HOW SHALL I ENTER IT?

OR

Rules in Account Keeping:

A MANUAL FOR MERCHANTS, TRADESMEN AND OTHERS,

BY

W. B. YALDWYN,

ACCOUNTANT.

Wellington, N.Z.:

EDWARDS & GREEN, FEATHERSTON STREET.

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PREFACE.

The object of this Treatise is to supply a want not yet met in a complete and satisfactory manner. The Rules or Statements are arranged in order:—Cash Transactions, Credit Transactions, Consignments, and a few remarks on Life Assurance Accounts, as compared with Mercantile Accounts. The books recommended are those generally essential, though exceptions are permitted in certain businesses in the way of amalgamating portions of the ordinary books required in others of similar character, or extending the ordinary books to subsidiary ones. These are matters of secondary moment, and cannot be treated of in this Pamphlet. The Division on Consignments is valuable to a large class of merchants, and this part of the Treatise is, to a great extent, brought for the first time before the public. The Division on Life Assurance Accounts as compared with Mercantile is intended to show the unity of principle of accounts of opposite characters, although they are worked from different standpoints. It is meant to demonstrate the power of Rules which include all classes of business accounts within their scope, and the urgent necessity of acquiring, from a scientific point of view, the principles which control the whole of accounts,—the theory which it is essential to acquire before a young man can enter a mercantile firm and keep the books properly.

The practice of Account Keeping will be irregular and incorrect, should the science or theory never be acquired. A bad style may be
persevered in by a trader for want of knowing better; but this style, besides being unintelligible to others, is usually and actually more difficult of comprehension to the person who conducts it, and is ultimately quite as lengthy as if kept in a correct way.

It is believed, that if the perusal of the Rules in this Treatise be followed by a course of instruction in the science, more benefit will result therefrom than from any other system yet brought forward to impart information on Account Keeping. The method taught in schools is inapplicable, as it contains neither the science nor the practice in a general, but only in a limited and specific form, while the various works, on Book-keeping which have been published, are generally too abstruse and extensive for the ordinary inquirer.

In issuing this little work, I do so fully aware that a prophet usually has no credit in his own country—especially if that country should happen to be outside the United Kingdom. The only plea I can bring forward is that, though this Treatise is printed and published in New Zealand, yet the contents have been obtained after twenty years of laborious research and practical experience in various business houses, coupled with information obtained from some of the leading accountants in London and elsewhere.

Being alive to the fact that Book Keeping is a subject many profess to know all about, I would thankfully receive any fragment of information in order to improve my next Edition. The subject admits of much development as the Science of Account appears to me to be only in its infancy at present.

W. B. YALDWYN,

Wellington, New Zealand, 1st October, 1879.

Accountant.
DIVISION I.

CASH TRANSACTIONS.

I.

1. Every Account is of a Cash or Credit transaction.
2. A Cash transaction is when actual money is paid or advanced, either by coin, bank-note or cheque.
3. Bills are not Cash.
4. Bills may be entered through the Cash Book, but had better be entered through a Bill Book.
5. Bills can pass through a Cash Book when no Bill Book or Journal is kept.
6. Receipts are entered on the debit side of the Cash Book (that is, the left-hand side.)
7. The Cash Book is liable for what is entered on its debit side.
8. Expenditure is entered on the credit side of the Cash Book (that is, the right hand side).
9. The Cash Book is an Account proper.
10. The Cash Book is kept separate from the other Ledger Accounts for convenience.

11. The Cash Book is also an original Book of Entry.

12. Items posted into the Ledger from the Cash Book are also transfers from one account (Cash Account), to another (some Ledger Account).

13. The Cash Book is entered in direct virtue of its character as an original Book of Entry; and the same item is posted to the Ledger per contra, perfecting the Double Entry.

14. This happens on both sides of the Cash Book.

15. Cash, in one sense is a Trade Account, when it is considered as tangible property.

16. Cash, in another sense, is a Principal Account, and, therefore, a Personal Account when the proprietor of a business is represented by it.

17. Cash can be considered either a Principal or Trade Account.

18. A Principal Account comprises all Personal Accounts.

19. A Trade Account includes every Account except Personal Accounts.

20. Personal Accounts are Accounts with people.

II.

