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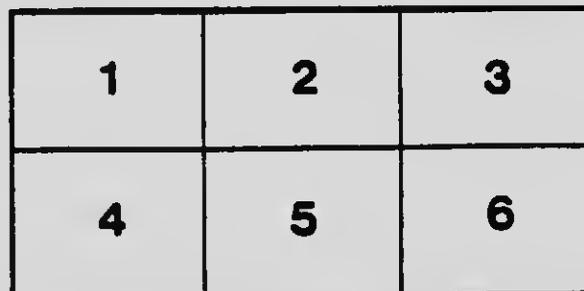
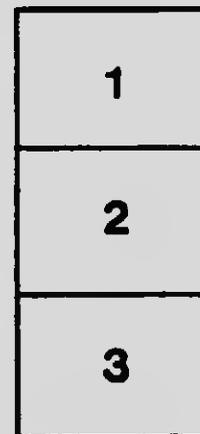
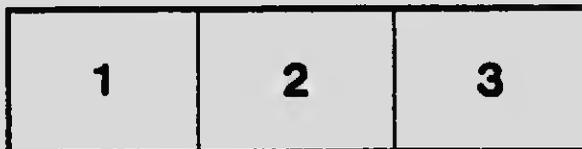
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THE
SUPERIOR COURSE
IN
DOUBLE-ENTRY BOOKKEEPING

LESSON III.



THE D. C. SMITH AUDIT CO.

AND

COMMERCIAL SCHOOL

LIGGETT CHAMBERS, HAMILTON, CANADA



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THE
SUPERIOR COURSE
IN
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LESSON III.



THE D. C. SMITH AUDIT CO.
AND
COMMERCIAL SCHOOL
LIGGETT CHAMBERS, HAMILTON, CANADA

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1880

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1881

SUPERIOR COURSE

IN

DOUBLE-ENTRY BOOKKEEPING

LESSON 3.

THE LEDGER



IN LESSON II we merely gave the student a general idea of the ledger and its connection with the Synoptic. This lesson will be devoted entirely to a discussion of ledgers and ledger accounts. In the preceding lesson all postings were made to one ledger, and this method would be satisfactory for a small business, but where the transactions are numerous it is advisable to divide the accounts into classes and keep all accounts of the same kind in separate ledgers. If this is done it is possible for two or more persons to work on a set of books without interference. Another advantage is that the private records of the proprietor or proprietors may be kept from the knowledge of the employees, as they could be contained in a separate ledger, which is usually kept under lock and key.

There are many sub-divisions of ledgers, but we will discuss only the three principle ones, namely, Accounts Receivable or Sales Ledger, Accounts Payable or Purchase Ledger, and the General Ledger.

The Accounts Receivable Ledger contains the accounts of customers, and, of course, the debits are usually greater than the credits, as the balances represent accounts owing by customers. The exception to this is when a customer overpays his account or receives credit for returned goods for more than the amount owing by him.

The Accounts Payable Ledger contains the accounts of the persons you buy from. The credits are greater in this ledger, as the balances represent amounts owing except when an account is overpaid or credit is received for more than the amount owing.

The General Ledger is very important, as it contains accounts from which the earnings of the business and the financial condition may be ascertained. There are four general classes of accounts kept in this ledger, namely, Asset Accounts, Liability Accounts, Capital Accounts, and Revenue or Profit and Loss Accounts. **Asset Accounts** contain records of all assets, that is anything of value belonging to the business, such as accounts receivable, stock on hand, furniture and fixtures, property, plant, machinery, etc. Always show assets on the books as debits to their respective accounts. **Liability Accounts** contain records of all amounts owing by the business, such as accounts payable, mortgages, loans, etc. Show liabilities on the books as credits. **Revenue or Profit and Loss Accounts** are accounts from which the earnings or losses of a business are determined. They show the progress that is being made by the business by exhibiting the amount of sales, purchases, and expenses. **Capital Accounts** record the amount invested by the proprietor or proprietors in the business; also any profits or losses which may have occurred in past periods.

In order to impart a clear understanding of the operating and connection between these different ledgers or sub-ledgers we will make use of the enclosed synoptic journal and ledger accounts, which show the completed entries for transactions made during the month of April, 1912. As before, we will presume that you are the proprietor and bookkeeper. The entries will be found on Synoptic form No. 5. Postings should be made to the accounts receivable and accounts payable ledgers as soon as the entries are made in the synoptic, and if this is done the amount owing to or by you can be seen at a glance from the ledger accounts. These postings are made in the same manner as in your last lesson.

