# 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

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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.

**PITMAN**

# 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 exminers' 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.

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# 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—