21. All payments had better be made by Cheque.

22. All Receipts should be placed in the Bank.

23. All Receipts should be paid into the Bank the same day they are received, if possible.
24. Small payments, say under £1, should be paid through the Petty Cash.

25. Petty Cash should be supplied from the Cash Account.

26. Small receipts, say under £1, received in any one day, which cannot be paid into the Bank, can be debited to both the Cash Account and the Petty Cash also, but it is advisable that they be kept over till next day.

27. The Cash Account had better not be credited in the ordinary column as well as debited in the Bank column, when money is paid into the Petty Cash.

28. Petty Cash should be classified say once a month, and the credit amounts transferred to the credit of Cash Account.

29. The Petty Cash is a portion of the Cash Account worked in detail.

30. The Balance of the Cash Book should correspond with that in the Petty Cash after the expenses are transferred, and if otherwise kept as above recommended.

31. Every Cheque is debited to the Cash Account when paid into Petty Cash, where it is entered (also to the debit side). The Bank Account is credited in the Ledger at the same time.

32. If a Bank column is kept in the Cash Account, the Cheque for Petty Cash debited to the Cash Account would go into that column.

33. Cash debited or credited in Bank column should not be posted in item to the Ledger but posted in total.

34. Three columns are convenient in most Cash Accounts (or Cash Books), on each side of the Account.

36. A Bank Account is not essential in the Ledger, if Bank columns are used in the Cash Book, but it is advisable to have a Bank Account there.

37. Only the actual amount received is entered in the Cash Account ordinary column.

38. Discount entries (or totals), on the debit side of the Cash Account, in the Discount Column, are posted to the debit side of the Discount Account in the Ledger.

39. Also Discount entries (or totals), on the credit side of the Cash Account, in the Discount Column, are posted to the Credit side of the Discount Account of the Ledger.

40. This method of posting Discounts from the Discount Columns is contrary to all other posting from the Cash Account.

41. The cash received together with the discount is posted to the credit of the person paying the money—per contra, the Bank is debited with the cash. The Discount Account is debited with the Discount from the debit side of the Cash Account.

42. The Cash paid together with the Discount is posted to the debit of the person receiving the money—per contra, the Bank is credited with the Cash. The Discount Account is credited with the Discount from the credit side of the Cash Account.

43. When bills are discounted the discount should be entered in the Sundry Column on the credit side of the Cash Account where they are debited to Discount Account in the Ledger.
44. Goods sold for cash should pass through a Cash Sales Book in the first place.

45. A Cash Sales Book should be balanced every evening, and the total transferred to the Cash Account.

46. It is frequently useful to have a separate column for Cash Sales in a Cash Account.

47. The total of each day’s Cash Sales should also go, say once a week, into the Sales Book or Day Book.

48. Cash Account entries need not pass through a Journal before they are posted—unless the business is a very large one.

49. The Cash Account is the most important in the records of a business estate.

50. Errors, if ruled out, should be effaced with one line drawn through them only, but never erased, unless only totals are affected, when it may sometimes be justifiable.
DIVISION II.

CREDIT TRANSACTIONS.

51. A Credit transaction is when payment is deferred for a period.

52. Credit transactions are Definite or Indefinite.

53. A Definite Credit transaction is one where a Bill is given or received, in settlement of the Account.

54. An Indefinite Credit transaction is one where no specified time is fixed for payment.

55. Goods purchased, if a credit transaction, usually pass through an Invoice Book or a book called by any other name, used specially for that purpose.

56. Totals of goods purchased are only entered usually.

57. Invoices of goods purchased should not be posted into the Ledger direct without passing through the Invoice Book first.

58. Weekly or monthly totals of goods purchased should be posted to the debit of Goods Account.
59. Goods sold, if a credit transaction, are usually entered in a Day Book or Sales Book.

60. Goods sold are always entered in detail.

61. Weekly or monthly totals of goods sold should be posted to the credit of Goods Account.

62. The Day Book or Sales Book is entered in some offices from a Ticket book, where the transaction is first inserted in duplicate or triplicate.

63. The Day Book is sometimes entered from an Order Book—and sometimes direct from the transaction.

64. Purchases or sales can be passed through a Journal—having a debtor and creditor side.

65. Purchases or sales may be entered through a Journal when the transactions are few.

66. All Journal entries must appear twice, once on each side of the Account—on the debtor and on the creditor side.

67. Bill transactions are entered in books specially ruled for their reception, called Bills Receivable and Bills Payable.

