximum difference of, say, 1 s. to be allowed to any one Trade Ledger, subject to the approval of the head bookkeeper. All such differences to be recorded from time to time in a special book, kept by the head bookkeeper.
7. Adequate systems of stock accounts and of cost of accounts to be provided where suitable for the class of business transacted.
8. All invoices for goods purchased to be passed by the Goods Received Department, by the buyer of the department concerned, and by the counting house, before being entered in the Purchases Book.
9. Statements for trade payments to be passed by some responsible person, preferably one of the partners, or, in the case of a company, by the managing director.
10. The calculation of all sales invoices to be checked in the counting house before the Sales Ledgers are posted.
11. Each time the Sold Ledgers are balanced a list of all accounts more than ... days overdue to be submitted to the head bookkeeper and by him to one of the partners, or one of the directors, for further instructions.
12. An efficient system of calculating and paying wages to be introduced, and closely adhered to.
13. The Minute Books to be fully entered up, and kept indexed to date.
14. All exceptional transactions to be reported to the Board at the next meeting for approval or further instructions.
15. The various books required by the company's Acts to be written up, and the necessary returns made to the registrar from time to time as may be prescribed.

It is not of course pretended that the above list is by any means exhaustive, or that it would apply in its entirety to many undertakings, but I think you will have been able to follow that the two main points of any such scheme of organization are:—

1. To provide an "internal check" against either error or dishonesty.
2. To provide that all the formalities required of a company shall be duly carried out and in order.

Upon the first point I should like to make a few further remarks at the present time, as I shall not have to refer to it again, probably, whereas the second point is one which will call for a considerable amount of further discussion.

With regard to the question of an

internal check, then, it must be remembered that in devising any scheme for this purpose there are three matters which should be particularly borne in mind. The first is that the person in charge of the cash should never be in charge of any ledger, or at least of any Trade Ledger, into which that cash has to be posted. The second point is that each separate ledger should be made self-balancing, or at least should be so arranged that it *may* be separately balanced, and where this is, for any reason, not altogether practicable, it is absolutely essential that those ledgers which it is proposed shall not be checked in detail should be so arranged that they may be balanced separately from those ledgers that are fully checked. The third point is that the clerks in charge of the various Trade Ledgers should be frequently changed about, so that no irregularity can remain long undetected without implicating the whole of the staff.

Following on with this question of organization of accounts we may naturally pass to the question of the "Returns" which have to be made at Board Meetings. Wherever there are branches of the undertaking, returns from each of the branches should also be submitted.

It is very difficult to specify exactly what these returns should contain, because naturally so very much depends upon the class of business transacted. For this reason I have not put before you any form in which the return for a Board Meeting should be stated, but I may mention that all the following matters, in so far as they apply, should be included, so the directors may be properly informed as to the position of affairs and the progress of the business since they last met.

The return, then, should show the total sales and purchases in each department of the business carried on, details of all contracts which have been entered into, a summarized account of the receipts and payments, with a reconciliation account, agreeing with the balance so shown with the Pass Book, a statement of the cash which it is expected will be received between the date of the returns and the date of the next meeting, a statement of the payments which it will be necessary to make and for which checks are being required, a statement of the total amount due from debtors, together with a list of those which appear to be overdue, and a statement of the total amount due to creditors other than those for whom checks are asked.

In the case of trading or manufacturing undertakings that hold a stock, it is also very important that Stock Accounts should be submitted at each meeting of the Board, or at least once a month. Now, of course, you will readily understand that in the majority of undertakings, it is quite impracticable for the stock to be actually "taken monthly;" that would not only involve a considerable amount of time and expense but it would also so interfere with the conduct of the business as to be absolutely impracticable quite apart from the question of cost. None the less it is very desirable that those who are responsible for the management of the undertaking should be informed as accurately as possible of the amount of stock in hand from time to time, and not only is this information necessary for directors, but it is also equally valuable to the heads of departments who, as you may perhaps be aware, are not usually conspicuously good at accounts, and are very apt to make quite erroneous deductions as to the precise state of affairs in the absence of definite information being placed before them.

Now, if you look at the form of Stock Sheet which is now before you, you will

FORM OF WEEKLY STOCK SHEET.

Department F.

Week ending January 30th, 1897.

Stock				£1,562	1	6
Purchases				416	3	0
				1,978	4	6
Sales	£721	6	2			
Less estimated gross profit (10 per cent.)	72	2	7			
				649	3	7
Stock on this date				£1,329	0	11

find that it starts with the stock which was supposed to be in hand at the commencement of the period covered by the sheet. If this is the first period after stocktaking, it will of course start with the actual stock ascertained to be in hand. To this amount is added the purchases made during the period, that is to say, all additions that have been made to the stock. Now, from this amount we have to deduct the *cost price of the goods which have been sold*, as near as that cost price can be ascertained, and the result will be stock remaining in hand, at cost price. The only possible way of arriving at the cost price of the goods sold is to take into consideration the general basis upon which the selling prices are marked. In every trade, and therefore in every separate department of a large undertaking, there is a general recognized percentage of gross profit, which, although not universally adopted, is at least a good average, which it is expected will be earned, and which the head of the department is expected to earn. If this percentage is deducted from the selling price of the goods that have been sold, we arrive as nearly as we can at the cost price of the goods that have been sold, and thus we get the best possible estimate of the actual cost of the goods remaining unsold.

Now, it is worth while to consider what will be the effect on this "Stock Sheet" if the percentage of gross profit which has been expected is not actually realized. Well, supposing a larger percentage of profit is realized, the effect will be that the goods which have been sold will be stated in the stock sheet as having cost more than they actually did cost, and therefore we shall be underestimating the actual cost of the goods remaining unsold. On the other hand, if the goods have been sold at a price which does not realize the estimated percentage of gross profit, we shall have been underestimating the cost of the goods sold, and therefore over-estimating the actual stock on hand. The result of this will be that, if to any serious extent the anticipated gross profit is not realized, there will very soon be a cause for complaint at the way in which the estimated amount of stock is increasing from week to week.

This is a matter which naturally would call for an explanation upon the part of the buyer, and the only explanation that he could possibly give would be either that the stock was larger than it ought to be, that it was not so large as stated to be, or that there were special reasons why it should be larger than usual. The first, of course, is an admission that he is managing badly, the second that he is not making the profit he ought to be making and only the third is any real justification of his position. Therefore, although there are limitations to the usefulness of these stock sheets, they certainly do enable directors to have a good hold upon the departmental managers, as to their trading from month to month, which could not be obtained by any other means.

Apart from this advantage of enabling those with a practical knowledge of the business to control the departmental managers, these periodical stock sheets possess another very important advantage, namely, that they make it a perfectly simple matter for the secretary to place before the Board from time to time an Estimated Trading Account, showing the result of each month. Of course this account is only an "estimated" one, because the stock is only estimated; but, as I have just pointed out, it is only within certain fairly reasonable limits that the stock can be inaccurately stated without the attention of the directors being called to the fact, and thus these periodical accounts will be sufficiently accurate to form at least a very much more reliable idea of the way in which the business is going on than could be obtained by any other means.

For practical purposes, it is probably only the trading account that it would be worth while to take out in detail each month. This trading account should deal with each separate department, showing the gross profit earned by that department, and these gross profits can be carried forward to an interim Profit and Loss Account, against which it will probably be sufficient for the expenditure to be lumped in the form of an estimate.

I trust you will follow my meaning here, because, in deference to a wish expressed that I should not take up too much space in your valuable Journal with my examples, I have refrained from placing before you an example of this interim Trading and Profit and Loss Account upon the present occasion. Should it appear, however, from the answers which I receive to the questions that I am about to put to you at the close of this lecture that any considerable number of you have failed to grasp my meaning, I will make a point of placing an example before you next time.

The only other point which I propose to mention to-night, is the "Imprest" system of petty cash, which I mentioned to you some little time since as being the best to be adopted by all classes of undertakings. No doubt the majority of you are fully acquainted with this system, which is at once the best and the most simple, but for the benefit of those who may not hitherto have heard of it, I may mention that the general scheme is that at the end of each week the petty cashier applies for a check for the exact amount of the payments which he has made during the week. This check he receives in due course, and his balance in hand is then restored to the round sum with which he was started, and which he is always debited with in the ledgers as being in his hands. When balancing time comes, however, it is usual to require the petty cashier to pay this amount again into the bank, so that there may be no balance upon the petty cash account in the ledger.

The great convenience of this system is that it ensures a proper supervision of the petty cash being made frequently, that is to say, each time a check is asked for, whereas, if checks on account are being frequently given to the petty cashier, the supervision of his accounts is, in busy times, apt to be left over until, perhaps, it is too late for the account to be supervised with advantage. Another point which is well worth considering is that by this means the Petty Cash Book becomes an entirely subsidiary book, from which it is no longer necessary to make any postings. It is usually kept in columnar form, so that the totals of the various classes of expenditure may be kept separate. When a total is struck and the check applied for, it is quite a simple matter to see how the total of the payments is made up among the different classes of expense, and the check may be conveniently entered in detail in the General Cash Book and posted direct to the various nominal accounts. On the other hand, in order to save the time of the head bookkeeper who usually keeps the General Cash Book, the method is sometimes adopted of passing Journal entries for the petty cash payments, debiting the various nominal accounts, and crediting the ledger petty cash account, which latter has already been debited with the various checks given to the petty cashier from time to time. Personally, however, I very much prefer to see the postings direct from the General Cash Book to the various nominal accounts in the ledger.

