

CARTER'S ADVANCED ACCOUNTS

A Manual of Book-keeping
and Accountancy for Students

The text of the new edition of this standard work has been thoroughly revised and brought up to date in conformity with the most recent developments

"It is a marvel of value for money, is well produced, and the subject-matter, exercises, forms, documents, and index are all that can be desired. For those preparing for any of the public examinations in advanced book-keeping and accountancy this work is of inestimable value. It should be found on the bookshelf of everyone engaged in business."—LONDON CHAMBER OF COMMERCE JOURNAL.

PITMAN

CARTER'S
ADVANCED
ACCOUNTS

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CARTER'S
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KEY TO CARTER'S ADVANCED ACCOUNTS

By R. A. GOODMAN

This Key has been prepared for the purpose of giving assistance to teachers and students in the correction of work. All the exercises in CARTER'S ADVANCED ACCOUNTS are worked, and every care has been taken to ensure that adequacy and accuracy which are essential in a book of this kind.

It is a *full Key*, not a *skeleton*, and contains *Model* solutions to more than 800 practical exercises on all phases of book-keeping and accounts.

Valuable notes, which elucidate difficult points, have been interspersed throughout the Key.

P I T M A N

PUBLISHERS' PREFACE

THIS textbook was originally edited by the late Mr. Roger N. Carter, M.Comm., F.C.A., Lecturer in Accounting at the University of Manchester, and is still familiarly known as "Carter" by hundreds of thousands of practitioners, teachers, and students. For this Fourth Edition the book has had a thorough revision. Mr. G. W. Murphy, B.A. (Com.), F.C.A., and Mr. F. A. Bailey, A.C.A., have been responsible for the chapters affected by the Companies Act, 1948, and the Finance Act, 1949; and the Publishers thank them for their expert assistance in this connexion.

A study of the book will fit the student of book-keeping for most of the ordinary public examinations in this subject. It contains considerably more than is necessary for examination purposes, and the student who is fully conversant with all the matters dealt with has no need to fear the result of such a test. Great pains have been taken to include all matters referred to in the syllabuses of the various examining bodies.

Although the principles of double entry book-keeping are universally accepted, there are, of course, differences of opinion as to the best methods of applying those principles. Where several ways of achieving the same result are in vogue, these have, in many instances, been given. It has been thought, also, that the inclusion of the more theoretical methods, as well as the practical methods, will have the effect of making the explanations clearer to the student of the subject.

Numerous exercises are given, the answers to which are inserted at the end of the book. The first part of the set of exercises at the end of each chapter contains tests on the work of that particular chapter, while the latter part consists of revisionary exercises on the previous work.

HINTS REGARDING EXAMINATIONS

"Knowledge" of a subject is not synonymous with a "mastery" of that subject. Examinations in accountancy are held with a view to the measurement of the examinee's *mastery* of the subject. The degree of mastery is gauged by the way in which the acquired knowledge of accountancy has been applied to practical problems set for elucidation. Retailing the knowledge of the subject in the

form of stereotyped answers to questions set does not convey to the examiner the best impression of the examinee's ability.

The really deliberate purpose of an examination is to "prove" the examinee in two main directions, namely, in tests of "executive ability" and "initiative." The examination is the means provided to this end, and examinees are advised to essay the task of an examination in the avowal that an examiner shall receive ample evidence of these valuable qualities.

Disconcerting elements, contributing not a little to "examination nerves," are the notions entertained by some candidates that the examination paper contains traps or pitfalls into which the unwary candidate may ignominiously stumble.

These views lead to loss of confidence, and it is suggested that examinees should refuse to be influenced by such notions, and should recognize that examinations in accountancy are set to bring out the latent powers of independent action.

"Nerves" seems an ailment common to many candidates when confronted with the task of working the examination paper. It will be an aid to composure if the question which the candidates find most easy to answer is attempted first. Each candidate is happy in the conceit (justifiably so!) that at least one aspect of the vast subject of accountancy is thoroughly mastered. Well, tackle the question which it is thought bears on the phase of the subject so well understood. This task does not call for tense action, it just demands an easy mental effort which, it will be found, reduces the condition of flurry, and creates a sense of confidence and control. Many candidates think that the heavy task of final accounts *must* be attempted first because it is the major question of the test. This view is not necessarily right. Until the tension at first experienced has passed, it may be better to deal with a shorter question first.