68. Bills can pass through the Journal or the Cash Book, when received or given, but neither plan is good.

69. Usually monthly totals of the Bills Receivable and Bills Payable are posted into the Ledger.

70. Bills discounted are debited to the Bank (if discounted at the Bank), less the discount charged, and the entry is passed
through the credit side of the Cash Book. The discount is debited also with its amount on the same side of the Cash Book, but the Item is entered in the Sundry Column instead of the Discount Column.

71. Bills discounted are credited to Bills Receivable on the debit side of the Cash Book with the actual amount of the Bill.

72. Bills received are sometimes paid away again.

73. Bills received and paid away can pass through the Cash Book as Cash, but more correctly should be entered through the Journal.

74. Bills received, when paid, are generally debited to the Bank, on the credit side of the Cash Book, and Bills Receivable Account is credited on the debit side of the Cash Book.

75. A Bill received, when dishonored, is debited to the person who gave the Bill, and credited to Bills Receivable Account through the Journal.

76. Bills given are debited to the person who receives them, and credited to Bills Payable Account through the Bills Payable Book.

77. When Bills owing by a business are due, debit Bills Payable Account on the credit side of the Cash Book, and credit the Bank on the debit side of the Cash Book.

78. Bill transactions first pass through a Bill Book and afterwards through a Cash Book, except when dishonored, when they are entered through the Journal instead of the Cash Book, cancelling the Bill.

79. Inland Bills and Promissory Notes can both pass through the same Bills Receivable and Bills Payable Accounts, but Foreign Bills had better be kept separate.
80. If a Bill received by a business is only partly paid when due, the entries should be:—First, debit the person who gave the Bill with the original amount through the Journal, and credit the Bills Receivable Account. Second, debit the Cash Account with the amount received and credit the Cash Account in the Bank Column. Third, debit the person who gave the Bill with Interest and Commission through the Journal, and credit Interest and Commission Accounts. Fourth, debit the Bills Receivable Account with the New Bill and credit the person who gave it.

81. If a Bill given by a business is only partly paid when due, the entries should be:—First, debit the Bills Payable Account with the original amount through the Journal, and credit the person who received the Bill. Second, credit the Cash Account with the amount paid, and debit the Cash Account in the Bank Column. Third, debit Interest Account and Commission Account through the Journal, and credit the person who received the Bill. Fourth, debit the person who received the Bill, and credit the Bills Payable Account.

82. When a Bill received by a business is renewed, the entries should be the same as when a Bill received is partly paid, excepting the record of Cash received.

83. When a Bill given by a business is renewed, the entries should be the same as when a Bill given is partly paid, excepting the record of Cash paid.

84. Foreign Bills are drawn in duplicate or triplicate usually, and sometimes as a Sola of Exchange, but only one is entered through the Accounts.

85. Foreign Bills are usually entered in the Journal, if sent for collection, unless the business is a large one.
86. Foreign Bills drawn against a consignment sent or order executed, if discounted should go to the debit of the Bank and Discount Account, and to the credit of "Draft (against consignment) Account," or some Account with a similar title. The entry should pass through the Cash Book. The Discount being entered in the Ordinary Column.

87. Foreign Bills sent by a business when met are debited to the "Draft (against consignment) Account" and credited to the person who pays it through the Journal.

88. A "Draft (against consignment) Account" and a Bills Payable Account are identical in character so far as the person receiving a Foreign Bill is concerned.

89. A "Draft (against consignment) Account" and a Bills Receivable Account are identical so far as the person sending a Foreign Bill is concerned.

90. Foreign Bills sent and not discounted, or otherwise disposed of, are debited to the person for whom the proceeds are intended, and credited to the "Draft (against consignment) Account."

91. If a Foreign Bill received or given is only partly paid or renewed, the same entries are passed through as for Inland Bills or Promissory Notes, with the addition of suitable entries for Exchange and other charges incidental to the transaction.

92. All errors should be corrected by cross entries through the Journal.

93. All items owing to or owed by a business at balancing, not otherwise entered, should be passed through the Journal as outstanding.
94. Rents, allowances, commissions &c., not otherwise entered at balancing, should be ascertained, and go through the Journal.