BOOK-KEEPING.

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The fourth of a series of 6 lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, Feb. 17, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.C.A.

In the course of my past three lectures to you I have dealt with the general principles of Double Entry, and most of those points which arise in connection with the designing of a system of accounts applicable to the particular industry whose transactions have to be recorded. I have further pointed out to you the desirability of having, not only a good system of accounts, but also a proper system of organization, so that the bookkeeping may be readily controlled by the directors at their board meeting by means of returns.

I propose now to invite your attention to the various questions that arise when the ordinary half-yearly or yearly period comes around, at which it is the custom for the books to be balanced and a balance sheet and a trading and profit and loss account prepared, showing respectively the financial position of the company and the effect of its transactions during the current period.

Now, the first point which has to be thought of in this connection is to see that all the books are properly written up and posted. In a sense, of course, this point always claims attention; but when we come to balancing, it is more than usually important, because we have to be particularly careful to see that all the transactions which have occurred have been actually recorded in the books. Those transactions which occur in the ordinary course of trading will, no doubt, have been recorded in the usual way through the books provided for that purpose, but at balancing, in addition to this, we have to be particularly careful to see that all outstanding assets and liabilities are properly included in the accounts. A considerable number of these will usually be found mostly affecting the various nominal accounts. Thus, the rent accruing up to date will have to be passed through the books, together with any taxes that may be due. On the other hand, the taxes may be paid in advance, and it may be necessary to debit suspense account with the proportion so paid in advance. Again, very likely, the rates will be paid in advance. On the other hand, wages and salaries will probably only have been paid up to some date previous to the date of balancing, and here, again, a proportion accruing to the end of the period will have to be passed through the books.

It is particularly important that all these matters should be very carefully attended to, partly because without them a true statement of the position of affairs cannot be arrived at, and, also, because it is only the secretary, in many undertakings, who is really in a position to be sure that all such transactions have been given effect to in the books. An auditor can find out the omission of such straightforward items as rent or wages accruing, but there will often be little items known to the secretary which could not possibly become known to anyone else connected with the undertaking, least of all the auditor, who only appears upon the scene once or twice a year.

With regard to balancing itself, if you have taken advantage of the suggestions which I put forward in my second lecture, and adopted a system of self-balancing ledgers, you will, in all probability have no very great trouble about balancing the books, as a whole. Those ledgers in which the largest number of entries are made will have been separately balanced at least monthly, and the probability is that the remaining ledgers, namely, the nominal ledger and the private ledger—or, perhaps, all these transactions may be kept in a single general ledger,—will not be sufficiently voluminous to give any great trouble. Nevertheless, mistakes do sometimes crop up, and it is well worth while, in this connection, to pause for a moment and consider how such mistakes are likely to have arisen, and what is the best means of detecting them.

When any particular ledger does not balance in itself, the first step towards ascertaining the mistake is to compare the adjustment account in that ledger with the corresponding account in the general or private ledger. These two accounts, as I have before explained to you, should be absolutely identical, except that the entries will be upon the reverse side of the ledger, and if we find that there is any discrepancy between the two accounts we must trace it out and see where it arises, for naturally, one of the two will have to be altered, and this will probably affect the balancing of that particular ledger.

Assuming, however, that the adjustment accounts do themselves agree, we may take it (at all events for the moment) that they are in themselves correct, and that the mistake which prevents the ledger balancing has occurred in some other account in that particular ledger. If the balances have not been brought down or ruled off since the ledger was last balanced, it is a very good plan to take out, instead of the balances, the totals upon each side of the ledger. The debit totals of all the accounts, except the adjustment account should, in this case, be exactly equal to the credit total of the adjustment account, while the total of all the items posted to the credit of the various accounts, except the adjustment account, during the period should be equal to the total of the debit entries to the adjustment account.

By proceeding thus we can fix the error as being upon one side of the ledger or the other, or we may, perhaps, find that the apparent discrepancy in the balancing is really made of at least two mistakes, thus: for instance a balance of £5 10s. may be found to consist of ten guineas too much upon one side of the ledger, and £5 too much upon the other side. Either way we shall have advanced one step towards the truth, and it is only by proceeding thus, slowly and carefully, that we hope to arrive at a true result, for there is no royal road towards discovering errors in accounts.

It is just because there is no royal road in discovering mistakes in balancing that it is so particularly important that the original transaction should be recorded with the greatest possible care; but as, in spite of the utmost precautions, mistakes will occasionally occur, it is necessary, even in the best regulated concerns, to consider what means may be taken to detect discrepancies when they arise.

As I have pointed out, the first step is to find out in which ledger the mistake occurs, and the second step is to find out upon which side of that ledger it is to be looked for. Having got so far as this, it is probable that it will be mere waste of time to go to any considerable trouble in looking for an error of that precise amount. It will probably be simpler to go steadily through the whole of the work upon that side of the particular ledger. I may mention, however, that a little hand book, entitled "Errors in Balancing," is published by Messrs. Gee & Co., 34 Moorgate Street, E. C., at the modest price of one shilling, and that this book may be useful to you for the sake of the valuable general hints it contains, if not for the sake of the rather elaborate tables showing in what manner almost every conceivable difference in balancing may have arisen. My own experience is that it is but a poor consolation to know that a mistake, say, to the extent of 7s. 4d., may have arisen by posting 8d. as 8s. and vice versa, because it generally takes quite as long to find the mistake out when you have ascertained this as it did before; but sometimes the principle of "spotting" mistakes is worth adopting, because it occasionally happens that the amount is a very unusual one, and can, therefore, be readily traced.

Take a very simple example. In the case of share accounts, the probability is that no fraction of a shilling (except perhaps 6d.) ought ever to occur in these accounts at all, and if, therefore, the share ledger trial balance shows the difference of anything but a multiple of 6d. it ought to be a very simple thing to look through and find the item which accounts for the odd money. But, as I have said before, I do not counsel you, in endeavoring to find out mistakes in balancing, to spend too much time in trying to "spot the actual error" by seeking to analyze its particular constitution. It is much better, in my opinion, to localize the error as far as possible, and then to go thoroughly and carefully through the whole of that particular part of the work and discover where the mistake has been made.

For this reason it is important that the ledgers should be subdivided to a reasonable extent, so that the errors may be localized into some comparatively small space, otherwise you will readily perceive that the examining of books for an error in balancing might easily become a work of considerable magnitude.

Before leaving this point I should like to mention to you that there is another method of discovering errors in balancing which is occasionally resorted to by companies' secretaries, but which I for one should counsel you never to adopt, for I think it is one that cannot be adopted by a company secretary without a considerable loss of self respect. The method to which I allude is to simply leave the matter for the auditors to find out when they come to check the books. This, I think you will agree with me, is a clear admission of incompetency on the part of the person in charge of the books. It is virtually a statement by him that he is unable to balance his books, and that he has got to ask somebody else to do his work for him. This position of affairs would, perhaps, be reasonable if it were really part of the auditor's work to balance the books, but as a matter of fact it is nothing of the kind. There is no doubt a considerable amount of difference of opinion as to what an auditor's duties and responsibilities are, and neither accountants nor lawyers are absolutely unanimous upon these points; but so far as any particular company is concerned, the duties of an auditor are settled by the articles of association, subject to the provision of the statutes, and you will find that in almost every set of articles of association it is stated that it shall be the duty of the auditor to examine an account which has been placed before him, and that it is the duty of the directors to cause such an account to be prepared. It cannot be said that the directors or the secretary are complying with this provision if they place before the auditor an accouut which they know to be wrong and expect him to rectify it.

I think, however, you will all be sufficiently zealous of the importance of the office of a company secretary to assent to my statement, that the secretary is responsible for the preparation of accurate accounts for submission to the auditor, and that it is his duty to see that these accounts are in accordance with the books and accurately balanced. That being so, it is clearly the secretary's duty to balance the books, or to see that they are balanced, but as this is by no means all that has to be done before the books and accounts can be said to be ready for audit, it will probably be found convenient if I append the following summary of what an auditor would ordinarily expect to find done before he commences his examination.

1. All postings should be completed, all additions inked in, all balances extracted, and the trial balance agreed.
2. Vouchers for all payments should be arrarged in order and available.
3. A complete list of all books, with the names of the clerks in charge of each, should be prepared.
4. If possible, the cash in hand at the date of closing the books should be paid into the bank, and where this has not been done the cashier must have his books written up to the date of audit, and vouchers ready, as otherwise it is impossible for the auditor to verify the statement of cash in hand.
5. The pass-book should be made up to date and obtained from the bank together with a certificate as to the amount of the balance.
6. A complete inventory of the stock, priced, extended, added, and duly certified, should be ready.
7. All bonds, bills, deeds, and other securities to be ready for production when called for by the auditor and a list thereof should be prepared.
8. A list of all overdue accounts, showing the provision, (if any), which it is deemed necessary to make against possible loss, should be prepared.
9. A memorandum should be kept of any other matter to which it is thought desirable to call to the auditor's attention.
10. A draft balance sheet and trading and profit and loss accounts should be prepared.

