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No. 3040: October 22, 1930

**A SYSTEM OF ACCOUNTING PROCEDURE  
FOR LIVESTOCK RANCHES**

By

**FREDERICK W. WOODBRIDGE**

Professor of Accounting, University of Southern California  
Formerly Adjunct Professor of Accounting, The University of Texas

**Bureau of Business Research  
Research Monograph No. 5**



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**The benefits of education and of useful knowledge, generally diffused through a community, are essential to the preservation of a free government.**

**Sam Houston**

**Cultivated mind is the guardian genius of democracy, and while guided and controlled by virtue, is the noblest attribute of men. It is the only dictator that freemen acknowledge and the only security that freemen desire.**

**Mirabeau B. Lamar**

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**The University of Texas Bureau of Business Research**

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## PREFACE

This study in Ranch Accounting is the second in the Bureau of Business Research series dealing with the great livestock, meat packing, and meat distribution industries in Texas. It was undertaken at the request of leaders in the livestock industry.

The book is a detailed analysis of a complete ranch accounting system. It will be useful especially to ranchmen interested in putting their operations on a better business basis, to accountants who keep books for ranchmen, and to many students from ranch homes who are interested in ranching as a business.

A. B. Cox, *Director*.

June, 1930.

## ACKNOWLEDGMENT

Grateful acknowledgment is made to the many ranchers, ranch accountants, and public accountants who have generously allowed the author to take their time in discussing various phases of this problem. Special acknowledgment must be made to Mr. D. T. Jones of San Angelo, Texas, Mr. F. G. Rogers of San Antonio, Texas, and to Mr. Rex Ragan and Mr. H. Dean Campbell of Los Angeles, California.

F. W. WOODBRIDGE.

University of Southern California.

June, 1930.



## INTRODUCTION

The various steps in the process of keeping proper accounting records, portraying the financial conditions, and the results of the operations of a business are not unlike the steps carried out by many ranchers in the handling of their stock. Each of these general steps may be compared with a similar operation in the handling of cattle, thus:

	<b>Accounting</b>	<b>Cattle</b>
<b>First Step:</b>	Gathering the information on the various original papers.	Working the cattle out of the hills and brush and rounding them up near the corrals.
<b>Second Step:</b>	Placing a money value on such items as have not previously been valued.	Ear marking and branding.
<b>Third Step:</b>	Recording the items in an orderly manner. (a) Classifying each entry as it is placed in the journal. (b) Entering each item according to the journal classification in the proper ledger account.	Segregating the cattle: (a) Running them through the chutes. (b) Holding each grade and kind in separate groups or corrals.
<b>Fourth Step:</b>	Checking the results by taking a trial balance of the ledger.	Looking over each corral to see if any cattle are there which should be graded differently.
<b>Fifth Step:</b>	Closing the books and making up the statements showing the financial condition of the business and the results of the period's operations.	Making a final count of the cattle held in each corral or group, thus getting a record of the total number on hand and the calf crop for the period.

This comparison is, of course, rather general. It may help those who are not familiar with the various operations to get a general picture of the accounting process. The following illustration shows each of these steps in a little more detailed form.

1. Bringing together the information regarding various transactions.

#### **Original Papers:**

1. Invoices.
2. Account Sales-Sheet showing amount of sales and expenses when livestock is sold through brokers.
3. Notes Receivable.
4. Checks.
5. Livestock Inventory.
6. Equipment Inventory.
7. Improvements Inventory.
8. Land Inventory.

- 
2. When necessary, placing a money value on the items.

Valuing the individual items or groups of items on the Inventory Sheets.

- 
3. Recording the items in an orderly manner.

Book of Original Entry or Primary Record.

#### **Journal**

Entries are made in this record in the order in which they occur, and when they are entered they are analyzed according to the ledger accounts affected.

Book of Final Entry or Final Record.

#### **Ledger**

A classified record of transactions so arranged that the entries will balance and that the total of each of the parts of the various transactions may be obtained.

- 
4. Checking the results.

Checking the mechanical accuracy of the bookkeeping.

#### **Trial Balance**

If all entries have been made correctly, the total of all entries made on the right side of the ledger will exactly agree with the total of all entries made on the left side.

- 
5. Statements showing the conditions of the business at the end of the year.

The results of the year's operations.

#### **Profit and Loss Statement**

Various sources of income are listed and totaled. Various expenses are also listed and totaled. The total expense is deducted from the income to determine the profit, or loss if expenses exceed the income.

The statement of financial condition.

#### **Balance Sheet**

All items of value which are owned are listed and totaled. All debts are then subtracted from the total of the items

owned, the difference being the proprietor's interest in the business.

---

There is nothing mysterious about an accounting system any more than there is about the operation of a stock ranch. Each of the general steps which has been shown in this outline has certain problems, just as each step in handling cattle, sheep, or goats has certain problems. When a study is made of each step in its proper order, there is no reason why anyone who is reasonably diligent and careful may not acquire a good grasp of the general principles of ranch accounting, if not all the details. The system as outlined follows each of the steps in the order in which they have been illustrated.

Because of the fact that many ranchers will not have the time nor inclination to keep their own accounts, special attention is given to the matter of original papers. Every successful business must maintain adequate records. Because of the nature of the cattle business, in a great many instances the more technical accounting process can be carried on by public accountants in a nearby town, at a relatively small expense. *It will be necessary for the rancher or his foreman to see that the primary data contained in the original papers get to the person who is keeping the books.*



## ORIGINAL PAPERS

Every set of accounts, whether it is kept for a cattle ranch, department store, bank, or railroad, must depend upon the original papers arising from the various transactions for most, and frequently all, of the figures which are placed in the books. *No set of books can be any more accurate than the original sources from which the records are taken.* It has been previously explained that the system outlined herein is divided into three parts. The original papers make up the first of these parts and are *the only part which must be looked after by the rancher or his foreman or manager as the case may be. This must be carefully done if the records in the books are to be relied upon.*

## INVOICES

In most instances, invoices are given showing the amount of each purchase. These may be rendered at the time of the purchase or as a monthly or periodic statement showing all of the transactions for the period covered.

The items of household supplies included in the Purchase Invoice shown in Figure 1 would be classified as follows:

Personal	Table Expense	Equipment	Truck Expense
\$ .15	\$ 3.50	\$125.00	\$12.00
3.00	1.00		
1.00	2.00		
3.00	1.50		
5.00	6.00		
2.50	1.00		
3.00	1.00		
20.00	.25		
4.75	1.50		
.35	.75		
	.50		
	7.00		
<hr/> \$42.75	<hr/> \$26.00	<hr/> \$125.00	<hr/> \$12.00

PURCHASE INVOICE

Austin, Texas, January 2, 1929.

Mr. R. G. Howard,  
492 South Market Street,  
City.

M. A. MORRIS & COMPANY

1	Handkerchief		\$ .15	
1	Man's Hat		3.00	
3	Pr. Socks @	.33 1/3	1.00	
2	Pr. Overalls @	1.50	3.00	
1	Pr. Trousers		5.00	
2	Aprons @	1.25	2.50	
3	Shirts, work @	1.00	3.00	
1	Dress		20.00	
1	Pr. Men's Shoes		4.75	
1	Pr. Garters		.35	
2	Table Cloths @	1.75	3.50	
1	Motor, gasoline		125.00	
60	Gal. Gasoline @	.20	12.00	
1	Can Syrup		1.00	
1	Sack Flour		2.00	
3	Lbs. Coffee @	.50	1.50	
1	Sack Sugar, 100 Lbs.		6.00	
12	Lbs. Rice		1.00	
12	Lbs. Macaroni		1.00	
20	Lbs. Bacon		7.00	
8	Lbs. Salt		.25	
6	Lbs. Nucoa		1.50	
1	Box Crackers		.75	
	Spices		.50	\$205.75

Figure 1

The items of construction supplies included in the Purchase Invoice shown in Figure 2 would be classified as follows:

New Reservoir	Repairs
\$ 290.00	\$45.00
500.00	5.00
200.00	
200.00	
10.00	
<hr/>	<hr/>
\$1,200.00	\$50.00

## PURCHASE INVOICE

Austin, Texas, January 5, 1929.

Mr. E. J. Lombard,  
997 E. 14th Street,  
Fort Worth, Texas.

## J. J. McINTYRE COMPANY

Pipe and Fittings	\$290.00	
Cement	500.00	
Iron	200.00	
Lumber	200.00	
Wire	45.00	
Staples	5.00	
Nails	10.00	\$1,250.00

Figure 2

All invoices should be kept in a file so that they are available when the accounting records are being written up. This is necessary because they are very valuable as checks on the amounts which are paid to individuals or concerns issuing the invoices and also because they are frequently an absolute requirement before proper entries may be made in the books. In the illustrations given above, there are listed items which were purchased for the ranch "equipment," the owner's personal account and for the table.

That many ranchers are quite indifferent to such classifications is unfortunate for two reasons. First—with the constantly increasing value of herds (due to better breeding rather than market changes) the broad margin of profit which prevailed during the years of open range and low land values is constantly decreasing. Because of this fact, many are forced into bankruptcy during each downward turn of cattle prices. Many of these failures could be avoided if a more careful record of actual expense and actual income were maintained during the better years. These records could then be used as sources of information from which to draw conclusions regarding necessary and probable expenses during those years in which prices are low. Second—these invoices should be kept as evidence of the transaction and its proper entry on the books so that



subsequent misunderstanding may be avoided with representatives of the Income Tax division of the Treasury Department.

When invoices of this sort are paid by check, reference may be made on the check to the particular invoice or statement covered. If complete references are made, the distribution may be made on the books from the invoice.

To summarize, we may say, first, that invoices and bills of sale should be required from every store where purchases are made; second, these invoices should be reviewed by the person keeping the books and the person making or approving the purchase so that each item may be properly charged; third, that each invoice should be carefully filed after the entry has been made so that it may be reviewed by the auditors or Income Tax Inspectors at some future time.

### CHECKS

Figure 3 shows a voucher check. Every rancher understands the required procedure for making checks. Many are accustomed to making notations on the check to show

**CHECK**

JOHN DOE & COMPANY

Cattle

No. \_\_\_\_\_

Midland, Texas, \_\_\_\_\_ 193\_\_\_\_\_

**PAY TO THE**  
**ORDER OF** \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ DOLLARS

The endorsement of this check constitutes a receipt for payment of  
account itemized below.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**To THE FIRST NATIONAL BANK,**  
Midland, Texas. By \_\_\_\_\_

Figure 3

for what it is in payment. This check is designed to provide a space for these notations.

Whether this form of check is used or whether an ordinary check form is used, too much stress cannot be given to the importance of making notations on the check which will clearly indicate the item or items of indebtedness covered by the particular check. *Where no record is made of checks issued until they are returned by the bank, these notations are of particular importance.* Under these circumstances, they are the only evidence which may be used to show the purpose of the payment. Notations of this sort have the following advantages:

1. They cause the check when indorsed to become an unquestioned receipt for the items indicated. Many people feel that a check is always a receipt. This is only partially true. There are many court cases where checks have been given in payment of certain items and the payees have, later, brought suit for payment of these items and have claimed, justly, or unjustly, that the check was in payment of other indebtedness. The ordinary form of check without notations is worthless as evidence against such a claim.
2. They materially simplify the bookkeeping procedure. These notations, if made with reasonable clarity, constitute a system of cross reference to other papers, or in many instances indicate in themselves the exact manner in which the disbursement should be classified.
3. Such notations assist greatly in presenting information to Income Tax auditors when they make their inspections of the records.

Following are some examples of notations which are very generally used.

1. "In payment of invoice of (date)." The value of this is *entirely* dependent on the invoice. When invoices are kept this is quite satisfactory. Where an invoice covers both personal and ranch expense this is probably the best notation. (Figure 10, item 4.)
2. "On account....." This notation is practically worthless unless all invoices are kept.
3. "In payment of interest on (specific mortgage or specific note)." This notation is satisfactory if the particular indebtedness is specified. If the note is personal rather than one arising from ranch business, this fact should be shown.

4. "Repairs to car (personal or ranch expense)." Care should always be used to indicate whether the expense is personal or whether it is a ranch expense.

5. "Wages from (date) to (date)"—for general ranch hands.

"Wages (cook or flunky) from (date) to (date)." All cooking expense should be kept separately. This notation makes this distinction clear.

"Wages (new fence, new house, repairs to reservoir, repairs to road, cattle shipments, etc.) from (date) to (date)." Whenever labor is hired for any purpose other than the general ranch operations, this purpose should be indicated on the checks.

6. "Feed (ranch or shipments)." All regular ranch expense and shipping expense should be separated.

The above notations are by no means inclusive. They should, however, give the rancher an idea of the manner in which these notations should be made. Many ranchers feel that they, or the persons keeping their books, know for what the checks are given and that no other precautions are necessary. This idea is true as far as it goes. Memory is short-lived, misinterpretations are easy where others have to depend upon past information or intuition, and outsiders who will have occasion to look over the records are not particularly convinced by either.

### MEMORANDUM BOOK<sup>1</sup>

A memorandum book is valuable for many purposes. This discussion is limited to its use in connection with the accounting records.

Nearly every rancher finds it necessary to carry some cash with him and pay some items of ranch expense in cash. Often it is not practical or possible to get a receipt for such payments. The extent of such practice varies with different individuals. Many ranchers now feel it best to give checks for practically every expenditure which amounts to more than one dollar. Others feel that they do not care to be bothered with the writing of checks. The former is undoubtedly the better practice. Where payments, large or

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<sup>1</sup>For a complete discussion of "The Use of a Diary for Farm Accounts" see *Farmers Bulletin* No. 782, U. S. Dept. of Agriculture.

small, are made in cash, a careful record should be made in a memorandum book which every rancher should carry with him. Memoranda made on a loose sheet of paper or on the back of an envelope are not satisfactory. Too many notations made in this manner become obliterated or lost.

All cash which the rancher takes from the bank, unless withdrawn for special purposes, such as payroll, should be charged to his "Personal" account. If items of ranch expense are paid in cash, these amounts should be deducted from the amounts charged to the "Personal" account and charged to the proper asset or expense accounts. Only in

<b>FAST and SURE</b> <b>COMMISSION COMPANY</b> (Incorporated) (Stock Yards Station) FORT WORTH, TEXAS June 6, 1929					
SOLD FOR ACCOUNT OF <u>John Doe &amp; Blank</u>					
SHIPPED FROM <u>Stowell, Texas</u> VIA <u>G.C.</u>					
Purchaser		Weight	Price	Amount	Total
Swift & Co.	57 Calves	20,150	6.35	1,279.52	5,942.99
"	1 Steer	560	5.00	28.00	
"	2 Cows	1,520	4-1/2	68.40	
"	29 "	21,560	4-1/4	916.30	
"	21 Bulls	19,730	4.90	966.77	
"	28 Cows	18,240	3-3/4	684.00	
	57 Calves 81 Cattle	81,760			
Car No.	Weights	Rate	Amount		
	24,500	39	9555		
			Freight	382.20	
			Yardage	41.50	
			Hay 8 Bales	8.00	
			Corn Bushels		
			Inspection		
			Insurance	.60	432.30
			Commission		69.75
			Total Charges		502.06
				Net proceeds	5,440.94
				Cash	

FIGURE 4

this way will proper records be maintained or will the rancher be reasonably sure of getting the credit for such deductions on his income tax statement. (Fig. 10, item 8.)

### ACCOUNT SALES

The Account Sales, a form for which is given on page 16, shows the amount received for the cattle and the expense which the broker has charged against the amount received.

These forms should be used as the basis for an entry in the journal which will record the *total* amount received by the broker as the sale price of the livestock. The expense will then be charged to the proper "Selling Expense" account (Fig. 10, item 9). In this way the books will indicate the exact information about the transaction. The Account Sales should then be filed for future reference.

### DEPOSIT SLIPS

*All amounts received, regardless of how small, should be deposited in the bank.*

Deposit slips are made out each time money or checks are taken to the bank for deposit. They should also be made out when the coupons of recognized bonds are deposited with the bank for collection and when money is borrowed from the bank and credited to the borrower's account. In every instance a duplicate deposit slip should be made out showing the source of each amount which is deposited. A deposit slip is shown below illustrating how this information may be written in so as to be used for future reference.

After the deposit has been made, the deposit slip should be filed. In many instances, the deposit slip may represent the only evidence showing the source from which funds were received. It is, therefore, an important paper in the bookkeeping procedure. This file should, therefore, be kept with great care and in case one slip becomes mislaid, a copy should be obtained from the bank.



statements are sent out on specific dates throughout the entire month. Regardless of the date upon which the statement is received, it and the returned checks should be turned over without delay to the person who is keeping the books. A review of the statements should then be made, and if the policy, bad though it may be, is adopted of making the entries from the returned checks, these entries should be made immediately. The entries should not be made, however, until after the signer of the checks and the person keeping the books have gone over each check to insure a perfect understanding and so that all checks or deposits about which all details are not clearly set forth may be investigated while the facts are fresh in everyone's mind. In this way, any mislaid invoices or deposit slips may be located without all the additional work involved when such matters are allowed to run for a longer time.

## INVENTORIES

On every ranch it will be necessary to make up inventories for a number of different items. Some of these inventories are of greater importance than others. As a rule a number of inventories will be necessary if reasonably accurate accounting records are to be maintained. The following outline gives a number of inventories, all or a part of which should be maintained in conjunction with each set of ranch accounts.

1. Cattle Inventory.<sup>2</sup>
2. Sheep and Goat Inventories.

If many sheep and goats are carried, the inventories may be kept on the forms provided, in the same manner as the Cattle Inventory. If only a small flock is maintained, an inventory similar to that given for horses, illustrated below, may be sufficient.

3. Horse Inventory.

If a sufficient number of horses are carried on the ranch, an inventory may be maintained on the same forms and in

---

<sup>2</sup>The principles and problems arising in connection with livestock inventories are discussed at some length in the section devoted to "Cattle Inventory," pages 21 to 33.

the same manner as the cattle inventory. When a relatively small number of horses are kept and the changes are few, a list of these horses and their values may be made out at the end of each year. Such a list may be made up as follows:

#### HORSE INVENTORY

December 31, 19.....

Horses			
Yearlings	@	_____	_____
2-year-olds	@	_____	_____
3-year-olds	@	_____	_____
4-year-olds and over	@	_____	_____
Mares			
Yearlings	@	_____	_____
2-year-olds	@	_____	_____
3-year-olds	@	_____	_____
4-year-olds and over	@	_____	_____
Stallions			
Yearlings	@	_____	_____
2-year-olds	@	_____	_____
3-year-olds and over	@	_____	_____
Special Stock			
(Name or registered description of each animal)		_____	_____
			_____
TOTAL			_____

FIGURE 6

#### 4. Feed Inventory.

On many ranches a sufficient amount of feed is maintained to make its value of appreciable importance in the financial set-up. In such cases, therefore, a feed inventory should be made of the amount and the value of the feed on hand at the end of each year. Such an inventory is given in the following illustration:

#### FEED INVENTORY

December 31, 19.....

200 bu. Oats	@	\$ .65	\$ 130.00
400 tons Hay	@	20.00	8,000.00
TOTAL			<u>\$8,130.00</u>

#### 5. Wool and/or Mohair Inventory.

This will include only the wool or mohair which has been clipped. The amount on hand or in the warehouse should



be classified according to grade. Each grade should be priced according to the current price in that locality less any selling expense. This information should be listed and totaled in the same manner as the "Feed Inventory" shown above.

6. Equipment Inventory.  
Discussed on pages 33 to 42.
7. Improvement Inventory.  
Discussed on pages 43 to 47.
8. Miscellaneous.

A variety of other items may be on the ranch which should be inventoried if their value amounts to a sufficient sum. Hogs and chickens are examples of such items. Where inventories of other items are necessary, these items should be grouped into classes and listed with their unit value in such a manner that reference may easily be made at some subsequent time.

#### INVENTORY OF CATTLE

The inventory accounts are of vital importance in every set of double entry books. To avoid the necessity of counting the livestock and other items of value around a ranch, many ranchmen have rendered their income tax returns on a "receipts and disbursements" basis. When this method is followed, the ranchman is at a disadvantage if he sells his cattle at a fairly high price or if in some years he can not take advantage of the exemptions.

The meeting of the income tax requirements has come to be regarded by many stockmen as the acme of bookkeeping requirements. This attitude is wrong. The accumulated records contained in a set of books are of great value to any business man. He can look back over these records and see in what years a profit has been realized and in what years there has been a loss. The records will also indicate the causes of these variations and, if studied in connection with weather records and changes in grades of stock, they will tell a rather complete story of successes or failures which may have arisen from various conditions and methods. *Accurate inventories, properly kept, are the keystones of every set of books.*

The method of arriving at the value of a livestock inventory has been misunderstood by many. To avoid confusion, the various steps will be briefly outlined.

**Making a Careful Count.**

Many stockmen maintain that a count of livestock is impossible. An absolutely accurate count is exceedingly difficult, if not impossible. Some stock is practically sure to be overlooked. *Substantial accuracy, however, is possible.* Absolute accuracy can seldom be obtained in taking the count of cattle, sheep, or goats, or of the stock in a grocery, hardware, millinery, or other shop. Where an honest effort is made each year, the count will usually be substantially correct, and the slight inaccuracies will tend to offset each other from year to year.

Certain groupings are, of course, necessary in taking an inventory. The following is a suggested classification for cattle:

The cattle may first be classified according to general groups. The reason for this classification is that each of these groups will probably have a different range of prices.

(1) *Registered Herd*.—Only the stock that is actually registered should be carried under this heading. Care should be used not to include stock which has come from registered herds but has not itself been registered.

(2) *Pure Bred Herd*.—On many ranches there are a number of cattle which have come from registered stock on both sides but have not themselves been registered. Such stock is more valuable than the "grade" herd. These cattle should be classified separately unless mixed with the other herd in such a way as to be indistinguishable, in which event they should all be classified as "Grade" cattle.

(3) *Grade Herd*.—For some years, the cattle men have been improving the quality of their herds by purchasing a better grade of bulls and some high grade heifers. Today the herds are all of relatively high grade when compared with those of previous years. The cattle regularly on the ranges, although better than a few years ago, may be carried under the general classification of "grade" cattle.

Under each of these various heads, it will be necessary to make a division according to age, sex, etc., as follows:

- (1) Calves:
  - Spring Brand
  - Heifers
  - Bulls
  - Steers
  - Fall Brand
  - Heifers
  - Bulls
  - Steers
- (2) Cows:
  - Yearlings
  - Two-year-olds
  - Three-year-olds and over
- (3) Steers:
  - Yearlings
  - Two-year-olds
  - Three-year-olds and over
- (3) Bulls:
  - Yearlings
  - Two-year-olds and over

This classification, or parts of it, is commonly used by many stockmen. If sheets such as the one shown in Figure 7 are kept as a supplement to the regular books, the stockman will at all times have a record showing just what grades and classes of cattle are on the ranch. When these sheets are totaled, a record is available which shows the value of the herd and also what should be found at the time of the round-up. Any marked variation from these figures will at once indicate that there is either an error or that there has been an unusual loss from death or theft.

#### **Recording the Results of the Count.**

All men are "more or less" subject to a certain amount of forgetfulness, and most men belong to the "more" class. As a consequence, a careful record must be maintained of the count made at each round-up if the count is to be of any very great value. Therefore, the wagon boss, ranch foreman, or owner—whoever has the responsibility of keeping the tally on the range and at the corrals—must use care to see that each man does his part correctly. It also means

that a *written* notation should be made at the time each group is counted. Many errors occur because men try to carry these figures in their minds throughout a busy day or even for two or three days until they get back to the ranch house. One large outfit has each wagon boss send in a daily report. Whether this care is necessary is a question for each stockman to decide for himself. A notebook should certainly be kept and the figures entered in it as each bunch of cattle is gathered and counted and as each bunch of calves is released from the branding corral.

**Handling the Figures on the "Tally" or Inventory Sheet.**

The "Tally Sheet" may at first seem complicated. It is, however, a much easier and more simplified system than the one many stockmen are now using. In addition, it will make possible a record which may be referred to at any time of the year. The "Tally Sheet" is so organized that the work is divided into four main groups of columns which correspond to the periods of the year. When the work falls in one of these groups, the others may be disregarded. In each of the groups there are columns for figures which may not be used during any particular year or portion of a year. If they are not used, it should not be a matter of concern. The columns are placed so as to be available when needed. To explain the detail of the "Tally Sheet," it will be necessary to begin at the first of the year.

(1) *The number of head of stock on hand on January 1* may be determined (first) by making an actual count at that time. (Second) the count of the last round-up may be used by adding to it the number purchased plus any strays which may have been branded; from this total is deducted the number which may have been sold plus any other losses that may have been reported. Whatever method is used, the figures showing the number of head on hand at the first of the year should be as accurate as it is possible to make them, both from the standpoint of totals and from the number in each class. This information having been obtained, the figures may be placed in Column No. 1.

# L I V E S T O C K I N V E N T O R Y

YEAR PASTURE	VALUE OF HERD JANUARY 1st			CHANGES BETWEEN JANUARY 1st AND SPRING ROUNDUP										CHANGES BETWEEN SPRING ROUNDUP AND FALL ROUNDUP										CHANGES BETWEEN FALL ROUNDUP AND JANUARY 1st													
	1	2	3	4	4a	5	6	7	8	9	10	11	12	13	14		15	16a	16	17	18	19	20	21	22	23	24	25		26	26a	27	28	29	30		
KIND { Registered Herd } Check of { Pure Bred Herd } the Type CATTLE { Grade Cattle } of Cattle	Number on hand Jan. 1	Value per Head	Total Value of Herd	No. Purch- ased Before Spring Roundup	Cost per Head	Total Columns 1 and 4	Number Sold	Deduct Figures in Column 6 from Figures in Column 5	More Up	Estimated No. on Range at time of Spring Roundup	Actual Count Spring Roundup Including Spring Brand	Over	Short and Dead	% Over (Black) Short (Red)	Value Over Shorts	Remarks	No. Purch- ased Be- tween Spring and Fall Roundups	Cost per Head	Totals Columns 10 and 25	No. Sold Between Spring and Fall Roundups	Deduct Fig- ures Column 17 from Fig- ures of Column 16	More Up	Estimated Number on Range at Fall Roundup	Actual Count Fall Roundup Including Fall Brand	Over	Short	% Over (Black) Short (Red)	Value Over Shorts	Remarks	No. Purch- ased Be- tween Fall Roundup and Jan. 1	Cost per Head	Range Brand- ings	Total Columns 21, 26 and 27	No. Sold Between Fall Roundup and Jan. 1	Deduct Figures Col- umn 29 from Figures of Column 28	Remarks	
Calves (Spring Roundup)																																					
Heifers	75	18.00	1,350.00			75		75			65								65		65		65	62	3		54.00							62		62	
Steers	112	22.00	2,464.00			112		772			150								150		150		150	138	12		264.00							138		138	
Bulls	5	20.00	100.00			5		5			2								2		2		2	2									2		2		
										Total Spring Brand	217																										
Calves (Fall Roundup)																																					
Heifers	60	12.50	750.00			60		60		60	58	2			25.00				58		58			65									65		65		
Steers	85	15.00	1,275.00			85		85		85	84				15.00				84		84			97								3	100		100		
Bulls																							162														
Cows																																					
Yearlings	104	30.00	3,120.00			104	11	93	75	168	168								168		768	58	58	58									58		58		
2 year olds	96	38.00	3,648.00	60		156	17	139		139	141	2			70.00				141	10	731	168	168	168									168		168		
3 year olds and over	465	32.50	15,112.50	10		475	26	449		449	447	2			65.00				447	25	422	131	553	550	3		97.50						550		550		
Steers																																					
Yearlings	7	40.00	280.00	72		79	10	69	112	181	177	4			160.00			200		377	12	365	84	84	81	3		120.00					81		81		
2 year olds																							365	365	362	3		150.00					362	350	12		
3 year olds and over																																					
Bulls																																					
Yearlings	7	350.00	2,450.00			7		7	5	12	12									12		72															
2 year olds and over	15	250.00	3,750.00			15		15		15	15									15	3	12	12	24	24								24		24		
Totals	1,031		34,011.50	142		1,173	64	1,109		1,109	1,102	2	9		265.00	Short	200		1,519	50	1,469		1,469	1,445	24		615.50	Short			3	1,410	350	1,260			
											Brand				70.00	Over																					
											1,319				195.00	Net Shortage																					

FIGURE 7

(2) *Value per head.*—Much controversy has arisen in regard to the proper method of valuing livestock on the range. Income tax regulations allow the stockmen the option of using the “farm price method” which provides for the valuation of inventories at “market price less cost of marketing (Art. 1616).” The regulations also state that

The Act provides two tests to which each inventory must conform:

(1) It must conform as nearly as may be to the best accounting practise in the trade or business, and (2) it must clearly reflect the income (Art. 1612).

It is the author's opinion that the great majority of stockmen have been doing their best to render a correct return. The basis of valuing inventories has, however, been the item most severely criticized. The main point of contention arises from the question of what is a fair market price. Many inspectors maintain that the published stockyard prices are the established records from which they must check and that these prices should at all times be used. The regulations give the following definition of a market price.

Under ordinary circumstances and for normal goods in an inventory, “market” means the *current bid price* prevailing at the date of the inventory for the *particular* merchandise in the volume which is usually purchased by the taxpayer. . . . Where no open market exists . . . the taxpayer must use such evidence of a fair market price at the date or dates nearest the inventory as may be available, such as specific purchases or sales by the taxpayer or others in reasonable volume and made in good faith . . . (Art. 1614).

The following summary may be made from the foregoing quotations:

- (1) The method of valuing must conform to good accounting practise and it must clearly reflect the income.
- (2) The farmer or ranchman is allowed to use the market price, less the cost of marketing, as the basis for his inventory valuations.
- (3) The market price must be the current bid price for the *particular* merchandise in similar volumes or the taxpayer must use evidence of a fair market price arrived at in good faith.

Many inspectors have no doubt been quite justified in making the demand that the published stockyard prices be used as a basis for livestock valuations. Frequently, there has been no other tangible evidence available to them. The stockyard prices, however, are quoted in cents per pound for each kind of stock. As a consequence, it is necessary to determine the weight and stockyard classification of each animal before the figures of pound values can be used. In addition to this, it is necessary to determine the shrinkage which would result from shipping and the cost of handling and feeding during the shipping period. Each of these factors represents a problem which is practically, if not absolutely, impossible to solve correctly. Estimates with the possibility of a large percentage of error are therefore inevitable.

In the great majority of cases with which the author has come in contact, the ranchmen and accountants in ranch districts maintain that the "range price" is far more accurate than a price based on stockyard prices with the adjustments necessary to meet local conditions. In many instances, the "range prices" have been approved by the agents of the Internal Revenue Department. The "range prices" represent the value of the stock on the hoof, in the territory where it is situated—in other words, the price that one ranchman would pay to another for stock of the same grade and in the same condition. It is the price, if fairly determined, at which the "particular goods" would sell.

A tremendous number of transfers of livestock take place between different ranchmen, feeders, etc. Many people estimate that the number of head transferred in this way greatly exceeds the number of head passing through the stockyards. It would seem, therefore, that evidence of such transfers or evidence showing at what price the stock might have been sold would give a more accurate valuation figure, when available, than the stockyard price with all of the uncertainty involved. In the "range price," these uncertainties have been shrewdly taken into consideration and



weighed by the very people who are best fitted to judge the value of the animals in their present location and condition. Under these circumstances, the price

- (1) Will be in accord with good accounting practise and will, as clearly as possible, reflect the income.
- (2) Will be in conformity with the market valuation allowed to farmers.
- (3) Will be a fair market price arrived at in good faith, *if it can be established that it was arrived at in good faith.*

The author, after having talked with many ranchmen, is convinced that the great majority are trying to render as fair and accurate a return as it is possible for them to make. In every group of society there are, however, exceptions. In the ranks of Internal Revenue inspectors and ranchmen, there are always those few who would rather be "clever" than "square" and above-board. The ranchman should, therefore, be prepared to meet that type of inspector with adequate evidence of his sincerity of purpose in these matters. On the other hand, that large majority of fair-minded inspectors who are trying to carry on their work in such a way as to be fair to all concerned have a right to expect that reasonable evidence be presented in a matter as important as this. How can such evidence be presented to the inspector when he arrives to look over the statements and accounts one or more years after the statements have been rendered? A very definite way would be for each ranchman to have two or more of his neighbors, who are probably almost as familiar with his stock as with their own, sign an affidavit before a notary giving information regarding such transfers of stock in that territory as they may be familiar with and their best judgment regarding the value of each class of the herd under consideration. A copy of this affidavit may then be filed with the retained copy of the tax statement. This procedure may seem to involve extra trouble for the stockman. It does. It is, however, much less trouble than carrying on an argument with the Department for a long period with the usual loss of time and cost of accounting and legal fees. It is also



much less expensive than paying a large additional assessment.

From the standpoint of the inspector, this procedure is preferable, as he may justifiably have some question regarding certain valuation figures. It is at times his duty to question. He should not be a respecter of persons when these questions arise. However, when the figures are supported by the sworn statements of representative people who knew the condition of the stock at the time and expressed what in their best judgment was a fair valuation, the inspector may be reasonably sure that the figures are satisfactory, provided, of course, there is no evidence of collusion. Valuations at range prices when supported by affidavits should, it would seem, be satisfactory both from the standpoint of the Government and of the owner who wishes to know as accurately as possible just where he stands in a financial way. Only when accurate inventory valuations are used will it be possible to arrive at a proper statement of income or of financial condition.