95. Transfers of balances, &c., all properly pass through the Journal.

96. Purely Journal entries consist of transactions, not Goods sold, Goods bought, Cash received, or Cash paid.

97. Goods and Cash can pass through the Journal but should not.

98. Subsidiary books are used leading into the main ones in almost every business.

99. Subsidiary books differ in character according to the business.

100. Revenue frequently accrues through other sources of profit besides the purchase of and sale of goods.

101. The names of accounts appropriate to the nature of the profit, make no difference in the use of the fundamental books and rules given.

102. The totals or summations of the Cash Book, Invoice Book, or Day Book should not appear again through the Journal unless the business is very extensive.

103. The ruling of books must be adapted to suit each particular business.

104. Cash and Credit transactions should never be mixed together in the same book, unless they are kept distinct, in a separate column in particular or in totals. Every debtor entry must have a corresponding creditor entry either individually or included in a total.
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DIVISION III.

CONSIGNMENTS.

I.

1. A Consignment sent from a Business is Property in Suspense. It is, consequently, in the Trade or Double Entry Division.

2. Consignments sent should be debited to an Account opened specially for them and credited to Goods Account and Charges Account through the Journal.

3. Consignments sent by an Agent should also be debited to a Consignment Account (outwards) and credited to the Consignor or Owner of the goods. This entry should pass through the Journal.

4. Money sent for investment, can be treated as a consignment under the heading of a Loan; and the Entry must pass through the Cash Account.

5. On receipt of Account Sales for a Consignment sent, debit the Consignee with the nett proceeds and credit the Consignment Account (outwards) through the Journal.

6. On payment of the proceeds into the Bank by the Consignee, or on his remitting by draft, debit the Bank, and Exchange if necessary, and credit the Consignee through the Cash Account.
7. The Consignment Account (outwards) is closed by transferring the balance to Goods Account through the Journal.

8. When a Consignment (outwards) is drawn against, and the draft sent for collection, or when the draft is discounted by the Consignor, additional entries are required.

II.

9. A Consignment received is a Personal Account in Suspense. It is, consequently, in the Principal or Single Entry Division.

10. Consignments received should be debited to a Special Consignment Account (inwards) with the Invoice received, and credited to the Consignor, through the Journal.

11. Consignments received by an Agent should be debited to a Consignment Account (inwards) and credited to the Consignor through the Journal.

12. A Consignment received need not be debited to the Consignment Account (inwards), a record of the Goods being in the Warehouse Book, but this system is irregular.

13. When an Advance is made on the Consignment received, debit the Consignor and credit the Bank through the Cash Book.

14. Money received for Investment can be treated as a Consignment. A debit Entry should be put through the Cash Book for the money received, which should be posted to the credit of the Consignor or Lender, and a credit Entry passed through the Cash Book, which would be posted to the debit of the Bank for the payment into it.

15. Expenses on a Consignment received should be charged to the Consignment Account, and credited to the Bank, if a Cash transaction.
16. Expenses not yet paid on a Consignment received, should be debited to the Consignment Account, and credited to the person to whom the charges are liable through the Journal.

17. Expenses on consignments received are sometimes charged to the general expenses of the business in the first place, and afterwards credited to the general expenses in a total, and debited to the Consignment Account.

18. Expenses on Consignments received are entered to the general charges in the first place, when Consignment transactions are numerous, and the expenses therewith mixed up with ordinary charges.

19. The gross proceeds of the Consignment received should be entered on the credit side of the (particular) Consignment Account, and debited to the Bank.

20. Consignment accounts opened for Consignments received are closed by transferring the balance to the Consignor's Personal Account through the Journal.

21. When a Consignment (inwards) is drawn against, additional entries are required.

22. The Intermediate or Consignment Accounts opened for the purpose of ascertaining the profit or loss on each Consignment are a necessity in correct Book Keeping, though frequently dispensed with.

As the subject of Consignments is a large one, further rules could not be included in this Treatise without very much increasing its size, but another Pamphlet will be issued shortly, where Consignments will be fully dealt with.
DIVISION IV.

Axioms on Account Keeping scientifically treated on abstract principles drawn from Life Assurance Accounts and compared with general Mercantile Accounts:—

1. Every item has a twofold aspect.
2. Every item is either a Debtor or a Creditor entry.
3. In either case its opposite is always employed, perfecting the Double Entry.
4. Each Debtor and its concomitant Creditor, or vice versá, may belong either to the Principal or Trade Divisions* of an Account.†
5. They usually belong to both.
6. Cross Entries or Transfers may belong to either alone.
7. Cash is in the Principal Division when it is considered a Personal Account.