You will see from the above that in my opinion the accounts should, in every point of view be absolutely complete before the auditor is advised that they are ready for him to commence his examination, but, on the other hand I do not wish any of you to run away with the false impression that auditors are desirous of keeping themselves in the background, and not rendering assistance upon matters where their views may be asked, whenever it seems expedient in the interests of the company that they should be consulted. In points of doubt and difficulty it is always, I think, expedient that the auditor should be consulted at the time, or even before, the entries are made, and this applies not only to entries which are in the nature of closing entries, made when the books are being balanced, but also to all entries recording transactions of an unusual nature, which may occur from time to time in the course of the company's operations. From all points of view, it is very much better that these matters should be attended to as they arise than left to accumulate till the time of audit.

One of the most important matters which have to be got ready for the auditor is the balancing of the cash. Under ordinary circumstances I take it to be fairly assumed that the usual course will be adopted of paying all receipts into the bank daily, without any deduction, and making all payments (other than petty cash disbursements) by check; but, whether this course be adopted, or the more old fashioned one of paying into the bank round sums of money from time to time which are in excess of current needs, and making numerous payments by cash through the cash book, the fact remains that in either case it becomes necessary at balancing time, if not oftener, for the auditor to verify the accuracy of the balance of cash in the bank. Now, this is a matter which should not, so to speak, be "thrown at" the auditor for him to make the best he can of. A proper "reconciliation" of the balance show by the cash book and the balance shown by the bank pass book should be prepared, if not by the secretary, then at least by somebody under his control, to be submitted to the auditor at the date of the audit. It is usually, of course, desirable, if it can be arranged, that the auditor should verify the cash at the actual date when the books are being closed for balancing, but this is not always practicable, and where matters have not so been arranged it will be necessary that the accounts, so far as the cash is concerned, should be taken up to the actual date of the auditor's visit. so that he may verify the cash in hand on that day. The only means of avoiding this is for every thing that is in hand on the date of the balancing to be paid into the bank, and then, of course, the pass book will be a sufficient record as to what was the balance at the bank upon that date, and, there being no balance of cash on hand, there is no necessity for the auditor to attend for the purpose of counting it.

For the benefit of the younger of my audience, I think that it is perhaps expedient that I should dwell at somewhat greater length upon the method of reconciling the balance of the cash book with the balance shown by the pass book. This is done by means of what is known to accountants as a "Reconciliation Account," of which a form is before you.

RECONCILIATION ACCOUNT. December 31, 1896.

	£	s.	d.	£	s	d.
Balance, as per cash book				1,497	6	10
Add Amounts not credited:						
January 1, 1897......	56	1	9			
" 2, 1897......	108	6	2			
				164	7	11
				1,661	14	9
Less checks not presented:						
Dec. 16, Jones..........	4	1	8			
" 27, Smith.........	101	10	0			
" 31, Robinson......	16	0	0			
				121	11	8
Balance, as per cash book..........				£1,540	3	1

I think I need hardly point out to you that, in so far as there is anything in it at all, it is well worth the secretary's while to save the auditor all the trouble he can at an audit, because it is impossible for him, by merely raising difficulties, to expect the auditor to fall short of that full investigation which it is only right and proper that he should make. In the long run it only gives additional trouble to both if the accounts are not ready and in proper form, together with all other documents necessary for their investigation.

Among other things which in all probability would be asked for by an auditor would be some certified statement that the various additions which had been made to the capital assets of the undertaking were really incurred, and that they were properly chargeable against capital in the proportions which were stated in the books of account. Upon this point the certificate of the managing director should be obtained, if there is a managing director, and if not then the certificate of the manager, or some other competent person deputed by the Board to certify the matter in question.

The same remarks apply to the value of the stock in trade, which should be very fully certified by the employees of the company.

Next we come to the draft accounts themselves, which have to be prepared, of course, from the trial balances that have already been extracted from the various ledgers.

It is not unusual for articles of association to provide that the accounts should be signed by two or more directors, and by the secretary of the company, but I should like to point out to you that, whether or not the articles do so provide, the fact remains that the accounts which are being prepared are really neither more nor less than the accounts of the directors, which are about to be submitted by them to their employers (the shareholders), but that, before this can be done, these accounts of the directors (which have been prepared for them by their secretary) must be submitted by them to the auditor, who is the servant of the shareholders, so that they may be passed by the auditor before being placed before the shareholders themselves for final approval or rejection.

You may perhaps think that this is all mere truism, but in so many individual cases have I found that both directors and secretaries have failed to appreciate the real position of affairs that I have thought it well worth while to dwell upon the matter at length. That being so, it follows from what I have said that the directors, and they alone, are responsible for the form in which the draft accounts are prepared.

Indeed, it is sometimes expressly stated in the articles of association that the auditor shall have no control over the system of bookkeeping adopted, or the form in which the accounts are to be submitted to the shareholders, but, although it is rare for such provisions to be actually contained in the articles, they are always implied unless the contrary is expressed, which, so far as my experience goes, is never done.

In practice, however, it is not unusual for the directors to invite suggestions from the auditor as to the form which the accounts shall take, but as what may be considered the best form will naturally vary very much under different circumstances, it is hardly profitable that I should go into the matter at length here beyond saying that in my opinion it is desirable that the actual accounts which are submitted to the auditor should be as full and complete as possible, but that, on the other hand, it is usually inexpedient that so much detail should be submitted to the shareholders. Still, there is a limit to the extent that a balance sheet should be condensed, and on no account should assets which have nothing in common be grouped together under a single heading. For ordinary purposes it is not easy to improve the form of balance sheet appended to the

Companies Act, 1862, and I do not think that you could do better than follow those lines as far as individual circumstances permit.

With regard to the trading and profit and loss accounts, it is not usually expedient that the trading account should be published at all, as it generally affords information which might be used by rivals to the detriment of a company and it is by no means always that the profit and loss account is printed in full.

These, however, are matters which, under the articles of association, are almost invariably left to the discretion of the directors, and, that being so, they do not in any sense fall within the du ties of company secretaries, and need not, therefore, be considered by me at the present time.

The only remaining point that I have to consider to-night is that of submitting the draft accounts after they have been prepared. The usual course, and as I think, the proper course, is for the accounts to be submitted to the board *before* they are submitted to the auditor. They should then be considered by the directors and, subject to such modification as may be found necessary or thought desirable, a minute should be passed to the effect that they have been approved by the board subject to audit.

The auditor may then properly be advised that the accounts are ready for him to audit, and the accounts which are then actually put before him will really be the accounts of the directors, which it is desirable that they should be in fact as well as in law.

As you are, of course, aware, after being audited the accounts have to be submitted to the company in general meeting, and do not become the accounts of the company until they are adopted by resolution of the company in general meeting It is difficult to say, however, what is precisely implied by this adoption of the accounts by the company. Many articles of association expressly state that after being so adopted the accounts are "binding upon all parties concerned," but I have never yet heard it suggested that the mere fact of their being adopted was a bar to the accounts being reopened at a subsequent stage when the company had gone into liquidation, while it is equally certain that the liquidator as such possesses no other rights than the company itself would have possessed. This, however, is a point which is only remotely connected wlth our present subject, and which, therefore, we are not now called upon to consider.

SIGNATURE TO BOND.

A recent decision of the United States Circuit Court of Appeals in Union Guaranty & Trust Company v. Robinson (79 Fed. 420) is to the effect that it makes no difference in what form an obligor signs a bond, if it appears that the purpose was to bind himself. And where the name of a corporation, the principal in a bond, appeared in full in the body of the bond, and its seal was impressed opposite the attestation clause, between the obligatory part and the condition, and at the close of the whole instrument the names of the president and secretary were signed, this being its customary method of executing sealed instruments, it is binding; and the surety cannot complain that the bond was not executed by the principal, especially where it recognized the signature as sufficient by signing right below it.

BOOK-KEEPING.

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The fifth of a series of 6 lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, March 3, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.C.A.

The various matters to which I propose to direct your attention to-night are at once some of the most interesting in connection with the accounts of joint-stock companies, and at the same time those which peculiarly relate to companies and to them alone. Shortly stated, they are the various points which arise in connection with the allotment of shares and debentures, and any subsequent entries which may be necessary in connection with the increase or reduction of these issues.

Dealing first of all with applications, it is usual in the case of a company of any magnitude, to employ the auditors to carry through the necessary work up to the point of the allotment of shares; but. all the same, I have thought it desirable in my course of lectures to take a somewhat higher ground, and as far as possible prepare you for doing the whole of the work that might fall to a company secretary, and not merely that which is ordinarily deputed to him on account of his perhaps somewhat limited experience. We will, therefore, deal with the subject absolutely from the beginning, and although in many cases it may be that you will never be required to undertake any work in connection with an allotment, yet, on the other hand, you can do no harm by knowing how this work has to be performed.

The ordinary procedure, of course, is for the prospectuses to be issued containing the form of application for shares. I need not now trouble you with the precise nature of this form, beyond stating in general terms that it is a definite undertaking, upon the part of the person signing it, to accept an allotment of shares up to the number stated in that form, or any less number that may be allotted, and that it is binding upon the applicant unless he has withdrawn his application previous to the allotment being actually made. These application forms have of course to be arranged and tabulated in proper form for the directors, so that they may be saved trouble when they meet to decide upon an allotment, and may, further, be in a position to really understand the effect of what they are doing. Here, again, we find an instance of the utility of tabular bookkeeping. The various application forms, as they come in, are entered up upon sheets in a form somewhat similar to that which is now before you.