(3) *Total value of herd.*—The total value of the herd is determined by multiplying the figures in Column No. 1 of the "Tally Sheet" by the figures in Column No. 2. When the results of these multiplications are placed in Column No. 3, the total value of each class of stock will be available. The total of this column determines the value of the entire herd. This total may now be entered in *each* "General" column of the journal. At the time the books are opened the figure in the left-hand column will be transferred to the left side of the "Inventory" account of the ledger and the figure in the right-hand column will be transferred to the right side of the "Capital" account. (For a detailed explanation of the entries which should be made at the end of the year, see pages 180 to 189.) The rest of the "Tally Sheet" is divided into three groups which are practically identical. An explanation of the items which should be placed in the first group (columns No. 4 to 14) will suffice for the entire sheet.

The purpose of the "Tally Sheet" is to have a record of the number of head of each class of stock that should be on hand at the time of each round-up as well as at the end of the year. When this information is available, "overs" and "shorts" may be carefully checked. If cattle are kept in various pastures, the number and kind in each pasture may be kept separately. In this way, unusual losses resulting from carelessness, theft, or bad range conditions will be brought definitely to the owner's attention.

To find the number of head which should be on hand at any given time, it is necessary only to add to the last count all additions to the herd and subtract from that total the cattle that have been shipped or that have died.

Steer yearlings may be taken as an illustration:

Add:	
Number on hand, January, 19—	7 head
Number purchased	72 head
Number of calves which have become yearlings	112 head
	<hr/>
	191 head
Deduct:	
Number sold	10 head
	<hr/>
Number which should be on hand at time of round-up	181 head

To work out the computation given above from miscellaneous figures for each class of cattle would be difficult and might allow a considerable amount of error to creep in. Columns No. 4 to No. 30 are arranged so that the recording and subsequent calculations may be carried on in an orderly fashion. The following explanation describes the figures that should be placed in these columns of the "Tally Sheet."

*Column No. 4.*—Enter in this column all purchases of cattle. When cows with calves are purchased, the calves should be classified separately if they are branded at the time they are received. If they are to go unbranded until the next round-up, it will be necessary to record only the cows, for the calves will be counted in the next round-up.

The column "Purchase Cost Per Head" is inserted for purely memorandum purposes. The figures are not used

in computing the total. The cost per head (see Figure 7) should be entered so that it will be available for reference.

*Column No. 5.*—Just before each round-up and at the end of the year, it will be necessary to bring together the figures which have been entered in the various columns during the intervening period. The first step of this process is to add to the number of each class of stock on hand at the first of the period (Column No. 1) the purchases for the next period (Column No. 4). The totals obtained in this manner are placed in Column No. 5.

*Column No. 6.*—Deductions from the herd must also be recorded. The sales are kept in a separate column so that they may be checked against the other records of sales to prove the accuracy of the figures or to help in locating such errors as may occur. Care should be used when cows with calves are sold to include in the count any of the calves which may have been branded and consequently counted and recorded on the "Tally Sheet" at the time of branding. Similar care should be used to avoid counting any unbranded calves.

*Column No. 7.*—The totals of all cattle on hand at the beginning of the year, plus purchases, are shown in Column No. 5. From these totals must be deducted the number of cattle sold. The results of these subtractions will be placed in Column No. 7.

*Column No. 8.*—Each year the cattle advance in age. As a consequence, many must be "moved-up" from one classification to the next. The number of calves which were brought onto this sheet at the time of the last spring round-up as "Spring Round-up" have now become yearlings. The figure shown on the first line in Column No. 7 will, therefore, be moved down to the line for cow yearlings in Column No. 8. The bulls and steers are moved down in the same manner. The semi-annual division is made only in the case of calves. Each ranch should adopt a regular policy of moving up the other stock at either the fall or spring round-up. In the illustration, all yearlings and two-year-olds are moved up at the time of the fall round-up. Care

should be taken to cross out the old figures when they are transferred. This will avoid confusion when the figures are brought forward to Column No. 9.

*Column No. 9.*—When the move-up has been completed, the new figures will appear in Column No. 8, and the old figures in Column No. 7 will have been crossed out. The totals of Columns No. 7 and No. 8 should now be entered in Column No. 9. This represents the number of cattle that should be on hand if all purchases and sales have been accurately recorded. It might be well to state that although inventory methods similar to this are used in many thousands of businesses throughout the United States annually, the inventory will seldom, if ever, balance out exactly when the actual count is made. *At first the amount of error ("over" and "short") will be much greater than it will be later*, if reasonable attention and effort are devoted to the maintenance of this record. Practically all businesses that have adopted up-to-date and money-saving inventory methods have had this experience.

*Column No. 10.*—In this column will be placed the summarized figures showing the number of each class of stock actually counted in the round-up and will include all new brandings. The accuracy of the figures placed in this column will, of course, depend upon how carefully the count is made and the results transmitted to the "Inventory" or "Tally."

*Columns No. 11, No. 12, No. 13, and No. 14.*—In many businesses requiring a much smaller investment than that of cattle raising, it has been found well worth while to hire extra help to take care of the check on inventory. When the variations between what is supposed to be on hand and what is actually on hand are brought to the owner's and manager's attention, something is usually done to reduce the error which amounts ordinarily to a loss. The figures placed in Column No. 11 represent the number of head of livestock by which the count exceeds the number called for by the "Tally Sheet." This discrepancy may arise from

- (1) The counting of strays,
- (2) Error in last count, and
- (3) Wrong classification.

These should be given careful attention, particularly if they are large. If it is worth while to have a round-up with the expense involved, it is worth while to have the count made correctly. When the error falls in the third class, it will usually be offset by a shortage in one of the other groups. Column No. 12 shows the shortages in each classification. Particularly at first, these will be somewhat greater than the "overs." Neglect and oversight on the part of the range riders, thievery, etc. will cause this discrepancy. When it is large, there is undoubtedly something wrong, and it should receive careful attention. Column No. 13 is reserved for the figures which indicate the percentage of error. With some variation in the size of the herds, a count might be made which would be relatively more accurate and still show a larger number of "over" or "short" items. In column No. 14 should be placed the value of the "overs" and "shorts." This will make it possible to compare these losses from round-up to round-up.

Similar columns are included for the fall round-up; extra columns are provided for the changes between the fall round-up and the end of the year. Column No. 27 is for "strays" branded after the round-up. Strays are few and at other times of the year may be picked up and counted as a part of the last inventory. If overlooked, they should show up as "overs" at round-up time. During this period at the end of the year, especial care should be taken to record all such items. For this reason, an extra column is provided. Column No. 30 is the same as Columns No. 9 and No. 20. It shows the number of head on hand at the end of the year. These figures will be transferred to Column No. 1 of the sheet for the new year and the value of the herd will then be determined as explained in the discussion about Columns No. 2 and No. 3.

Ordinarily, entries affecting the "Cattle Inventory" account in the ledger will be made only at the end of the year.

At that time the work will be divided into two steps, first, the value of the herd or herds recorded in the "Cattle Inventory" account at the beginning of the year will be entered in both the right and left hand "General" columns of the journal. The figure from the left hand column will be carried to the left side of the "Profit and Loss" account. The figure from the right hand column will be entered on the right side of the "Inventory" account thus "balancing" that account. The second step will bring into the books the value of the cattle on hand at the beginning of the new year and is similar to the entries shown in Figure 27. The total of Column No. 3 of the "Cattle Inventory" sheet or sheets will be recorded on both the right and left hand "General" columns of the journal. The figure in the left hand column will be entered in the "Cattle Inventory" account causing that account to have a "balance" equal to the value of the cattle on hand at the first of the new year. The figure in the right hand column will be carried to the right side of the "Profit and Loss" account.

#### INVENTORY OF EQUIPMENT

The equipment of a ranch consists of saddles, bridles, small tools, plows, mowing machines, wagons, trucks, cars (only those used for ranch business), and all similar articles that would not be included in the sale of the ranch real estate.

The records of the items of equipment are maintained in much the same manner as the record of livestock. A ledger account is used to record the total value and the changes in value of this type of items. It will not show any of the details. All details regarding the items will be shown in the "Equipment Inventory" sheets. At the end of each year the values indicated by the inventory sheet should agree with the balance of the "Equipment" account. The following discussion of equipment transactions refers primarily to records which will be made on the "Equipment Inventory" sheet. The manner in which these transactions will be handled in the ledger is explained on pages 80 to 85.

Two problems of classification arise in regard to the items whose value should be included in the equipment account, and therefore recorded on the "Equipment Inventory" sheet: First, purchasing new articles, and second, distinguishing between repairs and improvements.

In purchasing items such as a strap, or some new ropes, or a new doubletree, or a special body for a truck or wagon, should these items be considered as expense or should they be considered additions to the ranch equipment? Before giving any rules by which one may be guided, it might be well to state that, in matters of this kind, a large degree of common or "horse" sense must prevail. The general rule is that all expenditures for items of equipment, the life of which will be greater than one year, should be charged to the "Equipment" account. This rule must, however, be tempered with judgment. A new strap, say a check-rein for a harness, may last for several years and be quite necessary particularly if the harness is used on a certain horse. The addition of this check-rein does not, however, add any material value to the harness. It may be used for a long time, or it may soon be discarded. Such items should obviously be charged to expense; in this event, *no* entry would be made in the "Equipment" records. In the same way, a new pair of tugs would ordinarily be charged to "Repairs," and a new set of tires or a replaced headlight to "Automobile Expense." In contrast to these items may be taken expenditures such as an *extra* set of doubletrees, a new bumper or shock absorbers for a car or truck which was not previously equipped with these accessories, an extra body for a truck or wagon, etc., which obviously increase the value of the property and should be included in the "equipment" records.

The second problem arises at the time repairs are made upon various articles of equipment. Should the cost of overhauling a truck or of replacing a damaged axle be charged to the "Equipment" account or to an expense account? The question here is to what extent do the repairs increase the *carrying* value of the article prior to the time

the repair work became necessary. Let us consider the articles just mentioned: A truck is purchased and is, let it be assumed, estimated to last for five years. Any piece of machinery which is to last throughout its normal life period must have a certain amount of repair. Overhauling of trucks and machines is a part of the expense necessary to make the machinery last. Certain minor parts will no doubt have to be replaced. Replacements due to normal wear and tear are necessary so that the value of the truck will not fall below its carrying value. In contrast to these expenditures one may take the overhauling and replacing of parts of a wagon, a truck, a mowing machine, etc., the result of which is definitely to prolong its life beyond the original estimate used as a basis for figuring depreciation. Under these circumstances, such portions of the cost as do actually prolong the life of the equipment in contrast with those that are necessary to maintain its original life-period should be charged to the "Equipment" account with a corresponding entry on the "Equipment Inventory" sheet.

Equipment, like livestock, must be inventoried before a set of books can be properly opened. Taking an inventory is not a difficult undertaking if it is approached systematically. It is generally recognized by those who have had considerable experience in taking inventories, regardless of the line of business, that the *most important step in the process is proper planning before anything is done toward making the actual count*. The following outline is given as a very general suggestion of the manner in which an inventory of equipment may successfully be taken:

- (1) *Make a list of all barns, and sheds in which equipment is stored.*
- (2) *Make a careful search of each field, barn, corral, or shed not included in the list mentioned in (1) and bring all equipment to the places that are listed and have it arranged in an orderly manner. Do not attempt to count this and that out in one field or another. Such practices invariably cause some items to be omitted and others to be counted twice. Bring everything to designated places and make the count there. To the uninitiated, this care may seem to be*



a lot of unnecessary work. If it is worth while for manufacturing plants, railroads, and contracting companies, which have vast quantities of equipment, it is surely worth while for a ranchman to get his equipment together with equal care. The amount of trouble and expense involved is small when compared with that of the larger organizations of business.

- (3) So far as possible, stop all other activities while the inventory is being taken. This step will avoid removal of equipment from the places where it may have been stored for inventory purposes.
- (4) Make the actual count, checking off each place on the list as the count is made. If two people are making the count, better results will be obtained by dividing the work, one can list the items while the other does the counting. If there is more than one person available for counting, each should clearly understand exactly what portions he is to count so as to avoid overlapping.
- (5) Classify the items on the various sheets upon which the count was recorded; thus, articles of harness, saddles, plows, wagons, etc., may have been stored in several different barns. They will consequently appear on as many lists. The items of these sheets should be summarized and then recorded on the "Equipment Inventory" sheet.

When this or some similar method is followed, a fairly accurate inventory will be acquired. A check of this kind should be made each year and it will prove to be time very advantageously spent if the owner or manager will himself supervise each step, in that way insuring accuracy and also keeping himself informed as to the conditions of many items which would probably otherwise escape his notice for long periods of time, possibly years.

#### **Handling the Figures on the Equipment Inventory Sheet.**

When the inventory items have been properly arranged (see Figure 8), the names of the articles and the figures should be placed upon the "Equipment Inventory" sheet. It may at times be necessary to list each item on this sheet. At other times, it will be more practical to use summary figures. Thus, there may be two or three different makes of automobiles, such as Ford, Dodge, and Packard. Each of these would probably represent a considerable amount

## EQUIPMENT INVENTORY

[illegible]

**FIGURE 8**

of investment and should consequently be listed separately if they are all used for ranch business. On the other hand, there may be several items of no great value, such as several sets of harness acquired at about the same time. These may be thrown together and given an average price and an average purchase date. This method will give approximately the same results as if each item were listed separately.

In many instances it will be impossible to determine the cost or purchase date of items which have been on the ranch for some time. In that event, it is necessary to appraise the present value of the items. Where the inventories run to large amounts, it would be a good plan to get the judgment of one or two other persons regarding these appraised values and have them sign a list of these items. This precaution may avoid later difficulties with tax inspectors. When values have been determined and the records are complete, it is relatively easy to keep the record in proper shape.

All items should be priced at their original cost or their value on March 1, 1913, the basis adopted by the Internal Revenue Department. It is improbable that many important items of equipment from the standpoint of large value will be found which were purchased before March 1, 1913. In the majority of instances, we may say then that "cost" will be the prevailing figure. The term cost includes several things:

1. *The cost of selecting and purchasing.*—At times, a *special* trip will be made to see some machine or other item of equipment in actual use before deciding on its purchase. If the inspection satisfied the stockman, or his representative, that the article under consideration is not feasible, the cost of the trip including any wages paid to others would be charged to "Miscellaneous Expense." If the trip convinced the stockman that he should make the purchase, the cost of the trip would be a part of the cost of the item purchased.

2. *Invoice price.*—This is the price paid the seller.

3. *Freight*.—This includes any cost of transportation which had to be paid in addition to the price paid the seller.

4. *Original cost of getting the equipment ready to operate*.—Often machinery or other items are received in a “knocked down” condition. It may take an appreciable amount of time to set these up in shape to operate. The amount paid for this time and for any tools or other articles required to set up the machine is a part of the cost.

From these foregoing points, the following rule may be developed, namely:

The amount which should finally be recorded on the inventory sheet and on the books as the cost of any item of equipment is the cost of the item at the place where it is to be used and in a proper condition to be used.

#### **Depreciation**

To figure depreciation, it is necessary to have a starting point. Thus, if an automobile is expected to last for five years, the date upon which the car was purchased must be determined in order to find its present age and consequently its present value.

On pages 173 to 175 are schedules of depreciation rates taken from various sources. These rates are not positive or fixed. They are representative figures which have been worked up by different authorities. It is not to the advantage of the Government or the stockman to have false rates carried on a set of books. If a rate which is too high is used, expenses will be increased for a few years and then the total cost will have been written off. As a consequence, during the remaining life of the particular piece of equipment no depreciation can be charged. On the other hand, if the rate is too low, much of the cost of the equipment will remain on the books when the article itself is of no further use, and as a consequence a large charge will have to be made the last year. There are no advantages in using any but the most accurate rates of depreciation that are available. The use of depreciation rates which have been determined by careful study assists the stockman in having a much more accurate idea of his exact financial standing.

It also helps both the stockman and the Government by avoiding questionable items, adjustments, and amended returns.

Every ranch owner or operator should give this question careful thought. Using such published depreciation rates as are available, he should estimate what the probable life of each item of equipment is and then work up his depreciation figures at that rate. The following explanation of the Depreciation columns on the "Equipment Inventory" sheet shows the procedure to be followed:

*Estimated Life.*

A notation is made in this column showing the estimated life of each item of equipment. This is given in terms of years beginning with the date the item was acquired.

*Rate.*

The rate or per cent of cost which is to be written off each year will depend upon the estimated life of each item of equipment, thus: Assume that a wagon is purchased in 1922 for \$100. The estimated life of this wagon is ten years. Each year of operation, then, will bear the cost of one-tenth of the value of the wagon. Consequently, the rate of depreciation would be ten per cent ( $\$100 = 100\%$ ; therefore  $100\% \div 10 = 10\%$ ). The cost of the asset is always equal to 100%; 100% is then divided by the number of years which represents the estimated life of the particular asset. If the wagon had an estimated life of only five years, the rate would be twenty per cent ( $100\% \div 5 = 20\%$ ). If the estimated life were 15 years, the rate would be  $6\frac{2}{3}\%$  ( $100\% \div 15 = 6.666\%$ ).

*Amount.*

The amount of depreciation during each year is determined by multiplying the cost by the rate. Thus in the previous illustration, if the rate were ten per cent, the "Amount" would be \$10.00 ( $\$100 \times .10 = \$10$ ). If it were twenty per cent it would be \$20.00 ( $\$100 \times .20 = \$20$ ).

Had the wagon cost \$140 with an estimated life of 15 years the annual depreciation would be \$9.33 ( $\$140 \times .0667 = \$9.33$ ).

*Age When Entered.*

In many instances items will be brought into the Inventory sheet after several years of use. In such cases, the number of years which these items have been in use should be recorded in the proper column.

*Total Accumulated Depreciation.*

The total amount of depreciation which has been charged off during the previous years should be entered in the column for Total Accumulated Depreciation. This amount should agree with the amount determined by multiplying the number of years shown in the "Age when Entered" column by the rate and then multiplying this product by the cost; thus, if an item cost \$800, and had an estimated life of ten years (Depreciation Rate 10%) and had been used six years when the Inventory sheets were put in use, the computation would be as follows:

Rate .....	10%	
Age when entered.....	6	
	<hr/>	
Accumulated depreciation .....	60%	
Cost .....		\$800
Percent accumulated depreciation.....		<hr/> .60
Amount Accumulated Depreciation.....		\$480

The amount of \$480 would then be entered in this column. The difference (\$320) between it and the cost would be entered in column showing the "Carrying Value when Entered."

*Carrying Value When Entered.*

When the Inventory sheets are first adopted the items will be recorded in the manner explained in the preceding paragraphs. The present value of each item or group of items will then be entered in this column. To illustrate:

if the books were opened on January 1, 1930, and the wagon, costing \$100 and with an estimated life of ten years, had been purchased early in 1926, the following information would be recorded:

<i>Column</i>	<i>Entry</i>
Date acquired.....	1926
Cost .....	\$100.00
Estimated life.....	Ten years
Rate .....	10 per cent
Amount .....	\$10.00
Age when entered.....	Four Years
Total accumulated depreciation.....	\$40.00
Carrying Value (1930).....	\$60.00

At the close of each subsequent year the carrying value of this piece of equipment would be reduced by \$10. This amount would be entered under "Annual Charges to Depreciation" and in the particular column devoted to that year.

Many articles of equipment will be lost, sold, or become useless each year. It is necessary therefore that the value of these items be eliminated from the records. When this situation arises, either of two conditions may prevail. Each will be explained and illustrated.

1. A certain amount of the value of the article is still carried on the books, and it should then be written off so that the "Equipment Inventory" record and the "Equipment" account will be cleared of this amount. The wagon used in a previous illustration was brought onto the record with a carrying value of \$60. If this wagon had been wrecked, lost, stolen, or for some reason had become unusable during the following year, it would have been necessary to eliminate the \$60 from both the Inventory sheet and the books. On the Inventory sheet this item would have a red line run through it and an explanation placed in the space provided. The journal entry is illustrated on line 6 in Figure 15. If this wagon had been sold at this time, the same entry would be made on the Inventory sheet. It would make no difference whether the sale were made for more or less than \$60; *the purpose of the inventory sheet is to*

*show the present carrying value of the usable equipment which is actually a part of the ranch property. Whenever an article of equipment ceases to be a part of the ranch property or becomes useless, the value at which it was carried should be eliminated from the Inventory sheet, a proper explanation being made. For illustration of the journal entries required when equipment is destroyed or sold at a profit or loss, see page 82.*

2. An article which has become lost or useless or is sold, but which, prior to this time, has outlived its estimated life, has eliminated itself from the list of articles having a value which is carried in the accounts. It is not uncommon for articles to have a useful life longer than the original estimate. If the wagon previously discussed had continued to be serviceable for six more years, the entire cost would have been written off. If after that time the wagon was still usable and later was sold or destroyed no record would be necessary on the Inventory sheet unless an adjustment had been made.

When articles are traded, it is necessary to make a double entry on the "Equipment Inventory" sheet, first to take the value of the article "traded in" off the Inventory record, and second to bring on to the record the value of the new article. Clearing the sheet of the value of the old article will be handled in the manner just explained. The second step may at times cause some question. The rule is that each article listed on the Inventory sheet should be brought on at cost. Assume that the wagon used in the previous illustrations had been used for two more years. It would then have a carrying value of \$40. If at this time a new wagon were purchased for \$125 and the old wagon traded in for \$50 the \$10 excess between the carrying value and the amount realized would not be considered a decrease in the cost of the new wagon. The \$40 would be crossed off as previously explained and the \$125 entered in the "Cost" column, cross references being made between the two lines. (See Figure 15 for journal entries covering the purchase of a new wagon under various conditions.)



### INVENTORY OF IMPROVEMENTS

The columns on the "Improvement Inventory" sheet exactly correspond with those on the "Equipment Inventory" sheet; therefore, the discussion will not be taken up column by column in this section. This section will be devoted to a more general discussion of problems which may arise concerning this class of assets. Many of the points discussed are not applicable to improvements alone. The underlying principles are the same for all assets.

Houses, barns, sheds, fences, windmills, tanks, pipe lines, etc., are the items which may be classed as "Improvements." They can be easily distinguished from the items which should be considered as "Equipment" by their lack of movability. In other words if the ranch real estate were sold the "Improvements" would be included in the sale, whereas, "Equipment" would not unless it was specifically mentioned that it was to be included.

Ranch improvements represent a large portion of the stockman's investment, and should be given careful attention when opening a set of books. An inventory should be taken of the improvements with the same care that is taken with the equipment inventory. The listing and counting of these items will not, as a rule, involve as much difficulty as the listing and counting of the equipment items. Improvements are usually larger, more evident, and consequently less easily overlooked. Care, however, must be used.

The various classifications must, if satisfactory results are to be obtained, be carefully made and not allowed to overlap. For instance, adobe barns and frame barns should not be listed just as barns, but should be classified separately. Three-wire and four-wire fences should not be thrown together and listed as so many miles of fence, the number of miles of each should be shown as separate items. Such a listing will require some care but, when once made, will be very easy to maintain thereafter.

The cost or value on March 1, 1913, should be carefully considered. It may be very difficult to determine what was

the cost or the value of some improvements that far back; in that event, as in the case of items of equipment, a careful survey should be made of the present value of the items listed. When the cost figures are used they should include all of the costs chargeable to the particular item. Thus: architects fees and expenses, freight and hauling expenses on materials, the cost of piping water, sewerage systems, etc., are all a part of the cost of a house. In the same way the labor spent in salvaging (tearing down, pulling the nails, etc.) of old lumber which is to be used on a new building, as well the cost of new material, is a part of the cost of the new building. Time of employees spent in grading, excavating, etc., should also be included as a part of the cost of new buildings or improvements to old buildings.

When the improvements have been listed on the "Improvement Inventory Sheet" and their cost or value March 1, 1913 has been placed in the "Cost" column, the proper depreciation rates should be applied to the various items upon which costs can be determined. Reference may be made to pages 173 to 175 for a list of depreciation rates suggested by various authorities. In each instance, the stockman should consider carefully whether these rates apply to his particular case, and, when any question arises, he should consult the public accountant who keeps or audits his books. The rate at which improvements are to be depreciated should be placed on the "Inventory" sheet at this time regardless of what value is used, i.e., Cost, Value March 1, 1913, or Present Value. Care should be used, however, to avoid confusion of date and depreciation rates. Thus if a house costing \$10,000 was built in 1910 and the depreciation rate was 5%, the house would have passed through 17 years of its estimated life by the end of 1927. The present value on January 1, 1928, based on cost, would be \$1,500. Assume though, that no records of the original cost or date of construction were available and that the house was estimated on January 1, 1928, to have a value of \$1,500. The depreciation rate on this \$1,500 would very obviously be



something greater than the 5%, the rate suggested for substantial wooden buildings. If the original estimates were correct it would be 33 1/3% as there would only be some three years of useful life left in the building. Therefore, when estimates are made on the basis of present value, care should be used to estimate the length of time that the particular asset will be useful, and not to base future estimates of depreciation on the percentages given for new construction. Both the present value and the depreciation rate will be affected by this time factor. If the property has been kept in good repair, the remaining period of useful life and consequently the present value may be relatively high. If repairs have not been kept up, it will probably be relatively low. When depreciation rates are used which vary from the ordinary percentage figures usually adopted for the particular asset under consideration, a statement should be placed on the "Inventory" sheet explaining the conditions which justify this rate. This statement should also be appended to the income tax return so as to avoid the questions which may arise in the Income Tax Department. In this connection the following transcripts are inserted:

Article 165, Regulations 69, reads in part as follows:

*"The capital sum to be replaced should be charged off over the useful life of the property, either in equal annual installments or in accordance with any other recognized trade practice, such as an apportionment of the capital sum over units of production. Whatever plan or method of apportionment is adopted must be reasonable and must have due regard to operating conditions during the taxable period. While the burden of proof must rest upon the taxpayer to sustain the deduction taken by him, such deductions must not be disallowed unless shown by clear and convincing evidence to be unreasonable. The reasonableness of any claim for depreciation shall be determined upon the conditions known to exist at the end of the period for which the return is made."*

Care should also be used to see that the rates which are set up at the time a new set of books is opened do not conflict with the rates which have been reported on previous returns. The attitude of the Internal Revenue Department on such matters is given in Internal Revenue Bulletin No. 31, Volume VI, page 3.

. . . it should be borne in mind that a taxpayer's plan for taking deductions for depreciation should be reasonably consistent and that a taxpayer will not be permitted, by a revision of such plan, to take deductions in a given taxable year which should have been taken in prior taxable years. (Article 161, Regulations 69; Appeal of Atlantic Carton Corporation, 2 B.T.A., 380.)

When additions or improvements are made on any of the items listed on the "Inventory Sheet" or when a new improvement is added, the total cost should be placed in the Cost column. Care must be used to distinguish clearly between additions, improvements, and repairs. This problem is discussed more fully under the subject of "Repairs," page 171. It is always a good plan to make a notation in the space provided for "Remarks" of just what was done.

Certain improvements either will become useless or obsolete or may be destroyed by fire, wind, or flood. Under these circumstances the value at which they are carried should be eliminated from the records. When a portion of the real estate is sold, the improvements, such as corrals, buildings, windmills, tanks, etc., which go with the sale must also be eliminated. An explanation of the reason for writing them off should be made in the "Remarks" column. A little care along these lines may save considerable expense and trouble at the time Income Tax returns are reviewed and also be of much convenience when it is desired to determine the exact cost of the remaining property, for sale or Inheritance Tax purposes.

As in the case of "Equipment," many stockmen are losing each year a considerable amount of allowable deductions on their Income Tax returns because they are disregarding depreciation. The amounts of the annual depreciation should be figured on the rates which have been entered in the "Rate" column.

In making these entries for improvements, which have increased in value because of additional expenditure, the problem of estimated life should again be considered. Does the expenditure increase the life of the asset? Thus: a house with an estimated life of twenty years was built for the foreman in 1915 at a cost of \$2,500. By 1925 \$1,250

would have been charged to depreciation and the present value of the house would be one-half of its original cost, or \$1,250. At this time a new room and some additional plumbing fixtures are added at a cost of \$750. This \$750 is, of course, added to the value of the house bringing it up to \$2,000. Neither the new room nor the plumbing fixtures have any effect upon the useful life of the house. They are placed there for the convenience of the occupants during the remaining ten years. As a consequence, the amount of the annual depreciation on this building will be increased from \$125 per year (5% on \$2,500) to \$200 (10% on \$2,000). This amount will write off the present value of the asset as it now stands during its useful life. This change does not affect the amount which is written off on the original house, it simply adds to that amount the necessary depreciation on the new additions.

5% annual depreciation on \$2,500.00 (20 year life)_____	\$125.00
10% annual depreciation on \$750.00 (10 year life)_____	75.00
	<hr/>
	\$200.00

If, on the other hand, the \$750 had been spent for improvements which actually lengthened the life of the particular asset a corresponding adjustment should be made. Under these circumstances the amount of the annual depreciation charge would be reduced.

## THE JOURNAL

When the original evidences of the various business transactions have been assembled at the place where book-keeping entries are to be made, the entries will first be made in the Journal. Various types and kinds of journals may be used with entirely satisfactory results. The combined Cash and General Journal shown in Figure 10 seems adaptable to the accounting requirements of most ranches.

An effort has been made in designing the journal to reduce labor to a minimum. In order to do this all columns which would seem to have frequent entries have been placed close to the left side of the page. Those columns in which entries will be somewhat less frequent have been placed farther to the right side of the journal.

The columns in the Journal are of two kinds:

1. Those which receive figures for a particular account. All accounts to which frequent entries are made are given a special column if the entries are normally made on either the right or left side of the account, entries being infrequent on the other side. If, however, frequent entries are made on both sides of the account then two columns will be provided for the particular account. Where only one column is provided for an account, the total of that column will be carried to the left (debit), or the right (credit) side of the account as indicated in the heading of the column. Where two columns are provided the total of the left (debit) column will be carried to the left side of the account and the total of the right (credit) column will be carried to the right side of the account.

2. To decrease the size of the Journal and at the same time maintain an adequate classification of asset, liability, income, and expense accounts in the ledger, other columns are placed in the Journal to receive figures affecting those accounts which are used less frequently. When these columns are used, it is necessary to write the name of the account in the space provided just to the left of the money column. Each entry in these columns will be carried as an individual item to the account, the name of which is entered on the same line. The total of such columns will not be carried to any account.

The details of handling the Journal are explained in the following pages.



# G E N E R A L J O U R N A L

DATE	NAME	EXPLANATION	BANK		GENERAL		PERSONAL		O P E R A T I N G												C H A R G E S				I N C O M E																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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This total will be carried to the left (debit) side of the Cash account.

This total will be carried to the right (credit) side of the Cash account.

This figure will not be posted.

This figure will not be posted.

This total will be carried to the left (debit) side of the Personal account.

This total will be carried to the right (credit) side of the Personal account.

This total will be carried to the left (debit) side of the Labor account.

This total will be carried to the left (debit) side of the Auto Expense account.

This total will be carried to the left (debit) side of the Table Expense account.

This total will be carried to the left (debit) side of the Feed account.

This total will be carried to the left (debit) side of the Salt account.

This total will be carried to the left (debit) side of the Vet. and Drugs account.

This total will be carried to the left (debit) side of the Repairs account.

This total will be carried to the left (debit) side of the Selling and Shipping Exp. account.

This total will be carried to the left (debit) side of the Other Expenses account.

This total will be carried to the left (debit) side of the Livestock Purchases account.

This total will be carried to the right (credit) side of the Sale of Ranch Products account.

This total will not be posted.

This total will not be posted.

This total will not be posted.

This total will not be posted.

FIGURE 10



All Journal entries start at the left side of the page; therefore, the columns will be explained in their order from the left to the right side of the Journal. *No effort is made to give complete illustrations of various journal entries at this point.* Only the working principles are explained with entries to illustrate these principles. Special illustrations are given with the discussions for many of the ledger accounts showing how Journal entries should be made for various transactions affecting those accounts.

### EXPLANATION OF COLUMNS USED IN THE JOURNAL

#### **Date—Name—Explanation Columns.**

The date column is provided for information showing the date upon which each transaction is entered in the Journal.

The name column is used in two ways. It may be used when checks are issued to show the name of the person to whom the check is given, or when invoices are entered to show the name of the creditor (the name of the person or concern which has issued the invoice). At other times, it may be used to show the name of the account or accounts to which entries are to be made when the figures for these entries are placed in the "General" columns.

One of the most common and worst shortcomings of bookkeepers is the abbreviation of the explanations made in regard to various entries to such an extent that when it is necessary for someone else to take up their work, the explanations are meaningless. Often they are meaningless to the bookkeeper himself when they have become "cold." Full explanations should always be made in the explanation space. Then, if it appears that some error has been made in the manner of entering the figures, it is relatively easy to check back and make corrections.

#### **Bank Columns.**

A large percentage of the entries to be made in the Journal will affect the Bank columns. For this reason the Bank columns have been placed close to the left side of the

Journal. Each item of cash receipts should be entered in the left hand column as previously explained. All deposit slips, account sales, or other information affecting receipts should be placed in the hands of the bookkeeper without delay.

As a general rule all payments should be made by check. The amount of each check will be entered in the right-hand column.

At the end of each month a total will be taken of the figures which have been placed in each Bank column. The total of the left column will be carried to the left side of the Cash account in the Ledger. The total of the right column will be carried to the right side of the Cash account in the Ledger.

#### **General Columns.**

General columns are provided for those asset and liability accounts which fall under Section Two of the classification of Journal columns given above. Each entry in either of these columns will be carried as an individual item to the account affected, the name of the account having previously been placed in the space provided for names at the left of the page. The totals of these columns should be determined at the end of each month, but as each individual item has been carried to some account the totals will only be used in proving the equality of debit and credit entries which have been made in the Journal.

As each item in the General column is carried to the ledger account the page number of that ledger account will be placed in the folio column so that future reference may easily be made.