*The Principal Division is Single Entry and the Trade Division is the addition to the Principal Division constituting the Double Entry system.
†The term Account is here used in a general sense as representing a Set of Books or a Balance Sheet.
8. There is no Stock-in-Trade, or any Account representing this Asset, in Life Assurance Accounts.

9. Neither is there any kind of Goods Account.

10. In lieu of a Goods Account there is the Premium Account which is a fictitious account, showing amount charged against the Policy holders. It is in the Trade Division.

11. Charges and Commission Accounts are also fictitious accounts. These are also in the Trade Division.

12. Claims, Annuities and Surrenders are also fictitious accounts; these actually stand as a contra to the Premiums, Interest, Fines, &c., and show collectively an amount which, when deducted from the Premiums, gives the sum equivalent to the balance of a Goods Account in Mercantile Books. They are in the Trade Division.

13. Interest, Fines, Fees, &c., are fictitious accounts when in the Trade Division.

14. It is a characteristic of Life Assurance Accounts that the denominations of the Principal and Trade Accounts are frequently identical.

15. Premiums, Interest, Fines, Fees, Claims, Annuities, Surrenders, Commission and even Charges have both a Revenue and a Personal Account.

16. The balances of fictitious accounts are transferred to Revenue Account at a general balance.
17. The Revenue Account is a Transition Account.*

18. It is identical with a Mercantile Profit and Loss Account and Capital Account combined.

19. Revenue Account is a Personal Account, and therefore in the Principal Division of a Business Account.

20. There is no Capital Account shown individually in a Life Assurance Business.

21. Old Capital or Funds being balance of previous year, is transferred to Revenue Account at balancing, and placed on the debit side. New Capital or Funds is shown as a balance after all the fictitious accounts above named and their various subsidiary accounts are transferred, Debtor and Creditor, to Revenue Account.

22. The balance of Revenue Account, after deducting balance of previous year, only shows progress not profit.

23. In Mercantile Accounts Capital is sometimes divided under two or three headings, and in Life Assurance Accounts it takes the division of Assurance, Annuity, and Endowment Funds, and sometimes other funds to provide for fluctuation of Investments, &c.

24. In the Balance Sheet of a Life Assurance Office the Assurance Fund is the only indeterminate balance of the account.

25. The Assurance Fund is defined as the residue left after deducting the other Funds (the Endowment and Annuity Funds) and the Personal Creditors from the Assets.

*Transition Accounts are those only employed at balancing to collect the various amounts out of the Trade Division into the Principal Division, both Dr. and Cr., so that the Nett Profit can be ascertained.
26. Commission in the Trade Division is a part of the Expenses.

27. Expenditure should be classified under New and Renewal as far as it can possibly be ascertained.

28. Yearly premiums charged and paid monthly are, in some offices, considered revenue as received.

29. Commission on yearly premiums paid monthly is sometimes paid on the yearly premium, on receipt of first monthly instalment.

30. There may be items on either side of the Revenue Account not before mentioned, but the preceding must generally be used in every Life Assurance Account.

31. The Funds cannot be considered as Capital in an ordinary business, for the estimated value of the Claims is to be taken out of it, which can only be done by a valuation of the Policies at stated regular periods.

32. This feature of Life Assurance Accounts make them more difficult to understand financially than Mercantile Accounts, except after an actuarial investigation.

33. Another feature in Life Assurance Accounts is, that method is more important in keeping them than the system adopted.

34. This arises from the repetition of the entries of receipts over regular periods.

35. Life Assurance Accounts are not so intricate as Mercantile Accounts but more methodical.
W. B. YALDWYN,
ACCOUNTANT,
LLOYD'S ROOMS, BRANDON STREET,
WELLINGTON.

ACCOUNTS OPENED, CLOSED, &C.

INFORMATION
ON THE
SUBJECT OF ACCOUNTS
IMPARTED PRIVATELY OR OTHERWISE.
W. B. YALDWYN,
ACCOUNTANT,
LLOYD'S ROOMS, BRANDON STREET,
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Shortly to be published,
by the same author.

Consignments: how they should be entered.

Also,
Science of Account Keeping.