A separate sheet (or sheets) is employed for each letter, so that the applications are, from the first, automatically sorted into alphabetical order; and, where subscriptions are invited for more than one class of share, it is best to employ separate application forms, printed on different colored paper, and to keep the applications and allotment sheets for the two sets quite distinct.

Eventually, when the whole of the allotment has been completed, these sheets will be bound up in a book, and form a permanent record; but in the meantime it is a great convenience that they should be loose, as it is then possible to put a larger number of assistants upon the work. This question of dividing the labor is a very important one, inasmuch as it is the usual thing for the subscription list to be closed at 4 o'clock one day, and it is then necessary that the applications and allotment sheets should be ready for the directors probably at an early hour on the following morning; so that, even when the best possible means of economising time are employed, it is often necessary to make an all-night job of this preparation for allotment. (See Form 1.)

Upon the form of Applications and Allotments Sheet which is before you you will see that upon the left hand side of the page are columns for all the various particulars which it is necessary to put before the directors in order to enable them to arrive at a conclusion upon the subject, viz.: the name, address and occupation of the applicant, the number of shares that he has applied for, and the amount which he has deposited thereon. I need hardly mention to you that the occupation of the applicant has a material bearing upon the matter in many classes of companies, because, other things being equal, it is always desirable to include upon the register of members as many persons as possible who are interested in the trade, so that they may be induced to influence business.

You will see that the next column in the form is headed "Proposed Allotment." This column will usually be found of considerable utility; it is filled in by the secretary (or by the person responsible for the preparation of these forms) as a rough guide to the board upon the course which they should pursue. It is, of course, not filled in until the list has been closed, although the various sheets are, of course, being prepared from hour to hour as the applica-

A APPLICATIONS AND ALLOTMENTS BOOK. Form 1.

Date of Application.	No. of Application	NAME.	ADDRESS.	Occupation	No. of Shares Applied for.	Folio.	Amount of Deposit.	Proposed Allotment.	No. of Letter of Regr't.	No. of Allotment.	No. of Shares Allotted.	Distinctive Numbers of Shares Allotted. From	To	Amount Payable on Allotment.	Cash Received. Date	Fo.	Amount.	Cash Returned. Date	Fo.	Amount.	Folio in Share Ledger.	No. of Certificate.
1896							£ s. d.							£ s. d.			£ s. d.			£ s. d.		
Dec. 1	1	John Adams....	61, Whitehall, S. W....	Gentleman.	400	1	40 0 0	400	..	1	400	1	400	60 0 0	Dec. 6	1	60 0 0	..	..	.. .. ..	1	1
" 1	14	Joseph Aaron..	14, Houndsditch, E. C.	Merchant..	50	2	5 0 0	50	..	2	50	401	450	7 10 0	" 5	2	7 10 0	..	..	.. .. ..	2	2
" 2	17	Arthur Abel ...	490 Oxford Street, W..	Grocer.....	200	6	20 0 0	200	..	3	200	451	650	30 0 0	" 6	3	30 0 0	..	..	.. .. ..	3	3
" 3	27	Henry Ackland	Manchester...........	Merchant..	10	11	1 0 0	..	1	..	..	..	..	.. .. ..	..	..	.. .. ..	Dec. 4.	1	1 0 0	..	..
							66 0 0				650			97 10 0			97 10 0			1 0 0		

NOTE.—There would be a separate sheet (or sheets) for each letter of the alphabet, and a summary sheet, to which the totals of each sheet would be carried. (Following the column of "Cash Returned" there is a column "Amount Due" which has been been omitted because of lack of space. In the present table, there are no amounts to be entered in that column.)—Ed.

tions come in; but after the list has been closed and the number of applications ascertained, it is very desirable (in the event of there being an over-subscription) that someone who is able to bring a certain amount of intelligence to bear upon the subject should look through the applications, with a view to throwing out those which may appear to be undesirable, either because they seem to come from competitors (who might be undesirable members of the proposed company), or because the applications are for a very small number of shares, which, in the event of an over subscription, are naturally the first to be crowded out. It does not, of course, by any means necessarily follow that the figures contained in this column will correspond with the actual decision of the directors when they come to consider the matter later on; but, nevertheless, it is a useful guide to them, and is merely intended as such. It is the column headed "Number of Shares Allotted" that is the actual result of the directors' deliberations.

The allotment, I need hardly remind you, is made by the directors by resolution. It is particularly desirable that this resolution should be in due form, and therefore, although strictly speaking, it is a legal matter, I trust that I shall not be considered as going beyond the province of my present course of lectures if I suggest to you a form of wording for a resolution of directors covering an allotment of shares. The form which I would suggest is as follows:—

"The secretary reported that in response to the advertisement of the prospectus, offering 100,000 preference shares and 100,000 ordinary shares of £1 each for subscription, applications had been received, as appeared by the Applications and Allotments Book, for 162,500 preference shares and 108,510 ordinary shares, and that the subscription list was closed at 4 p.m. on the 3d December 1896. Resolved, that 100,000 preference shares of £1 each and 100,000 ordinary shares of £1 each be and are hereby allotted to the applicants in accordance with the number of shares appearing in the allotment columns of the Applications and Allotments Book. The secretary was instructed to prepare and issue the necessary allotment letters and letters of regret forthwith, and to draw checks for the return of application money where necessary."

Now that we have got as far as this, it is desirable that we should revert for a moment to a somewhat antecedent period and consider the actual entries which it will be desirable should be contained in the books of the company.

In the first place, I should like to point out to you that it is a great saving of time for all *details* in connection with the share capital account to be recorded only in the Share Books; but, on the other hand, it is very desirable that we should be in possession of a means of readily ascertaining that the entries in the Share Books are absolutely correct. Here the principle of the adjustment account helps us vastly. I shall therefore ask you to consider the Share Ledger as a "departmental" ledger, in exactly the same way as the Sold Ledger or the Bought Ledger might be, but at the same time to remember that the Private Ledger will contain accounts which are virtually adjustment accounts summarizing the entries in the Share Ledger and testing the accuracy of these entries. It is a question of expediency as to whether or not there should be more than one adjustment account. Unless the number of shareholders is very large, probably one account, called "Shareholders'

Account" will be quite sufficient; but, in the event of the company being of considerable magnitude, it is desirable that the adjustment account should be subdivided into "Applications and Allotments Account," "First Call Account," "Second Call Account," &c. This, however is a matter of detail which I need not dwell upon at any great length. The main point is this: When the applications come in they are accompanied by a deposit, and the application form and the deposit are both left at the company's bankers, who record the entry of the deposit in the company's pass book. Usually there is a separate pass book for this particular purpose alone, but sometimes there is only one bank account. In any case, the bank, in due course, hands over the application forms to the company; and, in addition to their being entered up in the Applications and Allotments Book, which I have already dealt with in detail, the cash paid to the company's bankers has, of course, to be entered up in the company's cash book. It may be thought desirable to enter the amounts in detail in an inner column on the debit side of the private ledger (or general cash book), or it may be found convenient—and in the case of a large company no doubt will be found necessary—for a separate Share Cash Book or Share Cash Books to be kept, in which these details are entered and the daily or weekly totals transferred to the general cash book. The principle in either case will be the same, viz., that the details will be posted to the credit of the various applicants upon the Applications and Allotments Book in the columns which you see are available for that purpose, while the totals of the daily or weekly receipts in respect of applications, &c. will be posted to the credit of the shareholders' account (or the applications and allotments account, as the case may be) in the private ledger. When the allotment has been decided upon and the amount due thereunder paid, the Applications and Allotments Sheets can of course be readily filled up, and I think that a careful study of the form will enable you to readily perceive how the balances which have to be transferred to the Share Ledger itself are arrived at. A form of ruling for a Share Ledger will be found on the papers before you. (See Form 2.)

Some forms of Share Ledger show preference and ordinary shares upon a single opening, but it will usually be found desirable to have separate Share Ledgers for preference shares and ordinary shares. This, however, is a matter of detail and individual convenience.

Now, in order to complete the agreement between our adjustment account and the Share Ledger it is necessary that we should make corresponding entries in the Private Ledger for all those appearing in the Share Ledger. These entries will be passed through the Journal, the principle being that the shareholders' account (or the application and allotments account, as the case may be) is debited with the amount due on allotment in respect of such allotment, while the share capital accounts (one of which must be opened in respect of each different class of shares) are credited with the actual amount due on allotment in respect of the number of shares allotted in each individual case. I have not thought it desirable or necessary to put before you the actual form of these entries, inasmuch as they are perfectly straightforward, but I hope that you will be able to follow me from this short statement of what has to be done. In order, however to make the point a little clearer, I should like to point out to you these two facts:—

(1) That the balance of the share capital account (or of each share capital account, if there is more than one) should at any time correspond with the actual amount called up in respect of that class of shares.

(2) The shareholders' account, if it shows a debit balance, will indicate the amount of calls unpaid by shareholders, less the amounts of deposits received from applicants, which are to be returned by reason of allotments not having been made. If it shows a credit balance, it must be because the latter exceed the former; but this, of course, is extremely unlikely, unless the prospectus prescribes that the amount of the deposits with applications shall be the full amount due upon allotment.