Ledger Ruling Known as Bank Ruling.

This is somewhat different from the last lesson. This form is provided with a balance column, and the column to the left of the balance column is for the purpose of stating whether the balances are debit or credit. If the debits are more than the credits the difference would be a debit balance, and vice versa. This can be clearly seen upon referring to the enclosed ledger forms. The synoptic monthly totals only are posted to the general ledger accounts, excepting the items in the "sundries" column, which are posted individually.

As will be seen, the total of all the columns excepting the "sundries" column have been posted to their respective general ledger accounts, and the individual items in the "sundries"

column posted separately. As stated before, this column is for entries for which no column is provided, and as these entries usually affect various accounts it is quite obvious that there is no account to which the totals could be posted.

There are two accounts for "the Student." One is for the original investment, which is called the **Capital Account**, and another for withdrawals of money or goods received by the student from the business. This is done in order to keep the original investment intact.

Although the individual items in the accounts payable and accounts receivable columns have been posted to their respective ledger accounts, you will notice the totals have also been posted to an accounts payable and accounts receivable account in the general ledger. These general ledger accounts are called "controlling accounts." The advantages of having these controlling accounts are numerous. One is that it is possible to tell the total amount owing to or by without going through the accounts receivable and accounts payable ledgers and adding the balances. Another is that if any error were made by posting wrong amounts they would be detected at the end of the month, as the total of the accounts payable and accounts receivable would not agree with the balances of their respective general ledger accounts. In the example shown the controlling account of the accounts receivable shows that there is \$491.32 owing to you, and if you refer to the accounts receivable ledger you will see that this is made up of the following accounts: S. E. Warren \$96.13, K. Smith \$67.19, A. Sterne \$114.00, and A. Bell \$214.00. This tells you that the correct amounts have been posted to the accounts receivable ledger accounts, and bookkeepers usually consider their work correct after finding that the balances agree, although an error could be made and the books still balance. For instance if on April 12 A. Sterne had been charged with \$67.19 instead of K. Smith, the total of all the balances would be the same as it is now and it would appear that no mistake had been made. In order to ascertain if any errors of this kind are made it is necessary to check each posting into the ledger. This is a commendable plan to adopt, especially if these postings are checked daily, as it detects errors before any inconvenience or trouble arises. The same explanations apply to the accounts payable.

After balancing the accounts receivable and accounts payable ledgers with their respective controlling accounts it is necessary to balance the general ledger. You will see that for every debit entry in the synoptic we have made a corresponding

SUPERIOR COURSE IN

credit entry. It is quite obvious, therefore, that the total of the debit columns should equal the total of the credit columns, and it follows that if the correct amounts are posted to the general ledger the total ledger debits should equal the total ledger credits. The result of recording these debits and credits and adding them is known as the **Trial Balance**. A trial balance is usually taken at the end of every month. It proves that for every debit entry made there has been a corresponding credit entry, but it does not prove that the work for the month is absolutely correct, as entries could be posted to the wrong accounts and the ledger still balance. It is therefore advisable to use the checking plan suggested in connection with the accounts payable and accounts receivable ledgers. Following is a trial balance of the general ledger shown in the example. In this instance we have used the balances of the different accounts instead of showing the total of the debits and credits for each account as, if the total of all the debits is equal to the total of all the credits, it will be clear that the total of all the debit balances should equal the total of all the credit balances.

TRIAL BALANCE APRIL 30, 1912.

	Debit	Credit
Cash	61 02	
Bank	95 00	
Accounts Receivable	491 32	
Accounts Payable		210 12
Merchandise	1714 52	
Interest and Discount	36	
Bills Payable		312 10
Furniture and Fixtures	100 00	
Expense	85 00	
The Student "Proprietor"		2250 00
Delivery Equipment	175 00	
The Student "Withdrawals"	50 00	
	2772 22	2772 22

We will presume that at the end of April you found you had goods on hand amounting to \$1886.89 at the cost price. It is required to show a statement of your condition on April 30th, and

also a statement showing the profit or loss for the month. These statements are usually prepared at the end of a year or fiscal period when the books are closed. By closing the books we mean the balancing of all profit and loss accounts into one account called the **Profit and Loss Account**. To close an account you find the difference between the total of the debits and credits and insert this amount on the smaller side with the words "profit and loss," as shown in the expense and interest and discount accounts in the illustration. The same amounts are then entered on the opposite side in the profit and loss account, which still leaves the debits and credits equal.