#### **Personal Columns.**

These columns are provided to take care of the withdrawals or payments made to the owner or the manager of the ranch. Whenever money is drawn from the bank by the manager the amount of such withdrawals will be placed in the left hand (debit) column. Whenever any bills are paid for the owner or manager or his family, such amounts will

be placed in the left hand (debit) column. When the owner or manager makes a *written report* (see page 15) of expenditures for ranch expenses or ranch equipment from funds which have been withdrawn for personal uses the amounts of such expenditures will be entered in the right hand column. At the end of the month the total of the left hand column will be carried to the left side of the personal account and the total of the right hand column to the right side of the personal account.

**Operating Charges.**

*Labor.*

As practically all entries affecting the Labor account will be items which should be carried to the left side of this account only one column is provided. It is explained in the description of the account (see page 169) that this column will be used for the regular ranch labor or that labor which is at work on regular ranch operations. Amounts paid for extra labor which is used to repair buildings, build new fences, reservoirs, etc., should be charged to the accounts carried for such items and not to the Labor account. When one of the regular employees devotes his time to such activities for all or such portion of a month that it is possible to charge his entire salary for that month or make a division of his time, such division should be made. This column should receive only the amount of wages paid for regular ranch labor *used for ranch operations*. At the end of the month the total of the Labor column will be carried to the left (debit) side of the Labor account.

*Automobile Expense.*

The Automobile Expense column, like labor, will receive the majority of its items as charges to the account (debit entries); therefore only one column is provided. The figures carried to this account should be only those amounts paid out for gas, oil, repairs, etc., on the ranch cars. Where the owner or manager operates a private automobile the expenses for it will be placed in the left (debit) Personal

column. At the end of the month the total of the Automobile expense column will be carried to the left side of the Automobile Expense account.

*Table Expense.*

Where separate tables are maintained, one for the ranch hands and the other for the owner, only the expenses for the table maintained for the ranch hands should be entered in this column. Table expense includes meats, groceries, and wages paid cooks, second cooks, flunkies, etc., whose time is devoted to the work of boarding the employees, providing such work is not done by a member of the rancher's family. Care should be used not to enter wages for the rancher's wife or his child under eighteen years of age. Where only one table is maintained and ranch hands are boarded with the family of the owner or manager, all the expense of that table may be entered in this column. Division of this expense may then be made at the end of the year in the manner explained in the discussion of this account. (See page 171.) At the end of the month the total of this column will be carried to the left (debit) side of the Table Expense account.

*Feed and Salt.*

All charges for the purchase of feed, salt, etc., will be entered in the Feed and Salt column unless such amounts are incurred for the purpose of bringing livestock to, or shipping it from, the ranch. If the livestock is being brought to the ranch, such charges will be to the proper livestock "Purchase" account. If the livestock is being shipped from the ranch, the charge will be to the "Selling and Shipping Expense" account. At the end of the month the total of this account will be carried to the left side of the Feed and Salt account.

*Veterinary and Drugs.*

All amounts paid for the services of veterinaries, anti-toxins, etc., should be entered in the Veterinary and Drugs

column. At the end of the month the total will be carried to the left (debit) side of the Veterinary and Drugs account.

*Repairs.*

Amounts spent for the repairs of ranch buildings, fences, irrigation ditches and machinery should be entered in the Repair column. Repairs should include the wages of those hired to do the work. If regular ranch employees are used for such times that the expense can be allocated, the amounts thus allocated should be entered in this column rather than in the Labor column. This column should also include all materials used for strictly repair purposes, such as lumber, posts, wire, nails, etc. At the end of the month, the total will be carried to the left (debit) side of the Repair account.

*Selling and Shipping Expense.*

All extra expense incidental to the gathering, driving, shipping, and feeding of livestock en route to market or the point of delivery, as well as any commission paid to brokers, feeding charges at stock yards, etc., should be entered in the Selling and Shipping expense column. There will, of course, be many months during which no figures appear in this column. At the close of any month during which such expenses have been incurred the total of the column should be carried to the left (debit) side of the Selling and Shipping Expense account.

*Other Expenses.*

As previously explained, a number of expense accounts have been placed in the ledger for which no columns have been provided. The entries for such accounts will be made in the space provided for "Other Expense." When occasion arises to make a charge to these accounts the name of the account affected will be written in the space under the heading "Account." The amount of the charge will then be written in under the heading "Amount." As charges to various accounts will be entered in these spaces, the

total, of course, cannot be carried to any one account. Each item must be carried individually to the account affected. The ledger page number on which this account appears will then be placed in the "Folio" column which is to the right of the amount column. At the end of the month the amount column will be totalled so as to prove the balance of the Journal, as previously explained, and will not be carried to any account.

#### *Livestock Purchases.*

Entries to the various accounts which may be maintained for livestock purchases will not be frequent. When cattle, sheep, or goats are purchased, the name of the livestock purchased will be placed in the space provided under the heading "Kind." If various classes of that kind of livestock are maintained, such as Pure Bred Herd and Grade Herd, the class should be indicated as well as the kind of livestock. The amount expended for the purchase will then be placed in the space provided under the heading "Amount." Where freight, feed, extra labor or other shipping expense is incurred in connection with bringing livestock to the ranch it should be entered in these columns in the same manner as the entry for the amount of the purchase price which was paid to the previous owner. As many ranches will have various kinds of livestock the total of the amount column cannot, under these circumstances be posted to one account. Each entry will be posted individually to the account affected. The ledger page number to which this entry is posted will then be entered in the folio column shown just to the left of the column provided for the kind of livestock which has been purchased. In those cases where only one kind of livestock is kept on the ranch, the use of the space provided for "Kind" may be dispensed with. Thus, if the ranch had nothing but "Grade" cattle it would be necessary to have only one "Cattle Purchase" account and the total of the amount column could, at the end of any month when there have been purchases, be carried to the left (debit) side of the one "Cattle Purchase" account.

When more than one kind of livestock has been purchased, the total of this column will simply be used for the purpose of proving the balance of the Journal.

**Income Columns.**

*Sale of Ranch Products.*

Many ranches have a variety of products which are sold. Products which are important will be more or less constant sources of income. They should, therefore, be carefully classified and set up in separate ledger accounts so that the owner or manager may review his records over each year, or series of years, and see just how much each item has contributed to the total income realized from the ranch operations. Thus, there may be sold various kinds of livestock, wool, fire wood, gravel, etc. The amounts received from each different class or kind of product sold should be entered in a separate account in the ledger. The name of the account which should be credited with the income will be written in under the space provided with the heading "Kind." The amount of the sale will then be entered on the same line in the space provided under the heading "Amount." Each item will be carried as an individual posting to the right side of the ledger account affected. The ledger page number of that account will be entered in the "Folio" column shown just to the right of the amount column. At the end of the month the total of this column will be used only for purposes of balancing the Journal.

*Other Income.*

Many ranchers will have income from other sources than the ranch. Interest received, rents, dividends, etc., should all be entered in separate accounts if they amount to appreciable sums or come from a variety of sources. Such items represent extraneous income and do not form a regular part of the ranch operations. For this reason, special columns are provided in the Journal. When such items are received, the name of the account which should be credited should be written in the space provided under the

heading "Account" and the amount written in on the same line in the space provided under the heading "Amount." Each of these items should be posted individually in the account provided and the page number of the account placed in the ledger Folio column, which is at the left of the "Account" column. For illustrations showing the manner in which entries would be made in these columns see Figures 12, 13, and 14.

### CLOSING THE JOURNAL

At the end of the month totals should be taken of each column in which figures are carried. Before any of the amounts are posted as has been explained in the preceding paragraphs, the equality of debits and credits should be proved. To arrive at this balance it is necessary to add the total of all the debit columns and be sure that this total equals the combined total of all the credit columns. Then, the totals should be posted as previously explained and the ledger page number written just to the left and slightly above the amount, as shown in the illustration.



## THE LEDGER—ASSET ACCOUNTS

### GENERAL PRINCIPLES

It has been explained that the journal may be compared with a system of chutes where various grades and kinds of cattle are classified and the ledger to the corrals where each kind or class is held. Each of the divisions in the ledger is known as an "account." Each account may be compared to a separate corral. All of the accounts are arranged in groups, in the same way that all stock of a certain kind are grouped at a stock show. These groups of accounts are known as:

1. *Assets*.—All accounts which record the value of items owned by the rancher (items for which the rancher holds legal title) are classed as asset accounts. The names of the accounts which will fall in this group are:

- Cash
- Notes (Bills) Receivable
- Accounts Receivable
- Securities
- Inventories:
  - Cattle
  - Sheep and/or Goats
  - Horses
  - Feed
  - Miscellaneous
- Equipment
- Improvements
- Land
- Other Assets

2. *Liabilities*.—All accounts which record the amounts which the rancher or the ranch business owes to outsiders are classed as liability accounts. This group will contain the following accounts:

- Accounts Payable
- Notes Payable
- Mortgages Payable

3. *Net worth or Proprietorship*.—These accounts represent the value of the investment which the owner or owners have in the ranch. The accounts used in this section

will vary according to kind of ownership existing in the particular business. Thus, if the business is owned by:

- (a) An Individual, the account names will be
  - (Name of Owner) Capital
  - (Name of Owner) Withdrawals
- (b) A Partnership, the account names will be
  - For each partner
  - A Capital Account
  - A Withdrawal Account
- (c) A Corporation, the account names will be
  - Capital Stock
  - Surplus

4. *Income*.—All accounts which carry the classified records of amounts for which various ranch products are sold or the amounts received from outside investments, etc., are classed as "Income" accounts. These accounts are:

Cattle Sales	Service Sales
Mutton Sales	Grazing Leases
Wool Sales	Oil Leases
Goat Sales	Interest Income
Mohair Sales	

5. *Expense*.—In this group are all of the accounts which carry a classified record of the various expenses or outgo required to produce the income which is classified in the previous section (4). They are:

Cattle Purchases	Repairs
Sheep Purchases	Table Expense
Goat Purchases	Depreciation
Feed and Salt	Selling and Shipping Expense
Labor	Taxes and Insurance
Round-up Expense	Leases
Clipping and Shearing Expense	Interest Expense
Auto and Truck Expense	Miscellaneous Gain and Loss
Veterinary and Drugs	

In double entry bookkeeping every transaction will be recorded in *two or more* accounts. All entries to these accounts are made in such a manner that the total amounts entered on the left (debit) side of the accounts will exactly equal the amounts entered on the right (credit) side. When the entries are made, a trial balance may be taken at the end of each month. If the mechanics of the work have been

carried out accurately the accounts with right hand, or credit balances, should exactly equal those with left hand, or debit balances. To accomplish this the following rules may be used:

1. (a) Whenever an entry is made which will *increase* the amount shown in an *asset* account, the entry will be made on the left (debit) side of the account.  
(b) Conversely, a *decrease* in an *asset* account will be recorded by an entry on the right (credit) side of the account.
2. (a) Whenever an entry is made which will *increase* the amount shown in a *liability* account the entry will be made on the right (credit) side of the account.  
(b) Conversely, a *decrease* in a *liability* account will be recorded by an entry on the left or debit side of the account.
3. (a) Whenever an entry is made which will *increase* the amount of the *net worth or proprietorship* the entry will be made on the right or credit side of the account.  
(b) Conversely, a *decrease of net worth or proprietorship* is recorded by an entry on the left or debit side of the account.
- (c) All *income* accounts tend to *increase* net worth or *proprietorship*; therefore, the entries will normally be made on the right hand or credit side of these accounts.
- (d) All *expense* accounts tend to decrease net worth or *proprietorship*; therefore, the entries will normally be made on the left hand or debit side of the account.

(NOTE) At the end of the year the balances of all income and expense accounts are summarized in the Profit and Loss account. The results of this summary show the profit and loss for the year. This figure is then carried to the *Net Worth* or *Proprietorship* account or accounts.

By applying the rules given above to the various illustrations and explanations given in the succeeding pages, the entire scheme of double entry bookkeeping may be understood. So as to assist the reader, extensive illustrations have been prepared, followed by explanations of the various entries for all accounts in which it was thought the reader might have difficulty.

## LEDGER ACCOUNTS

## CASH

*All cash that is received as a result of any transaction arising from the ranch business should be deposited in the bank. The amount of each item received will be entered in the left-hand (debit) column of the journal, which is headed "Bank." It will also be entered in one or more of the other columns as shown in the succeeding illustrations. The total of the left-hand bank column will be transferred to left-hand money column of the "Cash" account in the ledger. The date column should show the date "as of" which this figure was transferred from the journal to the ledger.*

*Checks should always be given in making payments on transactions which arise in connection with the ranch business. The practice of giving one check in payment of several different kinds of items should be avoided. The amount of each check should be entered in the right-hand (credit) column of the journal which is headed "Bank." It also will be entered in one or more of the other columns as shown in the succeeding illustrations. The total of the right-hand column will be transferred to the right-hand money column of the "Cash" account in the ledger. The "date" column should show the date "as of" which the total was transferred from the journal to the ledger account.*

When the journal is "closed" and the totals are posted to the ledger, the difference between the amount of the deposits and the amount of the checks issued should agree with the bank balance shown by the bank statement after taking into consideration those checks which have not passed through the bank. Where the entries are made from the returned checks *great care must be exercised when statements are made up at the end of the year to make sure that all outstanding checks which have not been cancelled through the bank are taken into consideration.* These outstanding checks should be entered in a distinctive manner in order to avoid confusing them with the checks which have been passed through the banks. In this way, the

possibility of making duplicate entries will be greatly reduced. At the end of the year or at other times when statements are made up and such entries are necessary, these items will be carried from the journal to the cash account and the other ledger accounts affected (expense or asset or liability accounts). Later, when these checks are received from the bank they should be segregated so that they will not be entered a second time. An alternative method is to record the uncashed checks as liabilities as explained on page 180.

Cash							
(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
1927				1927			
Jan 31		2	3,440 94	Jan 31		2	1,450 75
Mar 31		3	150 00	Feb 28		2	4,210 20
May 31		5	16,738 40	Mar 31		3	903 25
				Apr 30		3	2,750 50
				May 31		5	6,210 00
				Jun 30		6	1,000 00
				Balance			3,804 64
			20,329 34				20,329 34
Jul 1	Balance on Hand		3,804 64				

FIGURE 11

In this illustration, the *totals* of the "Bank" columns in the journal are transferred to the cash account at the end of each month. The date columns (1) indicate the date "as of" which these totals were transferred. In most cases, there will be no reason to enter anything in the explanation columns (2). The next columns (3) should contain the journal page number from which the figures were obtained. The money columns (4) will show the amount of the deposits on the left side and the amount of the withdrawals on the right side.

When the entries in the journal are made from the returned checks, it will necessarily be some time after the first of the month before the checks are received and entered. As the entries will not cover transactions occurring after the beginning of the new month, the totals will be

transferred "as of" the first of the month. The result is that the date shown in the ledger account will be the first of the given month or the last day of the previous month, although the actual transfer was made sometime thereafter.

### NOTES (BILLS) RECEIVABLE

When a note is received as written evidence of a debt, the record will first be made in the left-hand (debit) "General" column in the Journal. From there, the item will be transferred to the left-hand amount column of the Notes Receivable account in the ledger. The date upon which the note was received should be entered in the "date" column of this account, and a brief explanation of important facts regarding the note should be entered in the "Explanation" column. The "Folio" column should contain the page number of the Journal from which the item was "posted."

NOTE: Frequently, two or more notes which cover the unpaid amounts on a given transaction are received, each note falling due at a different date. Under these circumstances, each note should be entered separately in the journal and in the ledger.

When a note is paid in full the entry will first be made in the right-hand (credit) General column in the Journal. From there the item will be transferred to the right-hand money column of this account in the ledger. It is convenient to enter it upon the same line on which the record of the note was originally made. When the entries are arranged in this manner, the "open" items represent the outstanding notes; and the ledger account will give much of the information which would be obtained by using a Note Register. The date upon which payment is received should be entered in the date column and a word of explanation as to how the note was paid should be entered in the explanation column.

In the event that the note is paid in partial payments, there are various methods of handling the transactions. At the time a partial payment is received, the date and the amount of the payment should always be written on the

back of the note, or, better, the original note should be cancelled and a new note made out for the amount remaining unpaid. The amount received will be entered in the left-hand "Cash" column in the Journal, the unpaid amount in the left-hand "General" column, and the total amount of the note in the right-hand "General" column.

The full amount of the note will then be carried to the right-hand amount column of the ledger on the line where it was originally recorded on the left-side. Then the unpaid portion will be carried from the left-hand "General" column to the left-hand column in the ledger. This transfer will be a new entry with an appropriate explanation on the first free line on the left-hand side of the account. (See line No. 3, Figure 12.)

When an extension is given the debtor, notation of this fact may be made on the note. It is a *better practice*, however, to cancel the original note and to make a new one. In either case, an entry should be made in the Journal showing the change. This information should then be transferred to the ledger account. (See line No. 4.)

The first note listed in the ledger account, that of R. P. Mills, was brought on the books at an earlier date than the notes listed in the illustrative journal entries given. This note had not fallen due on April 1, 1928, when the Meyers note was renewed; consequently, the line on the right-hand side of the ledger page is blank. By using these "open" lines as a guide, anyone reviewing the account can see at once that there are only two outstanding notes receivable.

The first journal entry in Figure 12 shows the sale of 160 two-year-old heifers to W. A. Myers for \$12,700. Of this amount, \$7,700 was paid in cash. The balance was covered by two notes of \$2,500 each, one due in 6 months and the other in one year. The total amount of the sale was entered in the column provided for the "Sale of Ranch Products," and the cash received was placed in the left-hand "Bank" column. As each *individual* item in the "General" column must be transferred to the ledger, it will be observed that each note is recorded on a separate line on the ledger page.

JOURNAL															
			BANK			GENERAL									
DATE	NAME	EXPLANATION	DR	DEPOSITS	CR	WITH-DRAWALS	Lodger folio	DR	CR	SALE OF RANCH PRODUCTS		OTHER INCOME			
										HIND	AMOUNT	Folio	ACCOUNT	AMOUNT	
1917	(1)														
Jan 1	W.A. Meyers	40-2yr Heifers	7,700	00						Cattle	7,700	00			
		W.A. Meyers													
	Notes Receivable	6 mo. note @ 8%						2,500	00	Cattle	2,500	00			
		W.A. Meyers													
	"	1 yr note @ 8%						2,500	00	Cattle	2,500	00			
	(2)														
July 1	Note Receivable	Pat. Meyers note	2,500	00					2,500	00					
	W.A. Meyers	Interest on note		100	00								Interest	100 00	
1923	(3)														
Jan 1	Notes Receivable	Meyers pd. 1000 00 New note 3 mo 8%	1,000	00				1,500	00	2,500	00				
	W.A. Meyers	Interest on Note		200	00								Interest	200 00	
	(4)														
Apr 1	Notes Receivable	W.A. Meyers note renewed 3 mo 8%						1,500	00	1,500	00				
	W.A. Meyers	Interest on note		30	00								Interest	30 00	

FIGURE 12





The third group of entries illustrates the procedure when a partial payment is received and the balance of the note is extended. The cash received is entered in the left-hand "Bank" column. The amount of the old note, \$2,500, is entered in the right-hand "General" column and the amount of the new note in the left-hand "General" column. The figures in the "General" column will then be transferred to the ledger account. The \$2,500 item is entered in the right-hand amount column of the ledger, thus showing that the note recorded in the left side is no longer outstanding. The \$1,500 item is then entered in the left-hand amount column of the ledger with the detail information regarding the new note shown in the explanation column. As in the previous illustration the recording of the interest is shown for the sake of completeness.

If this note had been originally made out for a longer period of time, say 2 years, and this \$1,000 was a partial payment, the transaction could be handled in the same way.

The last group of entries shows the records which may be made when the note is renewed and only the interest is collected. In this case the only entry in the "Bank" column of the Journal is for the receipt of the interest, and it is placed in the left-hand column. The \$1,500 for the old note, which should be cancelled, is entered in the right-hand "General" column and the amount of the new note, in this case the same amount, entered in the left-hand "General" column. The figure (\$1,500) shown in the right-hand column is then transferred to the right side of the ledger account to record the cancellation of the old note, and the other figure (\$1,500) is entered on the left side of the account, thus making a record of the new note.

### ACCOUNTS RECEIVABLE

Accounts Receivable represent the amounts which are due from others and for which no formal written promise to pay has been received. If a formal written promise properly made out has been received, the debt would be classed as a Note Receivable.

In many mercantile businesses, enormous amounts are carried each month in Accounts Receivable. In the majority of cases, these accounts are paid at the close of the month. A corps of especially trained credit men check up on these accounts and see that they are paid. The ranch business is fortunate in having relatively few outstanding accounts of this kind. Very often, however, such accounts are unavoidable. A neighbor buys a saddle or some hay, seed is sold to a tenant, or a nearby farmer buys a few calves. Often the settlement for such sales is deferred until some convenient time in the future. A definite record should at once be made of all such transactions. Such a record avoids many misunderstandings and much bitterness and takes but a few minutes of time. Whenever anything is sold or any money is loaned and a formal note or full payment is not received, an account should be opened for the person owing the amount.

The following illustrations will indicate how different transactions should be handled in the journal and in the various accounts which are classed as Accounts Receivable.

The following explanations cover the items shown in the foregoing illustrations:

*(1) Sale on Account of Livestock Other than Cattle, Sheep, etc.*

The team was sold for \$190. The amount is entered in the left-hand "General" column of the Journal and carried from there to the left side of the account which will be opened for Mr. Bobb. This account will then be the classified record of Mr. Bobb's indebtedness. If the ranch was regularly raising horses and mules for sale, the other side of the entry would be made in the columns provided for "Sale of Ranch Products." It would not then be necessary to figure the profit on each sale. When such stock is not regularly raised for sale, and consequently such sales are relatively infrequent, each sale consummated will be handled in the same manner as sales of "Equipment" or "Land." Under these circumstances the profit or loss on each sale is figured

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			BANK		GENERAL				SALE OF RANCH PRODUCTS		OTHER INCOME			
DATE	NAME	EXPLANATION	DR. DEPOSITS	CR. WITH- DRAWALS	Adj- or Folio	DR	CR.			KIND	AMOUNT	Folio	ACCOUNT	AMOUNT
Jan 10	(1) D.B Bobb	Sold 1 team mules. Will pay in the Fall.				190 00	160 00						Misc. G and L.	30 00
Mar 15	(2) Dan Webb	Advanced Dan Webb 12 tons of old hay.				135 00 135 00	135 00							
Apr 1	(3) Dan Webb	Cash Advance		100 00		100 00								
Apr 10	(4) J. Bond	74 yearling heifers @ \$30.00 Will pay 1/2 cash.				2,220 00			Cattle	2,220 00				
Apr 25	(5) Jack Durk	Sold 1 Saddle. Will pay when he sells his wool.				20 00	20 00							
May 5	(6) J. Bond	Cash and 1 year 7% note in pm't for heifers	1,110 00			1,110 00	2,220 00							
Oct 5	(7) Gin Co.	1/4 crop of Dan Webb 467.60 Advances 235 00	1,202 60				235 00						Rent Income	967 60

FIGURE 13

*D.P. Bokk*

1927									
Jan	10	1 team of mules		190 00					

*Dan Webb*

1927									
Mar	15	Advance for Cottonseed		135 00	Oct	5	Gin Co. check		235 00
Apr	1	Cash Advance		100 00					
				235 00					235 00

*J Bond*

1927									
Apr	10	1/2 cash & 1/2 13-mo note \$2,220 00, 15% 70 Sterling, 1000 lbs @ 22¢		2,220 00	May	5	Cash and note		2,220 00

*Jack Durk*

1927									
Apr	25	Sold 1 saddle. Will pay when he sells wool		20 00					

FIGURE 13A

separately. In this case, it is assumed that such sales do not occur regularly.

It is considered that these mules were carried in the inventory at \$80 a head. One hundred and sixty dollars will then be entered in the right-hand "General" column and will be carried to the right side of the "Horses and Mules Inventory" account in the ledger. This entry reduces the balance of that account.

NOTE.—A proper notation should also be kept on the Inventory sheet, which will cause it to show that there are that many less head to be accounted for. (See inventory.)

The difference between the carrying value and sales price of this stock is the profit realized on the sale. This profit (\$30) will be entered in the "Other Income" column and will be carried from there to the right side of the "Miscellaneous Gain and Loss" account.

Had these mules been sold at a loss, the entry would be made in the same manner. Under these circumstances, however, the figure in the right-hand "General" column of the Journal showing the carrying value of the mules would be larger than the amount received for them, which is recorded in the left-hand "General" column. The loss would not be entered in the "Income" column but would be recorded in the "Other Expense" column, with a notation that it was a "Miscellaneous Gain and Loss" item. It would then be transferred to the *left* side of that account.

(2) *Advance on Account of Property to a Tenant.*

Many ranchmen have tenants on a portion of their land. It is not uncommon for conditions to arise which necessitate making advances to these people. This illustration shows the necessary entries for an advance of hay. The amount (\$135) is first entered in the left-hand "General" column of the Journal and is carried from there to the left side of the account which will be opened in the ledger for Mr. Webb. The credit for this transaction will be entered in the right-hand "General" column. The hay which had been advanced to the tenant would be a decrease in the amount

available for the owner's stock. If this feed had been purchased this year the amount should be carried to the right-hand side of the "Feed" account. If no feed had been purchased during the present year, this amount would be carried to the "Feed Inventory" account.

*(3) Advance of Money on Account.*

In this case, the amount advanced is first entered in the right-hand "Bank" column of the Journal to record the withdrawal of the cash. The other (debit) entry is made in the left-hand "General" column and is carried from there to the account kept for the man to whom the money was advanced. If there is no account for him already, one should be opened.

*(4) Sale on Account of Livestock or Other Ranch Products.*

It is often inconvenient to settle for the sale of cattle or other livestock at the time they are delivered. When the final settlement is not made at the time of delivery, a record of the transaction should immediately be made in the books. This record should contain a full explanation of the agreement. It will then serve as a valuable piece of evidence in case of a misunderstanding or the death or the incapacity of either contracting party. In making the entry, the amount is first placed in the left-hand "General" column of the Journal. From there it is carried to the left side of the account which is kept or which should be opened for the person or concern purchasing the cattle. The record will also be made in the columns provided for the "Sale of Ranch Products" so as to record the amount of income received from the sale of the cattle. If this had been a sale of sheep, wool, or mohair, the first part of the entry would have been made in the same way. The latter figure would, however, have been preceded by the name of the article sold.

*(5) Sale of Equipment on Account.*

This sale, like the preceding ones, will have the first entry made in the left-hand "General" column of the Journal and will be transferred from there to the left side of

the account kept for the particular debtor. In this case, it is assumed that the saddle sold was carried in the books at \$20; consequently, the \$20 is entered in the right-hand "General" column and carried from there to the right side of the "Equipment" account in the ledger. If this saddle has been sold for more or less than the value at which it was carried in "Equipment" account, the profit or loss should be recorded as explained in (1) of this illustration.

*(6) Settlement of an Account with Cash and Notes.*

This entry illustrates the closing transaction for the sale of the heifers. The \$1,110 received in cash will be entered in the left-hand "Bank" column of the Journal, thus recording the increase in cash. The \$1,110 note will first be recorded in the left-hand "General" column and will be carried from there to the left side of the "Notes Receivable" account, in the manner shown in the discussion of Notes Receivable. The \$2,200 entered in the right-hand "General" column is carried to the right side of the debtor's (Mr. Bond's) account in the ledger, thus showing that the account, as such, has been settled.

*(7) Receipt of Mixed Check Covering the Amount of Advance to Tenant and the Land Owner's Share of the Crop Money.*

The total amount of money received is entered in the left-hand "Bank" column of the Journal. The amount of the advances is entered in the right-hand "General" column and is carried from there to the Tenant's account (Dan Webb). In this case, the account is completely paid and may be "closed" (note the manner of ruling and of entering totals). The balance of the money received (\$967.60) represents the owner's share of the receipts from the tenant's crop. The amount will be entered in the "Other Income" column with a notation showing that it is to be carried to the "Rent Income" account. The figure will be placed on the right side of that account.



## SECURITIES

Many ranchmen own various kinds of securities such as bank stock, Liberty and other types of bonds, stock in live-stock associations, mortgages, etc. When securities are acquired, the entry will first be made in the left-hand (debit) "General" column of the Journal. Stocks and bonds are frequently purchased at prices somewhat above or below their "par" or face value (the value printed on the face of the security). This difference may be due to two causes. First, the cost price of the security may be greater or less than the par value; thus, a \$1,000 share of bank stock may be acquired at a purchase price of \$2,500, or a high grade \$1,000 bond carrying a high interest rate may be purchased for \$1,200. In each of these cases, the amount entered in the "General" column of the Journal and carried to the left side of the "Securities" account should be *the actual price paid* (excluding amounts paid for accrued interest) and not the amount printed on the face of the security. In the same way, if the bond had been purchased for \$900, this would be the amount which should be charged to the account. The second cause which always tends to increase the price of the security arises when bonds and mortgages are purchased between the dates on which interest is paid. Thus, if a \$1,000 bond with an interest rate of 8%, payments falling due every six months (say January 1 and July 1) was purchased on the first of April, the party from whom the bond was acquired is entitled to the interest for the time intervening between the last interest payment and the date of the sale. The party holding the bond at the end of the interest period (July 1) will receive the check for the six months' interest. Because of this fact it is customary for bonds to be sold at a given price "plus accrued interest." In the case given above, the \$1,000 bond would cost the purchaser  $\$1,000 + \$20$  (one-fourth of \$80, the annual interest): in all \$1,020. *This \$20 is not a part of the cost of the bond but is an adjustment of interest.* The "Securities" account will therefore be

charged with only \$1,000 and the "Interest" account will be charged with the other \$20.

The proper entering of these items is not difficult, but it requires some care when the value of the security is above or below the face value and the element of accrued interest is also involved. If the bond previously mentioned had been purchased for \$1,200 and the \$20 interest had also been paid, the entry would require the \$1,200 to be entered in the "Security" account and the \$20 in the "Interest" account. In the same way, if the bond had been purchased for \$900 and \$20 accrued interest, the \$900 would be entered in the "Securities" account and the \$20 in the "Interest" account.

Capital stock, when purchased above or below par, is ordinarily carried on the books at the purchase price until it is sold. Bonds are handled in another way. To illustrate, when a \$1,000 6% bond is purchased at 103, the purchaser pays something above par for this bond because of the high interest rate and the relatively high security behind the bond. At the date upon which the bond is paid, the holder will not receive \$1,030 but \$1,000. The bond has therefore lost \$30 of value while in the possession of the purchaser. This loss obviously should be spread over the time that the bond is held and not all taken when it is paid. To do this a certain proportion of the \$30 should be written off at each interest date. There are several ways to write off this amount. The simplest and most practical method to follow for the investor who does not handle large issues is to write the premium off in equal amounts. The interest on bonds is ordinarily paid semi-annually. In the case given above where the bond was purchased for \$1,030, assume that the bond would become due six years after the purchase date. There would then be 12 interest payments of \$30 (one-half of \$60, the interest rate on a \$1,000 bond at 6%). Each of these interest payments would represent two things: 1, a proportionate part of the \$30 premium originally paid for the bond, and 2, the "effective" interest which the holder of the bond receives for the use of the money.

The \$30 would then be distributed as follows: Cash would, of course, be charged with the entire amount. On the right side of the "Bond" account an entry of \$2.50 would then be made to show that the value of the bond had been reduced by that amount. The balance of the payment, \$27.50, would be entered on the right side of the "Interest" account.

If the securities are purchased below par, the entry would be made in practically the same way. The "Securities" account would have the actual cost price of the security entered on the left-hand money column. The value of bonds will, as explained in the last paragraph, gradually change until they are worth par at the due date. When bonds are purchased below par, it is considered that the interest rate is not high enough for the type of security offered. At the time they are paid, however, the purchaser will receive par. The increased value should be brought on the books during the time the bond is held and not in a lump sum when it is paid. To illustrate: Assume that a 6% bond was purchased at 97 and that the bond would fall due at the end of six years. On the date due, the holder will receive \$1,000. There has been, then, a \$30 increase in value during the six years, which amounts to \$5 a year, or \$2.50 for each six months' interest period. When the semi-annual interest payment of \$30 is received, it and the \$2.50 increase in the value of the bond will be entered on the right side of the "Interest" account. The earning for the period is then \$32.50. The amount of cash received would be entered in the left side of the "Cash" account, and the extra \$2.50 would be entered on the left side of the "Securities" account.

Whenever an item of securities is sold, the entry should be made on the right side of the "Securities" account at the exact figure at which the security stands on the books at that time. Thus if a \$1,000 bond is purchased at par, the entry on the left side of the "Securities" account would be \$1,000. If this bond were sold at 102, the seller would receive \$1,020 for it. In recording this transaction, "Cash" would be charged with the \$1,020, the "Securities" account would receive an entry on the right side for \$1,000, and the

"Miscellaneous Gain and Loss" account would have the \$20 profit entered on the right side. If the bond had been sold at a loss, the entry in the "Securities" account would be the same; thus if the bond had been sold at 98, the seller would receive \$980 and the \$20 loss would be entered on the left side of the "Miscellaneous Gain and Loss" account.

The foregoing illustration shows the following entries:

(1) *Purchase of One Share of Bank Stock.*—The record in the "Bank" column of the Journal (\$2,500) shows the cash expenditure; the figure in the left-hand "General" column (\$2,500) shows the debit which will be carried to the left side of the "Securities" account.

(2) *Purchase of Bonds at Par and Accrued Interest.*—The entry in the right-hand "Bank" column of the Journal (\$2,030), records the expenditure of cash. The \$2,000 item in the left-hand "General" column is the item which is carried to the left side of the "Securities" account, thus showing the value of the securities which have been purchased. The \$30 entry in the same column represents the payment made to the seller for the interest which had accrued between the last interest date and the date upon which the bond changed hands. This \$30 is carried to the left side of the "Interest" account.