I have now to deal with subsequent "calls" upon shares which have already been allotted. Some Applications and Allotments Books provide further additional columns for these calls to be recorded in tabular form, and for payment of the amount due to be also entered therein; but this seems to me to be a mistake, inasmuch as it delays the opening of the Share Ledger, which is very undesirable in most cases. The course which I prefer to adopt is to have a separate "Calls Book" which, for all practical purposes, is an ordinary day book. The details recorded in this Calls Book are posted to the right-hand page of the Share Ledger whenever a call is made; and at the same time a Journal entry is recorded, crediting share capital account with the amount of such call, and debiting the shareholders' account therewith. If the number of shareholders is large, and there is any considerable amount of arrears upon the applications and allotments account, however, it is desirable that the debit of the call

Name. JOHN ADAMS. Address: 61 Whitehall, London, S. W. Form 2.
Occupation: Gentleman.

SHARE ACCOUNT.

Shares Disposed of.					Shares Acquired.					Balances.	
Date	Fo.	Distinctive Numbers. From	To	No. of Share	Date	Fo.	Distinctive Numbers. From	To	No. of Shares	Date	No. of Shares
					1896. Dec. 4	1	1	400	400		

Dr. CASH ACCOUNT. Cr.

Date.	Particulars.	Amount called up.	Fo.	Am't. £ s d	Date.	Particulars.	Fo.	Am't. £ s d
1896. Dec. 4	Allotment.	5s.	a1		1807. Jan. 6	By Cash	c12	100 0 0
1897. Jan. 4	1st Call........	10s.	c1	100 0 0	Feb. 9	" "	c146	200 0 0
Feb. 4	2nd do.........	20s.	c168	200 0 0				
				300 0 0				300 0 0

should be passed to another account, so that these two matters may be kept distinct, and then the new account will be opened called "First Call Account," or "Second Call Account," as the case may be, to which the amount of the call will be debited, and against this account will be posted the daily or weekly totals of the sums of cash received from shareholders in payment of calls. The result in either case is the same, viz., that if a list of balances is extracted from the Share Ledger, showing the amount due upon allotment or upon calls, the total of such list should at any time agree with the corresponding adjustment account in the private ledger.

Passing on to the question of transfers I should like to point out to you that, although in itself a most important matter, the question of transfers is relatively unimportant, in the sense that it in no way affects the financial position of the company; it is merely a registration of a change of the ownership of certain shares, and, therefore, does not affect the financial books. It does, however, affect the Share Ledger, and the proper entry will be, of course, to debit the transferor with the amount of the shares transferred, and to open a new account in the name of the transferee, crediting him with the amount. These entries are passed through a journal, called the "Transfer Journal," which is only used in connection with the Share Ledger; it does not deal with money as such, but merely records the particulars of the shares transferred.

The next point I have to deal with is the "forfeiture of shares." As you are no doubt aware, most articles of association provide that if any call is in arrear for a certain number of days after due notice has been given to the shareholder, it is competent for the directors, by resolution, to declare those shares forfeited to the company, without prejudice to any rights that the company may have against the shareholder in respect of such calls. I may mention, however, that it is desirable that the resolution should explicitly state that the required notice has been given and not complied with, and that shares Nos... , standing in the name of............ be and are hereby forfeited. There are various methods of dealing with the entry of forfeitures in the books, but the one which I would suggest to you as being the best and simplest is as follows:—

In the Share Ledger, by means of the Transfer Journal, transfer the shares in question to the "Forfeited Shares Account." When resold, transfer them from this account to the account of the purchaser in the usual way. In the General or Private Ledger pass, by means of the Journal, an entry debiting the share capital account, and crediting "Forfeited Shares Account" with the amount paid up upon those forfeited shares. Until the shares are re-issued, the balance of the forfeited shares account should be separately stated upon the liabilities side of the balance sheet; but when the shares have again been disposed of the balance of the forfeited shares account may, if thought fit, be credited to reserve fund or the profit and loss account. Directors may, however, re-issue such shares at a discount, not exceeding the amount originally paid up thereon, and when advantage is taken of this power the amount of such discount must be made good to share capital account out of forfeited shares account.

You are no doubt well aware that its shares cannot legally be issued at a discount, but they can be (and sometimes are) issued at a premium. When this is so, the prospectus invariably states the amount of the premium at which they are issued, and which of the instalments payable are in respect of the premium. Almost the invariable practice is for the premium to be paid in advance, along with the first deposit; but whether this is so or not the actual bookkeeping entries assume a very simple form. There is no occasion to record anything in connection with the premium in the Share Ledger. The Applications and Allotments Sheets will contain a separate column for the amount of the premium, as distinguished from the deposit, and the total of the premiums upon those shares which are allotted, will be transferred from the credit of the shareholders' account (or the applications and allottments account as the case may be) to the credit of a "Premium on Shares Account," or, perhaps more conveniently, direct to the credit of the reserve fund, which is the only place to which these premiums on shares can ultimately be properly taken, for undoubtedly they are not profits which are available for distribution among the shareholders.

Now, everything I have said to you as yet will apply equally well to the issue of debentures instead of shares. It is true that the persons who apply for debentures do not place themselves in the position of being members of the company; on the contrary, they merely lend the money upon certain terms, and in almost all cases they have as a security for the due repayment of these moneys a floating charge upon the undertaking, by virtue of which, under certain circumstances provided for in the form of debenture, or in the trust deed, if there be one, it is competent for them to apply to the court to appoint a receiver, who may take possession of the undertaking, when the "floating" charge "crystallizes" into a "fixed" charge, and they become entitled to the property which has passed into the hands of the receiver in preference to all other persons.

In the meantime, the bookkeeping entries are practically identical with those which I have mentioned to you in respect of shares, the only real difference being that, unlike shares, it is quite competent for a company, if it thinks fit, to issue debentures at a discount; it is, therefore, necessary for us to consider what bookkeeping entries are necessary when this course is pursued. The position of affairs under these circumstances is really as follows: That if the entries have been passed through in the way which I have already described, then the credit balance of the debentures account in the Private Ledger will be for the nominal or face value of the debentures, and a corresponding amount will have been debited to the debenture holders' account. If, therefore, the debenture holders have paid less than the face value for their bonds, it will naturally follow that this latter account will show a debit balance equal to the amount of discount allowed upon the issue, assuming that (except in respect of the discount) all claims due from debenture holders have been paid in full. To correct this it is necessary to open an account in the Private Ledger called "Cost of Issue of Debentures Account," and debit this with the amount of discount allowed, crediting the debenture holders' account with a like amount, and so balancing the latter

Any commission paid, to underwriters or otherwise, in respect of the issue of debentures, may also be debited to this account; which, unless the debentures are redeemable, may fairly be treated as an asset, and brought into the balance sheet by deducting it from the amount shown under the head of "Debentures" upon the liabilities side. When this course is pursued it is desirable, however, that the nominal amount of the debentures should also be stated, so that no one may be deceived upon the matter.

In the case of redeemable debentures, however, it is necessary to remember that these debentures will no doubt be redeemable at par—that is to say, at a higher price than that which the company received for them—and it will therefore then be necessary that the difference between the two prices (which is a loss which will have to be borne by the company) should be provided for by a charge to profit and loss account, which may of course be spread over the term covered by the debentures issued. This same reserve for loss upon the redemption of the debentures must also be made, even if they have been issued at par, if they are afterwards redeemable at a higher price.

The next point to which I should like to draw your attention is with regard to the necessary entries in the books when debentures are actually redeemed. In the Debenture Ledger it is desirable that a "Debentures Redeemed Account" should be opened, and, through the Debenture Transfer Journal, all redemptions should be transferred from the holders' accounts to this account. In the financial books of the company the cash paid upon the redemption of debentures should be posted to the debit of a "Debentures Redeemed Account," any provision which it may be necessary to make against profit and loss, in the case of debentures being redeemed at a higher price than originally received for them, must also, of course, be credited to this account, and the balance should be periodically transferred to the debit of the debentures account, thereby gradually reducing the amount to the credit of the latter.

Turning back again to the issue of shares, I should like to call your attention to the fact that Section 25 of the Companies Act, 1867, provides that "Every share in any company shall be deemed and taken to have been issued, and to be held subject to the payment of the whole amount thereof in cash, unless the same shall have been otherwise determined by contract duly made in writing, and filed with the Registrar of Joint Stock Companies at or before the issue of such shares." This clause is of considerable practical importance in view of the fact that in almost every case the vendors of an undertaking to a company agree to take a certain number of "fully paid" shares as part consideration of their purchase price. In respect of these fully paid up shares it is necessary that a contract in the terms of the above section should be filed at Somerset House with the registrar of Joint Stock Companies "at or before" the time of the allotment. Primarily, of course, it it is the duty of the company's solicitor to see that these formalities are duly complied with, but, nevertheless, no harm can be done by the secretary in exercising a little independent supervision upon the point.

The actual entries in the books themselves are comparatively simple. A Journal entry will be required, debiting the vendor's and crediting the share capital account with the face value of the shares actually issued. These shares will ordinarily be posted into the Share Ledger from an entry at the foot of the Applications and Allotments Book, with a note to the effect that they have been issued as "fully paid."