The merchandise account has been charged with all the goods purchased, and as they have not all been sold it is necessary to give this account credit with the goods on hand before making the profit and loss entry. This is done in the illustration with the profit and loss entry made. The amount transferred from this account to the profit and loss account is known as the **Gross Profit**. The gross profit therefore is the difference between the sales and the first or merchandise cost of the sales. For instance, if you sold an article for \$200.00 that cost \$150.00 the difference (\$50.00) would be your gross profit, but it might cost you \$15.00 to sell this article, and your actual profit would only be \$35.00. This \$35.00 would be what is known as your **Net Profit**, and it is the amount of the gross profit less expenses.

The net profit in the example is \$37.01, as shown by the profit and loss account. This amount is credited to "The Student Proprietor" account, and the balance of this account represents your actual or present worth on April 30, 1912. **Present Worth** is then the amount of your interest in the business. This is sometimes referred to as **Net Worth**.

As we have closed off all the revenue and expense accounts the only balances remaining must either be asset accounts or liability accounts, excepting the "proprietor" account, which although a credit balance is not in the true sense a liability but merely represents the amount of the proprietor's interest in the business or the excess of assets over liabilities. This amount (the net worth) is shown on the liability side of the statement of assets and liabilities. Following is a statement of your **Assets, Liabilities and Net Worth** as on April 30, 1912. These statements are also called **Statements of Condition** and **Balance Sheets**:—

Synoptic

		Cash	Bank	Accts Rec
		Dr. Cr.	Dr. Cr.	Dr. Cr.
1917				
Apr. 1	Stock on Hand (Cont)			
	Cash	500.00		
	The Student (Proprietor)			
2	Bought Counters for Cash (Friend)	100.00		
4	Deposited in Bank	350.00	350.00	
6	E. Jones Invoice this date			
9	R. Bedwell " " "			
9	J. E. Warren, sale on account			176.13
11	L. Roberts, Cash sale	49.02		
12	M. Smith, sale on account			67.19
13	Paid for clipping store	5.00		
15	Cheques to E. Sale, sent for April		50.00	
16	Delivery equipment, bought from Wagon		175.00	
16	A. Smith, sale on account			114.00
17	E. Jones, paid him cheque on acct.		100.00	
18	" " gave note for balance			
19	J. E. Warren, paid me on acct.	100.00		100.00
20	Deposit	150.00	150.00	
22	L. Roberts, cash sale, 2% discount	48.14		
23	Wages paid helpers by cheque		30.00	
24	The Student, withdrawal		50.00	
27	E. Bell, sale on account			214.00
29	Bought goods for cash, discount	31.14		
		697.16	636.14	500.00
			500.00	591.32
				100.00

ptic Form #5

Accts Rec		Accts Pay		Mdse.		Int. & Div		Bills Pay		Trans + Flu	Expans	sundries	
Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Dr	Dr	Cr
				1750.00									
													725.00
									100.00				
				412.10	412.10								
				210.12	210.12								
196.13					196.13								
					47.07								
67.19					67.19							5.00	
												50.00	
													175.00
114.00					114.00								
	100.00												
	912.10							312.10					
	100.00												
					119.12	.95						30.00	
													50.00
214.00					214.00								
				31.76		.62							
591.30	1000.00	412.10	6222.20	403.98	697.40	.95	.62	312.10	100.00	15.00	225.00	205.00	

**SUPERIOR COURSE IN
THE STUDENT PROPRIETOR**

Balance Sheet as of April 30, 1912.

Assets	Liabilities and Net Worth
Cash on Hand\$ 61.02	Accounts Payable ...\$ 210.12
Cash in Bank 95.00	Bills Payable 312.10
Accounts Receivable .. 491.32	The Student (Capital) 2287.01
Merchandise 1886.89	April 1st In-vestment \$2250.00
Furniture and Fixtures 100.00	Net profit for April 37.01
Delivery Equipment .. 175.00	<u> </u>
	\$2287.01
<u> </u>	
\$2809.23	<u> </u>
	\$2809.23

It is now required to prepare a statement of the profit and loss account. This statement is merely a copy of the profit and loss account except that it shows in detail how the gross profit of \$172.37 is arrived at. As will be seen below this is the result of deducting from the sales the amount of the stock April 1st, plus the purchases, less the stock on hand April 30th:—

THE STUDENT PROPRIETOR

Statement of the Profit and Loss Account for the Month of April, 1912.