When comparisons or differences are elicited by the questions set, a neat graph, chart, or tabulated statement conveying such results will please an examiner, and yield a much more businesslike answer to his question than is conveyed by the essay type. Where the essay form is used it is advisable to be as concise as possible.

Examinees are strongly recommended to read carefully the examiners' reports which are published by most of the examining bodies. Many valuable hints are given in these, more especially regarding the more common errors to avoid.

Finally, take the examination test with a smile. Remember, it is provided to prove your mastery of the subject, and not to expose your lack of ability. Therefore, study to be master of the situation.

CONTENTS

PUBLISHERS' PREFACE	PAGE V
-------------------------------	-----------

CHAPTER I

BOOK-KEEPING UP TO THE TRIAL BALANCE

Capital	1
Assets: Accounts	2
Systems of Accounting: Theory of Double Entry	3
Nature of Ledger Balances	4
Books used in Book-keeping	5
Journal	6
Purchases Book	7
Sales Book	8
Purchases Returns Book	9
Sales Returns Book	10
Cash Book	11
Petty Cash Book	15
Bill Books: Ledger	16
Loose-leaf and Card Ledgers	18
Slip System of Book-keeping	20
Trial Balance	22

CHAPTER II

TRADING AND PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

Trading Account	30
Profit and Loss Account	37
Adjustments at Balancing Time	42
Provisions for Bad Debts	48
Provisions for Discount	57
Closing Entries	64
Balance Sheet	65
Special Points to Watch in Exercises	80
Adjustments and the Balance Sheet	83

CHAPTER III

THE CORRECTION OF ERRORS

	PAGE
One-sided errors	96
Errors Revealed During the Course of the Year	97
Errors Revealed in a Subsequent Trading Period	98

CHAPTER IV

**SINGLE ENTRY AND CONVERSION TO
DOUBLE ENTRY**

Single Entry	112
Conversion to Double Entry	116

CHAPTER V

DEPRECIATION, SINKING FUNDS, ETC.

Depreciation	124
Sinking Funds	145
Reserves and Provisions	149
Provision and Reserve Funds: Marine Insurance Fund	152
Secret Reserves	153

CHAPTER VI

**BILLS OF EXCHANGE, PROMISSORY NOTES,
CHEQUES**

Bills of Exchange	159
Accommodation Bills and Bills of Exchange Transactions	174
Foreign Bills	180
Documentary Bills	186
Promissory Notes	190
Bank Notes	192
Bank Drafts: IOU	193
Cheques	194

CHAPTER VII

**CONSIGNMENTS, JOINT VENTURES,
VOYAGE ACCOUNTS**

Consignments Outwards	216
Consignments Inwards	223
Joint Ventures	228
Voyage Accounts	236

CHAPTER VIII

ACCOUNTS CURRENT, AVERAGE DUE DATE

	PAGE
Accounts Current	249
Interest Calculations	251
Interest Tables	253
Average Due Date	262

CHAPTER IX

SELF-BALANCING LEDGERS

Adjustment Accounts	274
Control Accounts	280
Sectional Balancing	305
Private Ledger	312

CHAPTER X

**CAPITAL AND REVENUE, REVENUE ACCOUNT,
RECEIPTS AND PAYMENTS ACCOUNT,
INCOME AND EXPENDITURE ACCOUNT**

Distinction Between Capital and Revenue	325
Apportionments	326
Revenue Account: Receipts and Payments Account: Income and Expenditure Account	328

CHAPTER XI

DEPARTMENTAL ACCOUNTS

Analytical Books	346
Inter-departmental Transactions	347
Allocation of Expenses	348
Decimalization of Money and Calculations	354

CHAPTER XII

PARTNERSHIP ACCOUNTS

Law of Partnership	377
The Accounts	382
Limited Partnerships	397

CHAPTER XIII

DISSOLUTION OF PARTNERSHIP

Legal Principles	408
Profit on Realization	412
Loss on Realization	413

CHAPTER XIV

BRANCH ACCOUNTS

	PAGE
Introduction	435
Retail Branches	438
Wholesale Branches	448
Books Kept by the Branches	451
Foreign Exchange	468
Conversion from and into Sterling	470
Forms of Foreign Remittances: Transactions in Currency	473
Foreign Branches	475
Fluctuating Paper Currency	478