Before going further I should like to point out to you that the Companies' Act, 1862, requires that certain statistical books should be kept by every company registered under that Act. There are no financial books prescribed, and therefore it is only indirectly that the point concerns us at the present time; but, for the sake of completeness, it seems desirable that I should refer to it. These books are as follows:

Register of Members,

Annual list of Members and Summary,

Register of Mortgages,

Minute Book,

and, in the case of companies limited by guarantee, a Register of Directors and Managers.

For the reason, however, that none of these books in any way affect the financial accounts of the company, it is unnecessary for me to deal with them in detail here, beyond saying that, for practical purposes, it is usual to provide that the Share Ledger shall contain such particulars as are required to be contained in the Register of Members, so as to obviate the necessity for keeping a separate register.

The only other questions which I propose to deal with to night—and those very briefly—are with regard to the increase or reduction of a company's capital. Time does not permit me—nor does it appear to be otherwise necessary for me—to go into the legal aspect of these questions; I shall, therefore, confine myself merely to the bookkeeping entries.

Upon the capital of a company being increased by the issue of new shares, the entries necessary in the books follow the ordinary course pursued upon the allotment of the original shares, and there is no difference whatever in the procedure. But in the case of the reduction of a company's capital, the procedure is that all the shares (or all the shares of a certain class) are considered to be of a less value than was originally the case, and certain entries become necessary in the financial books to give effect to this consideration. These may be recorded as follows: In the Share Ledger, the simplest and most convenient way is to procure a rubber stamp, briefly stating the effects of the resolution reducing the capital, and to impress it upon every page affected. The share certificates should also be called in and similarly stamped. In the General Ledger, note the reduction of the heading of the share capital account, and, if the reduction does not affect the paid-up capital, no further entry is required. If, however, the reduction has been made for the purpose of writing off a balance to the debit of profit and loss account, or profit and loss apportionment account, as it is sometimes called, then a Journal entry must be made, debiting share capital account and crediting the first-named account with the total amount of such reduction of the paid up capital.

Before closing my present lecture, I should like to point out to you that I am fully aware that I have only been able in the time at our disposal to-night, to deal with this very wide subject in a most superficial manner; I have, however, endeavored to deal with those points which appear to be of the most importance, and to leave either but slightly considered or entirely ignored those which are either of relative unimportance or with which you will probably be already acquainted. Under the latter head I have included such points as the form of a call letter, the issue of certificates to shareholders, and the registration of transfers. All these, however, I think you will agree with me, are points which do not strictly come under the category of bookkeeping; what I have endeavored to do is to deal as fully as the time at my disposal renders possible with the questions of bookkeeping arising out of the issue of shares and debentures, and I hope that upon these matters I have been able to give you a fair dea of the best methods to adopt.

REPORT OF COMMITTEE ON FORMATION OF BUREAU OF EDUCATION.

Made to the American Bankers' Association in Convention at Detroit, Mich., August 1897.

At a meeting of the Executive Council in March of this year, I presented to that body a suggestion that a Bureau of Information be formed, which should undertake to educate the people as to what is the true character and operation of banks in the community.

I said, in substance, that if the bankers of the United States would establish a bureau and employ speakers to present the claims of the banks, properly, before the public, men who could in plain speech show the farmer and others that if the banks charge high for accommodation it is the fault of the legislation and not of the banks themselves, much of the present hostility which exists against banks would be removed.

In pursuance of this idea, the Council appointed a committee of three, consisting of Mr. Lowry, Mr. Hollister of Grand Rapids, and myself.

The Committee have been at work, through correspondence, in furtherance of this idea, and are ready to report their approval of the undertaking, and have in hand the preparation of a pamphlet to be widely circulated by Banks and Savings Banks throughout the country, and also a plan for the organization of a Bureau of Speakers. The idea has met hearty approval from all sources, as far as the committee have heard. One authority, high in the financial-political world, writes:

"It has often occurred to me that the Association could not do better than to devise some method of providing a simple and not too prolix statement of the functions that a bank discharges in its relations to the welfare of the community in production, manufacture and exchange of commodities, and see to it that this treatise is put into the hands of thousands, if not millions, of people, through local banks and bankers. There is, as you know, very great ignorance and very great prejudice concerning banks and a blind hostility which grows up out of a lack of apprehension of what the banker is and what he does. A large amount of money might, in my opinion, be profitably spent in doing this kind of missionary work, to the great advantage of the banking interests of the United States and to the welfare of the social whole."

The Honorable James H. Eckels, Comptroller of the Currency, has frequently, in his speeches and writings, emphasized this point. In an address delivered at Philadelphia in May he says:

"Bitter opposition directed against aggregated capital in the shape of bank capital is a distinctive feature and a harmful one in American political life. It is not uttered against capital embarked in schemes for insurance. It finds no fault with capital embarked in many lines of trade and commerce, but it al-

BOOK-KEEPING.

A COURSE OF LECTURES ON BOOKKEEPING, WITH SPECIAL REFERENCE TO JOINT STOCK COMPANIES.

The last of a series of 6 lectures on "Bookkeeping" delivered at a meeting of the members of the Institute of Secretaries, held Wednesday, March 17, 1897, at Winchester House, London, by Mr. Lawrence R. Dicksee, F.C.A.

The points which I propose to deal with in this my last lecture relate to the various questions which arise after the books of a company have been balanced and the balance sheet and profit and loss account prepared, subject to the final adjustment; that is to say, they are all questions relating either to the disposal of the balance available, or to the treatment of such balance in other respects.

I need hardly point out to you that, in the case of a private trader, the prudent man is he who does not spend the whole of his available profits, but leaves a portion thereof in the business to gradually accumulate, so that in course of time he becomes very much richer than he was at first. There is, of course, a limit to the practical advantage of leaving funds in any one business, and that limit is reached when it is found that the funds cannot be usefully employed in the business when left there; but, within a considerable margin, it is practicable in most instances to increase the profits of a business by increasing the amount of working capital, and particularly so in the case with joint stock companies, as contrasted with individual enterprise.

In the case of a firm or a sole trader, when unforeseen contingencies arise that make temporary demands for further working capital, if the business is in other respects a sound one, the proprietor, or the proprietors, as the case may be, will always put their hands in their pockets and find further working capital, or, if necessary, borrow it for the sake of the business; but the same cannot be said of shareholders. Whenever contingencies arise which make sudden demands upon a company for further cash, it will almost invariably happen that this is the particular moment when it is impossible for the company to issue further shares, except, perhaps, upon very disadvantageous terms, and although debentures are sometimes resorted to for this purpose, it may easily happen that in a perfectly sound company the issue of first debentures have already been made, and I need hardly point out to you that second debentures are a security that does not usually find favor with investors. That being so, a company is placed at a disadvantage as contrasted with a private undertaking, in that it is more difficult for a company than for a private firm to find extra working capital on an emergency. It is, therefore, very much more important that it should retain within its control a certain amount of reserve capital to be used should occasion arise. Therefore, in the case of a company, even more than in the case of a private individual, it is very desirable that the whole of the profits should not be taken out of the business. This is a point which I want to put before you at some length, because it is not generally appreciated what a reserve fund really is. A reserve fund is neither more nor less than an accumulation of profits, which might have been distributed by the company in the form of dividends, but which it has been considered more expedient to retain as a provision against unforeseen contingencies. Very commonly you will find that companies build up what they *call* a reserve fund, to meet losses which will eventually be found to have arisen in respect of bad debts, depreciation and the like; but I should like to point out to you, in the strongest possible terms, that these are not reserve funds at all, and the test of this is that they have not been accumulated out of profits. The reserve fund, I need hardly say, appears as a credit balance in the Ledger, and the corresponding debit—if it is a *true* reserve fund—will have been against the balance of profit and loss appropriation account. If it is *not* a true reserve fund, the corresponding debit will be against profit and loss account. To fully appreciate this difference, it is, of course, necessary to consider what are profits available for dividends, but for the moment I think this distinction will be found sufficient.

The next question that arises is this: Assuming that it is desirable not to distribute the whole of one's profits but to set aside a certain portion each year as a reserve fund, what is to be done with the amount so set aside? I need hardly point out to you that when it has been decided to set aside a certain portion of the profits available for dividends as a reserve fund, the only bookkeeping entry that is necessary, or even possible, is one debiting the profit and loss appropriation account, and crediting the reserve fund with the amount which it is decided to set aside. This is really all that it is necessary to do in connection with creating a reserve fund, and it is all that it is possible to do. On the other hand there is a general impression and particularly with that part of the public which is not very familiar with accounts, that a reserve fund is not "real" unless one can point to certain specific investments outside the business as representing it. I trust that I shall not be misunderstood by any of you when I say that there is absolutely no connection whatever between a reserve fund and any assets which may be said to represent it. A reserve fund is neither more nor less than undivided profits, and it is impossible to say it is specifically represented by any asset.

