

agreed with the pass book as frequently as possible, and a reconciliation statement between the cash book and the pass book prepared and periodically entered in the cash book, preferably in red ink. A reconciliation statement is set out this way:—

	£	s.	d.
Balance as per pass book.....	0	0	0
Add lodgments not cleared....	0	0	0
Less checks outstanding.....	0	0	0
Leaving balance as per cash book.....	£0	0	0

Regarding petty cash, it is very desirable that the petty cashier has a floating balance sufficient for his needs as petty cashier, and that a check be drawn periodically for the exact amount of his expenditure during the period arranged, which will recoup him so that he may again have his full floating balance. Most firms adopt this principle, and draw weekly checks for petty cash expenditure.

As to discounts, it should be remembered that trade discounts should go to purchases and sales accounts, while cash discounts are posted to discount account, the balance of which is carried to the profit and loss account.

PROVING OF LEDGERS.

I will now pass on to the subject of verification of work. The adoption of self-balancing ledgers is very advisable. The subsidiary books must be arranged on analytical principles and monthly, bi-monthly, or as often as can be arranged, each ledger should be balanced separately. As a simple instance, let us take a business which closes its books on December 31st. On January 31st the summary of the bought ledger postings may be as follows:—

BOUGHT LEDGER.

CASH BOOK.	£	LEDGER BALANCES.	£
Being the total of the B. L. Column on the Credit side of the Cash Book.....	4,000	At 1st January.....	5,000
Discounts allowed in connection with the above payments.....	100	Bought Day Book being the total of entries in that book.....	1,000
Bought Returns being the total of the B. Returns Book.....	200		
Leaving Balance.....	1,700		
	£6,000		£6,000

A schedule of the bought ledger balances at January 31st should, therefore, be £1,700. The same check may be applied to every ledger. But this is a somewhat elementary way of dealing with the principle of self-balancing ledgers, although sufficient in many cases. To complete the system, every ledger should contain material within itself for a trial balance. 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. By the adoption of this system the detection of error is greatly aided, and mistakes can be promptly localized.

BILLS.

It may here be useful to refer to the subject of bills—bills receivable and bills payable. These should be entered in the bill book under the proper heading, each item being posted to the personal account in the ledger, and the to-

als of the bill book to the debit of bills receivable account, or to the credit of the bills payable account. The postings from cash clear the accounts automatically. Dishonored bills should be at once debited to the customer, and never left on bills receivable account.

STOCK TAKING.

One of the most important events in regard to the figures of a business is stocktaking. Too often this is not only hurriedly but incompetently done. Stocktaking is a serious business, which should be most carefully watched. Errors made during stocktaking are liable to remain undetected, and an incorrect result of the trading profit is necessarily the consequence.

A careful watching of percentages may point to an error which may be traced to stocktaking, but the error to make a noticeable fluctuation in the percentage of gross profit, would have to be of considerable magnitude. In stocktaking goods must be taken at or under cost, and it is often advisable that a small percentage to provide for wastages, etc., be deducted from the total of the stock sheets before the final stock figure is arrived at.

TRIAL BALANCE.

The trial balancing period is of particular interest to the bookkeeper, although sometimes it is one of considerable anxiety. The correctness of the work under his control is to be ascertained. Too often the figures at first attempt do not agree. It then requires all the intelligence of the bookkeeper to decide what course shall be pursued to promptly ascertain in what direction the error or errors can be traced.

There is no golden rule for this. Experience only will enable the competent man to know where to look for the mistake. It may be that a balance of £8 10s. in the ledger has been brought down at £8 10d. A cast, an indistinct figure, an omission of a ledger balance in the schedules may prove to be the cause. On the agreement of the two sides a certain relief is attained. The result has proved that the debits in the trial balance equal the credits. It has not, however, proved more than that. An error in posting to a wrong account may still exist, although if reasonable care be taken by the clerks in posting, and all items are called back, the possibility of error should be small. When the process of calling back is taking place it is well that ordinary blacklead pencils be used, and not ink, as otherwise the marks might interfere with the work to be done by the professional auditors in their attendance at balance sheet time.

COST ACCOUNTS.

I may here just touch upon cost accounts. These are of great importance to a business. It is by economies in production that profits can be improved. True and correct records of prime cost are essential in all manufacturing concerns. A firm cannot enter into a contract or give an estimate with any confidence of accuracy without having a detailed knowledge of the cost of the work to be done, and this knowledge cannot be correctly obtained unless a proper system of prime cost is in force.

By a complete analysis of the wages sheets, unproductive wages can be carefully watched.

FINAL RESULTS.

We are now coming to the ascertainment of the final results. The trial balance agrees and preparatory to drawing up the trading and profit and loss accounts we examine the various accounts comprised in the trial balance, to see that all have received correct treatment. Rent, rates and taxes, gas and electric light, and insurance accounts must be checked so as to see that the correct apportionments of rent, etc., accrued, and insurance unexpired, are taken into account and brought down as debit and credit balances (i.e., assets and liabilities), as the case may be, so that the balance carried to profit and loss account is actually and correctly the amount chargeable to that account.

In the case of fixtures, furniture, machinery, plant, etc., proper allowances must be made for depreciation. The amounts to be written off vary according to the estimated life of the property. Brooms and brushes wear out more quickly than mahogany desks, while horses must be dealt with according to their age and utility.

In writing off a percentage for depreciation, the calculation should be on the original amount and not on the balance of an account, otherwise, theoretically, the account could never be closed. With plant and machinery, and especially horses, fresh valuations are advisable as frequently as circumstances permit, and in many concerns preferably by high-class professional valuers.

Proper reserve must also be made for bad and doubtful debts. Debts should always be collected as promptly as possible, consistently with the business customs of the parties to the transaction.

The capital of a business is the surplus of the assets over the liabilities. If the reverse is the case, the capital is overdrawn and the business is insolvent. It will, therefore, be seen that the assets (that is, the stock, book debts, machinery, plant, etc.) must be stated at their correct value, otherwise any assets wrongly stated or any liabilities incorrectly recorded must of necessity affect the capital of the business.

I have not yet referred to the journal. Some have extensive use for the journal; others believe almost in its abolition. Personally, I think there is no necessity for many entries frequently found in a journal. For example, I fail to see that any advantage is gained by carrying the totals of the day books through the journal. Time can be saved, and equal efficiency secured, by posting direct from the day books. In opening the books of a business the journal is most useful and also at balancing times its necessity is very apparent. Entries in the journal should in each case be accompanied by a short explanation. Depreciation, reserves, and such like items should be journalized; the trading and profit and loss account figures should also go through the journal.

The object of the trading account is to show the gross profit of a business. The trading account may be regarded as the first section of the profit and loss account. The profit and loss account proper includes the balance of trading account, and all items of income and expenditure relating to the business. The balance sheet should be arranged as simply as possible, and with a clearness which will render misapprehension impossible.