(3) *Purchase of Bonds at a Premium with Accrued Interest.*—The right-hand "Bank" column of the Journal shows the record for the cash expenditure of \$5,225. The \$5,150 item in the left-hand "General" column shows the actual cost of the bonds and is therefore transferred to the left side of the "Securities" account. The \$75 item represents the interest which had accrued between the last interest payment date and the date of purchase, and it will be carried to the left side of the "Interest" account.

(4) *Receipt of Interest Payment on a Bond Purchased at Par.*—The interest check received from the Pacific Gas and Electric Company will be for the entire six months' period, in this case from January 1 to July 1. The interest on \$2,000 for six months at 6% amounts to \$60. The amount is first recorded in the left-hand (Deposit) "Bank"

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			BANK		GENERAL					OTHER INCOME		
DATE	NAME	EXPLANATION	DR. DEPOSITS	CR. WITH- DRAWALS	Ledger or Folio	DR	CR.			Folio	ACCOUNT	AMOUNT
1937	(1)											
Jan 1	R.P. Jones	1 share stock 1st Nat'l Bank		2,500 00		2,500 00						
	(2)											
Apr 1	National City Bank	Pacific Gas & Elect. ric 5% Bonds par & accrued int.		2,030 00		2,000 00 30 00						
	(3)											
Apr 1	National City Bank	M.H.A.T. Ry. 6% Bonds Due 1932-M.A.W. 1935 & accrued interest		5,225 00		5,150 00 75 00						
	(4)											
July 12	Pac. Gas & Elect.	Interest on bonds	60 00								Interest	60 00
	(5)											
July 20	M.H. & T. Ry.	Interest on bonds	150 00				12 50				Interest	137 50
	(6)											
Sept 1	1st Nat'l Bank	Sold Pac. Gas & E. Bonds @ 102 & accrued interest	2,056 66				2,000 00				Misc. Gain & Loss Interest	40 00 16 66
	(7)											
Oct 1	P.B. Brown	Sold 1 M.H.A.T. Bond @ par and accrued interest Loss of 2354	1,005 00			27 50	1,027 50				Interest	5 00

FIGURE 14

column of the Journal. It is also entered in the "Other Income" column with a notation showing that it goes to the "Interest" account. When the bond was purchased upon which this interest is received, \$30 of accrued interest was entered on the left side (debit) of the "Interest" account. The difference between this \$30 and the \$60 just entered on the right (credit) side of the account shows the amount (\$30) that has been earned during the time the bond has been held.

Securities									
1927					1927				
Jan	1	15h. 1 <sup>st</sup> Nat'l Bank stock	2,500	00	July	20	Adj. of premium MKT bond	12	50
Apr	1	2 Pac. Gas & E. 5 <sup>1</sup> / <sub>2</sub> Bonds	2,000	00	Sept	1	Sold P.G. & E. bonds	2,000	00
"	1	Purchase 5 MKT 4 <sup>1</sup> / <sub>2</sub> bonds @ 103. Due 1932.	5,150	00	Oct	1	Sold 1 MKT bond @ par	1,027	50

FIGURE 14A

(5) *Receipt of Interest Payments on a Bond Not Purchased at Par.*—The receipt of the check is recorded in the left-hand "Bank" column of the Journal. The amount which should be considered interest earned would, however, depend upon the way the bond was purchased. If the bond had been purchased below par, its value would have gradually increased and the proportionate part of this increase should be entered in the books when the interest is recorded. Under these circumstances, there would be an entry in the left-hand "General" column of the Journal for the amount of this increase. The amount shown in the "Other Income" column and carried to the right side of the "Interest" account would be increased the same amount. In this illustration, the bond was purchased at a premium and has six years to run before it will be paid. One-twelfth of the premium may, then, be deducted at this time. This deduction of \$12.50 will be recorded in the right-hand "General" column of the Journal and carried to the right side of the "Securities" account. The account will then show that the

M.K.&T. bonds are not worth \$5,150 but the difference between \$5,150 and \$12.50 or \$5,137.50. The remaining part of the interest payment, \$137.50 will then be recorded in the "Other Income" column with a notation that it is to be transferred to the "Interest" account.

(6) *Sale of Bonds at a Profit with Accrued Interest.*—Here, as in the other entries, the first record is made in the left-hand "Bank" column of the Journal to record the receipt in cash. The entry in the right-hand "General" column (\$2,000) is carried to the right side of the "Securities" account. This entry offsets the one made on the left side at the time the bonds were purchased, thereby showing that they are no longer carried on the books. The \$40 profit arising from the sale of the bonds is entered in the "Other Income" column with a notation that it is to be carried to the "Miscellaneous Gain and Loss" account where it will be placed on the right side. The interest (\$16.66) which has accrued since the last interest payment is also recorded in the "Other Income" column and carried from there to the right side of the "Interest" account.

(7) *Sale of Bonds at a Loss with Accrued Interest.*—Cash is charged with the amount received (\$1,005) in the left-hand "Bank" column of the Journal. The right-hand "General" column will next have recorded in it the present carrying value of the securities sold in this case, \$1,027.50.

Cost of five M.K. & T. \$1,000.00 bonds.....	\$5,150.00
Deduct amount written off when interest payments were recorded .....	12.50
	<hr/>
	\$5,137.50
$\$5,137.50 \div 5 = \$1,027.50$ , present value of each \$1,000.00 bond.	

This amount (\$1,027.50) is transferred to the right side (credit) of the "Securities" account. When this bond is sold for \$1,000 there is a loss of \$27.50 to the seller (\$1,027.50—\$1,000=\$27.50). This loss may be entered in the left-hand "General" column of the Journal and carried to the left side of the "Miscellaneous Gain and Loss" account. The interest which has accrued since the last interest payment (\$5) will be entered in the "Other income"

column, marked "Interest" and carried to the right side of the "Interest" account.

### INVENTORY ACCOUNTS

On pages 19 to 47 a discussion is given of the inventories which may be required on various ranches. At the end of the year, the total values of each group of items which are carried on a particular inventory will be placed in an appropriate account in the ledger. Some of these totals will be placed in accounts which by common custom are called "Inventory" accounts. Others will be placed in accounts carried under the name of the item, the word "Inventory" not being a part of the account title. Some of the following accounts, in the title of which the word "Inventory" is used, are practically certain to appear on the books of every rancher.

Cattle Inventory	Feed Inventory
Sheep and/or Goat Inventory	Wool and/or Mohair Inventory
Horse Inventory	

As a rule entries to these accounts are made only at the end of the year. For this reason no illustrations are given at this time. Illustrative entries affecting these accounts will be found in the chapter devoted to "Closing Entries."

Ledger accounts carrying the values shown on inventory sheets such as the "Equipment Inventory" and the "Improvement Inventory" are handled somewhat differently than those given in the above list. The items shown on these sheets are permanent portions of the ranch property and equipment. Each of these accounts is, therefore, given special consideration in the following pages.

### EQUIPMENT ACCOUNT

The nature of the items which are considered equipment and some of the problems arising in the proper recording of these items are explained in the preceding discussion of the "Equipment Inventory" sheets. It is the purpose at this point to explain the entries that should be made in the journal and in the ledger.



It is assumed that the books are opened "as of" the first of the year; that is, although the actual entries may not be made until some time after the first of the year, the values which existed at the first of the year will be brought onto the books and all transactions affecting these values since the first of the year will be recorded. The accompanying illustration shows the entries for the following transactions:

- (1) Bringing onto the books the original value of the equipment inventory  
The purchase of new equipment
- (2) For cash
- (3) For part cash and an old piece of equipment traded in for an amount exactly equal to the value at which it is carried on the books
- (4) For part cash and an old piece of equipment traded in for \$10 *more* than it is carried on the books
- (5) For part cash and an old piece of equipment traded in for \$10 *less* than it is carried on the books
- (6) The loss of equipment
- (7) Recording the annual depreciation on the equipment

(1) *Entries for the Original Inventory.*—When the total value of the equipment on hand is determined, the figure will appear as a total of the "Carrying Value when Entered" column on the "Equipment Inventory" sheet. This figure will then be entered in the journal as shown on line (1). The figure will be placed in both the left (debit) and the right (credit) sides of the "General" columns. The debits will be carried to the left side of the "Equipment" account. The credit will be entered on the right side of the "Proprietor's Capital" account.

(2) *Purchase of New Equipment for Cash.*—The amount of the check given in payment of the wagon (\$125) is entered in the right-hand (credit) "Bank" column, the same figure being placed in the left-hand (debit) "General" column. This debit is then carried to the left side of the "Equipment" account. The same amount will also be entered in the "Cost" column of the "Equipment Inventory" sheet.

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DATE	NAME EXPLANATION		BANK		GENERAL		OTHER EXPENSE							
			DR DEPOSITS	CR WITH- DRAWALS	Ledg er Folio	DR	CR	Ledg er Folio	ACCOUNT	AMOUNT DR				
1927	(1)													
Jan. 1	Equipment	Original				5,612 00								
	Capital	Inventory					5,612 00							
Mar. 10	(2)	Purchase of												
	Equipment	New wagon.		125 00		125 00								
Apr. 1	(3)	Purchase of new wagon @ \$125.00. Old wagon carried at \$54.00												
	Equipment	Traded in at \$54.00		75 00		75 00								
Apr. 1	(4)	Purchase of new wagon @ \$125.00. Old wagon carried at \$40.00						10 00						
	Equipment	Traded in for \$54.00		75 00		85 00								
Apr. 1	(5)	Purchase of wagon @ \$125.00. Old wagon carried at \$54.00					10 00							
	Equipment	Traded in for \$40.00		85 00		75 00								
June 10	(6)	Wagon carried @ \$54.00												
	Equipment	Wrecked in Ford					50 00					Misc G.+L	50 00	
Dec. 31	(7)	Annual depreciation on equipment from Inventory sheet.					586 40					Depreciation	586 40	

FIGURE 15

(3) *Purchase of New Equipment—Old Equipment Traded In at Carrying Value.*—In this case, the net increase in the value of the equipment is exactly equal to the amount of cash expended. The amount of the check is entered in the right-hand (credit) "Bank" column and the same amount in the left-hand (debit) "General" column from where it is carried to the left side of the "Equipment" account. Two things should be done to the inventory sheet: first, an entry should be made to record the new wagon, giving all the necessary information including the price, which was \$125. Second, the value of the old wagon should be crossed off with proper explanation.

1927		Equipment						1927	
Jan. 1	Inventory		5,612.00	June 10				50.00	
Mar. 10	All of these entries		125.00	Dec. 31	Depreciation			386.40	
Apr. 1	Record the purchase		75.00						
	of a new wagon under		85.00						
	varying conditions		75.00						

FIGURE 15A

(4) *Purchase of New Equipment—Old Equipment Traded In for More than Its Carrying Value.*—In this case the amount of the check is not equal to the total increase in the value of the equipment. The amount of the check, \$75, is recorded in the right-hand (credit) "Bank" column and the increase in the value of the equipment (\$85) is recorded in the left-hand (debit) "General" column and is carried from there to the left side of the "Equipment" account. The figure required to balance these two entries (in this case, \$10) is placed in the right-hand "General" column and carried from there to the "Proprietor's Capital" account. The reason for this profit amounting to \$10 is that too much depreciation has been charged off in previous years. As a consequence, the profits which resulted in increases to the capital account were \$10 less than what in this case proved to be the correct amount. The entries on the "Equipment

Inventory" sheet will not be affected by this profit except that a full explanation should be given.

(5) *Purchase of New Equipment—Old Equipment Traded In for Less than Its Carrying Value.*—This case is exactly the reverse of the one just explained. The cash payment is \$85, which is recorded in the right-hand (credit) "Bank" column. The net increase in the "Equipment" account is \$75. (Sales price of new wagon, \$125, minus carrying value of old wagon, \$50, equals \$75.) This \$75 is placed in the left-hand (debit) "General" column and carried from there to the left side of the "Equipment" account. The difference between this increase and the cash paid, \$10, would be placed in the left-hand (debit) "General" column and carried from there to the left side of the "Proprietor's Capital" account. When this sale of the old wagon was made, it proved that the depreciation allowed in previous years was not sufficient. As a consequence, the profits had amounted to \$10 more than they should have. The entry on the "Equipment Inventory" sheet will be handled in the manner explained in the previous illustration.

(6) *Equipment Destroyed.*—Equipment may be destroyed in many ways. It also becomes unusable from age or improper care. Regardless of the reason, a record should always be made when any of the equipment becomes worthless. Line 6 shows the journal entry which should be made under these circumstances. It is assumed that the wagon was carried at \$50.00. This amount is entered in the right-hand (credit) "General" column and carried from there to the right side of the "Equipment" account. Fifty dollars is also entered in the "Other Expense" column with the notation that the figure should be carried to the "Miscellaneous Gain and Loss" account where it will be entered on the left side. The only entry required on the "Equipment Inventory" sheet will be the elimination of the \$50.00 item with a clear explanation.

(7) *Depreciation.*—Depreciation is, as a rule, figured only at the end of the year. The amount of depreciation on each of the various items of equipment will be entered in

the column provided for the Annual Charges to depreciation on the "Equipment Inventory" sheet. When all entries have been made in this column it will be totaled and this total will be entered in the Journal as shown on line (7). Five hundred and eighty-six dollars and forty cents is assumed to be the figure determined in this manner, and is entered in the right-hand (credit) "General" column and carried from there to the right side of the "Equipment" account. This entry on the right side of the "Equipment" account reduces its balance by the same amount that the individual subtractions do the total value of items on hand. If everything has been counted correctly and all entries have been made in the books, the balance of the "Equipment" account should exactly agree with the total of the "Carrying Value when Entered" less the total of all the "Annual Charge to Depreciation" for the new year. The other side of the entry is placed in the "Other Expense" column with the notation that it should be carried to the "Depreciation" account.

#### THE IMPROVEMENTS ACCOUNT AND THE RESERVE FOR DEPRECIATION OF IMPROVEMENTS

As in the other accounts discussed it is assumed that the books are opened "as of" the first of the year, and that the values entered at that time are those which existed on the first of that particular year. At that time the "Inventory of Improvements" sheet will carry the data regarding the date the improvement was acquired, the cost of the particular improvement, the rate of depreciation, and the amount of depreciation which has occurred between the time the particular building, fence, windmill, etc., was completed to the date of the opening of the books. The difference between the "Cost" column and the "Accumulated Depreciation" column will then be carried into the "Carrying Value when Entered" column. Or, if present values are used, the original figures will appear in the "Carrying Value when Entered" column. Figures to correspond with the figures shown in these columns will also be carried into the books of account.

JOURNAL								
DATE	NAME	EXPLANATION	BANK		Ldg or Folio	GENERAL		
			DR DEPOSITS	CR WITH- DRAWALS		DR.	CR.	
1927								
Jan. 1	(1) Improvements	Original Inventory				20,442.00		
		Inventory					20,442.00	
	(2) Depreciation					7,342.00		
		Res. for Depn. on Improvements					7,342.00	
Feb. 10	(3) Improvements	New Windmill		200.00		200.00		
	(4) Improvements	New Windmill		50.00		200.00		
		Due June 1, 4% " Dec. 1, 4%					75.00 75.00	
	(5) Improvements	New Windmill				200.00		
		Geo. Smith					200.00	
July 1	(6) Reservoir	Cement		100.00		500.00		
		Note Payable Buildem Supply Co. 90 days - 12 1/4%					400.00	
July 10	(6) Reservoir	Reinforcing Steel		300.00		300.00		
July 15	(6) Reservoir	Labor		125.00		125.00		
July 22	(6) Reservoir	Labor		175.00		175.00		
July 30	(7) Improvements	To close balance of Reservoir ac- count into Reservoir				1,100.00		
		Improvements					1,100.00	
Oct. 10	(8) Reserve for Depreciation	Old barn torn down				700.00		
		Improvements					700.00	
Oct. 15	(9) Fire Loss					3,000.00		
		Reserve for Depreciation Improvements				2,000.00	3,000.00	
Nov. 1	(10) Cash		2,500.00					
		Fire Loss					2,500.00	
	(11) Cash		4,000.00					
		Fire Loss					4,000.00	
	(12-A) Capital					3,000.00		
		Fire Loss					3,000.00	
	(12-B) Capital					500.00		
		Fire Loss					500.00	
	(12-C) Fire Loss					1,000.00		
		Capital					1,000.00	
	(13) Fire Loss					3,000.00		
		Reserve for Depreciation				2,000.00		
		Improvements					5,000.00	
Transferred to the ledger in the same manner as in "Entry #9".								

FIGURE 16

### Improvements

[illegible]Reservoir

1927			1927		
July 1	(6)	500 00	July 30	(9)	closed to Improvements
10	(6)	300 00			1,100 00
15	(6)	125 00			
22	(6)	175 00			
		6,100 00			6,100 00

### Reserve For Depreciation of Improvements

[illegible]

### Fire Loss

1927		1927		1927		1927	
Oct. 15	(9)	3,000 00	Nov. 1	Insurance	(10)	2,500 00	
	To close the first entry 12-0 carrying over with Entries 12-0 & 12-1			To close the first entry 12-0 carrying over with Entries 12-0 & 12-1	(11)	4,000 00	
Nov. 1		1,000 00		To close the first entry 12-0 carrying over with Entries 12-0 & 12-1		3,000 00	
				To close the first entry 12-0 carrying over with Entries 12-0 & 12-1		500 00	

FIGURE 16A

(1) *Entering value of original inventory.*—The total of the "Cost" column, plus the amount of any items brought onto the records at present values, will be entered in both the left and right "General" columns of the Journal (\$20,462). The entry in the left-hand column will be carried to the left (debit) side of the "Improvements" account. The entry in the right-hand column will be carried to the right (credit) side of the "Proprietor's Capital" account. The amount of the depreciation which is accrued to date will then be brought on in much the same manner.

(2) *Entering the accumulated reserve when the books are opened.*—In the previous entry the total amount shown in the "Cost" column was brought into the "Improvements" account (the amount of items brought on at present value may be disregarded at this time) and this total was credited to the "Proprietor's Capital." The *present value* of these improvements to the proprietor, however, is not their original cost, but the amount of the original cost, plus any subsequent additions, less the depreciation. The books should then show the amount of the accumulated depreciation to date. To bring it on the books the total of the "Accumulated Depreciation" column on the Improvements Inventory will be entered in both the debit and credit "General" columns of the Journal (\$7,242). In this case the amount entered in the left-hand column will be carried to the left side of the "Proprietor's Capital" account thereby reducing that account by the amount of the accumulated depreciation. The figures shown in the right-hand "General" column in the Journal will be carried to the right side (credit) of the "Reserve for Depreciation on Improvements" account. The difference between the balance of the "Improvements" account and the balance of the "Reserve for Depreciation of Improvements" should then be exactly equal to the total of "Carrying Value when Entered" column on the "Inventory of Improvements" sheet.

(3) *Making entries for new improvements—purchase for cash.*—When new improvements, such as houses, barns, fences, windmills, etc., are brought on the books the entries



will be made in the same manner as was previously explained to bring on new items of "Equipment." Thus, if a new windmill was set up, the invoice cost of the windmill (\$200) might be paid in cash. In this event the entry will be made in the right-hand (credit) "Bank" column showing the amount of the check given in payment of the invoice. The same amount will be shown in the left-hand (debit) "General" column, and will be carried from there to the left side of the "Improvement" account. Later checks might be given for labor in connection with setting up the windmill; such data would be entered in the same way, as the "Cost" of the windmill is the entire cost set up ready for use.

(4) *Making entries for new improvements when cash and notes are given.*—When a portion of the settlement for a new improvement is made by giving a note, the amount of the note or notes will be entered in the General Journal, in a manner which corresponds closely to that described in conjunction with "Notes Receivable." In the case of only notes being given, when no cash was paid, the amount of the note, or notes, will be entered in both the right- and left-hand "General" columns of the Journal. The amount shown in the left-hand column will then be carried to the left-hand side of the "Improvements" account. The amount shown in the right-hand column will be carried to the right side of the "Notes Payable" account. In the event cash, and notes maturing at different times were given in settlement of the indebtedness, the total would be entered in the left-hand "General" column of the Journal and carried from there to the left side of the "Improvement" account. The amount of the cash (\$50) given would be entered in the right-hand "Bank" column and each note would be listed in the right-hand (credit) "General" column of the Journal (\$75—\$75). The maturity date of each note should be shown in the "Explanation" column. All of the figures in the right-hand "General" column of the Journal will then be carried to the right side of the "Notes Payable" account

and the information regarding interest and maturity dates will also be recorded in the explanation column of the ledger.

(5) *Making entries for new improvements—cash or notes not given.*—When improvements are acquired which will not be paid for immediately and no notes are given, the indebtedness incurred should be brought upon the books at once, providing an agreement has been entered into as to the cost of the improvement. Under these conditions the cost of all, or such portion as has been agreed upon, will be entered in both the right- and left-hand columns of the Journal. The amount in the left-hand (debit) column, as in the previous illustrations, will be carried to the left-hand side of the "Improvements" account. The amount in the right-hand (credit) column will be carried to the right side of a new account, the title of which will be the name of the man to whom the proprietor is indebted. This account will be classed as an "Account Payable."

(6) *Where a number of payments or settlements arise in connection with a new improvement.*—The problem may at times arise in connection with the recording of improvement entries which would not present itself in connection with the other accounts; that is, where a well is being dug at considerable expense, a large concrete reservoir, or a house is being built, there may be many entries required to record the different payments or the different arrangements for payment made in conjunction with the particular improvement. Thus, if a house were being built, there would probably be the original retaining fee to the architect, cost of excavating, the cost of masonry, cost of securing the stone, cost of lumber, plumbing, electric fixtures, etc. Each of these items might be paid with a number of different checks and some might be settled by giving notes. Under these circumstances, it would undoubtedly burden the "Improvement" account to have such a large number of entries made in it covering the transactions involving one item of improvement. It would also be difficult to keep track of all these items on the "Inventory" sheet, inasmuch as only one column is provided for the cost of improvements. To avoid

this difficulty it may be desirable to open a new account under the name of the new improvement which is being developed. Thus such an account might be called "New House," "Fence for Stone Creek Pasture," "Reservoir on Section," etc. (See lines numbered (6) in illustration.) In this way all of the entries for this particular improvement may be "posted" to this particular account. Details regarding the cost of the various phases of the work will then always be available by turning to the account. When the improvement is completed the special account is closed into the "Improvement" account so that the "Improvement" account will show the total cost of this particular unit in a single figure, thus making it a simpler matter to reconcile the book figures with the "Improvement Inventory" sheet. The single figure is necessary in the "Improvement Inventory" sheet both to show the total cost of each individual unit and to facilitate the figuring of depreciation at the end of each subsequent year.

(7) *Closing the special account into the "Improvement" account.*—When a special account, such as has just been described, is opened to record the various entries necessary for a new improvement, the account may be closed by making an entry which is equal to the total balance of the account in both the debit and credit "General" column. The debit item will then be carried to the debit side of the "Improvement" account. The amount in the credit column will be carried to the right-hand side of the special account opened to record the individual items arising during the building of the new improvement. These entries will then close the "Special" account and will bring the item into the "Improvements" account.

*Where an improvement is completely destroyed or becomes unusable.*—Practically all items of improvement will eventually become useless and at such times should be written off the books. This time may be delayed for many years due to unusually long life, exceptionally good repairs, or a combination of both. Eventually, however, the condition will occur and in many instances it may occur in a

comparatively short period of time. The manner in which such items are entered on the books depends upon the amount of depreciation which has been written off. In describing the entries required, they will be classified:

- (a) Where the entire cost of the improvement has been written off to depreciation.
- (b) Where only a portion of the cost of the improvement has been written off to depreciation.

(8) *Improvement entirely depreciated.*—Where the entire cost of the improvement has been written off to depreciation and the particular improvement is no longer of any usable value, the books may be cleared of amounts arising from this particular item. In this case, the entry will be made in both the right- and left-hand "General" columns of the Journal for the amount of the original cost of the improvement. As the original cost of the improvement has been completely depreciated, the entire cost will be included in the "Reserve for Depreciation." The figures placed in the left-hand "General" column of the Journal will then be carried to the left side of the "Reserve for Depreciation" account, thus reducing that account by the amount of the Reserve which has been accumulated for this particular item. The figure in the right-hand "General" column will be carried to the right side of the "Improvement" account reducing that account in the same manner.

(9) *Where the improvement is only partially depreciated.*—Many instances will arise where improvements must be written off the books when they are only partially depreciated. As a consequence many items of improvement will from natural causes such as wear and tear, obsolescence, etc., become useless before the entire cost has been written off to depreciation. Storms will wreck some items, and fire will destroy others. When these situations arise, a loss has been sustained which has not previously been covered by the depreciation figures. The depreciation that has been brought on the books must, however, be considered. Therefore the entry will involve three points:

1. Original cost.
2. The amount of depreciation previously written off.
3. The current loss which amounts to the difference between the original cost and the amount of depreciation.

To show the method of bringing this loss on the books, we may assume that a barn costing \$5,000 had an estimated life of 25 years; at the end of 10 years it is destroyed by fire. The situation would then be as follows:

Original cost.....	\$5,000.00
Depreciation (1/25 of \$5,000 yearly) $\$200 \times 10$ .....	2,000.00
	<hr/>
Loss due to fire.....	\$3,000.00

The only problem now is to clear the books of the amounts carried for this particular improvement and to bring on an entry which will record the loss caused by the fire. Under these circumstances, an entry of \$2,000 and one of \$3,000 will be made in the left-hand "General" column of the Journal and an entry of \$5,000 in the right-hand "General" column. The \$2,000 item will be carried to the left side of the "Reserve for Depreciation" account, thus wiping off the accumulated depreciation recorded in that account for the barn. The \$3,000 item will be carried to the left side of a new account which will be opened up with the title "Fire Loss." The \$5,000 item in the right-hand column will be carried to the right side of the "Improvements" account, thereby relieving that account of the cost of the improvement which has been destroyed.

**Entries to be Made When Payment for Loss Is Received from Insurance.**

In the illustrations given above, we assumed the loss due to the fire was \$3,000. It is entirely possible that an owner might have either more or less insurance on the building than the actual loss as shown by his books. The maximum amount of insurance which a man may collect is an amount which will place him in the same position that he was in prior to the time the loss occurred. Thus, the building may originally have cost \$5,000 according to the prices prevailing at the time it was built, and yet it might be impossible

to replace the building for less than twice that amount, due to increases in the cost of labor and materials. Under these circumstances the owner is allowed to carry insurance based on a replacement value, the number of years of use being considered. On the other hand, many people carry insurance for less than either present "book values" (cost less depreciation) or "replacement values."

(10) *Where insurance does not cover book loss.*—Assuming in the first place that the owner had carried only \$2,500 worth of insurance on the barn, and the barn was a total loss, a check should be received from the insurance company for \$2,500. This amount will be entered in the left-hand cash column of the Journal and in the right-hand "General" column. The amount shown in the right-hand "General" column will then be carried to the right side of the "Fire Loss" account explained above. The insurance will reduce the fire loss sustained by the owner to \$500.

(11) *Where the insurance covers more than book loss.*—In the event insurance is carried for an amount greater than the value as shown by the books, say in this case \$4,000 (prices having gone up 33 1/3%), the check received will be entered in the same manner as explained in the last section.

#### **Closing the Fire Loss Account.**

The "Fire Loss" account is in no sense an operating account and therefore, the figures should not be confused at any time with those arising through the recording of transactions for the purchase and sale of stock or the various expenses incurred in running the ranch. This account should, therefore, be closed directly into the "Capital" account.

(12a) *No insurance carried.*—Using the figures arising from the previous illustrations, if the owner of the barn had carried no insurance, the amount of the fire loss would have been \$3,000. The entry to close this account will be made by placing the \$3,000 amount in both the left- and right-hand "General" columns of the Journal. The figure in the left-hand column will be carried to the left side of the

"Proprietor's Capital" account. The figure in the right-hand column will be carried to the right side of the "Fire Loss" account, thus closing the "Fire Loss" account and reducing the "Proprietor's Capital" account by the amount of the loss sustained.

(12b) *Insurance carried less than the loss.*—In event \$2,500 worth of insurance had been carried, the loss, therefore, being only \$500, the entry will be made precisely in the same way, excepting that the loss figures will be \$500.

(12c) In the event \$4,000 worth of insurance is carried, the fire loss would be changed according to book figures from a loss to a gain. This gain, however, would not arise because of the fire. Anyone who owns land, buildings, equipment, livestock, or anything else during the period of rising prices will have what may be termed an *unrealized* profit on these items. When such assets are destroyed under conditions entitling the owner to be recompensed, such recompense would be on the basis of the values existing to the time the assets were destroyed. No profit accrues because of the fire. The owner is entitled, if the insurance is sufficient, to an amount greater than the cost because this amount would be necessary to replace the destroyed asset and place the owner in the position in which he was before the fire occurred. In this case, the value of labor and building materials has gone up, so that an increase in value had occurred but had not been realized. When the insurance company pays the owner for this loss, he is realizing the increased value to the extent of the proportion that the amount of insurance bears to the cost of replacing the barn. Under these circumstances it may be assumed that it will cost at least \$6,666.66 to replace the barn in the condition it was when it was new. The entry on the books to close the "Fire Loss" account will be as follows:

The amount of \$1,000 will be entered in both the left and right hand "General" columns of the Journal.

The amount in the left-hand column will be carried to the left side of the "Fire Loss" account, thus closing that account.

The amount in the right-hand column will be carried to the "Proprietor's Capital" account, thus increasing that account by the amount which had been realized through the increase in value of the barn prior to the time the fire occurred.

(13) *Where only a portion of the improvement is destroyed or abandoned.*—Instances will arise where a portion of a building, windmill, reservoir, etc., may be destroyed or for some reason become valueless. Under these circumstances the entries required will be the same as those described where the item is completely destroyed with the addition of one step which must be given *prior* consideration. An estimate must be made of the relative value of the part which has been destroyed and the part which is still useful. Where a portion of a particular improvement is destroyed and this portion makes the balance of the improvement useless and the reconstruction of the destroyed portion is not contemplated, the entire amount of the original cost and of the accumulated depreciation should, of course, be written off the books as has been previously explained.

Where a portion of the improvement has been destroyed and the remaining portion can be used independently or where the replacement of the destroyed portion is to take place, the amount written out of the account will cover only the value of that portion which has been destroyed. Thus, if one wing of a building which had cost \$20,000 was destroyed by fire and the remainder of the building remains intact and can be used, the amount to be written off will equal only the value of the portion which had been destroyed. In this case it might be assumed that the part destroyed had an original cost of \$5,000, that the building had an expected life of 25 years, and that depreciation had been written off at this rate for 10 years. Under these circumstances the value of the building and of the wing will be as follows:



Cost of building.....	\$20,000	
Depreciation on entire building (yearly at 4% on \$20,000) $\$800 \times 10$ .....	8,000	
Value of entire building at time of fire.....		\$12,000
Cost of wing.....	\$ 5,000	
Less depreciation on wing (yearly at 4% on \$5,000) $\$200 \times 10$ .....	2,000	
Value of wing at time of fire.....	\$ 3,000	3,000
Present value of building with wing destroyed		\$ 9,000

From the above statement it is obvious that the amount taken out of the "Improvements" account is \$5,000. The amount which must be deducted from the "Reserve for Depreciation" account is \$2,000, and the difference represents the book loss which was sustained by reason of the fire. Entries will then be made in the left-hand "General" column of the Journal for \$2,000 and \$3,000, and in the right hand "General" column of the Journal for \$5,000. The \$2,000 item will be carried to the left-hand side of the "Reserve for Depreciation" account. The \$3,000 item will be carried to the left side of the "Fire Loss" account. The entry of \$5,000 in the right-hand column will be carried to the right side of the "Improvements" account. The result of these entries would be to reduce the "Improvements" and the "Reserve for Depreciation of Improvements" accounts by amounts equal to the cost and the accumulated depreciation of the portion of the building which had been destroyed.

*Special conditions to be considered on entering items covering special losses.*—The discussion and illustrations given above have been limited very largely to fire losses. Many other losses occur from cloudbursts, hail, cyclones, etc., which will be handled on the books in the same manner as has just been discussed. Problems arise in conjunction with the closing out of the "Loss" account (other than Fire Loss) which must be carefully considered in each individual instance.

- (1) Is the loss one which occurs more or less regularly and should it, therefore, be considered as a part of the regular costs of operating the business? In some parts of the United States a certain amount of damage is done each year by heavy snow

falls, freshets, etc. Under these circumstances a certain amount of replacement must be carried on constantly, and, in many instances, these replacements are made in such a way as to materially change the character of the particular asset. Wooden shacks may be replaced by stone; dirt reservoirs may be replaced by concrete; fences built with light insecure posts may be destroyed and replaced by posts sufficiently heavy to stand the strain for a number of years to come. In each of these instances, an adjustment of the account would, of course, be necessary and the increased value of the assets should be transferred to the "Improvements" account.

(2) If a certain amount of this work is required with a fair degree of regularity, the cost of replacing the portions of the particular assets which have been destroyed should probably be carried as an operating expense.

(3) If, however, the ranch is situated in a country where the type of loss is unusual, or if the loss is sustained in a certain class of improvements which is seldom subject to destruction, the loss should not be considered as an operating loss (see page 94), but should be carried direct to the "Capital" account.

(4) A loss to the dwelling of the owner or other property, used for personal rather than ranch business, would never be an operating loss. Such loss should always be considered as extraneous. Another point to be considered is the effect of the loss on the Income Tax Statement. Such losses are always deductible at some point, but it is sometimes a question as to where the deduction should be made; for instance if the ranch is leased, it will depend upon the lease contract as to whether the loss should be taken up on the lessor's return or whether it should be considered as a loss to the owner of the property.

## LAND ACCOUNT

Very often ledgers will be found which contain an account with the title "Real Estate" or "Land and Improvements." Under these circumstances the values shown in these accounts will include both the cost values of land and of the improvements. Justification for such entries is sometimes explained as follows: That the entire property was purchased for a lump figure or at so much an acre and that the buildings were thrown in.