It will generally be admitted that when a company has had a good year, and distributed dividends to a smaller extent than its accumulated profits, the balance of profit and loss account which has to be carried forward is available in the sense that, should the next year result in a loss, that balance will be the first item to be wiped out, and that it will be wiped out automatically. I should like to draw your very particular attention to the fact that the second item to be wiped out by a loss—in the event of this balance brought forward from previous years on profit and loss account being insufficient—is the reserve fund. In the event of there being a loss which the balance brought forward on profit and loss account is insufficient to cover, the next account to which this loss must be debited is the reserve fund. It is a contradiction in terms to state, in the form of a balance sheet, a position of affairs showing a deficiency or a debit balance on profit and loss account and a surplus or a credit balance on reserve fund. It is absolutely impossible that there should be both a surplus and a deficiency. That being so, I should like to further point out to you that the mere investment of a reserve fund affords absolutely no security for its continued existence; it can only exist so long as the company continues not to make losses and no longer. That being so, I think I have effectually disposed of the impression which is so very current, that a reserve fund is no real reserve fund unless it is represented by investments.

On the other hand, it is well to admit, and I do admit it freely, that although the reserve fund in itself may have to be wiped off because a company has had a bad year, or a series of bad years, this is in itself no reason why a company which does not distribute all its profits should not invest the amount which it reserves in outside securities, so as to distribute its risk. Of course, if all the resources of a company are confined to the particular business engaged in, the shareholders have all their money embarked upon a single risk, and if anything goes wrong with that risk, they are in a very bad position. If, on the other hand, part of their money is invested in outside securities of a first-class character, they have always a certain "nest egg" to fall back upon that can be realized in times of need which, as I just now pointed out, are the times when it is most difficult to raise further capital by any other means. For this reason it is very desirable, when a company can afford to do so, that its surplus capital should be separately invested; but this is quite another thing from saying that a reserve fund is not a "real" one until it is invested outside the business, and I hope that I have been able to make the distinction sufficiently clear to you.

The next point that I would like to pass on to is the distinction between a reserve fund and a sinking fund. I have already defined a reserve fund as being a sum set aside out of profits to meet unknown contingencies. A sinking fund, on the other hand, is a sum set aside out of profits to meet *known* contingencies, i.e., the redemption of liabilities, like debentures, mortgages, &c. The distinction may appear to you to be a fine one, but it is less so than appears at first sight. A reserve fund is a purely prudential measure, which it is thought desirable to put aside, so that, in the event of the company's business being less profitable at a later stage, there may be something to fall back upon to tide over the bad time, and it is for this purpose that a reserve fund is maintained. A sinking fund is set aside out of profits because it is known that at some future time a sum of money will be required, not for the sake of making good a wasting of assets or loss of any description, but in, or to pay off, a liability which will become due at some future date, such as when debentures or a mortgage which has been lent for a definite time, mature, and it is desired to redeem them out of the existing funds rather than to seek a fresh advance elsewhere. The essence of the distinction comes in this way, that, whereas it is perfectly proper, and indeed financially desirable that the reserve fund of a company which is short of working capital, should be kept in the business so as to increase the available amount of working capital, and the consequent profits, it is essential that a sinking fund should be invested in securities outside the company, so that when the time comes that the amount is required to pay off the liabilities it may be readily realized without any embarrassment to the business.

The next point to which I wish to draw your attention to-night is that of depreciation. This is a very large question indeed, and one which I cannot hope to go into fully in the limited time which is at my disposal to-night, but I should like to point out to you that the amount to be written off for depreciation is not, as some people seem to think, a provision made out of the profits to meet a loss which at some future date will be ascertained, but rather one of many installments which, after a careful calculation, it is believed will eventually aggregate to the value of certain assets by the time those assets become useless to the company. That is to say, the amount set aside for depreciation, although in a sense an estimate, is not an arbitrary amount, but one of many installments which, taken together, are expected to eventually accumulate to the capital value of the asset which is depreciating.

I may put this another way. Such assets of a company as are of a wasting nature, either by effluxion of time or by wear and tear, or by the fact that continual invention is reducing the value of existing assets by decreasing the demand for them in the market, are continually becoming of less value, and this quite irrespective of whether the company which owns them is making a profit or a loss. On the other hand, the precise amount of such shrinkage in value from time to time cannot be accurately ascertained, and it is not altogether desirable even if possible, that the actual loss from time to time should be put down, as this might have the effect of causing serious fluctuations in profit without any corresponding advantage.

It is therefore generally conceded that the better method of dealing with the matter is that the "life" of the asset in question should, as far as possible, be ascertained, and, having been ascertained, its original value should be spread over the estimated term of its life, and a proportionate amount written off during each year. In this connection I should like to suggest that for all ordinary purposes assets are written down by means of a percentage, which may be either a fixed percentage upon the original value or a fixed percentage upon the value standing to the debit of the assets account at the commencement of the year under review. There is a very material distinction between these two methods; thus, supposing it is estimated that the life of a machine is twelve years, and that at the end of that time the value of the old metal that it contains will be one per cent. of the original value, then, if the system be adopted of writing off a fixed percentage upon the original cost, seven and a-half per cent. will be the proper rate for depreciation; on the other hand, if the system be adopted of writing the percentage off the reducing balances, it will be necessary that the depreciation should be at the rate of seventeen and a half per cent. It will be seen that the latter method throws a very much heavier installment upon the earlier years, whereas the former keeps the installments for depreciation always uniform. But it must be remembered that, in addition to depreciation, there are always necessary repairs in connection with machinery, and these naturally fall with increased heaviness upon the latter years of a machine's life, so that, upon the whole, probably the system of writing the depreciation off the reducing balances effects a more equitable apportionment of repairs and depreciation taken together throughout the different years, but it is very important that the distinction between the rate per cent. which must be adopted in the two cases should not be overlooked.

With regard to the depreciation of leases, however, it is not usual to adopt the fixed percentage, unless the term of the lease is very short, because it is usually considered desirable that the effect of the interest upon the capital involved should also be taken into account. I need hardly remind you that when a premium is paid for a lease it is because the actual annual value of the property is believed to be greater than the rent payable under the terms of the lease; that is to say, the premium is the present value of a portion of the rent paid in advance. The amount of the premium should therefore be reduced annually by transferring a fixed installment to rent account or, if thought desirable, it may be shown under separate headings as depreciation. But the amount of capital invested in the lease is continually decreasing, and whatever capital there is invested in it from time to time it should be bearing interest, and would be bearing interest if invested in other ways; therefore it is necessary that the amount to be debited to profit and loss account for excess rent or depreciation should be such that when credited to the lease account, it will reduce that account to zero by the time the lease expires, after the lease account has been debited and interest account credited with a per centage, say 4 per cent., upon the debit balance of the lease account from year to year. It is unnecessary for me to go into the question as to how these calculations are made; in practice they are usually arrived at by the use of tables which are specially constructed for the purpose, but the bookkeeping entries are that the lease account is debited and interest account credited with interest upon the debit balance of the lease account at the commencement of each year, and lease account is credited and profit and loss account debited with a uniform sum written off by way of depreciation, or rent paid in advance. I may mention, however, before dismissing this subject, that most leases contain covenants by which the lessee is required to leave the premises in a proper state of repair, and these usually involve a considerable outlay at the close of a lease; that outlay will vary according to circumstances, from perhaps six months' to two years' rent. It is desirable therefore that the actual term of the lease (for the purposes of considering the amount to be written off for depreciation) should be taken as something between six months and two years *less* than the actual unexpired term. The result of this will be that the leases account will he reduced to zero that length of time before the lease actually expires, and during the remainder of the period the profit and loss account can be charged with installments for depreciation at the same rate as before, which can be credited to a reserve created to meet the cost of dilapidations when the liability actually accrues.

Now, with regard to the question, What are profits available for dividend? I should like to point out to you that this is a matter which is almost entirely governed by the articles of association of each individual company. There is practically nothing upon the subject in the Companies Acts beyond a general statement that the capital of a company must not be returned to the shareholders. It is only in Table "A" the *pro forma* articles of association appended to the Act of 1862, that we find a statement that "no dividend shall be payable except out of the profits arising from the business of the company." Most articles of association contain some similar clause to this; but, on the other hand, some companies expressly provide that before arriving at profits available for distribution it is not necessary that any reserve should be made for the wasting of the capital assets of the company, and it has been held by the Court of Appeal in several cases, with the details of which I need not trouble you, that when such a clause is to be found in a company's articles of association it is unnecessary for provision to be made for depreciation. That, at least, is the way in which I read these decisions; but they are by no means clear, and it seems doubtful really whether the judges who gave them were really sufficiently *au fait* with the position of affairs to give anything more than a decision upon the precise points which were placed before them, and it is perhaps even doubtful whether they wished to give decisions which were of general application. But it seems to me that, in any case, there is this important reservation, viz.: that a company cannot pay dividends under any circumstances which will have the effect of leaving its creditors out in the cold; but so long as the creditors are not defrauded, apparently, the courts will not interfere to prevent profits being distributed among shareholders which do not provide for the replacement of wasting capital. How far this attitude of the courts may be taken as a statement of the law upon the subject, and how far it is due to a disinclination to interfere with the bona fide discretion of directors and shareholders, it is, however, very difficult to say. Be it as it may, however, I should like to point out to you that no decision of the court can really alter what are, and what are not, net profits; and whatever may be the dividend declared, it seems to me that accounts should not be published to shareholders stating as net profits something which does not provide a charge against profits for any shrinkage in the value of assets which has actually occurred.