CHAPTER XV

COMPANIES

SECTION (A)

Introduction	495
Formation of Company	499
Capital	513
Shares	514
Statutory and Statistical Books	515

SECTION (B)

Issue of Shares and Debentures	567
Shares Over-subscribed	578
Calls in Advance and in Arrear	580
Forfeiture of Shares	581
Reissue of Forfeited Shares	584
Interest on Calls	585
Debenture Interest	587
Premiums on Debentures	589
Premium on Shares and Discount on Debentures	590
Preliminary Expenses	592
Costs of Issuing Shares and Debentures: Debentures as Collateral Security for Loan	593

SECTION (C)

Appropriation Account	604
Dividends	608
Arrears of Dividend on Cumulative Preference Shares: Profits prior to Incorporation	614
Loss prior to Incorporation	616
Interest on Capital paid out of Capital	617

SECTION (D)

	PAGE
Requirements of the Companies Act, 1948, as to Contents of the Accounts	629
Balance Sheet	630
Profit and Loss Account	632
Directors' Emoluments	633
Loans to Officers	634

SECTION (E)

Types of Debenture	650
Redemption of Debentures	652
Conversion into New Debentures: Conversion of Debentures into Shares	659
Debentures Issued to a Bank	660

SECTION (F)

Issue and Redemption of Redeemable Preference Shares	667
--	-----

SECTION (G)

Bonus Shares	680
Purchase of a Business	684
Reduction of Capital	692
Amalgamation of Limited Companies	697
Amalgamation by Formation of a New Company the Old Companies being Wound up	698
Amalgamation by Formation of a "Holding Company"	706
Amalgamation by the Acquirement of a Controlling Interest: Reconstruction	710
Reorganization	711
Holding Companies	714

CHAPTER XVI

**MANUFACTURING AND WORKING ACCOUNTS:
STOCK CONTROL**

Manufacturing Accounts	743
Working Accounts	753
Stock Control	757

CHAPTER XVII

COST ACCOUNTS

	PAGE
Classes of Cost Accounts	775
Objects of Cost Accounts	776
Labour in a Costing System	778
Methods of Payment of Wages	780
Paying Wages	782
Material in a Costing System	783
Overhead or Oncost	791
Specimen Cost Sheets and Examples	795
Other Costing Terms	805
Reconciliation with Financial Accounts	806

CHAPTER XVIII

HIRE-PURCHASE ACCOUNTS, INSTALMENT-PAYMENT PURCHASES

Hire-purchase Accounts	814
Instalment-payment Purchases	824

CHAPTER XIX

INSURANCE AND ASSURANCE ACCOUNTS, ACCOUNTS OF BUILDING SOCIETIES

Insurance Accounts	838
Forms of Insurance Accounts and Balance Sheet	841
Actuarial Report: Winding up of Assurance Company	848
Assignment of a Life Policy in Satisfaction of a Debt	849
Accounts of Building Societies	851

CHAPTER XX

BANKRUPTCY, STATEMENT OF AFFAIRS, DEFICIENCY ACCOUNTS

Bankruptcy	863
Statement of Affairs	867
Deficiency Account	883
Trustee's Accounts	888

CHAPTER XXI
LIQUIDATION

	PAGE
Introduction	911
The Preparation of a Statement of Affairs in Compulsory Liquidation	912
Settling the List of Contributories	915
Liquidator's Cash Account	916
Statement of Affairs and Deficiency Account	917

CHAPTER XXII
**STOCK EXCHANGE TRANSACTIONS,
INVESTMENT ACCOUNTS, TABULAR
BOOK-KEEPING**

Stock Exchange Transactions	925
Investment Accounts	935
Tabular Systems of Book-keeping	940

CHAPTER XXIII
BANK BOOK-KEEPING AND ACCOUNTS

Services of the Modern Banking System	952
Notes on the Books	953
Current Accounts	957
Bank Pass Book: Deposit Accounts	958
Bankers' Clearing House	960
Slip System of Ledger Posting: General Cash Book and Ledger	961
Profit and Loss Account and Balance Sheet	970
Statutory Statement	971