The seller consummating the sale and the buyer making the purchase may each have felt that this was the case.

What the purchaser really received was the real property composed of real estate and improvements. If the improvements, such as buildings, wells, windmills, fences, etc., are of little or no value and are not to be used by the purchaser, the entire value may be entered in the "Land Account" because the property was purchased entirely for the land, and no consideration was given to the improvements at the time of the sale or afterwards. If this situation is not the case, and there is a reasonable value in the improvements which are to be used in operating the property, the improvements are not a part of the land and should be carefully inventoried and set up in the "Improvements" account at their cost if the cost was specifically stated, or by careful estimation if it was bought for a "lump price" such as indicated above. Many ranchmen although careless about maintaining inventories of their cattle, equipment, or improvements to their property, will have very carefully compiled maps showing the sections which they own and control, with fence lines, buildings, watering places, school lands, etc., clearly indicated thereon. Every rancher should have some such record indicating his exact property, its location, and its improvements. Such a record does not necessarily have to be elaborate, but it should be maintained and should be drawn up with sufficient care so that all important points are indicated, such as sections or quarters owned outright, with dates of purchase, those which are leased, school lands which are held on deferred payment contracts, with dates of contract, together with fences, buildings, watering places, corrals, streams, gates, etc. This record should be kept up to date. From such a map a list of the cost of the various sections of land which are owned may easily be made up and used as a basis for the book entry. In the case of land, as in the other items discussed, entries should always be at cost. Cost will not only include the actual purchase price of the land, but should also include such items as legal fees incident to having the title

transferred, any surveying costs which may have been incurred and any accumulated taxes which it may have been necessary to pay before the land could be secured.

(1) *Making the original entry for the Land Account.*—Having made up the list of various sections which are owned either outright or on contract and the price which was paid for each section (with the cost of improvements deducted) the original entry can be made on the books. This entry will be made in the same manner as the original entry for Improvements. The total cost value of the land (whether paid or not), will be entered in the left-hand "General" column. A figure showing the amount of the payments which have been made on this land will be entered in the right-hand "General" column of the Journal. Also a figure showing the amount which is owed on land purchased will be placed in the right-hand column. Thus, assuming that a man has the following ten sections some of which he owns in full and some of which are only partially paid for:

	Cost	Paid	Unpaid
Section 1 .....	\$ 6,400	\$ 6,400	
Section 2 .....	6,400	6,400	
Section 3 .....	6,400	6,400	
Section 4 .....	6,400	6,400	
Section 5 .....	7,040	3,520	3,520
Section 6 .....	7,040	3,520	3,520
Section 7 .....	4,800	1,200	3,600
Section 8 .....	4,800	1,200	3,600
Section 9 .....	9,600	3,200	6,400
Section 10 .....	9,600	3,200	6,400
	<hr/>	<hr/>	<hr/>
	\$68,480	\$41,440	\$27,040

The amount entered in the left-hand "General" column of the Journal will be \$68,480. This amount will then be carried to the left side of the "Land" account. The amount which has been paid on the land, \$41,440, and the amount still due, \$27,040, will be entered in the right-hand "General" column in the Journal. The amount paid will then be carried to the right side of the "Proprietor's Capital" account. The unpaid portions will probably be covered by a mortgage and will, therefore, be entered on the right side

of an account, the title of which will be "Mortgages payable." (See page 125.)

There are some ranchers who feel that in justification to both themselves and the Government they should write up the value of their land a small amount each year in accordance with the estimated increase in the values of ranch lands. These men are, no doubt, desirous of keeping a reasonably accurate set of books and of turning in complete statements of income to the Government in their annual Income Tax Reports. In general, the statement may be made that neither land values nor the values of any other asset should be written up above the cost figures. The one outstanding exception to this general rule is the pricing of inventories of livestock and farm products at "farm (or range) price." The same conditions do not exist with regard to any other item in the asset group. Assume, for instance, that the rancher has constantly written up over a series of years the value of his range land; the land that was originally purchased for \$5.00 an acre, has been written up over a series of years to \$15.00 an acre; that the land is then sold at a time when cattle prices are very low and range land is a drug on the market. Under these conditions the land might sell for \$10.00 an acre or less. A rancher would not have realized the profit which he had on his books and in all probability would not be able to recover the amounts which he had paid the Government in taxes on the increased values. If the property was owned by a corporation and such increase in land values was carried to surplus, dividends might have been declared, and possibly disbursed out of the fallacious surplus thus created. Under these conditions any creditors whose claims were unpaid at the time the land had to be sold would have a personal claim against each of the directors who had approved the dividend. In all accounting practice the rule should be followed that no profits should be taken on the books until they are realized. The exception to this rule stated in connection with inventories of farm and ranch products has certain very practical advantages. It must be recognized,

however, that unless extreme care and conservatism are used in this connection this practice has some very grave dangers.

Following are some illustrative entries showing the manner in which various transactions affecting the "Land" account may be carried on the books. These will be given as follows:

1. Bringing on the original Inventory.
2. Purchasing additional sections for cash.
3. Purchasing additional sections for cash and notes (Mortgage Payable).
4. Purchasing additional sections where a portion of the purchase price covers improvements.
5. Sale of land at a profit for cash.
6. Sale of land at a profit for part cash, part notes.
7. Sale of land with improvements at a loss.
8. Expenses involved in land sales.

(1) For an explanation of the first illustration see pages 100, 101.

(2) *Purchasing additional sections for cash.*—The entry for the purchase of land for cash is similar to the entries required for the purchase of cattle or improvements. The amount of the check is to be entered in the right-hand "Bank" column and, of course, a corresponding figure placed in the left-hand "General" column of the Journal. The amount shown in the left-hand "General" column of the Journal will then be carried to the left side of the "Land Account," increasing that account by the cost price of the land purchased. In the event any other check were given in connection with the land purchases, such as a check to a lawyer for examining the abstract, the entry would be made in precisely the same way.

(3) *Purchasing additional land for cash and notes.*—Where the land is only partially paid for, notes being given for the balance, the amount which is paid and the amount which is still due on the property must be taken into consideration. It probably would be well to explain at this point that notes given for the purchase of land are ordinarily secured by a mortgage on the land and that they are,

as a rule, payable at a considerably greater time in the future than notes given to the bank or to merchants for the purchase of supplies, groceries, etc. As a consequence, they are considered as long-time obligations and because of this fact and the fact that they are secured by the mortgage they are classed as "Mortgages Payable" rather than as "Notes Payable," which are short time liabilities. In this

JOURNAL									
			BANK				GENERAL		
DATE	NAME	EXPLANATION	DR.		CR.		Ledger Folio	DR.	CR.
			DEPOSITS		WITH-DRAWALS				
1927	(1)								
Jan 1	Land	Original Inventory.						68,480 00	27,040 00
	Capital								41,440 00
	Mortgage Pay.	Mtge details omitted							
Feb 10	(2)	Purchased Land			12,800 00			12,800 00	
		Sec. 11, 12							
Mar 25	(3)	Purchased Land			12,000 00			24,000 00	
		Sec. 18, 19, 20							
	Mortgage Pay.	Details of mortgage omitted							12,000 00
May 31	(4)	Purchased Land			12,000 00			24,000 00	
		Sec. 21, 22, 23						3,000 00	
	Improvements	Details of mtge. omitted							12,000 00
July 10	(5)	Land							
		Sale of Sec. 20	9,600 00						7,000 00
	Profit on Land Sales								2,600 00
July 15	(6)	Land							
		Sold Sec. 21	5,000 00						7,000 00
	Profit on Land Sales	Details of mortgage Rec. mtge omitted						4,600 00	2,600 00
Sept 10	(7)	Land							
		Sale of Sec. 22	5,000 00					1,000 00	7,000 00
	Loss on Land Sales								3,000 00
	Improvements	Details of mtge omitted						4,000 00	
	Mortgage Rec.								
	(8)				480 00				
	Profit on Land Sales (commission)							480 00	

FIGURE 17

case, we may assume that three sections of land were purchased for \$24,000, that \$12,000 was paid in cash, and that the balance was carried on a mortgage. In this case the amount of the check is entered in the right-hand "Bank" column of the Journal, the total cost of the land is entered in the left-hand "General" column and the amount of the "Mortgage Payable" is entered in the right-hand "General" column. As in the previous illustration, the cost value of the land will then be transferred (posted) from the left-hand "General" column in the Journal to the left side of the "Land" account. The "Mortgage Payable" will be transferred from the right-hand column to the right side of the account known as "Mortgage Payable."

<i>Land</i>									
1927					1927				
Jan	1	Opening Inventory	68,480	00	July	10	Sec. 20	7,000	00
Feb	10	Sec. 11, 12	12,800	00	July	15	Sec. 21	7,000	00
Mar.	25	Sec. 18, 19, 20	24,000	00	Sept.	10	Sec. 22	7,000	00
May	31	Sec. 21, 22, 23	21,000	00					

<i>Profit on Land Sales</i>									
1927					1927				
July	10	Commission	480	00	July	10	Sec. 20	2,600	00
						15	Sec. 21	2,600	00

<i>Loss on Land Sales</i>									
1927									
Sept	10	Loss on Sec. 22	1,000	00					

FIGURE 17A



(4) *Purchasing land with improvements.*—Here it is assumed that three additional sections are purchased on the same terms as used in the entry given in illustration No. 3, with the exception that certain improvements are included in the purchase. The cost value of these improvements would, of course, be taken up on the "Improvements Inventory" sheet. If the property was purchased at a round figure of \$24,000, it would be advisable to have the improvements appraised so that there would be no question as to their value. At the same time, the appraisers should be asked for a statement regarding the probable useful life of these improvements. This figure could then be used as a basis for the rate at which these values should be depreciated at the end of each year. In this case it is assumed that the improvements are valued at \$3,000. A statement regarding the useful life would be made in the "Remarks" column on the "Improvements Inventory" sheet. In the Journal, the amount of the \$12,000 check would be placed in the right-hand "Bank" column. The cost value of the land and the cost of the improvements would be placed in the left-hand "General" column of the Journal, with the amount of the mortgage being placed in the right-hand "General" column. The value of the land (\$21,000) and the value of the improvements (\$3,000) would each be carried to the left side of the respective accounts; the amount of the mortgage would be carried to the right side of the "Mortgage Payable" account.

(5) *Sale of land at a profit.*—The fact that a profit should never be taken until a sale is made has already been discussed. In this case, it is assumed that a single section of land which had been purchased for \$7,000 is now sold for cash for \$9,600. The amount of the cash deposited in the bank would be entered in the left-hand "Bank" column; the cost price of the land and the profit realized at the time of its sale would be placed in the right-hand "General" column. The cost of the land (\$7,000) would then be carried to the right side of the "Land" account, reducing it by an amount equal to the cost of this particular piece of land.

The profit realized would be carried to a special account which may be called "Profit on Land Sales." This account should not be confused with profit arising from buying and selling of stock as the profit realized (\$2,600) from the purchase and sale of the land is not part of the stock business. This amount represents a separate or extraneous profit, and should, therefore, be kept separate.

(6) *Sale of land at a profit—part payment in cash, part in notes.*—In this case it is assumed that another section is sold for the same amount, but that a mortgage is received for a portion of the sale price, that \$5,000 in cash is received and a mortgage was given by the purchaser for the balance. The \$5,000 deposited in the bank will be entered in the left-hand "Bank" column of the Journal. The amount of the mortgage will be entered in the left-hand "General" column. The cost of the land and the profit realized by the sale will be entered in the right-hand "General" column of the Journal. The amount of the mortgage (\$4,600) will then be carried to the left side of an account which we may call "Mortgages Receivable." The cost of the land (\$7,000) will be carried to the right side of the "Land" account. The profit (\$2,600) realized on the sale would be carried to the right side of the "Profit on Land Sales" account.

(7) *Sale of land with improvements at a loss.*—In this case it is assumed that Section 22 upon which the improvements were situated (which had been purchased in illustration No. 4) is sold for \$9,000, that \$5,000 is received in cash and that a mortgage is given by the purchaser for \$4,000. The \$5,000 cash would be entered in the left-hand "Bank" column in the Journal. The amount of the loss, in this case \$1,000,

Cost of land	_____	\$7,000
Plus cost of improvements	_____	3,000
		<hr/>
		\$10,000
Selling price	_____	9,000
		<hr/>
LOSS	_____	\$ 1000

would be entered in the left-hand "General" column as also would be the amount of the "Mortgage Receivable." The

cost of the land and the cost of the improvements would be entered in the right-hand "General" column. The loss sustained at the time of the sale would be carried to the left side of an account, "Loss on Land Sales," and the amount of the mortgage would be carried to the left side of the account which might be called "Mortgage Receivable." The cost of the land (\$7,000) and the cost of the improvements (\$3,000) would be carried to the right side of their respective accounts.

(8) *Expenses involved in land sales.*—In many cases a certain amount of expense is incurred at the time property is sold. Such expenses may be commissions, cost of bringing the abstract down to date, surveying costs, title insurance, etc. In this case it is assumed that a commission of 5% has been paid on one of the sales previously illustrated. In all probability a check will be given to the agent for the amount of his commission at the time the sale was completed and the original payment received. The check in this case would amount to \$480. The \$480 would be recorded in the right-hand "Bank" column of the Journal and in the left-hand "General" column. The amount in the latter column would be carried to the left side of the account "Profit on Land Sales" if it referred to one of the sales on which a profit was realized. In event a commission was incurred through the sale of property which was sold at a loss, the item shown in the left-hand "General" column of the Journal would be carried to the left side of the account "Loss on Land Sales."

Another point that should be mentioned at this time is in connection with the situation which arises where land and improvements are purchased in a manner similar to illustration No. 4 and the property is held for several years. Afterwards it is sold. Under these circumstances the "Land" account would be handled in the same manner shown in the above illustration. The "Reserve for Depreciation" account would have to be taken into consideration as well as the "Improvements" account, for depreciation would have been written off on these assets during the intervening

years. The entry required under these circumstances to write off the amount of the improvements, and the depreciation would be exactly the same as that illustrated on page 92.

### OTHER ASSETS

Many ranchers have interests outside of what may be termed as "strictly ranch business." The matter of securities has already been discussed. Other items might be an interest in stores which are operated on the ranch property, or truck lines operated as separate businesses for the benefit possibly of the ranch and adjoining property holders. If an amount has been invested in such propositions, this amount should be carried in a separate account in the Ledger. Such activities will in many instances be carried as a separate business with a separate set of books. Oftentimes, the accounts of such enterprises are carried in a rather haphazard fashion without any real knowledge or control as to whether they are making profit or not. Invariably, however, the ranch owner feels very certain that they are making a profit. Most accountants who have gone over the records of such propositions know that this idea is incorrect; for, when the transactions are analyzed, it is found that a great many activities such as these are operated at a loss to the owner. Some times these losses will amount to astounding sums for the volume of business which is carried on. In many instances, stores are started in a very small way and little money is required to carry them along. Gradually the amount invested in stock tends to increase; frequently the stock which is carried is purchased on the general ranch account and is absorbed and confused with the operations of the ranch itself. It is not the purpose of this treatise to go into a system of accounts for the operation of mercantile or other establishments, but to bring out the manner of handling the investments, because of the fact that many ranchers have considerable interests outside of the ranch property. Illustrations will be given of the manner in which these items may be carried

on the books when the operations of the outside business are not intermingled with those of the ranch. In this connection, the following entries will be shown:

1. The turning over for store purposes of a building now existing on the ranch property.
2. Cost of remodeling such store.
3. Transferring to a separate account in the bank an amount sufficient for carrying on the store business.
4. Taking up the profit shown by the statements rendered by the store.
5. Receipt of money from the store.
6. Taking up losses sustained through the operations of such store.

JOURNAL									
DATE	NAME	EXPLANATION	BANK			GENERAL			
			DR.	CR.	Ledger	DR.	CR.		
			DEPOSITS	WITH-DRAWALS	or Folio				
1927	(1)								
Feb. 15	Store					1,000 00			
	Improvements						1,000 00		
Apr. 15	Store	Cost of repairs and remodeling		750 00		750 00			
	(2)								
	Store	Cash transferred to Store account.		1,000 00		1,000 00			
1928	(3)								
Jan. 25	Store	Profits shown by statement Dec. 31, 1927				250 00			
	Store Profits						250 00		
Feb. 1	Cash	Cash received from store	100 00						
	Store						100 00		
Jan. 25	Store Losses	Losses shown by statement Dec. 31, 1927				250 00			
	Store						250 00		

FIGURE 18

Store											
1927				1928							
Feb.	15	(1)		1,000	00	Feb.	1	(5)		100	00
Apr.	15	(2)		750	00	Jan.	25	(6) Losses		250	00
1928	15	(3)		1,000	00						
Jan.	25	(4) Profits		250	00						

  

Improvements											
1927				1928							
Jan.	1	Balance		x x x x		Feb.	15	(1)		1,000	00

  

Store Profits											
				1928							
				Jan.	25	(4)				250	00

  

Store Losses											
1928											
Jan.	25	(6)		250	00						

FIGURE 18A

(1) *Transferring the value of a building to the store account.*—In this, as in the entry immediately following, the purpose is to set up in one account the value of assets used in the particular activity carried on in connection with, but not as a part of, the ranch business. In this case, the building which is to be used as the store is no longer available for ranch operations; therefore, the value will be entered in the left-hand (debit) "General" column and carried from there to the left side of the "Store" account. The same figure is put in the right-hand (credit) column of the Journal

and carried from there to the right side of the "Improvements" account, thus reducing that account by an amount equal to the cost of the building no longer available for ranch operations. In the event that this building had been carried on the books for some time and as a consequence depreciation had been charged off on it as on the other improvements, the amount of the depreciation for this particular asset which had been placed in the "Reserve" account would have to be considered. Thus, if the building had originally cost \$1,500 and had an estimated life of 25 years, 15 of which had expired, the entry would be,

Store .....	\$1,000.00	
Reserve for depreciation.....	1,500.00	
Improvements .....		\$2,500.00

These figures would all be placed in the general columns and carried to their respective accounts in the manner previously explained. At the time the second entry is made a corresponding notation would be made on the "Improvements Inventory" sheet.

(2) *Remodeling the building.*—The cost of remodeling the building so that it might be used for store purposes might or might not be paid directly from ranch funds. In the event that it was, one or more checks would be required to cover the cost of the required changes. If such checks were issued, the amounts would be placed in the right-hand (credit) "Bank" column and in the left-hand (debit) "General" column, from which they would be carried to the left side of the "Store" account.

(3) *Transfer of funds.*—It would, of course, be necessary for the store to have some funds with which to operate the business. It is assumed here that \$1,000 is taken from the ranch account and advanced to the store for this purpose. The entries would be made and carried out in the same manner as was explained in entry No. 2.

(4) *Taking up the profit.*—It is assumed in all of these entries that the store is carrying a separate set of books, which may be kept in the same office and in conjunction

with the regular books of the ranch. The entire procedure will, however, be simplified if the store accounts are not confused with those of the ranch. At the same time, all operations of the store accounts should be carried on so that they will be in accordance with the general ranch accounts. Where this procedure is followed all money and property furnished to the store will be recorded in the manner shown in the previous illustrations. At the end of the accounting period, the store will close its books separately and apart from the ranch books. If the store made a small profit, it would mean an excess of assets over liabilities in the store accounts by the amount of that profit. The book value of the store business to the ranch has increased by the amount of that profit. As a consequence, the asset account on the ranch books which we are calling "Store" should be increased by this amount. To record this change, the amount of the profit (\$250.00) is placed in the left-hand (debit) and right-hand (credit) "General" columns of the Journal. It is then carried from the debit column to the left side of the "Store" account and from the credit column to the right side of a new account which will now be opened under the title of "Store Profits."

(5) *Transfer of funds from the store account to the ranch account.*—The last entry simply recorded the increase in the value of the store business because of the profits resulting from its operations. In this entry it is assumed that it is possible for the ranch to withdraw a small amount of cash from the store business. At the time the cash is received, it is deposited in the bank and will reduce the book value of the store business by that amount. Therefore, the amount received will be entered in the left-hand (debit) "Bank" column and in the right-hand (credit) "General" column, from which it is carried to the right side of the "Store" account.

(6) *Taking up a loss.*—Entry No. 4 assumed that the store business had been operated at a profit. In this case, it is assumed that a loss has been sustained in the operation



of the store. Under these circumstances the excess of assets over liabilities has been reduced by the amount of the loss; therefore, the book value of the store business will be lessened by that amount. The recording of that condition will be exactly the reverse of entry No. 4. The amount of the loss will be entered in both columns of the general journal. The figure in the left-hand (debit) column will be carried to a new account which in this case would be opened under the title "Store Loss." The figure in the right-hand (credit) column will be carried to the "Store" account thus reducing the balance of that account by the amount of the loss.

## THE LEDGER CONTINUED—LIABILITY ACCOUNTS

Up to this point the discussion of ledger accounts has been limited to those accounts which carry the values of the things *owned* by the business. The liability accounts show the amounts which are *owed* by the business. Although liability accounts are fewer in number their general classification is not unlike the classification of the asset accounts. The problems arising in the matter of handling liability accounts are somewhat different.

In the discussions of asset accounts, attention (other than the explanation of the mechanics of making the entries) was devoted mainly to the principles which would develop proper valuations. The amount of each liability is as a rule definite. There is the problem in all businesses of being sure that all of the outstanding indebtedness has been recorded in the books. This difficulty is materially increased when accounts are kept under the conditions prevailing on many, if not most, of the ranches. A correct recording of liabilities is absolutely necessary if the statements taken from the books are to be of value either in establishing credit, determining the net worth of the owner, or definitely to prove the conditions portrayed by the Income Tax statements which must be presented from year to year. This is the case because the net worth can only be determined by subtracting from the total value of the assets the entire amount of outstanding liabilities. The difference represents the value of the ranch to the owner or owners.

### ACCOUNTS PAYABLE

Like "Accounts Receivable," the term "Accounts Payable" does not apply to a specific account but to a series of accounts opened under the names of various persons or concerns. In Accounts Receivable, the balance of each account represented an amount due the ranch business from the

person or concern under whose name the account was carried. In Accounts Payable, the balance of each account represents the amount which is owed to the creditor under whose name the account is carried. As in the case of Accounts Receivable the amounts in these accounts represent indebtedness not covered by formal promises to pay in the form of notes.

Because of the somewhat generally adopted procedure of making no accounting records until checks are returned from the banks, the number of recorded liabilities will of necessity be materially reduced. It has been previously indicated that this condition will gradually change. For the time being, it is a condition which must, in general, be accepted even though it is recognized as bad business procedure.

Regardless of this general practice which has been built up by custom, the more important items of indebtedness should be recorded. Where care is used in matters of this kind, all persons affected will be benefited. A list of illustrative entries and their explanations are given below.

(1) *Purchase of equipment.*—In this illustration, it is assumed that equipment has been purchased from W. E. Cox. The total value of the equipment was entered in the left-hand (debit) column of the Journal and carried from there to the "Equipment" account. The same figure is also entered in the right-hand (credit) column of the Journal and carried from there to the right side of an account which should be opened under the name of W. E. Cox. This account shows the amount due Mr. Cox. The items purchased should be entered in the explanation column and a record should also be made for each of these items on the "Equipment Inventory" sheet.

(2) *Expense where special column is provided.*—This entry illustrates the recording of an item of expense. The cost of the fence wire purchased for repairs would be entered in the right-hand (credit) "General" column of the Journal and from there would be carried to the right side of an account opened for R. L. Mott. This account shows



the amount due to Mr. Mott. The same figure would also be carried to the "Repairs" column in the general journal so that it would be included in the total of that column.

W. E. Cox											
1927						1928					
May			(1)		150 00	Mar	12		(1)		150 00

R. L. Mott											
						1928					
						Mar	15		(2)		100 00

I. M. Painter											
						1928					
						Apr	1		(3)		15 00

FIGURE 19A

(3) *Expense where special column is not provided.*—Effort has been made to include columns in the journal for all of the more ordinary expenses which arise in ranch operation. This entry illustrates an expenditure for an item which is charged to an expense account for which there is no special column. The cost of the sign would be entered as in the previous cases in the right-hand (credit)

"General" column of the Journal and carried from there to the right side of an account which would show the amount due I. M. Painter, this account being opened under Mr. Painter's name. The same figure would then be carried to the "Other Expense" column with the notation in the space provided that it was to be charged to the "Miscellaneous Expense" account. The figure will then be carried from there to the left side of this account.

(4) *Record of payment.*—When any liability is paid, a check should always be drawn for the amount of the payment. In this case, it is assumed that the amount due to W. E. Cox for the purchase of the equipment illustrated in entry No. 1 is to be paid. The amount of this check should be entered in the right-hand (credit) "Bank" column and in the left-hand (debit) "General" column from which it will be carried to the left side of the account which was opened for W. E. Cox, thus balancing that account. If a partial payment had been made, say \$75.00, it would have been entered in the same way. The difference between the figures shown on the two sides of the account would then indicate the amount still due Mr. Cox.

### NOTES (BILLS) PAYABLE

A note payable, like a note receivable, is a formal written promise to pay a debt. The note should, and will in most cases, be made on a regular printed form which conforms to the requirements of the negotiable instruments law:

It must be in writing and signed by the maker (the one who has agreed to make the payment).

It must be for a specific or determinable amount. (The necessary information must be given on the note so that the amount may be determined.)

It must have a specific or determinable date of payment. (The necessary information must be given on the note so that the date may be determined.)

In the case of a note receivable, the person who is indebted to the business will, as a rule, be the signer although in some cases that person may endorse a note signed by

another. Notes payable, as such, are always signed by the rancher or his authorized agent. Notes receivable, the amount of which is carried in the "Notes Receivable" account, should always be in the hands of the rancher unless they have been passed on by endorsement or have been pledged as collateral.

The notes payable will always be in the hands of the creditor or the party to whom they have been endorsed.

The term "Notes Payable" in accounting terminology is generally considered as including only "short time" obligations. By "short time" obligations is meant notes which will fall due within the next accounting or fiscal period, which in most cases will be one year.

In the latter part of the last century and the early part of the present century, there was a sentiment against written evidences of debt known as "Bills" payable. At present this sentiment is not general in the matter of "Notes" payable, particularly if the notes are largely in the hands of the banker. It is frequently possible to effect considerable saving in making purchases for cash. The cash may in many instances be secured from the bank. Where the savings of cash over credit purchases more than offset the interest charged, it is considered good business to handle transactions in this way. Where notes are given too generally, they do, of course, create a questionable financial condition. For this reason it is well to set up the notes payable according to the following classification:

Notes Payable for:

- Bank loans
- Cattle purchases
- Supplies
- Equipment
- Land

Little attention is given to matters of this kind in the banker-rancher relationships in good years in the livestock business. As prices decline and conditions tighten, however, it may be necessary for many bankers to rediscount some of the ranch paper which they hold. With the very

general trend toward a more critical analysis of borrowers' statements, the livestock banker who has notes supported by properly prepared balance sheets, showing a healthy financial condition on the part of the borrower, will find this paper looked upon with favor. Notes not supported in this manner will frequently cause the banker considerable embarrassment, if not actual loss.

It is improbable that many of the individual ranchers would have a large number of notes outstanding, or that these notes would make necessary the use of all sections given in the preceding classification. Such notes as there are should be shown on the balance sheet in this manner, although they may be carried in one account in the ledger. Where the number of notes is not large, as will usually be the case, the "Notes Payable" account may be used as a "Note Register" in the manner described for "Notes Receivable." The following illustrations are carried out with the "Notes Payable" account used in this way.

(1) *Purchase of cattle.*—The first illustration shows the entry necessary to record the purchase of cattle where the entire purchase price of the cattle is included in a six month's, 6% note. The amount of the liability covered by the note is recorded in the right-hand (credit) "General" column of the Journal and from there is carried to the right-hand side of the "Notes Payable" account. The same figure is placed in the column provided for livestock purchases with the notation that it was cattle which were purchased. This amount will then be carried to the left side of the "Cattle Purchases" account. The record will, of course, be made in the proper columns of the "Cattle Inventory" sheet, showing the kinds of cattle which have been purchased.

(2) *Purchase of repair material.*—This entry corresponds to the entry carried under the same reference (No. 2) in the "Accounts Payable" section. It is assumed that \$100.00 worth of fence wire was purchased for repair purposes. In this case a note was given, rather than as in the



# JOURNAL

DATE	NAME	EXPLANATION	BANK			GENERAL			REPAIRS DR	OTHER EXPENSES		Indy- or Folio	LIVE STOCK PURCHASES	
			DR DEPOSITS	CR WITH- DRAWALS	Indy- or Folio	DR	CR	ACCOUNT		AMOUNT DR	ACCOUNT		AMOUNT DR	
	(1)	A B Cook year- ling cattle												
Jan. 10	Notes Payable	6 mo @ 6%					6,000 00						Cattle	6,000 00
	(2)	R L Mott - Fence Wire												
Feb. 1	Notes Payable	3 mo @ 7%					100 00	100 00						
	(3)	First National Bank -												
Feb. 15	Notes Payable	90 days - 8%	1,000 00				1,000 00							
	(4)	W E Cox				150 00								
Apr. 1	Note Payable	6 mo. @ 6%		50 00			100 00							
	(5)	Paid note of												
May 1	Notes Payable	R L Mott.		101 75		100 00			Interest	1 75				
	(6)	Payment of \$500.00 and interest on note				1,000 00	500 00							
May 16	Cash	Renewed First Natl Bk. 90 days @ 8%		520 00					Interest	20 00				
	(7)	Payment of interest and renewal of												
July 10	Notes Payable	A B Cook note. 3 mo. @ 6%		180 00		6,000 00	6,000 00		Interest	180 00				

FIGURE 20

last case carrying the amount to an open account. A journal entry will be made in exactly the same manner except that the space provided for the name will show that a note has been given. The figure shown in the right-hand (credit) "General" column of the Journal will, therefore, be carried to the right side of the "Notes Payable" account.

<i>Notes Payable</i>									
July	1	(7)		6,000 00	Jan	10	(1) A B Cook - 6 mo @ 6%		6,000 00
May	1	(5)		100 00	Feb	1	(2) R L Mott - 3 mo @ 7%		100 00
May	16	(6)		1,000 00		15	(3) First Nat'l Bk 90 days @ 8%		1,000 00
							(4)		
					Apr	1	W E Cox 6 mo @ 6%		100 00
					May	16	(6) First Nat'l Bk 90 days @ 8%		500 00
							(7)		
					July	1	A B Cook 8 mo @ 6%		6,000 00

FIGURE 20A

(3) *Notes given to the bank.*—Most ranchers handling any considerable amount of cattle find it necessary to borrow from the banks. In this case, it is assumed that the rancher went to the bank and signed a note for \$1,000 with the understanding that the interest was to be paid at the time the note became due. The bank would, under these circumstances increase the balance of the rancher's account by the amount of the note. This entry is recorded on the rancher's books by entering the amount in the left-hand (debit) "Bank" column where it would correspond to a regular deposit and in the right-hand "General" column, from which it would be carried to the right side of the "Notes Payable" account. In some cases the bank will discount the rancher's note; that is, the amount of the interest will be deducted when the note is signed. If the note is discounted the amount of the bank deposit would be the face of the note less the interest for the time for which the note is

to run. In that case, where the bank discounts the note, the entry in the left-hand (debit) "Bank" column would be \$980.00. The entry in the right-hand (credit) column would be just the same (\$1,000.00). The difference of \$20.00 would then be carried to the "Other Expense" column with the notation that it was an interest item. That figure would then be posted to the left side of the "Interest Expense" account.

(4) *Note given in settlement of an account payable.*—In this case, it is assumed that the Account Payable opened under the name of W. E. Cox (entry No. 1, Figure 19) is to be closed by giving Mr. Cox \$50.00 in cash and a note for the remainder of his account (\$100.00). The amount of the check for the payment would be entered in the right-hand (credit) "Bank" column and the amount of the note would be recorded in the right-hand (credit) "General" column from which it would be carried to the right side of the "Notes Payable" account. This transaction will close Mr. Cox's account; therefore, the sum of the two items, \$150.00, would be entered in the left-hand (debit) column of the Journal and carried from there to Mr. Cox's account in the same manner as illustrated for the cash payment (entry No. 4, Figure 19).

(5) *Payment of note and interest.*—At the time a note becomes due, it will frequently be necessary to pay both the amount of the note and the interest which has accrued up to that time. This illustration shows the entry necessary for the payment of the note given to R. L. Mott (entry No. 2 above). The amount of the check will be for the face of the note plus the interest. This amount will be placed in the right-hand (credit) bank column and the amount of the note (\$100.00) will be placed in the left-hand (debit) "General" column, from which it will be carried to the left side of the "Notes Payable" account. The amount of the interest will be entered in the "Other Expense" column with the notation that the expenditure is to be charged to the "Interest" account. It would then be carried from this column to the left side of the "Interest" account.

(6) *Partial payment of note and balance renewed.*—The nature of the banking business is such that the majority of the loans which are made to customers must be for a relatively short length of time. Notes payable to banks are, therefore, usually made for thirty, sixty, or ninety days. So long as deposits keep up and the banker is satisfied with the credit of the borrower, such notes may as a rule be at least partially renewed at the time they become due. It is always customary at such times to pay the interest and the old note is cancelled and a new note is signed. This entry illustrates the payment of \$500.00 and the interest on the note which was given to the bank (entry No. 3 above). The amount of the check covering the payment plus the interest would be entered in the right-hand (credit) "Bank" column. The amount of the new note would be entered in the right-hand (credit) "General" column, from which it would be carried to the right side of the "Notes Payable" account. The amount of the interest would be carried into the "Other Expense" column with the notice that it is an interest payment and will be carried from there to the "Interest" account. The amount of the old note must now be taken off the books. An entry is, therefore, made (in this case \$1,000) in the left-hand (debit) "General" column, and the amount carried from there to the "Notes Payable" account.