On the other hand, it is practically impossible in many cases to put a definite value upon the fixed assets of the company which are practically of a permanent character; that is to say, that so long as a reasonable basis of depreciating the assets is arrived at and continued in good faith, it is quite unnecessary to take into consideration any possibility of the fixed assets of a company *fluctuating* in value from time to time. With regard to the floating assets, however, it is important that the actual values at the time should be taken into considertion, as these assets are only held by the company for the purposes of their being converted into cash as soon as possible, and therefore it is their cash values that should be taken and not their cost. It is however, beyond the secretary's province to consider these questions in detail; they belong primarily to the directors and the auditors, both of whom have to independently arrive at a bona fide opinion upon the subject, and to place their views before the shareholders who are the final arbitrators upon the point.

This brings me to my next heading, viz., the declaration and payment of dividends. As you are no doubt aware, this again is a question which is governed by the articles of association of each individual company. Without articles providing for the declaration and payment of dividends, it seems to me that none could be declared; but this is perhaps a point of only academical interest inasmuch as this is one of the things which is always provided for by the articles of association, and is generally regarded as one of the most important. In the absence of special provisions in the articles, *a fortiori* interim dividends may not be declared by the directors; but when the articles give the necessary power, directors may declare an interim dividend, although they run a serious risk if they do so without taking adequate steps to satisfy themselves that they are justified in so doing by the position of the company's finances and accounts. What I may call *the* dividend however, has usually to be declared by a vote of the shareholders in general meeting; but meeting articles provide that the shareholders shall not be allowed to vote a larger dividend than that recommended by the directors. It is difficult to say what this "recommendation" of a dividend by the directors actually means, and I do not know that it is really necessary for me to go into this question; it may, however, I think, be taken that it means nothing more than the directors have gone into the accounts—which, as I have told you in a previous lecture, are the accounts of the directors—and have satisfied themselves that these accounts justify the declaration of a dividend at the rate recommended. The auditor, as has been decided in several recent cases, has nothing whatever to do with the declaration of the dividend, or the recommendation of it, all he has to do is to satisfy himself that the accounts submitted to the shareholders show the true position of affairs so far as it is possible for him to ascertain that position by the exercise of reasonable care and skill. An ordinary resolution is all that is necessary for the declaration of a dividend, and in practice it is usually combined with the resolution adopting the accounts and the directors' report. (See Form 3). With regard to the actual payment of the dividend, the sheets which are before you show the form of the profit and loss appropriation account and the dividend account in the private ledger, and also the Journal entries, which is necessary

Form 3.

PROFIT AND LOSS APPORTIONMENT ACCOUNT.

Dr.		£ s. d.	£ s. d.	Cr.		£ s. d.
1897. March 3.	To transfer to Reserve Fund		2,500 0 0	1896. March 5.	By balance brought forward from last account..........	478 1 2
"	" Dividend Account, viz.—			Dec. 31.	" balance transferred from Profit and Loss Account...	12,962 10 9
	£50,000 Preferred Shares @ 7 per cent.	3,500 0 0				
	£50,000 Ordinary do. @ 12½ per ct.	6,250 0 0	9,750 0 0			
"	" Balance carried forward		1,190 11 11			
			£13,440 11 11			£13,440 11 11
				1897. March 4.	By balance brought forward	1,190 11 11

DIVIDEND ACCOUNT.

Dr.		£ s. d.	Cr.		£ s. d.	£ s. d.
1897. March 3.	To Income Tax	325 0 0	1897. March 3.	By Profit and Loss Apportionment Account:—		
"	" Cash	9,425 0 0		7 per cent. on £50,000 Pref. Shares...	3,500 0 0	
				12½ " on £50,000 Ord. do. ...	6,250 0 0	9,750 0 0
		£9,750 0 0				£9,750 0 0

JOURNAL. 1897.	Dr. £ s. d.	Cr. £ s. d.
March 3rd,		
Profit and Loss Apportionment Account..........	2,500 0 0	
To Reserve Fund........		2,500 0 0
(Being the amount transferred to latter account by resolution of Gen'l Meeting held this day.)		
Profit and Loss Apportionment Account..........	9,750 0 0	
To Dividend Acct. (Pref. Sh. @ 7 per cent........		3,500 0 0
To Dividend Acct. (Ord. Sh. @ 12½ per cent.)....		6,250 0 0
(Being the aggregate am't. of dividends voted by Shareholders at Gen'l Meeting held this day.)		
Dividend Account.........	325 0 0	
To Income Tax Account.		325 0 0
(Being 8d in the £ Income Tax upon the aggregate amount of dividends declared this day.)		

to give effect to the various transactions. It is quite necessary that any detail as to the payment of the dividends to individual shareholders should appear in the private ledger. The best method in my opinion is to draw one check for the whole amount of the dividend, and to pay it into a separate banking account, against which checks—or warrants—for the amount of each dividend are issued; so that from time to time the balance on this separate banking account will show the amount of dividends unclaimed. On the other hand, if there are a very few shareholders, it may seem hardly worth while to go to this length; and in that case the simplest way is to enter up the individual checks for dividend upon the credit side of the cash book, in an inner column, and extend the total, which total alone will be posted to the dividends account in the private ledger.

In this connection we come to another important point, namely, the question of income tax. As you are no doubt aware a company is assessed for income tax upon the average amount of its profits, but it is quite competent for the company to deduct income tax from each dividend paid, and in the case of interest on debentures it is only right and proper that it should do so. The same remark applies to the dividend upon preference shares, when the full amount of such dividend is being paid to the shareholders. It is quite optional whether the dividend upon ordinary shares should be paid subject to deduction of income tax or not; but the term "Free of income tax" is somewhat misleading in this connection, inasmuch as in every case the company has already paid tax on the profits earned, and a further tax cannot be levied upon the individual shareholders. It is merely a question whether they are to be paid a dividend of, say, ten per cent. gross, or ten per cent. less income tax. The latter, of course, takes a slightly smaller amount to pay the dividend than the former, and there is nothing else in the distinction. The necessary Journal entries to give effect to these deductions of tax are also shown on the form before you, and I think you will find them perfectly intelligible. The dividend list (which has no direct connection with the books) should be prepared with three cash columns, showing the gross dividend, the amount of the income tax, and the net dividend payable to each shareholder.

The last point which I propose to deal with is the question of treatment of losses. In the case of individual traders or private firms, as you are no doubt aware, the debit balance on profit and loss account, representing the loss on the year's business, is transferred to the debit of the various partners' capital accounts in the same proportions as they would have been entitled to profits had any been earned. It is impossible, however, to adopt this treatment in the case of a company, because, by legal fiction, the capital of a company is supposed to be "fixed." It is therefore necessary to leave the balance of the debit of the profit and loss account, so as to be brought down to the debit of the next year's account, and it is not until this debit balance has been wiped out by subsequent profits that any further dividend can be paid, unless indeed there is a reserve fund, to which recourse may be had for the purpose of writing off the debit balance, or unless the company's capital be "reduced."

We have now come to the end of our prescribed course. After having dealt in general terms with the system of double entry bookkeeping, and especially such portions of it as are ordinarily in use in connection with joint stock companies, we have passed on to consider the best methods of organizing accounts, so that they may be of use to the directors with a minimum expenditure of personal time. I have also shown you how these accounts are balanced and prepared for audit, how the various formalities and the general work in connection with allotments are best dealt with, and to-night we have considered a few of the points which come in after the accounts have been balanced, and between that time and the payment of dividends. You will thus see that we have very fairly covered the ground prescribed for this course, namely, "bookkeeping with special reference to joint stock companies;" but, on the other hand, it is inevitable that we should have had to pass lightly over many points which are of considerable importance, and which I should have liked to dwell upon further had time permitted. I trust, however, that my lectures will not have been without value to you, and that even those of you who commenced their attendance with but a slight knowledge of bookkeeping generally, will now feel that they at least know enough to enable them to undertake some of the very important and onerous duties that fall upon company secretaries.

COMPTROLLER ECKELS' WESTERN TRIP.

James H. Eckels, Comptroller of the Currency, who recently returned to Washington after an extensive trip through the West, has stated his impressions of the trip to a representative of the Washington Star:

"I visited Montana, Colorado, Utah and Nebraska," said Mr. Eckels. "There is no doubt that the condition of all classes of people in those States has materially improved. The improvement has come rapidly, and permeates all lines of industry. It began with the agricultural class. The farmers have large crops and are getting good prices for them. The cattle raisers are benefited by a substantial increase in the price of cattle, and the same is true with the sheep raisers. The improvement in agricultural interests has had its effect upon the railroads by increasing their earnings. It has put money into circulation, and has enabled people to discharge their debts, and thereby benefited the merchants.

"In the course of my journey I saw a great many bankers, and they all reported a good business. Bank clearings have increased very materially, and bank deposits are larger.

"In Colorado there are actually more men at work in the mines than ever before in the history of the State, notwithstanding the fact that many silver mines have been compelled to close. Some of the silver mines, however, are running, and are doing well by getting out the lead deposits. The price of lead has advanced very sharply, and as a great many of the silver mines are also lead-bearing properties their owners are working them at a profit. * * *

"Coming back by way of Nebraska, I found the same gratifying conditions of business in that section. Kansas, Nebraska and Oklahoma have sold 130,000,000 bushels of wheat this year at an advance price. Fortunately the producer has been benefited by the advance, as the wheat was in his hands when the rise in price came. That is a great section, that western country, and I think that the government officials ought to visit these states more frequently and get in closer touch with these people."