Sales	:	\$ 689.46
Stock on Hand April 1st		\$ 1750.00
Plus Purchases for April		653.98
		<u> </u>
		2403.98
Less Stock on Hand April 30th		1886.89
		<u> </u>
Net Costs of Sales		517.09 517.09
Gross Profit		<u> </u>
		172.37
Expenses		135.36
		<u> </u>

DOUBLE-ENTRY BOOKKEEPING

Expense	\$ 85.00
Withdrawals	50.00
Interest and Discount36

135.36

Net Profit for Month of April

\$ 37.01

**SUPERIOR COURSE IN
GENERAL LEDGER
BILLS PAYABLE.**

1912		Folio	Debit	Credit	Dr. or Cr.	Balance
April 30		5		312.10	Cr.	312.10

FURNITURE AND FIXTURES.

April 30	Counters	5	100		Dr.	100.00
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EXPENSE.

April 30		5	85.00		Dr.	85.00
April 30	Profit & Loss Acct.			85.00		
			85.00	85.00		

THE STUDENT "PROPRIETOR"

April 1		5		2250.00	Cr.	2250.00
April 30	Profit and Loss			37.01		
	Present Worth		2287.01			
			2287.01	2287.01		
May 1	Present Worth			2287.01		

DELIVERY EQUIPMENT.

April 16	Horse and Wagon	5	175.00		Dr.	175.00
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THE STUDENT WITHDRAWAL ACCOUNT.

April 24		5	50.00		Dr.	50.00
April 30	Profit & Loss Acct.			50.00		
			50.00	50.00		

CASH.

April 30		5	697.16	636.14	Dr.	61.02
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DOUBLE-ENTRY BOOKKEEPING

11

BANK.

1912		Folio	Debit	Credit	Dr. or Cr.	Balance
April 30		5	500 00	405 00	Dr.	95 00

ACCOUNTS RECEIVABLE.

April 30		5	591 32	100 00	Dr.	491 32
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ACCOUNTS PAYABLE.

April 30		5	412 10	622 22	Cr.	210 12
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MERCHANDISE.

April 30		5	2403 98	689 46	Dr.	1714 52
April 30	Stock on Hand			1886 89		
April 30	Profit & Loss Acct.		172 37			
			2576 35	2576 35		
May 1	Stock on Hand		1886 89			

INTEREST AND DISCOUNT.

April 30		5	98	62	Dr.	36
April 30	Profit & Loss Acct.		98	36		
				98		

PROFIT AND LOSS ACCOUNT.

April 30	Merchandise Expense		85 00	172 37		
	The Student "Withdrawals"		50 00			
	Interest & Discount		36			
	The Student Prop.		37 01			
			172 37	172 37		

**SUPERIOR COURSE IN
ACCOUNTS RECEIVABLE LEDGER**

S. E. WARREN.

1912	Folio	Debit	Credit	Dr. or Cr.	Balance
April 9	5	196 13			
April 19			100 00	Dr.	96 13

K. SMITH.

April 12	5	67 19		Dr.	67 19
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A. STENRE.

April 16	5	114 00		Dr.	114 00
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E. BELL.

April 27	5	214 00		Dr.	214 00
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ACCOUNTS PAYABLE LEDGER

E. JONES.

April 6	5		412 10		
April 17		100 00			
April 18		312 00			

R. BEDWELL.

April 9	5		210 12		
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EXAMINATION PAPER

1.—Enter the following transactions in Synoptic Form No. 6. You, "The Student," start in the wholesale dry goods business on October 1, 1913. Your investment in the business is as follows: Cash in bank \$900.00; Cash on hand \$250.00, and stock of dry goods \$2500.00.

Transactions.

Oct. 1.—You pay by cheque \$100.00 rent in advance to S. Ramsay.

Oct. 1.—Bought goods from Webb Bros. amounting to \$376.40. Terms 2% 10 days, net 30 days.

Oct. 2.—Sold goods amounting to \$98.42 to L. Barber. Terms net 15 days.

Oct. 2.—Paid by cheque \$20.00 to E. Stuart for stationery.

Oct. 2.—Paid by cash \$2.75 for cartage.

Oct. 2.—Deposited \$200.00 in the bank.