(7) *Renewal of note, no payment other than interest.*—Where it is impossible to make payment on a note, the holder of the note may agree to extend it for some time beyond the original agreed time of payment. Under these circumstances, as in the case of partial payments, it is better practice to make out a new note than to deface the old note by showing a change of payment date. Accrued interest should also be paid at this time. It is assumed here that the rancher was unable to pay the \$6,000 note which was given at the time the cattle were purchased (entry No. 1 above) and that an extension of time is given for three months. The old note is cancelled. To record this transaction, the amount is placed in the left-hand

(debit) "General" column of the Journal and carried from there to the left side of the "Notes Payable" account, on the line upon which the entry of this note was originally made. The amount of the new note (\$6,000) is entered in the right-hand "General" column of the Journal and carried from there to the right side of the "Notes Payable" account. A check is given for the interest. The amount of the check is entered in the right-hand (credit) "Bank" column and also in the "Other Expense" column with a notation that the payment was made for interest, and it is then carried from there to the "Interest Expense" account.

### MORTGAGES PAYABLE

In accounting and financial terminology, "Mortgages Payable" are considered as long time liabilities whereas "Notes Payable" are considered as short time liabilities. In reality this term "Mortgages Payable" is not accurate. The mortgage does not as a rule represent the liability. It is an instrument which by its terms conveys the title of the property to the mortgagee (the person who receives the mortgage). The mortgagee holds this title until the mortgagor (the person giving the mortgage) fulfills his contract to make certain payments, represented by one or more notes. According to the ordinary stipulation, the mortgagee must relinquish the title as soon as the payment or payments have been made. The mortgage then is not the evidence of the debt. The notes are the evidence of the debt, and the mortgage is the security for the notes.

Mortgages may be held by creditors on both real property (roughly considered according to our classification as Land and Improvements) or on personal property (roughly considered according to our classification as "Equipment"). As a rule, the term "Mortgage Payable" on a balance sheet refers to amounts owed on real property. The distinction as to whether this liability should be classed as a Mortgage Payable or a Note Payable is whether the indebtedness falls due within the coming year or at some later time. If the debt or any portion of it, such as certain serial payments,

falls due within the coming year following the date of the balance sheet, the amounts which become due should be considered as "Notes Payable," which are short time liabilities.

From the preceding statement it might be considered that all mortgages, if the payments did not fall due within the coming year, could be carried as one item on the balance sheet. This is not the case. A distinction should be made between the mortgages on personal property and those on real property. Each amount should be shown separately on the balance sheet. Real property in most cattle sections is increasing in value. As a consequence the security behind the note is increased. Because of this fact it is frequently possible either to extend the payment date, if it is found impossible to make the payment, or to substitute another loan for the present one. On the other hand, personal property seldom increases in value. Automobiles and machinery begin to decline in value the day they are purchased and put to work. The holder of notes secured by a mortgage on this kind of property must insist upon their payment, or his security will become valueless; therefore it is seldom possible to secure a new loan. In those few cases where it is possible, the interest together with the special fees, commission, etc., constitute an almost prohibitive burden. Many articles are purchased on deferred payment contracts or by allowing the seller to hold a mortgage on the property. It is no particular reflection to purchase equipment in this manner providing it can be used to sufficient advantage to justify the expenditure plus the interest charges, etc. It is essential, however, that the payments be made as they fall due.

When mortgages are recorded in the books of account an explanation should be made of all the pertinent facts; thus if a mortgage is given as security for a series of notes, the amount, due date, and interest rate should all be made a matter of record in the accounts.

The following are illustrative entries:

# JOURNAL

DATE		NAME		EXPLANATION		BANK		GENERAL		Ledger Folio	OTHER EXPENSE		
						DR DEPOSITS	CR WITH-DRAWALS	Ledger Folio	DR		CR	ACCOUNT	AMOUNT DR
1927		(1)			Purch. Sec. 18, 19, 20 from X.L. Mooney for six notes - Mortgage Payable Interest at 6% due annually on this date.								
Jan. 15					Land		12,000 00		24,000 00				
											12,000 00		
Feb.		(2)			Tractor - White Mosh. Co. 3 notes \$500.00 each @ 6% due 2/1/28, 7/1/29, 2/1/30		500 00		2,000 00				
											1,500 00		
1928		(3)			Transfer current notes on Land - \$2,000.00 and Tractor - \$1,000 00								
Jan.					Mortgage Payable				3,000 00				
					Notes Payable						3,000 00		
		(4)											
Jan. 15					Note on Purchase								
					Notes Payable of Sec 18, 19, 20		2,120 00		2,000 00		Interest Exp.	120 00	

FIGURE 21

(1) *Purchase of land—part payment in cash.*—In this case, it is assumed that three sections of land are purchased for \$24,000, one-half of which is paid in cash. Six notes are signed for the balance, secured by a mortgage on the sections which have been purchased. The amount of the check is placed in the right-hand (credit) "Bank" column. The purchase price of the land (\$24,000) is placed in the left-hand (debit) "General" column and the unpaid amount covered by the notes (\$12,000) in the right-hand (credit) "General" column. The purchase price of the land will be carried from the debit column of the Journal to the left side of the "Land" account. The unpaid portion will be carried from the credit side to the right side of the "Mortgages Payable" account. The "Mortgages Payable" account, like the "Notes Payable" account, may have the entries made in such a manner that it can be used as a register for the notes which are secured by the particular mortgage. In this case it will be observed that every note is listed separately with its due date.

<i>Mortgages Payable</i>									
1927				1927					
Jan 1	To Notes Payable		2,000 00	Jan 15	A. L. Mooney	due 1/15/27		2,000 00	
					@ 6% Purchase	" 1/15/29		2,000 00	
					Sec. 18, 19, 20	- 1/15/30		2,000 00	
						- 1/15/31		2,000 00	
						- 1/15/32		2,000 00	
						- 1/15/33		2,000 00	
1928									
Jan 1	To Notes Payable		500 00	Feb 1	White Mach. Co.	due 2/1/28		500 00	
	" " "		500 00		@ 6% on	" 7/1/28		500 00	
					Tractor	- 2/1/29		500 00	

FIGURE 21A

(2) *Purchase of equipment—part payment in cash.*—In this case, it is assumed that a \$2,000 tractor is purchased and \$500 has been paid in cash. The entry for the check is made in the right-hand (credit) "Bank" column, the purchase price of the tractor being placed in the left-hand (debit) "General" column, the amount of the liability for



the unpaid portion being placed in the right-hand (credit) "General" column. The purchase price of the tractor will then be carried to the left-hand (debit) side of the "Equipment" account (record also being made on the "Equipment Inventory" sheet) and record of the liability carried to the right side of the "Mortgages Payable" account where each note will be listed separately. The notes secured by this mortgage are recorded in the same account with the notes secured by a mortgage on real property. It was previously stated that a distinction should be made between the liabilities covered by mortgages on real and personal property. This fact is true, but if there are only one or two mortgages and full explanations are made in the ledger account regarding each one, it is unnecessary to open separate accounts. When a balance sheet is drawn up these items should be listed separately even though they are carried in the same account.

(3) *Transferring items to notes payable.*—Only items covered by mortgages which will not fall due within the coming fiscal period should be carried under the classification of "Mortgages Payable." As a consequence, the amounts of those notes which are to fall due within the coming fiscal period should be transferred from the "Mortgages Payable" account to the "Notes Payable" account where they will be considered in the status in which they now fall, as current liabilities. This entry illustrates such a transfer. The amount of the first note on land and the first two notes on the tractor all of which fall due within the coming fiscal period are transferred from the "Mortgages Payable" account to the "Notes Payable" account. Therefore, the total amount of these notes is entered in both general columns of the Journal, full explanation of the notes which are transferred being placed in the space provided. Figures from the left-hand (debit) "General" column will then be carried to the left side of the "Mortgages Payable" account. In making the entry, however, detail will be shown in the ledger so that the debit entry will show opposite the listing of each note which is transferred. The

figure in the right-hand side of the general column will be transferred to the right side of the "Notes Payable" account and the notes will then be listed in that account so that easy reference may be made to them.

(4) *Payment of note.*—This entry is included at this point for the sake of completeness. It corresponds with entry No. 5, Figure 20. The first note due for the purchase of the land is now paid with the interest which has accrued during the current year. The amount of the check, \$2,120, is placed in the right-hand (credit) "Bank" column; the amount of the note is placed in the left-hand (debit) "General" column and carried from there to the left side of the "Notes Payable" account where it is recorded on the line given to this note when it was transferred from the "Mortgages Payable" account (entry No. 3). The amount of the interest is carried into the "Other Expense" column with the notation that it is an interest payment and will be taken from there to the left side of the "Interest Expense" account.

## THE LEDGER CONTINUED—NET WORTH OR PROPRIETORSHIP

From the standpoint of the owner, the "net worth," "capital" or "proprietorship" accounts (each of these terms being used in a somewhat similar sense) are the crux or focal point of account keeping. These accounts show the net changes in the value of the ranch business from year to year. This year to year change is, in general, based on the results of actual completed transactions. That is, no profits have been brought on the books which were not the results of actual sales, and, as rule, losses will not be recorded until realized. In the discussions of the preceding ledger accounts it will be observed that there are some exceptions to this general statement.<sup>1</sup> A critical discussion of the accounting theory and principles surrounding each of these points would require more space than may be devoted to it in this type of publication. The general rule is sound and may be taken as a basic fact.

The preceding statement should not be interpreted as indicating that the year to year changes in the "net worth" or "capital" accounts in any way represent the profit or loss realized on the ranch business. This idea is incorrect because personal withdrawals or additional investments of the owner or owners will affect the amount of the "net worth" as well as the profits realized or losses sustained from the operations of the business. Thus, assume the capital accounts showed a net worth of \$100,000 at the close of 1929. During the year 1930 the ranch operations resulted in a net profit of \$15,000. During that year the owner may have withdrawn for living, traveling, school expenses, etc., for himself and family \$20,000. The net result would amount to a decrease in the value of the ranch business.

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<sup>1</sup>Such as valuing livestock at range prices.

Net worth January 1, 1930.....	\$100,000.00
Add: Profit from ranch operations January 1, 1930, to January 1, 1931.....	15,000.00
	<hr/>
	\$115,000.00
Deduct: Personal withdrawals.....	20,000.00
	<hr/>
Net worth January 1, 1931.....	\$ 95,000.00

In the same way the operations of the ranch property may show a very small return or even a loss over a given year but at the end of that year the net worth of the business may be greater due to additional investments made by the owner or owners, thus:

Net worth January 1, 1931.....	\$ 95,000.00
Add: Profit from ranch operations January 1, 1931, to January 1, 1932.....	2,000.00
	<hr/>
	\$ 97,000.00
Add: Additional investments.....	22,000.00
	<hr/>
Net worth January 1, 1932.....	\$119,000.00

Correction of entries brought on the books during previous years would also affect the "net worth" accounts. If the corrections increased the value of the assets or decreased the liabilities, the net worth would be increased. If the assets were decreased or the liabilities increased, the net worth would be decreased.

At this point it is evident—

1. That the net worth accounts show the value of the business to the owner or owners at the close of each year.
2. That the differences between their balances at the beginning and at the end of the year do not necessarily indicate the profits or losses arising from the year's ranch operations.
3. That to the net worth at the beginning of the year should be *added*:
  - (a) Profits from the operations for the year.
  - (b) Additional investments by the owners.
  - (c) The amount of any adjustments which increase assets or decrease liabilities.
4. That from the above items, or any of them, should be *deducted*:
  - (a) Losses suffered from the operations of the ranch business.
  - (b) Withdrawals of the proprietors.
  - (c) The amounts of any adjustments which decrease assets or increase liabilities.

The ownership of businesses in this country is practically limited to three forms, namely:

Individual ownership,  
Partnerships,  
Corporations.

Each of these forms of ownership meets certain conditions, has certain distinct legal problems and, as a consequence, the accounts of each are handled somewhat differently. The general points regarding net worth apply in all types of ownership. In succeeding paragraphs, some of the specific points regarding the accounting for each form of ownership will be brought out.

### INDIVIDUAL OWNERSHIP

The most common form of ranch ownership is that of the individual proprietor. The accounting and other problems of the individual proprietor are much less involved than those of the other two types of ownership.

As a rule only two net worth accounts are used in the books of a business run by an individual owner. They are the proprietor's "Capital" account and his "Personal" account. When the books are opened the difference between the total of the net assets and liabilities will represent the value of the ranch business. This amount will be credited to the "Capital" account. During the year most ranchers will be withdrawing sums, more or less regularly, for personal use. These amounts will be entered in the personal columns of the Journal (see Figure 10). The totals of these columns will be posted to the personal account at the close of each month. At the end of the year the net profit or loss will be transferred from the "Profit and Loss" account (see Figure 22) to the "Personal" account. If a profit has been realized the entry will be made on the right (credit) side of the "Personal" account. If a loss has been sustained the entry will be made on the left (debit) side of the account. The balance of the "Personal" account will then be transferred to the "Capital" account. If profits exceeded withdrawals, there would have been (barring other items)

a net increase of proprietorship or net worth, and the entry would be made on the right (credit) side of the "Capital" account. If losses had been sustained or if the withdrawals had exceeded the profits, these factors would tend to create a decrease of proprietorship. The entry would, therefore, be made on the left (debit) side of the "Capital" account.

The following illustrations show how the records affecting the proprietor's capital and personal accounts may be made in the journal and taken from there to the ledger.

(1) *Opening the books.*—The entries are shown here which might be made when a new set of books is opened. The amount of cash on hand would be entered on the left-hand (debit) side of the "Bank" column and would therefore be included in the total of that column which will later be carried to the left (debit) side of the "Cash" account. The amounts of the other assets are entered on the left (debit) side of the "General" column, each item being carried (or posted) individually to the left (debit) side of the respective asset accounts.

The reserve for depreciation of improvements and the various liability accounts are entered in the right (credit) "General" column. Each item will then be carried to the right side of the respective accounts. The difference between the total assets and total liabilities plus the reserve for depreciation represents the book value of the business to the owner, in this case \$110,900. This amount would be the opening entry to capital and would be carried to the right (credit) side of the capital account.

(2) *Personal withdrawals.*—At various times it is necessary for the proprietor to withdraw funds from the business for personal use. This entry illustrates the withdrawal of cash from the bank for the proprietor. The amount of the withdrawal will be placed in the right-hand (credit) "Bank" column and will be included in the total of that column. At the end of the month, this total will be posted to the right (credit) side of the "Cash" account. These figures will also be placed in the left-hand (debit) "Personal" column, where they will be included in



January. It is assumed that had the entire month's transactions been illustrated the total of the (debit) personal column would have amounted to this figure.

1926				1926			
Dec. 31	Balance		135,700 00	Jan. 1	Opening Entry		116,900 00
				June 10	Additional Investment		17,600 00
				Dec. 31	Balance of Personal a/c		7,200 00
			135,700 00				135,700 00
				1927			
				Jan. 1			135,700 00

1926				1926			
Jan. 31			350 00	Dec. 31	P. and L.		9,600 00
Feb. 28			175 00				
Mar. 31			100 00				
x x x	Monthly postings bal. year		1,775 00				
Dec. 31	Bal. to Capital		7,200 00				
			9,600 00				9,600 00

FIGURE 22A

(3) *Additional investment.*—A proprietor frequently has other assets than those shown on the ranch books. In this case it is assumed that the proprietor, having cash which is not included in the ranch business, found it advisable to increase the amount of cash in the ranch account. Therefore, a deposit was made from his personal funds. This deposit would increase cash and increase capital. The entry is made in the left-hand (debit) "Bank" column and in the right-hand (credit) "General" column. The amount



in the bank column is included in the total of that column and the amount included in the "General" column is carried as an individual item to the right-hand (credit) side of the proprietor's capital account.

(4) *Closing the profit into the personal account.*—The amount of the profits for any given year is determined by summarizing the balances of the operating accounts in an account known as "Profit and Loss." The final balance of this account, if it is a credit, represents a profit for the current period. If it is a debit, it represents a loss for the period. In this case, it is assumed that the "Profit and Loss" account had a credit balance of \$9,600.00. The amount of this profit is then included in both the left-hand (debit) and right-hand (credit) "General" columns of the journal. The figure in the left-hand column is carried to the left (debit) side of the "Profit and Loss" account, thus closing (balancing) that account. The figure in the right-hand column is carried to the right (credit) side of the "Personal" account.

(5) *Closing the personal account into capital.*—Entry No. 2 shows the manner in which items (personal withdrawals) reach the "Personal" account. These various withdrawals are summarized in the "Personal" account, at the end of the year. The profits, if there are any, are carried, as has just been illustrated, to this account. The difference, whether the profits are greater than the withdrawals or the withdrawals greater than the profits, is then carried to the "Capital" account. In this case, it is assumed that the withdrawals amounted to \$2,400.00. The difference between this amount and the profit would be \$7,200.00. This \$7,200.00 represents the amount of profit which has been realized on the operation of the ranch and which has remained in the business. This figure is, therefore, transferred to the "Capital" account, the figure being entered in both the left (debit) and the right (credit) "General" columns. The figure in the left-hand column is carried to the "Personal" account, thus closing that account. The figure in the right-hand column is carried to the right-hand

side of the "Capital" account, thus increasing that account by the net amount of the increase resulting from the year's operations remaining in the business.

### PARTNERSHIPS

In a business owned by an individual proprietor, the accounting records are called upon only to show the financial relationship existing between outsiders and the business, together with such internal operating information as is desired. When a business is owned by two or more persons, the accounting records must also show, in addition to the above facts, the financial relations of the partners. For the purpose of this discussion, these relations may be divided according to:

- (a) Recording the investments of the partners at the time the books are opened.
- (b) Salaries of partners.
- (c) Amounts withdrawn from the business by the partners.
- (d) Division of partnership profits and losses.

Whenever two or more persons enter into business, they should have a carefully drawn written agreement covering the various phases of their relations with each other. Most men are fair and broadminded. There are, however, few people who do not know of cases where bitter enmity exists between persons who are, or have been, partners. Many situations can be explained, understood and an amicable agreement reached when the problem is taken up before the actual situation occurs. In many cases, the situations causing disagreement will be avoided if the problem has been previously discussed and the agreement put in writing. Such an agreement should cover all of the items listed above, also the manner in which a referee or mediator may be appointed in case a misunderstanding arises, and the settlement of the various problems which may come up at the time of dissolution. *Such an agreement should be drawn with the combined assistance of an attorney and an accountant.* The attorney will look after the legal phases,

DATE			BANK			GENERAL		PERSONAL		OTHER EXPENSES		
	NAME	EXPLANATION	DR. DEPOSITS	CR. WITH- DRAWALS	Leds on folio	DR.	CR.	DR.	CR.	ACCOUNT	AMOUNT DR.	Leds on folio
(a)	Cash		15,200.00									
	Notes Receivable					10.00	00					
	Feed Inventory					1,100	00					
	Cattle					35,000	00					
	Horse					1,000	00					
	Equipment					7,500	00					
	Improvement					25,000	00					
	Res. for Depreciation of Improvements						6,000	00				
	Land					42,000	00					
	Accounts Payable						900	00				
	Mortgages						10,000	00				
	A. Capital						110,900	00				
	Assets and liabilities turned over to the partnership by A. See partnership agreement											
	Cash		25,000.00									
	Land					75,000	00					
	B Capital						100,000	00				
	Assets turned over to partnership by B. See partnership agreement.											
(b-1)										Managers		
Feb. 1	A Salary			200.00						Salary	200.00	
(b-2)										Managers		
	A Salary							200.00		Salary	200.00	
	A Personal			50.00					50.00			
(c-1)	A Personal	Black mare sent						100.00				
	Horse Inventory	to town.					100.00					
(d-1-a)	P. and L.	(Profits for year				20,000.00						
	A Personal	19-					10,000.00					
	B Personal						10,000.00					
	A Personal	Closing the bal-				8,000.00						
	B Personal	ances of the				9,000.00						
	A Capital	Personal accounts					8,000.00					
	B Capital	to Capital.					9,000.00					
(d-1-b)	A Personal	To close the losses				5,000						
	B Personal	into the Personal				5,000						
	P & L	accounts.					10,000.00					
	A Capital	To close the				7,000						
	B Capital	Personal ac-				6,000						
	A Personal	counts into					7,000.00					
	B Personal	Capital.					6,000.00					
(d-2-a)	P & L	Distributing profits				20,000.00						
	A Personal	on year's operation.					10,516.83					
	B Personal	A - $\frac{110,900}{210,900}$ B - $\frac{100,000}{210,900}$					9,483.17					
(d-2-b)	A Personal	Distributing losses on				5,258.42						
	B Personal	Year's operations				4,741.58						
	P & L	A - $\frac{110,900}{210,900}$ B - $\frac{100,000}{210,900}$					10,000.00					
(d-3-a)	P & L	To credit A's a/c				2,400.00						
	A Personal	with the agreed salary					2,400.00					
	P & L	To credit partners				12,654.00						
	A Personal	agreed (6%) interest					6,654.00					
	B Personal	on investment.					6,000.00					
	P & L	Crediting A with 60%				4,946.00						
	A Personal	& B with 40% final					2,967.60					
	B Personal	balance at the					1,978.40					
		P&L account.										
(d-3-b)	P & L	Crediting A with				7,500.00						
	A Personal	$\frac{9054}{13,054}$ and B with					4,510.76					
	B Personal	$\frac{6000}{13,054}$ of year's					2,989.24					
		profits.										
(d-3-c)	A Personal	Distributing losses on				6,000.00						
	B Personal	year's operation to				4,000.00						
	P & L	partners accounts on					14,000.00					
		60-40 ratio										

FIGURE 23

but as most of the causes of misunderstanding arise from matters directly associated with the books, an accountant's advice is especially valuable.

### RECORDING INVESTMENTS OF PARTNERS

It is frequently thought that two men entering into a partnership where they expect to share profits and losses equally will have equal interests in the business. This is not necessarily the case. The contributions of each partner should be valued separately and shown at that value in their respective capital accounts unless a definite agreement has been made to the contrary. From the standpoint of the partnership as a business and its association with all other parties, the assets contributed by each partner are indistinguishably merged. The value of each contribution should, however, be kept separate, even though the actual assets lose their separate identities. To make a distinction, it is advisable to make separate entries in the Journal to record the contributions of each partner.

(a) *Unequal investments.*—It is assumed in this case that A and B are just starting in business as partners. It is also assumed that A has the same assets and liabilities as are shown in entry No. 1 in Figure 22. A separate entry should be made for B's contribution, which we will assume is limited to land and cash. If a list of ledger account balances were taken off after these items had been carried to the accounts it would be as follows:

Cash .....	\$ 40,200.00	
Notes Receivable.....	1,000.00	
Feed Inventory.....	1,100.00	
Cattle Inventory.....	35,000.00	
Horse Inventory.....	1,000.00	
Equipment Inventory.....	7,500.00	
Improvements Inventory .....	25,000.00	
Reserve for Depreciation of Improve- ments .....		6,000.00
Land .....	117,000.00	
Accounts Payable.....		900.00
Mortgage Payable.....		10,000.00
"A" Capital.....		110,900.00
"B" Capital .....		100,000.00
	<hr/>	<hr/>
	\$227,800.00	\$227,800.00

From this list of account balances it will be plain that no distinction is made between the contributions of the partners except in the capital accounts.

The creditors of A (those to whom he was indebted) are now creditors of the partnership. In the event a creditor should find it necessary to bring suit, he would be able to levy on those assets contributed by B as well as those previously held by A. B's liabilities on these original debts would be limited to the amount which he contributed to the partnership. For all debts created after the formation of the partnership, each partner would be liable, in event of failure, to the entire amount of his personal fortune.

#### SALARIES OF PARTNERS

Besides differences in the amount of capital contributed to a partnership, there are frequently wide differences in the amount of time and/or knowledge of the business devoted to the operation of the business. Sometimes these differences cannot be foreseen. Often they are recognized beforehand. Under these circumstances, an agreement to compensate for them should be made a part of the original contract. Such an agreement may avoid much unpleasantness later on. When salary agreements are made a part of the partnership contract they cause each partner drawing a salary to be a creditor of the partnership to the extent of his salary. In the event the salary is not paid, he has a claim against the partnership.

##### *(b-1) Where Regular Salary Checks Are Drawn.*

Salaries may be recorded on the books in two ways, depending on the manner in which the money is drawn by the partners. If the partner or partners are in the habit of drawing a regular salary check for their salaries, the entry may be made in the manner shown in the entries (b-1). It is assumed that A is the partner who devotes his time to the business, and it has been agreed that he shall draw a salary of \$200.00 a month. The entry shows the drawing of

one month's salary. In this case, the money has been withdrawn from the partnership bank account and turned over to A. The entry was made in the "Bank" column and the "Other Expense" column in the Journal from which it was carried to the left (debit) side of the expense account called "Manager's Salary." When salaries are drawn in this way the matter is finished so far as the partnership books are concerned.

*(b-2) Where Regular Salary Checks Are Not Drawn.*

In some cases the partner or partners may not withdraw the entire amount of their salaries at the end of each salary period. Under these circumstances, the partners generally withdraw various amounts, usually, but not always, somewhat less than their salaries. These withdrawals will occur at any time the men may be in need of funds, frequently several times during the month. When this practice is adopted, the salary will be credited to the partners "Personal" account, and charged as in the last case to "Manager's Salary" account, the entry being carried through the "Other Expense" column of the Journal. When funds are withdrawn they will be charged to the "Personal" account, the entry being carried through the left-hand (debit) "Personal" column of the Journal and from there to the left side of the partner's personal account.

*Where More Than One Personal Account Is Carried.*

At this time a point of procedure, previously mentioned in the explanations of the Journal, might again be mentioned and explained in more detail. Because of the great preponderance of individual owners, no folio column is provided for the "Personal" columns in the Journal. Where only one owner is to be considered the totals of these columns may be carried direct to the "Personal" account. Where there are two or more partners but only one is actively engaged in carrying on the business, these columns may be reserved for items affecting the active partner's "Personal" account.



The totals will then be carried to that partner's "Personal" account. Entries to be made to the "Personal" account or accounts of the other partners would probably be much less frequent. These could then be entered in the "General" columns of the Journal and carried individually from there to the accounts. When two or more partners are active in the business, there will usually be frequent entries to the "Personal" accounts of each. Under these circumstances it is probably a more satisfactory procedure to enter all personal items in the "Personal" column and then carry each item individually to the account affected. There will seldom be a case where figures will appear on the same line in both the "General" and the "Personal" columns; therefore the folio columns provided for the "General" columns may be used to show the ledger page numbers for these items.

#### WITHDRAWALS

It has been stated that many partnerships are formed with no written agreements and frequently without any definite understanding regarding many of the vital points which come up in the relationship so created. Even when the point of salaries has been settled, the point of additional drawings is frequently a matter of friction and contention. Particularly is this the case when funds run low, and this condition often arises with surprising abruptness or lack of warning. Under these circumstances, the parties concerned, or some of them, frequently find that they must have some funds from the business to meet necessary personal expenses. It is seldom that the personal requirements of two men are the same. As a consequence, what may seem a reasonable amount of withdrawals for one man may seem very unreasonable when viewed from the standpoint of another. If the partners have all kept their drawings within previously agreed limits, little if any fault can be found when such conditions arise. If one or more of the partners has overdrawn the prescribed amounts, there is a

definiteness of responsibility which precludes circuitous arguments. Those who have overdrawn must then submit to penalties which have previously been agreed upon, such as interest charges on excess drawings, accepting a lower per cent of profit, or having a higher per cent of loss charged against their accounts.

*(c-1) Entries Showing Partners' Withdrawals.*

The entries required to record partners' drawings of money are explained in the second entry shown under (b-2). If one of the partners took some feed, stock, or other item from the ranch property the value would be recorded in the "General" column and in the "Personal" column. In this case, it is assumed that A took a horse valued at \$100.00 from the stock on the ranch for the personal use of some member of his family. The charge is made in the left-hand (debit) "Personal" column and the effect on the "Horse Inventory" is recorded in the right-hand (credit) "General" column from which it is carried to the right side of the "Horse Inventory" account. Proper notation should, of course, be made on the "Horse Inventory" sheet.

### DIVISION OF PROFITS OR LOSSES<sup>2</sup>

There are a number of methods used to divide partnership profits and losses. This is only natural when consideration is given to the variety of conditions under which partnerships are formed. Too much space would be required to explain all of the principles and to illustrate the methods with the variations which arise when profits are small or when losses are sustained. A partial list of methods and illustrations will be given. When such problems occur the rancher and the lawyer should confer with a competent accountant as matters of a very technical nature may arise either directly, or as a result of precedents which may be established.

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<sup>2</sup>For reference see author's text "Elements of Accounting," pp. 357-375. Ronald Press Co., New York.



### Direct methods.

Profits and losses divided equally between the partners.

The courts ordinarily recognize this method where no agreement exists stipulating other methods.

Salaries as a part of profits. The matter of salaries has been discussed.

Interest on investment.

Interest will not be considered as a part of the division of profits unless it is specifically agreed between the partners. Unless these agreements are very carefully worded they will, in event a loss is suffered, increase the proportion of loss for the partner having the smaller capital.

Profits and losses divided according to capital ratio. Under these conditions, three partners having investments of \$20,000, \$30,000, and \$50,000, respectively, would receive profits or bear losses in the proportion of two-tenths, three-tenths, and five-tenths.

When making such agreements, the matter of drawings should be carefully considered.

### Arbitrary methods.

It is frequently agreed between the members of a partnership that profits shall be divided according to arbitrary ratio which roughly takes care of such matters as salaries and interest, thus: A might receive seventy-five per cent and B twenty-five per cent.

### Combination methods.

All things considered, a combination of the above methods will probably give the greatest lasting satisfaction. When one or more of the partners gives his time to the business, he is entitled to wages. Dissatisfaction arising out of unequal investments will be decreased if each receives interest on his relative investment. The balance of the profits, if any, may then be divided equally or according to any arbitrary ratio desired by the partners. Such an agreement should also include a statement that, in the event profits are not sufficient to cover the salary and interest, such profits as are realized will be divided in this proportion, and also that in the event of losses they shall be distributed according to an agreed ratio.

In the following illustrations it will be considered that, first, a profit of \$20,000 was realized during the first year, and that second, a loss of \$10,000 was suffered during the first year.

*Equal Ratio.*

(d-1-a) *Profit divided equally.*—In this case, the amount of the profit is entered in the left-hand (debit) "General" column of the journal and the amount due each of the partners is recorded in the right-hand (credit) "General" column. The figure recorded in the debit column will then be carried to the left side of the "Profit and Loss" account. This entry will "balance" that account. The figures in the right-hand (credit) column will be carried to the right side of the respective personal accounts. The balance of these accounts may then be closed into the capital accounts. (It is assumed in this case that A has withdrawn \$2,000 which was charged to his "Personal" account and that B has withdrawn \$1,000 which was similarly charged.)

NOTE.—When salaries of one or more partners are credited to the "Personal" account and subsequent drawings are charged to these accounts, the profits are frequently taken directly to the "Capital" accounts, thus leaving the "Personal" accounts "open."

(d-1-b) *Loss divided equally.*—This entry shows how to make the entries when a loss has occurred. The first entry is exactly the reverse of the one preceding. The second entry is the same as though a profit had been realized except that the drawings must be added to the amount of the loss in order to close the "Personal" account, whereas the drawings were deducted from the profits in the previous entry. These entries showing the closing of the "Personal" account into the "Capital" account are not repeated in the following examples as there would be no change in the general procedure.

(d-2-a) (d-2-b) *Capital ratio.*—In this case it is assumed that A and B are to divide profits and losses according to their relative investments as they are shown on the

books at the first of the year. At that time A's "Capital" account showed a balance of \$110,900 and B's "Capital" account \$100,000. Unless special stipulations are made showing a different intent losses would be charged to the partner's accounts in the same proportion that profits would be credited. In entry (d-2-a) the \$20,000 of profits are divided  $110,900/210,900$  to A, and  $100,000/210,900$  to B. The losses are divided in the same manner in the entry (d-2-b).

(d-3-a) *Salaries and interest taken into consideration. Profits in excess of these amounts.*—In this case, the salary amount is considered as a part of the profit distribution rather than an operating expense. Interest on each partner's investment is also considered in the distribution. For the sake of clarity each step, the salary, the interest, and the distribution of the profit in excess of these amounts, is shown as a separate journal entry in this illustration. It is assumed that the salary is \$2,400, the interest rate six per cent, and that A and B have agreed to divide excess profits on the basis of A sixty per cent, and B forty per cent. Before any of these entries are made, the net profit for the year would have to be determined. In this, as in the other illustrations, the profit is assumed to be \$20,000.

The first entry charges the "Profit and Loss" account and credits to A's account the amount of his salary.

The second entry takes an amount equal to six per cent on the total invested capital at the beginning of the year from the net profits. This amount is debited to the "Profit and Loss" account and credited to each partner in the proportion of his relative investment.

The last entry divides the remaining net profit on the agreed forty-sixty per cent basis and transfers it from the "Profit and Loss" account to the partners' accounts. This last entry would "close" the "Profit and Loss" account.

(d-3-b) *Profits less than the agreed amount of salary and interest.*—In many partnership agreements where salary and interest, one or both, are taken into consideration the wording is such that when profits are small or when a

loss is suffered, the partner whose net credit for salary or interest, one or both, is smaller will receive a smaller proportion of the profits, or suffer a greater loss. To avoid this occurrence it is assumed that it has been made a part of the partnership agreement that "in event profits are not sufficient to cover salaries and interest, such profits as are realized will be divided in these proportions." This being the case the total credit to both partners for these items is taken as the denominator of a fraction and each partner's credit as the numerator. Thus, the total credits for salary and interest were,

Salary .....	\$ 2,400.00
Interest .....	12,654.00
Total .....	<u>\$15,054.00</u>

Of this \$15,054.00, A received \$9,054 and B received \$6,000.00; therefore, such profits as are realized would be divided—

A .....	9,054/15,054
B .....	6,000/15,054

With this simple calculation at hand the journal entry may be made transferring the entire profit, considered in this case to be \$7,500, in proper proportions, from the "Profit and Loss" account to the partners' accounts.