CHAPTER XXIV
EXECUTORSHIP ACCOUNTS

Executorship Accounts	976
Apportionment	983
Arrears of Cumulative Preference Dividends	984
Equitable Apportionments	986
Legacies	991
Intestacies	993
The Executor's Accounts	997

CHAPTER XXV

INCOME TAX AND SUR-TAX

	PAGE
Income Tax	1024
Schedule B: Schedule E	1029
Schedule D	1030
Allowances	1033
Income of Married Women	1040
Depreciation and Wear and Tear Allowance	1043
Non-residents	1047
Expenses and Deductions Allowed—Schedule E: Residence	1048
Dominion Income Tax Relief	1049
Exemption	1050
Sur-tax	1050
Adjustment of Account for Assessment	1052
Partnerships	1057
Special Claims and Allowances	1061
Repayment	1065
SPECIMEN EXAMINATION PAPERS	1077
ANSWERS	1085
INDEX	1097

CHAPTER I

BOOK-KEEPING UP TO THE TRIAL BALANCE

Definition of Book-keeping. Book-keeping is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may know the true state of his business and property by an inspection of his books.

Objects of Book-keeping. The objects of book-keeping are twofold—

1. To have a permanent record of all mercantile transactions.
2. To show the effect of each transaction and the combined effect of all the transactions upon the financial position of the party concerned.

CAPITAL

Definition. In book-keeping, the Capital of a business is the sum total of its assets; and the Capital of the proprietor of the business is the surplus or excess of assets over liabilities. An excess of liabilities over assets is called a **Deficiency**. In the case of a joint stock company, however, Capital is the amount contributed by the shareholders, without taking the assets and liabilities into consideration at all.

Trading Capital consists of the fixed and floating assets.

Fixed Capital comprises all the fixed assets.

Floating or Circulating Capital consists of the floating or circulating assets.

Positive Capital is represented by material assets, such as land, buildings, stock, machinery, etc.

Negative Capital consists in the amount of *credit* that a trading company or firm can obtain.

Money borrowed by means of ordinary loans, mortgages, debentures, bonds, etc., is frequently spoken of as **Loan Capital**. Some accountants, however, consider it loose to describe such a *liability* as *capital*.

Working Capital is the amount that remains for the working or running of a business after the purchase price of the fixed assets

has been paid. Thus, if a trader started with a capital of £20,000 and expended £12,000 of it in the purchase of buildings and plant, then the balance of £8,000 would constitute the *working capital*. This term is also applied to the excess of floating assets over current liabilities.

ASSETS

Definition. Assets are the property and possessions of a business, i.e. its stock, land, buildings, book debts, etc. They are classified according to their nature and are of various kinds—

Fixed Assets are those acquired and held permanently for the purpose of earning income, as, for example, plant and machinery, lease, etc.

Floating Assets are those acquired and held temporarily, being intended for resale or subsequent conversion into money, as, for example, stock-in-trade, bills receivable, book debts, etc.

NOTE. The same asset may be either fixed or floating according to the nature of the business. Thus, investments would be a floating asset to a stock-broker, but a fixed asset to an ordinary trader. Machinery would be a fixed asset to an ordinary manufacturer, but a floating asset to a machinery trading company. Horses to a horse-dealer would be a floating asset, but to a cartage contractor a fixed asset. It depends on whether the asset is held merely for the purpose of sale, or is intended to be kept in the business.

Intangible or Fictitious Assets are those the real value of which may be extremely doubtful and might quite conceivably be nothing, such as Goodwill, Patents and Trade-marks, or items which are merely debit balances not written off. Examples of the second type are Preliminary Expenses of a Limited Company or Profit and Loss Account debit balance.

Liquid Assets are those that are readily available to discharge liabilities; such as cash; or that can easily be encashed; such as gilt-edged securities, bills receivable, etc.

Wasting Assets are fixed assets that depreciate through wear and tear; as, for example, plant and machinery; those whose value expires with lapse of time; such as patents and leases; also those that become exhausted or consumed through being worked; such as mines, quarries, etc. The expression is more generally applied to the last named.

ACCOUNTS

Definition. An account is a Ledger record, in a summarized form, of all the transactions that have taken place with the particular person or thing specified; as J. T. Brown's Account, Plant Account, Wages Account. There are two main divisions of accounts—