Oct. 3.—Sold goods to Warren & Co. amounting to \$176.80. Terms 2% 10 days, net 30 days.

Oct. 3.—Sold goods to F. Irwin amounting to \$89.90. Terms net 30 days.

Oct. 4.—Paid \$5.00 cash for postage stamps.

Oct. 4.—Bought goods from Bell & Co. amounting to \$149.70. Terms, net 30 days.

Oct. 6.—Paid A. Stevens by cheque \$8.50 for cleaning store.

Oct. 6.—Bought goods from Webb Bros. amounting to \$61.85. Terms, net 30 days.

Oct. 7.—Bought a safe from A. Sinclair for \$50.00. Terms, net 15 days.

Oct. 8.—Sold goods to R. Mason amounting to \$197.63. Terms, 2% 10 days, net 30 days.

Oct. 8.—Sold goods for cash amounting to \$50.76, but allowed 2% off this for cash. Therefore received cash amounting to \$49.74.

Oct. 8.—Sold goods to L. Barber amounting to \$50.20. Terms, net 30 days.

Oct. 8.—Paid by cheque weekly salaries \$35.00.

Oct. 9.—Paid cash \$1.95 for cartage.

Oct. 10.—Paid by cheque to A. Sinclair \$65.00 for typewriter.

Oct. 11.—Sold goods to J. Hall amounting to \$230.30. Terms, 2% 10 days, net 30 days.

Oct. 11.—Sold goods for cash amounting to \$31.80.

Oct. 11.—Gave a cheque for \$368.87 to Webb Bros. in payment of their invoice of October 1, less 2%.

Oct. 13.—Warren & Co. paid \$173.26 in settlement of goods purchased on the 3rd.

Oct. 14.—Deposited \$200.00 in the bank.

Oct. 14.—Gave Bell & Co. a note for \$149.70 in settlement

of their invoice of the 4th.

Oct. 15.—Bought goods from K. Wilson & Co. amounting to \$260.00. Terms, net 30 days.

Oct. 15.—Paid by cheque weekly salaries \$35.00.

Oct. 16.—Bought goods from Webb Bros. amounting to \$277.89. Terms, net 15 days.

Oct. 17.—L. Barber paid \$98.42 in settlement of goods purchased on the 2nd.

Oct. 17.—Deposited \$100.00 in the bank.

Oct. 18.—Paid by cheque fire insurance premium \$48.00.

Oct. 18.—Bought goods from W. Henderson & Co. amounting to \$491.60. Terms, net 15 days.

Oct. 20.—Sold for cash goods amounting to \$147.90.

Oct. 20.—Deposited \$150.00 in the bank.

Oct. 21.—J. Hall paid \$225.61 in settlement of goods bought on the 11th.

Oct. 22.—Paid by cash weekly salaries \$35.00.

Oct. 22.—Gave A. Sinclair a cheque for \$50.00 in payment of safe purchased on the 7th.

Oct. 23.—Sold goods to M. Rodgers amounting to \$397.80. Terms, 2% 10 days, net 30 days.

Oct. 24.—Paid cash \$2.90 for cartage.

Oct. 26.—Bought goods from Webb Bros. amounting to \$365.00. Terms, net 30 days.

Oct. 27.—Bought goods from R. Filmore amounting to \$197.70. Terms, 2% 10 days, net 30 days.

Oct. 28.—Sold goods to H. Hastings amounting to \$413.80. Terms, net 15 days.

Oct. 28.—Sold goods for cash amounting to \$19.75.

Oct. 29.—Deposited \$200.00 in the bank.

Oct. 29.—Paid by cheque weekly salaries \$35.00.

Oct. 30.—Paid cash \$2.50 for postage stamps.

Oct. 31.—Paid by cheque to Webb Bros. \$277.89 for goods purchased on the 16th.

2.—Add the synoptic form and post the totals to the general ledger. Also post the individual amounts to the accounts payable and accounts receivable ledgers.

3.—Prepart a trial balance of the general ledger.

4.—Prepare a reconciliation of the accounts receivable and accounts payable ledgers.

5.—Presuming the goods on hand October 31 amount to \$3416.59, close off the profit and loss accounts and then transfer the balance of the profit and loss account to "the student proprietor" account.

6.—Prepare a Balance Sheet as of October 31, 1913.

7.—Prepare a statement of the profit and loss account for the month of October, 1913.