(d-3-c) *Loss sustained.*—In this case, it is assumed that a loss of \$10,000 was sustained and that the partners had agreed to divide losses in the same proportion as excess profits, namely, A sixty per cent, B forty per cent. The loss is then transferred from the "Profit and Loss" account to the partners' accounts in these proportions.

## CORPORATIONS

Because of the limitations in the probable life of a partnership, the unusual amount of latitude in management matters given to minor investors, and the unlimited liability of each member of the partnership, many men feel that the corporation is a much more satisfactory form of ownership.

Although the general trend toward the corporate form is probably less evident in the livestock business, it is felt that some consideration should be given to corporate accounting problems.

A corporation is, in the eyes of the law, a separate entity. In many respects it is separate and apart from the stockholders who own it. The corporation, as such, has certain definite obligations towards third parties which are purely *its* obligations and which cannot be carried back to the stockholders who are the owners. Furthermore, all of the stockholders may die without in any way affecting the life of the corporation. The creation of this separate entity is a function of the State. The State exercises the function upon the request of certain persons (usually three or more, one or more of whom must be a citizen) after these persons have met the State requirements and filed a petition setting out a number of points prescribed by the corporation law of the particular State. When this petition has been approved by the proper state officials, it becomes the charter of the corporation. Drawing up the certificate of incorporation and carrying it through the proper procedure to obtain approval is a legal matter. Information regarding the amount and classes (if any) of capital stock which the corporation is permitted to issue should be taken from the certificate or charter and made a matter of record on the books of account. In some states stock may not be issued before a permit is secured from the proper state officials.

It is assumed that ranchmen will have little occasion to form corporations with a complicated capital structure; therefore, the illustrations will be limited to a corporation with no preferred stock and only one class of common stock, with a par value of \$100.00 a share. It will be assumed that the State has authorized the corporation to issue up to \$250,000.00 of this stock. It will also be assumed that A and B are to be stockholders, each making the same contributions as those illustrated in Figure 23. In addition to A and B, it will be assumed that C, an accountant, and D, an

# JOURNAL

DATE	NAME	EXPLANATION	BANK		Ledger folio	GENERAL		PERSONAL	
			DR. DEPOSITS	CR. WITH- DRAWALS		DR	CR	DR	CR
	(1) Unissued Capital Stock	To bring authorized Capital				250,000 00			
	Capital Stock Authorized	Stock on the books					250,000 00		
	(2) A Subscriber	To record subscriptions.				115,000 00			
	B "					100,000 00			
	C "					5,000 00			
	D "					5,000 00			
	Subscription	See charter					225,000 00		
	(3a)								
	Assets (net)	To record assets and	15,200 00			106,400 00			
	Liabilities	liabilities taken over					10,900 00		
	A Subscriber	from A. See minutes, Page —					110,900 00		
	(3b)								
	Assets	To record assets taken over from B. Minutes, Page —	25,000 00			75,000 00			
	B Subscriber						100,000 00		
	(4a)								
	Organization Expense	To record indebtedness to C and D. for services in organizing the Corporation. See Minutes, Page —				10,000 00			
	C						5,000 00		
	D						5,000 00		
	(4b)								
	C.	To transfer the credits to C. and D. to their.				5,000 00			
	D.					5,000 00			
	C Subscriber.	Subscription accounts. See Minutes, Page —					5,000 00		
	D Subscriber						5,000 00		
	(5)								
	Organization Expense	Approved. See Minutes, Page —		500 00		500 00			
	(6)								
	Subscriptions	To record the issue of stock certificates 1 to 4.				220,900 00			
	Unissued Capital Stock						220,900 00		
	(7)								
	P. and L.	To transfer the profit to Surplus				20,000 00			
	Surplus						20,000 00		
	(8)								
	Surplus	To write off a portion of organization expense. See expl. Minutes, Page —				2,500 00			
	Organization Expense						2,500 00		
	(9)								
	Surplus	Dividend declared date — see minutes, Page —				11,045 00			
	Dividends Payable	Payable, date —					11,045 00		
	(10)								
	A	Payment of		2,772 50					
	B	1st half of		2,500 00					
	C	5% dividend		125 00					
	D.	See Minutes		125 00					
	Dividends Payable	Page —							
	(11)								
	Deficit	To transfer the				10,000 00			
	P. and L.	Loss to Deficit					10,000 00		
	(12)								
	Surplus	To close the				6,450 00			
	Deficit	P. and L. a/c into				3,545 00			
	P. and L.	Surplus and the excess to Deficit.					10,000 00		
	(13)								
	Surplus	To close Deficit Account into Surplus Account.				10,000 00			
	Deficit						10,000 00		

FIGURE 24

attorney, each practicing in the county seat, are to be stockholders of the corporation. C is to act as secretary of the company. C and D are each to receive \$5,000.00 in stock for their services<sup>3</sup> in connection with the organization of the corporation. To summarize:

Authorized Capital Stock..... \$250,000.00

Par Value, \$100.00 a share

A and B are the principal stockholders, each making the same contributions that were illustrated for partnerships.

C and D are also to be stockholders. Their stock is to be issued to them in payment of service connected with the organization of the corporation.

There are a number of acceptable methods employed by accountants in opening the books of a corporation. A trained accountant may use any of these or a combination of them with entirely satisfactory results. The method used in the following illustrations has been adopted because it seems to follow more closely than others the various steps which arise at the time a business is incorporated and takes care of subsequent changes which would affect these accounts.

(1) *Recording authorized capital stock.*—The information required for this entry would be taken from the charter. If there were preferred as well as common stock, a similar entry would be made for each class of stock.

(2) *Subscription agreement.*—Each man who agreed to become a stockholder will, as a rule, be asked to sign a subscription agreement. It is good practice to make a record of these subscriptions on the books. In some subscription agreements, the subscription is dependent on whether the corporation, or its promoters, does certain things, such as obtaining a given amount of subscriptions. In other agreements no such contingencies exist. When the conditions cited have been met, the subscriber becomes indebted to the corporation for the amount of his subscription. He may

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<sup>3</sup>Some state laws have special stipulations regarding capital stock issued for services. Care should be used not to make book entries which conflict with the statutes of the state in which the business is incorporated.

settle this indebtedness by paying for the stock at once, but frequently he pays for it at some later date. The amounts due the corporation from each subscriber should be set up in an individual account under the subscriber's name and marked "Subscribers" to differentiate it from the other accounts. The amount of individual subscription will be carried to the left (debit) side of this account.

The contra entry will be carried to the right (credit) side of an account called "Subscriptions." Although a separate account will be opened for each subscriber, only one "Subscription" account need be opened. All credits for these transactions will be carried to this account. The "Subscription" account represents the total potential proprietorship.

(3-a) *Partial or complete payments by subscriber.*—When either partial or complete payments are received, whether in cash, property, or both, the asset values are carried to the various accounts in the same manner illustrated for partnerships. These assets are turned over to the corporation in payment of the indebtedness of the subscriber. This indebtedness must then be reduced by an amount equal to the *net* value of the items received by the corporation. In (3-a), A turned over \$127,800 in assets, less \$6,000.00, reserve for depreciation, the net value being \$121,800.00, and the corporation assumed \$10,900.00 of his liabilities. The net value received by the corporation was then \$110,900.00. This amount would be carried to the right (credit) side of the "Subscribers" account.

(3-b) This entry is handled in the same manner as (3-a) except that there are no Reserves for Depreciation nor liability items to be considered; therefore, the entire value of the assets received is carried to the right (credit) side of the "Subscribers" account.

(4-a) *Organization expense.*—In the original outline of the corporation under discussion, it was stated that C and D were each to receive \$5,000.00 in stock for their services in connection with the organization. All stock *issued* must



be *fully* paid for. Payment may be in cash, property, property rights, or services.<sup>4</sup> In this case the stock is to be issued for services. So that the books may show each step of the entire agreement, the bills rendered by C and D for services are recorded in this entry together with the liability arising therefrom. At the time the invoices are received the amounts will be charged to the "Organization Expense" account, the entry being carried from the left (debit) "General" column of the journal to the left side of this account. The contra entries showing the liabilities will be recorded on the right (credit) side of accounts opened up for C and D. The amounts will be carried to these accounts from the right (credit) "General" column of the Journal.

(4-b) *Transfer of amounts which corporation owes.*—This entry shows the transfer of the amounts which the corporation owes C and D to the accounts showing a similar liability of C and D to the corporation. In this way the books show that the stock was issued to relieve the corporation of definite liabilities. In most cases where the books are handled by experienced bookkeepers, these two entries would probably be combined. They are shown in this manner so as to illustrate each step.

(5) *Cash expenditures for organization expense.*—Besides the amounts given to C and D in stock for organization work, there will be in most instances some cash expenditures. These expenditures will be for such items as incorporation fees and traveling expenses incident to obtaining the charter. Such expenditures will be made in the same manner as other disbursements, the amount being placed in the right-hand (credit) "Bank" column and the left-hand (debit) "General" column. The latter amount will be carried to the left side of the "Organization Expense" account.

(6) *Issue of capital stock which has been paid for.*—At this point all, or a portion of each subscriber's account has been written off. Each subscriber has contributed either

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<sup>4</sup>*Supra.*

assets or services. A has not contributed all that he agreed to, and as a consequence he is still liable to the corporation and/or its creditors for the unpaid portion. The other subscribers have met their entire obligation. The shares of capital stock should now be issued for the amounts which have been paid. The Stock Certificate book is not unlike an ordinary check book. Special care should be used to see that the stubs are filled out in detail. The certificates will be issued to each of the stockholders as follows:

A will receive stock certificate No. 1 for 1,109 shares.	
Par value	\$110,900
B will receive stock certificate No. 2 for 1,000 shares.	
Par value	100,000
C will receive stock certificate No. 3 for 50 shares.	
Par value	5,000
D will receive stock certificate No. 4 for 50 shares.	
Par value	5,000
Total	<u>\$220,900</u>

To the extent that the stock has been issued to them these men are now stockholders in the full sense of the word. The account showing the amount of potential ownership (the "Subscription" account) must then be reduced as must also the "Unissued Capital Stock" account. This entry reduces these accounts by an amount equal to the par value of the capital stock which has been issued.

The balance of the "Subscription" account now stands:

Original entry (Credit)	\$225,000
Deductions (Debit)	<u>220,900</u>
Balance (Due from A)	\$ 4,100
The "Unissued Capital Stock" account would show:	
Original Entry (Debit)	\$250,000
Deductions (Credit)	<u>220,900</u>
Balance	<u>\$ 29,100</u>

This balance corresponds to the amount (\$25,000) of stock which has not been subscribed plus the \$4,100.00 of A's subscription which has not been paid and consequently for which no stock has been issued.

The difference between the balances of the "Capital Stock Authorized" account and the "Unissued Capital Stock" account should always be equal to the total par value of the stock which has been issued as shown by the stubs of the stock certificate book.

In large corporations, separate accounts, known as "Capital Stock" accounts are opened for each stockholder. In small or "close" corporations, where all of the capital stock which has been issued is held by a few individuals, this procedure is not a necessity.<sup>5</sup> All necessary information can be taken from the stock certificate stubs.

### *Stock Transfers.*

One of the advantages of the corporate form of ownership is the freedom which each stockholder has to transfer his interest in the business, or any portion of it, to another without the consent of the co-owners. When transfers are made in a small corporation such as is here described, the only required procedure is that the original stock certificate must be properly endorsed and returned to the person authorized to keep the stock certificate book.

Complete instructions should be given by the present holder regarding the manner in which the stock is to be transferred. Thus, we may assume that B decided to present each of his sons, X and Y, with a \$25,000 interest in the business. B would endorse the certificate. It would then be placed in the hands of the person keeping the stock certificate book, who would issue another certificate to B (in this case certificate No. 5) for 500 shares. He would also issue a certificate (No. 6) to X for 250 shares and another (No. 7) to Y for a similar amount. Care should be used in each case to fill out all of the required information on the stub of the stock certificate book. Having issued the new certificates, *the old certificate should be securely pasted to the stub from which it was originally detached. Care should be used to see that proper revenue stamps have been affixed to both the stub and the cancelled certificate.*

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<sup>5</sup>Statutes in some states require individual capital stock accounts.

This procedure should be followed each time there is a transfer of stock certificates. Such an exchange does not affect the total amount of corporate stock issued by the corporation; therefore, no entry is required in the books of account.

(7) *Transfer of profit to "Surplus."*—In the business owned by an individual or by a partnership, the net profit or loss shown as the balance of the "Profit and Loss" account was transferred through the "Personal" account to the "Capital" account of the owner or owners. Such profits and losses should *not* be transferred to either the "Unissued Capital Stock" or the "Capital Stock Authorized" accounts. The amount of profit or loss in no way affects the *par* value of the stock which has been issued. Separate accounts are opened to show the amount of increase or decrease in Net Worth from year to year and the balance of the "Profit and Loss" account is carried to these accounts.

In this case, it is assumed that a profit of \$20,000 has been realized. The figure in the left-hand (debit) "General" column of the Journal is carried to the left side of the "Profit and Loss" account. The figure in the right-hand (credit) column of the Journal is carried to the right side of the new account which will be known as the "Surplus" account. The balance of this account will always indicate the surplus (according to the book figures), of net worth over the total *par* value of the capital stock which has been issued.

(8) *Writing off of "Organization Expense."*—At the time of organization, certain charges were made to "Organization Expense." Some expense of this kind is a necessary incident of incorporation. As long as the business is continued the corporate charter will be of value to the organization as a going concern. The balance of this account does not, however, represent anything of tangible or realizable value. "Organization Expense," therefore, should be written off as rapidly as the earnings of the business will permit. It is generally considered good practice to have it eliminated by the end of three to five years. In this case,

it is assumed that the directors have at this time approved a decrease of \$2,500. This amount is carried to the left side of the "Surplus" account from the left-hand (debit) "General" column of the Journal and to the right side of the "Organization Expense" account from the right-hand "General" column of the Journal. The "Organization Expense" account now carries a balance of \$8,000 which should be written off within the next few years.

(9) *Declaration of dividends.*—All disbursements of profits in a corporation must be made in the form of dividends, the amount of which must be passed on by the directors. One of the fundamental rules of corporate law and management is that dividends may only be paid from earnings. The earnings will, of course, be reflected in the "Surplus" account. Another equally important point not recognized by the law, but which must be given equal consideration by the management and directors is whether a sufficient amount of the earnings of the business has been turned into cash to make a dividend possible. When a dividend is "declared" by the directors, a record will be made of the action in the Minute Book. The record should include a statement of the amount (usually stated in terms of percentages) which is to be paid on each share of outstanding stock and the date or dates upon which the payment is to be made. After such a motion has been passed by the Board of Directors, an entry will be made in the books of account, reducing the "Surplus" account by the entire amount of the dividend and opening up a new account known as "Dividends Payable" for this amount. The "Dividends Payable" account is a liability account, as the corporation is liable to the stockholders for the amount of the dividends as soon as notice is given that the dividend has been declared. In this case, it is considered that a five per cent dividend has been declared and that the dividend is to be paid in two installments. As shown in the illustration, the amount entered in the left-hand (debit) "General" column of the Journal is carried to the left side of the "Surplus" account. The figure in the right-hand (credit) "General" column of the journal

is carried to the right side of the "Dividends Payable" account.

(10) *Dividend payments, first installment checks.*—On the date for the payment of the first installment, checks will be drawn to the order of each stockholder for an amount equal to that specified in the minutes of the directors' meeting, in this case  $2\frac{1}{2}$  per cent of par value of the stock. The amount of each check will be placed in the right-hand (credit) "Bank" column. The total amount of the disbursement will be placed in the left-hand (debit) "General" column and will be carried from there to the left side of the "Dividends Payable" account. The liability is thus reduced by the amount of the payment.

(11) *Transfer of loss to "Deficit."*—Entries numbered 7, 8, 9, and 10 are those which arise when the business of the corporation results in a profit. Unfortunately, as all livestock men know, a profit not always results. If a loss of \$10,000 had been suffered during the *first* year, the "Profit and Loss" account would have a debit rather than a credit balance and there would be a smaller excess of assets over liabilities than the par value of the outstanding capital stock. Because of these facts a new account called "Deficit" will be opened. The amount to be entered in this account will be the debit balance of the "Profit and Loss" account, which will be carried to the "Deficit" account from the left-hand (debit) "General" column of the Journal. The same figure will appear in the right-hand (credit) "General" column and be carried from there to the right side of the "Profit and Loss" account, thus closing that account.

If the loss had occurred in some subsequent year after there had been some profits, and as a consequence a surplus had been created, the amount of the loss would be carried to the left side of the "Surplus," providing the balance of the "Surplus" account was greater than the current loss. Under these circumstances the title "Surplus" would replace the title "Deficit" in the first line of the entry.

(12) *Portion of loss to "Surplus," balance to "Deficit."*—In the event a surplus existed but the balance of the account

was not greater than the current loss, an amount equal to the present balance of the "Surplus" account would be carried to that account. Only the difference would then be carried to the "Deficit" account. In this case, it is assumed that the \$20,000 shown in the previous entries was earned the first year and also that the deductions had been made. The "Surplus" account would then disclose the following facts:

Profits .....		\$20,000.00
Less:		
Reduction of Organization Expense .....	\$ 2,500.00	
Dividends .....	11,045.00	13,545.00
Balance .....		\$ 6,455.00

Under these circumstances, \$6,455 of the \$10,000 loss would be entered in the left-hand (debit) "General" column of the Journal and carried from there to the left side of the "Surplus" account, thus closing that account. The balance of the loss (\$3,545) will be entered in the same column of the journal and carried to the left side of the "Deficit" account. As in the previous entry the entire amount of the loss is entered in the right-hand (credit) "General" column and carried to the right side of the "Profit and Loss" account.

(13) *Closing "Deficit" into "Surplus."*—If the loss had been sustained the first year or at some subsequent time, making it necessary to set up a "Deficit" account and if later, profits were again realized, such profits would be carried to "Surplus" in the manner shown in entry No. 7. After this entry had been made the balance of the "Deficit" account (in this case \$10,000) should be closed into "Surplus." The figures would be entered in both the left (debit) and right (credit) "General" columns of the Journal. The figure in the left-hand column would be carried to the left side of the "Surplus" account. The figure in the right-hand column would be carried to the right side of the "Deficit" account, thus closing that account.

## THE LEDGER CONTINUED—INCOME AND EXPENSE ACCOUNTS

### INCOME

The accounting procedure which is described herein is designed to meet the needs of the livestock rancher. Therefore there must be presented statements which will clearly show each year what income has developed from the livestock business as such. The income from livestock operations must not be confused with any other sources of income if an accurate picture of the business and its operations is to be drawn from the accounting records. For this reason the income accounts are divided into two groups: first, those which show the sale of different ranch products, and, second, those which record the income arising from various sources outside of the ranch operations. It is possible that some ranchers may find use for all of the accounts listed under the income classification. In many cases, it will not be necessary to use all of these accounts. It is much better to have too many accounts than too few.

#### SALE OF RANCH PRODUCTS

##### *Cattle Sales.*

All amounts received or which are to be received from the sale of cattle where the title to the cattle has actually passed to the purchaser should be recorded in this account. No amount should be omitted because the payment has not been received, if the transaction has been definitely closed and the rancher has completed his part of the agreement, such as delivery. No amounts should be included unless the transaction is complete.

When cattle are sold at the stockyards, the broker will render an "account sales" report to the rancher (Figure 4). The transaction will be recorded as shown in entry No. 9 in the Journal (Figure 10).



Where cattle are sold in this manner, the actual sale price is the figure which should be carried to the "Cattle Sales" account. Thus, in entry No. 9 in Figure 10, \$3,942.99 is the amount which is placed in the column provided for "Sale of Ranch Products." The difference between \$3,942.99 and the cash received (\$502.05) should be charged to "Selling and Shipping Expense," the entry being made in that column.

On ranches where a registered herd is maintained it will be desirable to divide the "Cattle Sales" into two or three separate accounts, as follows:

Cattle Sales:

Registered Herd  
Pure Bred Herd  
Grade Herd

This division will make possible a separation of the income arising from each class of cattle. Whenever cattle are sold, there should be a record on the "Cattle Inventory" sheet which corresponds to the entry for the sale.

*Mutton Sales.*

This account will be used to record the sale price of sheep. The sale price of high grade or registered rams which are sold to other ranchers should not be included in this account unless such sales are not a regular occurrence. When special rams are raised for sale, a separate account should be maintained to record the income arising from this source.

In general this account will be handled in the same manner as "Cattle Sales."

*Wool Sales.*

The total price for which wool is sold will be recorded under this head. Where flocks of sheep producing wool of a special high grade are kept, it will probably be better to record such sales in a separate sales account. The mechanical details of making entries will be the same for the "Wool Sales" account as they are in "Cattle Sales" and the other income accounts.

*Goat Sales.*

Goat raising has become very popular in some portions of Texas. A number of ranchers have realized substantial amounts from raising goats for sale. Sales of goats should not be confused with other sources of income but should be kept separate. The account will be used to record the income arising from goat sales. Where different breeds of goats are kept for sale, the best results will be obtained by having a separate sales account for each breed. Entries will be made in the same manner as those in the "Cattle Sales" account.

*Mohair Sales.*

The total amounts received from the sale of mohair will be recorded in this account. It is the same in all details as "Wool Sales."

*Service.*

Many ranchers have large investments in high grade breeding stock. The amounts charged for the services of this stock should be recorded in this account. When a number of high grade animals are kept for special breeding purposes, separate accounts should be maintained for each animal. As in the other income accounts, the entries showing the various amounts of income will be carried to the right (credit) side of the account from the column provided for the "Sale of Ranch Products" in the Journal. In the other accounts, occasions will seldom arise, in the routine of ranch business, where an entry will be made on the other (debit) side of the income accounts. Such entries may arise with greater frequency in the "Service" account as the service charge is frequently accompanied by a guarantee covering the success of the mating. Where several attempts are made and mating is unsuccessful the amount of the service charge will, under these circumstances, be returned. To pay this amount a check will be drawn for the amount to be paid. This amount will be entered in the right-hand

(credit) "Bank" column and the left-hand (debit) "General" column of the Journal from where it will be carried to the left side of the "Service" account. This entry will then act as an offset to the item recording the income at the time payment was received.

#### OTHER INCOME

The following account titles are given merely as suggestions or indications of the kind of income which should not be confused with the income arising from the livestock operations. It would, of course, be impossible to include all of the various sources from which income might arise in sufficient proportions to justify the opening of a separate account; therefore, only a few of the more common accounts will be listed. Unless otherwise indicated, the entries to these accounts will be carried to the right (credit) side of the account from the "Other Income" column in the Journal.

##### *Grazing Leases.*

Where portions of the ranch are leased to others for grazing purposes, or where grazing rights are extended to others on a basis of a specified price per head, the amounts earned will be recorded in this account.

##### *Oil Leases.*

Many ranchers have leased certain areas of the ranch to oil companies for the purpose of drilling wells. Such leases are ordinarily based on a flat price per acre or section for the exclusive right of the lessee or his assigns to drill on the prescribed area. Such leases ordinarily require that drilling shall start within a certain length of time and that the rights shall be terminated if oil is not found by a specified date. At the time the money is received on such leases, it may, if the time allowed to bring in a well is all in the current year, be credited directly to this account. If the time limit extends beyond the current year, it would be better practice to credit the amount to an account which we may call "Unearned Lease Income." Under this condition an

amount will be transferred to "Oil Lease" account at the end of the year, which corresponds to the proportionate time the lease has been in force.

In some instances, payments for drilling rights may be received in installments. If the amounts received correspond to the fiscal year of the rancher these amounts may be taken directly to the income account (in the manner illustrated by entry No. 1, Figure No. 25). If the payments are made in advance of the fiscal year the amounts should be entered in the "Unearned Lease Income" account and proper adjustments should then be made at the end of the year (entries No. 2 and No. 3).

It is the general custom in oil territories to allow the owner of the land a royalty on all oil which may be produced under the drilling lease. Payments of royalties are received at frequent intervals. As a rule, these checks will be received before the books are closed for the fiscal period; therefore, the amounts received may be taken directly to the income account. In the event the settlement is withheld until after the time the books were closed and it was possible to determine the amount of oil produced with a reasonable degree of accuracy (which should always be possible), the amount of the income so determined should be credited to the income account and a corresponding charge against the oil company should be placed on the books.

In the following illustrations, entries are given to cover some of the conditions which may occur in connection with oil leases.

1. Receipt of cash for a lease, the terms of which do not extend beyond the current year.
2. Receipt of cash on a lease which extends over succeeding years.
3. Making adjustments at the end of the year.
4. Making adjustments when the lessee has not complied with the terms of the lease.

(1) *Time limit within the current year.*—As the \$3,200 received from the oil company is to be placed in the bank, it will be entered in the left-hand "Bank" column.

## JOURNAL

DATE	NAME	EXPLANATION	BANK			GENERAL			OTHER INCOME	
			DR DEPOSITS	CR WITH- DRAWALS	1st or 2nd	DR	CR		ACCOUNT	AMOUNT
1927	(1)	Received from Utility Oil Co. for drilling rights on Sec. 20 until Oct. 30, 1927	3200 00						Oil Lease	3,200 00
Jan 20	Oil Lease	Received from O.C. Barn for drilling rights on Sec. 21								
June 30	Unearned Lease Income	Unearned Lease Income. Taking up portion of income earned during the cur- rent year	3,200 00			800 00	3,200 00			
Dec. 31	Oil Leases	Taking up balance existing from O.C. Barn as he has for- feited lease				2,400 00	2,400 00			
May 10	Oil Lease									
June 30	Oil Lease	Royalties from Barn Oil Co.	2,000 00						Oil Lease	2,000 00
		Royalties due from Barn Oil Co.				8,400 00			Oil Lease	8,400 00

<i>Boone Oil Co.</i>							
<i>1928</i>							
<i>Dec. 31</i>	<i>Royalties due</i>		<i>\$,000 00</i>				

The other side of the entry will be carried to that portion of the journal set aside for "Other Income." As this income arises from oil leases, an income account will be opened under that name. This account name, "Oil Leases," will be written in the space provided and the amount received in the amount column. It will then be transferred to the right (credit) side of the "Oil Lease" account.

(2) *Rights longer than one year.*—Where the drilling rights extend over a period greater than one year it is often

more convenient to enter the entire amount received as "Unearned Lease Income." Where this is the case the amount may be entered in the "Cash" columns as explained in (1), the contra entry being made in the right-hand "General" column. From there it will be carried to the right-hand (credit) side of the "Unearned Lease Income" account.

(3) *Taking up the income at the end of the year.*—At the end of the year the portion of the amount received on the lease which has been earned during the current year should be taken up as income. This amount will then be transferred from the "Unearned Lease Income" account to the "Oil Lease" account. An entry is therefore made (in this case the amount is considered to be \$800.00) in both the left-hand (debit) and the right-hand (credit) "General" columns of the Journal. The figure in the left-hand column will be carried to the left (debit) side of the "Unearned Lease Income" account thus reducing that account by the amount which is to be taken up as income. The figure in the right-hand column will be carried to the right (credit) side of the "Oil Lease" account.

(4) *Closing the "Unearned Income" account.*—Whenever a balance remains in the "Unearned Lease Income" account and for some reason or other the purpose in carrying this amount as unearned income ceases to exist, the amount may at once be transferred. In this case, it is assumed that the oil company failed to do the required amount of drilling in the allotted time and therefore forfeited its right to continue drilling on the property. Under these circumstances, the \$2,400.00 remaining in the account could at once be transferred to the "Income" account. The balance is therefore entered in both the left- and right-hand "General" columns in the journal. The figure in the left-hand column is carried to the "Unearned Lease Income" account. The figure in the right-hand column is carried to the income account "Oil Leases."

(5) *Receipts of royalties.*—When producing wells are developed and as a result checks are received from the oil

company for royalties due the owner of the land, the amount of these royalties will be taken up in the same manner as the original amounts received for drilling rights. The amount of the check will first be entered in the left-hand (debit) "Bank" column, and will be included in the total of that column showing the amount of cash received for that month. The contra entry will be made in that section of the Journal designed for other income, the name of the account affected, "Oil Leases," being written in the account column and the amount placed in the amount column. This amount will then be carried to the right (credit) side of the "Oil Lease" account.

(6) *Royalties due.*—Where checks are not received before the books are closed and it is decided to set up at that time an amount due from the oil company, the entry will be made to an account receivable and to the income account. Thus, in this illustration, it is assumed that \$8,400.00 is due from the Boone Oil Company. This amount will be entered in the left-hand (debit) "General" column and carried from there to the left side of the account which would be opened under the name of the Boone Oil Company. The contra entry will be carried through in exactly the same way as illustrated in entries (1) and (5).

#### *Interest Income.*

"Interest Income" classifies the amounts which are earned by loaning money or its equivalent to others. This income may arise through the purchase of securities or interest received on outstanding notes receivable, mortgages receivable, or under some conditions where amounts are carried in accounts receivable.

Entries affecting this account are shown in connection with "Securities" (Figure 14) and "Notes Receivable" (Figure 12).



## EXPENSE

In the Expense classification, as in Income, the accounts are divided between those which are used to record the expenses arising from ranch operations and those which are extraneous to the buying, selling, and raising of livestock.

All expense items *should* be entered at the time they are incurred. This practise will be difficult when information regarding these items reaches the bookkeeper through the medium of cancelled checks and items which may be recorded in the rancher's notebook. Every effort should be made, however, to bring them on the books as soon as possible. At the close of the fiscal year special care must be used to make a record of all expense items which have been incurred up to the time the books are closed.

*Cattle Purchases.*

The amounts expended for the purchase of cattle will be recorded in this account, and it will include the actual invoice price of the cattle and in addition thereto, any expense incurred in getting the cattle to the place where they are to be kept. Such expense may include freight, traveling and living expense of attendants accompanying the cattle, insurance, feed during the time of shipment, driving, and extra salaries.

After all such expense has been determined for each purchase of cattle, the total expense should be added to the purchase price of the cattle. Then the cost per head should be determined. This cost can be determined by dividing this extra expense by the total number of head which were purchased and delivered on the required range. An example is given below.

Two hundred head of cattle were purchased, divided as follows:

120	Cows.....	@	\$50.00	\$6,000.00
80	Calves.....	@	10.00	800.00
				<hr/>
				\$6,800.00

The following expenses are incurred in taking the cattle to the ranch:

Wages .....	\$ 75.00
Living expenses of crew .....	30.00
Feed .....	20.00
Total driving expense .....	<u>\$125.00</u>

This expense would then be divided as follows:

$\$125.00 \div 200 = \$0.625$ cost per head.	
Invoice Price .....	\$6,800.00
Driving Expense .....	125.00
	<u>\$6,925.00</u>

The total amount charged to the "Cattle Purchase" account would be \$6,925.00. The figures showing the cost per head should be worked out, however, and shown in Column No. 4A of the "Livestock Inventory" sheet. The information may also appear in the explanation column of the ledger account. From the standpoint of conventional accounting this latter method is rather informal. When transactions are infrequent and subsidiary information is available on the "Cattle Inventory" sheet, it will work out quite satisfactorily.

If, in the foregoing illustration, some of the cattle had been lost between the time they were accepted and the time they were transferred to the desired place, the total purchase cost would then be prorated over those left. This procedure would increase the cost per head but would not affect the total cost. There may be times when extra expense is caused by one group of cattle; thus, in the previous illustration, it might have been necessary to feed the stock because the calves had to be driven more slowly. Under these circumstances, the extra expense should be charged directly to the cost of the calves. If under these circumstances the extra expense amounted to \$50.00 the remaining \$75.00 would be prorated over the entire herd and the \$50.00 charged directly to the calves.

$\$75.00 \div 200 = \$0.37\frac{1}{2}$  per head

$\$50.00 \div 80 = \$0.62\frac{1}{2}$  extra expense per head for calves

The cows would then cost  $\$50.37\frac{1}{2}$  per head

The calves would cost  $\$10.37\frac{1}{2} + .62\frac{1}{2}$  or \$11.00 per head.

If more than one grade of cattle is carried on the ranch, a separate purchase account should be carried for each grade. Care should always be used to see that there is a Purchase account, the classification of which corresponds to each Sales account, whenever there are both purchase and sales transactions involving that grade of cattle during the current fiscal year.

*Sheep and Goat Purchases.*

These accounts are handled in the same manner as "Cattle Purchases."

*Feed and Salt.*

At one time or another the purchase of some feed is necessary on most ranches. This account should carry the amounts spent for feed and salt which are to be used on the ranch. It should not carry charges for feed used to bring newly purchased livestock to the ranch or that which is used when cattle are on their way to market. The former item is a part of cost of the livestock and should be charged to the proper "Purchase" account. The expense incurred in shipping cattle to market should all be charged to "Selling and Shipping Expense." The "Feed and Salt" account will not be charged with the estimated value of feed which is raised on the ranch and then fed to the stock. Such feed may only be taken up as expense when a complete set of cost accounting records is maintained.

*Labor.*

This account should carry the amounts paid to *employees* for carrying on the *routine* work of the ranch. Amounts paid to servants used only in the home of the owner should not be included, as these wages should be charged to the owner's "Personal Account." When extra help is hired to build or repair fences, reservoirs, or buildings, the amount of those payments should go to the proper improvement or repair account.

