

A FIRST YEAR IN BOOKKEEPING AND ACCOUNTING

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A First Year in Bookkeeping and Accounting by George Arthur MacFarland & Irving D. Rossheim

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GEORGE ARTHUR MACFARLAND & IRVING D. ROSSHEIM

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FOREWORD

A TEXT-BOOK on bookkeeping and accounting is by no means an original undertaking, and the many treatises already written on the subject make it difficult for the authors to give their effort any distinguishing features. Their endeavor, however, has been to lay particular emphasis on the methods of exposition; appeal being made to the understanding rather than to the memory of the student. As to the merits of any departure from accepted theories of teaching, the book must speak for itself, and it is hoped that it will be of sufficient benefit to instructor and student alike to warrant its holding some place in the literature on the subject.

The plan of work adopted has been to follow as far as possible the historical evolution of the subject, explaining the difficulties as they arise, and assuming no previous knowledge on the part of the reader. Each chapter contains an exposition of the subject, followed by illustrative problems and solutions to enable the student better to understand the principles explained and to apply them in the problems.

The text, as the title indicates, is designed to provide a full first year's work in bookkeeping and accounting, for use in higher institutions of commercial training.

Three Principal Problems are found at the end of the book. Principal Problem I embodies all the subjects discussed in Chapters IV to XXIII; and Principal Problems II and III, either of which may be used, cover the subject of Columnar Books, treated in Chapter XXIV. In addition to these main problems, the instructor may assign as many of the supplementary problems, to be found at the end of the chapters, as he deems necessary to impress thoroughly the particular subject being considered.

The authors desire to take this opportunity to express their sincere appreciation of the valuable suggestions and hearty coöperation of Mr. Albert Hill, General Auditor of the Atlantic Refining Co.,

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Philadelphia, Pa., Dr. Edward P. Moxey, C.P.A., Head of the Department of Accounting in the Wharton School of Finance and Commerce, University of Pennsylvania, and finally, Mr. Charles Hart, Head of the Department of Business Practice in the Washington (D.C.) High Schools, whose valuable criticism of the manuscript permitted its publication in the present form.

JANUARY 1, 1918.

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CHAPTER I

INTRODUCTION

Definition. — Bookkeeping is the art, method, or practice of recording business transactions in a systematic manner.

Objects. — Its objects are: (1) To enable the proprietor to ascertain the money value in, or due, the business, represented by the assets; and the money value owed by the business, represented by the liabilities. (2) To enable the proprietor to ascertain whether the business is being run at a profit or loss, and the sources of such profit or loss.

Distinction between Bookkeeping and Accounting. — Bookkeeping is the art of recording business transactions. An art is defined as a branch of human knowledge which leads to the doing or making of something. The "something" in this instance is a running history of the business in terms of figures.

Accounting, on the other hand, may be called the science of business transactions as distinguished from the art; and as by a science we mean "classified facts," so accounting comprises the assembling or classifying of the facts which bookkeeping has arranged. By analyzing them (*i.e.* breaking them up) and constructing them in different shapes and pictures, accounting produces the results as losses and gains, leakages, economies, etc., which tell the story of the business, its progress or retrogression, and its limitations and possibilities.

A bookkeeper gives a history of the business which the accountant interprets or analyzes.

Necessity for Bookkeeping and Accounting. — While it is true that but a small number of the students having reference to this volume will eventually reach the summits of accounting, having no desire

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to follow it as a profession, yet it will be found that a certain amount of accounting knowledge is an essential to the satisfactory conduct of everyday business, whether that business assume the dignity of commercial activity or be merely the reckonings of a housewife. It is not an isolated science, irrelevant to the practical workaday life, but is to be found in every avenue of trade; and developed, it becomes a highly interesting study. Without bookkeeping we must rely on memory; and the difference between records and interpretation of accounts on the one hand, and guess work or rule-of-thumb on the other hand, is the difference between success and failure.

The Change of Attitude towards the Bookkeeper. — Many of us remember the old-time disparagement of the services of the bookkeeper and accountant. The practical man of the last generation wanted the assistant who could buy, sell, or make something. To him the office force was a luxury, and too often the first department to be discarded or curtailed in an endeavor to reduce expenses. The energies of the business man were devoted to the manufacture or purchase of goods at the lowest figure, and their sale at a price yielding the greatest margin of profit, with no eye to such expenses as rent, taxes, light, heat, power, and depreciation of his assets, which so largely effected a reduction of his profits. It was only when business became so highly competitive as to force down his selling price, reducing his profits, that he was driven to a consideration of those elements entering into his profits and losses. To facilitate his investigation it was necessary that an intelligent exposition of his business facts be placed before him; and there gradually evolved this daily record, the making of which devolved on the bookkeeper.

Necessity of Records. — In this competitive age when success is dependent upon successful contracts, and successful contracts on low and yet profitable bids or estimates, we see the necessity for records which enable us to make low and yet safe estimates. In order to gauge the future properly, reference must perforce be made to the records of the past.

Facts they Show. — So, then, it is to the accounting force that the manager must look for his knowledge of those statements which show the past, present, and comparative volumes and values of his purchases; the volume of his production and its cost, the gross amount of his sales, the cost of marketing his goods, the gross and net returns, and the comparative profits of his business.