In some cases, special attendants are hired to look after registered herds. Under these circumstances it would be

best to maintain a separate labor account for the registered herd. In the same way, a separate labor account should be maintained for farm labor if both farm and livestock operations are carried on. When farm operations are kept separate, it may, at times, be necessary to make rather arbitrary divisions between the amounts charged to the two accounts. The maintenance of these two accounts will call attention to the relative amounts of labor expended on each operation, and on the whole will be very much worth while even though there might be a question regarding some of the details.

#### *Round-Up Expense.*

Some ranchmen maintain that round-ups are unnecessary now that the open range is a thing of the past. No doubt it is less necessary to get the brand on calves which are in fenced pastures. But it is difficult to see how the rancher who does not round up his cattle at regular intervals will have any definite check on the number of his cattle.

Round-ups are an extra expense both for labor and board. The amount of such expense should be recorded in this account.

#### *Clipping and Shearing Expense.*

Professional clippers and shearers frequently do this part of the ranch work at a flat rate of so much per head. This account is maintained to record such expenses together with the extra expense of boarding the clipping crew, grinding clippers, depreciation and repairs on clipping equipment, etc.

#### *Auto and Truck Expense.*

The cost of such items as gasoline, oil, tires, repairs, and depreciation, for all passenger cars or trucks used for ranch business should be entered in this account. Care must be exercised not to include the expense wholly incident to the operation of personal cars by the owner or his family, even though these cars are occasionally used for ranch business.

*Veterinary and Drugs.*

Some ranchers consider that the amounts spent for antitoxins, etc., may be satisfactorily classified as "Supplies." To some extent, this belief is true. It is generally conceded, however, that there is a direct relationship between the use of antitoxins and the number of head which die from various infections. If a check is to be maintained on the effectiveness of these preventives it would be well to segregate the expenditures. This account is maintained for that purpose.

*Repairs.*

Practically all "Equipment" or "Improvement" items require more or less repair or upkeep if they are to be kept in good usable condition throughout their estimated life. A house may be built which should have a usable life of twenty-five years. If repairs are not made it is probable that the house would become uninhabitable in ten or fifteen years, if not sooner. In the same way, a fence may have an extended life if repairs are maintained, but after a few posts are broken, if repairs are not made, it becomes practically useless. The cost of all normal repairs should be carried in this account. When the labor for such repairs is carried on by regular ranch employees, it may be impractical to show these amounts in the "Repair" account. All extra labor or materials which are used should be charged so that a comparison may be made from year to year.

*Table Expense.*

This account will carry all of the expense incident to the boarding of ranch employees, such as groceries, meats, wages paid to cooks, flunkies, etc. The main entries to the account will come from posting the total of the special column provided for the account in the journal, although individual postings from the "General" column of the journal will be necessary at times.

The division of living expenses between the family of the owner and the operating expense of the ranch has often

provided a difficult point—at least one upon which there has been no uniform procedure throughout the ranch country. Where a separate table is maintained for the ranch employees, it is relatively easy to segregate the expense items chargeable to that table. When meat and groceries are ordered, they can be charged by the storekeeper on two accounts, one for the crew and the other for the owner's house. Where only one table is maintained, the better procedure would probably be to charge all table expense to this account. At the end of the fiscal year it should be possible to check with substantial accuracy the number of days each employee has received board and the number of days each member of the owners family has been on the ranch. With these figures at hand the proportion of the table expense chargeable to the owner's personal account may be determined and transferred to that account.

Assume that:	Days
Three employees worked 12 months.....	1,080
Two employees worked 3 months.....	180
Fourteen employees worked 20 days.....	280
Five employees worked 3 days.....	15
One employee worked 1 day.....	1
<b>Total employee days.....</b>	<b>1,556</b>
Two members of family on ranch 10 months.....	600
Two members of family on ranch 3 months.....	180
One member of family on ranch 1 month.....	30
<b>Total family days.....</b>	<b>810</b>
Summary:	
Total employee days.....	1,556
Total family days.....	810
	<b>2,366</b>

At the end of the year it may be assumed that the balance of the table expense account amounted to \$3,549.00.

$\$3,549 \div 2,366 = \$1.50$  or daily table cost for each person.

$\$1.50 \times 810 = \$1,215$ , value of board received by family.

The amount entered in the left-hand (debit) "Personal" column of the Journal would then be included in the total which is carried to the left side of the "Personal" account (see page 136). The amount entered in the right-hand

(credit) "General" column of the Journal will be posted as an individual item to the right-side of the "Table Expense" account, thus reducing that account by this amount.

Date			BANK		GENERAL			PERSONAL	
			DR Deposits	CR. Withdrawals	Folio	DR.	CR.	DR.	CR.
	Personal Table Expense	(Adjustment for owner's board)					1,215.	1,215.	

FIGURE 26

### *Depreciation.*

Unlike most expense accounts, the amounts charged to "Depreciation" do not arise directly from the recording of expenditures or liabilities. The amounts charged to this account represent the decrease in value of the different items listed as "Equipment" or "Improvements." The actual amounts which should be charged off will vary according to conditions. It is seldom possible to arrive at a depreciation rate which will exactly equal the life of any particular asset. A number of general studies have been made by various authorities. Pertinent items from some of these studies are given below.

### COST ACCOUNTING

by

J. Lee Nicholson, C.P.A.  
John F. D. Rohrback, B.C.S., C.P.A.

#### *Schedule of Depreciation Rates:*

The following schedule of depreciation rates represents a classification used by one of the largest manufacturing concerns in the country. The majority of the rates have been determined at various conferences held to consider the question. They are endorsed by the writer as they are the results of long and careful study of this subject. The rates apply to a period of one year.

	Per Cent
Land:	
Dams and waterways.....	1½
Roadways and sidewalks.....	4
Wells—Water .....	3
Buildings:	
Housing:	
Dwellings—frame .....	3
Fire-proof:	
Concrete .....	2
Brick .....	2½
Brick and concrete floors.....	2½
Corrugated iron—steel frame, concrete floor.....	2
Reinforced concrete, or steel and tile.....	2
Stone, brick, concrete with or without steel, first-class stone and brick.....	2
Mill or slow-burning buildings, brick, steel, and wood, or brick and wood.....	3
Non-fire-proof:	
Outbuildings .....	7½
Wood .....	5
Substantial wooden buildings.....	5
All-wood structures—well built.....	5
All-wood structures—cheap material.....	7½
Steel or corrugated sheet iron with wood.....	5
Corrugated iron—wood frame and floor.....	5
Corrugated iron—wood frame, concrete floor.....	5
Corrugated iron—steel frame, wood floor.....	5
Concrete block with wooden roofs and floors.....	5
Miscellaneous structures:	
Frames—stables and sheds.....	5
Bins—concrete and brick.....	5
Bins—wood alone.....	20
Fences—wooden .....	10
Fences—wooden and wire mesh.....	8½
Pump .....	5
Retaining walls .....	2-5
Tunnels, underground piping, vaults, and general conduits .....	5
Tanks and reservoirs—steel.....	4½
Tanks and reservoirs—wood.....	8
Small Tools:	
All small tools of an asset nature.....	10
Miscellaneous Equipment:	
Anvils, forges, bending blocks, track and wagon scales, crane scales, portable scales, oil and powder cans, oil filters, storage batteries.....	10
Fixed kettles and scales.....	10
Office furniture and fixtures, including store fixtures:	
Furniture and fixtures.....	10
Partitions .....	7½
Benches .....	8
Trucks and movable racks.....	7½
Typewriters and adding machines.....	20
Telephone equipment.....	7½



	Per Cent
Transportation—local:	
Motor trucks, automobiles, stable equipment, motor boats, etc.	25
Horses and wagons	12½

## PRINCIPLES OF AUDITING

by

Eric L. Kohler, M.A., C.P.A.

and

Paul W. Pettengill, C.P.A.

While depreciation rates vary greatly they may be assumed to be within the range given below.

	Per Cent
Buildings	2–5
Machinery and equipment	7–10
Furniture and fixtures	10–15
Automobiles and trucks	20–50
Patterns	20–40
Small tools	30–50

## INTRODUCTORY ACCOUNTING

by

John A. Powelson, B.A., C.P.A.

It is well for accountants to become familiar with depreciation rates which are considered to be approximately correct. Some of them are as follows:

	Per Cent
Automobiles	20–33½
Machinery	6½–12½
Furniture and fixtures	10–20
Concrete buildings	1½–2
Brick buildings	2–2½
Frame buildings	3½–4

When the amount of depreciation which is to be charged off on each item of "Equipment" or "Improvements" has been placed in the column provided for the current year on the appropriate inventory sheet, the total of this column will be entered in the journal as shown in entries No. 11 and No. 12, Figure 27.

### *Selling and Shipping Expense.*

All expense incident to the sale of cattle, such as commissions, feeding, driving, freight, board and wages of

those attending the cattle, should be charged to this account. In most cases the entries will be made from the total of the column provided in the Journal. This amount will be entered on the left (debit) side of this account. Separate accounts should be carried for Registered Herd, Grade Herd, and sheep or goats.

#### *Taxes and Insurance.*

The amounts of all tax assessments and insurance premiums on ranch property (not on the personal property of the owner or his family) should be charged to this account. As no special column is provided in the journal, these charges will be posted individually from the "Other Expense" or "General" columns of the Journal.

#### *Leases.*

Many ranchers lease a considerable portion of their range. In order not to confuse the expense of leased land with that of property owned, this account is used to segregate all such payments. Repairs to fences, buildings, and reservoirs, taxes which may be paid on the property which is leased, or any other expenditure incident to the lease should be carried to this account and not confused with the expenditures for similar items charged to the other operating expense accounts carried in connection with owned property. As payments of this kind are more or less infrequent no special column is provided. The entries will be made as individual postings from the "Other Expense" columns of the Journal.

#### *Interest Expense.*

All interest payments, or the amounts of discount which may be deducted on notes given to the bank should be charged to this account provided the money is borrowed for ranch business. The entries will come from the "Other Expense" or "General" columns of the Journal, and will be entered on the left (debit) side of the account. Interest paid for money borrowed for personal use or on deferred

payments for personal items, such as automobiles, should be charged to the "Personal" account.

*Miscellaneous Gain and Loss.*

It is impractical to open accounts for all of the various classifications to which expense or income items might be charged or credited. Accounts are opened for those classifications which have relatively frequent or large entries. Infrequent and unimportant items may be posted to this account with a word of explanation in the spaces provided in the account. Illustrations of items which should be carried to this account are shown in many of the foregoing illustrations.

# THE TRIAL BALANCE AND CLOSING THE BOOKS

## THE TRIAL BALANCE

It is ordinarily the custom at the end of each month for the bookkeeper to make a check on the mechanical accuracy of his work. This check need not be made monthly unless the bookkeeper desires to assure himself of the fact that the total amounts which he has entered on the debit side of the ledger are equal to the total amounts which he has entered on the credit side, and vice versa. Not infrequently small sets of books are checked in this way only at the end of the fiscal period.

The process of proving debits and credits in a ledger is known as "the taking of a Trial Balance." It consists of the following operations:

1. Finding the debit or credit balance of each account.
2. Listing the names of the accounts on a sheet of Journal paper and transferring the balance of the account, if it be a credit balance, to the credit column of the Journal paper, and if it be a debit balance, to the debit column of the Journal paper, the credit column being the right-hand money column, and the debit column being the left-hand money column.

If the detail entries have been made correctly to the respective sides of the various accounts, the total of all of the debit entries will necessarily equal the total of all of the credit entries. If, therefore, the total amount of the debit entries in any particular account exceeds the total amount of the credit entries, and the total credits are deducted from the total debits, the result will be the excess of debits over credits. This account will then have a debit balance. Whenever such a condition exists, there must be some other account or accounts which have an equal excess of credit entries over the debit entries. To illustrate, we may receive cash from several sources, such as the sale of stock-in-trade and an additional investment by the proprietor. Each of these transactions will cause a debit entry to the Cash

account and a credit entry to each of the other accounts, respectively, Sales and the Proprietor's Capital account.

CASH		SALES	
100			100
1,000			
J. Jones, Capital			
			1,000

In the above illustration, the Cash account shows a debit balance of \$1,100, while neither of the other accounts, as individual accounts, shows an amount equal to the debit balance in Cash. Still, when taken together, the total of the credit balances is equal to the total of the debit balance in the Cash account. This same principle applies throughout the ledger. Therefore, when each account is balanced, if the work has been mechanically accurate, the total of all the debit balances of the ledger will exactly equal the total of all of the credit balances. The Trial Balance will be as follows:

#### TRIAL BALANCE

Cash .....	\$1,100	
Sales .....		\$ 100
J. Jones, Capital .....		1,000
	\$1,100	\$1,100

Figure 27 shows a Trial Balance taken from accounts similar to those which have been discussed in the foregoing pages. As many of the items used for illustrative purposes could not be carried through, due to repetition, etc., the figures of the Trial Balance will not be the exact ones which would have been accumulated in the accounts shown in the previous illustrations.

## CLOSING THE BOOKS

## ADJUSTING ENTRIES

Most ranchers maintain a fiscal period or year which is the same as the calendar year. At the end of this period, it is necessary to "close" the books, after which statements should be made up. These statements, if properly prepared, will show the results of the year's operations and the financial condition of the business.

Where the improper procedure prevails of making many or all of the expenditure and disbursement entries from the returned checks, it will be necessary to exercise double vigilance at this time. A careful investigation should be made to determine all outstanding checks and all outstanding liabilities for which no checks have been issued. All such items should be charged to the proper asset or expense accounts in the manner which has been explained throughout the preceding pages (see especially pages 114 to 118). The credit entries may all be made to liability accounts opened under the name of the individuals or concerns to whom the rancher is indebted or to whom he has given the uncashed checks.

It may seem odd to some that items for which checks have been given should be brought on the books as liabilities. Where the practice is followed of not entering checks until they are returned by the bank some confusion is quite liable to occur if any checks are recorded as credits to the bank account before they have been returned. All checks which have been issued represent disbursements of cash which have actually been made but which have not, as yet, reduced the balance of cash in the bank. The effect of handling these entries in this manner will be to leave the cash balance at a figure somewhat greater than the true balance and to offset this error by a corresponding increase in the liabilities.<sup>1</sup> When the outstanding checks are later received

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<sup>1</sup>This procedure will cause the Balance Sheet ratios to be somewhat less favorable than would be the case if the cash were reduced in place of increasing the liabilities. This discrepancy will probably be

from the bank by the accountant or the rancher, they may then be recorded in the "Bank" and "General" columns of the Journal in the manner shown by entry No. 4 of Figure 19. These entries will reduce the bank balance to its proper amount and eliminate the liabilities brought on the books at the time they were closed.

At the end of the year it is customary to give especial attention to the accounts and notes receivable which are carried on the ledger. It may be definitely known that some of these will not be paid, and in other cases there may be doubt as to the amount which will be paid.

If the rancher is reasonably certain that one or more of his accounts will not be paid such accounts should be "written off," or closed. To write off the account, the balance is placed in both the left- and right-hand "General" column of the Journal. The figure in the left-hand column is carried to the debit side of a new account known as "Loss on Bad Debts." The figure in the right-hand column will be carried to the credit side of the account which is to be written off, thus balancing that account. (See entry No. 1, Figure 27.)

In other cases where there is some question as to whether all or a portion of the account will be received, the account should not be written off. The anticipated loss should be brought on the books so that the net amount of the accounts receivable will represent only that amount for which it is expected that payment will be received. In making this adjustment, the first step is to estimate as accurately as possible the probable loss. When this figure is determined it will be placed in both the left- and right-hand "General" columns of the journal. The figure from the left-hand column will then be carried to the debit side of the "Loss on Bad Debts" account. Inasmuch as it is not definitely known that the amount estimated will be lost in connection with any of the specific accounts receivable which

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of less importance than the risk of error involved in other methods which must be superimposed upon physical conditions and customs prevalent in the livestock industry.

are now considered, the credit side of this entry will not be carried to these accounts. It will be placed in a new account known as "Reserve for Bad Debts." (See entry No. 2, Figure 27.)

All true accounts receivable have debit balances. When the total sum of these debit balances is shown on the balance sheet the credit balance of the "Reserve for Bad Debts" account will be deducted so that only the net amount will be included in figuring up the value of the assets, thus:

Accounts Receivable.....	\$2,260.00
Less Reserve for Bad Debts.....	200.00
	<hr/>
	\$2,060.00

After completing the necessary corrections for Cash and for Accounts and Notes Receivable, the inventory adjustments may be taken care of. At the close of the year the "Inventory" accounts maintained for each class or kind of livestock and for feed will show the values at the *beginning* of the present period. These must be adjusted so that they will show the values at *this* time, the *end* of the present period. The values of the old inventories are, therefore, closed into the "Profit and Loss" account as debits and credited to the respective "Inventory" accounts. This "closes" the inventory accounts as they have equal amounts posted to each side. The values of the new inventories (shown as the total of Column No. 3 on the Cattle Inventory sheet, made up for the new year, and for the figures showing the values at the end of the year on each of the other inventory sheets) will then be charged to the respective "Inventory" accounts and credited to the "Profit and Loss" account. The results of these entries is to bring into the "Profit and Loss" account figures which will reflect increases or decreases in the carrying value of the particular kind of feed or livestock for which the entries are made. This procedure will be carried on for each kind of livestock or feed for which separate inventories are maintained. (See entries 3, 4, 5, 6, 7, 8, 9, 10, Figure 27.)



The entering of depreciation will involve entries to an expense account and to an asset or a valuation account as the case requires. The total amount of the depreciation which is to be charged off at the close of any particular year will be the total of the depreciation column carried for that year on the particular inventory sheet. (See Figures 8 and 9.) The decrease in usable value of these assets resulting from the ranch operations represents an expense which should be charged to the year's operations. The amount is, therefore, charged to the "Depreciation" account, which is an expense account. The credit to this entry is made in the "Equipment" account if it is equipment depreciation, or to the "Reserve for Depreciation of Improvements" if it is improvement depreciation that is being recorded. (See Figure 16 and entries Nos. 11 and 12, Figure 27.)

In many sets of books the foregoing adjustments are all that may be necessary before the actual closing entries are made if the routine entries have been made correctly. In books kept for the larger ranches substantial accuracy can seldom be obtained without going over the various *expense* and *income* accounts to see what items should be *accrued* and what items should be *deferred*. This procedure will require a review of the transactions which have caused entries to each expense and income account and a check on the transactions of the business to see if any have not been entered. In most instances a review of the ranch operations and of the journal entries will be required. As each entry or at least each important entry to the income account is reviewed it should be subjected to the following analysis:

- (a) Does this represent an item which has been brought on the books but which has not been fully earned? If the entire amount entered has not been earned the unearned amount should not be carried to the "Profit and Loss" account as an earning of the current year. Such unearned amounts should be transferred to an account known as "Deferred Income." An example of such an entry would be where interest had been received in advance. It may be assumed that the maker of a \$5,000 6 per cent note made an interest payment on December 1 for the succeeding six months. At the time

the \$150 was received it would be charged to the bank and credited to Interest Income. Of this amount, only one-sixth would have been earned by the end of the year. Five-sixths, or \$125, represents a payment which has been received this year but which will not be earned until after the close of the year, thus bringing it into the operations of next year. One hundred and twenty-five dollars should, therefore, be considered as deferred income. (Entry No. 13, Figure 27.) This same condition might arise on many transactions such as rental income, grazing rights, and oil leases.

- (b) Following this analysis each account in the operations of the business should be considered to determine if any income has been earned which has not been brought on the books. Such income having been earned should be shown in the account for the current year. It will, therefore, be credited to the appropriate income account and debited to an account known as "Accrued Income."

As an example, it may be considered that the rancher owns \$10,000 worth of 4 per cent bonds, the interest payment dates being April and October. The last interest payment would probably have been received during October paying the interest during the period from April to October 1; therefore, three months interest (\$100) has been earned and would be considered as Accrued Income (Entry No. 14, Figure 27). Other occasions might arise in connection with such items as Notes Receivable, Oil Royalties, and Rental Income.

After the income for the period has been reviewed in this manner, the expense accounts should be subject to the same analysis.

- (a) Has any expense been brought into the books which has not been used?
- (b) Has any expense been used (or incurred) which has not been brought on the books?

An example of "Deferred Expense" (a) would be the cost of fence wire which had been purchased for repairs amounting to \$500, and one-half of it, or \$250 worth, was on hand at the end of the year. This wire represents something of value which is on hand; therefore, it should not be charged to the expenses of the current year. The "Repair" account will then be credited with \$250 and a new account known as "Deferred Expense" will be debited (Entry No. 15, Figure 27). Other occasions where such adjustments might be necessary would be Table Expense, Taxes, Insurance, Rent, and Interest.

A common example of Accrued Expense (b) would arise in connection with Interest Expense. The rancher may have signed a ninety day 8 per cent note for \$15,000, interest payable at maturity. Assume he has had the use of the money for thirty days; as a consequence interest has accrued during this time amounting to \$100. This amount should be included in the expense for the current year, and, therefore, it will be charged to the "Interest Expense" account and credited to an account known as "Accrued Expense" (Entry No. 16, Figure 27). Other occasions where this might arise would be in Table Expense, Taxes, and Selling and Shipping Expense.

### CLOSING ENTRIES

The closing entries, like the periodic adjustment entries, are only made at the end of a fiscal period. The adjustment entries were required to bring into, or to relieve, the income and expense accounts of certain figures which could not have been placed or adjusted during the year without greatly increasing the detail work. After the adjustments have been made, the balance of each income and each expense account will be "closed" into the "Profit and Loss" account.

The "Profit and Loss" account is used *only at the close* of the fiscal period<sup>2</sup> and solely for the purpose of accumulating the balances of the various expense and income accounts together with the various inventory figures *other* than the inventory of Equipment, Improvements, and Land.

When these figures have been transferred to the "Profit and Loss" account, all of those which have tended to increase the net worth will be on the right side and all of those items which tend to decrease net worth will be recorded on the left side of this account. The difference between the two sides of the account will then represent the profit or loss for the period. The entries required to transfer the figures from the various accounts will first be made

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<sup>2</sup>Many bookkeepers have acquired the habit of entering many miscellaneous items directly into the "Profit and Loss" account. This practice is not considered good as it confuses individual items with group totals.

in the Journal. They will then be posted from there to the ledger. The manner of doing this is illustrated in the following descriptive entries.

The closing illustrations start with a trial balance such as might be taken from the books of any rancher who raises cattle, sheep, and goats. These figures as explained in the section on the Trial Balance represent the balances of the various accounts at the end of the fiscal or calendar year. Following the trial balance are the illustrative adjustment entries, at least some of which will have to be made in any set of books. Following these are the closing entries. After the books have been closed, the statements, namely the Balance Sheet and Profit and Loss statement, should be made up. Then the income tax returns will be prepared. Starting with the trial balance, each of these steps (except the income tax statement) is illustrated in the order named.

## TRIAL BALANCE

December 31, 1930

	Debit	Credit
Cash on Hand.....	\$ 12,720.00	
Notes Receivable.....	12,700.00	
Accounts Receivable.....	2,335.00	
Cattle Inventory.....	34,011.50	
Goat Inventory.....	595.00	
Sheep Inventory.....	840.00	
Feed Inventory.....	600.00	
Securities Owned.....	9,650.00	
Land.....	68,480.00	
Equipment.....	3,560.40	
Improvements.....	22,500.00	
Reserve for Depreciation on Im-		
provements.....		\$ 900.00
Accounts Payable.....		900.00
Notes Payable.....		1,200.00
Mortgages Payable.....		41,440.00
Personal Drawings.....	1,200.00	
Capital Account.....		112,839.40
Cattle Sales.....		28,755.80
Mutton Sales.....		2,150.00
Wool Sales.....		350.00
Goat Sales.....		598.75
Mohair Sales.....		452.00
Service Income.....		275.00
Grazing Income.....		190.00
Oil Lease Royalties.....		120.00
Interest Income.....		362.00
Miscellaneous Income.....		65.00
Cattle Purchases.....	13,179.50	
Sheep Purchases.....	1,475.00	
Labor.....	2,260.00	
Round-Up Expense.....	236.00	
Clipping and Shearing Expense.....	175.00	
Repairs.....	500.00	
Veterinary and Drug Expense.....	35.20	
Gasoline and Oil.....	165.70	
Table Expense.....	1,210.25	
Selling and Shipping Expense.....	580.40	
Feed Expense.....	1,000.00	
Taxes and Insurance.....	345.00	
Miscellaneous Expense.....	244.00	
	<hr/>	<hr/>
	\$190,597.95	\$190,597.95

FIGURE 27

## JOURNAL

DATE	NAME	EXPLANATION	BANK		Indg. cr. file	GENERAL	
			DR. DEPOSITS	CR. WITH- DRAWALS		DR.	CR.
	(1) Bad Debts	To write off uncol- lectible amount owed us by				75 00	
	Accounts Receivable	D. Y. Sharp					75 00
	(2) Bad Debts	To cover possible loss on accounts now in the books.				200 00	
	Reserve for Doubtful Accounts						200 00
	(3) Profit and Loss	To close the old inventory into Profit and Loss.				34,011 50	
	Cattle Inventory						34,011 50
	(4) Cattle Inventory	To bring the new inventory into the books.				34,301 20	
	Profit and Loss						34,301 20
	(5) Profit and Loss	To close the old inventory into Profit and Loss.				840 00	
	Sheep Inventory						840 00
	(6) Sheep Inventory	To bring the new inventory into the books.				560 00	
	Profit and Loss						560 00
	(7) Profit and Loss	To close the old inventory into Profit and Loss.				585 00	
	Goat Inventory						585 00
	(8) Goat Inventory	To bring the new inventory into the books.				460 00	
	Profit and Loss						460 00
	(9) Profit and Loss	To close the old inventory into Profit and Loss.				600 00	
	Feed Inventory						600 00
	(10) Feed Inventory	To bring the new inventory into the books.				400 00	
	Profit and Loss						400 00
	(11) Depreciation	To bring the equipment depreciation into the books.				712 08	
	Equipment						712 08
	(12) Depreciation	To bring the improve- ment depreciation into the books.				900 00	
	Reserve for De- preciation of Improvts						900 00
	(13) Interest Income	To defer the in- come arising from advance payments of interest.				125 00	
	Deferred Income						125 00
	(14) Accrued Income	To bring into the books interest which has accrued on bonds.				100 00	
	Interest Income						100 00
	(15) Deferred Expense	To defer the expense of un- used wire.				350 00	
	Repairs						350 00
	(16) Interest Expense	To bring onto the books accrued inter- est on notes pay- able.				100 00	
	Accrued Expense						100 00

FIGURE 28

JOURNAL							
DATE	NAME	EXPLANATION	BANK		Ledge or file	GENERAL	
			DR. DEPOSITS	CR. WITH- DRAWALS		DR.	CR.
	(17)						
	Cattle Sales					28,765 00	
	Hutton Sales					2,180 00	
	Wool Sales					350 00	
	Goat Sales					598 75	
	Mohair Sales					482 00	
	Services					275 00	
	Grazing Leases					190 00	
	Oil Royalties					120 00	
	Interest Income					337 00	
	* Miscellaneous Income					65 00	
	Profit & Loss						33,243 55
	To close the income ac- counts to P. & L.						
	(18)						
	Profit & Loss					23,143 13	
	Cattle Purchases					13,179 50	
	Sheep Purchases					1,475 00	
	Goat Purchases						
	Feed and Salt					1,000 00	
	Labor					3,496 00	
	Clipping & Shearing Expense					175 00	
	Auto Truck Expense					165 70	
	Veterinary Expense					35 20	
	Repairs					350 00	
	Table Expense					1,210 25	
	Depreciation					1,612 08	
	Selling and Shipping Expense					580 40	
	Taxes and Insurance					345 00	
	Bad Debts					275 00	
	Interest Expense					100 00	
	* Miscellaneous Expense					244 00	
	To close the expense accounts to P. & L.						
	(19)						
	Profit and Loss					9,865 12	
	Proprietor's Capital						9,865 12

FIGURE 28

\*If the Miscellaneous Gain and Loss account had a credit balance, it would be closed with the income accounts. If it had a debit balance, it would be closed with the expense accounts.

## BALANCE SHEET

December 31, 1930

*ASSETS*

<b>Current Assets</b>		
Cash .....	\$ 12,720.00	
Notes Receivable.....	12,700.00	
Accrued Income.....	100.00	
Accounts Receivable.....	\$ 2,260.00	
Less: Reserve for Doubtful Accounts.....	200.00	2,060.00
<b>Inventories:</b>		
Cattle .....	34,341.20	
Goats .....	460.00	
Sheep .....	560.00	35,361.20
Securities Owned.....		9,650.00
<b>Total Current Assets</b>		<b>\$ 72,591.20</b>
<b>Deferred Expense</b>		
Feed Inventory.....	400.00	
Repairs .....	250.00	
<b>Total Deferred Expense</b>		<b>\$ 650.00</b>
<b>Fixed Assets</b>		
Land .....	68,480.00	
Equipment .....	2,848.32	
Improvements .....	22,500.00	
Less: Reserve for Depreciation .....	1,800.00	20,700.00
<b>Total Fixed Assets</b>		<b>\$ 92,028.32</b>
<b>Total Assets</b>		<b>\$165,269.52</b>

*LIABILITIES AND CAPITAL*

<b>Current liabilities</b>		
Notes Payable.....	\$ 1,200.00	
Accounts Payable.....	900.00	
Accrued Expense.....	100.00	
<b>Total Current Liabilities</b>		<b>\$ 2,200.00</b>
Deferred Income.....	125.00	
<b>Fixed Liabilities</b>		
Mortgages Payable.....	41,440.00	
<b>Total Liabilities</b>		<b>\$ 43,765.00</b>



# Accounting Procedure for Livestock Ranches 191

<b>Capital</b>		
Capital, Jan. 1, 1930.....	112,839.40	
Add: Profits for year.....	9,865.12	
	<u>\$122,704.52</u>	
Less: Drawings.....	1,200.00	
	<u></u>	
Capital, Dec. 31, 1930.....		\$121,504.52
		<u></u>
<i>Total Liabilities and Capital</i> .....		<b>\$165,269.52</b>

## NET WORTH SECTION

### PARTNERSHIP BALANCE SHEET

<b>A—CAPITAL, Jan. 1, 1930</b> .....	\$56,419.70	
Less: Drawings.....	600.00	
	<u>\$55,819.70</u>	
Add: One-half Profits.....	4,932.56	
	<u></u>	
Capital, Dec. 31, 1930.....		\$ 60,752.26
<b>B—CAPITAL, Jan. 1, 1930</b> .....	\$56,419.70	
Less: Drawings.....	600.00	
	<u>\$55,819.70</u>	
Add: One-half Profits.....	4,932.56	
	<u></u>	
Capital, Dec. 31, 1930.....		\$ 60,752.26
		<u>\$121,504.52</u>

## NET WORTH SECTION

### CORPORATION BALANCE SHEET

<b>Capital Stock</b> .....		\$100,000.00
Surplus, Jan. 1, 1930.....	\$12,839.40	
Add: Profits for year.....	9,865.12	22,704.52
	<u></u>	<u></u>
		<b>\$122,704.52</b>

Note.—On Corporation Balance Sheet \$1,200.00 should be shown as a Current Asset as "Due from Officers." This \$1,200.00 on partnership and individual balance is shown as Drawings.

There will be no change in any other account as the Surplus account takes care of the \$1,200.00 on the credit side.

FIGURE 29

## PROFIT AND LOSS STATEMENT

For the Period, January 1, 1930, to December 31, 1930

Cattle Sales.....		\$28,755.80	
Inventory, Jan. 1, 1930.....	\$34,011.50		
Purchases .....	13,179.50		
	<u>\$47,191.00</u>		
Deduct: Inventory,			
Dec. 31, 1930 .....	34,341.20	12,849.80	
Gross profit from cattle.....			\$15,906.00
Mutton Sales.....		\$ 2,150.00	
Wool Sales .....		350.00	
		<u>\$ 2,500.00</u>	
Total sheep sales.....			
Inventory, Jan. 1, 1930.....	\$ 840.00		
Purchases .....	1,475.00		
	<u>\$ 2,315.00</u>		
Deduct: Inventory,			
Dec. 31, 1930 .....	560.00	1,755.00	
Gross profit from Sheep.....			745.00
Goat Sales.....		\$ 598.75	
Mohair Sales .....		452.00	
		<u>\$ 1,050.75</u>	
Total Goat Sales.....			
Inventory, Jan. 1, 1930.....	\$ 595.00		
Deduct: Inventory,			
Dec. 31, 1930 .....	460.00	135.00	
Gross profit from Goats.....			915.75
Total gross profit.....			<u>\$17,566.75</u>
Operating Expenses			
Labor .....		\$ 2,260.00	
Round-Up Expense.....		236.00	
Clipping and Shearing			
Expense .....		175.00	
Repairs .....		250.00	
Veterinary and Drug			
Expense .....		35.20	
Gasoline and Oil.....		165.70	
Table Expense.....		1,210.25	
Selling and Shipping			
Expense .....		580.40	
Taxes and Insurance.....		345.00	
Feed Expense.....		1,200.00	
Miscellaneous Expense.....		244.00	
Depreciation Equipment.....		712.08	
Depreciation Improvements.....		900.00	
Bad Debts.....		275.00	
		<u>\$ 8,588.63</u>	
Total Operating Expense.....			\$ 8,588.63
Net Profit from Operations			<u>\$ 8,978.12</u>

PROFIT AND LOSS STATEMENT (Continued)

Net Profit from Operations (Carried forward).....		\$ 8,978.12
Other Income		
Service Income.....	\$ 275.00	
Grazing Income.....	190.00	
Miscellaneous Income.....	65.00	
Oil Lease Royalties.....	120.00	
Interest Income.....	337.00	
	<hr/>	
Total Other Income.....	\$ 987.00	
Other Expense		
Interest Expense.....	100.00	
	<hr/>	
		887.00
		<hr/>
Net Profit.....		\$ 9,865.12

FIGURE 30

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